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XL Catlin Syndicate 2003

Syndicate Annual Accounts

For The Year Ended 31 December 2015

XL CATLIN

MAKE YOUR WORLD GO

XL CATLIN SYNDICATE 2003
SYNDICATE INFORMATION

MANAGING AGENT:

Managing agent	Catlin Underwriting Agencies Limited ("CUAL")	
Directors	S. Catlin	(Non executive)
	R. Cowdell	(Non executive)
	P. Jardine	(Non executive)
	A. McMellin	
	J. Gale	
	P. Greensmith	
	G. Bruce Smythe	
	N. Robertson	
	R. Glauber	(Non executive)
	P. Wilson	(Non executive)
	J. Harris	
	P. Bradbrook	
	S. Long	
	O. Whelan	
Company secretary	A. Gray	
Registered number	01815126	
Registered office	20 Gracechurch Street London EC3V 0BG	

SYNDICATE:

Active underwriter	P. Greensmith J. Gale
Bankers	Barclays Bank PLC The Bank of New York Mellon Corporation Citibank International Plc Royal Bank of Canada
Investment manager	BlackRock Investment Management (UK) Limited Conning Investment Products, Inc Tricadia Capital Management LLC
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

CONTENTS

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2015

The directors of the managing agent present their strategic report for the year ended 31 December 2015.

On 1 May 2015, the entire issued and to be issued share capital of Catlin Group Limited, the then ultimate parent and controlling party, was acquired by XL Group plc. Going forward, the Group will trade under the brand name XL Catlin.

Following the acquisition of the Catlin Group by XL Group, a number of changes have been made to the underwriting structure of the new group in creating the operating model of the combined companies. Legacy XL Syndicate 1209 has ceased to write new business from 1st January 2016, with all new and renewed business being written by Syndicate 2003. This increase in premium has been offset by a reduction in the syndicate's exposure to US Reinsurance business previously written into Syndicate 2003 by the Catlin US offices. This business will now be written by another group company. Other than these changes, the syndicate will continue to transact the current classes of general insurance and reinsurance business. Disciplined growth and development of the business will continue to be encouraged and supported by the Board.

Business review

The principal activity of the syndicate remains the transaction of general insurance and reinsurance business.

The result for the year is a profit of $53.8m *(2014: profit of $306.4m)*.

The result is primarily attributable to the underwriting gain (net earned premiums minus net claims incurred and net operating expenses) for 2015 of $25.1m against an underwriting profit of $231.6m in 2014. The underwriting performance in 2015 was driven by challenging market conditions affecting gross written premiums particularly in the Treaty Reinsurance and Energy books, whereas 2014 benefited from very low levels of attritional losses and claims for natural catastrophes.

There has been a decrease in the investment performance with a total investment return of $62.0m *(2014: $104.3m)*.

Key performance indicators

The syndicate's key financial performance indicators during the year were as follows:

	2015 $m's	*2014 $m's*
Gross written premiums	**2,939.2**	*3,274.7*
Underwriting result	**25.1**	*231.6*
Profit for the financial year	**53.8**	*306.4*
Net loss ratio	**56.7%**	*49.0%*
Combined ratio	**98.8%**	*90.8%*
Investment return	**1.7%**	*2.7%*

Note: The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents better performance.

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2015

Results

During the year, the syndicate wrote $2,939.2m in gross premiums, a 10.2% decrease from the previous year *(2014: $3,274.7m)*. Whilst the syndicate's primary source of premium income is the London market, it continued to pursue underwriting opportunities through the XL Catlin Group's international offices, with 24.9% of gross premium income originating in these offices in 2015 (against 34.5% in 2014). As part of an overall Group strategic initiative to manage capital the Syndicate has continued its arrangements to purchase whole account quota share reinsurance from three existing, and one new, Special Purpose Syndicates (SPS) and Syndicate 2088, as well as one existing whole account quota share reinsurer. The four SPSs and Syndicate 2088 provided a 14.25% whole account quota share in total for the 2015 year of account *(2014 year of account: 12.64%)*. The whole account quota share reinsurer provided a 0.92% quota share in 2015 *(2014 year of account 1.36%)*.

The increase in the combined ratio is primarily as a result of the increase in the loss ratio which was 56.7% in 2015 *(2014: 49.0%)*, as a result of the challenging premium rating environment and increase in the level of attritional losses compared to 2014, as well as several large losses including Tianjin and UK Flooding. The net loss ratio in 2014 benefited from a favourable run off deviation (prior accident year release) of $169.1m across various lines of business, in 2015 the prior year reserves remained stable with a release of $8.4m.

Investment returns decreased during 2015. The net investment return for 2015 was 1.7% *(2014: 2.7%)*. The performance was primarily impacted by unrealised mark to market losses to the fixed income portfolio.

Transition to FRS 102

This is the first year that the syndicate has presented its results under FRS 102 "The Financial Reporting Standard, applicable in the UK and Republic of Ireland". The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. In accordance with FRS 102, the syndicate has identified its insurance contracts and accounted for them in accordance with FRS 103 "Insurance Contracts". The impact of the transition to FRS 102 is set out in note 4 "Transition to FRS 102". The impact of transition on total comprehensive income for the period 1 January 2014 to 31 December 2014 was an increase of $22.1m and the impact on opening equity at 1 January 2014 was a decrease of $3.1m.

Business environment

Overall, most classes across the portfolio experienced difficult rating conditions and written premium decreases in 2015, with overall weighted average rates across the syndicate down by 3.6%. The effects were particularly felt in the Reinsurance, Marine and Energy books, where the syndicate's focus on writing for profit rather than volume meant that the amount of new business was reduced compared to recent years. This was the main cause of the fall in gross premiums written in 2015. The syndicate has taken the strategic approach to focus on existing clients, where rating allows, as part of maintaining long term relationships with our clients.

Weighted average premium rates for Energy/Property/Construction business decreased by 6% in 2015. This was largely due to decreasing rates on Upstream Energy risks caused by a lack of loss activity combined with the impact of falling global oil prices. Aviation rates were up to 20% down at times in the year. The casualty book was the only exception, with marginal increases in rates throughout the year, albeit at a lower level than seen in 2014.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. The syndicate has developed a risk and control framework in line with the wider Group which is built on an Enterprise Risk Management Model that aims to integrate existing risk programmes into a more holistic, embedded Group wide risk and capital management framework. This is reviewed annually as part of the Syndicate Business Forecast ("SBF") and Solvency Capital Requirement ("SCR") process.

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2015

All policies are approved by management and subject to ongoing review by the risk management and internal audit teams. Compliance with regulation, legal and ethical standards is a high priority for the syndicate and the compliance team and the finance department take on an important oversight role in this regard. The Board of the managing agent is responsible for satisfying itself that a proper internal control framework exists to manage all risks and ensuring the controls operate effectively.

Key risks are considered both within the control framework and within the assessment of capital requirements. The syndicate conducts in depth stochastic modelling across all insurance risk categories.

The principal risks from the general insurance and reinsurance business arise from the following:

Insurance risk
Insurance risk includes the risks of inappropriate underwriting, inadequate pricing and ineffective management of underwriting delegated to third parties. The insurance risks are mitigated by a robust underwriting control framework and through underwriting and reinsurance plans, which are approved by the Board and communicated clearly throughout the business. Insurance risk is discussed further in note 2.

Reserving risk
Reserves for unpaid losses represent the largest single component of the syndicate liabilities. Loss reserve estimates are inherently uncertain. Actual losses that differ from the provisions, or revisions in the estimates, can have a material impact on future earnings and the Balance Sheet.

XL Catlin has a large, experienced team of actuaries and other actuarial staff. They work closely with the underwriting and claims staff to ensure understanding of the syndicate's exposures and loss experience.

Analysis of the reserve requirements are initially developed by actuaries embedded within the business with close knowledge of local underwriting activities. Final reserves are produced by the actuarial team, supported by an independent Statement of Actuarial Opinion, and reviewed and approved by the Board.

Other risk categories
Market risk including interest rate risk, currency risk, credit risk and liquidity risk is discussed further in note 2.

The strategy for managing other business and operational risks includes:

- Identifying and analysing risk through a disciplined risk assessment process;
- Mitigating or avoiding risks that do not fit the syndicate's business objectives; and
- Retaining risk within an agreed risk appetite with appropriate levels of capital.

Future developments and strategy
Depending upon prevailing market conditions, premium income levels are under continuous review as the syndicate aims to develop its relationships with distributors and generate new business through the Group's international offices whilst continuing to meet the needs of its clients. The syndicate will continue to selectively focus on growth opportunities with the emphasis on bottom line profitability.

For the 2016 underwriting year, the syndicate will continue to purchase whole account quota share reinsurance from the four Special Purpose Syndicates (SPS) and Syndicate 2088.

The 2013 and prior years of account have Reinsured to Close ("RITC") into the syndicate's 2014 year of account for an RITC premium of $2,043m.

The syndicate purchases a Whole Account Stop Loss reinsurance contract from another Group entity, namely XL Insurance (Bermuda) Limited. which has assumed benefits and liabilities for the preceding whole account stop loss contract from Catlin Re Switzerland Limited via a novation agreement effective 1 January 2016.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2015

Redomesticating to Bermuda
XL Group plc is proposing to change its place of incorporation to Bermuda from Ireland. This change is a natural step towards the continuous increase of the operational efficiency of the group as its presence in Bermuda has grown significantly following the transformative transaction with Bermuda based Catlin last year, with a significant portion of the business already located in Bermuda.

The move to Bermuda is viewed as feasible due to the territory's long established regulatory expertise in the insurance sector and the fact that it is home to many of the world's largest global insurance and reinsurance companies.

This report was approved by the Board and signed on its behalf by:

P. Bradbrook
Director
15 March 2016

REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2015

The directors of the managing agent present their report together with the audited annual accounts for the year ended 31 December 2015.

The annual accounts are prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations"), as well as in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts"("FRS 103").

The managing agent has received, in writing, agreement from Catlin Syndicate Limited, the sole member of Syndicate 2003, that no underwriting year accounts need to be prepared in respect of Syndicate 2003. This is in accordance with Section 4, Paragraph 1b of Statutory Instrument 2004 No 3219.

Profit distribution and solvency
Profits will continue to be distributed by reference to the results of individual underwriting years. Under Lloyd's accounting rules, the syndicate's 2013 year of account was closed at the end of 2015 with a return equal to 7.1% of capacity.

The member's balance as at 31 December 2015 is $242.4m *(2014: $391.6m)*.

Directors
The directors of CUAL who held office during the year and up to the date of signing the annual accounts were:

S. Catlin	(Non Executive)	
R. Cowdell	(Non Executive)	
P. Jardine	(Non Executive)	
A. McMellin		Appointed 29 April 2015
J. Gale		Appointed 17 June 2015
P. Greensmith		Appointed 18 June 2015
G. Bruce Smythe		Appointed 14 July 2015 Resigned 13 February 2016
N. Robertson		Appointed 14 July 2015
R. Glauber	(Non Executive)	Appointed 12 August 2015
P. Wilson	(Non Executive)	Appointed 12 August 2015
J. Harris		Appointed 15 October 2015
P. Bradbrook		Appointed 4 December 2015
N. Burkinshaw		Resigned 17 March 2015
C. Robinson	(Non Executive)	Resigned 1 May 2015
R. Clapham		Resigned 18 June 2015
R. Callan		Resigned 31 October 2015
S. Long		Resigned 13 February 2016
O. Whelan		Resigned 13 February 2016

Financial instruments and risk management
Information on the use of financial instruments by the syndicate and its management of financial risk and in particular its exposure to interest rate risk, equity price risk, currency risk, credit risk and liquidity risk is disclosed in note 2 to the financial statements.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2015

Disclosure of information to the auditors

Each of the persons who are directors at the date of this report confirms that:

- so far as each director is aware, there is no relevant audit information for which the syndicate's auditors are unaware; and
- each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

Statement of managing agent's responsibilities

The directors of the managing agent are responsible for preparing the managing agent's report and the annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts at 31 December each year. Under that law, the directors are required to prepare the syndicate annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland. The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires that the directors must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that year.

In preparing these syndicate annual accounts, the directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The directors of the managing agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

The directors of the managing agent are responsible for keeping proper accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation to other jurisdictions.

This report was approved by the Board and signed on its behalf by:

A. Gray
Company Secretary
15 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF XL CATLIN SYNDICATE 2003

Report on the syndicate annual accounts

Our Opinion

In our opinion, Syndicate 2003's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

What we have audited

The syndicate annual accounts for the year ended 31 December 2015, included within the syndicate annual accounts (the "Annual Report"), comprise:

- the balance sheet as at 31 December 2015;
- the statement of comprehensive income for the year then ended;
- the statement of changes in member's balances;
- the statement of cash flows; and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 6, the Managing Agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF XL CATLIN SYNDICATE 2003

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non financial information in the Annual Report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

M Nichols

Matthew Nichols (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

TECHNICAL ACCOUNT - GENERAL BUSINESS	Note	2015 $000's	2014 $000's
Earned premium, net of reinsurance			
Gross premiums written	8	**2,939,199**	*3,274,688*
Outward reinsurance premiums		**(963,476)**	*(1,002,699)*
Net premiums written		**1,975,723**	*2,271,989*
Change in the gross provision for unearned premiums		**48,083**	*(160,404)*
Change in the provision for unearned premiums, reinsurers' share		**41,828**	*93,408*
Change in the net provision for unearned premiums		**89,911**	*(66,996)*
Earned premiums, net of reinsurance		**2,065,634**	*2,204,993*
Allocated investment return transferred from the non technical account	13	**60,061**	*100,512*
Total technical income		**2,125,695**	*2,305,505*
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**(1,423,319)**	*(1,451,740)*
Reinsurers' share		**338,288**	*373,901*
		(1,085,031)	*(1,077,839)*
Change in the provision for claims			
Gross amount		**(88,212)**	*88,852*
Reinsurers' share		**1,908**	*(89,982)*
		(86,304)	*(1,130)*
Claims incurred, net of reinsurance		**(1,171,335)**	*(1,078,969)*
Net operating expenses	12	**(869,249)**	*(894,157)*
Balance on the technical account for general business		**85,111**	*332,379*

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

NON-TECHNICAL ACCOUNT	Note	**2015** **$000's**	*2014* *$000's*
Balance on the technical account for general business		**85,111**	*332,379*
Investment income	13	**116,119**	*112,028*
Unrealised gains on investments	13	**-**	*22,036*
Investment expenses and charges	13	**(43,320)**	*(29,787)*
Unrealised losses on investments		**(10,849)**	-
		61,950	*104,277*
Allocated investment return transferred to the technical account for general business	13	**(60,061)**	(100,512)
Foreign exchange gains and losses		**(33,162)**	*(7,610)*
Profit for the financial year		**53,838**	*328,534*
Other Comprehensive Income		**-**	-
Total Comprehensive Income for the year		**53,838**	*328,534*

All amounts above relate entirely to continuing activities as defined by Financial Reporting Standard 102 ("FRS 102") Section 5.

The notes on pages 15 to 50 form part of these annual accounts.

BALANCE SHEET AS AT 31 DECEMBER 2015

ASSETS	Note	2015 $000's	2014 $000's
Investments			
Other financial investments	14	**3,055,957**	*3,352,799*
Deposits with ceding undertakings		**851**	*609*
Reinsurers' share of technical provisions			
Provision for unearned premiums		**490,497**	*462,061*
Claims outstanding	10	**790,706**	*805,879*
		1,281,203	*1,267,940*
Debtors - amounts falling due within one year			
Debtors arising out of direct insurance operations	15	**1,177,105**	*1,160,226*
Debtors arising out of reinsurance operations		**166,301**	*128,274*
Other debtors	16	**51,400**	*52,948*
		1,394,806	*1,341,448*
Debtors - amounts falling due after one year			
Debtors arising out of direct insurance operations	15	**687**	*834*
Debtors arising out of reinsurance operations		**140,625**	*132,260*
Other debtors	17	**54,038**	*52,296*
		195,350	*185,390*
Other assets			
Cash at bank and in hand		**177,397**	*189,790*
Overseas deposits	18	**375,686**	*353,009*
		553,083	*542,799*
Prepayments and accrued income			
Accrued interest		**21,358**	*16,479*
Deferred acquisition costs		**362,274**	*407,823*
Other prepayments and accrued income		**7,998**	*5,627*
		391,630	*429,929*
TOTAL ASSETS		**6,872,880**	*7,120,914*

BALANCE SHEET AS AT 31 DECEMBER 2015

LIABILITIES	Note	2015 $000's	2014 $000's
Member's balances		**242,380**	*391,599*
Technical provisions			
Provision for unearned premiums		**1,515,320**	*1,610,941*
Claims outstanding	10	**3,953,344**	*3,985,091*
		5,468,664	*5,596,032*
Deposits received from reinsurers		**2,636**	*2,636*
Creditors - amounts falling due within one year			
Creditors arising out of direct insurance operations	19	**18,588**	*12,963*
Creditors arising out of reinsurance operations		**380,431**	*415,216*
Other creditors	20	**121,027**	*100,516*
		520,046	*528,695*
Creditors - amounts falling due after one year			
Creditors arising out of direct insurance operations	19	**160**	*416*
Creditors arising out of reinsurance operations		**547,541**	*514,182*
Other creditors	21	**4,021**	*1,335*
		551,722	*515,933*
Accruals and deferred income		**87,432**	*86,019*
TOTAL LIABILITIES		**6,872,880**	*7,120,914*

The annual accounts on pages 9 to 50 were approved by the Board of Directors of Catlin Underwriting Agencies Limited on 15 March 2016 and were signed on its behalf by:

P. Bradbrook
Director

The notes on pages 15 to 50 form part of these financial statements.

STATEMENT OF CHANGES IN MEMBERS' BALANCES AS AT 31 DECEMBER 2015

	Balance attributable to underwriting $000's	Funds in Syndicate $000's	Total Member's Balances $000's
Balance as at 1 January 2014	**45,910**	**172,224**	**218,134**
Profit for the financial year	324,770	3,765	328,535
Profit distribution 2011 year of account	(155,070)	-	(155,070)
Balance as at 31 December 2014	**215,610**	**175,989**	**391,599**
Balance as at 1 January 2015	**215,610**	**175,989**	**391,599**
Profit for the financial year	51,949	1,889	53,838
Profit distribution 2012 year of account	(203,057)	-	(203,057)
Transfer of Funds in Syndicate	17,160	(17,160)	-
Balance as at 31 December 2015	**47,342**	**195,038**	**242,380**

STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2015

	Note	**2015 $000's**	*2014 $000's*
Net cash (outflow)/inflow generated from operating activities	**22**	**(145,209)**	*70,344*
Cash flow from investing activities:			
Purchase of equity and debt instruments		**(6,304,236)**	*(6,530,401)*
Sale of equity and debt instruments		**6,515,762**	*6,538,830*
Purchase of derivatives		**(18,604)**	*(12,529)*
Sale of derivatives		**24,876**	*3,853*
Investment income received		**189,756**	*162,764*
Deposits with ceding undertakings made		**81**	*88*
		407,635	*162,605*
Cash flows from financing activities:			
Distribution profit		**(203,057)**	*(155,070)*
Net increase/(decrease) in cash and cash equivalents		**59,369**	*77,879*
Cash and cash equivalents at the beginning of the year		**542,799**	*492,642*
Foreign exchange gains on cash and cash equivalents		**(49,085)**	*(27,722)*
Cash and cash equivalents at end of the year		**553,083**	*542,799*
Cash at bank and in hand		**177,397**	*189,790*
Overseas deposits		**375,686**	*353,009*
Cash and cash equivalents at end of the year		**553,083**	*542,799*

Overseas deposits and Funds in Syndicate included in cash and cash equivalents are not readily available for use by Syndicate 2003. See note 24 for further detail on these assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 ACCOUNTING POLICIES

1.1 Statement of Compliance
The annual accounts are prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"). See note 4 for an explanation of the transition to this framework.

1.2 Basis of preparation
The annual accounts are prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations"), as well as United Kingdom Accounting Standards.

The directors of the managing agent have prepared the annual accounts on the basis that the syndicate will continue to write future business.

Capital supporting the business of the Syndicate, referred to as Funds at Lloyd's ("FAL") is, in part, held in separate trust funds administered by Lloyd's in addition to amounts held within the Syndicate Premium Trust Funds as Funds in Syndicate ("FIS"). The amounts held by the Corporate Member outside the Syndicate Premium Trust Funds are available to meet the underwriting obligations of the Syndicate, if required. However, these funds are not included in the Syndicate's balance sheet because they are not owned by the Syndicate. The Lloyd's central fund arrangements are available in the event that an individual member's funds are exhausted. Funds at Lloyd's are further explained in note 23.

Separate underwriting year accounts for the 2013 underwriting year have not been prepared, as the company has taken advantage of the exemption under paragraph 6 of the 2008 Regulations.

The preparation of these financial statements required the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in an future period affected.

The principle accounting policies are set out below:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 ACCOUNTING POLICIES (continued)

1.3 Critical accounting judgements and estimation uncertainty
Significant judgement is required when when allowing for risk and uncertainty within claims outstanding. This is discussed in detail in accounting policy 1.5 (v).

The managing agent makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

- The estimation of the ultimate liability arising from claims made under insurance contracts is the syndicate's most critical accounting estimate. This is discussed in detail in accounting policy 1.5(v).
- The fair values of financial instruments not traded in active markets are determined by using valuation techniques described in accounting policies 1.10, 1.11 and 1.16 as well as in note 2(e).
- The managing agent makes an estimate of premiums written during the year that have not yet been notified by the financial year end ("pipeline premiums") based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element.

1.4 Going Concern
Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

1.5 Insurance and investment contracts – classification
Insurance contracts are those contracts that transfer significant insurance risk. Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Such contracts may also transfer financial risk.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

The syndicate has not issued any investment contracts, as set out above, in this or prior years and has only issued insurance contracts.

The results of the syndicate are determined on an annual basis, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 ACCOUNTING POLICIES (continued)

1.5 Insurance and investment contracts – classification (continued)

(i) Premiums written

Premiums written represent premiums on business incepting during the year together with adjustments to premiums written in previous accounting periods. They include estimates for pipeline premiums and are stated before deduction of commissions and other related acquisition costs but net of taxes and duties levied on premiums.

For general insurance contracts incepting from 1 May 2015 that are of a duration greater than one year and payable in annual instalments, generally, only the initial annual instalment is included as premiums written at policy inception due to the ability of the (re)insured to commute or cancel coverage during the term of the policy. The remaining annual instalments are included as premiums written at each successive anniversary date within the multi year term.

For general insurance contracts that are of a duration greater than one year incepting prior to this date the full estimate of gross premiums written was recognised at inception.

(ii) Outward reinsurance premiums ceded

Outward reinsurance premiums ceded represent premiums for contracts incepting during the financial year together with adjustments to outwards reinsurance premiums ceded in previous years. They are allocated to the appropriate accounting period on bases which fairly reflect the allocation of the underlying business being protected.

(iii) Unearned premiums

Premiums written are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of risk. The provision for unearned premiums represents the portion of premiums written that relate to unexpired terms of policies in force at the Balance Sheet date.

(iv) Claims incurred

Claims incurred comprise claims and related expenses paid during the year and changes in the provisions for outstanding claims, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

(v) Claims provisions and related reinsurance recoveries

Provision is made at the year end for the estimated cost of claims incurred but not settled at the Balance Sheet date, including the cost of claims incurred but not yet reported to the syndicate. The estimated cost of claims includes expenses to be incurred in settling claims. The syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Any differences between provisions and subsequent settlements are dealt with in the general business technical account of later years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 ACCOUNTING POLICIES (continued)

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the syndicate, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the syndicate has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distorting effect of the development and incidence of these large claims.

Where possible the syndicate adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

The Syndicate discounts unpaid loss reserves arising from Workers Compensation business written in the United States, as these payments are considered to have a duration greater than four years from the Balance Sheet date. The value of the undiscounted reserves at 31 December 2015 was $365.0m, with a discount rate used of 3.75% and the mean estimated term 22 years.

The Syndicate also discounts unpaid loss reserves arising from Periodic payment orders related to bodily injury claims in the UK Motor book, as these payments are considered to have a duration greater than four years from the Balance Sheet date. The value of the undiscounted reserves at 31 December 2015 was $43.7m, with a discount rate used of 2.0% and the mean estimated term 30 years.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The amount of any salvage and subrogation recoveries is separately identified and where material, reported as an asset.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 ACCOUNTING POLICIES (continued)

1.5 Insurance and investment contracts – classification (continued)

(vi) Reinsurance to close (RITC)
Each Lloyd's syndicate underwriting account is normally closed at the end of the third year by means of reinsurance into the following year, which reinsures all future liabilities for the closed year and all previous years in return for a premium which is approved by the managing agent.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle the outstanding claims.

The directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle liabilities outstanding at the closure of an underwriting account.

(vii) Deferred acquisition costs
Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned. Management's estimate of what constitutes "other related expenses" has changed in the year, see note 5.

(viii) Unexpired risks provision
Provisions are made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the Balance Sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

1.6 Investment return
Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Dividends are recognised on the date on which the shares go ex-dividend and include the imputed tax credits. Interest income is accrued up to the Balance Sheet date.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the Balance Sheet date and their purchase price, or if they have been previously valued, their valuation at the last Balance Sheet date. Unrealised gains and losses are unwound at the disposal of an investment.

Investment return is initially recorded in the non technical account. A transfer is made from the non-technical account to the technical account on investments supporting the insurance technical provisions and related member funds.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 ACCOUNTING POLICIES (continued)

1.7 Foreign currencies
Items included in the annual accounts are measured using the currency of the primary economic environment in which the syndicate operates (the functional currency). The annual accounts are presented in US Dollars, which is the syndicate's functional currency.

Transactions in foreign currencies are revalued into the functional currency using average rates of exchange as a proxy for the transactional rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non technical account.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items.

1.8 Overseas deposits
Overseas deposits are stated at fair value. Any movements in fair value during the year are recognised in the Statement of Comprehensive Income.

1.9 Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

1.10 Financial assets designated at fair value
The syndicate has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments. Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis. The syndicate's investment strategy is to invest in listed and unlisted equity securities and fixed interest rate debt securities, and derivatives designated upon initial recognition at fair value through Profit or Loss.

1.11 Shares and other variable yield securities, at fair value through Profit or Loss
The syndicate's shares and other variable yield securities comprise hedge funds, equity funds, equity securities and money market funds.

The syndicate has designated hedge funds, equity funds, equity securities and money market funds at fair value through profit or loss.

The fair values of hedge funds, equity funds and unquoted equity securities are based on fund manager statements. The fair values of quoted equity securities are obtained from independent pricing services.

Net gains or losses arising from changes to the fair value are presented in the Statement of Comprehensive Income within 'unrealised gains on investments' or 'unrealised losses on investments' in the period in which they arise.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 ACCOUNTING POLICIES (continued)

1.12 Derivative financial instruments, at fair value through Profit or Loss

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re measured at their fair value. Changes in the fair value are recognised immediately in the Statement of Comprehensive Income. Fair values are obtained from independent pricing services which provide quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

1.13 Debt securities and other fixed income securities, at fair value through Profit or Loss

The syndicate has designated debt securities and other fixed income securities at fair value through Profit or Loss. The fair value is based on the quoted market prices provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriter bid indications.

1.14 Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the syndicate has designated at fair value through Profit or Loss. Loans and receivables are measured at amortised cost using the effective interest method. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

1.15 Financial liabilities

Creditors are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest method.

1.16 Pension costs

Catlin Holdings Limited, a fellow group company, operates a defined contribution scheme. Pension contributions relating to staff working on the affairs of the syndicate are charged to the syndicate and included within net operating expenses.

1.17 Taxation

Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

It remains the responsibility of the member to agree its corporation tax liabilities with HM Revenue & Customs.

The syndicate is required to fund on account assessments of US Dollar and Canadian Dollar source income and these amounts are then recovered by reimbursements from the MSU (Members' Services Unit). At the Balance Sheet date such syndicate fundings are included within other debtors. The final assessments are charged direct to the underwriting member by the MSU.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 ACCOUNTING POLICIES (continued)

1.18 Equity method investments
Investments over which the Syndicate exercises significant influence but not a controlling interest are carried at cost adjusted for the syndicate's share of earnings or losses and distributions.

The syndicate has elected to apply the valuation basis for these investments as established by the alternative accounting rules in SI 410 2008. This permits valuation to be determined on any appropriate basis. Amounts relating to these investments are reported within shares and other variable yield securities in note 14.

2 MANAGEMENT OF FINANCIAL RISK

Financial risk management objectives
The syndicate is exposed to a range of financial risks through its financial assets, insurance liabilities and reinsurance assets. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are insurance risk (including reinsurance risk), market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the syndicate primarily faces due to the nature of its investments and liabilities are interest rate, equity price risk and currency risk.

The syndicate's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the syndicate's financial performance. It manages these positions within a risk management framework ("the framework") that has been developed to ensure that investment proceeds and returns are in excess of obligations under insurance contracts. The syndicate produces regular reports that are circulated to the management of the Managing Agency. The principal technique of the syndicate's framework is to match assets and liabilities from insurance contracts by reference to the type of benefits payable to contract holders. The syndicate's framework is also integrated with the management of the financial risks associated with the syndicate's other financial assets and liabilities not directly associated with insurance liabilities.

The notes that follow explain how financial risks are managed using the categories utilised in the syndicate's framework.

(a) Insurance Risk
Insurance risk arises from the syndicate's general insurance business and refers to the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing and reserving assumptions. Examples of such risks include unexpected losses arising from fluctuations in the timing, frequency and severity of claims compared to expectations and inadequate reinsurance protection. The syndicate's underwriting and reinsurance strategies are set within the context of the overall XL Catlin strategies, approved by the Board and communicated clearly throughout the business through policy statements and guidelines.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

Capital resource sensitivities
The capital position is sensitive to market conditions due to changes in the value of the assets, and to assumptions and experience in respect of the value of the liabilities. The most significant risks to the syndicate are as follows:

Event risk
The risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing.

Pricing risk
The risk that the level of expected loss is understated in the pricing process.

Reinsurance risk
Reinsurance risk to the syndicate occurs where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, prove inadequate in terms of the vertical or horizontal limits purchased or result in coverage disputes.

Cycle risk
The risk that business is written in a soft market without full knowledge as to the adequacy of rates, terms and conditions.

Expense risk
The risk that the allowance for expenses and inflation in pricing is inadequate.

Underwriting risks are continually monitored through, for example, the established peer review process, underwriting authority limits imposed, round table review and audits, as well as via exception reporting. Formal price monitoring procedures form part of the standard monthly management information. These contribute to the quarterly actuarial review whereby the loss outcome of the underwriting activity is continually re assessed and considered by the Reserving actuaries. There is a dedicated Catastrophe and Aggregation management function independent of Underwriting management, whose responsibility is to model aggregate risk and support pricing decisions, providing a key control to the underwriting process.

The syndicate seeks to maintain a diversified and balanced portfolio of risks in order to reduce the variability of outcomes. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. This is achieved by accepting a spread of business over time, segmented between different classes of business. The syndicate business forecasts for each class of business reflect this underwriting strategy, and set out the types of business to be written, the geographical regions in which business is to be written and the industry sectors to which the syndicate is prepared to expose itself. These plans are approved and monitored by management and are submitted to Lloyd's. The syndicate's management also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. To address this, the syndicate's actuarial team sets out the realistic disaster scenario (RDS) exposure that it is prepared to accept in certain territories to a range of natural and man made events.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

Specific scenarios monitored include:

- Two consecutive Atlantic seaboard windstorms
- Florida windstorm
- Gulf of Mexico windstorm
- European windstorm
- Japanese windstorm
- California earthquake
- New Madrid earthquake
- Japanese earthquake
- UK flood
- Terrorism

The current aggregate position is monitored at the time of underwriting a risk, and reports are produced to highlight the key aggregations to which the syndicate is exposed. The syndicate uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The greatest likelihood of significant losses to the syndicate arises from catastrophe events, such as flood damage, windstorm or earthquake. Where possible the syndicate's underwriting team measures geographic accumulations and uses their knowledge of the business, historical loss behaviour and commercial catastrophe modelling software. The syndicate regularly models and monitors known accumulations of risks including natural catastrophes, marine, liability and political events. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of a 1 in 200 year event.

Loss development tables providing information about historical claims development are included in note 7.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

(b) Market risk

(i) Interest rate risk
Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The syndicate monitors interest rate risk on a monthly basis by calculating the impact of changes in interest rate on the value of investments and the net present value of liabilities against a risk appetite that has been agreed with the Board.

The syndicate purchases interest rate swaption contracts to manage its interest rate risk.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of an interest bearing financial asset will fluctuate because of changes in market interest rates at the reporting date.

A 50bps increase/(decrease) in interest rates would lead to a $46.2m loss/($46.0m gain) *(2014: $43.4m loss/(50.6m gain))* on the investment portfolio recorded in the Statement of Comprehensive Income, with an equal impact on net assets.

(ii) Equity price risk
The syndicate is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through Profit or Loss. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The syndicate has a defined investment policy which sets limits on the syndicate's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the syndicate's price risk arising from its investments in equity securities.

As at 31 December 2015 the syndicate had $82.3m of equity investments of which 72% were listed securities *(2014: $187.6m and 92% respectively)*.

A 50bps increase/(decrease) in Stock Market prices, with all other variables held constant, would lead to a $12.0m loss/($12.2m gain) (2014: $12.9m loss/($12.4m gain)) on the investment portfolio, with an equal impact on net assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

(b) Market risk (continued)

(iii) Currency risk

The syndicate manages its foreign exchange risk against its functional currency. Foreign exchange arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the syndicate's functional currency.

The syndicate is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US Dollars. The most significant currencies to which the syndicate is exposed are Pounds Sterling, Canadian Dollar and Euro. The syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. The syndicate also uses currency forward deals which have the economic effect of converting certain Pounds Sterling exposures at floating rates to fixed rates, during the period the syndicate held foreign currency forward contracts to manage currency risk associated with specific fixed income securities.

At 31 December 2015, in considering the syndicate's material currency exposures, if the US Dollar had strengthened by 5% against the following currencies, with all other variables held constant, the profit and net assets for the year would have increased/(decreased) by the following amounts: Pounds Sterling: $(29.3)m *(2014: $(26.2)m)*, Euros $(11.2)m *(2014: $(7.1)m)* and Canadian Dollars $(4.6)m *(2014: $(9.0)m)*, as a result of foreign exchange gains/losses on the translation of foreign currency profits. The impact would have been equal and opposite had the US Dollar weakened by 5%.

(c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the syndicate is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from issuers of debt securities; and
- counterparty risk with respect to derivative transactions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

(c) Credit risk (continued)

The syndicate manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and monitoring its exposure to regions, countries and industries. Such risks are subject to regular review.

Changes to the limits on the level of credit risk by category and territory are approved annually by the managing agency Board of Directors. Reinsurance is used to manage insurance risk. This does not, however, discharge the syndicate's liability as primary insurer. If a reinsurer fails to pay a claim, the syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

(c) Credit risk (continued)

The table below provides information on the credit quality of financial assets of the Syndicate that are neither past due nor impaired:

At 31 December 2015	AAA $000's	AA $000's	A $000's	BBB or below $000's	Not readily available / not rated $000's	Total $000's
Debt securities and other fixed income securities	1,570,743	535,928	448,255	109,658	35,707	2,700,291
Deposits with ceding undertakings	-	-	-	-	851	851
Cash at bank and in hand	-	-	-	-	177,397	177,397
Overseas deposits as investments	211,796	85,201	36,480	41,277	932	375,686
Reinsurance debtors	43,185	55,228	-	60	33	98,506
Reinsurers' share of claims outstanding	-	295,533	493,063	2,004	105	790,705
Other debtors	-	-	1,196	-	104,242	105,438
Shares and other variable yield securities and units in unit trusts	979	-	-	-	354,649	355,628
Derivative assets	-	-	-	-	38	38
Total	1,826,703	971,890	978,994	152,999	673,954	4,604,540

Credit ratings for debtors arising out of insurance operations are not readily available. The syndicate manages the risk of default through quality control procedures to ensure the management of credit risk in relation to brokers and other relevant counterparties.

The Syndicate has no direct exposure to sovereign holdings in peripheral European countries (specifically Portugal, Ireland, Italy, Greece and Spain).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

(c) Credit risk (continued)

The table below provides information on the credit quality of financial assets of the Syndicate that are neither past due nor impaired:

At 31 December 2014	*AAA $000's*	*AA $000's*	*A $000's*	*BBB or below $000's*	*Not readily available / not rated $000's*	*Total $000's*
Debt securities and other fixed income securities	*1,581,264*	*846,555*	*426,584*	*97,828*	*41,902*	*2,994,133*
Deposits with ceding undertakings	*-*	*-*	*-*	*-*	*609*	*609*
Cash at bank	*-*	*-*	*-*	*-*	*189,790*	*189,790*
Overseas deposits	*248,216*	*38,254*	*65,959*	*264*	*316*	*353,009*
Reinsurance debtors	*-*	*21,929*	*24,326*	*66*	*-*	*46,321*
Reinsurers' share of claims outstanding	*-*	*395,676*	*406,294*	*1,957*	*1,951*	*805,878*
Other debtors	*-*	*-*	*7,145*	*-*	*98,099*	*105,244*
Shares and other variable yield securities and units in unit trusts	*-*	*-*	*-*	*4,944*	*351,420*	*356,364*
Derivative assets	*-*	*-*	*-*	*-*	*2,302*	*2,302*
Total	*1,829,480*	*1,302,414*	*930,308*	*105,059*	*686,389*	*4,853,650*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

(c) Credit risk (continued)

The concentration of credit risk is substantially unchanged compared to prior year. There were no material unapproved breaches of credit limits during the year. The syndicate maintains strict control limits on open derivative positions, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

The syndicate has insurance and reinsurance debtors that are past due but not considered to be impaired. The syndicate does not currently hold any impaired assets (*2014: no impaired assets held*).

At 31 December 2015	**Up to three months $000's**	**Three to six months $000's**	**Six months to one year $000's**	**Greater than one year $000's**	**Total $000's**
Insurance debtors	**22,013**	**6,501**	**413**	**2,861**	**31,788**
Reinsurance debtors	**533**	**173**	**-**	**(956)**	**(250)**
Total	**22,546**	**6,674**	**413**	**1,905**	**31,538**

At 31 December 2014	*Up to three months $000's*	*Three to six months $000's*	*Six months to one year $000's*	*Greater than one year $000's*	*Total $000's*
Insurance debtors	*17,562*	*8,524*	*997*	*1,393*	*28,476*
Reinsurance debtors	*1,379*	*449*	*-*	*343*	*2,171*
Total	*18,941*	*8,973*	*997*	*1,736*	*30,647*

(d) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the syndicate is the obligation to pay claims as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The syndicate manages this risk by maintaining sufficient liquid assets to meet expected cash flow requirements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

(d) Liquidity risk (continued)
The following tables analyses financial liabilities by maturity date:

At 31 December 2015	**No contractual maturity date**	**Less than one year on demand**	**Between 1 and 3 years**	**Between 3 and 5 years**	**Over 5 years**	**Total**	**Carrying value**
	$000's	**$000's**	**$000's**	**$000's**	**$000's**	**$000's**	**$000's**
Deposits received from reinsurers	**-**	**2,636**	**-**	**-**	**-**	**2,636**	**2,636**
Other creditors	**-**	**520,042**	**551,721**	**-**	**-**	**1,071,763**	**1,071,763**
Claims outstanding	**-**	**1,340,034**	**1,303,940**	**613,099**	**696,271**	**3,953,344**	**3,953,344**
Financial liabilities	**-**	**522,678**	**551,721**	**-**	**-**	**1,074,399**	**1,074,399**

At 31 December 2014	*No contractual maturity date*	*Less than one year on demand*	*Between 1 and 3 years*	*Between 3 and 5 years*	*Over 5 years*	*Total*	*Carrying value*
	$000's	*$000's*	*$000's*	*$000's*	*$000's*	*$000's*	*$000's*
Deposits received from reinsurers	*-*	*2,366*	*-*	*-*	*-*	*2,366*	*2,366*
Other creditors	*-*	*100,516*	*1,335*	*-*	*-*	*101,851*	*101,851*
Claims outstanding	*-*	*1,350,796*	*1,314,411*	*618,022*	*701,862*	*3,985,091*	*3,985,091*
Financial liabilities	*-*	*1,453,678*	*1,315,746*	*618,022*	*701,862*	*4,089,308*	*4,089,308*

The nature of insurance is that the requirements of funding cannot be predicted with absolute certainty and therefore the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

(e) Fair value estimation

The syndicate adopts FRS 102. The following methods and assumptions are used by the syndicate in estimating the fair value of its financial instruments:

Fixed maturities and short term investments
Fair values of fixed maturities and short term investments are based on the quoted market price of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriting bid indications.

The syndicate's Level 3 fixed maturities consist of RMBS, CMBS, ABS and corporate securities, for which pricing vendors and non binding broker quotes are the primary source of the valuations. The syndicate compares the price to independent valuations, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value. Although the syndicate does not have access to the specific unobservable inputs that may have been used in the fair value measurements of RMBS, CMBS and ABS, the syndicate would expect that the significant inputs considered are prepayment rates, probability of default, loss severity in the event of default, recovery rates, liquidity premium and reinvestment rates. Significant increases or decreases in any of those inputs in isolation could result in a significantly different fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

The syndicate's level 3 investments also include fixed maturities where the prices provided by vendors have been unchanged for 3 months or more.

Other invested assets
The fair value of investments in funds is based on the net asset value provided by the funds' administrators. The fair values of holdings in equity and loan instruments are based on the market price of these securities provided by independent pricing services, or, when such prices are not available, by reference to broker or underwriting bid indications provided by administrators and recent transactions, if any.

The syndicate's Level 3 other invested assets consist of investments in funds with significant redemption restrictions and unquoted private equity and debt, for which manager NAV statements are the primary source of the valuations. Although the syndicate does not have access to the specific unobservable inputs that may have been used in the fair value measurements, the syndicate would expect the significant inputs for private equity and debt to be discounted cash flows and valuations of similar sized peers. Significant increases or decreases in any of those inputs in isolation could result in a significantly different fair value measurement.

The syndicate's level 3 investments also include other invested assets where the prices provided by vendors have been unchanged for 3 months or more.

Derivatives
The fair values of interest rate, foreign exchange, equity market and credit default derivative contracts are based on prices provided by independent pricing services.

Other assets and liabilities
The fair values of cash and cash equivalents, premiums and other receivables, and accounts payable approximate their carrying value due to the immediate or short term maturity of these financial instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MANAGEMENT OF FINANCIAL RISK (continued)

(e) Fair value estimation (continued)

The following tables present the company's holdings of assets measured at fair value:

At 31 December 2015	**Level 1 $000's**	**Level 2 $000's**	**Level 3 $000's**	**Total $000's**
Assets				
Fair value through Profit and Loss:				
Shares and other variable yield securities and units in unit trusts	**59,453**	**69,261**	**207,930**	**336,644**
Derivative financial instruments	**-**	**-**	**38**	**38**
Debt securities and other fixed income securities	**347,581**	**2,653,025**	**75,369**	**3,075,975**
	407,034	**2,722,286**	**283,337**	**3,412,657**

The syndicate also holds investments in associates and joint ventures held at cost worth $18.4m.

At 31 December 2014	*Level 1 $000's*	*Level 2 $000's*	*Level 3 $000's*	*Total $000's*
Assets				
Fair value through Profit and Loss:				
Shares and other variable yield securities and units in unit trusts	*107,888*	*64,322*	*162,252*	*334,462*
Derivative financial instruments	*-*	*-*	*2,302*	*2,302*
Debt securities and other fixed income securities	*386,557*	*2,679,356*	*281,227*	*3,347,140*
	494,445	*2,743,678*	*445,781*	*3,683,904*

Fair value estimates included in Level 3 are hedge funds with significant redemption restrictions, collateralised debt obligations ("CDO"), sub prime securities, Alt A securities and securities rated CCC and below.

At 31 December 2014 the syndicate also held investments in associates and joint ventures at cost worth $21.9m.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3 MANAGEMENT OF CAPITAL

(a) Capital Framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with Solvency II legislation.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements applies at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2003 is not disclosed in these financial statements. See notes 23 and 24 for details of the syndicate's FAL and FIS requirements.

(b) Lloyd's Capital Setting Process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

(c) Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), held within and managed within a syndicate (Funds in Syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

Resources available to meet members' and Lloyd's capital requirements are seperately identified in the Statement of Changes in Member's Balances.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4 TRANSITION TO FRS 102

This is the first year that the syndicate has presented its results under FRS 102 'The Financial Reporting Standard, applicable in the UK and Republic of Ireland'. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. In accordance with FRS 102, the syndicate has identified its insurance contracts and accounted for them in accordance with FRS 103 'Insurance Contracts'.

The principal changes are explained below.

Foreign exchange
In the syndicate's UK GAAP financial statements, income statement transactions are translated into US Dollars using an average rate of exchange for the period. Assets and liabilities are translated into US Dollars using the rate of exchange on the balance sheet date. FRS 102 Section 30 - The effects of changes in foreign exchange rates requires all monetary items to be translated into US Dollars at the rate of exchange on the Balance Sheet date.

All foreign exchange gains or losses on monetary items are recognised in the Statement of Comprehensive Income, in the Non Technical Account. Under the previous reporting framework all such foreign exhange gains and losses were recognised in the Technical Account.

FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for foreign currency translation purposes. Previously, balances such as unearned premiums and deferred acquisition costs were treated as non monetary items. This has the effect of valuing these items at closing rates rather than historic rates.

Cash and cash equivalents
FRS 102 - Cash Flow Statements defines cash and cash equivalents as short term (3 months or less from the date of acquisition), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All investments that meet this definition have been reclassified from investments to cash and cash equivalents on transition to FRS 102. This change has had no impact on the total comprehensive income or net assets of comparative periods.

In accordance with FRS 102 section 3.12, the applicable comparative figures in the primary statements and notes have been restated to reflect the uniform application of the new policy outlined above.

Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4 TRANSITION TO FRS 102 (continued)

	2014 $000's UK GAAP - As previously reported	**2014 $000's Adjustment**	**2014 $000's FRS 102**
Balance Sheet			
Opening member's balance at 1 January 2014	**221,243**	(3,109)	**218,134**
Gross unearned premiums	**1,648,609**	(37,667)	**1,610,942**
Reinsurers' share of unearned premiums	**470,846**	8,785	**479,631**
Deferred acquisition costs	**419,959**	12,136	**432,095**
Accruals and deferred income	**88,277**	(2,258)	**86,019**
Closing member's balance at 31 December 2014	**372,394**	19,004	**391,398**
Statement of Comprehensive Income			
Change in gross unearned premiums	**(166,408)**	6,004	**(160,404)**
Change in reinsurers' share of unearned premiums	**94,613**	(1,205)	**93,408**
Net operating expenses:			
Change in deferred acquisition costs	**16,615**	(4,790)	**11,825**
Realised exchange loss	**(29,475)**	21,865	**(7,610)**
Reinsurance commissions and profit participation	**61,077**	239	**61,316**
Total comprehensive income 31 December 2014	**306,421**	22,113	**328,534**

5 CHANGE IN ACCOUNTING ESTIMATE

In previous periods, acquisition costs, which represent commission and other related expenses, were deferred over the period in which the related premiums are earned. For this purpose acquisition costs included administrative expenses connected with the procurement, processing and issuance of policies. From 1 January 2015, no administrative costs are identified as acquisition expenses. This is a change in accounting estimate so has been accounted for prospectively. As such previous deferrals of administrative costs have been released, resulting in an expense in the Statement of Comprehensive Income for the year ended 31 December 2015 of $40.8m with a corresponding reduction to deferred acquisition costs in the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

6 RECONCILIATION OF INSURANCE BALANCES

2015	Provision for unearned premium $000's	Claims Outstanding $000's
Gross Technical Provisions		
As at 1 January 2015	1,610,941	3,985,091
Movement in the provision	(48,083)	88,212
Foreign exchange movements	(47,538)	(119,959)
At 31 December 2015	**1,515,320**	**3,953,344**
Reinsurers' share of technical provisions		
As at 1 January 2015	462,061	805,879
Movement in the provision	41,828	1,908
Foreign exchange movements	(13,392)	(17,081)
At 31 December 2015	**490,497**	**790,706**
Net technical provisions		
As at 1 January 2015	1,148,880	3,179,212
At 31 December 2015	**1,024,823**	**3,162,638**

The gross claims reported, the loss adjustment liabilities and the liabilities for claims incurred but not reported are gross of expected recoveries from salvage and subrogation.

2014	Provision for unearned premium $000's	Claims Outstanding $000's
Gross Technical Provisions		
As at 1 January 2014	1,470,349	4,195,241
Movement in the provision	160,404	(88,852)
Foreign exchange movements	19,812	121,298
At 31 December 2014	**1,610,941**	**3,985,091**
Reinsurers' share of technical provisions		
As at 1 January 2014	383,003	830,180
Movement in the provision	93,408	(89,982)
Foreign exchange movements	(14,350)	65,681
At 31 December 2014	**462,061**	**805,879**
Net technical provisions		
As at 1 January 2014	1,087,346	3,365,061
At 31 December 2014	**1,148,880**	**3,179,212**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

7 RISK: CLAIMS DEVELOPMENT TRIANGLES

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development.

Syndicate 2003 Gross claims development as at 31 December 2015

Pure underwriting year	**2010 & Prior $000's**	**2011 $000's**	**2012 $000's**	**2013 $000's**	**2014 $000's**	**2015 $000's**	**Total $000's**
Estimate of gross claims incurred:							
After 12 months		884,348	804,948	718,532	786,671	723,602	
After 24 months		1,583,052	1,395,594	1,352,424	1,508,444		
After 36 months		1,644,737	1,387,589	1,340,757			
After 48 months		1,626,368	1,417,912				
After 60 months		1,632,929					
As at 31 December 2015	**20,340,887**	**1,632,929**	**1,417,912**	**1,340,757**	**1,508,444**	**723,602**	
Less cumulative gross claims paid	**19,160,000**	**1,345,998**	**989,535**	**773,233**	**627,393**	**115,027**	
Gross reserves	**1,180,887**	**286,931**	**428,377**	**567,524**	**881,051**	**608,575**	**3,953,345**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

7 RISK: CLAIMS DEVELOPMENT TRIANGLES (continued)

Syndicate 2003 Net claims development as at 31 December 2015

Pure underwriting year	2010 & Prior $000's	2011 $000's	2012 $000's	2013 $000's	2014 $000's	2015 $000's	Total $000's
Estimate of net claims incurred:							
After 12 months		720,376	641,864	581,653	583,767	564,307	
After 24 months		1,322,954	1,161,542	1,071,714	1,152,235		
After 36 months		1,370,812	1,156,494	1,073,291			
After 48 months		1,344,947	1,162,167				
After 60 months		1,346,378					
As at 31 December 2015	**11,995,004**	**1,346,378**	**1,162,167**	**1,073,291**	**1,152,235**	**564,307**	
Less cumulative net claims paid	**11,001,129**	**1,093,961**	**783,558**	**650,215**	**506,392**	**95,489**	
Net reserves	**993,875**	**252,417**	**378,609**	**423,076**	**645,843**	**468,818**	**3,162,638**

Total all underwriting years	
Net reserves recognised	**3,162,638**
Amounts recovered from reinsurers	**790,706**
Gross reserves included in the Balance Sheet	**3,953,344**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

8 SEGMENTAL ANALYSIS

Gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balances by class of business are as follows:

2015	Gross Premiums Written $000's	Gross Premiums Earned $000's	Gross Claims Incurred $000's	Gross Operating Expenses $000's	Reinsurance Balance $000's	Total $000's
Fire and other damage to property	595,160	587,326	(272,277)	(195,295)	(105,108)	14,646
Accident and health	120,590	108,026	(59,983)	(52,899)	(5,884)	(10,740)
Third party liability	263,863	265,240	(120,828)	(82,839)	(49,430)	12,143
Marine, aviation and transport	289,734	314,004	(153,870)	(80,775)	(74,063)	5,296
Motor (third party liability)	39,685	40,067	(19,180)	(15,308)	(4,850)	729
Miscellaneous	85,715	69,680	(16,953)	(26,030)	(13,285)	13,412
	1,394,747	1,384,343	(643,091)	(453,146)	(252,620)	35,486
Reinsurance	1,544,452	1,602,939	(868,440)	(477,290)	(267,645)	(10,436)
Total	2,939,199	2,987,282	(1,511,531)	(930,436)	(520,265)	25,050

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

8 SEGMENTAL ANALYSIS (continued)

2014	*Gross Premiums Written $000's*	*Gross Premiums Earned $000's*	*Gross Claims Incurred $000's*	*Gross Operating Expenses $000's*	*Reinsurance Balance $000's*	*Total $000's*
Fire and other damage to property	*631,546*	*602,341*	*(245,868)*	*(186,697)*	*(129,815)*	*39,961*
Accident and Health	*84,490*	*71,506*	*(26,301)*	*(31,627)*	*(4,989)*	*8,589*
Third party liability	*305,717*	*276,138*	*(113,283)*	*(76,953)*	*(59,106)*	*26,796*
Marine, aviation and transport	*396,595*	*389,487*	*(202,412)*	*(95,448)*	*(77,329)*	*14,298*
Motor (third party liability)	*48,173*	*45,280*	*(22,668)*	*(16,736)*	*(8,474)*	*(2,598)*
Miscellaneous	*53,577*	*45,258*	*(20,557)*	*(12,178)*	*(9,340)*	*3,183*
	1,520,098	*1,430,010*	*(631,089)*	*(419,639)*	*(289,053)*	*90,229*
Reinsurance	*1,754,590*	*1,684,274*	*(731,799)*	*(535,834)*	*(275,003)*	*141,638*
Total	*3,274,688*	*3,114,284*	*(1,362,888)*	*(955,473)*	*(564,056)*	*231,867*

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to outwards reinsurance.

The Lloyd's insurance market has been treated as one geographical segment. All business is signed and concluded in the UK.

The geographical analysis of gross premiums written by risk location is as follows:

	Attributable to all business		Attributable to direct business	
	2015 $000's	*2014 $000's*	**2014 $000's**	*2014 $000's*
United Kingdom	**188,109**	*383,138*	**89,264**	*177,851*
Other EU Countries	**243,954**	*370,040*	**115,764**	*171,771*
US	**867,064**	*1,686,464*	**411,450**	*782,850*
Oceania	**243,954**	*288,173*	**115,764**	*133,769*
Other	**1,396,118**	*546,873*	**662,505**	*253,856*
	2,939,199	*3,274,688*	**1,394,747**	*1,520,097*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

9 PROFIT FOR THE FINANCIAL YEAR

Profit for the financial year is stated after charging:

	2015 $000's	*2014 $000's*
Auditor's remuneration		
Audit services:		
Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts	**973**	*595*
Other services		
Fees payable to the syndicate's auditor and its associates for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	**251**	154

The auditors remuneration has been borne by another group company.

10 MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

A favourable run off deviation (prior accident year release) of $8.4m *(2014: favourable run off deviation of $169.1m)* was experienced during the year in respect of various lines of business. Most significantly releases within aviation ($7.2m), marine ($5.4m), liability ($10.7m) where offset by increases in reinsurance ($20.2m). This is mainly due to a reduction in the ultimate loss estimates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

11 EMPLOYEES & DIRECTORS

The syndicate and its managing agent have no employees.

The syndicate did not directly incur staff costs during the year *(2014: $nil)*. Total staff costs of $146m *(2014: $141m)* were recharged by other group companies. These amounts include non salary related costs such as staff training.

The following salary and related costs were recharged during the year.

	2015 $000's	*2014 $000's*
Salaries	**91,524**	*88,066*
Social security	**13,041**	*12,549*
Pension	**12,300**	*11,835*
	116,865	*112,450*

Directors' emoluments for the year are as follows:

	2015 $000's	*2014 $000's*
Aggregate emoluments and other benefits	**4,553**	*2,850*
Pension Contributions	**121**	*153*
	4,674	*3,003*
Emoluments of the highest paid director are:		
Aggregate emoluments and other benefits	**2,148**	*715*
Pension contributions	**50**	*-*
	2,198	*715*
Emoluments of the active underwriter are:		
Aggregate emoluments and other benefits	**356**	*464*
Pension contributions	**6**	*-*
	362	*464*

Directors' emoluments are the share of the total emoluments charged to the syndicate for services provided to the syndicate. Directors' emoluments are paid by other group companies and recharged by way of a management fee based on a best estimate of the time spent on the syndicate's activities. Pension contributions relate to 6 directors *(2014: 6 directors)*.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

12 NET OPERATING EXPENSES

	2015 $000's	*2014 $000's*
Acquisition costs	**603,809**	*737,107*
Change in deferred acquisition costs	**39,190**	*(11,825)*
	642,999	*725,282*
Administration expenses	**287,437**	*230,191*
Reinsurance commissions and profit participation	**(61,187)**	*(61,316)*
	869,249	*894,157*

Included within acquisition costs are amounts relating to commissions on direct insurance business of $297.5m *(2014: $296.1m)*.

13 INVESTMENT RETURN

	2015 $000's	*2014 $000's*
Investment income		
Income from other financial investments:		
Income from financial assets at fair value through Profit and Loss	**67,649**	*67,893*
Gain on realisation of investments	**48,470**	*44,135*
	116,119	*112,028*
Net unrealised (losses)/gains on investments	**(10,849)**	*22,036*
Investment expenses and charges		
Other investment management expenses	**(15,547)**	*(15,249)*
Losses on the realisation of investments	**(27,773)**	*(14,538)*
	(43,320)	*(29,787)*
Total investment return	**61,950**	*104,277*

Investment return is analysed between:

	2015 $000's	*2014 $000's*
Allocated investment return transferred to the general business technical account	**60,061**	*100,512*
Net investment return included in the non technical account	**1,889**	*3,765*
Total investment return	**61,950**	*104,277*

Included in the above is a return of $1,889k *(2014: $3,765k)* of investment income earned on Funds in Syndicate deposited by Catlin Syndicate Limited into the syndicate's Premium Trust Fund (see note 24).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

14 INVESTMENTS

	Carrying value		Purchase price	
	2015	*2014*	**2015**	*2014*
	$000's	*$000's*	**$000's**	*$000's*
Financial assets				
Shares and other variable yield securities and units in unit trusts				
- designated at fair value through Profit or Loss upon initial recognition	**355,628**	*356,364*	**328,907**	*344,359*
Derivative financial instruments				
- at fair value through Profit or Loss	**38**	*2,302*	**8,196**	*8,851*
Debt securities and other fixed income securities				
- at fair value through Profit or Loss	**2,700,291**	*2,994,133*	**2,844,036**	*2,977,648*
Financial assets at fair value through Profit or Loss	**3,055,957**	*3,352,799*	**3,181,139**	*3,330,858*
Total financial assets	**3,055,957**	*3,352,799*	**3,181,139**	*3,330,858*

Included in the above are Funds in Syndicate of $195m (2014:$176m) placed by Catlin Syndicate Limited (see and 24).

a) Listed investments

Included in the carrying values above are amounts in respect of listed investments as follows:

	2015	*2014*
	$000's	*$000's*
Shares and other variable yield securities and units in unit trusts	**128,754**	*172,210*
Debt securities and other fixed income securities	**2,692,256**	*2,924,287*
	2,821,010	*3,096,497*

b) Derivative financial instruments, at fair value through Profit and Loss

The investment portfolio is predominantly invested in cash and fixed income securities and so is exposed to interest rate risk. Interest rate option contracts are purchased to manage the market risk associated with holding cash and fixed income securities.

	Fair value asset		Contract/ notional amount	
	2015	*2014*	**2015**	*2014*
	$000's	*$000's*	**$000's**	*$000's*
Interest rate swaption contract	**-**	*1,086*	**-**	*200,000*
Equity market option contract	**13,064**	*1,216*	**38**	*117,011*
	13,064	*2,302*	**38**	*317,011*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

15 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2015 $000's	*2014 $000's*
Due from intermediaries within one year	**1,177,105**	*1,160,226*
Due from intermediaries after one year	**687**	*834*
	1,177,792	*1,161,060*

16 OTHER DEBTORS:

Amounts falling due within one year	**2015 $000's**	*2014 $000's*
Amounts owed from group undertakings	**1,196**	*7,145*
Overseas taxation including federal excise tax	**32,968**	*20,646*
Salvage and subrogation recoveries	**985**	*9,970*
Investment settlements	**5,448**	*8,282*
Other debtors	**10,803**	*6,905*
	51,400	*52,948*

17 OTHER DEBTORS:

Amounts falling due within one year

	2015 $000's	*2014 $000's*
Salvage and subrogation recoveries	**36,400**	*36,623*
Other debtors	**17,638**	*15,673*
	54,038	*52,296*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

18 OVERSEAS DEPOSITS

Overseas deposits include the following trust fund balances:

	2015 $000's	*2014 $000's*
Illinois deposit LDTF	**9,604**	*7,365*
South Africa deposit	**2,907**	*4,523*
ASL deposits	**81,834**	*59,195*
Kentucky trust funds	**10,439**	*9,474*
Australian trust fund	**184,256**	*183,283*
Joint Asset Trust Fund SLTF	**7,208**	*7,157*
Joint Asset Trust Fund CRTF	**14,395**	*14,054*
Canadian Mutualised Margin Fund	**65,043**	*67,958*
	375,686	*353,009*

19 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2015 $000's	*2014 $000's*
Due to intermediaries within one year	**18,588**	*12,963*
Due to intermediaries after one year	**160**	*416*
	18,748	*13,379*

20 OTHER CREDITORS:

Amounts falling due within one year

	2015 $000's	*2014 $000's*
Amounts owed to group undertakings	**94,791**	*59,844*
Outstanding investment balances	**8,484**	*34,909*
Other creditors	**17,752**	*5,763*
	121,027	*100,516*

21 OTHER CREDITORS:

Amounts falling due after one year

	2015 $000's	*2014 $000's*
Other creditors	**4,021**	*1,335*
	4,021	*1,335*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

22 RECONCILIATION OF OPERATING PROFIT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2015 $000's	*2014 $000's*
Profit for the financial year	**53,838**	*328,534*
Decrease in net technical provisions	**(140,631)**	*(148,162)*
(Increase) in debtors	**(25,019)**	*(134,337)*
Increase in creditors	**28,553**	*128,586*
Investment return	**(61,950)**	*(104,277)*
Net cash (outflow)/inflow from operating activities	**(145,209)**	*70,344*

23 FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). As at 31 December 2015, the value of assets supporting FAL for the 2016 year of account is $1,120.2m. These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL/FIS that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. This capital requirement is based on a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

24 FUNDS IN SYNDICATE

Catlin Syndicate Limited, the sole corporate member of the syndicate, holds investments in the syndicate to be used as collateral to support the syndicate's capital requirements, or Funds at Lloyd's. These investments give the syndicate the ability to manage these funds under the same Investment Management Agreement as the other funds of the syndicate that are held in the premium trust funds.

At 31 December 2015, $195m of investments were held as Funds in Syndicate *(31 December 2014: $176.0m)*.

The investments realised a profit of $1,888k for the year to 31 December 2015 *(2014: $3,765k)*. The balance of $195m is included within member's balances on the Syndicate Balance Sheet and is owed exclusively to Catlin Syndicate Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

25 RELATED PARTY TRANSACTIONS

Catlin Underwriting Agencies Limited ("CUAL") is the managing agent for XL Catlin Syndicate 2003. Under the standard managing agents' agreement, CUAL receives an annual fee of 1% of stamp capacity. In 2015 this amounted to $23.3m *(2014: $26.3m)*. The balance due to CUAL as at 31 December 2015 was $10.5m *(2014: $9.5m)*

Catlin Syndicate Limited is the sole member of XL Catlin Syndicate 2003.

The XL Catlin Group wholly owns a number of cover holders which underwrite on behalf of XL Catlin Syndicate 2003 and these are listed below:

Catlin Canada Inc

Catlin Insurance Company Inc US

Catlin Specialty Insurance Company

Catlin Inc

Catlin Insurance Services Inc

Catlin Underwriting Inc

Catlin France SAS

Catlin Schweiz AG

Catlin Hong Kong Limited

Catlin Guernsey Limited

Catlin Brasil Servicos Tecnicos Ltda

Catlin Australia Pty Limited

Catlin Singapore Pte Limited

Catlin Labuan Limited

Catlin (BB) Ltd

Catlin Ecosse Insurance Limited

Catlin Risk Solutions Limited

Catlin Re Switzerland Ltd

Catlin Europe SE

Catlin Middle East Limited

Commissions and administrative expenses relating to the provision of insurance underwriting by other Group companies are charged to Syndicate 2003 by the respective offices. These amounts are charged to acquisition costs in the Statement of Comprehensive Income. The total effect of these on the Statement of Comprehensive Income in 2015 totalled $112.3m *(2014: $101.5m)*. The amounts receivable in respect of insurance business and commission payable was $238.1m *(2014: $124.1m)*.

The syndicate participates in reinsurance contracts with other parts of the Group, including XL Insurance (Bermuda) Limited, which has assumed liability for existing whole account stop loss contract from Catlin Re Switzerland Limited (Bermuda branch) via a novation agreement effective 1 January 2016, and Catlin Insurance Company Ltd. The effect of these contracts on the Statement of Comprehensive Income in 2015 is a charge of $95.8m *(2014: a charge of $113.4m)*. Amounts relating to these contracts of $80.5m *(2014: $156.8m)* were payable as at the Balance Sheet date. Commencing 2012, Catlin Syndicate 6112 was created to provide quota share reinsurance cover to Syndicate 2003. The sole corporate member of Syndicate 6112 is Catlin Syndicate 6112 Limited, a group company. The effect of these contracts on the Statement of Comprehensive Income in 2015 is a charge of $9.2m *(2014: charge of $12.5m)*; the balance payable at the Balance Sheet date totalled $41.3m *(2014: $38.0m)*.

The syndicate participated in an intra group reinsurance contract with Catlin Insurance Company (UK) Ltd to normalise the loss ratios across specified lines of business between the two XL Catlin platforms. The effect of this contract on the Statement of Comprehensive Income in 2015 was a credit of $20.3m *(2014: a debit of $28.3m)*. Amounts relating to these contracts of $8.7m were payable *(2014: $29.4m payable)* as at the Balance Sheet date. This contract was last renewed for the 2012 year of account, so charges relate wholly to previous years of account.

The syndicate is serviced in terms of accommodation, staff and other overhead costs by Catlin Holdings Limited and other group companies. The syndicate is charged its share of these central costs. In 2015 the total recharge from Catlin Holdings Limited and other group companies was $229.6m *(2014: $265.4m)*. At 31 December 2015 the balance payable to Catlin Holdings Limited and other group companies in relation to this recharge was $4.2m *(2014: payable of $52.7m)*.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

25 RELATED PARTY TRANSACTIONS (continued)

At the Balance Sheet date, Syndicate 2003 had exisiting reinsurance contracts with several XL Catlin Group companies, with balances recoverable of $96k from XL Re Limited (with $1,754k held as collateral), $27K from XL Global Reinsurance Company Limited, $28k recoverable from Syndicate 1209, $8,735k recoverable from X.L. Mid Ocean Reinsurance Company Limited and $186k recoverable from XL Re Europe Limited. In turn Syndicate 2003 had a balance of $100k payable to Syndicate 1209 in relation to contracts where Syndicate 1209 has ceded business to Syndicate 2003.

26 ULTIMATE PARENT UNDERTAKING

Catlin Syndicate Limited is the sole member of XL Catlin Syndicate 2003.

Catlin Insurance Company Ltd, a company registered in Bermuda, is the parent undertaking of the smallest group to consolidate the financial statements of Catlin Syndicate Limited. Copies of the Catlin Insurance Company Ltd consolidated financial statements can be obtained from The Secretary, Catlin Insurance Company Ltd, O'Hara House, One Bermudiana Road, Hamilton, Bermuda HM08.

The ultimate parent undertaking and controlling party is XL Group plc, a company registered in the Republic of Ireland, which is the parent undertaking of the largest group to consolidate the financial statements of Catlin Syndicate Limited. Copies of the XL Group plc consolidated financial statements can be obtained from 20 Gracechurch Street, London, EC3V 0BG.