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SYNDICATE 2088

SYNDICATE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2015

SYNDICATE 2088

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	M. Sage
Bankers	Barclays Bank Plc Citibank International Plc Royal Bank of Canada
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

SYNDICATE 2088

CONTENTS

SYNDICATE 2088

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 of CUAL, was acquired by XL Group Plc. Going forward, the Group will trade under the brand name XL Catlin.

Business review

Syndicate 2088 was established for the 2012 year of account as a 'Special Purpose Syndicate'. Its principal activity was to underwrite a whole account quota share reinsurance of Catlin Syndicate 2003. In 2015, the syndicate became a stand-alone syndicate and began to underwrite open market business. In addition to continuing to write the whole account quota share of Syndicate 2003, the syndicate underwrote a further cession of the entities within the Catlin Group prior to the acquisition, hereafter refered to as "the Legacy Catlin Group entites". This cession represents 0.66% of gross premiums written by the Legacy Catlin Group entities.

The two whole account quota share contracts operate on a funds withheld basis. All of the capital supporting the syndicate is provided by a single corporate member, China Re (UK) Limited, a subsidiary of China Reinsurance (Group) Corporation.

The result for the year is a loss of £3.3m (*2014: profit of £3.4m*). The result is primarily attributable to the underwriting loss (net earned premiums minus net claims incurred and net operating expenses) for 2015 of £4.1m offset by other income of £0.8m (against an underwriting profit for 2014 of £2.0m and other income of £1.3m). Other income represents interest generated on funds withheld balances on the Whole Account Quota Share agreements with Syndicate 2003 and the Legacy Catlin Group entities, hereafter referred to as "the Whole Account Quota Shares".

Key performance indicators

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

	2015	*2014*
	£000's	*£000's*
Gross premiums written	**79,399**	*46,824*
Underwriting result	**(4,135)**	*2,138*
(Loss)/profit for the financial year	**(3,293)**	*3,353*
Net loss ratio	**66%**	*71%*
Combined ratio	**109%**	*94%*

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.

Results

During the year, the syndicate wrote £79.4m in gross premiums *(2014: £48.6m)*. The increase is predominantly due to the to the additional quota share cover provided to the Legacy Catlin Group entities and the emergence of the syndicate's own independent book of business.

The syndicate incurred a net loss ratio of 66.0% (*2014: 71%*). The reduction is a result of a change in the terms of the Syndicate 2003 quota share for 2015, which specified that inwards premiums written are presented gross of acquisition costs, whereas in previous years these had been net of acquisition costs. This is offset by the challenging rating environment and lower volume of reserve releases on back years in Syndicate 2003 when compared with 2014.

In addition to a share of the common account reinsurance purchased by Syndicate 2003 and the Legacy Catlin Group entities, the syndicate is protected by a Whole Account Stop Loss arrangement with China Reinsurance (Group) Corporation, and its own third party reinsurance programme.

The net operating expense ratio of 42.5% (*2014: 22.6%*) includes commission and administration expenses. The increase is due to the inclusion of acquisition costs ceded by Syndicate 2003 for the 2015 year of account and administrative expenses incurred in the set up of Syndicate 2088 as a stand-alone syndicate. With set up costs and the change in presentation of acquisition costs removed, the 2015 net operating expense ratio is 25.6%.

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 was a decrease of £2.0m for the comparative period and the impact on opening equity at 1 January 2014 was a increase of £0.9m.

Business environment
2015 was the first year of the Syndicate as a full trading syndicate writing business in its own name, although the Whole Account reinsurances of Syndicate 2003 and Legacy Catlin Group entities continued to be written, providing diversification and stability. The business environment proved to be challenging and a cautious approach was adopted in the early stages, with a view to securing positions with clients seen as long term partners. Whilst market over capacity led to an inevitable reduction in pricing, with underlying profitability being flattered by a series of years of lower than average catastrophe experience globally, we were pleased by the level of support from clients and brokers.

Reinsurance protections were purchased, both from third party carriers and also including Whole Account Stop Loss from China Reinsurance (Group) Corporation.

Principal risks and uncertainties
The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. The Managing Agent has developed a risk and control framework in line with the wider XL 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.

The risk and control framework is applied across all of the syndicates that are managed by the Managing Agent and the policies, procedures and internal controls are implemented across all of the syndicates as relevant.

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 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 reinsurance business arise from the following:

<u>Insurance risk</u>
Insurance risk relates to the risks underwitten directly by the syndicate and indirectly through the Whole Account Quota Shares. This 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 CUAL Board and communicated clearly throughout the business. Insurance risk is discussed further in note 2.

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

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 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.

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

The syndicate will write a cession of 2.96% (*2015 year of account: 3.29%*) of Syndicate 2003's 2016 year of account gross written premium. The syndicate will also write a further cession of XL Group's company market business of 0.17% of gross premiums written and continue to underwrite its open market book of business. The initial focus for independent underwriting has been on short tail reinsurance business, and the syndicate intends to broaden the open market book of business base away from natural catastrophe over time.

For the 2016 underwriting year, the syndicate will continue to purchase Whole Account Stop Loss reinsurance with China Reinsurance (Group) Corporation.

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 to 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 its long-established regulatory expertise in the insurance sector and 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 the 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").

Future developments and strategy are discussed within the strategic report.

Member's balance
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 2.9% of capacity.

The member's balance as at 31 December 2015 is a deficit of £3.4m *(2014: surplus of £0.8m).*

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.

Disclosure of information to the auditors
Each of the persons who is a director 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 auditors are aware of that information.

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

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
Director
15 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2088

Report on the syndicate annual accounts

Our Opinion

In our opinion, Syndicate 2088'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 balance;
- 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 5, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2088

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.

MWNichols

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

SYNDICATE 2088

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £000's	*2014 £000's*
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Earned premium, net of reinsurance			
Gross premiums written	7	**79,399**	*46,824*
Outward reinsurance premiums		**(18,548)**	*(12,312)*
Net premiums written		**60,851**	*34,512*
Change in the gross provision for unearned premiums		**(13,976)**	*(1,048)*
Change in the provision for unearned premiums, reinsurers' share		**1,457**	*378*
Change in the net provision for unearned premiums		**(12,519)**	*(670)*
Earned premiums, net of reinsurance		**48,332**	*33,842*
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**(31,238)**	-
Reinsurers' share		**2,796**	-
		(28,442)	-
Change in the provision for claims			
Gross amount		**(4,000)**	*(27,743)*
Reinsurers' share		**520**	*3,697*
		(3,480)	*(24,046)*
Claims incurred, net of reinsurance		**(31,922)**	*(24,046)*
Net operating expenses	11	**(20,545)**	*(7,658)*
Balance on the technical account for general business		**(4,135)**	*2,138*

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £000's	*2014* *£000's*
NON-TECHNICAL ACCOUNT			
Balance on the technical account for general business		**(4,135)**	*2,138*
Other income	12	**849**	*1,275*
Foreign exchange gains and losses		**(8)**	*(58)*
(Loss)/profit for the financial year		**(3,294)**	*3,355*
Other Comprehensive Income		**-**	*-*
Total Comprehensive Income for the year		**(3,294)**	*3,355*

All amounts above relate entirely to continuing activities as defined by Financial Reporting Standard 102 (FRS 102) Section 3.

The notes on pages 14 to 36 form part of these annual accounts.

SYNDICATE 2088

BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 £000's	*2014 £000's*
ASSETS			
Reinsurers' share of technical provisions			
Provision for unearned premiums		**7,157**	*5,429*
Claims outstanding	6	**8,764**	*8,058*
		15,921	*13,487*
Debtors - amounts falling due within one year			
Debtors arising out of reinsurance operations	13	**45,269**	*45,374*
Other debtors	14	**1,763**	*895*
		47,032	*46,269*
Debtors - amounts falling due after one year			
Debtors arising out of reinsurance operations	13	**94,743**	*85,619*
Other debtors	15	**627**	*239*
		95,370	*85,858*
Other assets			
Cash at bank and in hand		**3,673**	-
Overseas deposits	16	**1,770**	-
		5,443	-
Prepayments and accrued income			
Deferred acquisition costs		**9,905**	*2,446*
Other prepayments and accrued income		**270**	-
		10,175	*2,446*
TOTAL ASSETS		**173,941**	*148,060*

SYNDICATE 2088

BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 £000's	*2014 £000's*
LIABILITIES			
Member's balance		**(3,350)**	*775*
Technical provisions			
Provision for unearned premiums		**39,181**	*24,492*
Claims outstanding	6	**81,142**	*75,697*
		120,323	*100,189*
Creditors - amounts falling due within one year			
Creditors arising out of reinsurance operations	17	**17,041**	*14,104*
Other creditors	18	**3,632**	*2,658*
		20,673	*16,762*
Creditors - amounts falling due after one year			
Creditors arising out of reinsurance operations	17	**26,731**	*25,387*
Other creditors	19	**5,862**	*4,617*
		32,593	*30,004*
Accruals and deferred income		**3,702**	*330*
TOTAL LIABILITIES		**173,941**	*148,060*

The annual accounts on pages 8 to 36 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 14 to 36 form part of these financial statements.

SYNDICATE 2088

STATEMENT OF CHANGES IN MEMBER'S BALANCE
AS AT 31 DECEMBER 2015

	Member's balance £000's
Balance as at 1 January 2014	(2,580)
Profit for the financial year	3,355
Balance as at 31 December 2014	775
Balance as at 1 January 2015	775
Loss for the financial year	(3,294)
Profit distribution - 2012 year of account	(831)
Balance as at 31 December 2015	(3,350)

SYNDICATE 2088

STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2015

	Note	2015 £000's	*2014 £000's*
Net cash inflow from operating activities	20	6,274	-
Cash flow from investing activities		-	-
Cash flow from financing activities			
Distribution profit		(831)	-
Net increase/(decrease) in cash and cash equivalents		5,443	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		5,443	-
Cash at bank and in hand		3,673	-
Overseas deposits		1,770	-
Cash and cash equivalents at the end of the year		5,443	-

Overseas deposits included in cash and cash equivalents are not readily available for use by Syndicate 2003. See note 16 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. 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 21.

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.

The principal accounting policies are set out below:

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 written, both directly and through the Whole Account Quota Shares, is the syndicate's most critical accounting estimate. This is discussed in detail in accounting policy 1.5(v).
- The managing agent makes an estimate of premiums written, both directly and through the Whole Account Quota Shares, 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 ACCOUNTING POLICIES (continued)

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:

(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 & duties levied on premiums.

For general insurance contracts 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.

(ii) Outward reinsurance premiums written

Outward reinsurance premiums ceded represents 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, and is calculated on a daily pro rata basis.

1 ACCOUNTING POLICIES (continued)

1.5 Insurance and investment contracts - classification (continued)

(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 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.

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.

- 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.

1 ACCOUNTING POLICIES (continued)

1.5 Insurance and investment contracts - classification (continued)

(v) Claims provisions and related reinsurance recoveries (continued)

Syndicate 2003 discounts unpaid loss reserves arising from Periodical Payment Orders ("PPO") related to bodily injury liability claims, emanating from UK exposures, as these payments are considered fixed and determinable.

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.

(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 calculated by the underwriter and 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 had 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.

(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 **ACCOUNTING POLICIES (continued)**

1.6 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 currencies). The annual accounts are presented in pounds sterling, which is the syndicate's functional currency.

Transactions in foreign currencies are translated 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 revaluation at year 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.

1.7 Overseas deposits

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

1.8 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.

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.

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, as well as those of Syndicate 2003 and the Legacy Catlin Group entities. 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. Due to the nature of Syndicate 2003 and the Legacy Catlin Group entities' investments and liabilities, the risks that the syndicate primarily faces are interest rate risk and equity price 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. The syndicate, as well as the management of Syndicate 2003 and the Legacy Catlin Group entities, 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 general insurance business of the syndicate, Syndicate 2003 and the Legacy Catlin Group entities. 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, 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 strategy applied by CUAL and are communicated clearly throughout the business through policy statements and guidelines.

2 MANAGEMENT OF FINANCIAL RISK (continued)

(a) Insurance 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 monitored independently for the synidcate's independent business and within the ceding entities themselves for the Whole Account Quota Shares. These risks are continually monitored through 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. The Whole Account Quota Shares help to provide this balance and for this purpose are considered large books of business. 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, both for the syndicate and Syndicate 2003, 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 events such as natural catastrophes and terrorism losses.

2 MANAGEMENT OF FINANCIAL RISK (continued)

(a) Insurance 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 ttheir 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 6.

(b) Market risk

(i) Interest rate risk

The syndicate does not hold fixed interest securities, but is indirectly exposed to interest rate risk through the investment return remitted to it in lieu of the interest income received on funds witheld on the Whole Account Quota Shares.

The whole account quota share ceding entities monitor 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 management of Syndicate 2003 and the Legacy Catlin Group entities.

Syndicate 2003 and the Legacy Catlin Group entities purchase interest rate swaption contracts to manage their 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 within the ceding entities will fluctuate because of changes in market interest rates at the reporting date.

A 50bps increase/(decrease) in interest rates would lead to a £0.5m loss/(£0.5m gain) (2014: £0.5m loss/(£0.6m gain)) on the interest income remitted by Syndicate 2003 and the Legacy Catlin Group entities, with an equal impact on net assets.

2 MANAGEMENT OF FINANCIAL RISK (continued)

(a) Market risk (continued)

(ii) Equity price risk

The syndicate does not hold equity investments, but is indirectly exposed to equity securities price risk through the investment return remitted to it in lieu of the interest income received on funds witheld on the Whole Account Quota Shares.

Syndicate 2003 and the Legacy Catlin Group entities have 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.

A 50bps increase/(decrease) in Stock Market prices, with all other variables held constant, would lead to a £0.2m loss/(£0.2m gain) (2014: £0.2m loss/(£0.2m gain)) on the interest income remitted by Syndicate 2003 and the Legacy Catlin Group entities, with an equal impact on net assets.

(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 syndicates's functional currency.

The syndicate is primarily exposed to currency risk in respect of its open market liabilities under policies of insurance denominated in currencies other than Pounds Sterling, as well as the those of Syndicate 2003 and the Legacy Catlin Group entities. The most significant currencies to which the syndicate is exposed are US Dollars, 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.

At 31 December 2015, in considering the syndicate's material currency exposures, if the Pounds Sterling 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: US Dollars: £0.1m (2014: £(0.1)m), Euros £0.0m *(2014: £0.0m)* Canadian Dollars £(0.1)m *(2014: £(0.0)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 Pounds Sterling weakened by 5%.

(c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arising from the business ceded by the Syndicate 2003 and the Legacy Catlin Group entities is managed by the ceding entities themselves whilst the independent book of business is managed directly by CUAL. These entities adopt unified approach to mitigating credit risk under supervision of the XL Group Board. 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.

2 MANAGEMENT OF FINANCIAL RISK (continued)

(c) Credit risk (continued)

The syndicate and the ceding entities of the Whole Account Quota Shares manage the levels of credit risk they accept by placing limits on their exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. 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 management. 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.

The profile of credit risk has changed as the syndicate now has debtors from counterparties other than Syndicate 2003. There were no material unapproved breaches of credit limits during the year. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets

The table on the following page provides information on the credit quality of financial assets of the Syndicate that are neither past due nor impaired.

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

2 MANAGEMENT OF FINANCIAL RISK (continued)

(c) Credit risk (continued)

At 31 December 2015	**AAA**	**AA**	**A**	**BBB or below**	**Not readily available/ not rated**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Cash at bank and in hand	-	-	-	-	**5,435**	**5,435**
Overseas deposits as investments	-	-	-	-	**8**	**8**
Reinsurance debtors	-	**129,602**	**9,588**	**84**	-	**139,274**
Reinsurers' share of claims outstanding	-	**1,546**	**7,208**	**7**	**3**	**8,764**
Total	-	**131,148**	**16,796**	**91**	**5,446**	**153,481**

At 31 December 2014	*AAA*	*AA*	*A*	*BBB or below*	*Not readily available/ not rated*	*Total*
	£000's	*£000's*	*£000's*	*£000's*	*£000's*	*£000's*
Reinsurance debtors	-	*130,993*	-	-	-	*130,993*
Reinsurers' share of claims outstanding	-	*8,058*	-	-	-	*8,058*
Total	-	*139,051*	-	-	-	*139,051*

The syndicate has no 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).

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

2 MANAGEMENT OF FINANCIAL RISK (continued)

(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.

The following tables analyse the financial liabilities by maturity date:

At 31 December 2015	**No contractual maturity date £000's**	**Less than one year on demand £000's**	**Between 1 and 3 years £000's**	**Between 3 and 5 years £000's**	**Over 5 years £000's**	**Total £000's**	**Carrying value £000's**
Creditors	-	**20,674**	**32,593**	-	-	**53,267**	**53,267**
Claims outstanding	-	**30,085**	**51,057**	-	-	**81,142**	**81,142**
Total	-	**50,759**	**83,650**	-	-	**134,409**	**134,409**

At 31 December 2014	*No contractual maturity date £000's*	*Less than one year on demand £000's*	*Between 1 and 3 years £000's*	*Between 3 and 5 years £000's*	*Over 5 years £000's*	*Total £000's*	*Carrying value £000's*
Creditors	-	*16,763*	*30,004*	-	-	*46,767*	*46,767*
Claims outstanding	-	*31,162*	*44,535*	-	-	*75,697*	*75,697*
Total	-	*47,925*	*74,539*	-	-	*122,464*	*122,464*

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.

(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:

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. Overseas deposits are classified as Level 1 assets in accordance with accounting standards. The syndicate holds no Level 3 assets.

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 apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2088 is not disclosed in these financial statements. See note 21 for details of the syndicate's FAL 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 participating 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.

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.

(a) Foreign exchange

In this group's UK GAAP financial statements, income statement transactions are translated into sterling using an average rate of exchange for the period. Assets and liabilities are translated into sterling 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 sterling 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.

(b) 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 requiring restatement.

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 members' balance at 1 January 2014	**3,465**	(885)	**2,580**
Gross unearned premiums	**(23,044)**	(1,448)	**(24,492)**
Reinsurers' share of unearned premiums	**5,224**	205	**5,429**
Deferred acquisition costs	**2,340**	106	**2,446**
Closing members' balance at 31 December 2014	**(1,912)**	1,137	**(775)**
Statement of Comprehensive income			
Change in gross unearned premiums	**375**	(1,423)	**(1,048)**
Change in reinsurers' share of technical provisions	**296**	82	**378**
Net operating expenses:			
Change in deferred acquisition costs	**(2)**	(99)	**(101)**
Foreign exchange gains and losses	**721**	(779)	**(58)**
Total comprehensive income year ended 31 December 2014	**5,377**	(2,022)	**3,355**

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

5 RECONCILIATION OF INSURANCE BALANCES

2015	Provision for unearned premium £000's	Claims Outstanding £000's
Gross Technical Provisions		
As at 1 January 2015	24,492	75,697
Movement in the provision	13,976	4,000
Foreign exchange movements	713	1,445
At 31 December 2015	39,181	81,142
Reinsurers' share of technical provisions		
As at 1 January 2015	5,429	8,058
Movement in the provision	1,457	520
Foreign exchange movements	271	186
At 31 December 2015	7,157	8,764
Net technical provisions		
As at 1 January 2015	**19,063**	**67,639**
At 31 December 2015	32,024	72,378

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	50,078	62,459
Movement in the provision	1,048	27,743
Foreign exchange movements	26,634	14,505
At 31 December 2014	24,492	75,697
Reinsurers' share of technical provisions		
As at 1 January 2014	5,365	4,972
Movement in the provision	378	3,697
Foreign exchange movements	(314)	(611)
At 31 December 2014	5,429	8,058
Net technical provisions		
As at 1 January 2014	**44,713**	**57,487**
At 31 December 2015	19,063	67,639

6 RISK: CLAIMS DEVELOPMENT TRIANGLES

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

Gross claims development as at 31 December 2015

Pure underwriting year	2012	2013	2014	2015	Total
	£000's	£000's	£000's	£000's	£000's
Estimate of gross claims incurred:					
After 12 months	18,797	15,586	15,738	20,004	
After 24 months	32,023	29,622	31,094		
After 36 months	31,723	29,441			
After 48 months	32,369				
After 60 months					
As at 31 December 2015	32,369	29,441	31,094	20,004	
Less cumulative gross claims paid	(31,723)			(43)	
Gross reserves	646	29,441	31,094	19,961	81,142

Net claims development as at 31 December 2015

Pure underwriting year	2012 £000's	2013 £000's	2014 £000's	2015 £000's	Total £000's
Estimate of net claims incurred:					
After 12 months	16,630	14,107	13,742	18,214	
After 24 months	29,213	26,237	27,427		
After 36 months	28,835	26,358			
After 48 months	29,257				
After 60 months					
As at 31 December 2015	29,257	26,358	27,427	18,214	
Less cumulative net claims paid	(28,835)			(43)	
Net reserves	422	26,358	27,427	18,171	72,378

Total all underwriting years	
Net reserves recognised	72,378
Amounts recovered from reinsurers	8,764
Gross reserves included in the balance sheet	81,142

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

7 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 Reinsurance Acceptances	**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	**42,469**	**33,459**	**(15,219)**	**(12,422)**	**(8,130)**	**(2,312)**
Accident and health	**18,944**	**15,790**	**(11,246)**	**(3,780)**	**(1,452)**	**(688)**
Marine, aviation and transport	**16,953**	**15,378**	**(8,223)**	**(4,860)**	**(3,422)**	**(1,127)**
Motor (third party liability)	**1,033**	**796**	**(550)**	**(175)**	**(79)**	**(8)**
Total	**79,399**	**65,423**	**(35,238)**	**(21,237)**	**(13,083)**	**(4,135)**

2014 Reinsurance Acceptances	*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	*22,905*	*22,713*	*(11,447)*	*(4,967)*	*(4,091)*	*2,208*
Accident and health	*11,621*	*10,414*	*(7,756)*	*(1,872)*	*(847)*	*(61)*
Marine, aviation and transport	*11,550*	*11,925*	*(8,059)*	*(1,359)*	*(2,518)*	*(11)*
Motor (third party liability)	*748*	*724*	*(481)*	*(154)*	*(87)*	*2*
Total	*46,824*	*45,776*	*(27,743)*	*(8,352)*	*(7,543)*	*2,138*

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

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

All gross premiums written originate in the United Kingdom.

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

8 (LOSS)/PROFIT FOR THE FINANCIAL YEAR

(Loss)/Profit for the financial year is stated after charging:

	2015 **£000's**	*2014* *£000's*
Auditors' remuneration		
Audit services:		
Fees payable to the syndicate's auditors for the audit of the syndicate annual accounts	**116**	*54*
Other services		
Fees payable to the syndicate's auditors and its associates for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	**29**	*14*

This is the auditors remuneration attributable to the Syndicate, the cost of which is borne through a company in the XL group.

9 MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

An adverse run-off deviation (prior accident year release) of £0.4m *(2014: run-off deviation of £nil)* was experienced during the year, wholly in respect of reserve movements on the 2012 year of account Whole Account Quota Share contract with Syndicate 2003.

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

10 EMPLOYEES & DIRECTORS

The syndicate and its managing agent has no employees *(2014: nil)*.

The syndicate did not directly incur staff costs during the year *(2014: £nil)*.

Total Staff costs of £0.6m (*2014: £nil)* were recharged by service 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	**485**	-
Social security	**63**	-
Pension	**26**	-
	574	-

The syndicate was not recharged any expenses during the year relating to the remuneration of the directors of CUAL *(2014: £nil)*.

Under the standard managing agents' agreement, Catlin Underwriting Agencies Limited receives an annual fee for services provided.
Active underwriter's emoluments for the year were as follows:

	2015 £000's	*2014 £000's*
Emoluments of the active underwriter are:		
Aggregate emoluments and other benefits	**600**	-
	600	-

The active underwriter's emoluments have been borne by an XL Group company.

11 NET OPERATING EXPENSES

	2015 £000's	*2014 £000's*
Acquisition costs	**22,346**	*4,681*
Change in deferred acquisition costs	**(8,224)**	*(101)*
	14,123	*4,580*
Administration expenses	**7,114**	*3,772*
Reinsurance commissions and profit participation	**(692)**	*(694)*
	20,545	*7,658*

12 OTHER INCOME

	2015 £000's	*2014 £000's*
Interest on funds withheld balance	849	*1,275*

Other income represents interest on funds withheld balances on the Whole Account Quota Share agreements with Syndicate 2003 and the Legacy Catlin Group entities.

13 DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2015 £000's	*2014 £000's*
Due from cedants within one year	45,269	*45,374*
Due from cedants after one year	94,743	*85,619*
	140,012	*130,993*

14 OTHER DEBTORS: Amounts falling due within one year

	2015 £000's	*2014 £000's*
Other debtors	1,763	*895*

15 OTHER DEBTORS: Amounts falling due after one year

	2015 £000's	*2014 £000's*
Other debtors	627	*239*

16 OVERSEAS DEPOSITS

Overseas deposits include the following trust fund balances:

	2015 £000's	*2014 £000's*
Joint Asset Trust Fund - CRTF	1,762	-
Canadian Mutualised Margin Fund	8	-
	1,770	-

17 CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2015 **£000's**	*2014* *£000's*
Due to cedants within one year	**17,041**	*14,104*
Due to cedants after one year	**26,731**	*25,387*
	43,772	*39,491*

18 OTHER CREDITORS: Amounts falling due within one year

	2015 **£000's**	*2014* *£000's*
Other creditors	**3,632**	*2,658*

19 OTHER CREDITORS: Amounts falling due after one year

	2015 **£000's**	*2014* *£000's*
Other creditors	**5,862**	*18,721*

20 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2015 **£000's**	*2014* *£000's*
(Loss)/Profit for the financial year	**(3,294)**	*3,355*
Increase in net technical provisions	**17,700**	*28,088*
(Increase) in debtors	**(18,004)**	*(48,072)*
Increase in creditors	**9,872**	*16,629*
Net cash inflow from operating activities	**6,274**	*-*

21 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 £80.2m. These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

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.

22 RELATED PARTY TRANSACTIONS

Catlin Underwriting Agencies Limited ("CUAL") is the managing agent for Syndicate 2088. Under the standard managing agent's agreement, CUAL receives an annual fee of 1% of stamp capacity and profit commissions at 20% for the 2012, 2013 and 2014 years of accounts. Any future profits on the 2015 year of accounts will be charged profit commissions at 15%. In 2015, the managing agency fees amounted to £0.5m *(2014: £0.9m)* and profit commissions amounted to £0.9m *(2014: £1.7m)*. The balance due to CUAL as at 31 December 2015 was £3.2m *(2014: £4.9m)*.

There exists a Whole Account Stop Loss Reinsurance treaty between the syndicate and China Reinsurance (Group) Corporation. The impact to the Profit and Loss account for 2015 is a charge of £2.0m *(2014: charge of £2.8m)* and the balance due to China Reinsurance (Group) Corporation as at 31 December 2014 is £9.1m *(2014: £7.7m)*.

China Re (UK) Limited is the sole member of Syndicate 2088 for 2012 and subsequent years of account.

The syndicate participates in reinsurance contracts with other parts of the China Reinsurance (Group) corporation. The effect of these contracts on the Profit and Loss Account in 2015 is a profit of £0.3m *(2014: a charge of £nil)*. Amounts relating to these contracts of £4.8m *(2014: £nil)* were receivable as at the Balance Sheet date.

The syndicate is recharged costs by China Re Underwriting Agency Limited. In 2015 the total recharge was £0.8m *(2014: £nil)*. At 31 December 2015 the balance payable to China Re Underwriting Agency Limited was £0.8m *(2014: £nil)*.

23 ULTIMATE PARENT UNDERTAKING

China Re (UK) Limited is the sole member of Syndicate 2088.

The ultimate parent undertaking and controlling party of China Re (UK) Limited is China Reinsurance (Group) Corporation, a company incorporated in China, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. China Reinsurance (Group) Corporation is majority owned by the Ministry of Finance of the People's Republic of China and Central Huijin Investment Company Limited