IMPORTANT INFORMATION ABOUT SYNDICATE REPORTS AND ACCOUNTS

XL Catlin Syndicate 3002

Syndicate Annual Accounts

For The Year Ended 31 December 2015

XL CATLIN

MAKE YOUR WORLD GO

XL CATLIN SYNDICATE 3002
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 N. Guillaume-Smith

Bankers Barclays Bank PLC
Citibank N.A.

Independent auditors PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

XL CATLIN

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.

Business review
The principal activity of the syndicate is the transaction of term life insurance business.

The syndicate has seen considerable disciplined growth in gross premiums written, in line with its strategy to focus on developing UK and International life insurance and reinsurance solutions, both on a standalone basis and in conjunction with the Accident and Health policies offered by Syndicate 2003. The existing book saw an increase in the top line of 23%, and a strategic new distribution partner for the 2015 year of account contributed an additional £14,793k of gross premiums written.

The result for the year is a profit of £1,181k *(2014: profit of £1,479k)*. The decrease is attributable to the reserving methodology for the new distribution partner, which incorporates a greater degree of prudence.

The total capacity for 2015 underwriting year was £24,211k *(2014: £14,403k)*.

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	**26,725**	*9,670*
Underwriting result	**1,103**	*1,389*
Profit for the financial year	**1,181**	*1,479*
Net loss ratio	**58.0%**	*50.4%*
Combined ratio	**92.2%**	*88.7%*

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.

Results and solvency
During the year, the syndicate wrote £26,725k in gross premiums, a 176% increase over the previous year *(2014: £9,670k)*, and incurred a net loss ratio of 58% *(2014: 50.4%)*, reflecting the more prudent reserving methodology for the new distribution partner.

The 2013 and prior years of account have Reinsured to Close ("RITC") into the syndicate's 2014 year of account at an RITC premium of £762k.

The corporate members, Catlin Syndicate Limited and Catlin (One) Limited, hold total Funds at Lloyd's of £25,702k *(2014: £24,811k)* on behalf of the syndicate, which in accordance with GENPRU2.3.34R can be used to support the solvency position of the syndicate. For the 2014 year of account and subsequent years of account, Catlin (One) Limited is the sole member of the syndicate.

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

for the year ended 31 December 2015

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 5 "Transition to FRS 102". There was no impact on total comprehensive income for the comparative period, and no impact on opening equity at 1 January 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 through its managing agent 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.

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 Group, the compliance and finance departments take on an important oversight role in this regard. The Board of the Agency is responsible for satisfying itself that a proper internal control framework exists to manage all risks and the controls operate effectively.

The syndicate is exposed to financial risk through its reinsurance assets and policyholder liabilities. The most important components of this financial risk are currency risk, credit risk and liquidity risk.

Currency risk

The syndicate is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Pounds Sterling. There is a natural matching to currency risk as claims are normally paid in the currency of the original policy. Where this is not the case, it is taken into account by the reserving process.

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:

- Amounts due from reinsurers in respect of claims already paid, and
- Amounts due from insurance intermediaries

The creditworthiness of reinsurers is considered on an annual 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 publically 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.

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.

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

for the year ended 31 December 2015

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The syndicate ensures that sufficient funds are available at short notice to meet such liabilities. The syndicate liquidity position is monitored closely, both under normal claims experience and also under realistic disaster scenarios.

Future developments and strategy

The syndicate will continue to transact term life insurance business. Disciplined growth and development of the business will continue to be encouraged and supported by the Board.

Depending upon prevailing market conditions, premium income levels are under continuous review as the syndicate continues to develop its relationships with distributors, generating new business while continuing to meet the needs of its clients.

The Lloyd's Stamp Capacity for the 2016 year of account has been increased to £26,583k (2015: £20,742k). As Catlin (One) Limited is now the sole member of the syndicate for all open years of account, it will be the sole provider of Funds at Lloyd's from the 2016 financial year onwards.

For the 2016 year of account, the syndicate has purchased intra group reinsurance (IGR) with XL Re Limited, which has assumed liability for the preceding contract with Catlin Insurance Company Ltd via a novation agreement effective 1 January 2016. The IGR has been placed on a per life surplus basis with the syndicate retaining the first USD/CAD/EUR 500,000 or GBP 333,333 on any one life with the balance up to a maximum sum assured of USD/CAD/EUR 10,000,000 or GBP 6,666,666 on any one life ceded to the reinsurer.

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 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 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 XL Catlin Syndicate 3002 for the 2013 and prior years of account, that no underwriting year accounts shall be prepared. This is in accordance with Section 4, Paragraph 1b of Statutory Instrument 2004 No 3219. For the 2014 year of account and subsequent years of account, Catlin (One) Limited is the sole member of the syndicate.

Future developments and strategy are discussed within the strategic report.

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

Disclosure of information to the auditors

Each of the persons who are 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 auditor is 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). 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 judgements 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 3002

Our Opinion
In our opinion, Syndicate 3002'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 the syndicate annual accounts and for being satisfied that they give a true and fair view.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF XL CATLIN SYNDICATE 3002

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 - LONG TERM BUSINESS	Note	2015 £000's	2014 £000's
Gross premiums written	8	26,725	9,670
Outward reinsurance premiums		(10,333)	(292)
Net premiums written		16,392	9,378
Change in the gross provision for unearned premiums		(5,918)	(865)
Change in the provision for unearned premiums, reinsurers' share		3,653	(19)
Change in the net provision for unearned premiums		(2,265)	(884)
Earned premiums net of reinsurance		14,127	8,494
Allocated investment return transferred from the non-technical account	13	9	3
Total technical income		14,136	8,497
Claims paid			
Gross amount		(4,697)	(3,862)
Reinsurers' share		-	-
Net of reinsurance		(4,697)	(3,862)
Change in the provision for claims			
Gross amount		74	(274)
Reinsurers' share		-	-
Net of reinsurance		74	(274)
Claims incurred, net of reinsurance		(4,623)	(4,136)
Change in the long term business provisions			
Gross amount		(10,767)	(230)
Reinsurers' share		7,191	85
Net of reinsurance		(3,576)	(145)
Net operating expenses	12	(4,825)	(2,824)
Investment expenses and charges	13	(2)	(1)
Balance on the long term business technical account		1,110	1,391

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

NON-TECHNICAL ACCOUNT	Note	2015 £000's	2014 £000's
Balance on the long term business technical account		**1,110**	*1,391*
Investment income		**9**	*3*
		1,119	*1,394*
Allocated investment income transferred to the general business technical account		**(9)**	*(3)*
Foreign exchange gains and losses		**71**	*88*
Profit for the financial year		**1,181**	*1,479*
Other Comprehensive Income		**-**	*-*
Total Comprehensive Income for the year		**1,181**	*1,479*

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

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

BALANCE SHEET AS AT 31 DECEMBER 2015

ASSETS	Note	2015 £000's	2014 £000's
Reinsurers' share of technical provisions			
Provision for unearned premiums		**3,724**	*194*
Long term business provision	19	**7,469**	*92*
		11,193	*286*
Debtors - amounts falling due within one year			
Debtors arising out of direct insurance operations	14	**8,266**	*4,349*
Debtors arising out of reinsurance operations		**10,757**	*997*
Other debtors	15	**168**	*162*
		19,191	*5,508*
Debtors - amounts falling due after one year			
Other debtors		**-**	*6*
		-	*6*
Other assets			
Cash at bank and in hand		**6,474**	*6,461*
Overseas deposits		**25**	*14*
		6,499	*6,475*
Prepayments and accrued income			
Deferred acquisition costs	16	**2,216**	*1,162*
Other prepayments and accrued income		**-**	*26*
		2,216	*1,188*
TOTAL ASSETS		**39,099**	*13,463*

BALANCE SHEET AS AT 31 DECEMBER 2015

LIABILITIES	Note	2015 £000's	2014 £000's
Members' balances		**3,196**	*2,670*
Technical provisions			
Provision for unearned premiums		**10,868**	*5,095*
Long term business provision	19	**14,306**	*3,303*
		25,174	*8,398*
Creditors - amounts falling due within one year			
Creditors arising out of direct insurance operations		**-**	*8*
Creditors arising out of reinsurance operations		**8,924**	*295*
Other creditors	17	**1,116**	*2,078*
		10,040	*2,381*
Accruals and deferred income		**689**	*14*
TOTAL LIABILITIES		**39,099**	*13,463*

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

P. Bradbrook
Director

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

XL CATLIN

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

	Note	**2015 £000's**	*2014 £000's*
Opening members' balances		**2,670**	*1,399*
Profit for the year		**1,181**	*1,479*
Profit distribution		**(655)**	(208)
		526	*1,271*
Closing members' balances		**3,196**	*2,670*

Members participate in syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2015

	Note	**2015 £000's**	*2014 £000's*
Net cash inflow from operating activities	18	**739**	*1,634*
Cash flow from investing activities			
Investment income received		9	4
Cash flow from financing activities			
Distribution profit		**(655)**	*(208)*
Net increase/(decrease) in cash and cash equivalents		**93**	*1,430*
Cash and cash equivalents at the beginning of the year		**6,475**	*5,100*
Foreign exchange gains on cash and cash equivalents		**(69)**	*(55)*
Cash and cash equivalents at end of the year		**6,499**	*6,475*
Cash at bank and in hand		**6,474**	*6,461*
Overseas deposits		**25**	*14*
Cash and cash equivalents at end of the year		**6,499**	*6,475*

Overseas deposits included in cash and cash equivalents are not readily available for use by Syndicate 3002.

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 5 for an explanation of the transition to this framework.

1.2 Basis of presentation

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.

The corporate members, Catlin Syndicate Limited and Catlin (One) Limited, hold total Funds at Lloyd's of £25,702k *(2014: £24,811k)* on behalf of the syndicate, which in accordance with GENPRU2.3.34R can be used to support the solvency position of the syndicate. For the 2014 year of account and subsequent years of account, Catlin (One) Limited is the sole member of the syndicate.

The ability of the syndicate to meets its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities. Funds at Lloyd's are further explained in note 20.

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 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 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 1.6.

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 1.6.
- 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. 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)

1.4 Insurance and investment contracts - classification (continued)

(i) Premiums written

Premiums written represent premiums on business incepting during the year. They include estimates for pipeline premiums and adjustments to the prior year and are stated before deduction of commissions and other related acquisition costs. Cancellations of premium policies are excluded from gross premiums written.

Single premium contracts consist of those contracts under which there is no expectation of continuing premiums being paid at regular intervals. Additional single premiums paid in respect of existing individual contracts shall be included in gross premiums written.

(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. The unearned premium provision is recognised separately from the long term business provision.

(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

Claims outstanding comprise claims notified and not yet paid and include a provision for claims handling expenses in respect of those claims.

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.

(vi) 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 6.

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

1 ACCOUNTING POLICIES (continued)

1.4 Insurance and investment contracts - classification (continued)

(vii) 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 Long term business provision
The long term business provision is determined in accordance with the requirements of the EU Third Life Directive 92/96/EEC, under which certain contingency and other reserves required by insurance company regulations are excluded from the long term business provision.

The basis of the calculation is as follows:

Provision is made at year end for the cost of claims incurred but not yet reported to the syndicate. The estimated cost of claims includes expenses to be incurred in settling plus a provision for future administrative expenses relating to existing business. 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.

1.7 Investment return
Investment return consisting solely of bank interest is credited to the technical account. No transfer is made to the non-technical account as all investment assets relate to the technical account.

1.8 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 Pounds Sterling, 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.

1.9 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.

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

1 ACCOUNTING POLICIES (continued)

1.10 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.

1.11 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.

1.12 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.

1.13 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.

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

2 MANAGEMENT OF INSURANCE RISK

Insurance Risk
Insurance risk arises from the syndicate's long term 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.

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.

Capital management
The syndicate maintains an efficient capital structure, consistent with the managing agent's risk profile and the regulatory and market requirements of its business.

The managing agent's objectives in managing the capital of the syndicate are:

- to match the profile of assets and liabilities, taking account of the risks inherent in the business;
- to satisfy the requirements of the policyholders, regulators and rating agencies; and
- to manage exposure of movements in exchange rates

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

2 MANAGEMENT OF INSURANCE RISK (continued)

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, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 3002 is not disclosed in these financial statements.

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'.

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' capital requirements are identified in the Statement of Changes in Member Balance and note 20.

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

2 MANAGEMENT OF INSURANCE RISK (continued)

Regulatory capital requirements
The syndicate's capital requirement calculated in line with the Long Term Insurance Capital Requirement set out in the PRA handbook is £13.6m *(2014: £7.5m)*.

Restrictions on available capital resources
The available resources of the syndicate's trust fund are described below. Such amounts cannot be distributed without an up to date actuarial valuation.

	Note	**2015 £000's**	*2014 £000's*
Available capital resources			
Member's balance		**3,196**	*2,670*
Funds at Lloyd's (see note 20)		**25,702**	*24,811*
		28,898	*27,481*
Restrictions on available capital resources			
Adjustments on regulatory basis		**(3,800)**	*(2,334)*
Total available capital resources		**25,098**	*25,147*

The movement in the Funds at Lloyds arises from additional cash deposits placed during the year.

Adjustments on regulatory basis relate to inadmissible assets; deferred acquisition costs of £(1,597)k, overdue premiums of £(495)k and adjustments to statutory reserves in accordance with the PRA handbook of £(1,708)k.

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 are:

- expenses not arising in line with budgets. Given the syndicate has only recently been established, the future development of expenses and business volumes is uncertain; and
- future mortality rates being heavier than that allowed for in the premium rates.

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

3 RISK: CLAIMS DEVELOPMENT TRIANGLES

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

Syndicate 3002 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		983	1,876	2,970	1,531	12,920	
After 24 months		4,466	3,925	5,517	5,327		
After 36 months		4,146	4,284	4,806			
After 48 months		3,831	3,968				
After 60 months		3,823					
As at 31 December 2015	**1,852**	**3,823**	**3,968**	**4,806**	**5,327**	**12,920**	
Less cumulative gross claims paid	**1,852**	**3,823**	**3,818**	**4,443**	**3,783**	**672**	
Gross reserves	**-**	**-**	**150**	**363**	**1,544**	**12,248**	**14,305**

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

3 RISK: CLAIMS DEVELOPMENT TRIANGLES (continued)

Syndicate 3002 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		967	1,847	2,965	1,508	5,506	
After 24 months		4,440	3,924	5,459	5,286		
After 36 months		4,146	4,273	4,792			
After 48 months		3,830	3,968				
After 60 months		3,823					
As at 31 December 2015	**1,852**	**3,823**	**3,968**	**4,792**	**5,286**	**5,506**	
Less cumulative net claims paid	**1,852**	**3,823**	**3,818**	**4,443**	**3,783**	**672**	
Net reserves	**-**	**-**	**150**	**349**	**1,503**	**4,834**	**6,836**

Total all underwriting years	
Net reserves recognised	**6,836**
Amounts recovered from reinsurers	**7,469**
Gross reserves included in the Balance Sheet	**14,305**

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

4 MANAGEMENT OF FINANCIAL RISK

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) discussed in note 2, market risk, credit risk and liquidity risk.

(a) Market Risk
Market risk includes:

Interest rate risk
The syndicate holds no investments, only cash, which is not materially sensitive to changes in interest rates. As such, Syndicate 3002 is not considered to be materially subject to interest rate risk.

Equity price risk
As the syndicate holds no equities, it is not subject to equity price risk.

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 Pounds Sterling. The most significant currencies to which the syndicate is exposed are US 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 Pound 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 Dollar: £3.5m *(2014 £0.6m)* and Euros: £0.2m *(2014 £0.1m)*. The impact would have been equal and opposite had the Pound Sterling weakened by 5%.

(b) 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;

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.

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

4 MANAGEMENT OF FINANCIAL RISK (continued)

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.

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

As at 31 December 2015	**A**	**BBB**	**Not readily available / not rated**	**Total**
	£000's	**£000's**	**£000's**	**£000's**
Overseas deposits	**25**	**-**	**-**	**25**
Reinsurers' share of claims outstanding	**6,730**	**739**	**-**	**7,469**
Cash at bank and in hand	**-**	**-**	**6,474**	**6,474**
Total	**6,755**	**739**	**6,474**	**13,968**

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. Credit risk concentration has changed due to outwards reinsurance contracts on the business written by the new distribution partner.

As at 31 December 2015	*A*	*Not readily available / not rated*	*Total*
	£000's	*£000's*	*£000's*
Overseas deposits	*14*	*-*	*14*
Reinsurers' share of claims outstanding	*92*	*-*	*92*
Cash at bank and in hand	*-*	*6,461*	*6,461*
Total	*106*	*6,461*	*6,567*

The syndicate has insurance debtors that are past due but not impaired of £495k *(2014: £17k)*.

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

4 MANAGEMENT OF FINANCIAL RISK (continued)

(c) 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 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.

The following tables analyses 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**
Other creditors	**-**	**10,039**	**-**	**-**	**-**	**10,039**	**10,039**
Claims outstanding	**-**	**8,175**	**6,131**	**-**	**-**	**14,306**	**14,306**
Financial liabilities	**-**	**10,039**	**-**	**-**	**-**	**10,039**	**10,039**

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*
Other creditors	*-*	*2,381*	*-*	*-*	*-*	*2,381*	*2,381*
Claims outstanding	*-*	*1,887*	*1,416*	*-*	*-*	*3,303*	*3,303*
Financial liabilities	*-*	*4,268*	*1,416*	*-*	*-*	*5,684*	*5,684*

(d) 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 contained within cash and cash equivalents are classified as Level 1 assets. The syndicate holds no Level 3 assets.

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

5 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
FRS 102 applies the concept of a functional currency as a mandatory requirement. SSAP 20, the standard previously adopted by the syndicate, allowed for a currency to be treated as a branch where substantial operations existed in that currency. The application of such branch accounting resulted in multiple functional currencies (Lloyd's settlement currencies of GBP, USD and EUR). In adopting FRS 102, Syndicate 3002 has adopted a single functional currency.

The functional currency is: 'the currency of the primary economic environment in which the entity operates'; normally the one in which it primarily generates and expends cash. Therefore the following are the most important factors an entity considers in determining its functional currency:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services; and

(b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

The following factors may also provide evidence of an entity's functional currency:

(a) the currency in which funds from financing activities (issuing debt and equity instruments) are generated; and

(b) the currency in which receipts from operating activities are usually retained.

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

5 TRANSITION TO FRS 102 (continued)

Significant revenue is generated in both Pounds Sterling and US Dollars, therefore the following additional key factors have been taken into account in identifying the functional currency of Syndicate 3002:

(a) The underwriting and actuarial teams that have ultimate responsibility for assessing and accepting risks are remunerated in Pounds Sterling and located in the London office, the rent for which is paid in Pounds Sterling.

(b) Other material administrative expenses are the Lloyd's charges, which are settled in Pounds Sterling.

Based on the above assessment it has been concluded that Syndicate 3002 will adopt a single functional currency of Pounds Sterling for UK GAAP reporting.

In the syndicate's UK GAAP financial statements, income statement transactions are translated into Pounds Sterling using an average rate of exchange for the period. Assets and liabilities are translated into Pounds 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 functional currency 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.

The changes outlined above have had no impact to total comprehensive income or members' balances for comparative periods.

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 assets that meet this definition have been reclassified 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.

6 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 £255k with a corresponding reduction to deferred acquisition costs in the Balance Sheet.

XL CATLIN

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

7 RECONCILIATION OF INSURANCE BALANCES

2015	Provision for unearned premium £000's	Claims Outstanding £000's
Gross Technical Provisions		
As at 1 January 2015	5,095	3,303
Movement in the provision	5,918	10,693
Foreign exchange movements	(145)	310
At 31 December 2015	**10,868**	**14,306**
Reinsurers' share of technical provisions		
As at 1 January 2015	194	92
Movement in the provision	3,653	7,191
Foreign exchange movements	(123)	186
At 31 December 2015	**3,724**	**7,469**
Net technical provisions		
As at 1 January 2015	**4,901**	**3,211**
At 31 December 2015	**7,144**	**6,837**

2014	Provision for unearned premium £000's	Claims Outstanding £000's
Gross Technical Provisions		
As at 1 January 2014	4,176	3,004
Movement in the provision	865	504
Foreign exchange movements	(54)	205
At 31 December 2014	**5,095**	**3,303**
Reinsurers' share of technical provisions		
As at 1 January 2014	214	6
Movement in the provision	(19)	85
Foreign exchange movements	(1)	1
At 31 December 2014	**194**	**92**
Net technical provisions		
As at 1 January 2014	**3,962**	**2,998**
At 31 December 2014	**4,901**	**3,211**

XL CATLIN

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

8 SEGMENTAL ANALYSIS

In the opinion of the directors, the syndicate operates in a single business segment, being that of long-term insurance business.

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**
Total	**26,725**	**20,807**	**(15,390)**	**(5,344)**	**1,028**	**1,101**

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*
Total	*9,670*	*8,805*	*(4,366)*	*(2,824)*	*(226)*	*1,389*

The reinsurance balance is in relation to an intra-group surplus reinsurance treaty with Catlin Insurance Company Ltd.

The gross premiums written can be further analysed as follows:

	2015 £000's	*2014 £000's*
Individual premiums	**160**	*656*
Premiums under group contracts	**26,565**	*9,014*
Gross premiums written	**26,725**	*9,670*
Single premiums	**26,725**	*9,670*
Gross premiums written	**26,725**	*9,670*

All business written is considered to be single premium business and renewable on an annual basis.

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:

The gross premiums written can be further analysed as follows:

	2015 £000's	*2014 £000's*
United Kingdom	**7,243**	*5,125*
Other EU countries	**2,208**	*1,741*
US	**858**	*676*
Latin America	**14,793**	*-*
Other Worldwide	**1,623**	*2,128*
	26,725	*9,670*

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	**19**	*20*
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	**22**	*23*

The auditors' remuneration for the year 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 £650k *(2014: £343k unfavourable deviation)* was experienced during the year.

XL CATLIN

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

11 EMPLOYEES & DIRECTORS

The syndicate and its managing agent has no employees.

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

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

	2015 £000's	*2014 £000's*
Salaries	**475**	*438*
Social security	**68**	*62*
Pension	**64**	*59*
	607	*559*

Directors' emoluments for the year were as follows:

	2015 £000's	*2014 £000's*
Aggregate emoluments and other benefits	**18**	*8*
Pension contributions	**1**	*1*
	19	*9*
Emoluments of the highest paid director are:		
Aggregate emoluments and other benefits	**13**	*4*
Pension contributions	**-**	*1*
	13	*5*
Emoluments of the active underwriter are:		
Aggregate emoluments and other benefits	**6**	*2*
Pension contributions	**-**	*-*
	6	*2*

Directors' emoluments are the company's 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.

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

12 NET OPERATING EXPENSES

	2015 £000's	2014 £000's
Acquisition costs	3,984	2,310
Change in deferred acquisition costs	(562)	(200)
	3,422	2,110
Administration expenses	1,403	714
	4,825	2,824

Commissions on direct business amounted to £1,063k *(2014: £1,474k)*.

13 INVESTMENT RETURN

	2015 £000's	2014 £000's
Investment income		
Income from investments	9	3
	9	3
Investment expenses and charges		
Bank charges incurred	(2)	(1)
Total investment return	7	2

14 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2015 £000's	2014 £000's
Due from intermediaries within one year	8,266	4,349
	8,266	4,349

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

15 OTHER DEBTORS

	2015 £000's	*2014 £000's*
Amounts owed from group undertakings	**165**	*160*
Other debtors	**3**	*2*
	168	*162*

16 DEFERRED ACQUISITION COSTS

	2015 £000's	*2014 £000's*
Opening balance	**1,162**	*952*
Change in gross deferred acquisition costs	**1,080**	*200*
Currency translation difference	**(26)**	*10*
Closing balance	**2,216**	*1,162*

17 OTHER CREDITORS: Amounts falling due within one year

	2015 £000's	*2014 £000's*
Amounts owed to group undertakings	**1,110**	*2,075*
Other creditors	**6**	*3*
	1,116	*2,078*

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

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

	2015 £000's	*2014 £000's*
Operating profit on ordinary activities	**1,181**	*1,479*
Increase in net technical provisions	**5,869**	*1,152*
Increase in debtors	**(14,705)**	*(719)*
Increase/(decrease) in creditors	**8,403**	*(274)*
Investment return	**(9)**	*(4)*
Net cash inflow from operating activities	**739**	*1,634*

19 LONG TERM BUSINESS PROVISION

The following methodology has been used in valuing the long term business provision:

i) A development pattern based on historic reported claims has been used to determine the incurred but not reported claim provision. Reinsurance recoveries are separately recognised.

ii) An explicit provision to cover future expenses of £150,000 *(2014: £150,000)* has been set. This has been calculated by analysing the costs that are likely to be incurred in running off the current book of business.

20 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 £25.7m *(2015 year of account at 31 December 2014: £24.8m)*. The FAL is held by Catlin Syndicate Limited and Catlin (One) Limited, the corporate members of the syndicate, on its behalf. These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined based on PRA requirements and resource criteria. FAL has regard to 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 annual accounts 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.

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

21 RELATED PARTY TRANSACTIONS

Catlin Underwriting Agencies Limited ("CUAL") is the managing agent for XL Catlin Syndicate 3002. Under the standard managing agents' agreement, CUAL receives an annual fee of 1% of stamp capacity; in 2015 this amounted to £266k *(2014: £144k).*

The syndicate has an intra-group reinsurance contract with with XL Re Limited, which has assumed liability for existing contract with Catlin Insurance Company Ltd via a novation agreement. The effect of this contract on the Statement of Comprehensive Income in 2015 is a charge of £505k *(2014: a charge of £226k)*. Amounts relating to these contracts of £483k *(2014: £14k receivable)* were payable as at the Balance Sheet date.

Catlin Syndicate Limited and Catlin (One) Limited are the corporate members of XL Catlin Syndicate 3002. Catlin Syndicate Limited is the corporate member for the 2013 and previous years of account, whilst Catlin (One) Limited is the corporate member for the 2014 and subsequent years of account.

The syndicate is serviced in terms of accommodation, staff and other overhead costs by Catlin Holdings Limited and Catlin Group Limited. The syndicate is charged its share of these central costs. In 2015 the total effect on the Statement of Comprehensice Income was £1,049k *(2014: £928k)*. The syndicate has made payments totalling £2,604k *(2014: £39k)* in 2015 in respect of expenses recharged from other group companies. Amounts of £129k *(2014: £1,417k payable)* were receivable from Catlin Holdings Limited and £11k *(2014: £3k receivable)* were receivable from Catlin Group Limited as at the Balance Sheet date.

22 ULTIMATE PARENT UNDERTAKING

For the 2014 and subsequent years of account, Catlin (One) Limited will be the sole member of the syndicate, whilst the sole member of the previous underwriting years of account will continue to be Catlin Syndicate Limited.

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 and Catlin (One) 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 of Catlin Syndicate Limited and Catlin (One) Limited 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.