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SYNDICATE 6112

SYNDICATE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2015

SYNDICATE 6112

SYNDICATE INFORMATION

MANAGING AGENT:

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

SYNDICATE:

Active underwriter	P. Greensmith J. Gale
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

SYNDICATE 6112

CONTENTS

SYNDICATE 6112

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
Syndicate 6112 was established for the 2012 year of account as a 'Special Purpose Syndicate'. Its principal activity is to underwrite a whole account quota share reinsurance of Catlin Syndicate 2003 and this is the only inwards contract that the syndicate writes.

This contract operates on a funds withheld basis.

The result for the year is a profit of £2.2m (*2014: profit of £3.7m*). The result is primarily attributable to the underwriting profit (net earned premiums minus net claims incurred and net operating expenses) for 2014 of £1.9m (against an underwriting profit of £2.7m in 2014). The result includes other income of £0.5m (*2014: £0.7m*) that relates to interest generated on funds wihtheld balances.

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

	2015	*2014*
Gross written premiums	**37,451**	*38,515*
Underwriting result	**1,877**	*2,741*
Profit for the financial year	**2,286**	*3,670*
Net loss ratio	**52%**	*48%*
Combined ratio	**94%**	*91%*

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 £37.5m in gross premiums (*2014: £38.5m*) which represents its share of Syndicate 2003 gross premiums for the 2012, 2013, 2014 and 2015 years of account respectively, in line with the Whole Account Quota Share agreement between the two syndicates.

The syndicate incurred a net loss ratio of 52.3% (*2014:* 48.3%). The increase is a result of a challenging rating environment and fewer releases on prior year catastrophe loss reserves than compared with 2014.

The net operating expense ratio of 41.8% (*2014:* 42.7%) includes commission and administration expenses which primarily comprise member's personal expenses.

As the managing agency of a special purpose syndicate, Catlin Underwriting Agencies Limited has a dispensation from the requirement to convene an AGM for Syndicate 6112's closing year of account.

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 £1.0m for the comparative period and the impact on opening equity at 1 January 2014 was an increase of £0.6m.

SYNDICATE 6112

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

Business environment
Overall, most classes across Syndicate 2003's portfolio experienced difficult rating conditions and written premium decreases in 2015, with overall weighted average rates across Syndicate 2003 down by 3.6%. The affects were particularly felt in the Reinsurance, Marine and Energy books, where Syndicate 2003's focus on writing for profit rather than volume meant that the amount of new business sought was reduced compared to recent years. This was the significant driver of the fall on Gross Written Premiums in 2015. Syndicate 2003 has taken the strategic approach to focus on existing clients where rating allows as part of maintaining long term relationships with our clients.

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

Principal risks and uncertainties
The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. The 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>
Syndicate 6112 writes one whole account quota share contract per year from Syndicate 2003. The syndicate's insurance risk therefore relates to the risks underwritten by Syndicate 2003 itself, and 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.

<u>Reserving risk</u>
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 continue its participation in the Whole Account Quota Share with Syndicate 2003. The Lloyd's Stamp Capacity for the 2016 year of account is £33.1m *(2015 year of account £29.9m)* which results in a cession of 1.96% *(2015 year of account: 1.96%)* of Syndicate 2003's 2016 year of account gross written premium (net of acquisition costs).

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 in 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 11.0% of capacity.

The member's balance as at 31 December 2015 is £4.3m *(2014: £4.4m)*.

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.

SYNDICATE 6112

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 is required to:

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

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

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

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

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

A. Gray
Company Secretary
15 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 6112

Report on the syndicate annual accounts

Our Opinion
In our opinion, Syndicate 6112'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.

SYNDICATE 6112

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 6112

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 section 10 of 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 syndicate annual accounts 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

SYNDICATE 6112

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

TECHNICAL ACCOUNT - GENERAL BUSINESS	Note	2015 £000's	2014 £000's
Earned premium, net of reinsurance			
Gross premiums written	7	37,451	38,515
Outward reinsurance premiums		(6,673)	(6,480)
Net premiums written		30,778	32,035
Change in the gross provision for unearned premiums		619	(2,052)
Change in the provision for unearned premiums, reinsurers' share		531	630
Change in the net provision for unearned premiums		1,150	(1,422)
Earned premiums, net of reinsurance		31,928	30,613
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(17,672)	-
Reinsurers' share		1,586	-
		(16,086)	-
Change in the provision for claims			
Gross amount		(994)	(17,012)
Reinsurers' share		367	2,219
		(627)	(14,793)
Claims incurred, net of reinsurance		(16,713)	(14,793)
Net operating expenses	11	(13,338)	(13,079)
Balance on the general business technical account		1,877	2,741

SYNDICATE 6112

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	**2015** **£000's**	*2014* *£000's*
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		**1,877**	*2,741*
Other income	12	**507**	*737*
Foreign exchange gains and losses		**97**	*(193)*
Profit for the financial year		**2,287**	*3,671*
Other Comprehensive Income		-	-
Total Comprehensive Income for the year		**2,287**	*3,671*

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 32 form part of these annual accounts.

SYNDICATE 6112

BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 £000's	*2014 £000's*
ASSETS			
Reinsurers' share of technical provisions			
Provision for unearned premiums		3,376	*2,708*
Claims outstanding	6	4,936	*4,410*
		8,312	*7,118*
Debtors - amounts falling due within one year			
Debtors arising out of reinsurance operations	13	26,709	*24,953*
Other debtors	14	811	*485*
		27,520	*25,438*
Debtors - amounts falling due after one year			
Debtors arising out of reinsurance operations	13	51,436	*51,852*
Other debtors	15	387	*141*
		51,823	*51,993*
Prepayments and accrued income			
Deferred acquisition costs		6,156	*6,094*
TOTAL ASSETS		93,811	*90,643*

SYNDICATE 6112

BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 £000's	*2014 £000's*
LIABILITIES			
Member's balance		**4,312**	*4,442*
Technical provisions			
Provision for unearned premiums		**19,531**	*19,733*
Claims outstanding	6	**46,298**	*43,903*
		65,829	*63,636*
Creditors - amounts falling due within one year			
Creditors arising out of reinsurance operations	16	**6,565**	*6,151*
Other creditors	17	**2,061**	*1,314*
		8,626	*7,465*
Creditors - amounts falling due after one year			
Creditors arising out of reinsurance operations	16	**12,755**	*12,439*
Other creditors	18	**2,155**	*2,466*
		14,910	*14,905*
Accruals and deferred income		**134**	*195*
TOTAL LIABILITIES		**93,811**	*90,643*

The annual accounts on pages 8 to 32 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 32 form part of these financial statements.

SYNDICATE 6112

STATEMENT OF CHANGES IN MEMBER'S BALANCE
FOR THE YEAR ENDED 31 DECEMBER 2015

	Member's balance £000's
Balance as at 1 January 2014	771
Profit for the financial year	3,671
Balance as at 31 December 2014	4,442
Balance as at 1 January 2015	4,442
Profit for the financial year	2,287
Settlement of 2012 quota share balances	(2,417)
Balance as at 31 December 2015	4,312

SYNDICATE 6112

STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2015

	Note	**2015 £000's**	*2014 £000's*
Net cash from operating activities	19	-	-
Cash flows from investing activities		-	-
Cash flows from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-
Cash at bank and in hand		-	-
Overseas deposits		-	-
Cash and cash equivalents at the end of the year		-	-

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.

The ability of the syndicate to meets its obligations as they fall due is underpinned by the support provided by the 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 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 contracts that the syndicate has written are on a funds witheld basis. The associated cash flows occur following the closure of the year of account at 36 months

The principle 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 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 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 and 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 ceded

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.

(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.

1 ACCOUNTING POLICIES (continued)

1.5 Insurance and investment contracts - classification (continued)

(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. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

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

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

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

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

1 ACCOUNTING POLICIES (continued)

1.5 Insurance and investment contracts - classification (continued)

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

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) Deferred acquisition costs

Acquisition costs, which represent commissions, are deferred over the period in which the related premiums are earned.

(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 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 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 Pension costs

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

1 ACCOUNTING POLICIES (continued)

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.

Syndicate 2003, on behalf of the corporate member 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). The final assessments are charged direct to the corporate underwriting members by the MSU.

2 MANAGEMENT OF FINANCIAL RISK

Financial risk management objectives

The syndicate is exposed to a range of financial risks through Syndicate 2003's financial assets, insurance liabilities and reinsurance assets. In particular, the key financial risk is that the proceeds from those 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 market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. The nature of the business underwritten by the syndicate is such that the strategy applied to mitigate those risks is identical to the strategy applied by Syndicate 2003.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the syndicate primarily faces due to the nature of Syndicate 2003's investments and liabilities 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. It manages these positions within a risk management framework ("the framework") that has been developed to ensure that investment proceeds and returns are in excess of obligations under insurance contracts. The syndicate produces regular reports that are circulated to the management of the Managing Agency. The principal technique of the syndicate's framework is to match assets and liabilities from insurance contracts by reference to the type of benefits payable to contract holders. The syndicate's framework is also integrated with the management of the financial risks associated with the syndicate's other financial assets and liabilities not directly associated with insurance liabilities.

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

(a) Insurance risk

Insurance risk arises from Syndicate 2003's general insurance business and refers to the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing and reserving assumptions. Examples of such risks include unexpected losses arising from fluctuations in the timing, frequency and severity of claims compared to expectations and inadequate reinsurance protection. With the syndicate writing one whole account quota share contract with Syndicate 2003, in effect 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.

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.

2 MANAGEMENT OF FINANCIAL RISK (continued)

(a) Insurance risk (continued)

Underwriting risks are monitored on the syndicate's behalf by Syndicate 2003. These 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.

Syndicate 2003 seeks to maintain a diversified and balanced portfolio of risks in order to reduce the variability of outcomes. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. This is achieved by accepting a spread of business over time, segmented between different classes of business. Syndicate 2003's syndicate business forecasts for each class of business reflect this underwriting strategy, and set out the types of business to be written, the geographical regions in which business is to be written and the industry sectors to which the syndicate is prepared to expose itself. These plans are approved and monitored by management and are submitted to Lloyd's.

Syndicate 2003'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, Syndicate 2003'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. 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. Syndicate 2003 uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The greatest likelihood of significant losses to the syndicate arises from catastrophe events, such as flood damage, windstorm or earthquake. Where possible the syndicate's underwriting team measures geographic accumulations and uses their knowledge of the business, historical loss behaviour and commercial catastrophe modelling software. The syndicate regularly models and monitors known accumulations of risks including natural catastrophes, marine, liability and political events.

Loss development tables providing information about historical claims development are included in note 6

2 MANAGEMENT OF FINANCIAL RISK (continued)

(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 the syndicate in lieu of the interest income received on the funds witheld by Syndicate 2003.

Syndicate 2003 monitors interest rate risk on a monthly basis by calculating the impact of changes in interest rate on the value of investments and the net present value of liabilities against a risk appetite that has been agreed with the CUAL Board.

Syndicate 2003 purchases interest rate swaption contracts to manage its interest rate risk.

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

A 50bps increase/(decrease) in interest rates would lead to a £0.3m loss/(£0.3m gain) (2014: £0.3m loss/(£0.4m gain)) on the interest income remitted by Syndicate 2003, with an equal impact on net assets.

(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 the syndicate in lieu of the interest income received on the funds witheld by Syndicate 2003.

Syndicate 2003 has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage 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 £0.1m loss/(£0.1m gain) (2014: £0.1m loss/(£0.1m gain)) on the interest income remitted by Syndicate 2003, with an equal impact on net assets.

(iii) Currency risk

The syndicate is indirectly exposed to currency risk in respect of insurance liabilities under policies of insurance denominated in currencies other than Pounds Sterling. Due to the funds witheld nature of the whole account quota share contract the syndicate has with Syndicate 2003, this risk is managed by the Board of CUAL.

The syndicate is primarily exposed to currency risk in respect of Syndicate 2003's liabilities under policies of insurance denominated in currencies other than Pounds Sterling. The most significant currencies to which the syndicate is exposed are US Dollars, Canadian Dollar and Euro.

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, profit and net assets for the year would have increased/(decreased) by the following amounts: US Dollar : £(0.2)m *(2014: £(0.2)m)*, Euros £nil *(2014: £nil)* Canadian Dollars £nil *(2014: £nil)*, 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%.

2 MANAGEMENT OF FINANCIAL RISK (continued)

(c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Syndicate 6112 is indirectly sensitive to the credit risk managed by Syndicate 2003.

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

At 31 December 2015	**AAA**	**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	-	**78,145**	-	-	-	**78,145**
Reinsurers' share of claims outstanding	-	**993**	**3,938**	**4**	**1**	**4,936**
Total	-	**79,138**	**3,938**	**4**	**1**	**83,081**

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	-	*76,806*	-	-	-	*76,806*
Reinsurers' share of claims outstanding	-	*4,410*	-	-	-	*4,410*
Total	-	*81,216*	-	-	-	*81,216*

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. Due to the funds witheld nature of the contract the syndicate underwrites, this risk is borne by Syndicate 2003. The syndicate is therefore indirectly sensitive to the liquidity risk in Syndicate 2003.

The following tables analyse financial liabilities by maturity date:

At 31 December 2015	**No contractual maturity date**	**Less than one year on demand**	**Between 1 and 3 years**	**Between 3 and 5 years**	**Over 5 years**	**Total**	**Carrying value**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Other Creditors	-	8,627	14,910	-	-	23,537	23,537
Claims outstanding	-	17,683	28,615	-	-	46,298	46,298
Financial liabilities	-	26,310	43,525	-	-	69,835	69,835

At 31 December 2014	*No contractual maturity date*	*Less than one year on demand*	*Between 1 and 3 years*	*Between 3 and 5 years*	*Over 5 years*	*Total*	*Carrying value*
	£000's	*£000's*	*£000's*	*£000's*	*£000's*	*£000's*	*£000's*
Other Creditors	-	*7,465*	*14,905*	-	-	*22,370*	*22,370*
Claims outstanding	-	*17,141*	*26,762*	-	-	*43,903*	*43,903*
Financial liabilities	-	*24,606*	*41,667*	-	-	*66,273*	*66,273*

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.

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 6112 is not disclosed in these financial statements. See note 20 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 change is 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.

	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	**206**	564	**770**
Gross unearned premiums	**18,862**	871	**19,733**
Reinsurers' share of unearned premiums	**2,579**	129	**2,708**
Deferred acquisition costs	**5,741**	353	**6,094**
Closing members' balance at 31 December 2014	**4,830**	(389)	**4,441**
Statement of Comprehensive income			
Change in gross unearned premiums	**1,251**	801	**2,052**
Change in reinsurers' share of technical provisions	**598**	32	**630**
Net operating expenses:			
Change in deferred acquisition costs	**443**	331	**774**
Realised exchange loss	**708**	(515)	**193**
Total comprehensive income year ended 31 December 2014	**4,624**	(953)	**3,671**

5 RECONCILIATION OF INSURANCE BALANCES

2015	Provision for unearned premium £000's	Claims Outstanding £000's
Gross Technical Provisions		
As at 1 January 2015	19,733	43,903
Movement in the provision	(619)	994
Foreign exchange movements	417	1,401
At 31 December 2015	19,531	46,298
Reinsurers' share of technical provisions		
As at 1 January 2015	2,708	4,410
Movement in the provision	531	367
Foreign exchange movements	137	159
At 31 December 2015	3,376	4,936
Net technical provisions		
As at 1 January 2015	**17,025**	**39,493**
At 31 December 2015	16,155	41,362

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	17,611	25,137
Movement in the provision	2,052	17,012
Foreign exchange movements	70	1,755
At 31 December 2014	19,733	43,903
Reinsurers' share of technical provisions		
As at 1 January 2014	1,880	1,994
Movement in the provision	630	2,219
Foreign exchange movements	198	198
At 31 December 2014	2,708	4,410
Net technical provisions		
As at 1 January 2014	**(19,491)**	**(27,131)**
At 31 December 2015	17,025	39,493

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	10,004	9,174	9,824	9,257	
After 24 months	17,469	17,435	19,358		
After 36 months	17,450	17,328			
After 48 months	17,805				
After 60 months					
As at 31 December 2015	17,805	17,328	19,358	9,257	
Less cumulative gross claims paid	(17,450)				
Gross reserves	355	17,328	19,358	9,257	46,298

Net 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 net claims incurred:					
After 12 months	9,091	8,405	8,741	8,516	
After 24 months	16,104	15,562	17,100		
After 36 months	15,885	15,513			
After 48 months	16,118				
After 60 months					
As at 31 December 2015	16,118	15,513	17,100	8,516	
Less cumulative net claims paid	(15,885)				
Net reserves	233	15,513	17,100	8,516	41,362

Total all underwriting years	
Net reserves recognised	41,362
Amounts recovered from reinsurers	4,936
Gross reserves included in the balance sheet	46,298

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	**19,392**	**18,979**	**(8,384)**	**(7,322)**	**(1,783)**	**1,490**
Accident and health	**9,505**	**10,026**	**(5,945)**	**(4,143)**	**(523)**	**(585)**
Marine, aviation and transport	**8,006**	**8,510**	**(4,065)**	**(2,061)**	**(1,440)**	**944**
Motor (third party liability)	**548**	**555**	**(272)**	**(232)**	**(23)**	**28**
Total	**37,451**	**38,070**	**(18,666)**	**(13,758)**	**(3,769)**	**1,877**

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	*18,840*	*18,098*	*(7,019)*	*(7,274)*	*(1,775)*	*2,030*
Accident and Health	*9,559*	*8,279*	*(4,756)*	*(3,371)*	*(198)*	*(46)*
Marine, aviation and transport	*9,500*	*9,510*	*(4,942)*	*(2,570)*	*(1,221)*	*777*
Motor (third party liability)	*616*	*576*	*(295)*	*(272)*	*(29)*	*(20)*
Total	*38,515*	*36,463*	*(17,012)*	*(13,487)*	*(3,223)*	*2,741*

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.

8 PROFIT FOR THE FINANCIAL YEAR

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	**31**	*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	**8**	*14*

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

9 MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

An adverse run-off deviation (prior accident year increase) of £0.2m *(2014: favourable 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.

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)*.

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.

11 NET OPERATING EXPENSES

	2015 £000's	*2014 £000's*
Acquisition costs	**12,612**	*12,125*
Change in deferred acquisition costs	**67**	*(774)*
	12,679	*11,351*
Administration expenses	**1,079**	*2,136*
Reinsurance commissions and profit participation	**(420)**	*(408)*
	13,338	*13,079*

12 OTHER INCOME

	2015 £000's	2014 £000's
Interest on funds withheld balance	507	737

Other income represents interest on funds withheld balances on the Whole Account Quota Share agreement with Syndicate 2003.

13 DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2015 £000's	2014 £000's
Due from cedants within one year	26,709	24,953
Due from cedants after one year	51,436	51,852
	78,145	76,805

14 OTHER DEBTORS:
Amounts falling due within one year

	2015 £000's	2014 £000's
Other debtors	811	485

15 OTHER DEBTORS:
Amounts falling due after one year

	2015 £000's	2014 £000's
Other debtors	387	141

16 CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2015 £000's	2014 £000's
Due to cedants within one year	6,565	6,151
Due to cedants after one year	12,755	12,439
	19,320	18,590

17 OTHER CREDITORS:
Amounts falling due within one year

	2015 £000's	*2014 £000's*
Other creditors	2,061	*1,314*

18 OTHER CREDITORS:
Amounts falling due after one year

	2015 £000's	*2014 £000's*
Other creditors	2,155	*2,466*

19 RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATING ACTIVITIES

	2015 £000's	*2014 £000's*
Profit for the financial year	2,287	*3,671*
Settlement of 2012 quota share balances	(2,417)	-
Increase in net technical provisions	999	*18,441*
(Increase) in debtors	(1,974)	*(30,923)*
Increase in creditors	1,105	*8,811*
Net cash from operating activities	-	-

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 £20.9m. 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.

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 Syndicate 6112. Under the standard managing agents' agreement, CUAL receives an annual fee of 1% of stamp capacity and profit commissions at 20%. In 2015, managing agency fees amounted to £0.3m *(2014: £0.3m)* and profit commissions amounted to £0.5m *(2014: £1.0m)*. The balance due to CUAL as at 31 December 2015 was £2.1m *(2014: £2.4m)*.

Catlin Syndicate 6112 Limited is the sole member of Syndicate 6112 for 2012 and subsequent years of account.

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

Catlin Canada Inc
Catlin Insurance Company Inc US
Catlin Specialty Insurance Company
Catlin Inc
Catlin Insurance Services Inc
Catlin Underwriting Inc
Catlin France SAS
Catlin Schweiz AG
Catlin Hong Kong Limited
Catlin Guernsey Limited
Catlin Brasil Servicos Tecnicos Ltda
Catlin Australia Pty Limited
Catlin Singapore Pte Limited
Catlin Labuan Limited
Catlin (BB) Ltd
Catlin Ecosse Insurance Limited
Catlin Risk Solutions Limited
Catlin Re Switzerland Ltd
Catlin Europe SE
Catlin Middle East Limited

Syndicate 6112 provides whole account quota share to Syndicate 2003.

22 ULTIMATE PARENT UNDERTAKING

Catlin Syndicate 6112 Limited is the sole member of Syndicate 6112.

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 6112 Limited. Copies of the Catlin Insurance Company Ltd consolidated financial statements can be obtained from The Secretary, Catlin Insurance Company Ltd, O'Hara House, One Bermudiana Road, Hamilton, Bermuda HM08.

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