Important information about Syndicate Reports and Accounts

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XL CATLIN

SYNDICATE 3002

ANNUAL REPORT

YEAR ENDED 31 DECEMBER 2016

CONTENTS

SYNDICATE INFORMATION

MANAGING AGENT:

Managing agent	Catlin Underwriting Agencies Limited ("CUAL")	
Directors	S Catlin	(Non-Executive)
	P Jardine	
	P Greensmith	
	R Glauber	(Non-Executive)
	P Wilson	(Non-Executive)
	J Harris	
	P Bradbrook	
	B Joseph	(Non-Executive)
	J Gale	
	A McMellin	
Company secretary	M L Rees	
Registered number	01815126	
Registered office	20 Gracechurch Street London EC3V 0BG	

SYNDICATE:

Active underwriters	N Guillaume-Smith
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

FINANCIAL HIGHLIGHTS

	2016	*2015*
Syndicate capacity (£m)	**26.6**	*24.2*
Gross premiums written (£m)	**19.4**	*26.7*
Net premium written (£m)	**11.8**	*16.4*
Earned premiums, net of reinsurance (£m)	**11.3**	*14.1*
Underwriting result (£m)	**1.2**	*1.1*
Profit for the financial year (£m)	**1.3**	*1.2*
Claims ratio	**53.1%**	*58.0%*
Expense ratio	**36.6%**	*34.2%*
Combined ratio	**89.7%**	*92.2%*

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors of Catlin Underwriting Agencies Limited ("CUAL"), the managing agent, present their strategic report and audited financial statements for the year ended 31 December 2016.

Principal activities

The principal activity of the Syndicate 3002 is to underwrite term life insurance business within the Lloyd's of London market.

The Syndicate's strategy is 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 result for the year is a profit of £1.3m (2015: profit of £1.2m), as set out on pages 9 and 10.

The underwriting result (net earned premiums minus net claims incurred and net operating expenses) for 2016 is £1.2m (2015: £1.1m).

Results and performance

During the year, the Syndicate wrote £19.4m in gross premiums, a 27.5% decrease over the previous year (2015: £26.7m). This decline is driven by a reduction in premiums on the reinsurance binder.

The Syndicate incurred a net loss ratio of 53.1% (2015: 58.0%).

The 2014 and prior years of account have Reinsured to Close ("RITC") into the syndicate's 2015 year of account at an RITC premium of £527k.

Strategy and future outlook

CUAL's strategy is to leverage the inherent strengths of the Lloyd's market to write a portfolio of business which achieves or outperforms our capital provider's target returns over the underwriting cycle. We aim to differentiate ourselves through offering underwriting excellence in specialised areas of insurance. Our objective is to support our underwriters with a flexible underwriting environment, superior analytics, efficient claims handling and a robust Enterprise Risk Management framework.

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 aims to develop its relationships with distributors and generate new business through the Group's international offices whilst continuing to meet the needs of its clients. The syndicate will continue to selectively focus on growth opportunities with the emphasis on bottom line profitability.

For the 2017 year of account, the syndicate continued to purchase 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 2017.

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

Managed syndicates and underwriting arrangements

CUAL, the managing agent of the Syndicate, is a company registered in England and Wales. CUAL is a wholly-owned subsidiary of its ultimate parent XL Group Ltd, a company registered in Bermuda. Copies of the financial statements of both CUAL and XL Group Ltd are available from 20 Gracechurch Street, London, EC3V 0BG.

The Syndicate is wholly-aligned with capital provided by XL Catlin through a subsidiary.

Stamp capacity of the Syndicate

The Lloyd's Stamp Capacity for the 2017 year of account has been increased to £33,902k (2016: £26,583k). 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 2017 financial year onwards.

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

P Bradbrook
Director
21 March 2017

REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors of the managing agent present their report together with the audited annual accounts for the year ended 31 December 2016.

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 need to 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.

Member's balance

The member's balance as at 31 December 2016 is £2.4m (2015: £3.2m).

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)	
P Jardine		
P Greensmith		
R Glauber	(Non-Executive)	
P Wilson	(Non-Executive)	
J Harris		
P Bradbrook		
B Joseph	(Non-Executive)	Appointed 8 September 2016
C Ighodaro	(Non-Executive)	Appointed 12 January 2017
G Bruce-Smythe		Resigned 13 February 2016
S Long		Resigned 13 February 2016
R Cowdell	(Non-Executive)	Resigned 16 April 2016
N Robertson		Resigned 31 July 2016
A McMellin		Resigned 1 January 2017
J Gale		Resigned 1 January 2017

Financial instruments and risk management

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

Statement of managing agent's responsibilities

The directors of the managing agent are responsible for preparing the Syndicate annual accounts in accordance with applicable law and 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"), Financial Reporting Standard 103 - "Insurance Contracts" ("FRS 103"), both issued by the Financial Reporting Council.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare syndicate annual accounts for the Syndicate at 31 December each year. The directors must not approve the financial statements 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 period.

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 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that there will be future years of account of the Syndicate.

The directors of the managing agent are responsible for keeping adequate 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 Syndicate's annual accounts comply with the Regulations and the relevant provisions of the Companies Act 2006. It is 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 directors confirm that they have complied with the above requirements in preparing the financial statements.

Statement of disclosure of information to the auditors

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

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

Approved by the Board of Catlin Underwriting Agencies Limited and signed on its behalf by:

M L Rees
Company Secretary
21 March 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 3002

Report on the syndicate annual accounts

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 2016 and of its profit/loss 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 2016, included within the Syndicate annual accounts (the "Annual Report"), comprise:

- the statement of profit or loss for the year then ended;
- the statement of financial position as at 31 December 2016;
- the statement of changes in member's balances;
- the statement of cash flows; and
- the notes to the Syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

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

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

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

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

Other matter on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent

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

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 MEMBERS OF SYNDICATE 3002 (CONTINUED)

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.

MNichols

Matthew Nichols (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 March 2017

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000's	*2015 £000's*
TECHNICAL ACCOUNT - LONG TERM BUSINESS			
Gross premiums written	4	**19,381**	*26,725*
Outward reinsurance premiums		**(7,553)**	*(10,333)*
Net premiums written		**11,828**	*16,392*
Change in the gross provision for unearned premiums		**(1,302)**	*(5,918)*
Change in the provision for unearned premiums, reinsurers' share		**810**	*3,653*
Change in the net provision for unearned premiums		**(492)**	*(2,265)*
Earned premiums net of reinsurance		**11,336**	*14,127*
Allocated investment return transferred from the non-technical account	8	**11**	*9*
Total technical income		**11,347**	*14,136*
Claims paid			
Gross amount		**(6,057)**	*(4,697)*
Reinsurers' share		**2,262**	—
Net of reinsurance		**(3,795)**	*(4,697)*
Change in the provision for claims			
Gross amount		**(46)**	*74*
Reinsurers' share		—	—
Net of reinsurance		**(46)**	*74*
Claims incurred, net of reinsurance		**(3,841)**	*(4,623)*
Change in the long term business provisions			
Gross amount		**426**	*(10,767)*
Reinsurers' share		**(2,608)**	*7,191*
Net of reinsurance		**(2,182)**	*(3,576)*
Net operating expenses	6	**(4,144)**	*(4,825)*
Investment expenses and charges	8	—	*(2)*
Balance on the long term business technical account		**1,180**	*1,110*

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £000's	*2015* *£000's*
NON-TECHNICAL ACCOUNT		
Balance on the long term business technical account	1,180	*1,110*
Investment income	11	*9*
	1,191	*1,119*
Allocated investment income transferred to the general business technical account	(11)	*(9)*
Foreign exchange gains and losses	128	*71*
Profit for the financial year	1,308	*1,181*

STATEMENT OF CHANGES IN MEMBER'S BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £000's	*2015* *£000's*
Opening members' balances	3,196	*2,670*
Profit for the year	1,308	*1,181*
Profit distribution	(2,154)	*(655)*
	(846)	*526*
Closing members' balances	2,350	*3,196*

STATEMENT OF FINANCIAL POSITION - ASSETS
AS AT 31 DECEMBER 2016

	Note	2016 £000's	2015 £000's
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	**5,627**	*3,724*
Long term business provision	9	**6,828**	*7,469*
		12,455	*11,193*
Debtors - amounts falling due within one year			
Debtors arising out of direct insurance operations	11	**23,121**	*8,266*
Debtors arising out of reinsurance operations		**8,770**	*10,757*
Other debtors	12	**853**	*168*
		32,744	*19,191*
Other assets			
Cash at bank and in hand		**11,689**	*6,474*
Overseas deposits		**32**	*25*
		11,721	*6,499*
Prepayments and accrued income			
Deferred acquisition costs	13	**2,406**	*2,216*
Other prepayments and accrued income		**23**	—
		2,429	*2,216*
TOTAL ASSETS		**59,349**	*39,099*

STATEMENT OF FINANCIAL POSITION - CAPITAL AND LIABILITIES AS AT 31 DECEMBER 2016

	Note	2016 £000's	*2015 £000's*
Capital and reserves			
Members' balances		**2,350**	*3,196*
Technical provisions			
Provision for unearned premiums		**14,318**	*10,868*
Long term business provision	16	**17,563**	*14,306*
		31,881	*25,174*
Creditors - amounts falling due within one year			
Creditors arising out of direct insurance operations		—	—
Creditors arising out of reinsurance operations		**18,054**	*8,924*
Other creditors	15	**6,131**	*1,116*
		24,185	*10,040*
Accruals and deferred income		**933**	*689*
TOTAL LIABILITIES		**59,349**	*39,099*

The notes on pages 14 to 36 form part of these financial statements.

The Syndicate financial statements were approved by the Board of Directors of Catlin Underwriting Agencies Limited and were signed on its behalf by:

P Bradbrook
Director
21 March 2017

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £000's	*2015 £000's*
Operating profit on ordinary activities	**1,308**	*1,181*
Increase in net technical provisions	**5,447**	*5,869*
Increase in debtors	**(13,767)**	*(14,705)*
Increase in creditors	**9,838**	*8,403*
Investment return	**(11)**	*(9)*
Foreign exchange due to currencies	**(839)**	—
Net cash inflow from operating activities	**1,976**	*739*
Cash flow from investing activities		
Investment income received	**11**	*9*
Cash flow from financing activities		
Distribution profit	**(2,154)**	*(655)*
Net increase/(decrease) in cash and cash equivalents	**(167)**	*93*
Cash and cash equivalents at the beginning of the year	**6,499**	*6,475*
Foreign exchange gains on cash and cash equivalents	**839**	*(69)*
Cash and cash equivalents at end of the year	**7,171**	*6,499*
Cash at bank and in hand	**11,689**	*6,474*
Overseas deposits	**32**	*25*
Overdrafts	**(4,550)**	—
Cash and cash equivalents at end of the year	**7,171**	*6,499*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1 ACCOUNTING POLICIES

A Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards including Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103 - "Insurance Contracts" ("FRS 103"), both issued by the Financial Reporting Council and in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("S12008/410") relating to insurance companies and other requirements of the Companies Act 2006.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the previous years presented, unless otherwise stated. The Syndicate has adopted FRS 102 and FRS 103 in these financial statements.

The preparation of these financial statements required the management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in the following notes:

Note 11: insurance liabilities and reinsurance assets (estimates for losses incurred but not reported).

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

Separate underwriting year accounts for the 2014 underwriting year have not been prepared, as the Syndicate has taken advantage of the exemption under paragraph 6 of the Regulations.

B Basis of accounting

The financial statements have been prepared on a going concern basis, under the annual accrual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(a) Premiums written

Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Contracts with duration of 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 term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

1 **ACCOUNTING POLICIES (continued)**

(b) Unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of the policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

(c) Acquisition costs

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new business and renewing existing contracts. The proportion of acquisition costs in respect of unearned premiums is deferred at the reporting date and recognised in periods when the related premiums are earned.

(d) Ceded Reinsurance

Contracts entered into by the group with reinsurers under which the group is compensated for losses on contracts issued by the group that meet the definition of an insurance contract. Insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

Any benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved.

Insurance contracts are those contracts that transfer significant insurance risk.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The group assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the statement of profit or loss.

(e) Claims incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year-end. Claims incurred are reduced by anticipated salvage and other recoveries.

(f) Claims provisions and related recoveries

The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported ("IBNR").

Notified claims are estimated on a case by case basis. 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 a previous period. 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 distortion of the development and incidence of these large claims.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

1 ACCOUNTING POLICIES (continued)

(f) Claims provisions and related recoveries (continued)

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

The provision for claims includes amounts in respect of internal and external claims handling costs.

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

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR having regard to the reinsurance programme in place for the class of business and the claims experience for the year. It is net of estimated irrecoverable amounts having regard to the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making the above estimates.

The two most critical assumptions with regards to claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

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.

The directors of CUAL consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimate made, are reviewed regularly.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

(g) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums after the deduction of any acquisition costs deferred. The expected claims relate to policies in force at the year-end, having regard to events that occur prior to the balance sheet date.

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

(h) Reinsurance to close (RITC)

Each Lloyd's Syndicate underwriting account is normally closed at the end of the third year by means of reinsurance into the following year, which reinsures all future liabilities for the closed year and all previous years in return for a premium which is approved by the managing agent. The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring Syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle the outstanding claims.

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

C 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

D Foreign currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Syndicate operates (the functional currency). The Syndicate's financial statements are presented in thousands of pounds sterling.

With the adoption of FRS 102 and FRS 103, all assets and liabilities arising from insurance contracts should be treated as monetary items. At each period end foreign currency monetary items are re-translated into pounds sterling at the rate of exchange at the balance sheet date. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of 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.

E Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct income tax from trading income. 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. No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading "other debtors".

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

F Investments and Overseas Deposits

Investments and overseas deposits are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid value and deposits with credit institutions are stated at cost. All other financial instruments are designated as at fair value through profit and loss. In line with normal Lloyd's market practice, the Syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations.

G 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.

H Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Syndicate has designated at fair value through the statement of profit or loss. Loans and receivables are carried at amortised cost less any impairment losses.

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

I Cash and cash equivalents

Cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks, cash held in Lloyd's trust accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have less than three months maturity from the date of acquisition. Cash and cash equivalents are measured at fair value through the statement of profit or loss. Bank overdrafts,where applicable, are held within the current liabilities as amounts due to credit institutions.

Overseas deposits are considered as cash and cash equivalents within the statement of cash flows.

J Financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

2 RISK MANAGEMENT

Financial risk management objectives

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

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

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

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

(a) Insurance risk

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

2 MANAGEMENT OF FINANCIAL RISK (continued)

Expense risk (continued)

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

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

Specific scenarios monitored include:

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

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

Loss development tables providing information about historical claims development are included in note 10.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

(b) Market risk

Market risk is the impact arising from the uncertainty of asset prices, interest rates, foreign exchange rates, and other factors related to financial markets and investment asset management.

XL Catlin Group imposes restrictions on the external investment managers' investment strategies. Strict limits, by trust fund, are set for types of assets held, concentration limits and average investment grade ratings. Investments are typically investment grade bonds and investment grade asset backed securities. Guidelines and benchmarks are set annually and approved by the board.

The performance of the investment managers is monitored constantly by XL Catlin Group investment specialists and reported monthly to CUAL management and reviewed quarterly by the CUAL Board of directors. The Syndicate aims to manage exchange rate exposure in US dollar terms and asset and liabilities are duration matched.

Market risk includes:

(i) 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.

(ii) Equity price risk

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

(iii) Currency risk

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

The Syndicate is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Pound 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

(iii) Currency risk (continued)

2016	GBP £000's	USD £000's	EUR £000's	CAD £000's	AUD £000's	TOTAL £000's
Overseas deposits	22	10	—	—	—	32
Reinsurers' share of technical provisions	926	11,319	209	—	—	12,454
Insurance and Reinsurance receivables	3,244	28,388	259	—	—	31,891
Cash at bank and in hand	3,479	5,671	2,539	—	—	11,689
Other assets	1,363	1,776	143	—	—	3,282
Total assets	**9,034**	**47,164**	**3,150**	—	—	**59,348**
Technical provisions	(5,328)	(25,769)	(785)	—	—	(31,882)
Insurance and reinsurance payables	(1,139)	(16,639)	(276)	—	—	(18,054)
Other creditors	(4,149)	(2,914)	—	—	—	(7,063)
Total Liabilities	**(10,616)**	**(45,322)**	**(1,061)**	—	—	**(56,999)**

2015	*GBP £000's*	*USD £000's*	*EUR £000's*	*CAD £000's*	*AUD £000's*	*TOTAL £000's*
Overseas deposits	23	2	—	—	—	25
Reinsurers' share of technical provisions	225	10,934	34	—	—	11,193
Insurance and Reinsurance receivables	4,167	14,705	151	—	—	19,023
Cash and cash equivalents	2,286	2,783	1,430	—	—	6,499
Other assets	841	1,431	87	—	—	2,359
Total assets	**7,542**	**29,855**	**1,702**	—	—	**39,099**
Technical provisions	(6,297)	(18,430)	(446)	—	—	(25,173)
Insurance and reinsurance payables	(594)	(8,257)	(73)	—	—	(8,924)
Other creditors	(973)	(832)	—	—	—	(1,805)
Total Liabilities	**(7,864)**	**(27,519)**	**(519)**	—	—	**(35,902)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

(iii) Currency risk (continued)

Sensitivity analysis

Fluctuations in the Syndicate's trading currencies against the sterling would result in a change to profit after tax and net assets value.

The table below gives an indication of the impact on profit after tax and net assets of a percentage change in the relative strength of the Euro against the value of pound sterling, the Canadian dollar and the US dollar, simultaneously. The analysis is based on current information.

	Impact on profit after tax		Impact on net assets	
	2016	**2015**	**2016**	**2015**
Changes to Euro, Canadian dollar and US dollar relative to pounds sterling	**£000's**	**£000's**	**£000's**	**£000's**
GBP weakens 20% against other currencies	**218**	197	**392**	533
GBP weakens 10% against other currencies	**119**	107	**214**	291
GBP strengthens 10% against other currencies	**(145)**	(131)	**(261)**	(355)
GBP strengthens 20% against other currencies	**(327)**	(295)	**(587)**	(799)

(c) Credit risk

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

(c) Credit risk (continued)

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

2016	**AAA**	**AA**	**A**	**BBB or less**	**Not rated**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Overseas deposits			8		24	**32**
Reinsurers' share of claims outstanding			6,156	672		**6,828**
Cash at bank and in hand			5,671	6,018		**11,689**
Total	**—**	**—**	**11,835**	**6,690**	**24**	**18,549**

2015	*AAA*	*AA*	*A*	*BBB or less*	*Not rated*	*Total*
	£000's	*£000's*	*£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*

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 (2015: no impaired assets held).

2016	**Neither due nor impaired**	**Up to three months**	**Three to six months**	**Six months to one year**	**Greater than one year**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Overseas deposits	32	—	—	—	—	32
Reinsurers' share of claims outstanding	6,828	—	—	—	—	6,828
Reinsurance debtors	—	—	—	—	—	—
Cash at bank and in hand	11,689	—	—	—	—	11,689
Insurance debtors	23,109	—	—	12	—	23,121
Other debtors	17,680	—	—	—	—	17,680
Total credit risk	**59,338**	—	—	**12**	—	**59,350**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

2 MANAGEMENT OF FINANCIAL RISK (continued)

(c) Credit risk (continued)

2015	*Neither due nor impaired*	*Up to three months*	*Three to six months*	*Six months to one year*	*Greater than one year*	*Total*
	£000's	*£000's*	*£000's*	*£000's*	*£000's*	
Overseas deposits	25	—	—	—	—	25
Reinsurers' share of claims outstanding	7,469	—	—	—	—	7,469
Reinsurance debtors	—	—	—	—	—	—
Cash at bank and in hand	6,474	—	—	—	—	6,474
Insurance debtors	7,771	—	495	—	—	8,266
Other debtors	168	—	—	—	—	168
Total credit risk	**21,907**	**—**	**495**	**—**	**—**	**22,402**

The Syndicate has insurance and reinsurance debtors that are past due but not considered to be impaired of £12k (2015: £495k).

(d) Liquidity risk

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

The following tables analyse financial liabilities by maturity date:

2016	**No Stated maturity**	**0-1 year**	**1-3 years**	**3-5 years**	**>5 years**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Creditors	6,130	18,054	—	—	—	**24,184**
Claims outstanding	—	16,290	—	351	922	**17,563**
Financial liabilities	**6,130**	**34,344**	—	**351**	**922**	**41,747**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

2 MANAGEMENT OF FINANCIAL RISK (continued)

(d) Liquidity risk continued

2015	*No Stated maturity*	*0-1 year*	*1-3 years*	*3-5 years*	*>5 years*	*Total*
	£000's	*£000's*	*£000's*	*£000's*	*£000's*	*£000's*
Creditors	*1,116*	*8,924*	—	—	—	*10,040*
Claims outstanding	—	*13,268*	—	*286*	*751*	*14,305*
Financial liabilities	*1,116*	*22,192*	—	*286*	*751*	*24,345*

(e) Fair value estimation

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.

Other assets and liabilities

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

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

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000's	**£000's**	**£000's**	**£000's**
Loans and deposits with credit institutions	25	—	—	25
Total	**25**	—	—	**25**

2015	*Level 1*	*Level 2*	*Level 3*	*Total*
	£000's	*£000's*	*£000's*	*£000's*
Loans and deposits with credit institutions	*14*	—	—	*14*
Total	*14*	—	—	*14*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

3 MANAGEMENT OF CAPITAL

(a) Capital Framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements applies at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 3002 is not disclosed in these financial statements. See notes 17 for details of the syndicate's FAL requirement.

(b) Lloyd's Capital Setting Process

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

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

(c) Provision of capital by members

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

4 SEGMENTAL ANALYSIS

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

2016	Gross Premiums Written	Gross Premiums Earned	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Total	19,381	18,079	(5,677)	(5,189)	(6,045)	1,168

2015	*Gross Premiums Written*	*Gross Premiums Earned*	*Gross Claims Incurred*	*Gross Operating Expenses*	*Reinsurance Balance*	*Total*
	£000's	*£000's*	*£000's*	*£000's*	*£000's*	*£000's*
Total	*26,725*	*20,807*	*(15,390)*	*(5,344)*	*1,028*	*1,101*

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:

	2016	2015
	£000's	*£000's*
Individual premiums	649	*160*
Premiums under group contracts	18,732	*26,565*
Gross premiums written	19,381	*26,725*
Single premiums	19,381	*26,725*
Gross premiums written	19,381	*26,725*

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:

	2016	2015
	£000's	*£000's*
United Kingdom	6,967	*7,243*
Other EU countries	2,124	*2,208*
US	826	*858*
Latin America	7,904	*14,793*
Other Worldwide	1,560	*1,623*
	19,381	*26,725*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

5 MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

A favourable run off deviation (prior accident year release) of £1.5m (2015: £2.4m favourable deviation) was experienced during the year.

6 NET OPERATING EXPENSES

	2016 £000's	2015 £000's
Acquisition costs	1,346	3,984
Change in deferred acquisition costs	316	(562)
	1,662	3,422
Administration expenses	2,482	1,403
	4,144	4,825

Included within acquisition costs are amounts relating to commissions on direct insurance business of £0.6m (2015: £1.1m).

Administrative expenses include:

	2016 £000's	2015 £000's
Auditor's remuneration		
Audit services:		
Fees payable to the syndicate's auditor for the audit of the syndicate annual accounts	19	19
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	22

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

7 EMPLOYEES & DIRECTORS

The Syndicate has no direct employees. The employees that provide services to the Syndicate are employed by other XL Catlin Group companies and are recharged to the Syndicate. The expense recharge includes the cost of these employees, but it is not possible to ascertain separately the element of the expense recharge that relates directly to staff costs or staff numbers.

Directors' emoluments for the year are as follows:

	2016	*2015*
	£000's	*£000's*
Aggregate emoluments and other benefits	13	*18*
Pension contributions	—	*1*
	13	*19*

Emoluments of the highest paid director are:

	2016	*2015*
	£000's	*£000's*
Aggregate emoluments and other benefits	7	*13*
Pension contributions	—	—
	7	*13*

Emoluments of the active underwriter are:

	2016	*2015*
	£000's	*£000's*
Aggregate emoluments and other benefits	8	*6*
Pension contributions	—	—
	8	*6*

Directors' emoluments are the share of the total emoluments charged to the syndicate for services provided to the syndicate. Directors' emoluments are paid by other group companies and recharged by way of a management fee based on a best estimate of the time spent on the Syndicate's activities.

8 INVESTMENT RETURN

	2016	*2015*
	£000's	*£000's*
Investment income		
Income from investments	11	9
	11	9
Investment expenses and charges		
Bank charges incurred	—	(2)
Total investment return	11	7

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

9 INSURANCE LIABILITIES AND REINSURANCE ASSETS

2016	**Provision for unearned premium**	**Claims Outstanding**
	£000's	**£000's**
Gross Technical Provisions		
As at 1 January 2016	10,868	14,306
Movement in the provision	1,302	(380)
Foreign exchange movements	2,148	3,637
As at 31 December 2016	**14,318**	**17,563**
Reinsurers' share of technical provisions		
As at 1 January 2016	3,724	7,469
Movement in the provision	810	(2,608)
Foreign exchange movements	1,093	1,967
As at 31 December 2016	**5,627**	**6,828**
Net technical provisions		
As at 1 January 2016	**7,144**	**6,837**
As at 31 December 2016	**8,691**	**10,735**

2015	*Provision for unearned premium*	*Claims Outstanding*
	£000's	*£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*
As 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*
As at 31 December 2015	*3,724*	*7,469*
Net technical provisions		
As at 1 January 2015	*4,901*	*3,211*
As at 31 December 2015	*7,144*	*6,837*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

10 CLAIMS DEVELOPMENT TRIANGLES

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

Gross claims development

	2010 & Prior £000's	2011 £000's	2012 £000's	2013 £000's	2014 £000's	2015 £000's	2016 £000's	Total £000's
12 months		1,088	2,014	3,219	1,628	15,459	9,168	
24 months		4,614	4,132	5,729	5,461	14,159		
36 months		4,249	4,487	4,978	4,876			
48 months		3,934	4,144	4,769				
60 months		3,927	4,136					
72 months		3,927						
Estimated total losses	1,923	3,927	4,136	4,769	4,876	14,159	9,168	42,958
Paid claims	1,923	3,927	3,995	4,678	4,960	5,511	401	25,395
Gross reserves	—	—	**141**	**91**	**(84)**	**8,648**	**8,767**	**17,563**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

10 CLAIMS DEVELOPMENT TRIANGLES (continued)

Net claims

	2010 & Prior £000's	2011 £000's	2012 £000's	2013 £000's	2014 £000's	2015 £000's	2016 £000's	Total £000's
12 months		1,071	1,981	3,214	1,605	6,426	6,693	
24 months		4,586	4,130	5,668	5,419	9,792		
36 months		4,249	4,476	4,964	4,890			
48 months		3,934	4,144	4,770				
60 months		3,927	4,136					
72 months		3,927						
Estimated total losses	1,923	3,927	4,136	4,770	4,890	9,792	6,693	36,131
Paid claims	1,923	3,927	3,995	4,678	4,960	5,511	401	25,395
Net reserves	—	—	141	92	(70)	4,281	6,292	10,736

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

11 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2016 £000's	2015 £000's
Due within one year	23,121	8,266

12 OTHER DEBTORS

	2016 £000's	2015 £000's
Amounts owed from group undertakings	848	165
Other debtors	5	3
	853	168

13 DEFERRED ACQUISITION COSTS

	2016 £000's	2015 £000's
As at 1st January	2,216	1,162
Change in gross deferred acquisition costs	(192)	1,080
Currency translation difference	382	(26)
As at 31 December	2,406	2,216

14 OVERSEAS DEPOSITS

	2016 £000's	2015 £000's
Additional Securities Limited	32	25
	32	25

15 OTHER CREDITORS:

Amounts falling due within one year	2016 £000's	2015 £000's
Amounts owed to group undertakings	1,578	1,110
Amounts owed to credit institutions	4,551	—
Other creditors	2	6
	6,131	1,116

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

16 LONG TERM BUSINESS PROVISON

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 £2.1m (2015: £0.2m) 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.

17 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 2016, the value of assets supporting FAL for the 2017 year of account is £25.3m (2016 year of account at 31 December 2015: £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 member's underwriting liabilities.

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

18 RELATED PARTY TRANSACTIONS

Catlin Underwriting Agencies Limited ("CUAL") is the managing agent for Syndicate 3002. Under the standard managing agents' agreement, CUAL receives an annual fee of 1% of stamp capacity. In 2016 this amounted to £0.3m (2015: £0.2m).

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 Profit or Loss in 2016 is a charge of £0.7m (2015: a charge of £0.5m). Amounts relating to these contracts of £1.1m (2015: £0.5m receivable) were payable as at the year-end date.

Catlin Syndicate Limited and Catlin (One) Limited are the corporate members of 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 2016 the total effect on the Statement of Profit or Loss was £2.2m (2015: £1,049k).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

19 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 is XL Group Ltd, a company registered in Bermuda, which is the parent undertaking of the largest group to consolidate the financial statements of Catlin Syndicate Limited and Catlin (One) Limited. Copies of the XL Group Ltd consolidated financial statements can be obtained from 20 Gracechurch Street, London, EC3V 0BG.