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**SYNDICATE 6112**

**ANNUAL REPORT**

**YEAR ENDED 31 DECEMBER 2016**

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## 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** P Greensmith  
J Gale

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

## FINANCIAL HIGHLIGHTS

	2016	2015
Syndicate capacity (£m)	29.3	29.9
Gross premiums written (\$m)	40.5	37.5
Net premium written (\$m)	35.0	30.8
Earned premiums, net of reinsurance (\$m)	34.8	31.9
Underwriting result (\$m)	0.3	1.9
<b>Profit for the financial year (\$m)</b>	<b>1.8</b>	<b>2.3</b>
Claims ratio	61.0%	52.3%
Expense ratio	38.0%	41.8%
Combined ratio	99.0%	94.1%

**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**

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

This contract operates on a funds withheld basis.

The underwriting result (net earned premiums minus net claims incurred and net operating expenses) for 2016 is a loss of £0.3m (2015: £1.9m). The underwriting performance in 2016 was driven by challenging market conditions affecting nearly all lines of business with ongoing "soft" market conditions, low rating environment and capacity in the market. In 2016 a large number of catastrophe losses occurred as compared to 2015 where the syndicate benefited from very low levels of attritional losses and claims for natural catastrophes.

**Results and performance**

During the year, the Syndicate wrote £40.5m in gross premiums (2015: 37.5m) which represents its share of Syndicate 2003 gross premiums for the 2012, 2013, 2014, 2015 and 2016 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 61.0% (2015: 52.3%).

The net operating expense ratio of 38.0% (2015: 41.8%) includes commission and administration expenses which primarily comprise member's personal expenses.

**Strategy and future outlook**

For 2017 underwriting year, Syndicate 2003 will not continue its whole account quota share purchase with the SPA.

**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 Catlin Group Ltd, a company registered in Bermuda. Copies of the financial statements of both CUAL and XL Catlin 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.

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").

Underwriting year accounts have been prepared for the 2014 year of account which closed on 31 December 2016.

Future developments and strategy are discussed within the strategic report.

**Profit distribution and solvency**

Profits will continue to be distributed by reference to the results of individual underwriting years. Under Lloyd's accounting rules, the Syndicate's 2014 year of account was closed at the end of 2016 with a return equal to 11.0% of capacity.

The member's balance as at 31 December 2016 is £3.0m (2015: £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)	
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 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 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 5, the Managing Agent is responsible for the preparation of the Syndicate annual accounts and for being satisfied that they give a true and fair view.

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

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.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 6112 (CONTINUED)

**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.

**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
<b>TECHNICAL ACCOUNT - GENERAL BUSINESS</b>			
<b>Earned premium, net of reinsurance</b>			
Gross premiums written	4	40,489	37,451
Outward reinsurance premiums		(5,491)	(6,673)
Net premiums written		<u>34,998</u>	<u>30,778</u>
Change in the gross provision for unearned premiums		528	619
Change in the provision for unearned premiums, reinsurers' share		(677)	531
Change in the net provision for unearned premiums		<u>(149)</u>	<u>1,150</u>
<b>Earned premiums, net of reinsurance</b>		<b>34,849</b>	<b>31,928</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(18,555)	(17,672)
Reinsurers' share		1,152	1,586
		<u>(17,403)</u>	<u>(16,086)</u>
Change in the provision for claims			
Gross amount		(5,013)	(994)
Reinsurers' share		1,143	367
		<u>(3,870)</u>	<u>(627)</u>
<b>Claims incurred, net of reinsurance</b>		<b>(21,273)</b>	<b>(16,713)</b>
Net operating expenses	7	(13,229)	(13,338)
<b>Balance on the general business technical account</b>		<u><u>347</u></u>	<u><u>1,877</u></u>
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the general business technical account		347	1,877
Other income	8	984	507
Foreign exchange gains and losses		420	(97)
<b>Profit for the financial year</b>		<u><u>1,751</u></u>	<u><u>2,287</u></u>

**STATEMENT OF FINANCIAL POSITION - ASSETS**  
**AS AT 31 DECEMBER 2016**

	Note	2016 £000's	2015 £000's
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	9	3,630	3,376
Claims outstanding	9	7,027	4,819
		<u>10,657</u>	<u>8,195</u>
<b>Debtors - amounts falling due within one year</b>			
Debtors arising out of reinsurance operations	11	33,930	27,225
Other debtors	12	1,015	811
		<u>34,945</u>	<u>28,036</u>
<b>Debtors - amounts falling due after one year</b>			
Debtors arising out of reinsurance operations	11	61,082	51,822
Other debtors	13	556	387
		<u>61,638</u>	<u>52,209</u>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	14	7,111	6,156
<b>TOTAL ASSETS</b>		<u><u>114,351</u></u>	<u><u>94,596</u></u>

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

	Note	2016 £000's	2015 £000's
<b>Capital and reserves</b>			
Member's balance		3,021	4,312
<b>Technical provisions</b>			
Provision for unearned premiums	9	23,311	19,531
Claims outstanding	9	60,801	46,298
		<u>84,112</u>	<u>65,829</u>
<b>Creditors - amounts falling due within one year</b>			
Creditors arising out of reinsurance operations	15	10,172	7,350
Other creditors	16	1,941	2,061
		<u>12,113</u>	<u>9,411</u>
<b>Creditors - amounts falling due after one year</b>			
Creditors arising out of reinsurance operations	15	13,310	12,755
Other creditors	17	1,548	2,155
		<u>14,858</u>	<u>14,910</u>
Accruals and deferred income		247	134
<b>TOTAL LIABILITIES</b>		<u><u>114,351</u></u>	<u><u>94,596</u></u>

The notes on pages 13 to 32 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 CHANGES IN MEMBER'S BALANCES  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>Member's balance £000's</b>
<b>Balance as at 1 January 2015</b>	<u><b>4,442</b></u>
Profit for the financial year	2,287
Settlement of 2012 quota share balances	(2,417)
<b>Balance as at 31 December 2015</b>	<u><b>4,312</b></u>
<b>Balance as at 1 January 2016</b>	<u><u><b>4,312</b></u></u>
Profit for the financial year	1,751
Settlement of 2013 quota share balances	<u>(3,042)</u>
<b>Balance as at 31 December 2016</b>	<u><u><b>3,021</b></u></u>

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £000's	2015 £000's
<b>Profit for the financial year</b>		<b>1,751</b>	<b>2,287</b>
Settlement of 2013 & 2012 quota share balances		<b>(3,042)</b>	<b>(2,417)</b>
Increase in net technical provisions		<b>15,821</b>	<b>999</b>
(Increase) in debtors		<b>(16,980)</b>	<b>(1,340)</b>
Increase in creditors		<b>5,317</b>	<b>732</b>
Movement in other assets / liabilities		<b>(1,883)</b>	<b>246</b>
Investment return		<b>(984)</b>	<b>(507)</b>
<b>Net cash flow generated from operating activities</b>		<b>—</b>	<b>—</b>
 <b>Cash and cash equivalents at the beginning of the year</b>		<b>—</b>	<b>—</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>—</b>	<b>—</b>

**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 9: 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 written comprise premiums on contracts inception during the financial year, together with adjustments made in the year to premiums written in prior accounting periods. They also include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

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 Basis of accounting (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.

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.

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

**1 ACCOUNTING POLICIES (continued)**

**B Basis of accounting (continued)**

*(f) Claims provisions and related recoveries (continued)*

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 Syndicate discounts unpaid loss reserves arising from US Workers' Compensation business.

The payment is considered to have duration of greater than four years from the balance sheet date. The discounting rates and mean estimated terms used for the Workers Compensation is 3.8% over 22 years.

	<b>Undiscounted reserves</b>		<b>Discount credit</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Workers Compensation	<b>2,170,839</b>	<b>1,943,688</b>	<b>629,350</b>	<b>612,395</b>

The Syndicate utilises tabular reserving for US workers' compensation unpaid losses that are considered fixed and determinable, and discount such losses using an interest rate of 3.75%. The interest rate approximates the implied return on the market-based assets supporting the expected cash-flows of our liabilities. The tabular reserving methodology results in applying uniform and consistent criteria for establishing expected future indemnity and medical payments and the use of mortality tables to determine expected payment periods. Reserves recorded within this report have considered the impacts of the "Ogden Rate" change advised on the 27 February 2017.

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

**1 ACCOUNTING POLICIES (continued)**

**B Basis of accounting (continued)**

*(f) Claims provisions and related recoveries (continued)*

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.

*(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) Financial assets at fair value through the income statement*

All financial assets are designated as fair value through the statement of profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Purchases and sales are recognised on the trade date, which is the date the group commits to purchase or sell the asset, net of transaction costs. These investments are subsequently carried at fair value.

**C Investment return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Net gains or losses arising from changes in the fair value of financial assets are recognised through the statement of profit or loss within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise. Investment return is recorded in the non-technical account within the statement of profit or loss. Dividends are recognised on the date on which the shares go and include the imputed tax credits. Interest income is accrued up to the balance sheet date.

*a. Realised gains and losses*

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price.

*b. Unrealised gains and losses*

Unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, where acquired in previous years, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

*c. Investment expenses, charges or interest*

There are accounted for as incurred on an accruals basis.

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

**1 ACCOUNTING POLICIES (continued)****B Basis of accounting (continued)****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 sterling, which is the Syndicate's functional currency. Foreign currency transactions in US dollars, Canadian dollars, Euros and Australian dollars are translated at the rate of exchange ruling at the dates of the transactions or at an appropriate average rate.

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 US dollars 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".

**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 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.

**H 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. 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 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. Syndicate 2003, on the syndicate's behalf, 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. Syndicate 2003 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 framework is also integrated with the management of the financial risks associated with Syndicate 2003'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 CUAL 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 RISK MANAGEMENT (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 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. 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. 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**

**2 RISK MANAGEMENT (continued)**

**(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 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 withheld 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 Board.

Syndicate 2003 purchases interest rate swap 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.

**Sensitivity analysis**

Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt securities and borrowings as well as subsequent interests receipts and payments. This would affect reported profits and net assets as indicated in the table below:

	Impact on profit after tax		Impact on net assets	
	2016	2015	2016	2015
	£000's	£000's	£000's	£000's
50 basis points increase	(552)	(300)	(552)	(300)
50 basis points decrease	549	300	549	300

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

**2 RISK MANAGEMENT (continued)****(b) Market risk (continued)****(ii) Equity price risk**

The Syndicate does not hold equity investments, but is indirectly exposed to equity securities price risk through the investment return remitted to the Syndicate in lieu of the interest income received on the funds withheld by Syndicate 2003.

Syndicate 2003 has a defined investment policy which sets limits on the syndicate's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the syndicate's price risk arising from its investments in equity securities.

**Sensitivity analysis**

Changes in stock market prices, with all other variables constant, would result in changes in the interest income remitted by Syndicate 2003. This would affect reported profits and net assets as indicated in the table below:

	Impact on profit after tax		Impact on net assets	
	2016	2015	2016	2015
	£000's	£000's	£000's	£000's
5% increase	128	(100)	128	(100)
5% decrease	(128)	100	(128)	100

**(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 withheld 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 Dollar, Canadian Dollar and Euro.

**2016**

	GBP	USD	EUR	CAD	AUD	TOTAL
	£000's	£000's	£000's	£000's	£000's	£000's
Reinsurers' share of technical provisions	906	8,349	663	739	—	10,657
Insurance and Reinsurance receivables	9,490	73,525	6,640	5,357	—	95,012
Other assets	1	6,994	970	716	—	8,681
Total assets	10,397	88,868	8,273	6,812	—	114,350
Technical provisions	(8,054)	(63,693)	(6,400)	(5,965)	—	(84,112)
Insurance and reinsurance payables	(1,220)	(20,752)	(826)	(684)	—	(23,482)
Other creditors	(1,948)	(1,753)	(25)	(9)	—	(3,735)
Total Liabilities	(11,222)	(86,198)	(7,251)	(6,658)	—	(111,329)



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

**2 RISK MANAGEMENT (continued)****(b) Market risk (continued)****(iii) Currency risk (continued)**

2015

	<i>GBP</i> £000's	<i>USD</i> £000's	<i>EUR</i> £000's	<i>CAD</i> £000's	<i>AUD</i> £000's	<i>TOTAL</i> £000's
Reinsurers' share of technical provisions	584	6,651	508	569	—	8,312
Insurance and Reinsurance receivables	9,070	59,528	5,622	3,925	—	78,145
Other assets	808	5,417	566	564	—	7,355
<b>Total assets</b>	<b>10,462</b>	<b>71,596</b>	<b>6,696</b>	<b>5,058</b>	<b>—</b>	<b>93,812</b>
Technical provisions	(6,583)	(49,967)	(5,062)	(4,217)	—	(65,829)
Insurance and reinsurance payables	(1,214)	(16,874)	(736)	(497)	—	(19,321)
Other creditors	(2,625)	(1,674)	(21)	(31)	—	(4,351)
<b>Total Liabilities</b>	<b>(10,422)</b>	<b>(68,515)</b>	<b>(5,819)</b>	<b>(4,745)</b>	<b>—</b>	<b>(89,501)</b>

**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 Sterling against the value of the Euro, the Canadian dollar and the US dollar, simultaneously. The analysis is based on current information.

	<b>Impact on profit after tax</b>		<b>Impact on net assets</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Changes to Euro, Canadian dollar and US dollar relative to Pounds sterling	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
GBP weakens 20% against other currencies	<b>292</b>	<b>(41)</b>	<b>503</b>	<b>849</b>
GBP weakens 10% against other currencies	<b>159</b>	<b>(22)</b>	<b>275</b>	<b>463</b>
GBP strengthens 10% against other currencies	<b>(194)</b>	<b>27</b>	<b>(336)</b>	<b>(566)</b>
GBP strengthens 20% against other currencies	<b>(438)</b>	<b>61</b>	<b>(755)</b>	<b>(1,274)</b>

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

**2 RISK MANAGEMENT (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:

	AAA	AA	A	BBB or below	Not rated	Total
2016	£000's	£000's	£000's	£000's	£000's	£000's
Reinsurance debtors	—	1,313	—	—	—	1,313
Reinsurers' share of claims outstanding	—	—	6,740	7	280	7,027
Total	—	1,313	6,740	7	280	8,340

  

	AAA	AA	A	BBB or below	Not rated	Total
2015	£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

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).

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

**2 RISK MANAGEMENT (continued)**

**(d) Liquidity risk**

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the syndicate is the obligation to pay claims as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. Due to the funds withheld 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:

<b>2016</b>	<b>No contractual maturity date £000's</b>	<b>Less than one year on demand £000's</b>	<b>Between 1 and 3 years £000's</b>	<b>Between 3 and 5 years £000's</b>	<b>Over 5 years £000's</b>	<b>Total £000's</b>
Other Creditors	—	12,113	14,857	—	—	26,970
Claims outstanding	—	24,112	36,689	—	—	60,801
Financial liabilities	—	36,225	51,546	—	—	87,771

<b>2015</b>	<b>No contractual maturity date £000's</b>	<b>Less than one year on demand £000's</b>	<b>Between 1 and 3 years £000's</b>	<b>Between 3 and 5 years £000's</b>	<b>Over 5 years £000's</b>	<b>Total £000's</b>
Other Creditors	-	9,411	14,910	-	-	24,321
Claims outstanding	-	17,683	28,615	-	-	46,298
Financial liabilities	—	27,094	43,525	—	—	70,619

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

**NOTES TO THE FINANCIAL STATEMENTS (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 6112 is not disclosed in these financial statements. See note 18 for details of the Syndicate's FAL and FIS requirements.

**(b) Lloyd's Capital Setting Process**

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

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

**(c) Provision of capital by members**

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

Resources available to meet members' and Lloyd's capital requirements are 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**

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

<b>2016</b>	<b>Gross</b>	<b>Gross</b>	<b>Gross</b>	<b>Gross</b>	<b>Reinsurance</b>	<b>Total</b>
<b>Reinsurance</b>	<b>Premiums</b>	<b>Premiums</b>	<b>Claims</b>	<b>Operating</b>	<b>Balance</b>	
	<b>Written</b>	<b>Earned</b>	<b>Incurred</b>	<b>Expenses</b>	<b></b>	
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Fire and other damage to property	19,552	20,189	(11,235)	(7,121)	(1,801)	32
Accident and health	8,858	9,613	(6,175)	(3,389)	(443)	(394)
Marine, aviation and transport	11,295	10,430	(5,656)	(2,722)	(1,220)	832
Motor (third party liability)	784	785	(502)	(355)	(51)	(123)
<b>Total</b>	<b>40,489</b>	<b>41,017</b>	<b>(23,568)</b>	<b>(13,587)</b>	<b>(3,515)</b>	<b>347</b>

  

<b>2015</b>	<b>Gross</b>	<b>Gross</b>	<b>Gross</b>	<b>Gross</b>	<b>Reinsurance</b>	<b>Total</b>
<b>Reinsurance</b>	<b>Premiums</b>	<b>Premiums</b>	<b>Claims</b>	<b>Operating</b>	<b>Balance</b>	
	<b>Written</b>	<b>Earned</b>	<b>Incurred</b>	<b>Expenses</b>	<b></b>	
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Fire and other damage to property	19,392	18,979	(8,384)	(7,322)	(1,783)	1,490
Accident and	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
<b>Total</b>	<b>37,451</b>	<b>38,070</b>	<b>(18,666)</b>	<b>(13,758)</b>	<b>(3,769)</b>	<b>1,877</b>

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

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

All gross premiums written originate in the United Kingdom.

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

**5 MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING**

A favorable run-off deviation (prior accident year decrease) of £0.9m (2015: adverse run-off deviation of £1.9m) was experienced during the year, wholly in respect of reserve movements on the 2014 year of account and prior Whole Account Quota Share contract with Syndicate 2003.

**6 EMPLOYEES & DIRECTORS**

The Syndicate and its managing agent have no employees (2015: nil).

The Syndicate did not directly incur staff costs during the year (2015: £nil).

The Syndicate was not recharged any expenses during the year relating to the remuneration of the directors of CUAL (2015: £nil).

Under the standard managing agents' agreement, Catlin Underwriting Agencies Limited receives an annual fee for services provided.

**7 NET OPERATING EXPENSES**

	2016 £000's	2015 £000's
Acquisition costs	11,960	12,611
Change in deferred acquisition costs	510	68
	<u>12,470</u>	<u>12,679</u>
Administration expenses	1,115	1,079
Reinsurance commissions and profit participation	(356)	(420)
	<u>13,229</u>	<u>13,338</u>

Administrative expenses include:

	2016 £000's	2015 £000's
<i>Audit Services:</i>		
Fees payable to the Syndicate's auditor for the audit of the Syndicate's accounts	52	31
<i>Non-audit Services:</i>		
Fees payable to the Syndicate's auditor for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	13	8
	<u>65</u>	<u>39</u>

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

**8 OTHER INCOME**

	2016 £000's	2015 £000's
Interest on funds withheld balance	<u>984</u>	<u>507</u>

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

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

**9 INSURANCE LIABILITIES AND REINSURANCE ASSETS**

<b>2016</b>	<b>Provision for unearned premium £000's</b>	<b>Claims Outstanding £000's</b>
<b>Gross Technical Provisions</b>		
As at 1 January 2016	19,531	46,298
Movement in the provision	(528)	5,013
Foreign exchange movements	4,308	9,490
<b>As at 31 December 2016</b>	<b>23,311</b>	<b>60,801</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2016	3,376	4,936
Movement in the provision	(677)	1,143
Foreign exchange movements	931	948
<b>As at 31 December 2016</b>	<b>3,630</b>	<b>7,027</b>
<b>Net technical provisions</b>		
As at 1 January 2016	16,155	41,362
<b>As at 31 December 2016</b>	<b>19,681</b>	<b>53,774</b>
<b>2015</b>	<b>Provision for unearned premium £000's</b>	<b>Claims Outstanding £000's</b>
<b>Gross Technical Provisions</b>		
As at 1 January 2015	19,733	43,903
Movement in the provision	(619)	994
Foreign exchange movements	417	1,401
<b>As at 31 December 2015</b>	<b>19,531</b>	<b>46,298</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2015	2,708	4,410
Movement in the provision	531	367
Foreign exchange movements	137	159
<b>As at 31 December 2015</b>	<b>3,376</b>	<b>4,936</b>
<b>Net technical provisions</b>		
As at 1 January 2015	17,025	39,493
<b>As at 31 December 2015</b>	<b>16,155</b>	<b>41,362</b>

**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.

**Syndicate 6112 Gross claims development 31 December 2016**

	2012	2013	2014	2015	2016	Total
	£000's	£000's	£000's	£000's	£000's	£000's
12 months	11,996	10,984	11,748	11,007	13,820	
24 months	20,978	20,791	23,219	22,870	-	
36 months	20,929	20,650	24,752	-	-	
48 months	21,377	20,407	-	-	-	
60 months	20,980	-	-	-	-	
<b>Estimated total losses</b>	<b>20,980</b>	<b>20,407</b>	<b>24,752</b>	<b>22,870</b>	<b>13,820</b>	
<b>Paid claims</b>	<b>(21,377)</b>	<b>(20,650)</b>	<b>—</b>	<b>—</b>	<b>—</b>	
<b>Gross reserves</b>	<b>(397)</b>	<b>(243)</b>	<b>24,752</b>	<b>22,870</b>	<b>13,820</b>	<b>60,802</b>

**Syndicate 6112 Net claims development 31 December 2016**

	2012	2013	2014	2015	2016	Total
	£000's	£000's	£000's	£000's	£000's	£000's
12 months	10,898	10,060	10,444	10,115	12,638	
24 months	19,333	18,537	20,506	21,108	-	
36 months	19,043	18,469	22,542	-	-	
48 months	19,338	17,095	-	-	-	
60 months	18,198	-	-	-	-	
<b>Estimated total losses</b>	<b>18,198</b>	<b>17,095</b>	<b>22,542</b>	<b>21,108</b>	<b>12,638</b>	
<b>Paid claims</b>	<b>(19,338)</b>	<b>(18,469)</b>	<b>—</b>	<b>—</b>	<b>—</b>	
<b>Net reserves</b>	<b>(1,140)</b>	<b>(1,374)</b>	<b>22,542</b>	<b>21,108</b>	<b>12,638</b>	<b>53,774</b>



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

**11 DEBTORS ARISING OUT OF REINSURANCE OPERATIONS**

	2016 £000's	2015 £000's
Due within one year	33,930	27,225
Due after one year	61,082	51,822
	<u>95,012</u>	<u>79,047</u>

**12 OTHER DEBTORS**  
Amounts falling due within one year

	2016 £000's	2015 £000's
Other debtors	<u>1,015</u>	<u>811</u>

**13 OTHER DEBTORS**  
Amounts falling due after one year

	2016 £000's	2015 £000's
Other debtors	<u>556</u>	<u>387</u>

**14 DEFERRED ACQUISITION COSTS**

	2016 £000's	2015 £000's
On insurance contracts	<u>7,111</u>	<u>6,156</u>

The reconciliation of opening and closing deferred acquisition costs is as follows:

	2016 £000's	2015 £000's
At 1 January	6,156	6,094
Expenses for the acquisition of contracts deferred during the year	511	68
Foreign exchange losses	444	(6)
At 31 December	<u>7,111</u>	<u>6,156</u>

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

**15 CREDITORS ARISING OUT OF REINSURANCE OPERATIONS**

	2016 £000's	2015 £000's
Due within one year	10,172	7,350
Due after one year	13,310	12,755
	<u>23,482</u>	<u>20,105</u>

**16 OTHER CREDITORS**  
Amounts falling due within one year

	2016 £000's	2015 £000's
Other creditors	<u>1,941</u>	<u>2,061</u>

**17 OTHER CREDITORS**  
Amounts falling due after one year

	2016 £000's	2015 £000's
Other creditors	<u>1,548</u>	<u>2,155</u>

**18 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). 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 (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**19 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 2016, managing agency fees amounted to £0.3m (2015: £0.3m) and profit commissions amounted to £0.5m (2015: £0.5m). The balance due to CUAL as at 31 December 2016 was £2.9m (2015: £2.1m).

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

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

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

Syndicate 6112 provides whole account quota share to Syndicate 2003.

**20 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 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. Copies of the XL Group Ltd consolidated financial statements can be obtained from 20 Gracechurch Street, London, EC3V 0BG.