



Catlin Insurance Company (UK) Ltd

AN XL GROUP LTD COMPANY

Solvency and Financial Condition Report ("SFCR")

**Year Ended
December 31, 2016**

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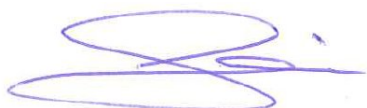
Directors' Statement

The Board of Directors acknowledge their responsibility for ensuring that this Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the Prudential Regulatory Authority rules and Solvency II regulations. The Board confirms that there is a written Solvency II Disclosure Policy in place to ensure the ongoing appropriateness of any information disclosed. The Board is satisfied that:

(a) throughout the financial year in question, Catlin Insurance Company (UK) Ltd has complied in all material respects with the requirements of the Prudential Regulatory Authority rules and Solvency II regulations as applicable to the Company; and

(b) it is reasonable to believe that, at the date of the publication of the SFCR, the Company has continued to comply, and will continue to comply in future.

By order of the Board



P A Jardine
Chief Executive Officer
May 18, 2017



P R Bradbrook
Director
May 18, 2017

Independent Auditor's Report to the Directors

Report of the external independent auditors to the Directors of Catlin (UK) Insurance Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, ('the **Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('the **Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the **Responsibility Statement**').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II

regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in the audits of the Solvency and Financial Condition Report and of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



PricewaterhouseCoopers LLP

Chartered Accountants

London

19 May 2017

- The maintenance and integrity of the XL Catlin Group website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.17.01.02
 - Rows R0290 to R0310 - Amount of transitional measure on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Summary

Unless otherwise stated, all amounts in this report are presented in thousands of GB Pounds (£'000), Sterling being the Company's reporting currency in the Financial Statements.

As 2016 is the first year of Solvency II being in force, having been implemented with effect from January 1, 2016, comparative figures are only shown where appropriate.

XL Group Ltd, the ultimate parent company, domiciled in Bermuda will publish its Group Financial Condition Report in line with Bermuda Monetary Authority requirements by June 30, 2017 and this will be available to download from the XL Group website (www.xlgroup.com).

XL Group Ltd and its (re)insurance subsidiaries operate under the XL Catlin brand.

Business and performance

The principal activity of Catlin Insurance Company (UK) Ltd ("CUK" or "the Company") is the transaction of general insurance and reinsurance business. The Company is a member of the XL Group Ltd ("XL") group of companies and it writes its business through offices in the UK and through the XL Catlin offices internationally. XL through its subsidiaries (collectively the "Group"), is a global insurance and reinsurance group of companies and other enterprises situated around the world.

XL Group's operating entities underwrite both insurance and reinsurance business within its Property and Casualty (P&C) business segment. From 1 January 2017, P&C is structured into two segments; Insurance and Reinsurance with Insurance further divided into Global Lines, International and North America. XL underwrites across all the platforms available, to best service both brokers and clients.

Following the acquisition of Catlin Group Limited by the XL Group on May 1, 2015, XL has continued its consolidation of businesses to the most appropriate carrier within the Group.

Further details of the organisation's business and performance are provided in Section A below. Also refer to XL's Form 10-K for the year ended December 31, 2016 for additional information.

System of governance

The Board of Directors ("Board") and management are committed to effective corporate governance and have established a comprehensive corporate governance framework for our operations. The key component of this framework is the Board, which has ultimate responsibility for the implementation and maintenance of an effective corporate governance framework, and the various Board and management committees through which the Board discharges its legal and fiduciary responsibilities.

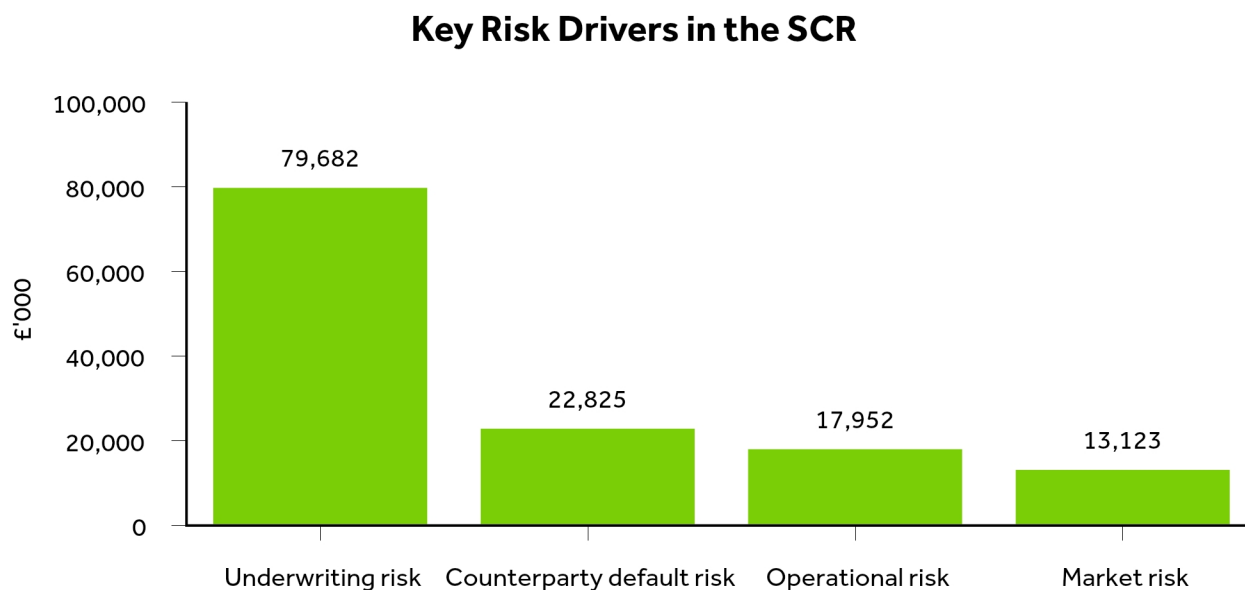
The Board is responsible for the internal control framework and the Company operates a three lines of defence model where the (1) business, (2) risk management and compliance and (3) independent audit work together to ensure that risk management is effective.

The internal control framework determines risk appetites and risk limits, establishes risk policies, identifies and manages the risks to the Company's objectives and monitors the capital requirements. All of this is captured by the Risk Management Framework ("RMF") and Own Risk and Solvency Assessment ("ORSA") activities that are carried out throughout the year with oversight by the Board. The Company is supported by a number of Group-wide processes in the achievement of its risk management objectives.

Further details of the organisation's Systems of Governance are provided in Section B below.

Risk profile

The key risks within the Solvency Capital Requirement "SCR" are shown below:



Each separate category of risk is described in detail in Section C below including a description of the measures used to assess these risks and a description of the material risks which CUK is exposed to.

Valuation for solvency purposes

An analysis of the valuation of assets and non-technical liabilities in the Solvency II balance sheet, together with the recognition and valuation bases applied, is provided in Sections D.1 and D.3.

Section D.2 discloses the value of technical provisions as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes.

Capital management

Commencing January 1, 2016, the Company has been required to measure its assets and liabilities accordingly to the European Solvency II Directive and its associated rules, regulations and guidelines. This new regulatory framework for the European insurance industry adopts a dynamic risk-based approach based on economic principles that measure assets and liabilities to appropriately align insurers' risks with the capital they hold to safeguard policyholders.

The Company calculates its SCR using the Standard Formula.

	£'000
Total eligible own funds to meet the SCR	157,832
SCR	110,768
	%
Ratio of Eligible own funds to SCR	142.5%

The Company's objectives in managing its capital are to:

- maintain financial strength to support new business growth;
- satisfy the requirements of its policyholders and regulators; and
- match the profile of its assets and liabilities, taking account of the risks inherent in the business;

A. Business and Performance

A.1. Business

A1.1 Name and legal form of the undertaking

Catlin Insurance Company (UK) Ltd is incorporated in the United Kingdom and is a company limited by shares. The registered office is:

XL Catlin
20 Gracechurch Street
London
EC3V 0BG
United Kingdom

A.1.2 Supervisory authorities

UK Regulator

Prudential Regulatory Authority ('PRA')
Bank of England
Threadneedle Street
London EC2R 8AH
United Kingdom

Group Supervisor

Bermuda Monetary Authority ('BMA')
BMA House
43 Victoria Street
Hamilton, P.O. Box 2447
Bermuda

A.1.3 External auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT
United Kingdom

A.1.4 Company holders and position within legal structure of the group

The Company's immediate parent is Catlin Insurance Company (UK) Holdings Ltd, a company incorporated in England and Wales which holds 100% of the ownership interest and voting rights. The Company's ultimate parent undertaking is XL Group Ltd, a company incorporated in Bermuda.

CUK's position within the legal structure of the group can be seen from the simplified structure chart below:



A.1.5 Related undertakings

CUK is the parent entity of the following companies:

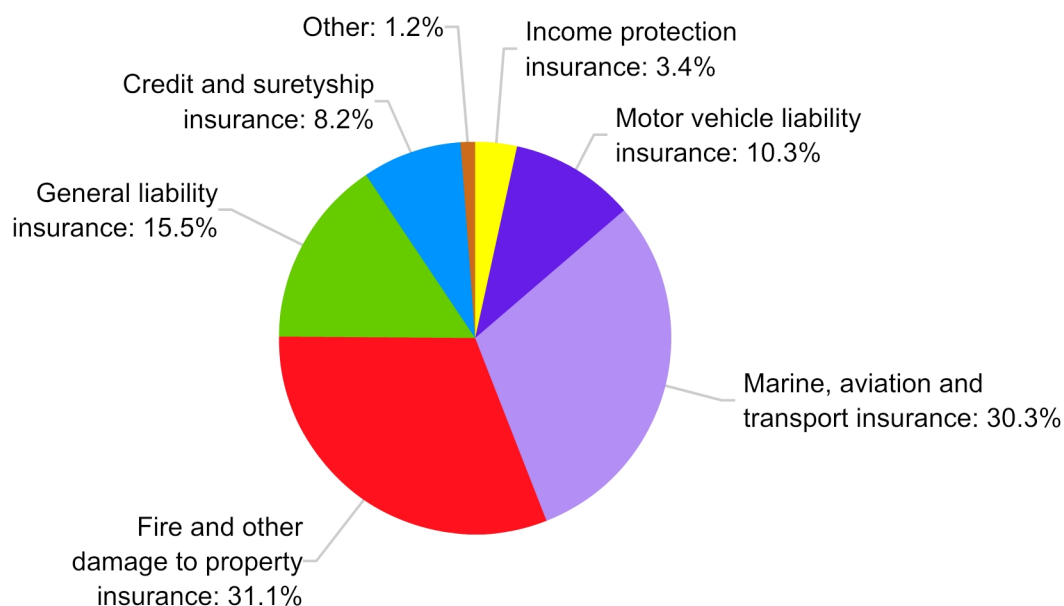
	Principal trading activity	Country of incorporation	Class of shares held	Percentage of nominal value and voting rights held
Catlin Insurance Company (UK) Ltd - Escritorio de Representacao no Brazil Ltda	Representative office	Brazil	Ordinary	99.99%
Catlin Treasury Luxembourg S.A.R.L.	Insurance services	Luxembourg	Ordinary	100.00%

A.1.6 Material lines of business and geographical areas

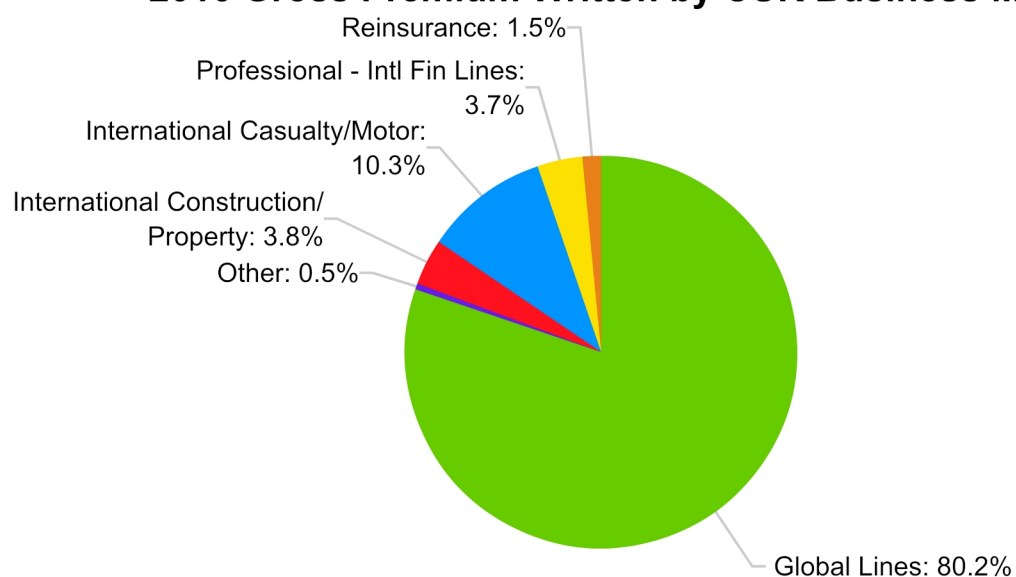
The Company is domiciled in the United Kingdom and writes business in the United Kingdom and elsewhere.

Gross Written Premium by line of business and geography are presented below:

2016 Gross Premium Written by Solvency II Business Mix



2016 Gross Premium Written by CUK Business Mix



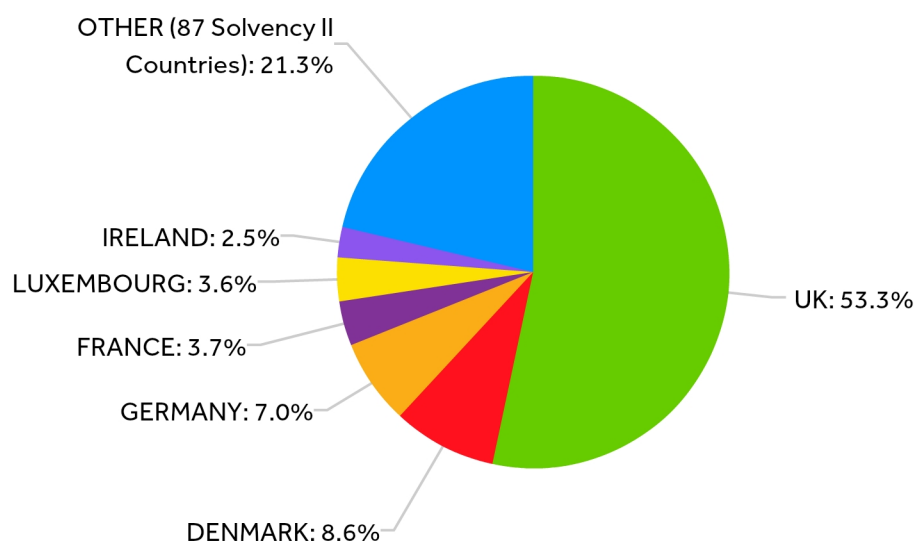
XL Catlin manages its business units on a geographical and product basis with consideration towards legal entities. The term "International" is used to refer to non-North American geographies. These groupings are mapped into Solvency II lines of business for regulatory reporting purposes.

Global Lines constitutes 80% of the Company's portfolio and includes London Market Wholesale Property and Casualty, Aerospace, Energy and Crisis Management.

International Casualty / Motor constitutes 10% of the Company's portfolio. This is predominantly a UK Motor portfolio.

International Construction / Property constitutes 4% of the Company's portfolio.

2016 Gross Premium Written by Main Solvency II Geographic Areas



A.1.7 Significant events in the last reporting year

Following the acquisition of Catlin Group Limited by the XL Group on May 1, 2015, XL has continued its consolidation of businesses to the most appropriate carrier within the Group.

The Board continues to review the potential impact of Brexit including the full loss of passporting rights in Europe and the impact this may have on portfolio mix and GPW volume as well as business written on other carriers within the Group.

A.2. Underwriting Performance

A.2.1 Underwriting performance: Current year

Since the Company prepares its financial statements in accordance with UK GAAP, the underwriting performance information given in this section is on a UK GAAP basis.

The table below provides the 2016 key performance indicators on a Solvency II basis:

	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Premiums Written	40,072	118,244	120,977	60,307	31,924	18,087	389,611
Net Premiums Earned	31,284	(18,845)	65,516	26,994	22,955	18,895	146,799
Net Loss Ratio	97.0%	93.7 %	45.5%	(92.6)%	52.9%	36.6%	24.9%
Combined Ratio	130.4%	(46.4)%	121.6%	(17.6)%	111.8%	71.0%	111.4%

The business is not managed on a Solvency II basis, however the only significant difference from UK GAAP is in the net loss ratio which is driven by the Solvency II adjustments to arrive at the economic balance sheet position. There is also a minor reclassification difference between the Solvency II and UK GAAP basis of presenting net earned premiums.

The table below provides the 2016 key performance indicators on a UK GAAP basis:

	2016 £'000	2015 £'000
Gross written premiums	389,611	551,931
Net earned premium	148,066	173,763
Loss ratio	28.2%	38.9%
Combined ratio	110.5%	116.8%

The gross written premiums of Catlin Insurance Company (UK) Ltd ("CUK" or the "Company") has decreased from £552m to £390m (circa 29%) whilst its overall profitability has improved against the prior year's results, largely due to favourable loss experiences in 2016.

The reduction in gross written premium is due to the continued strategic alignment of the portfolios written on the international carriers of the Group, and the result of business decisions made by management to exit a number of loss making portfolios and binders during the year. Non-UK domiciled business and reinsurance business were re-aligned to other entities of the Group, a reflection on the challenging market conditions and the continuous monitoring of strategy which the Company undertakes.

The Company benefited from benign loss experience in the year with any catastrophes offset by prior year releases in the year. Despite expense savings and acquisition costs in line with expectations, the overall underwriting result is not surprising given the reduction in scale of the business written on the entity, with the Company reporting a loss before taxation of £1 million (2015: £28 million).

A.3. Investment Performance

The Company has recorded an investment return of 3.1% during the year against 0.4% in 2015, with the increased investment return primarily due to outperformance of the fixed income portfolio driven by its relative long duration positioning as GBP rates dropped significantly over the year. Structured credit, namely Agency Mortgage backed securities (MBS) and covered bonds were drivers of increased investment income.

The Company holds investment grade fixed income portfolios denominated in a variety of currencies, which broadly correspond to the respective liabilities of the Company. Assets representing capital of the Company, which are not matched to specific liabilities, are generally held in GBP. The Company's exposure to high yield securities is minimal at less than 1% of the total portfolio.

The Company implemented no significant changes to the existing asset allocation or investment strategy and continued to maintain diversified, actively managed portfolios with exposure to a broad range of sectors. The Company benefited from being primarily invested in credit assets.

A.3.1 Investment performance during the reporting period

Net income and expenses arising from investments by asset class during the reporting period were as follows:

Solvency II Asset Class	Net investment return 2016 £'000
Bonds	
Government Bonds	6,588
Corporate Bonds	3,403
Collateralised securities	222
Collective Investments Undertakings	178
Investment management expenses	(384)
	<u>10,007</u>

Below are components of the net investment return:

	2016 £000
Income from financial investments	4,025
Gains on realisation of investments	7,927
Losses on realisation of investments	(364)
Investment management expenses	(384)
Net unrealised losses on investments	(1,197)
Total investment return	<u>10,007</u>

A.3.2 Gains and losses recognized directly in equity

All investment gains and losses are recognized in the income statement.

A.3.3 Investments in securitisation

The Company invested in other asset backed securities with a market value of £6.9m at 31 December, 2016 comprising consumer asset backed securities.

A.4. Performance of other activities

Other income (expenses) are set out below:

	2016 £000
Gain on foreign exchange	4,760
Other income	1
	<u>4,761</u>

The Company has no material finance or operating leases.

A.5. Any other information

There is no other material information regarding the business and performance of the undertaking.

B. System of Governance

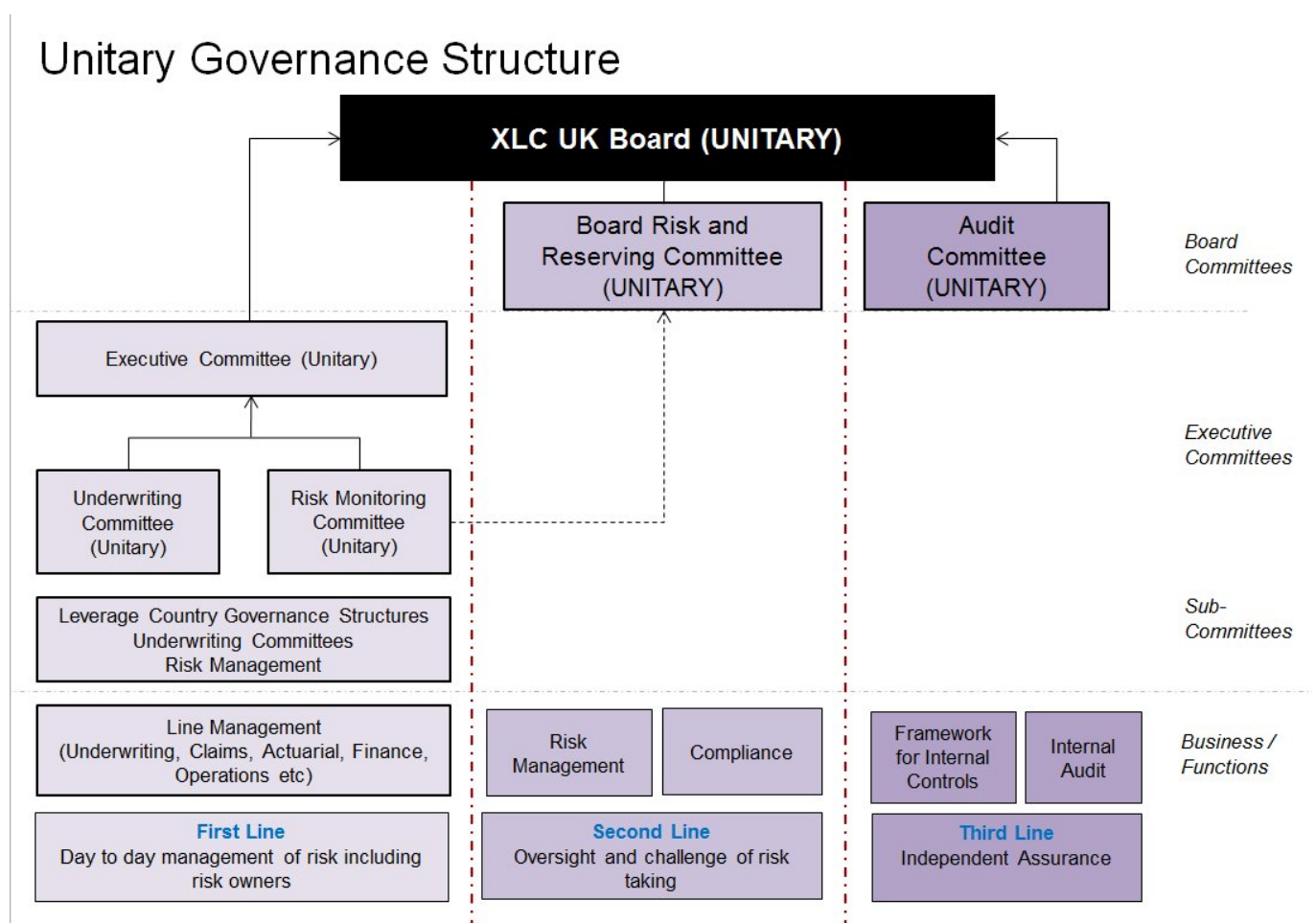
B.1. General information on the system of governance

This section provides details of the Company's management structure along with roles and responsibilities and committees.

Unitary Governance structure

The Group has adopted a Unitary Governance framework for its UK entities (the Company, XL Insurance Company SE and Catlin Underwriting Agencies Ltd). This framework has common Board membership (the "Unitary Board") and associated committees.

The UK legal entities are separately authorised and regulated and the issues specific to each regulated entity are discussed and noted separately at the Unitary Board ("Board") and Board and Management Committees.



The Unitary Board seeks to ensure that the operations of the UK entities are conducted within a framework of prudent and effective controls that enables effective risk management, and conformity with the applicable legal and regulatory requirements. The Unitary Board sets the risk appetites for the UK entities. Management are responsible for monitoring risks against risk appetite and for escalating any risks that breach risk appetite to the Unitary Board.

The Unitary Board recognises the need for strong organisational governance to ensure there is effective oversight of the management of the business, that senior management exercise their responsibilities appropriately, and that robust internal systems and controls are in place.

The Unitary Board comprises a balance of members of the executive management team and non-executive Directors. It meets at least four times a year and its key responsibilities include approval of the strategy and risk appetite of the UK entities.

In addition, the Board has two Board committees, the Board Risk & Reserving Committee ("BRRC"), and the Audit Committee ("AC"). Supplementing the governance structure are three formal management committees: the Executive Committee

("ExCo"), the Risk Monitoring Committee ("RMC") and the Underwriting Committee ("UC"). Both the RMC and UC committees report to the ExCo.

The Company undertakes a thorough strategic planning process considered within the overall strategy of the Group and overseen by the Unitary Board. The ExCo is responsible for implementing the Company's strategy, and for the on-going oversight and management of the risks associated with the strategy.

The ExCo is responsible for ensuring there is a governance framework in place to support the delivery of the Company's strategic plan by the business. The Company undertakes regular Board effectiveness and Governance reviews to ensure the governance framework is effective and appropriate.

Internal controls

The Company operates a 'Three Lines of Defence' approach to ensure effective and robust day to day governance is in place. The Operational, or the 'first line of defence', starts with the employees, who are tasked with identifying and managing risk on a day to day basis as part of their roles. They are supported by the 'second line of defence', which is made up of oversight functions - specifically Risk Management and Compliance. These functions have responsibility for overseeing and challenging day to day management, control and reporting of risks. The Risk oversight functions are independent of management and individuals with responsibility for taking on risk exposures. The Internal Audit Function provides the 'third line of defence' which provides independent assessment of the effectiveness of the Company's system of internal control and report to the Audit Committee.

In addition, the Company operates a Framework for Internal Control ("FIC") process which provides assurance on the controls around financial reporting.

Audit Committee ("AC")

The Audit Committee is responsible for oversight and review of external and internal audit processes and consists of non-executive directors. In the case of the external audit process, this involves reviewing their terms of engagement, their proposed audit scope and approach and their performance in the preparation of the statutory financial statements and any external reporting requirements. In the case of the internal audit function, the role involves agreeing and monitoring the nature and scope of work to be carried out. This is aimed at providing assurance to management that the internal control systems are appropriate for the prudent management of the business and are operating as planned.

Board Risk & Reserving Committee ("BRRC")

The Board Risk and Reserving Committee, consists of non-executives and is attended by members of senior management. Key responsibilities of this committee include advising the Board in relation to material risk issues relating to, or arising from, the Company's strategy, risk appetite and tolerances; providing review and appropriate challenge to the risk strategy, risk appetite, stress testing, and oversight arrangements (including oversight of the executive management of risk); overseeing and challenging the Risk Management and Compliance functions; and overseeing and challenging the reserving processes and practice.

Executive Committee ("ExCo")

The ExCo is responsible for the development and implementation of the strategy for the Company. This includes assessment of the performance of the business to ensure risks associated with the strategy and its implementation are understood and managed - with action taken to mitigate those risks and challenges in line with the risk appetite of the Company. The Board has approved the Risk Management Framework ("RMF") and has charged day to day monitoring of it to the RMC, which reports to the ExCo.

Underwriting Committee ("UC")

The Underwriting Committee monitors and oversees the underwriting Strategy, policy and appetite for the UK regulated insurance entities. The UC also advises, makes recommendations and escalates (where necessary) issues to the ExCo.

Risk Monitoring Committee ("RMC")

The RMC oversees the risk management framework of the UK regulated insurance entities, including those risks emanating from regions outside of the UK.

Key Functions

The Company has in place risk management, compliance, internal audit and actuarial functions who are allowed to operate free from influences which may compromise their ability to undertake their duties in an objective, fair and independent manner and in the case of the internal audit function in a fully independent manner.

Each of these functions:

- operates under the ultimate responsibility of, and reports to the Board or Board Committee as appropriate;
- cooperates with the other functions, where appropriate, in carrying out their roles;
- is able to communicate at their own initiative with any staff member and have the necessary authority, resources and expertise and that they have unrestricted access to all relevant information necessary to carry out their responsibilities; and
- promptly report any major problem in their area of responsibility to the Board.

There should be as much independence between functions as possible and the individuals carrying out the internal audit function do not assume any responsibility for any other function.

The Company has in place written policies in relation to risk management, internal audit, compliance and the actuarial function and further information on these functions is contained within sections B3 (risk management), B4 (Compliance function), B5 (internal audit) and B6 (Actuarial Function).

Additionally, the Board has designated underwriting, finance and claims as functions which are of specific importance to the sound and prudent management of the Company. These functions all report directly to the Board. The risk management, compliance and actuarial functions report into the Board Risk and Reserving Committee whilst Internal Audit reports to the Audit Committee.

The underwriting, finance, claims, risk management and compliance functions are members of the ExCo and the actuarial function are attendees of the ExCo.

Remuneration policy and practices

The Company ensures that its remuneration policies and practices are in line with its business strategy, risk profile, objectives, risk management practices and long-term interests and ensures measures are in place to avoid conflicts of interest. Its remuneration policy promotes sound and effective risk management and does not encourage risk-taking that exceeds the Company's level of tolerated risk. As described in Section B2.3, the Company operates a Code of Conduct that all employees must adhere to.

The balance of fixed and variable compensation is consistent with competitive market practice in the insurance industry, while permitting us to operate fully flexible variable compensation policies. Variable pay for colleagues in independent control functions is not aligned with the performance of the businesses they oversee, and is designed to avoid conflicts of interest while appropriately balancing risk and reward.

An overview of the arrangements that are in place are as follows:

- **Fixed Remuneration** - We consider multiple factors - including an individual's role and responsibilities, performance, experience, expertise and peer market compensation information in setting target levels of base compensation.
- **Variable Remuneration** - Individual bonus awards are determined based on performance reviews of individual and overall performance and are fully discretionary, allowing for full flexibility to award no variable remuneration if warranted. Staff have a bonus target amount expressed as a percentage of base pay.
- **Long Term Incentive Plan** Long-term incentive awards are reserved for those who perform at a high level, recognize the recipient's anticipated future contributions, and take relative and absolute performance, individual potential and unique skills into consideration. Grants of long-term incentives are based on sustained individual performance and criticality of skills. For our most senior leaders, shares awarded under our long term incentive program are subject to holding and minimum ownership requirements. Individual awards under the Group's long-term incentive plans are also capped and subject to claw-back provisions.

Supplementary Pension Schemes

The Company's remuneration program does not include any supplementary pension or early retirement schemes for members of the Board or its other Key Function holders.

Material related party transactions

We actively monitor all related party transactions. The material transactions with shareholders, persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body include the intra-group reinsurance arrangements.

In May 2016, the Company received an additional capital contribution of £30m from its immediate parent company to ensure that a sufficient buffer is maintained over its SCR capital requirement in terms of the Board's risk appetite, as part of the transition to Solvency II Reporting, demonstrating the Group's continued support of the Company.

B.2. Fit and proper requirements

B.2.1 Qualifications of the Board and Key Function holders

The Board regularly considers the qualifications necessary for its members. In this regard, the Board believes that its members should be persons with superior business judgement and integrity, who have knowledge or experience in the areas of insurance, reinsurance, financial services or other aspects of our business, operations or activities, and who have distinguished themselves in their chosen fields of endeavour. In addition, the Board believes its members should have the talent and vision to provide oversight and direction in the areas of strategy, operating performance, corporate governance and risk management in order to protect the interests of the shareholder and the policyholder whilst maintaining the highest standards of ethical business conduct. The Company supports these objectives through an ongoing program of compliance training. The Board believes that each of its Directors contributes a strong background and set of skills to enable the Board to meet its responsibilities and that Key Function holders possess the skills, knowledge and expertise to carry out their regulatory obligations.

The Board considers diversity among other factors in assessing the skills and characteristics of Director candidates and the Board as a whole. This consideration includes a broad evaluation of diversity of viewpoints, skills, experience and other demographics represented on the Board as a whole. This discussion and evaluation of diversity occurs at the Board and committee levels.

B.2.2 Recruitment process

All permanent recruitment within the Company is undertaken in line with the standard XL recruitment process.

Human Resources (HR) undertake, on an outsourced basis, a series of checks in relation to a candidate after an offer has been communicated to them. The offer of employment is made subject to the satisfactory completion of detailed relevant background checks. These checks are commensurate to the seniority of the position and if the checks are not completed to our satisfaction or the candidate provides false or misleading information, XL reserves the right to withdraw the contract. For Executive Management positions these checks include:

- Electoral roll and address search
- Credit review
- Employment history and references
- Academic qualifications
- Identity check
- Prior directorships search
- Compliance database check
- Professional membership and qualifications
- For senior appointments in the UK which fall under the Senior Insurance Managers Regime, HR liaise with Compliance in relation to necessary regulatory approvals and obtain the information necessary for the approval, including a regulatory reference.

B.2.3 Code of conduct

The Company operates a Code of Conduct ('the Code') that all employees must adhere to. The Code explains the standards expected of all employees and underpins our values and behaviours. The Code applies to all employees, officers and directors, including our independent directors on the Company's Board. Anyone acting on the Company's behalf (e.g. agents, consultants, contractors etc.) is expected to uphold these standards when conducting XL business.

B.2.4 Fit & Proper Reassessment

All employees are subject to a performance appraisal process, which evaluates, on an ongoing basis, employee's continued fitness for their roles and responsibilities and identifies any necessary training and development needs.

B.3. Risk management system including the own risk and solvency assessment

B.3.1 Risk management framework (RMF)

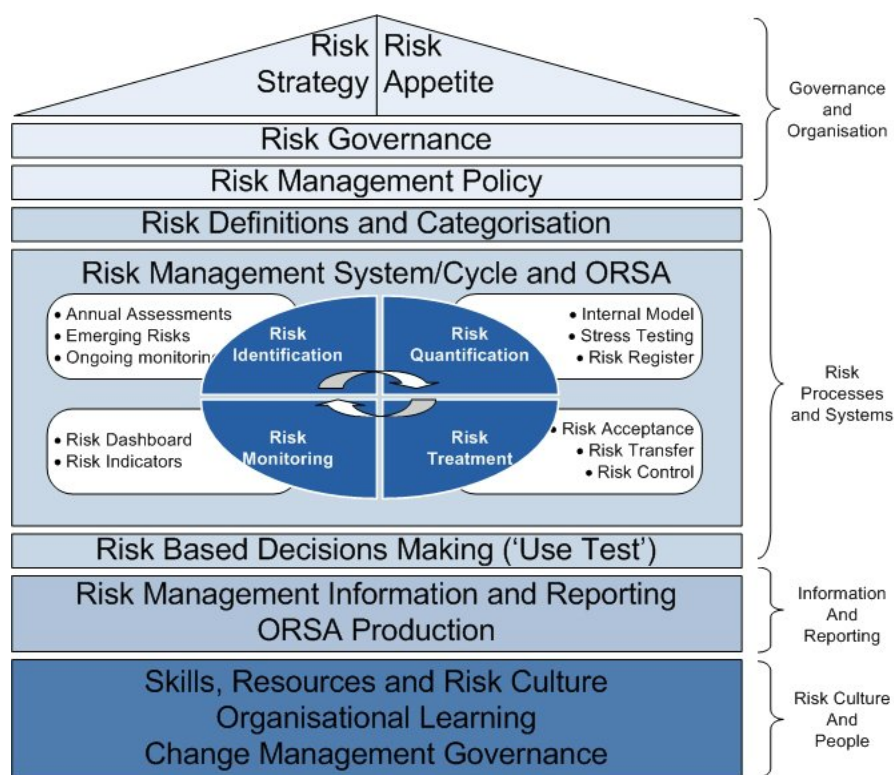
The Company faces strategic, financial and operational risks related to, among others: underwriting activities, financial reporting, changing macroeconomic conditions, investment, reserving, changes in laws or regulations, information systems, business interruption and fraud. An enterprise view of risk is required to identify and manage the consequences of these common risks and risk drivers on our profitability, capital strength and liquidity which is managed by the Enterprise Risk Management (ERM) function who implement the RMF.

The RMF is reviewed by the RMC and recommended for approval by the Board, at least annually. The RMF would be reviewed more regularly if the Company was subject to a major change in regulatory requirements, strategy or organisational structure. The aim of the RMF is to:

- Support business objectives and strategy;
- Provide management information to facilitate the identification and understanding of material risks including related mitigants;
- Contribute to the Company's overall internal control framework by helping to manage the inherent complexity within the business;
- Improve the Group's ERM rating and credit rating which is applicable to the Company;
- Support regulatory risk management requirements.

The RMC meets regularly and oversees the implementation and embedding of the RMF and monitoring of Company performance against risk appetite. The RMC has responsibility for capital monitoring and makes recommendations and escalates any issues to the UK Executive and the Board, related to risk and capital management. The RMC ensures that material and emerging risks are identified and reported and that appropriate arrangements are in place to manage and mitigate those risks effectively. The Company's stress testing framework and outputs are reviewed by the RMC and support understanding of the risk profile.

The RMF comprises the following:



Risk Management Strategy

The risk management strategy is overseen by the Board and supports the delivery of the overall business strategy. To support the Board, the Company has an appointed CRO and the RMC to oversee more detailed risk management activity and the Board approved risk appetites.

The risk management strategy is to ensure that risk is considered alongside reward in setting the Company's strategic and business objectives. The strategy is articulated in the RMF and risk policies and is achieved by incorporating risk processes, information and decisions in the day to day running of the business.

The Company's strategy involves taking on risk in order to generate return. Risks are selected and controlled or traded off through the risk strategy that focuses on:

- Retaining risk within an approved risk appetite that is consistent with our strategic objectives, with appropriate levels of capital with excess held by the Company;
- A diversified portfolio of underwriting and financial markets risks;
- Managing excessive aggregation risk via a limit framework;
- Exercising consistency and transparency of risk management and control across the Company;
- Risk mitigation on key underwriting and financial market risks to protect capital from the impact of extreme events; and
- Risk reporting to the RMC, the Board and other stakeholders (e.g. regulators).

Risk Appetite Framework (RAF)

The Company's Risk Appetite Framework (RAF) is a key dimension to the risk management strategy and is used to provide governance for setting new monitoring requirements as well as reviewing and updating existing risk appetite statements, tolerances and limits so that these are aligned with business and risk management strategies. The Company's RAF focuses on regulatory capital at risk, tolerances to risks from material individual events (e.g. natural catastrophes, realistic disaster

scenarios (RDS) that cross multiple lines of business etc.), liquidity standards, tolerance to specific investment related risks and operational loss. The Board approved risk appetites and risk tolerances were reviewed during the 2017 business planning process and it was determined that all existing statements and tolerances were appropriate to allow the Company to execute the 2017 business plan.

The risk strategy and risk appetite frameworks are supported by the following:

Risk Governance sets out a clear and cost effective organisational structure for risk management, including clear roles and responsibilities.

Risk Policies document the Company's approach to the management of each category of risk to which the Company is exposed.

Risk definition and categorisation provides a common taxonomy and language for risk to allow for categorisation of all risks in a way which facilitates links between the business, risk management processes and Internal Capital Model (ICM).

Risk cycle and processes are the approach taken to top down, bottom up and process led risk identification, quantification and management and control.

Risk-based decision making ("use test"): The results of the ORSA and the insights gained in the ORSA process are taken into account for a range of business decisions.

Risk Management Information and Reporting, including ORSA Production ensuring timely and accurate information is reviewed in line with the governance structure.

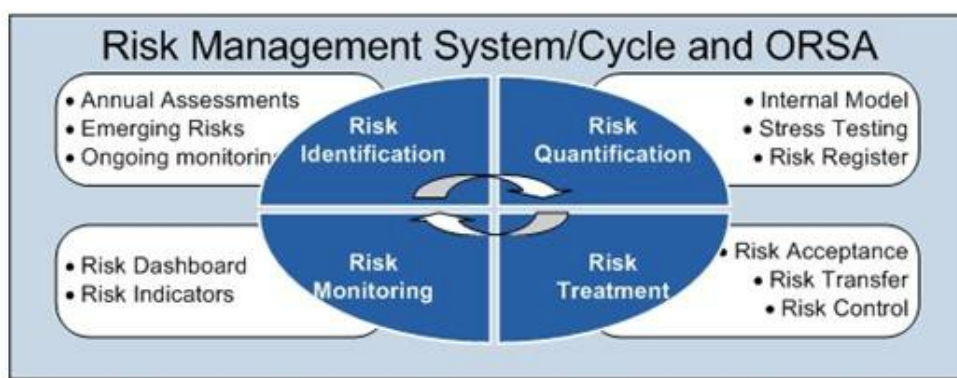
Skills, Resources and Risk Culture. Organisational Learning. Change Management Governance - All enable a mature risk culture throughout the Company.

Risk Reporting

A risk dashboard is presented on a regular basis to the RMC. The dashboard measures the status against risk appetite statements and the associated monitoring triggers and limits using the latest output from the business, the ICM, and Standard Formula. The dashboard includes information related to the monitoring against all of the Company's material risk categories. Highlights from the dashboard including performance against appetite and limits are reported to the Board through the CRO Board report.

B3.2 Own risk and solvency assessment ("ORSA")

The Company's ORSA process includes all of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks the Company faces or may face and to determine the own funds necessary to ensure that the Company's overall solvency needs are met at all times. See the figure below which outlines the continuous ORSA process:



The Regulatory Capital Requirement is derived using the Solvency II Standard Formula profile. The underwriting units' ICM output together with Standard Formula results are presented to the RMC and the Board to inform and drive risk and capital based decision making.

The processes for the ORSA and production of the ORSA Report are tailored to fit into the Company's organisational structures in a proportionate manner with techniques to assess the overall solvency needs and taking into consideration the nature, scale and complexity of the risks inherent to the business.

The risk management cycle is set for key aspects of the risk management process that are deemed to be part of the ORSA process and that will support the production of the Company's ORSA Report. The ORSA process includes procedures that enable the Company to monitor its compliance with its risk appetites, risk limits, economic capital and also regulatory capital requirements whilst taking into account potential future changes in the risk profile and considering stressed situations.

ORSA governance

All risk management and capital assessment processes form part of the ORSA. The ORSA is not a single task undertaken at one point in time, but rather it encompasses the entirety of the risk and capital management activity undertaken during the year. Key tasks within that activity are reviewed and approved by the Board as part of the process (e.g. capital to support the business plan and risk appetites) and this is then included in the Board approved ORSA report. The production of the full ORSA report is performed annually but regular management information that is produced by our ORSA processes is provided continuously during the year.

The frequency of each ORSA process mentioned above has been set to allow for appropriate identification, assessment, measurement, control and monitoring of risks to the business.

B.4. Internal control system

The 'Three Lines of Defence' approach ensures effective and robust day to day governance is in place as described in Section B1 above.

The Framework for Internal Control ("FIC") provides assurance on the controls around financial reporting. This provides reasonable assurance that financial reporting is reliable and compliant with applicable laws and regulations and provides comfort over the completeness, accuracy and appropriateness of data.

The Internal Audit Function provides the 'third line of defence' where they provide independent assessment of the effectiveness of CUK's system of internal control and report to the Audit Committee.

B.4.1 Framework for internal controls

The Framework for Internal Controls ('FIC') function is committed to promoting a robust internal financial control framework for the Audit Committee, executive management and external stakeholders to rely on for financial and regulatory reporting purposes.

FIC's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls over financial reporting.
- Identifying areas in which the inherent risk of financial misstatement is high so that management can address these risks before they manifest themselves in an actual misstatement.
- Providing the Audit Committee and executive management with the information they need to make the assertions and certifications required.
- Adding value by helping management promote a robust control environment.

The FIC function performs an annual assessment of the control framework which includes: risk identification, risk assessment and planning; documenting business processes; evaluation and validation of key risks and controls; and issue management.

B.4.2 Compliance function

The Compliance function, headed by the Head of Compliance and Regulatory Affairs for Europe, Middle East and Latin America, is responsible for promoting good governance and ensuring that the highest standards of integrity are embedded in accordance with best practice and key stakeholder expectations, including those of regulators.

It also works closely with all of the business divisions including underwriting, claims, investment, finance, internal audit, human resources and risk management. Compliance is responsible for assessing compliance risk, embedding policies and procedures, providing advice and training, undertaking compliance monitoring and managing regulatory relationships.

The Compliance Framework is reviewed on an ongoing basis by the Compliance Function to ascertain whether any updates are required and whether the Framework has been adhered to during the year. Any proposed changes are then presented to the Board or relevant Board Committee for approval. There have been no significant changes during the year.

B.5. Internal audit function

The objectives of the Internal Audit function are to provide assurance that the Company's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Internal accounting and operating controls are adequate and operating effectively.
- Financial, managerial, operating and technology systems information is appropriate, accurate, reliable, and timely.
- Compliance with Company policies, standards, procedures, code of conduct and applicable country laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the Company's control processes.
- Significant legislative or regulatory issues impacting the Company are recognized and addressed properly.
- Achievement of the Company's strategic objectives.

B.5.1 Internal audit process

The internal audit process is set out below:

1. Engagement Planning: The objectives of this phase are to refine the scope; identify which business processes, systems and controls will be evaluated; determine which techniques will be used; manage expectations; and coordinate with FIC, external auditors, and IT Audit.
2. Risk & Control Evaluation: The objective of this phase to understand the business process, the key controls and the primary risks associated with the business process.
3. Fieldwork & Testing: The auditor will determine whether the controls supporting the audit objectives are adequately designed and effective through the gathering of audit evidence.
4. Reporting: This phase provides a well-supported opinion on the controls in place, provide value added recommendations and identify opportunities to improve the internal control environment.
5. Follow-up & Closure: The objective of this phase is to monitor the outstanding audit recommendations and agreed-upon audit issue resolutions to ensure their timely implementation.

B.5.2 Internal audit independence

To provide for the independence of the Internal Audit Department, the Head of Internal Audit for the Company reports to the Chief Audit Executive and to the Audit Committee.

The Internal Audit Department complies with the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors (IIA). The Standards apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming to the Standards related to individual objectivity, proficiency and due professional care.

The IIA has also established a Code of Ethics which covers basic principles of the internal auditing practice. Internal Audit has a responsibility to conduct itself so that its good faith and integrity are not open to question.

B.6. Actuarial function

B6.1 Roles and Structure

The Company's Responsible Actuary and the Actuarial Function which advises the Board is established internally, as opposed to being outsourced to third-party service providers, and is embedded in the UK corporate governance framework.

The Group is committed to maintaining an effective Actuarial Function to ensure that the business is conducted in a prudent manner within the Company.

The Actuarial Function is split into two core functions: Actuarial Reserving/ Financial Reporting (AFR) which is responsible for loss reserving and reporting and Actuarial Risk Analytics which is responsible for pricing and underwriting.

The responsibilities of the Actuarial Function are shared by a number of key individuals who are supported by their respective teams. These teams are of sufficient size, and consist of suitably qualified and experienced people that meet the Company's minimum fitness and proper employment criteria. The teams are structured with varying lines of defence to facilitate effective peer review and independent challenge.

B6.2 Reports of the Actuarial Function to the Board and Regulators

The Board delegates responsibilities to the Actuarial Function. The Actuarial Function in turn provides expert actuarial advice to the Board through formal reports and presentations to the Board.

The Actuarial Function Report (AFR) documents all material tasks that have been undertaken by the Actuarial Function and include the disclosure of key results and the evaluation of any deficiencies and recommendations for addressing any such deficiencies.

In addition, the Board is also presented with a quarterly report known internally as the Unitary Board Report of the Company covering quarterly reserves movements.

B6.3 Actuarial Function Responsibilities

The Actuarial Function is involved in many of the key processes across the Company's business and provides technical expertise and assurance over the methods used. The key processes are:

- Estimating the gross and net technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions and explaining any material effect of change of data, methodologies or assumptions between valuation dates on the amount of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions and where relevant providing recommendations on internal procedures to improve data quality;
- Informing the Board on the reliability and adequacy of the calculation of technical provisions; overseeing the calculation of technical provisions;
- Assisting in the execution of the risk management framework and ensuring effective governance framework around the review and validation of loss reserves (including technical provisions), policyholder obligations and potential exposures, which includes:
 - i. Regular contact by reserving actuaries with underwriting and claims teams;
 - ii. Review of technical provision results by an escalating series of reviews from reserving actuaries to the chief actuary;
 - iii. Review of technical provisions to provide sufficient independence from management;
 - iv. Independent external analysis of the reserving requirements; and
- Setting and maintaining actuarial standards to be applied across the business, ensuring that the actuarial methods and techniques are compliant with all the appropriate Group and local regulatory requirements;
- Providing, at least annually, opinion on underwriting policy and overall reinsurance arrangements;
- Assisting with the underwriting process, including those surrounding pricing and design of underwriting contracts and risk transfer mechanisms;
- Helping to maintain a competent, effective and efficient approach to pricing;
- Comparing best estimates against experience, i.e. performing analysis comparing the estimated policyholder obligations against actual policyholder obligations paid;

Additional responsibilities relating to capital modelling:

- The Actuarial Function has an additional responsibility in contributing to the effective implementation of the risk management system, in particular with respect to offering insights related to the risk modelling underlying the calculation of the capital requirements within the internal model;

- The Actuarial Function is responsible for specifying which risks within their domain of expertise are covered by the internal model. The Actuarial Function also offers insights into the nature of dependencies between these risks.

B.7. Outsourcing

Outsourcing involves the contracting out of a business process to a service provider. Outsourcing may affect XL Group's exposure to operational risk through reduced control over people, processes and systems. XL Group has established an Outsourcing Policy, to which there is a UK addendum, to manage the risks associated with the outsourcing of certain activities to a third party service provider. The Outsourcing policy also covers the provision of services, functions and activities by another company within the XL Group described as Insourcing.

The provision of employees and services to the Company is primarily through XL Group service companies. A formal Service Level Agreement governs the provision of employees and services between entities in the XL Group. The main Service Company is XL Catlin Services Europe SE which employs most of the individuals who provide services to CUK.

Outside of the intra-group service provision framework outlined above, additional agreements may be in place for further specific functions provided by an XL Group company. For example, XL Group Investments Limited ('XLGIL') provides investment management services to the Company. These can be summarised as follows:

- Advising on investment strategy;
- Appointing investment managers;
- Providing investment reporting;
- Setting benchmarks

B.8. Any other information

There is no other material information regarding the system of governance.

C. Risk Profile

Risk governance requires that the Company can comprehensively articulate the profile/universe of its risks over which its governance processes operates. To this end, the Company has an agreed approach to the definition and categorisation of risks.

The Risk Universe outlines the major risk categories that the Company has determined it is exposed to:

Risk universe



As outlined in section B3.2 the Standard Formula is used to calculate the regulatory capital requirement and the Internal Capital Model ("ICM") is used as a risk management tool until the Company's ICM is approved. A full breakdown of the key risk drivers of the Standard Formula SCR can be found in Section E2.2 below.

The key risks and capital drivers identified from the ICM and from our risk identification processes are as follows:

- Underwriting risk is a significant risk that CUK is exposed to. This underwriting risk is heavily driven by European Windstorm, economic threat and terrorism exposure.
- CUK benefits significantly from certain intra-group reinsurance contracts. Any change to this arrangement would significantly impact CUK risk profile and associated capital requirements.

C.1. Underwriting risk (Insurance Risk)

Risk definition

Underwriting risk (Insurance risk) is defined using the following categories:

Component	Definition
Underwriting risk	Underwriting risk derives from insurance and reinsurance policies written for the current period and also from unearned exposure from prior periods. The risk is that the corresponding premium will be insufficient to cover future claims and other costs or more generally that the underwriting profitability from this tranche of business will be less than expected; Underwriting risk includes man-made catastrophe events and natural catastrophe events.
Reserve risk	Reserve risk relates to policy liabilities (corresponding to business written in prior periods where the exposure has already been earned at the opening balance sheet date) being insufficient to cover the cost of claims and associated expenses until the time horizon for the solvency assessment. Additional risks are that the timing or amount of actual claims pay outs do not align with the timing or amounts of the estimated claims pay outs and that there are changes in the valuation of the market value margin (risk margin) during the time horizon for solvency assessment
Lapse risk	Lapse risk is the risk of loss, or of adverse change in the value of insurance future profits, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders. This includes policies where an assumption has been made about renewal that may not be warranted based on past experience either in terms of actual treaties or underlying policies issued and renewable.

Risk identification

Underwriting and loss experience is reviewed regularly for, among other things, loss trends, emerging exposures, changes in the regulatory or legal environment as well as the efficacy of policy terms and conditions. Underwriting risk is also identified through:

- **Business planning** - Analysis is undertaken of the underwriting portfolio, exposures, loss experience and changes to the external environment (including market cycle, economic environment) to identify any changes to the insurance risk profile for the forthcoming period of the budget / business plan;
- **Underwriting processes (including guidelines and escalation authorities)** - Each individual contract written is

assessed, by the underwriting process (which is subject to granular underwriting guidelines and escalation authorities) for the nature and level of insurance risk that it brings to the business including consideration of the exposure by nature of the limit, the risks insured, the location of the risks and other underwriting criteria.;

- **Reserving and claims process** - On an ongoing basis, claims trends are monitored and analysed for any indications of change in the nature of the underlying insurance risk;
- **ERM risk assessment process** - Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks; and
- **RDS and other scenarios.**

Risk mitigation

Reinsurance purchase

The Company participates in an XL Group managed outwards third party reinsurance risk transfer programme to support the Company's underwriting strategy within risk appetite and to ensure efficient use of capital. Business ceded varies by location and line of business based on a number of factors, including market conditions. The goals of the outwards reinsurance risk transfer program include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. The overall goal of the program is to reduce volatility and enhance overall capital efficiency.

The adequacy of the Group reinsurance strategy as a protection mechanism for the Company is considered and is approved by the Company Board as part of the annual business planning process, and the impact of that strategy is monitored quarterly by both the RMC and Board.

CUK also has intra-group reinsurance arrangements including a Whole Account Quota Share to XL Bermuda (XLB) for 2017.

Actuarial Function

To mitigate the risk of large changes of reserves from one period to the next which are not due to external but to internal factors such as human errors, the reserving process performed by the Actuarial Function is highly structured and strictly defined and controlled and includes several layers of oversight.

Rating adequacy

Underwriters are supported by dedicated teams of claims personnel and pricing actuaries. Premiums are set and adjusted based, in large part, on the industry group in which the insured is placed and the perceived risk of the insured relative to the other risks in that group. The rating methodology used for individual insureds seeks to set premiums in accordance with claims potential. Underwriting guidelines and policy forms differ by product offering as well as by legal jurisdiction.

Underwriting authorities and guidelines

All underwriters are assigned individual underwriting authorities with the objective of preserving the capital base and controlling earnings volatility. Authorities within the business units are delegated through the underwriting management structure and the annual review of underwriting limits is part of the business planning process. Authorities are also set in line with agreed risk appetites and risk tolerances for material individual events, the investment portfolio, Realistic Disaster Scenarios ("RDS") that cross multiple lines of business and from risks related to some or all of the above that may occur concurrently.

The Company underwrites and prices most risks individually following a review of the exposure and in accordance with its underwriting guidelines. The Company seeks to serve our clients while controlling our exposure both on a portfolio basis and on individual insurance contracts through terms and conditions, policy limits and sub-limits, attachment points and reinsurance arrangements on certain types of risks.

New product process

The Innovation Product Acceleration Strategy ("iPAS"), a Group procedure, is designed to track and manage product innovation and obtain approval of new products by the appropriate committees and leadership. All new products are also approved by the Company at UW Committee and ExCo.

Risk monitoring

On a quarterly basis catastrophe exposures are measured and monitored and reported to the RMC and Board. RDS are also produced twice a year and monitored and reported to RMC and Board.

In relation to event risk management, net underwriting risk tolerances are established for the individual largest events in the risk profile. These are captured through risk reporting to the RMC and Board and monitored as part of the RAF. The following outlines the Company's underwriting risk appetite statements:

Risk type	Risk appetite statement
Underwriting risk	The 1%TVaR OEP limit for the largest natural peril not to exceed the largest planned exposure plus half the capital buffer.
	The 1:100 limit for the largest man-made peril not to exceed the largest planned exposure plus half the capital buffer.

For further information regarding the monitoring of insurance risk through the RMF and RAF, please see Section B.3.1.

Stress testing framework

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including underwriting risks. These impacts include the earnings, underwriting, investments, liquidity and capital implications of low frequency, high severity events. For underwriting risks the main stress tests approaches used cover natural catastrophe peril exposure results production and RDS production as outlined below.

Test type	Reason performed
Nat Cat reporting	To monitor Nat Cat exposures against risk appetite
RDS reporting	To monitor non-Nat Cat exposures against risk appetite and to assist in the setting of overall risk limits

Natural catastrophe exposure results and RDS exposure results are used to monitor exposure to the defined scenarios and monitor compliance with underwriting risk tolerances and limits. RDS cover both short and long tail lines of business and cross class event exposures. The RMC (and Board) are informed of results of stress tests performed via risk dashboards and the ORSA report throughout the year where discussions and challenge include whether the results fall within relevant approved risk tolerances and limits.

We undertake a range of extreme events intended to stress our capital position and also take a view at the 1 in 100, which is the point at which many of our underwriting limits and appetites are set. Considering the 1 in 100 underwriting risk, our key natural catastrophe exposure for the Company is a Northern Europe windstorm. The 1 in 100 exposure is set on a net occurrence exceedance probability (OEP) basis which is calculated using Risk Management Solutions ("RMS") catastrophe modelling software. Following the 1 in 100 European Windstorm the solvency ratio remains above 100% and therefore does not breach the SF SCR or risk appetite.

As well as RDS we also test our man-made exposure through our Threats process. The largest threat for the Company is a Terrorism threat consisting of a large conventional terrorism attack in the UK causing significant property damage and loss of life. The net exposure is £31m at an estimated 1 in 200 on an ultimate basis. When the 12 month loss potential is considered, and considering the fact that the loss within a 12 month period will not likely be recognised in any one quarter, the pre loss surplus is adequate to cover the event.

Based on the above factors considered in stress testing the underwriting limits, all underwriting risks are deemed to be well managed and within risk appetite as reported via the risk dashboard and ORSA report to the RMC and Board.

C.2. Market risk

Risk definition

Market risk represents the potential for loss due to adverse changes in the fair value of financial and other instruments. The Company is principally exposed to the following market risks:

Component	Definition
Interest rate and spread risk	Financial loss or volatility of profits due to the combined sensitivity of the economic value of the investment portfolio and (re)insurance liability cash flows and debt securities issued to changes in the level or volatility of benchmark interest rates and spreads.
Market risk concentrations	Financial loss or volatility of profits due to the increased sensitivity of the market value of the investment portfolio to other risks specifically due to concentrations of investments such as in specific geographical region, industry or company.
Foreign exchange risk	Financial loss due to volatility in the value of the Company's assets following changes in currency exchange rates.
Equity price risk	Financial loss or volatility of profits due to the sensitivity of the value of the investment portfolio to changes in the level or in the volatility of market prices of equities.

Risk identification

The Company identifies market risk through the following processes:

Process	Description
Business planning	As part of the annual planning process, a review is undertaken of the nature of assets required to support the business plan and the expected liabilities.
Investment decisions and asset allocations	The XL Group Investment Portfolio Guidelines, Authorities and Monitoring Framework, which applies to the Company, sets ranges for tactical deviation from the benchmark and is reviewed annually.
ERM Risk assessment and processes	The risk assessment process assists in identifying if there are any changes to market risks already identified in the previous assessment.

Market risk is also identified through underwriting and the XL Catlin Emerging Risk Taskforce which has Company representation.

Risk mitigation

The Company's investment management strategy ensures its continued compliance with the Prudent Person Principle set out in Article 132 of Directive 2009/138/EC.

Strategic Asset Allocation

The Strategic Asset Allocation (SAA) process establishes a benchmark that is constructed to maximise enterprise value, subject to various considerations and constraints. It is subject to the risk tolerances recommended by management, and is approved at least annually by the Company's Board.

• Authorities Framework

As part of the implementation of our SAA Benchmark, a comprehensive framework of investment decision authorities is employed. The objective of the Authorities Framework is to ensure that the risk profile of the investment portfolio is consistent with the Company's risk tolerance as reflected in the SAA Benchmark. The Authorities Framework controls active or tactical deviations from the SAA Benchmark. As the magnitude of these deviations increases or the resulting impact on the risk profile of the investment portfolio reaches certain predetermined thresholds, additional levels of authority and approval are required.

The Statement of Investment Policy, Authorities and Guidelines and XL Group Investment Portfolio Guidelines, Authorities and Monitoring Framework comprise a market risk authority and guidelines structure that addresses all the key market risk factors and is commensurate with the volume and complexity of activity undertaken by XL Group.

• Service level agreements

Service level agreements are in place between XL Group Investments Ltd ("XLGIL") and the Company. These include guidance on type of investments and the average weighted credit ratings of the portfolio that can be made on behalf of the Company. Adherence to policies and guidelines is monitored and signed off by XLGIL on a regular basis and subject to monitoring and reporting to the Company's Board as described below.

Currency risk mitigation

The Company's currency exposure is dominated by Sterling and US Dollar. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Asset liability management analysis is run regularly to adjust surplus and shortfall currencies, ensuring that the entity exposures are broadly matched. The table below outlines the Company's current exposure by currency:

CUK Asset Mix by Currency at 31st December 2016

Exposure by currency	% Market Value
USD	24%
GBP	76%
Total	100%

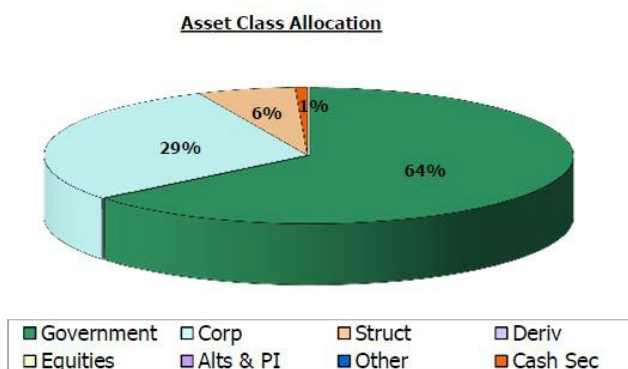
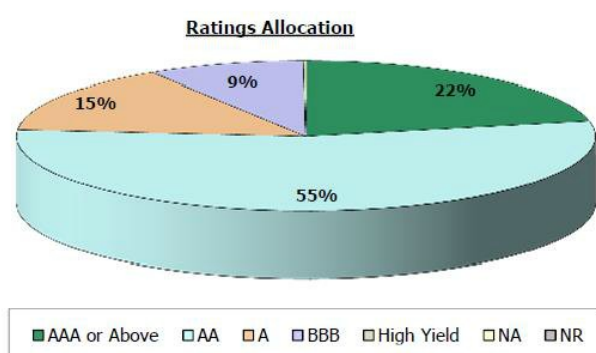
Risk monitoring

Day-to-day management of the investment portfolio is conducted through a combination of in-house portfolio management teams and external asset managers in accordance with detailed investment guidelines and risk tolerances, that are closely monitored by XLGIL. This hybrid implementation approach provides access to external asset managers with specialised skills across a broad range of investment products, as well as the flexibility to actively manage the overall structure of the portfolio in line with the Company's specific business needs. Interaction between the internal and external managers provides additional insight to take advantage of opportunities as they present themselves.

The delegation of investment authority to XLGIL is supplemented by robust compliance monitoring with defined escalation and notification procedures. This framework is designed to identify investment risks in absolute and relative terms, and to consistently and objectively measure, assess, manage and report such risks on an ongoing basis. The framework is cascaded down to the Company, and approved by the Board. Any breaches in limits of the authority framework are highlighted in the risk dashboard presented to the RMC and escalated to the Board.

The Company's investment portfolio mostly contains high rated government and corporate assets as seen in the figure below. This is reported to the RMC via the risk dashboard, with any breaches in guidelines highlighted to the Board.

CUK US GAAP portfolio rating allocation and asset class allocation (as at December 31, 2016)



Risk appetite

Risk appetite and compliance with investment guidelines and authorities is captured through risk reporting to the RMC and Board and monitored as part of the RAF. The following outlines the Company's market risk appetite statement:

Risk type	Risk appetite statement
Market risk	The 1:100 Market VaR to not exceed the approved limit set by the Board.

Stress testing framework

An embedded stress testing framework is used to understand possible impacts of major risks, including market risks. The following stress and scenario tests are used to identify risk exposures:

- Interest rate and spread sensitivities: by re-valuing current portfolio holdings assuming various changes in the level and term structure of interest rates and the level of credit spreads;
- Historical stress tests and Black Swan scenarios identified by ERM and the Group Investments covering economic, financial and political events and the potential impact to the investment portfolio.
- RDS aggregations; and
- Ad hoc review of enterprise risk scenarios.

We undertake a range of extreme events as identified above which intend to stress our capital position and also take a view at the 1 in 100, which is the point at which our market risk limit and appetite is set. Considering the 1 in 100 annual Value-at-Risk (VaR) (1 year weighted average) for market risk using BlackRock Solutions, the exposure does not breach risk appetite or result in the Company's solvency ratio dropping below 100% and therefore does not breach the SF SCR.

As part of the Historical Stress Testing outlined above, the Lehman Bankruptcy (examined over a stress period of 12/09/08 to 03/11/08) has been identified as the largest historical market risk stress test to the Company via BlackRock Solutions. Following this stress test the solvency ratio remains above 100% and therefore does not breach the Standard Formula SCR or risk appetite.

The RMC and Board, where appropriate, are informed of results of stress tests performed throughout the year including whether the results fall within relevant approved risk tolerances and limits set out in the investment guidelines. Based on the above factors considered in scenario and stress testing, all market risks are deemed to be well managed and within risk appetite, as reported via the Risk Dashboard and ORSA report to the RMC and Board.

Test type	Reason performed
Market Risk scenarios	To evaluate the exposure to certain market risk events

C.3. Credit risk

Risk definition

Credit risk is defined as the risk of loss due to an unexpected default, or deterioration in the credit standing of the counterparties and debtors or uncertainty of an obligator's continued ability to make timely payments in accordance with the contractual terms of the instrument.

Credit risk through the risk framework is categorised by the following:

Component	Description
Reinsurance counterparty Risk	Risk of losses due to the default of a reinsurer or a deterioration of its credit worthiness
Investment counterparty Risk	Counterparty default risk is the risk of possible losses due to the unexpected default, or deterioration in the credit standing of investment counterparties
Premium counterparty Risk	Premium counterparty default risk is the risk of possible losses due to unexpected default, or deterioration in the credit standing of the premium debtors in relation to insurance contracts written
Underwriting counterparty Risk	Exposure to credit risk through certain credit sensitive underwriting activities which include, but are not limited to, Surety, Worker's Compensation, Environmental and Political Risk and Trade Credit

Risk identification

The Company identifies credit risk through the following processes:

Process	Description
Business planning	Analysis is undertaken of the credit risk exposures, loss experience and changes to the external environment (including market cycle and economic environment) to identify any changes to the credit risk profile for the forthcoming period of the business plan.
Underwriting	Each individual contract written is assessed, by underwriting process (which is subject to granular underwriting guidelines and escalation authorities) for the nature and level of credit risk that it brings to the business including consideration of the exposure by nature of the limit, the risks insured, the location of the risks and other underwriting criteria.
ERM Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks.
Emerging risks	The Group operates an emerging risks identification process. This assessment identifies key external factor changes that may give rise to credit risk issues. The process also evaluates potential opportunities that might arise from these emerging risks.

Risk mitigation

Credit risk is managed through:

- **Credit risk framework:** Credit risk arising from credit sensitive underwriting activities is managed via the underwriting limit framework. Credit risk is managed within the investment portfolio through the Authorities Framework and established investment credit policies, which address the quality of obligors and counterparties, industry limits, and diversification requirements. Exposure to market credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads.
- **Intra-group credit arrangements:** The Company derives significant reductions in risk resulting from intra-group reinsurance arrangements including a whole account quota share to XL Bermuda Ltd (XLB).
- **Underwriting authorities and limits:** See C1 Underwriting Risk.
- **Investment portfolio:** Credit risk is managed in the investment portfolio, including fixed income, alternative and short-term investments, through the credit research performed by both investment management service providers and the in house portfolio management team.
- **Reinsurance Security Department:** The Company manages its credit risk in its external reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, collateral in the form of funds, trust accounts and/or irrevocable letters of credit may be held. The following table outlines the Company's top external reinsurance credit exposures as at December 31, 2016.

Reinsurer	Rating	% of exposure
Munchener Ruckversicherungs Ges	A+	30%
Client Captive	B++	19%
Partner Reinsurance Europe Se	A	6%

- **Premium payment and brokers:** The Company underwrites a significant amount of its (re)insurance business through brokers and credit and premium risk exists should any of these brokers be unable to fulfil their contractual obligations with respect to payment balances. Premium credit risk is controlled by premium cancellation provisions for certain lines of business which allow underwriting businesses to cancel policies for non-payment of premium. A list of approved broking houses is maintained.

Risk monitoring

ERM consolidates credit exposure reports from corporate functions and underwriting businesses on a regular basis for aggregating, monitoring and reporting to the Group Credit Risk Committee, RMC and Board.

Investment portfolio

On a regular basis a review is undertaken of the investment portfolio to enrich our understanding of asset concentrations as well as, credit quality and adherence to our credit limit guidelines. Any issuer over its credit limits or experiencing financial difficulties, material credit quality deterioration or potentially subject to forthcoming credit quality deterioration is placed on a watch list for closer monitoring. Where appropriate, exposures are reduced or prevented from increasing.

Stress testing framework

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including credit risks. Stress tests and scenario analysis are undertaken to monitor exposure to the defined scenarios that allows monitoring of exposure to credit risks. These scenarios help to understand potential losses to ensure that the Company is prepared to withstand projected losses from these events, including ensuring that there is adequate capital, liquidity to manage through the event and maintain the Company as a going concern.

C.4. Liquidity risk

Risk definition

Liquidity risk is defined as the inability to meet cash and collateral posting obligations when they come due. Liquidity risk arises from three principal areas: operating, financing and investing cash flows. The RMF addresses how the Company manages liquidity both under a normal and a stressed environment.

Risk identification

The Company identifies liquidity risk through the following processes:

Process	Description
Stress testing	Stressing known and forecasted liquidity positions, downgrade triggers, collateral demands and cash flows by legal entity to cover a 1:100 worldwide aggregate operating loss over a twelve month horizon.
Treasury	Treasury has responsibility to identify and monitor concentration risk of cash at banks, along with funding requirements.
ERM Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks.

Risk mitigation

One of the principal objectives of liquidity risk management is to ensure that there is readily available access to funds with which to settle large or multiple unforeseen claims. It is generally expected that positive cash flow from operations (underwriting activities and investment income) will be sufficient to cover cash outflows under most future loss scenarios.

Cash needs include all possible claims on cash from policyholders, shareholders and operations. Some of these cash outflows are scheduled while others are known with much less certainty. The goal is to ensure sufficient liquidity in the asset portfolio, together with secured external cash sources, to provide for timely payment of potential cash demands under both normal business conditions and under extreme conditions resulting from unforeseen events over a 12 month horizon.

Liquidity risk is managed through:

- **Investment portfolio liquidity** - The annual SAA process determines the structure of the benchmark that maximises the value of the Company subject to risk tolerance and other constraints. The key output of the SAA process is an investment portfolio benchmark, which takes into account management's risk tolerance, liability cash flows, business plan, peer analysis and regulatory considerations.
- **Asset-Liability Management (ALM)** - See section C.6 for further details of the ALM framework.
- **Special funding clauses** - The major source of liquidity risk within underwriting contracts is the provision of rating triggers, which are common practice. These triggers typically necessitate the cancellation of the policy and the return of the cedant's unearned premium in the event of being downgraded below a certain rating level, which has the potential to be a material liquidity event when aggregated. There are controls in place to ensure that there is appropriate authorisation for the inclusion of a downgrade clause in a contract.

Risk monitoring

The Treasury department serves as the focal point for liquidity monitoring, drawing on the expertise of other internal functions, as well as managing cash held at bank accounts covering day-to-day cash requirements, typically referred to as "operating cash". Operating cash balances, together with cash managed within the investments portfolio, comprise the primary sources of liquidity with the Company.

Risk appetite

Risk appetite is captured through risk reporting to the RMC and Board and monitored as part of the RAF. The following outlines the Company's Liquidity risk appetite statement:

Risk type	Risk appetite statement
Liquidity risk	Ensure there are sufficient liquid assets to fund all obligations in the event that ratings downgrade triggers are hit following a pre-defined stress scenario.

Risk appetite links directly to the stress testing framework outlined below.

Stress testing framework

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including liquidity risks. A stressed liquidity analysis report is prepared on a quarterly basis by Treasury, which includes the Company's own view of the stressed sources and uses of liquidity. Analysis includes stressing known and forecasted liquidity positions, downgrade triggers, collateral demands, market values in our investment portfolio and cash flows by legal entity to cover a 1:100 worldwide aggregate operating loss over a twelve month horizon.

Based on the above factors considered in scenario and stress testing, all liquidity risks are deemed to be well managed and within risk appetite, as reported via the Risk Dashboard and ORSA report to the RMC and Board.

Expected profit in future premium

The expected profit in future premium at 31 December 2016 was £15,826.

C.5. Operational risk

Risk definition

The Company defines operational risk as the risk of loss, resulting from inadequate or failed internal controls and / or processes, or from people and systems, or from external events. In line with business objectives, the Company does not take on operational risk with a view to achieving enhanced return. Rather, it accepts operational risk as a consequence of writing (re)insurance business and having operations to support the writing of that business.

Risk identification

Operational risk is identified through the following processes:

Process	Description
Annual risk assessment	A risk register is maintained of the material risks faced by the Company. On an annual basis an assessment is performed on the risks on the risk register.
Consultation regarding new regulations	<p>When the regulatory authorities announce potential changes to the regulatory environment (such as new rules and regulations) the Legal and Compliance team is responsible for reviewing the proposed changes and for highlighting any increase in regulatory risk that might arise.</p> <p>When new financial reporting regulations are announced, the CFO is responsible for reviewing the proposed changes and for highlighting any increase in regulatory risk that might arise.</p>
Business planning	Any changes to the operational risk environment that arise as a result of the business planning (such as entry into new territories) must be identified and accounted for during the planning process.
Ongoing operations	Function heads and Risk Owners are responsible for identifying any new (or changed) risks during the normal course of business, and notifying the Policy Owners so any required changes to the risk register can be implemented.
Emerging risks	The Company operates a group wide emerging risks identification process which captures emerging risks. This assessment identifies key external factor changes that may give rise to operational risk issues.
Internal loss data	The Company collects data relating to operational risk losses and near misses on a quarterly basis. The data collected is used, among other things, to track incidents, identify key risk indicators and to validate and challenge operational risk quantification.
External loss data	The Company purchases historical loss data from an external provider. Large events from this database are used to identify new emerging risks. In addition the data is used in the parameterisation of the ICM.

Risk mitigation and monitoring

The Company's risk register details the controls in place that mitigate specific risks. The nature of the controls (e.g. preventative or detective; manually operated or automatic) and the strength of control exercised are based upon the:

- Potential severity of the risk;
- Frequency of the risk occurring;
- Cost of implementing controls relative to the significance of the risk; and
- Appetite and tolerance for the risk.

Purchase of insurance

It is recognised that while the Company may buy insurance with the aim of reducing the monetary impact of certain operational risk events (e.g. physical damage), non-monetary impacts may remain (including impact on the Company's reputation). This is considered in the risk assessment process and risk register.

The risks are monitored and managed through the risk framework and the operational loss event reporting process.

Based on the above factors considered in scenario and stress testing, all operational risks are deemed to be well managed and within risk appetite, as reported via the Risk Dashboard and ORSA report to the RMC and Board.

Risk appetite

Risk appetite is captured through risk reporting to the RMC and Board and monitored as part of the RAF. The following outlines the Company's operational risk appetite statement:

Risk type	Risk appetite statement
Operational risk	Employees should conduct themselves in accordance with XL Catlin's Code of Conduct. We will conduct our business in such a way as to comply with laws and regulations. We will comply with the RMF.

Stress testing framework

To support the identification and quantification of operational risks within the business and to help parameterise the internal model, the Company has a stress and scenario testing framework.

The stress testing includes multiple operational risk scenarios which are evaluated over multiple return periods for each scenario.

Test type	Reason performed
Operational Risk scenarios	To parameterise the operational risk module in the ICM

The operational scenarios are developed from the top risks assessed during the annual risk assessment process on both a gross and net assessment basis. The scenarios have multiple uses including:

- To monitor against tolerances;
- To better understand economic and reputational impact of the identified top operational risk exposures; and
- To provide data for the ICM.

C.6. Other material risks

Asset liability mismatch risk

Risk definition

Asset liability mismatch risk arises directly from a mismatch between assets and liabilities due to changes in market and credit risks, liquidity and foreign exchange and also arises from events affecting both asset and liability values.

In particular, two market risks influence both assets and liabilities and are hence key drivers of risk:

Component	Definition
Interest rate and spread risk and asset composition risk	Mismatches between asset composition and maturities and the profile of liability cash flows creates economic risks from changes in benchmark interest rates, spreads and asset values. This is due to changes in the nominal mark-to-market (MTM) value of assets not exactly offsetting changes in the nominal economic value (net-present value) of liability cash flows.
Inflation risk	Differences in the inflation sensitivity of investments, liability and debt cash flows creates a risk to unexpected changes in different types of inflation (Consumer Price Index, wage, etc.). This is due to changes in the real Mark-to-Market value of assets not offsetting changes in the real economic value (net-present value) of liability cash flows.

Foreign exchange ("FX") risk is also a key consideration under asset liability mismatch risk which was outlined in Section C2 Market Risk. FX risk arises from mismatches in the currency denomination of assets relative to that of financial liabilities.

Risk identification

The following outlines the processes used to identify asset liability mismatch risk:

Process	Description
Business planning	As part of the annual strategic planning process, a review is undertaken of the nature (quality, duration, currency and liquidity) of assets required to support the business plan and the expected liabilities.
Investment decisions and asset allocation	The Investment Portfolio Guidelines, Authorities and Monitoring Framework sets ranges for tactical deviation from the benchmark and is reviewed annually in conjunction with the SAA process as outlined in C2 Market Risk.
ERM risk assessment and processes	The risk assessment processes assists in identifying if there are any changes to asset liability mismatch risks from those that had been identified in the previous risk assessment.

Risk treatment

The Company controls asset liability mismatch risk through:

- **Asset Liability Management (ALM) analysis**

The Company will conduct detailed ALM analyses to match the average duration of its liabilities with appropriate assets.

- **Investment authorities and guidelines**

Board approved market risk authority and guidelines are in place that addresses all the key market risk factors and is commensurate with the volume and complexity of activity undertaken by the Company.

- **Reserving process controls**

Among the key drivers of the Company's reserve risks are inflation, correlation across lines of business, legislative and regulatory changes, loss trend movements, timing and reporting changes at underlying ceding companies, and the excess nature of exposures in certain lines including non-proportional reinsurance

Stress testing framework

The Company uses scenario testing as one method to assess asset liability mismatch risk exposures. XL Investments undertakes a number of stress tests covering historical events and hypothetical scenarios to understand the impact of such scenarios to the investment portfolio.

C.7. Any other information

There is no other material information regarding the risk profile.

D. Valuation for Solvency Purposes

This section contains information regarding the valuation of balance sheet items for solvency purposes. The Solvency II Balance Sheet S.02.01.02 is shown in the Public QRT section at the end of this report.

A reconciliation between the UK GAAP balance sheet and the Solvency II balance sheet is presented below.

A reconciliation between the UK GAAP equity and Solvency II equity is provided in [Section E1.2](#) below.

Each material asset class is described in paragraph D.1. Valuation of technical provisions is described in paragraph D.2. Other liabilities are described in paragraph D.3.

	Reference	UK GAAP Value £'000	Revaluation £'000	Solvency II Value £'000
Assets				
Deferred Acquisition Costs (DAC)	1	52,380	(52,380)	—
Investments (excl participations)	2	323,398	11	323,409
Participations	3	46	—	46
Reinsurance recoverables	4	778,292	(416,928)	361,364
Insurance and intermediaries receivables	5	266,207	(249,831)	16,376
Reinsurance receivables	6	78,553	(23,145)	55,408
Receivables (trade, not insurance)	7	28,252	—	28,252
Cash and cash equivalents	8	—	42,553	42,553
Total assets		1,527,128	(699,720)	827,408
Liabilities				
Technical provisions (best estimates) - Non Life & health similar to non life	9	994,168	(417,073)	577,095
Technical provisions (risk margin) - Non Life & health similar to non life	9	—	16,081	16,081
Other technical provisions	10	23,325	(23,325)	—
Debts owed to credit institutions	11	3,399	42,563	45,962
Insurance & intermediaries payables	12	911	—	911
Reinsurance payables	13	312,614	(309,342)	3,272
Payables (trade, not insurance)	14	4,315	—	4,315
Any other liabilities, not elsewhere shown	15	30,286	(8,346)	21,940
Total liabilities		1,369,018	(699,442)	669,576
Excess of assets over liabilities		158,110	(278)	157,832

D.1. Assets

This section describes the bases, methods and main assumptions used in the valuation for solvency purposes of each material class of assets. The material quantitative differences between the value of assets in the December 31, 2016 balance sheets presented in Section D above are explained. The numbering of the balance sheet line items refers to the comments below. Based on the differences in this template a reconciliation is made between the UK GAAP equity and Solvency II equity.

The Solvency II Balance Sheet requires an economic (fair) valuation for all assets and other liabilities. On this basis, the following hierarchy of high level principles for the valuation of all assets and other liabilities is used:

- I. Undertakings must use quoted market prices in active markets for the same assets or liabilities as the default valuation method, notwithstanding if the applicable GAAP would allow a different approach
- II. Where the use of quoted market prices for the same assets or liabilities is not possible, quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences shall be used.
- III. If there are no quoted market prices in active markets available, undertakings should use mark-to-model techniques, which is any alternative valuation technique that has to be benchmarked, extrapolated or otherwise calculated as far as possible from a market input.
- IV. Undertakings have to make maximum use of relevant observable inputs and market inputs and rely as little as possible on undertaking-specific inputs, minimising the use of unobservable inputs.
- V. When valuing liabilities using fair value, an adjustment is required to remove the own credit risk of the liability

The differences between the UK GAAP and Solvency II valuation for assets are set out below:

1. Deferred acquisition costs ("DAC") are costs relating to the acquisition of new business for insurance contracts. Under UK GAAP these costs are deferred to the extent that they are expected to be recovered out of future margins in revenues on these contracts. Recognition of DAC is not permitted under Solvency II.
2. The reasons for the differences between Solvency II and UK GAAP for investments are set out below:
 - accrued investment income is included within the value of the investment under Solvency II, whereas it is disclosed separately in the UK GAAP balance sheet.
 - certain cash instruments in the UK GAAP balance sheet are classified as investments under Solvency II.
3. Participations are equivalent to "Associates" in the UK Irish GAAP balance sheet and are accounted for under the adjusted equity method under both UK GAAP and Solvency II. The adjusted equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets, which for Solvency II are calculated on an economic basis.
4. See Section D2.2 for a discussion of reinsurance recoveries under UK GAAP compared to Solvency II.
5. Insurance and intermediaries receivables under UK GAAP measured at cost less provision for impairment and are not discounted. The valuation differs to Solvency II due to the fact that all of the not-yet-due insurance and intermediaries receivables are transferred to technical provisions under Solvency II (See Section D2 for details). As this is simply a balance sheet re-class between assets and liabilities there is no material impact on equity (apart from the fact that receivables not-yet-due are discounted within technical provisions). Only the due receivables remain in assets under Solvency II and are measured at cost less provision for impairment as a reasonable proxy for fair value given the short term nature of these assets.
6. Reinsurance receivables under UK GAAP are measured at cost less provision for impairment and are not discounted. The difference represents assumed premium debtors which are offset against technical provisions under Solvency II. Therefore there is no impact on equity for this adjustment. Cost less provision for impairment is a reasonable proxy for fair value for the Solvency II measurement given the short term nature of these assets.
7. Trade receivables under UK GAAP are measured at cost less provision for impairment and are not discounted. There is no change in valuation under Solvency II as cost less provision for impairment is a reasonable proxy for fair value for the Solvency II measurement given the short term nature of these assets.
8. Cash and cash equivalents are measured at fair value under both UK GAAP and Solvency II. The difference in cash valuation is because certain cash instruments under UK GAAP are classified as investments under Solvency II.

D.2. Technical provisions

Items 4 and 9 from the Solvency II Balance Sheet in Section D above are combined below to present Net Technical Provisions:

		Solvency II Value
		£'000
Technical provisions (best estimates) - Non life & health similar to non life	9	577,095
Technical provisions (risk margin) - Non life & health similar to non life	9	16,081
Gross Technical Provisions		593,176
Reinsurance recoverables	4	361,364
Net Technical Provisions		231,812

D2.1 Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Technical Provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using risk-free discount rate term structures. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows which is calculated using the cost of capital approach and risk-free discount rate term structures. The discount rate term structures are prescribed by EIOPA for each reporting period.

The best estimate for the claims provision is calculated by using Generally Accepted Accounting Principles (GAAP) reserves as the starting point and then performing a series of adjustments:

- Unwinding of discounting permissible under GAAP (e.g. Periodic Payment Orders and Workers' Compensation);
- Incorporation of expected reinsurance counterparty defaults (bad debt);
- Incorporation or the identification of events not in data (ENID) as appropriate;
- Future premiums (payables and receivables);
- Other adjustments related to the consideration of investment and operating expenses, etc.; and
- Discounting credit.

Please note that the following adjustment is not applicable:

- Removal of prudence margins (as GAAP reserves are established on a best estimate basis)

The best estimate for the premium provision is calculated by using the gross unearned premium reserve on a GAAP basis, and then performing a series of adjustments:

- Gross and ceded premiums on already obliged but yet to incept business;
- Applying expected future gross loss ratios;
- Reinsurance recoveries (less bad debt);
- Future Losses Occurring During ("LOD") reinsurance cost covering existing incepted policies;
- Incorporation or the identification of events not in data (ENID) as appropriate;
- Future premiums (payables and receivables);
- Other adjustments related to the consideration of investment and operating expenses, etc.;
- Adjustments for lapses as appropriate;
- Discounting credit.

In the valuation of the (re)insurance obligations within the technical provisions, the Company has not applied any of the following adjustments to the EIOPA risk-free interest rate term structure:

- matching adjustments (referred to in Article 77b of Directive 2009/138/EC);
- volatility adjustments (referred to in Article 77d of Directive 2009/138/EC);
- transitional risk-free interest rate term structure (referred to in Article 308c of Directive 2009/138/EC); and
- transitional deductions (referred to in Article 308d of Directive 2009/138/EC).

At December 31, 2016, the total net Technical Provisions amounted to £232m comprising the following (reported in GBP thousand units):

	£'000
Claims Provision	418,254
Premium Provision	(202,523)
Risk Margin	16,081
Total Technical Provisions	231,812

The following table shows the total net Technical Provisions as at December 31, 2016 for each material line of business:

SII Lines of Business	Best Estimate	Risk Margin	Total Technical Provisions	Percentage of Total
	£'000	£'000	£'000	%
General Liability	60,358	3,809	64,167	28%
Marine, Aviation and Transport	48,989	3,474	52,463	23%
Fire and Other Damage	43,523	3,328	46,851	20%
Motor Vehicle Liability Insurance	38,281	2,012	40,293	17%
Others	24,580	3,458	28,038	12%
Total	215,731	16,081	231,812	100%

General Liability, Marine, Aviation and Transport, Fire and Other Damage and Motor Vehicle Liability Insurance represent over 88% of the Company's net Technical Provisions. The main methods and assumptions are applied consistently across all lines of business. Although it is worth noting that the underlying values are specific to each line of business. For example, there is a higher discounting credit on the General Liability business relative to the other lines of business due to longer settlement durations.

The methods and assumptions are described above.

General Liability

General Liability business represents 28% of the Company's net Technical Provisions.

As explained above, Solvency II adjustments are applied to the GAAP reserves to get to the Solvency II Technical Provisions. The most material adjustments to the net GAAP reserves are the addition of Risk Margin and losses on the GAAP Unearned Premium Reserves, which increase the Net GAAP reserves by £4.9m and £2.7m respectively.

Marine, Aviation and Transport

Marine, Aviation and Transport business represents 23% of the Company's net Technical Provisions.

As explained above, Solvency II adjustments are applied to the UK GAAP reserves to get to the Solvency II Technical Provisions. The most material adjustments to the net UK GAAP reserves are the addition of Future Premium (both receivables and payables) and losses on the UK GAAP Unearned Premium Reserves, which increase the net UK GAAP reserves by £14.5m and £7.4m respectively.

Fire and Other Damage

Fire and Other Damage business represents 20% of the Company's net Technical Provisions.

As explained above, Solvency II adjustments are applied to the UK GAAP reserves to get to the Solvency II Technical Provisions. The most material adjustments to the net UK GAAP reserves are the addition of Future Premium (both receivables and payables) and Risk Margin, which increase the Net UK GAAP reserves by £3.1m and £4.3m respectively.

Motor Vehicle Liability Insurance

Motor Vehicle Liability Insurance business represents 17% of the Company's net Technical Provisions.

As explained above, Solvency II adjustments are applied to the UK GAAP reserves to get to the Solvency II Technical Provisions. The most material adjustments to the net UK GAAP reserves are the addition of Future Premium (both receivables and payables) which increases the net UK GAAP reserves by £15.5m and the addition of profit on the GAAP Unearned Premium Reserves which reduces the net UK GAAP reserves by £4.5m.

D2.2 Description of Recoverables from Reinsurance Contracts

The reinsurance recoverables for the claims provisions are sourced directly from the GAAP submissions.

Within the premium provisions, the estimated ceded recoveries are calculated by applying ceded-to-gross ratios reflecting the reinsurance programmes applicable to the gross claims amounts.

Principle of Correspondence

Under the principle of correspondence, the technical provisions allow for the renewal cost of future Losses Occurring During ("LOD") reinsurance programmes insofar as they would benefit already incepted policies. Within the unaccepted part, future reinsurance cost is explicitly allowed for, and its associative benefit is recognised within the ceded recoveries.

Reinsurance counterparty risk is the risk that ceded recoverables will not be collected. To cover this risk a reinsurance bad debt (RIBD) allowance is created. The amount of allowance is based on the credit rating for each reinsurer over the lifetime of the liabilities.

D2.3 Uncertainty/limitations associated with the value of the technical provisions

There is an inherent uncertainty in the estimates as there is in any estimate of claim reserves. It is certain that actual future losses will not develop exactly as projected and may vary significantly from our projections as actuarial indications are subject to uncertainty from various sources, including but not limited to changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and general economic conditions. This uncertainty stems from several factors including lack of historical data, uncertainty with regard to claim costs, coverage interpretations and the judicial, statutory and regulatory provisions under which the claims may be ultimately resolved. Further, our projections make no provisions for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the historical data or that are not yet quantifiable.

D.3. Other liabilities

The following table details the value of each material class of other liabilities under both UK GAAP and Solvency II at December 31, 2016

Other liabilities	Reference	UK GAAP Value	Adjustment	Solvency II Value
		£'000	£'000	£'000
Debts owed to credit institutions	11	3,399	42,563	45,962
Insurance & intermediaries payables	12	911	—	911
Reinsurance payables	13	312,614	(309,342)	3,272
Payables (trade, not insurance)	14	4,315	—	4,315
Any other liabilities, not elsewhere shown	15	30,286	(8,346)	21,940
Total other liabilities		351,525	(275,125)	76,400

Details on the material differences between the bases, methods and main assumptions between UK GAAP and Solvency II valuation for liabilities are set out below:

- Debts owed to credit institutions represent the reclassification of overdrafts from Cash and cash equivalents when moving from UK GAAP to Solvency II. They are measured at fair value under both UK GAAP and Solvency II.
- Insurance and intermediaries payables are measured at amortized cost under UK GAAP and are not discounted. There is no difference under Solvency II as undiscounted amortized cost is deemed a reasonable proxy for fair value, given the short term nature of these liabilities.
- Reinsurance payables are held at amortized cost under UK GAAP. All of these amounts that are due to be paid at a future date have been transferred to technical provisions under Solvency II and therefore there is no impact on Own Funds for this adjustment (apart from an immaterial amount due to the discounting of reinsurance premium payables within technical provisions).

- 14 Payables (trade, not insurance) are held at amortized cost under both UK GAAP and Solvency II. This is deemed a reasonable proxy for fair value given the short term nature of these liabilities.
- 15 Any other liabilities, not elsewhere shown include ceded unearned commissions. This income is deferred under UK GAAP, but written off as not permitted under Solvency II.

D.4. Alternative methods for valuation

At the year end, all investments are valued using inputs that management consider to be "Level 2". Level 2 inputs include: quoted prices for similar (but not identical) assets; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets.

With respect to investments, it is common industry practice to use pricing services as a source for determining fair values where the pricing services are able to obtain sufficient market-corroborating information to allow them to produce a valuation at a reporting date. In the vast majority of valuations, the pricing services use market approaches to valuations using primarily Level 2 inputs. For a small percentage of fixed income securities, the pricing services may use some form of discounted cash flow analysis. Standard inputs to the valuations provided by the pricing services listed in approximate order of priority for use when available include: reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data.

Given the nature of the Company's debt security portfolio, management considers the approach to provide an appropriate measure of fair value, with limited valuation uncertainty.

The Company performs regular reviews of the prices received from third party valuation sources to assess whether the prices represent a reasonable estimate of the fair value. This process is completed by investment and accounting personnel who are independent of those responsible for obtaining the valuations. The approaches we take include, but are not limited to, annual reviews of the controls of the external parties responsible for sourcing valuations that are subjected to automated tolerance checks, quarterly reviews of the valuation sources and dates, and comparison of executed sales prices to prior valuations.

There are no other material assets or liabilities which are valued using alternative methods of valuation.

D.5. Any other information

There is no other material information regarding the valuation of assets and liabilities for Solvency II.

E. Capital Management

E.1. Own Funds

This section provides a view of capital management activities in the Company, its capital management methods and the structure, amount and quality of own funds. Under Solvency II, capital is referred to as "own funds". Own funds are calculated from the excess of assets over liabilities in the Solvency II balance sheet, to which any subordinated debt is then added. This combined amount is known as "Basic Own Funds". Total Own Funds may include "Ancillary Own Funds" which are off-balance-sheet items that can be called up to absorb losses, however the Company does not have any Ancillary Own Funds. Own funds are classified into tiers and restrictions are applied to limit the extent to which the various components of own funds can be used to meet the capital requirements.

E.1.1 Objective, policies and processes for managing own funds

The objective of own funds management is to maintain, at all times, sufficient own funds to cover the SCR and MCR. The own funds should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. We allocate capital efficiently to achieve sustainable returns and facilitate growth, and strive to maintain capital levels that are consistent with our risk appetite, corporate strategy and the statutory requirements

The Company monitors its own funds and the Solvency Ratio at least quarterly and the Board receives a regular assessment of the capital position. In addition a dashboard of capital triggers is monitored to identify any instances which would require a recalculation of the standard formula capital requirement. The Committees which review solvency are described in more detail in Section B1 "General Information on the System of Governance", and responsibility ultimately rests with the Board. As part of own funds management, the Company prepares ongoing solvency projections and reviews the structure of its own funds and future requirements. The business plan, which forms the base for the ORSA, contains a five year projection of funding requirements and this helps focus actions for future funding.

There have been no changes to capital management objectives during the year.

E.1.2 Eligible Own Funds

The starting point to determine Eligible Own Funds is to prepare the Company balance sheet on a Solvency II basis. The Solvency II balance sheet is derived from the UK GAAP balance sheet by making the adjustments necessary to reflect the solvency II valuation basis of assets and liabilities. This Solvency II balance sheet then provides the Basic Own Funds which are categorized into the three Solvency II tiers. There are restrictions on the amount of Tier 2 and Tier 3 capital which can be used to meet the SCR, as well as the MCR.

The difference between the net assets of the Company in the financial statements and the solvency valuation of the excess of the assets over liabilities is set out below. The adjustments are documented in section D covering valuation of assets and liabilities.

Difference between equity shown in the financial statements and net assets per solvency II	£000's
Shareholders' equity per financial statements	158,110
Adjustments for technical provision and risk margin under solvency II	43,756
Adjustments for DAC	(52,380)
Other adjustments	8,347
Net assets per Solvency II	157,833

An additional analysis is then performed to determine the eligibility of these Own Funds to meet the SCR. Own Funds of subsidiaries / branches are assessed to identify any elements which are not fungible (i.e. cannot cover losses), not transferable or not liquid (within 9 months), and hence not available for the Company.

Tiering of Basic Own Funds

At December 31, 2016 the Company's Basic Own Funds were assigned to the Solvency II tiers as shown in the following table:

	Tier 1 - unrestricted £'000	Total £'000
Ordinary share capital	809	809
Share premium account related to ordinary share capital	166,510	166,510
Reconciliation reserve	(9,487)	(9,487)
Total basic own funds after deductions	157,832	157,832

The Company's ordinary share capital, share premium arising on ordinary share capital and reconciliation reserve are all available as tier 1 unrestricted own funds as per Article 69 (a) (i) of the Delegated Regulation. The ordinary share capital and share premium arising is not subordinated and has no restricted duration. There are no foreseeable dividends or own shares held. The reconciliation reserve of £167m comprises net assets from the Solvency II balance sheet of £158m less ordinary share capital of £0.8m and share premium of £167m on that share capital.

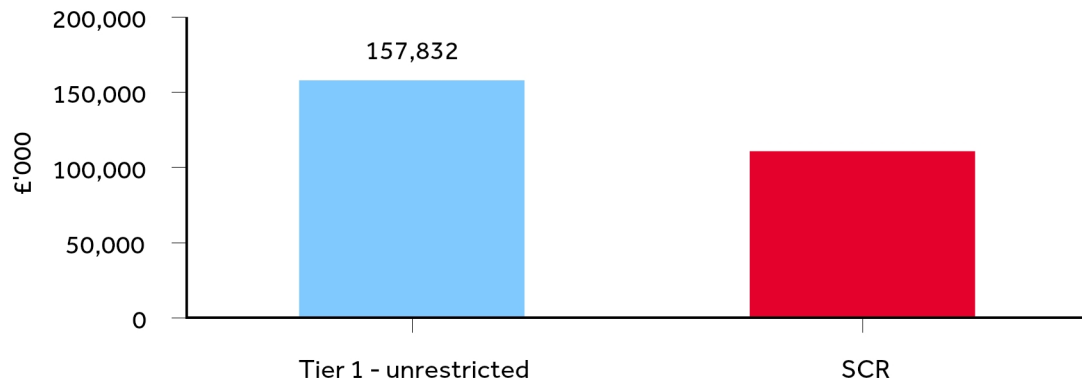
Eligible Own Funds to cover the SCR and MCR

The classification into tiers is relevant to the determination of eligible own funds. These are the own funds that are eligible for covering the solvency capital requirement (SCR) and the minimum capital requirement (MCR).

Eligible Own Funds to meet the Standard Formula SCR and MCR at December 31, 2016 is detailed below:

	Tier 1 - unrestricted £'000	Total £'000
Total eligible own funds to meet the SCR	157,832	157,832
Total eligible own funds to meet the MCR	157,832	157,832

Eligible Own Funds to meet the SCR



The solvency capital requirement is set at a level to ensure that insurers can meet their obligations to policy holders over the following 12 months with a 99.5% probability, giving reasonable assurance to policyholders that payments will be made as they fall due.

The Board holds the view that the Standard Formula overstates the Company's 1 in 200 loss scenario and as such the SCR is an inherently prudent risk profile when compared to that of the ICM.

The table below shows the ratio of eligible own funds that the Company holds to cover the solvency capital requirement and minimum capital requirement at December 31, 2016:

	£'000
SCR	110,768
MCR	38,743
Total eligible own funds to meet the SCR	157,832
Total eligible own funds to meet the MCR	157,832
	%
Ratio of Eligible own funds to SCR	142.5%
Ratio of Eligible own funds to MCR	407.4%

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 SCR and MCR results

The SCR is the amount of own funds that the Company is required to hold in line with the Solvency II Directive. The Standard Formula SCR calculation is calibrated to ensure that all quantifiable risks are taken into account.

The SCR and MCR under the Standard Formula at December 31, 2016 are set out below:

	£'000
SCR	110,768
MCR	38,743

The Standard Formula process is owned by the Finance function and involves a cooperative cross-functional effort across the organization, with input from Risk, Finance, Actuarial, Underwriting, Ceded Reinsurance, Investments and other relevant stakeholders. The results are subject to various levels of review, including by Senior Management.

The Standard Formula MCR is calculated based on the same data sources used to produce the Standard Formula SCR.

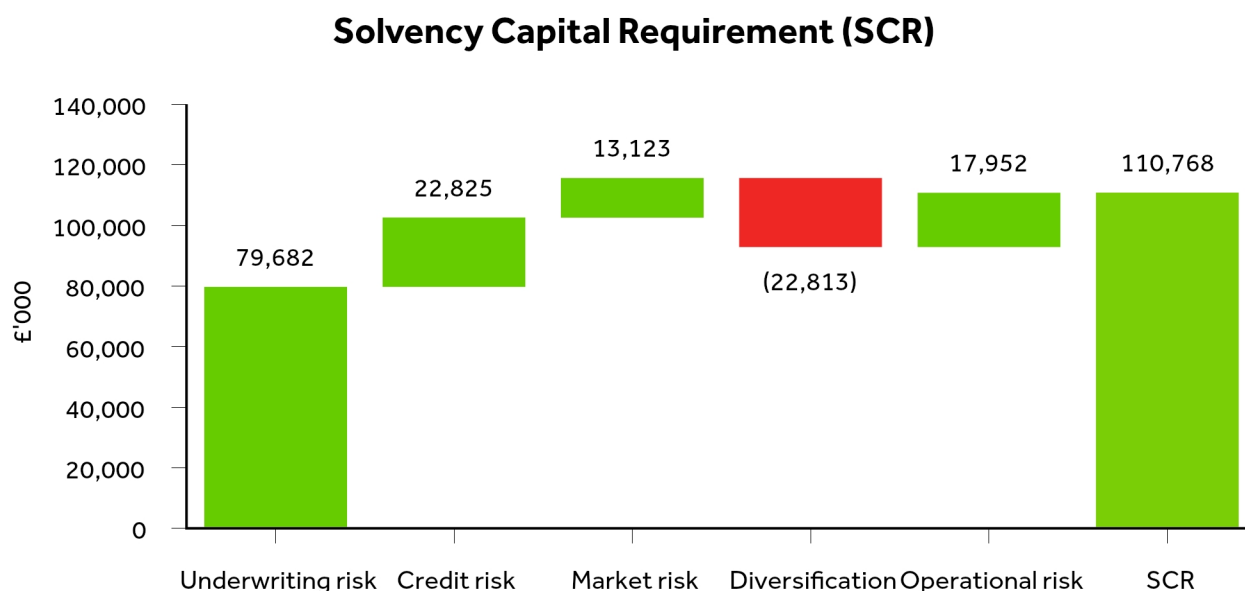
	MCR £'000
Linear MCR	38,743
SCR	110,768
MCR cap	49,846
MCR floor	27,692
Combined MCR	38,743
Absolute floor of the MCR	3,204
Minimum Capital Requirement	38,743

The non-life linear MCR is based on factors applied to net premiums written amounts in the previous 12 months and the net best estimate technical provisions both split by Solvency II Class of business. The charge for premium and technical provision elements are then summed to create a total charge.

Inputs to MCR calculation	Net (of reinsurance) best estimate provisions	Net (of reinsurance) written premiums in the last 12 months
	£'000	£'000
Income protection insurance and proportional reinsurance	5,485	14,338
Motor vehicle liability insurance and proportional reinsurance	38,281	34,387
Marine, aviation and transport insurance and proportional reinsurance	48,989	—
Fire and other damage to property insurance and proportional reinsurance	43,523	57,869
General liability insurance and proportional reinsurance	60,358	32,862
Credit and suretyship insurance and proportional reinsurance	9,578	22,047
Non-proportional health reinsurance	82	29
Non-proportional casualty reinsurance	4,685	751
Non-proportional marine, aviation and transport reinsurance	1,215	—
Non-proportional property reinsurance	3,536	1,509

E.2.2 SCR by risk module

The Standard Formula SCR by risk category are set out below:



The company only used simplified calculations in applying the standard formula module for Counterparty default risk (Credit risk).

There has been no use of undertaking specific parameters in the non-life underwriting risk calculations.

Non-life underwriting risk (incl. Health)

Non-life underwriting risk is the largest component of the standard formula SCR and is mainly driven from:

- £57m of premium and reserve risk driven by earned premiums, forecast premiums and claims provisions of non-life business lines.
- £34m of catastrophe risk driven by the Company's exposure to both man-made catastrophe and natural catastrophe risks.

Non-life underwriting risk (incl. Health)	£'000
Non-life premium and reserve risk	57,054
Non-life lapse risk	6,331
Non-life catastrophe risk	34,431
Diversification within non - life underwriting risk module	(23,904)
Total health underwriting risk	5,770
Non Life Underwriting Risk (incl. Health) Total	79,682

Counterparty default risk (credit risk)

The company is exposed to £23m of counterparty risks in the form of cash deposits and recoveries from reinsurers (type 1) and from receivables from intermediaries, policyholders and other debtors (type 2).

Market risk

The company is exposed to market risk derived predominately from the assets held by the Company to meet its insurance liabilities.

- £8m of spread risk mainly driven by the Company's investments in bonds and securitised assets.
- £6m of interest rate risk driven by the changes in assets and liabilities of the Company due to changes in discount rates.
- £5m of currency risk mainly driven by the exposure of the Company's assets and liabilities denominated in foreign currencies.

Market risk	£'000
Interest rate risk	6,418
Equity risk	10
Spread risk	8,035
Currency risk	5,295
Market Risk Diversification	(6,636)
Total Market Risk	13,122

Operational risk

The capital requirement for operational risk is calculated as 3% on technical provisions.

Operational risk	£'000
Non-life gross technical provisions (excluding risk margin)	593,176
Capital requirement for operational risk based on technical provisions	17,952

E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company is not using the duration-based equity risk sub-module. This is not applicable to the Company as we do not provide retirement benefits.

E.4. Differences between the standard formula and any internal model used

This section is not applicable to the Company as it does not use an approved internal model.

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company met all of the SCR and MCR compliance requirements during the year.

E.6. Any other information

There is no other material information regarding capital management.

Public Quantitative Reporting Templates

S02.01.01 Basic information

Undertaking name	Catlin Insurance Company (UK) Ltd
Undertaking identification code	LEI/2138003CMF813DZA4E20
Type of code of undertaking	LEI
Type of undertaking	3 — Non-Life undertakings
Country of authorisation	GB
Language of reporting	English
Reporting submission date	19-May-17
Reporting reference date	31-Dec-16
Currency used for reporting	GBP
Accounting standards	UK GAAP
Method of Calculation of the SCR	1 – Standard formula
Use of undertaking specific parameters	2 - Don't use undertaking specific parameters
Ring-fenced funds	2 - Not reporting activity by RFF
Matching adjustment	2 - No use of matching adjustment
Volatility adjustment	2 - No use of volatility adjustment
Transitional measure on the risk-free interest rate	2 - No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	2 - No use of transitional measure on technical provisions

S.02.01.02 Balance Sheet

	Solvency II value £ 000
Assets	
Intangible assets	
Deferred tax assets	
Pension benefit surplus	
Property, plant & equipment held for own use	
Investments (other than assets held for index-linked and unit-linked contracts)	323,455
Property (other than for own use)	
Holdings in related undertakings, including participations	46
Equities	—
Equities - listed	
Equities - unlisted	
Bonds	317,900
Government Bonds	205,035
Corporate Bonds	105,931
Structured notes	—
Collateralised securities	6,933
Collective Investments Undertakings	5,509
Derivatives	
Deposits other than cash equivalents	
Other investments	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	—
Loans on policies	
Loans and mortgages to individuals	
Other loans and mortgages	
Reinsurance recoverables from:	361,364
Non-life and health similar to non-life	361,364
Non-life excluding health	360,297
Health similar to non-life	1,068
Life and health similar to life, excluding health and index-linked and unit-linked	—
Health similar to life	
Life excluding health and index-linked and unit-linked	
Life index-linked and unit-linked	
Deposits to cedants	
Insurance and intermediaries receivables	16,376
Reinsurance receivables	55,408
Receivables (trade, not insurance)	28,252
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	42,553
Any other assets, not elsewhere shown	
Total assets	827,408

	Solvency II value
Liabilities	
Technical provisions – non-life	593,176
Technical provisions – non-life (excluding health)	585,609
TP calculated as a whole	
Best Estimate	570,461
Risk margin	15,147
Technical provisions - health (similar to non-life)	7,568
TP calculated as a whole	
Best Estimate	6,634
Risk margin	934
Technical provisions - life (excluding index-linked and unit-linked)	—
Technical provisions - health (similar to life)	—
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions – life (excluding health and index-linked and unit-linked)	—
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions – index-linked and unit-linked	—
TP calculated as a whole	
Best Estimate	
Risk margin	
Contingent liabilities	
Provisions other than technical provisions	
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	
Derivatives	
Debts owed to credit institutions	45,962
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	911
Reinsurance payables	3,272
Payables (trade, not insurance)	4,315
Subordinated liabilities	—
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	
Any other liabilities, not elsewhere shown	21,940
Total liabilities	669,576
Excess of assets over liabilities	157,832

S.05.01.02 Premiums, claims and expenses by line of business

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of business for: accepted non-proportional reinsurance				Total
	Income protection insurance	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Health	Casualty	Marine, aviation, transport	Property	
Premiums written											
Gross - Direct Business	13,397	40,072	118,244	122,751	60,243	28,505					383,212
Gross - Proportional reinsurance accepted				(1,774)	64	3,419					1,710
Gross - Non-proportional reinsurance accepted							(13)	417	1,873	2,413	4,689
Reinsurers' share	3,621	11,218	128,458	66,252	44,228	13,779	(2)	81	1,968	305	269,908
Net	9,776	28,855	(10,214)	54,725	16,079	18,145	(12)	336	(95)	2,108	119,703
Premiums earned											
Gross - Direct Business	16,802	49,563	132,173	145,665	73,628	25,575					443,405
Gross - Proportional reinsurance accepted				3,484	205	9,349					13,038
Reinsurers' share	1,909	18,279	151,019	83,633	46,838	11,969	21	114	1,702	694	316,176
Net	14,893	31,284	(18,845)	65,516	26,994	22,955	89	503	810	2,600	146,798
Claims incurred											
Gross - Direct Business	15,281	27,005	59,107	85,767	9,896	13,972					211,026
Gross - Proportional reinsurance accepted				1,100	36	2,948					4,084
Gross - Non-proportional reinsurance accepted							(19)	(1,165)	1,659	2,872	3,347
Reinsurers' share	10,539	(3,340)	76,758	57,087	34,924	4,770	—	65	372	740	181,914
Net	4,742	30,345	(17,652)	29,779	(24,992)	12,149	(18)	(1,230)	1,287	2,132	36,543
Expenses incurred	4,873	10,457	26,391	49,900	20,231	13,524	29	183	491	925	127,004
Other expenses											—
Total expenses											127,004

S.05.02.01 Premiums, claims and expenses by country

	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
	UK	DENMARK	GERMANY	FRANCE	LUXEMBOURG	IRELAND	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Premiums written							
Gross - Direct Business	204,385	32,803	26,961	14,065	13,784	9,604	301,603
Gross - Proportional reinsurance accepted	912	146	120	63	61	43	1,346
Gross - Non-proportional reinsurance accepted	2,501	401	330	172	169	118	3,690
Reinsurers' share	143,955	23,104	18,989	9,907	9,709	6,764	212,428
Net	63,843	10,247	8,422	4,394	4,306	3,000	94,211
Premiums earned							
Gross - Direct Business	236,489	37,956	31,196	16,275	15,949	11,113	348,977
Gross - Proportional reinsurance accepted	6,954	1,116	917	479	469	327	10,261
Gross - Non-proportional reinsurance accepted	3,484	559	460	240	235	164	5,141
Reinsurers' share	168,632	27,065	22,245	11,605	11,373	7,924	248,843
Net	78,294	12,566	10,328	5,388	5,280	3,679	115,536
Claims incurred							
Gross - Direct Business	112,550	18,064	14,847	7,746	7,591	5,289	166,086
Gross - Proportional reinsurance accepted	2,178	350	287	150	147	102	3,214
Gross - Non-proportional reinsurance accepted	1,785	286	235	123	120	84	2,634
Reinsurers' share	97,023	15,572	12,799	6,677	6,543	4,559	143,173
Net	19,490	3,128	2,571	1,341	1,314	916	28,761
Expenses incurred	67,737	10,872	8,935	4,662	4,568	3,183	99,957
Other expenses							—
Total expenses							99,957

S.17.01.02 Non-life Technical Provisions

	Direct business and accepted proportional reinsurance					
	Income protection insurance	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
	£'000					
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross	(8,665)	(108,686)	(51,476)	11,058	798	11,019
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(2,726)	(60,920)	(22,203)	81,583	54,470	5,831
Net Best Estimate of Premium Provisions	(5,938)	(47,765)	(29,272)	(70,525)	(53,672)	5,188
Claims provisions						
Gross	15,095	126,032	183,273	127,667	239,784	13,313
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	3,672	39,985	105,012	13,620	125,754	8,923
Net Best Estimate of Claims Provisions	11,423	86,046	78,261	114,048	114,030	4,390
Total Best estimate - gross	6,430	17,346	131,798	138,725	240,582	24,332
Total Best estimate - net	5,485	38,281	48,989	43,523	60,358	9,578
Risk margin	291	2,012	3,474	3,328	3,809	1,351
Technical provisions - total	6,722	19,358	135,272	142,053	244,391	25,683
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	946	(20,935)	82,809	95,202	180,224	14,754
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	5,776	40,293	52,463	46,851	64,168	10,929

	Accepted non-proportional reinsurance				Total Non-Life obligation
	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
Best estimate					
Premium provisions					
Gross	55	(2,624)	(418)	(1,244)	(150,183)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	50	(2,033)	(710)	(1,000)	52,340
Net Best Estimate of Premium Provisions	6	(591)	292	(244)	(202,523)
Claims provisions					
Gross	148	8,723	3,004	10,238	727,278
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	72	3,447	2,081	6,458	309,024
Net Best Estimate of Claims Provisions	76	5,276	923	3,780	418,254
Total Best estimate - gross	204	6,099	2,586	8,994	577,095
Total Best estimate - net	82	4,685	1,215	3,536	215,731
Risk margin	642	959	65	149	16,081
Technical provisions - total	846	7,058	2,651	9,143	593,176
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	122	1,414	1,371	5,458	361,364
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	724	5,643	1,280	3,685	231,812

S.19.01.21 Non-life Insurance Claims Information

Total Non-Life Business

Accident year /
Underwriting year

Gross Claims Paid (non-cumulative)

(absolute amount)

Year	Development year											In Current year	Sum of years (cumulative)
	—	1	2	3	4	5	6	7	8	9	10 & +		
Prior											2,859	2,859	2,859
N-9	3,631	33,403	23,642	16,299	27,883	15,653	13,426	11,968	5,311	3,087		3,087	154,303
N-8	6,516	56,157	32,216	14,672	36,341	14,254	10,421	6,734	9,493			9,493	186,804
N-7	10,955	76,521	28,999	19,123	17,170	11,819	4,332	1,010				1,010	169,929
N-6	14,928	68,881	37,797	19,934	14,194	1,458	12,931					12,931	170,123
N-5	13,437	89,777	60,981	29,955	13,494	10,215						10,215	217,859
N-4	17,514	99,350	70,277	31,618	22,912							22,912	241,671
N-3	21,328	101,619	78,696	23,593								23,593	225,236
N-2	14,560	99,793	72,882									72,882	187,235
N-1	26,354	112,780										112,780	139,134
N	19,574											19,574	19,574
Total												291,335	1,714,727

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

Year	Development year											Year end (discounted data)
	—	1	2	3	4	5	6	7	8	9	10 & +	
Prior											14,427	13,699
N-9										30,082		28,518
N-8									34,011			32,852
N-7								14,416				14,344
N-6							19,408					18,615
N-5						57,952						56,025
N-4					56,593							54,734
N-3				78,917								76,090
N-2			152,401									148,011
N-1		210,384										205,136
N	80,751											79,254
Total												<u>727,278</u>

S.23.01.01 Own funds

	Total £'000	Tier 1 - unrestricted £'000	Tier 1 - restricted £'000	Tier 2 £'000	Tier 3 £'000
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
Ordinary share capital (gross of own shares)	809	809			
Share premium account related to ordinary share capital	166,510	166,510			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	—				
Subordinated mutual member accounts	—				
Surplus funds	—				
Preference shares	—				
Share premium account related to preference shares	—				
Reconciliation reserve	(9,487)	(9,487)			
Subordinated liabilities	—				
An amount equal to the value of net deferred tax assets	—				
Other own fund items approved by the supervisory authority as basic own funds not specified above	—				
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions					
Deductions for participations in financial and credit institutions	—				
Total basic own funds after deductions	157,832	157,832	—	—	—
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	—				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	—				
Unpaid and uncalled preference shares callable on demand	—				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	—				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	—				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	—				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	—				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	—				
Other ancillary own funds	—				
Total ancillary own funds	—			—	—

Available and eligible own funds

Total available own funds to meet the SCR	157,832	157,832	—	—	—
Total available own funds to meet the MCR	157,832	157,832	—	—	—
Total eligible own funds to meet the SCR	157,832	157,832	—	—	—
Total eligible own funds to meet the MCR	157,832	157,832	—	—	—

SCR	110,768
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MCR	38,743
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Ratio of Eligible own funds to SCR	142.5%
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Ratio of Eligible own funds to MCR	407.4%
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£'000

Reconciliation reserve

Excess of assets over liabilities	157,832
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	
Other basic own fund items	167,319
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
Reconciliation reserve	(9,487)

Expected profits

Expected profits included in future premiums (EPIFP) - Life business	
Expected profits included in future premiums (EPIFP) - Non-life business	15,826
Total Expected profits included in future premiums (EPIFP)	15,826

S.25.01.21 Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement £'000	USP £'000	Simplifications £'000
Market risk	13,123		—
Counterparty default risk	22,825		
Life underwriting risk	—	—	—
Health underwriting risk	5,770	—	
Non-life underwriting risk	73,912	—	—
Diversification	(22,813)		
Intangible asset risk			
Basic Solvency Capital Requirement	92,817		

Calculation of Solvency Capital Requirement

Operational risk	17,952
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency capital requirement excluding capital add-on	110,768
Capital add-on already set	—
Solvency capital requirement	110,768

Other information on SCR

Capital requirement for duration-based equity risk sub-module	—
Total amount of Notional Solvency Capital Requirement for remaining part	110,768
Total amount of Notional Solvency Capital Requirements for ring fenced funds	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01 Minimum Capital Requirement - Only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

	£'000	
MCRNL Result	38,743	
	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	£'000	£'000
Income protection insurance and proportional reinsurance	5,485	14,338
Motor vehicle liability insurance and proportional reinsurance	38,281	34,387
Marine, aviation and transport insurance and proportional reinsurance	48,989	—
Fire and other damage to property insurance and proportional reinsurance	43,523	57,869
General liability insurance and proportional reinsurance	60,358	32,862
Credit and suretyship insurance and proportional reinsurance	9,578	22,047
Non-proportional health reinsurance	82	29
Non-proportional casualty reinsurance	4,685	751
Non-proportional marine, aviation and transport reinsurance	1,215	—
Non-proportional property reinsurance	3,536	1,509

Overall MCR calculation

	£'000
Linear MCR	38,743
SCR	110,768
MCR cap	49,846
MCR floor	27,692
Combined MCR	38,743
Absolute floor of the MCR	3,204
Minimum Capital Requirement	38,743

Glossary

AC	Audit Committee
APAC	Asia Pacific
BBNI	Bound But Not Incepted
BRRC	Board Risk & Reserving Committee
BOF	Basic Own Funds
BSCR	Basic Solvency Capital Requirement
CAT	Catastrophe
COR	Combined Operating Ratio
CRO	Chief Risk Officer
CUK	Catlin Insurance Company (UK) Ltd
DAC	Deferred Acquisition Costs
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
EMEA	Europe, Middle East and Africa
ENiD	Events not in Data
Exco	Executive Committee
FIC	Framework for Internal Control
GAAP	Generally Accepted Accounting Principles
ICM	Internal Capital Model
MCR	Minimum Capital Requirement
ORSA	Own Risk and Solvency Report
PRA	Prudential Regulatory Authority
PWC	PriceWaterhouse Coopers
QRT	Quantitative Reporting Template
RDS	Realistic Disaster Scenario
RI	Reinsurance
RMC	Risk Monitoring Committee
RMF	Risk Management Framework
RM	Risk Margin
SCR	Solvency Capital Requirement
SF	Standard Formula
SII	Solvency II
S&S	Stress & Scenario
UC	Underwriting Committee
UK&I	United Kingdom and Ireland
UEPR	Unearned Premium Reserve
XLC	XL Catlin
XLICSE	XL Insurance Company SE