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**SYNDICATE 2088**

**SYNDICATE ANNUAL ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## SYNDICATE 2088

### SYNDICATE INFORMATION

#### MANAGING AGENT:

<b>Managing agent</b>	Catlin Underwriting Agencies Limited ("CUAL")	
<b>Directors</b>	P. Bradbrook	
	P. Greensmith	
	C. Ighodaro	Non-executive
	P. Wilson	Non-executive
	R. Littlemore	
	B. Joseph	Non-executive
	J. Vereker	Non-executive

<b>Company secretary</b>	M. Rees
<b>Registered number</b>	01815126
<b>Registered office</b>	20 Gracechurch Street London EC3V 0BG

#### SYNDICATE:

<b>Active underwriter</b>	J. Sutcliffe
<b>Bankers</b>	Barclays Bank Plc Citibank International Plc
<b>Investment managers</b>	Conning Asset Management Limited
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

## SYNDICATE 2088

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## SYNDICATE 2088

### STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors of the managing agent present their strategic report for the year ended 31 December 2018.

#### Business review

2018 saw the continued expansion of the syndicate's open market business portfolio, particularly in the Casualty and Chinese Quota Share books of business. The syndicate continued to underwrite a whole account quota share reinsurance of the entities that formerly made up XL Group (now "AXA XL" following the acquisition of XL Group by AXA in September 2018). The cession of AXA XL represents 1.1% of gross premiums written by AXA XL (2017: 1.2%). This cession, along with the previous whole account quota share contracts with XL Catlin Syndicate 2003 and the Companies within the AXA XL are hereafter referred to as the "Whole Account Quota Shares".

The Whole Account Quota Shares operate on a funds withheld basis. All of the capital supporting the syndicate is provided by a single corporate member, China Re (UK) Limited, a subsidiary of China Reinsurance (Group) Corporation.

The result for the year is a loss of £26.4m (2017: loss of £29.7m). The result is primarily attributable to the underwriting loss (net earned premiums minus net claims incurred and net operating expenses) for 2018 of £28.6m offset by other income of £1.6m and gains on foreign exchange of £0.6m (against an underwriting loss for 2017 of £33.1m, other income of £2.3m and gains on foreign exchange of £1.1m). Other income represents bank interest, return on the syndicate's investments and interest generated on funds withheld balances on the Whole Account Quota Shares.

#### Key performance indicators

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

	2018 £000's	2017 £000's
Gross premiums written	188,803	155,212
Underwriting result	(28,551)	(33,135)
Loss for the financial year	(26,377)	(29,667)
Net loss ratio	78%	89%
Combined ratio	119%	131%

*Note: The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents better performance.*

#### Results

During the year, the syndicate wrote £188.8m in gross premiums (2017: £155.2m). The increase is primarily due to the development of the syndicate's own independent book of business, particularly in the Casualty and Chinese Treaty portfolios.

The syndicate incurred a net loss ratio of 78.4% (2016: 89.4%). The decrease in the loss ratio is primarily due to the lower severity of 2018 catastrophe events compared to 2017.

The net operating expense ratio of 40.5% (2017: 41.5%) includes commission and administration expenses. The decrease is primarily driven by a lower administration expense ratio which is a result of significant fixed costs forming a lower proportion of the overall expense base when compared with the prior period.

#### Business environment

Syndicate 2088 was established in 2012 and capitalised by China Re Group as an SPS, quota share reinsuring Catlin Syndicate 2003. The syndicate received approval to write business on a stand-alone basis at Lloyd's for the 2015 underwriting year; the syndicate initially focused on building its short tail reinsurance capabilities by establishing both

**STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

North American and International Property Treaty accounts and a Marine Specialty Reinsurance account. In 2017 it expanded into the international casualty insurance market offering Professional Indemnity, Medical Malpractice, Directors' and Officers' Liability and General Liability. In addition the syndicate employed specialist underwriters to develop Personal Accident and Renewable Energy portfolios.

2018 has proved to be a challenging year due to a combination of a competitive market environment for most lines of business, limited rate increases for affected lines of the 2017 catastrophe events and a second year of mid-sized catastrophe events hitting the reinsurance portfolio as Japan was hit by Hurricanes Jebi and Trami and a second year of California wildfire losses.

During the year the syndicate has challenged all underwriters to move from start-up mode and optimise their portfolio's profitability by improving risk selection, challenging commissions and increasing rates. It is always the syndicate's preference to rehabilitate underperforming business but if this has not been possible these risks have been non-renewed. There has been a change of momentum in the second half of 2018 as the Lloyd's market embraced the Decile 10 process resulting in syndicates cutting back on capacity and rates started to increase across the syndicate's casualty classes and loss affected reinsurance accounts.

The syndicate has continued to build out China related opportunities with a portfolio of Chinese Quota Share business, Personal Accident for China based pilots and building a Renewable Energy Consortium for Chinese Offshore risks.

We continue to buy a full suite of outwards reinsurance to protect the syndicate's capital position.

**Principal risks and uncertainties**

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. The managing agent has developed a risk and control framework in line with AXA XL which is built on an Enterprise Risk Management Model that aims to integrate existing risk programmes into a more holistic, embedded Group wide risk and capital management framework.

The risk and control framework is applied across all of the syndicates that are managed by the managing agent and the policies, procedures and internal controls are implemented across all of the syndicates as relevant.

All policies are approved by management and subject to ongoing review by the risk management and internal audit teams. Compliance with regulation, legal and ethical standards is a high priority for the syndicate and the compliance team and the finance department take on an important oversight role in this regard. The Board of the managing agent is responsible for satisfying itself that a proper internal control framework exists to manage all risks and the controls operate effectively.

Key risks are considered both within the control framework and within the assessment of capital requirements. The syndicate conducts in depth stochastic modelling across all insurance risk categories.

The principal risks from reinsurance business arise from the following:

Insurance risk

Insurance risk relates to the risks underwritten directly by the syndicate and indirectly through the Whole Account Quota Shares. This includes the risks of inappropriate underwriting, inadequate pricing and ineffective management of underwriting delegated to third parties. The insurance risks are mitigated by a robust underwriting control framework and through underwriting and reinsurance plans, which are approved by the CUAL Board and communicated clearly throughout the business. Insurance risk is discussed further in note 2.

Reserving risk

## SYNDICATE 2088

### STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2018

Reserves for unpaid losses represent the largest single component of the syndicate liabilities. Loss reserve estimates are inherently uncertain. Actual losses that differ from the provisions, or revisions in the estimates, can have a material impact on future earnings and the balance sheet.

XL Catlin has a large, experienced team of actuaries and other actuarial staff. They work closely with the underwriting and claims staff to ensure understanding of the syndicate exposures and loss experience.

Analysis of the reserve requirements are initially developed by actuaries embedded within the business with close knowledge of local underwriting activities. Final reserves are produced by the actuarial team, supported by an independent Statement of Actuarial Opinion, and reviewed and approved by the Board.

The strategy for managing other business and operational risks includes:

- Identifying and analysing risk through a disciplined risk assessment process;
- Mitigating or avoiding risks that do not fit the syndicate's business objectives; and
- Retaining risk within an agreed risk appetite with appropriate levels of capital.

#### **Future developments and strategy**

The syndicate will cease to write a cession of AXA XL for the 2019 year of account.

On 31st December 2018, China Reinsurance (Group) Corporation ("China Re") completed its 100% equity acquisition of Chaucer Holdings Ltd from The Hanover Insurance Group, Inc. Following acquisition, it was confirmed that responsibility for the management of Syndicate 2088 would pass from Catlin Underwriting Agencies Limited to Chaucer Syndicates Limited. The novation of the managing agency agreement is expected to complete by 31st March 2019.

On 12 September 2018, XL Group Ltd completed its previously announced merger with Camelot Holdings Ltd. ("Merger Sub"), a wholly owned subsidiary of AXA SA. Pursuant to the Agreement and Plan of Merger, dated 5 March 2018, by and among XL Group Ltd, Merger Sub and AXA SA (the " Merger Agreement "), and the statutory merger agreement required in accordance with Section 105 of the Bermuda Companies Act 1981, as amended (the " Companies Act "), by and among XL Group Ltd, Merger Sub and AXA, dated 12 September 2018, Merger Sub merged with and into XL Group Ltd in accordance with the Companies Act, with XL Group Ltd continuing as the surviving corporation and as a wholly-owned subsidiary of AXA SA.

As a result of the merger, a new division "AXA XL" was formed comprising the legacy XL companies and certain existing AXA companies. This new division AXA XL is the P&C and specialty division of AXA comprising global insurance and reinsurance companies that provide property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis.

For the 2019 underwriting year, the syndicate will continue to purchase Whole Account Stop Loss reinsurance with China Reinsurance (Group) Corporation.

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

P. Bradbrook

Director

21 March 2019

## SYNDICATE 2088

### REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors of the managing agent present their report together with the audited annual accounts for the year ended 31 December 2018.

The annual accounts are prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations"), as well as in compliance with the United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103").

Future developments and strategy are discussed within the strategic report.

#### Member's balance

Profits will continue to be distributed by reference to the results of individual underwriting years. Under Lloyd's accounting rules, the syndicate's 2016 year of account was closed at the end of 2018 with a loss equal to 10.2% of capacity.

The member's balance as at 31 December 2018 is a surplus of £24.0m (2017: deficit of £1.9m). During the year, the Corporate Member invested £50.3m into the syndicate as Funds in Syndicate, which forms part of the member's balance at the year ended 31 December 2018.

#### Directors

The directors of CUAL who held office during the year and up to the date of signing the annual accounts were:

P. Bradbrook		
R. Glauber	Non-executive	Resigned 16 <sup>th</sup> April 2018
P. Greensmith		
P. Jardine		Resigned 5 <sup>th</sup> September 2018
P. Wilson	Non-executive	
J. Vereker	Non-executive	
D. Littlemore		
B. Joseph	Non-executive	
C. Ighodaro	Non-executive	

#### Financial instruments and risk management

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

#### Disclosure of information to the auditors

Each of the persons who is a director at the date of this report confirms that:

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



## SYNDICATE 2088

### REPORT OF THE DIRECTORS OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2018

#### Statement of managing agent's responsibilities

The directors of the managing agent are responsible for preparing the managing agent's report and the annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts at 31 December each year. Under that law, the directors are required to prepare the syndicate annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland. The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires that the directors must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that year.

In preparing these syndicate annual accounts, the directors of the managing agent are required to:

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

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

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

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

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

M. Rees

Company Secretary

21 March 2019

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2088**

**Report on the syndicate annual accounts**

**Opinion**

In our opinion, Syndicate 2088's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Syndicate 2088 Annual Accounts (the "Annual Report"), which comprise: the balance sheet at 31 December 2018, the statement of comprehensive income for the year then ended, the statement of changes in member's balance, the statement of cash flows, and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

We have nothing to report in respect of the above matters.

## SYNDICATE 2088

### INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2088

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### *Managing Agent's Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2018 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

#### **Responsibilities for the syndicate annual accounts and the audit**

##### *Responsibilities of the managing agent for the syndicate annual accounts*

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 5, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2088**

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the syndicate annual accounts*

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

*Use of this report*

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting**

**Other matters on which we are required to report by exception**

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Matthew Nichols (Senior statutory auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

21 March 2019

**SYNDICATE 2088**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £000's	2017 £000's
<b>TECHNICAL ACCOUNT - GENERAL BUSINESS</b>			
<b>Earned premium, net of reinsurance</b>			
Gross premiums written	7	<b>188,803</b>	155,212
Outward reinsurance premiums		<b>(17,486)</b>	(15,379)
Net premiums written		<b>171,317</b>	139,833
Change in the gross provision for unearned premiums		<b>(21,785)</b>	(30,152)
Change in the provision for unearned premiums, reinsurers' share		<b>1,127</b>	(2,585)
Change in the net provision for unearned premiums		<b>(20,658)</b>	(32,737)
<b>Earned premiums, net of reinsurance</b>		<b>150,659</b>	107,096
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		<b>(57,832)</b>	(45,971)
Reinsurers' share		<b>15,593</b>	(81)
		<b>(42,239)</b>	(46,052)
Change in the provision for claims			
Gross amount		<b>(79,271)</b>	(66,139)
Reinsurers' share		<b>3,340</b>	16,422
		<b>(75,931)</b>	(49,717)
<b>Claims incurred, net of reinsurance</b>		<b>(118,170)</b>	(95,769)
Net operating expenses	10	<b>(61,040)</b>	(44,462)
<b>Balance on the technical account for general business</b>		<b>(28,551)</b>	(33,135)

## SYNDICATE 2088

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000's	2017 £000's
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the technical account for general business		<b>(28,551)</b>	(33,135)
Other income	11	<b>1,581</b>	2,338
Foreign exchange gains and losses		<b>593</b>	1,130
<b>(Loss)/profit for the financial year</b>		<b>(26,377)</b>	<b>(29,667)</b>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the year</b>		<b>(26,377)</b>	<b>(29,667)</b>

All amounts above relate entirely to continuing activities as defined by Financial Reporting Standard 102 (FRS 102) Section 3.

The notes on pages 15 to 41 form part of these annual accounts.

**SYNDICATE 2088**

**BALANCE SHEET  
AS AT 31 DECEMBER 2018**

	Note	2018 £000's	2017 £000's
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	12	<b>88,581</b>	24,796
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		<b>5,810</b>	4,596
Claims outstanding	5	<b>34,335</b>	29,625
		<b>40,145</b>	34,221
<b>Debtors - amounts falling due within one year</b>			
Debtors arising out of direct insurance operations		<b>11,625</b>	5,407
Debtors arising out of reinsurance operations	13	<b>82,530</b>	67,964
Other debtors	14	<b>1,624</b>	1,398
		<b>95,779</b>	74,769
<b>Debtors - amounts falling due after one year</b>			
Debtors arising out of reinsurance operations	13	<b>150,896</b>	120,859
Other debtors	15	<b>984</b>	1,817
		<b>151,880</b>	122,676
<b>Other assets</b>			
Cash at bank and in hand		<b>31,680</b>	31,134
Overseas deposits	16	<b>1,258</b>	287
		<b>32,938</b>	31,421
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		<b>29,558</b>	22,235
Other prepayments and accrued income		<b>633</b>	483
		<b>30,191</b>	22,718
<b>TOTAL ASSETS</b>		<b>439,514</b>	310,601

**SYNDICATE 2088**

**BALANCE SHEET  
AS AT 31 DECEMBER 2018**

	Note	2018 £000's	2017 £000's
<b>LIABILITIES</b>			
Member's balance		<u>24,046</u>	(1,944)
<b>Technical provisions</b>			
Provision for unearned premiums		100,531	74,404
Claims outstanding	5	<u>262,747</u>	172,746
		<b>363,278</b>	247,150
<b>Creditors - amounts falling due within one year</b>			
Creditors arising out of reinsurance operations	17	29,422	30,386
Other creditors	18	<u>12</u>	54
		<b>29,434</b>	30,440
<b>Creditors - amounts falling due after one year</b>			
Creditors arising out of reinsurance operations	17	2,386	15,157
Other creditors	19	<u>4,930</u>	9,542
		<b>7,316</b>	24,699
Accruals and deferred income		15,440	10,256
<b>TOTAL LIABILITIES</b>		<u><u>439,514</u></u>	310,601

The annual accounts on pages 9 to 41 were approved by the Board of Directors of Catlin Underwriting Agencies Limited on 21 March 2019 and were signed on its behalf by:

**P. Bradbrook**

Director

The notes on pages 15 to 41 form part of these financial statements.



**SYNDICATE 2088**

**STATEMENT OF CHANGES IN MEMBER'S BALANCE  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Balance attributable to underwriting £000's	Funds in Syndicate £000's	Member's balance £000's
<b>Balance as at 1 January 2017</b>	<b>(8,609)</b>	-	<b>(8,609)</b>
Loss for the financial year	(29,667)		(29,667)
Profit distribution – 2014 year of account	(2,708)		(2,708)
Funds in Syndicate capital injection		39,040	39,040
<b>Balance as at 31 December 2017</b>	<b>(40,984)</b>	<b>39,040</b>	<b>(1,944)</b>
<b>Balance as at 1 January 2018</b>	<b>(40,984)</b>	<b>39,040</b>	<b>(1,944)</b>
Loss for the financial year	(29,920)	3,543	(26,377)
Loss funding - 2015 year of account	2,095	-	2,095
Funds in Syndicate capital injection	-	50,272	50,272
<b>Balance as at 31 December 2018</b>	<b>(68,809)</b>	<b>92,855</b>	<b>24,046</b>

**SYNDICATE 2088**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £000's	2017 £000's
<b>Net cash inflow from operating activities</b>	20	<b>12,936</b>	7,873
<b>Cash flow from investing activities</b>			
Purchase of equity and debt instruments		<b>(63,786)</b>	(24,796)
<b>Cash flow from financing activities</b>			
Distribution profit		<b>2,095</b>	(2,708)
Funds in Syndicate capital injection		<b>50,272</b>	39,040
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,517</b>	19,409
<b>Cash and cash equivalents at the beginning of the year</b>		<b>31,421</b>	12,012
<b>Cash and cash equivalents at the end of the year</b>		<b>32,938</b>	31,421
Cash at bank and in hand		<b>31,680</b>	31,134
Overseas deposits		<b>1,258</b>	287
<b>Cash and cash equivalents at the end of the year</b>		<b>32,938</b>	31,421

Overseas deposits included in cash and cash equivalents are not readily available for use by Syndicate 2088. See note 16 for further detail on these assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**1. ACCOUNTING POLICIES**

**1.1. Statement of Compliance**

The annual accounts are prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103").

**1.2. Basis of Preparation**

The annual accounts are prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations"), as well as United Kingdom Accounting Standards.

The directors of the managing agent have prepared the annual accounts on the basis that the syndicate will continue to write future business.

Capital supporting the business of the syndicate, referred to as Funds at Lloyd's ("FAL") is, in part, held in separate trust funds administered by Lloyd's in addition to amounts held within the Syndicate Premium Trust Funds. The amounts held by the Corporate Member outside the Syndicate Premium Trust Funds are available to meet the underwriting obligations of the syndicate, if required. However, these funds are not included in the syndicate's balance sheet because they are not owned by the syndicate. The Lloyd's central fund arrangements are available in the event that an individual member's funds are exhausted. Funds at Lloyd's are further explained in note 21.

Separate underwriting year accounts for the 2016 underwriting year have not been prepared, as the company has taken advantage of the exemption under paragraph 6 of the 2008 Regulations.

The preparation of these financial statements required the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The principal accounting policies are set out below:

**1.3. Critical accounting judgements and estimation uncertainty**

Significant judgement is required when allowing for risk and uncertainty within claims outstanding. This is discussed in detail in accounting policy 1.5 (v).

**NOTES TO THE FINANCIAL STATEMENTS  
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The managing agent makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

- The estimation of the ultimate liability arising from claims made under insurance contracts written, both directly and through the Whole Account Quota Shares, is the syndicate's most critical accounting estimate. This is discussed in detail in accounting policy 1.5(v).
- The managing agent makes an estimate of premiums written, both directly and through the Whole Account Quota Shares, during the year that have not yet been notified by the financial year end ('pipeline premiums') based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element.

**1.4. Going Concern**

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

**1.5. Insurance and investment contracts classification**

Insurance contracts are those contracts that transfer significant insurance risk. Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Such contracts may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

The syndicate has not issued any investment contracts, as set out above, in this or prior years and has only issued insurance contracts.

The results of the syndicate are determined on an annual basis, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**i. Premiums written**

Premiums written represent premiums on business incepting during the year together with adjustments to premiums written in previous accounting periods. They include estimates for pipeline premiums and are stated before deduction of commissions and other related acquisition costs but net of taxes & duties levied on premiums.

For general insurance contracts that are of a duration greater than one year and payable in annual instalments, generally, only the initial annual instalment is included as premiums written at policy inception due to the ability of the (re)insured to commute or cancel coverage during the term of the policy. The remaining annual instalments are included as premiums written at each successive anniversary date within the multi year term.

**ii. Outward reinsurance premiums written**

Outward reinsurance premiums ceded represents premiums for contracts incepting during the financial year together with adjustments to outwards reinsurance premiums ceded in previous years. They are allocated to the appropriate accounting period on bases which fairly reflect the allocation of the underlying business being protected.

**iii. Unearned premiums**

Premiums written are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of risk. The provision for unearned premiums represents the portion of premiums written that relate to unexpired terms of policies in force at the Balance Sheet date, and is calculated on a daily pro rata basis.

**iv. Claims incurred**

Claims incurred comprise claims and related expenses paid during the year and changes in the provisions for outstanding claims, whether reported or not, including related direct claims handling costs and adjustments to claims outstanding from previous years.

**v. Claims provisions and related reinsurance recoveries**

Provision is made at the year end for the estimated cost of claims incurred but not settled at the Balance Sheet date, including the cost of claims incurred but not yet reported to the syndicate. The estimated cost of claims includes expenses to be incurred in settling claims. The syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

that the final outcome will prove to be different from the original liability established. Any differences between provisions and subsequent settlements are dealt with in the general business technical account of later years.

The estimation of claims incurred but not reported (“IBNR”) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the syndicate, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves.

- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

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

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

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

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

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

**vi. Reinsurance to close (RITC)**

**NOTES TO THE FINANCIAL STATEMENTS  
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Each Lloyd's syndicate underwriting account is normally closed at the end of the third year by means of reinsurance into the following year, which reinsures all future liabilities for the closed year and all previous years in return for a premium calculated by the underwriter and approved by the managing agent.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle the outstanding claims.

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

**vii. Deferred acquisition costs**

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

**viii. Unexpired risks provision**

Provisions are made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the Balance Sheet date.

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

**1.6. Foreign currencies**

Items included in the annual accounts are measured using the currency of the primary economic environment in which the syndicate operates (the functional currencies). The annual accounts are presented in pounds sterling, which is the syndicate's functional currency.

Transactions in foreign currencies are translated into the functional currency using average rates of exchange as a proxy for the transactional rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the revaluation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non technical account.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items.

**1.7. Investments and overseas deposits**

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

**1.8. Taxation**

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

It remains the responsibility of the member to agree its corporation tax liabilities with HM Revenue & Customs.

The syndicate is required to fund on account assessments of US Dollar and Canadian Dollar source income and these amounts are then recovered by reimbursements from the MSU (Members' Services Unit). At the Balance Sheet date such syndicate fundings are included within other debtors. The final assessments are charged direct to the underwriting member by the MSU.

**1.9. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**2. MANAGEMENT OF FINANCIAL RISK**

**Financial risk management objectives**

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. Due to the nature of the ceding entities of the Whole Account Quota Shares' investments and liabilities, the risks that the syndicate primarily faces are interest rate risk and equity price risk.

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

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

**a) Insurance Risk**

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

**Capital resource sensitivities**

The capital position is sensitive to market conditions due to changes in the value of the assets, and to assumptions and experience in respect of the value of the liabilities. The most significant risks to the syndicate are as follows:

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**Event risk**

The risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing.

**Pricing risk**

The risk that the level of expected loss is understated in the pricing process.

**Reinsurance risk**

Reinsurance risk to the syndicate occurs where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, prove inadequate in terms of the vertical or horizontal limits purchased or result in coverage disputes.

**Cycle risk**

The risk that business is written in a soft market without full knowledge as to the adequacy of rates, terms and conditions.

**Expense risk**

The risk that the allowance for expenses and inflation in pricing is inadequate.

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

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

Specific scenarios monitored include:

- Two consecutive Atlantic seaboard windstorms
- Florida windstorm
- Gulf of Mexico windstorm
- European windstorm

**NOTES TO THE FINANCIAL STATEMENTS  
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- Japanese windstorm
- California earthquake
- New Madrid earthquake
- Japanese earthquake
- UK flood

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

Loss development tables providing information about historical claims development are included in note 5.

**b) Market Risk**

**i. Interest rate risk**

The syndicate is exposed to the interest rate risk on directly held fixed interest securities. The syndicate is also indirectly exposed to interest rate risk through the investment return remitted to it in lieu of the interest income received on funds withheld on the Whole Account Quota Shares.

The whole account quota share ceding entities monitor interest rate risk on a monthly basis by calculating the impact of changes in interest rate on the value of investments and the net present value of liabilities against a risk appetite that has been agreed with the management of the ceding entities of the Whole Account Quota Shares.

The ceding entities of the Whole Account Quota Shares purchase interest rate swaption contracts to manage their interest rate risk.

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

A 50bps increase/(decrease) in interest rates would lead to a £0.6m loss/(£0.6m gain) (2017: £0.4m loss/(£0.4m gain)) on total interest income, with an equal impact on net assets.

**ii. Equity price risk**

The syndicate does not hold equity investments, but is indirectly exposed to equity securities price risk through the

**NOTES TO THE FINANCIAL STATEMENTS  
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investment return remitted to it in lieu of the interest income received on funds withheld on the Whole Account Quota Shares.

The ceding entities of the Whole Account Quota Shares have a defined investment policy which sets limits on the syndicate's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the syndicate's price risk arising from its investments in equity securities.

A 50bps increase/(decrease) in Stock Market prices, with all other variables held constant, would lead to a £nil gain/(£nil loss) (2017: £0.1m gain/(£0.1m loss)) on the interest income remitted by the ceding entities of the Whole Account Quota Shares, with an equal impact on net assets.

**iii. Currency risk**

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

The syndicate is primarily exposed to currency risk in respect of its open market liabilities under policies of insurance denominated in currencies other than Pounds Sterling, as well as those of the ceding entities of the Whole Account Quota Shares. The most significant currencies to which the syndicate is exposed are US Dollars, Canadian Dollar and Euro. The syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

At 31 December 2018, in considering the syndicate's material currency exposures, if the Pounds Sterling had strengthened by 5% against the following currencies, with all other variables held constant, the profit and net assets for the year would have increased/(decreased) by the following amounts: US Dollars: £2.0m (2017: £3.2m), Euros: £0.1m (2017: (£0.1m)), Canadian Dollars: (£0.1m) (2017: (£0.1m)), Japanese Yen £0.3m (2017: £0.0m) , as a result of foreign exchange gains/losses on the translation of foreign currency profits. The impact would have been equal and opposite had the Pounds Sterling weakened by 5%.

**c) Credit risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arising from the business ceded by the ceding entities of the Whole Account Quota Shares is managed by the ceding entities themselves whilst the independent book of business is managed directly by CUAL. These entities adopt unified approach to mitigating credit risk under supervision of the AXA XL Board. Key areas where the syndicate is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from issuers of debt securities; and
- counterparty risk with respect to derivative transactions.

**NOTES TO THE FINANCIAL STATEMENTS  
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The syndicate and the ceding entities of the Whole Account Quota Shares manage the levels of credit risk they accept by placing limits on their exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to regular review.

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

There were no material unapproved breaches of credit limits during the year. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets

The table on the following page provides information on the credit quality of financial assets of the syndicate that are neither past due nor impaired.

**SYNDICATE 2088**

**NOTES TO THE FINANCIAL STATEMENTS  
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At 31 December 2018	AAA	AA	A	BBB or below	Not readily available/ not rated	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Debt Securities	34,334	22,113	32,134			88,581
Overseas deposits as investments			1,258			1,258
Cash at bank and in hand			31,680			31,680
Reinsurers' share of claims outstanding			32,797	866	672	34,335
<b>Total</b>	<b>34,334</b>	<b>22,113</b>	<b>97,869</b>	<b>866</b>	<b>672</b>	<b>155,854</b>

At 31 December 2017	AAA	AA	A	BBB or below	Not readily available/ not rated	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Debt Securities	13,090	5,360	6,346			24,796
Overseas deposits as investments	287					287
Cash at bank and in hand			31,134			31,134
Reinsurers' share of claims outstanding		8,209	21,393	23		29,625
<b>Total</b>	<b>13,377</b>	<b>13,569</b>	<b>58,873</b>	<b>23</b>	-	<b>85,842</b>

The syndicate has no reinsurance debtors that are past due but not considered to be impaired. The syndicate does not currently hold any impaired assets (2017: no impaired assets held). The credit quality of cash at bank is assessed by the credit rating of the financial institution where the cash is held.

## SYNDICATE 2088

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### d) Liquidity risk

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

The following tables analyse the financial liabilities by maturity date:

At 31 December 2018	No contractual maturity date £000's	Less than one year on demand £000's	Between 1 and 3 years £000's	Between 3 and 5 years £000's	Over 5 years £000's	Total £000's	Carrying value £000's
Creditors		29,434	7,316			36,750	36,750
Claims outstanding		94,074	152,661	8,671	7,341	262,747	262,748
<b>Total</b>		<b>123,508</b>	<b>159,977</b>	<b>8,671</b>	<b>7,342</b>	<b>299,498</b>	<b>299,498</b>

At 31 December 2017	No contractual maturity date £000's	Less than one year on demand £000's	Between 1 and 3 years £000's	Between 3 and 5 years £000's	Over 5 years £000's	Total £000's	Carrying value £000's
Creditors		30,440	24,699			55,139	55,139
Claims outstanding		58,655	107,797	3,702	2,592	172,746	172,746
<b>Total</b>		<b>89,094</b>	<b>132,496</b>	<b>3,702</b>	<b>2,592</b>	<b>227,884</b>	<b>227,884</b>

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

#### e) Fair value estimation

The syndicate adopts FRS 102. The following methods and assumptions are used by the syndicate in estimating the fair value of its financial instruments:

The fair values of cash and cash equivalents, premiums and other receivables, and accounts payable approximate their carrying value due to the immediate or short term maturity of these financial instruments. Investments and overseas deposits are classified as Level 1 assets in accordance with accounting standards. The syndicate holds no Level 3 assets.

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**3. MANAGEMENT OF CAPITAL**

**a) Capital Framework at Lloyd's**

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2088 is not disclosed in these financial statements. See note 21 and 22 for details of the syndicate's Funds at Lloyd's and Funds in Syndicate requirements.

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

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the member's SCR 'to ultimate'.

**c) Provision of capital by members**

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



**SYNDICATE 2088**

**NOTES TO THE FINANCIAL STATEMENTS  
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**4. RECONCILIATION OF INSURANCE BALANCES**

<b>2018</b>	<b>Provision for unearned premium £000's</b>	<b>Claims Outstanding £000's</b>
<b>Gross Technical Provisions</b>		
As at 1 January 2018	74,404	172,746
Movement in the provision	21,785	79,271
Foreign exchange movements	4,342	10,730
<b>At 31 December 2018</b>	<b>100,531</b>	<b>262,747</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2018	4,596	29,625
Movement in the provision	1,127	3,340
Foreign exchange movements	87	1,370
<b>At 31 December 2018</b>	<b>5,810</b>	<b>34,335</b>
<b>Net technical provisions</b>		
As at 1 January 2018	69,808	143,121
<b>At 31 December 2018</b>	<b>94,721</b>	<b>228,412</b>

The gross claims reported, the loss adjustment liabilities and the liabilities for claims incurred but not reported are gross of expected recoveries from salvage and subrogation.

**SYNDICATE 2088**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

<b>2017</b>	<b>Provision for unearned premium</b>	<b>Claims Outstanding</b>
	<i>£000's</i>	<i>£000's</i>
<b>Gross Technical Provisions</b>		
As at 1 January 2017	48,650	116,631
Movement in the provision	30,152	66,139
Foreign exchange movements	(4,398)	(10,024)
<b>At 31 December 2017</b>	<b>74,404</b>	<b>172,746</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2017	7,526	14,484
Movement in the provision	(2,585)	16,422
Foreign exchange movements	(345)	(1,281)
<b>At 31 December 2017</b>	<b>4,596</b>	<b>29,625</b>
<b>Net technical provisions</b>		
As at 1 January 2017	41,124	102,147
<b>At 31 December 2017</b>	<b>69,808</b>	<b>143,121</b>

**SYNDICATE 2088**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**5. RISK: CLAIMS DEVELOPMENT TRIANGLES**

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

**Gross claims development as at 31 December 2018**

Pure underwriting year	2013 & Prior £000's	2014 £000's	2015 £000's	2016 £000's	2017 £000's	2018 £000's	Total £000's
Estimate of gross claims incurred:							
After 12 months		18,202	22,188	33,615	77,377	75,438	
After 24 months		35,906	46,522	65,652	134,715		
After 36 months		37,805	49,908	73,989	-		
After 48 months		37,930	50,905	-	-		
After 60 months		39,452	-	-	-		
As at 31 December 2018	70,138	39,452	50,905	73,989	134,715	75,438	
Less cumulative gross claims paid	(70,448)	(37,922)	(42,259)	(8,605)	(19,991)	(2,665)	
Gross reserves	(310)	1,530	8,646	65,384	114,724	72,773	262,747

**SYNDICATE 2088**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**Net claims development as at 31 December 2018**

Pure underwriting year	2013 & Prior £000's	2014 £000's	2015 £000's	2016 £000's	2017 £000's	2018 £000's	Total £000's
Estimate of net claims incurred:							
After 12 months		15,885	20,148	30,058	65,322	69,882	
After 24 months		31,677	41,768	57,008	113,781		
After 36 months		33,561	47,930	58,294	-		
After 48 months		36,897	46,472	-	-		
After 60 months		35,996	-	-	-		
As at 31 December 2018	63,281	35,996	46,472	58,294	113,781	69,882	
Less cumulative net claims paid	(63,450)	(34,720)	(39,436)	(5,858)	(13,164)	(2,666)	
Net reserves	(169)	1,276	7,036	52,436	100,617	67,216	228,412

**Total all underwriting years**

Net reserves recognised	228,412
Amounts recovered from reinsurers	34,335
Gross reserves included in the balance sheet	<u>262,747</u>

## SYNDICATE 2088

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

#### 6. MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

An adverse run off deviation of £1.5m (2017: favourable run off deviation of £0.8m) was experienced during the year, wholly in respect of reserve movements on the 2012, 2013, 2014 and 2015 year of account Whole Account Quota Share contracts with Syndicate 2003 and the Legacy Catlin Group entities.

#### 7. SEGMENTAL ANALYSIS

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

2018	Gross Premiums Written £000's	Gross Premiums Earned £000's	Gross Claims Incurred £000's	Gross Operating Expenses £000's	Reinsurance Balance £000's	Total £000's
Fire and other damage to property	97,344	84,011	(80,868)	(29,857)	4,599	(22,115)
Accident and health	63,870	54,070	(37,404)	(20,405)	(395)	(4,134)
Marine, aviation and transport	24,118	25,199	(16,217)	(8,998)	(1,689)	(1,705)
Motor (third party liability)	3,471	3,738	(2,614)	(1,780)	59	(597)
<b>Total</b>	<b>188,803</b>	<b>167,018</b>	<b>(137,103)</b>	<b>(61,040)</b>	<b>2,574</b>	<b>(28,551)</b>

2017	Gross Premiums Written £000's	Gross Premiums Earned £000's	Gross Claims Incurred £000's	Gross Operating Expenses £000's	Reinsurance Balance £000's	Total £000's
Fire and other damage to property	68,587	56,416	(60,310)	(20,753)	(252)	(24,899)
Accident and health	57,081	38,957	(24,505)	(13,608)	(577)	267
Marine, aviation and transport	24,782	26,742	(24,078)	(8,952)	(982)	(7,270)
Motor (third party liability)	4,762	2,945	(3,217)	(1,149)	188	(1,233)
<b>Total</b>	<b>155,212</b>	<b>125,060</b>	<b>(112,110)</b>	<b>(44,462)</b>	<b>(1,623)</b>	<b>(33,135)</b>

## SYNDICATE 2088

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

All gross premiums written originate in the United Kingdom.

#### 8. (LOSS)/PROFIT FOR THE FINANCIAL YEAR

(Loss)/Profit for the financial year is stated after charging:

	2018 £000's	2017 £000's
<b>Auditors' remuneration</b>		
<b>Audit services:</b>		
Fees payable to the syndicate's auditors for the audit of the syndicate annual accounts	113	86
<b>Other services</b>		
Fees payable to the syndicate's auditors and its associates for other services: Other services pursuant to legislation, including the audit of the regulatory return	38	61

This is the auditors' remuneration attributable to the syndicate, the cost of which is borne through a company in AXA XL.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**9. EMPLOYEES & DIRECTORS**

The syndicate and its managing agent have no employees (2017: nil).

The syndicate did not directly incur staff costs during the year (2017: £nil).

Total Staff costs of £4.9m (2017: £3.2m) were recharged by service companies. These amounts include non-salary related costs such as staff training.

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

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Salaries	<b>4,093</b>	2,611
Social security	<b>526</b>	342
Pension	<b>326</b>	235
	<b>4,945</b>	<i>3,188</i>
	<b>4,945</b>	<i>3,188</i>

The syndicate was not recharged any expenses during the year relating to the remuneration of the directors of CUAL (2017: £nil).

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

Active underwriter's emoluments for the year were as follows:

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Aggregate emoluments and other benefits	<b>550</b>	600
	<b>550</b>	<i>600</i>
	<b>550</b>	<i>600</i>

The active underwriter's emoluments have been borne by an AXA XL company.

**SYNDICATE 2088**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**10. NET OPERATING EXPENSES**

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Acquisition costs	<b>54,688</b>	46,774
Change in deferred acquisition costs	<b>(6,014)</b>	(11,598)
	<b>48,674</b>	35,176
Administration expenses	<b>12,366</b>	9,286
	<b>61,040</b>	44,462

**11. OTHER INCOME**

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Bank interest	<b>352</b>	369
Income from investments	<b>824</b>	-
Gains on the realisation of investments	<b>160</b>	-
Unrealised gains on investments	<b>194</b>	-
Losses on the realisation of investments	<b>(11)</b>	-
Unrealised losses on investments	<b>(117)</b>	-
Investment Managers' Fees	<b>(46)</b>	-
Interest on funds withheld balance	<b>225</b>	1,969
	<b>1,581</b>	2,338

**12. OTHER FINANCIAL INVESTMENTS**

	<b>Market Value</b>		<b>Cost</b>	
	<b>2018</b>	<i>2017</i>	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>	<b>£000's</b>	<i>£000's</i>
Debt Securities and other fixed income securities	<b>88,581</b>	24,796	<b>88,501</b>	24,796



**SYNDICATE 2088**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**13. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS**

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Due from cedants within one year	<b>82,530</b>	67,964
Due from cedants after one year	<b>150,896</b>	120,859
	<b>233,426</b>	188,823

**14. OTHER DEBTORS**

**Amounts falling due within one year**

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Interest receivable	<b>1,624</b>	1,398

**15. OTHER DEBTORS**

**Amounts falling due after one year**

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Interest receivable	<b>984</b>	1,817

**SYNDICATE 2088**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**16. OVERSEAS DEPOSITS**

Overseas deposits include the following trust fund balances:

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Joint Asset Trust Fund – CRTF	<b>105</b>	22
Canadian Mutualised Margin Fund	<b>139</b>	102
Australian Trust Fund	<b>875</b>	76
South African Trust Fund	<b>5</b>	1
ASL Deposit Bahamas	<b>25</b>	27
ASL Deposit Switzerland	<b>39</b>	52
ASL Deposit Cayman Islands	-	1
ASL Deposit Brazil	<b>8</b>	4
Australian Joint Asset Trust Fund	<b>9</b>	-
ASL Deposit Singapore	<b>48</b>	1
Kentucky Trust Fund	<b>1</b>	1
SLTF – JATF	<b>2</b>	-
ASL – Namibia	<b>1</b>	-
Illinois Deposit	<b>1</b>	-
	<b>1,258</b>	<i>287</i>

**17. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS**

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Due to cedants within one year	<b>29,422</b>	30,386
Due to cedants after one year	<b>2,386</b>	15,157
	<b>31,808</b>	45,543

**SYNDICATE 2088**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**18. OTHER CREDITORS**

**Amounts falling due within one year**

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Recharged expenses	<b>12</b>	54
	<b>12</b>	54

**19. OTHER CREDITORS**

**Amounts falling due after one year**

	<b>2018</b>	<i>2017</i>
	<b>£000's</b>	<i>£000's</i>
Insurance premium tax	<b>112</b>	315
Intercompany loan	<b>4,818</b>	9,227
	<b>4,930</b>	9,542

**20. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	<b>£000's</b>	<i>£000's</i>
	<b>2018</b>	<i>2017</i>
(Loss) for the financial year	<b>(26,377)</b>	(29,667)
Increase in net technical provisions	<b>110,204</b>	69,659
(Increase) in debtors	<b>(57,686)</b>	(27,685)
Increase/(Decrease) in creditors	<b>(13,203)</b>	(4,434)
Net cash inflow from operating activities	<b>12,936</b>	7,873

**21. FUNDS AT LLOYD'S**

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). As at 31 December 2018, the value of assets supporting FAL for the 2019 year of account is £100m. These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

## SYNDICATE 2088

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

#### 22. FUNDS IN SYNDICATE

China Re (UK) Limited, the sole corporate member of the syndicate, holds investments in the syndicate to be used as collateral to support the syndicate's capital requirements, or Funds at Lloyd's. These investments give the syndicate the ability to manage these funds under the same Investment Management Agreement as the other funds of the syndicate that are held in the premium trust funds.

At 31 December 2018, £92.9m of investments were held as Funds in Syndicate (2017: £39.0m). The investments realised a profit of £1.3m for the year to 31 December 2018 (2017: £0.1m). The balance of £92.9m is included within member's balances on the syndicate's statement of financial position and is owed exclusively to China Re (UK) Limited.

#### 23. RELATED PARTY TRANSACTIONS

Catlin Underwriting Agencies Limited ("CUAL") is the managing agent for Syndicate 2088. Under the standard managing agent's agreement, CUAL receives an annual fee of 1% of stamp capacity and profit commissions at 20% for the 2012, 2013 and 2014 years of accounts. Any future profits on the 2015, 2016, 2017 and 2018 years of account will be charged profit commissions at 15%. In 2018, the managing agency fees amounted to £1.4m (2017: £1.1m) and profit commissions amounted to £nil (2017: £nil). The balance due to CUAL as at 31 December 2018 was £3.3m (2017: £2.5m).

There exists a Whole Account Stop Loss Reinsurance treaty between the syndicate and China Reinsurance (Group) Corporation. The impact to the Profit and Loss account for 2018 is a profit of £8.0m (2017: charge of £0.5m) and the balance due to China Reinsurance (Group) Corporation as at 31 December 2018 is £11.4m (2017: £9.5m).

China Re (UK) Limited is the sole member of Syndicate 2088 for 2012 and subsequent years of account.

The syndicate participates in reinsurance contracts with other parts of the China Reinsurance (Group) corporation. The effect of these contracts on the Profit and Loss Account in 2018 is a profit of £0.2m (2017: a profit of £1.1m). Amounts relating to these contracts of £45.2m (2017: £7.0m) were receivable as at the Balance Sheet date.

The syndicate is recharged costs by China Re Underwriting Agency Limited. In 2018 the total recharge was £5.1m (2017: £3.8m). China Re Underwriting Agency Limited has also provided a loan of £4.5m to the syndicate (2017: £9.0m). At 31 December 2018 the balance payable to China Re Underwriting Agency Limited was £14.1m (2017: £15.7m).

## **SYNDICATE 2088**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

#### **24. ULTIMATE PARENT UNDERTAKING**

China Re (UK) Limited is the sole member of Syndicate 2088.

The ultimate parent undertaking and controlling party of China Re (UK) Limited is China Reinsurance (Group) Corporation, a company incorporated in China, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. China Reinsurance (Group) Corporation is majority owned by the Ministry of Finance of the People's Republic of China and Central Huijin Investment Company Limited