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CATLIN UNDERWRITING AGENCIES LIMITED

SYNDICATE 2003 ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2019

CONTENTS

SYNDICATE INFORMATION

MANAGING AGENT:

Managing agent	Catlin Underwriting Agencies Limited ("CUAL")	
Managing agent Company number	01815126	
Directors	P Bradbrook	
	P Greensmith	
	R Littlemore	
	L Prato	
	C Ighodaro	(Non Executive)
	B Joseph	(Non Executive)
	B Poupart-Lafarge	(Non Executive)
	J Vereker	(Non Executive)
	J Weatherstone	(Non Executive)
	P Wilson	(Non Executive)
Company secretary	M L Rees	
Registered office	20 Gracechurch Street London EC3V 0BG	

SYNDICATE:

Active underwriters	R Littlemore L Prato
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

FINANCIAL HIGHLIGHTS

KEY PERFORMANCE INDICATORS (KPIs)	**2019**	*2018*
Syndicate capacity (£m)	**1,383.0**	*1,498.0*
Gross premiums written ($m)	**2,677.0**	*3,029.7*
Net premium written ($m)	**1,988.9**	*2,202.6*
Net premiums Earned ($m)	**2,115.8**	*2,199.9*
Underwriting loss ($m)	**(211.8)**	*(342.6)*
Profit for the financial year ($m)	**27.6**	*(302.8)*
Claims ratio (%)	**71.5**	*76.9*
Expense ratio (%)	**38.5**	*38.7*
Combined ratio (%)	**110.0**	*115.6*
Investment rate of return (%)	**6.0**	*0.8*

Claim ratio is the percentage of net incurred claims in relation to the net earned premiums.

Expense ratio is the percentage of net operating expenses in relation to the net earned premiums.

The combined ratio is the sum of the ratios of net operating expenses and net incurred claims to net earned premiums. A combined ratio of less than 100% represents an underwriting profit.

STRATEGIC REPORT OF THE MANAGING AGENT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors of Catlin Underwriting Agencies Limited ("CUAL"), the managing agent, present their strategic report and audited financial statements for the year ended 31 December 2019.

Principal activities

The principal activity of Syndicate 2003 ("the Syndicate") is to underwrite general insurance and reinsurance business within the Lloyd's of London market. The main lines of business are Accident and Health, Aviation, Casualty, Marine and Offshore Energy, Equine, Specie, Crisis Management, Political Risks, Property and Construction.

The Syndicate trades through the Lloyd's worldwide licenses, rating and brand. Lloyd's has an A (Excellent) rating through A.M.BEST, A+ (Strong) rating from S&P and AA- rating from Fitch.

Results and performance

Premiums

The gross written premiums for the Syndicate have decreased by 11.6% in 2019 to $ 2,677.0m *(2018: $ 3,029.7m)*. Rates on renewal business on average improved across the portfolio during 2019, however, this was offset by reductions in premium written in some less profitable classes of business. The overall reduction in Gross written premium was in line with the 2019 plan. Analysis of the Syndicate's business written by class of business is set out in note 4: Segmental Analysis, in the notes to the financial statements.

Underwriting result

The underwriting result (net earned premiums less net claims incurred and net operating expenses) for 2019 is an underwriting loss of $211.8m against an underwriting loss of $342.6m in 2018. The Syndicate's combined ratio has improved from 115.6% to 110.0%.

The underwriting result in 2019 has benefitted from fewer catastrophe losses in comparison to previous years. Significant events during the year includes Hurricanes Dorian, Faxai, Hagibis and California Wildfires.The Syndicate still benefits from significant external catastrophe reinsurance protection, as well as a whole-account stop loss agreement with XL Insurance (Bermuda Ltd) another member of the AXA XL division.

The underwriting result was further impacted by adverse developments on prior year claims estimates of $36.2 million. The most significant contributors were the International Financial Lines, International Property and Casualty accounts due to unfavourable claims experience offset by the favourable movements on Marine, Crisis management, Energy Property, Wholesale Property and Casualty.

The underlying underwriting performance in 2019 was subject to strengthening market conditions affecting some lines of business with ongoing "soft" market conditions on others.

Overall result

The net profit for the year is $27.6m *(2018: loss of $302.8m)*, as set out on pages 10 and 11. The overall investment return for the year is $238m *(2018: $32m)*.

STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Strategy and future outlook

CUAL's strategy is to leverage the inherent strengths of the Lloyd's market to write a portfolio of business that provides a better return than the market over the underwriting cycle. We aim to differentiate ourselves through offering underwriting excellence in specialised areas of insurance and reinsurance. Our objective to support our underwriters with a flexible underwriting environment, superior analytics, efficient claims handling and a robust Enterprise Risk Management framework will continue.

The Syndicate focus is to continue sustainable and disciplined growth through our Specialty, P&C and Reinsurance business lines. By using effective distribution channels, we will continue to offer a suite of products and services to meet the evolving needs of our clients, and contribute to AXA's "Ambition 2020" plan. The Syndicate is an important part of AXA SA business model transformation to anticipate the evolving needs of the customer and match this through its preferred segments which include P&C commercial lines. The Syndicate continues to provide AXA SA with a diversified and scalable operation to service international based risks and clients.

The Syndicate continues to purchase a Whole Account Stop Loss reinsurance contract from XL Bermuda Ltd. The Syndicate will selectively focus on growth opportunities with the emphasis on bottom line profitability.

The Lloyd's market has established a Lloyd's Brussels subsidiary which is a fully regulated insurance company, with a robust corporate structure, compliant with the regulator's requirements and capitalised according to Solvency II rules. This structure provides the market with a solid platform on which to continue to trade with, and grow in, the European Union providing access to all twenty-seven EU and three EEA countries via the existing distribution channels of brokers, coverholders and syndicates.

For the 2020 year of account approximately 11.1% *(2019: 10.5%)* of the Syndicate's gross written premium is anticipated to be within the Europe Union.

Managing Syndicates

CUAL, the managing agent of the Syndicate, is a company registered in England and Wales. CUAL is a wholly-owned subsidiary of its ultimate parent AXA SA ("AXA"), a company registered in France. Copies of the financial statements can be obtained from 25 Avenue Matignon FR-75008, Paris, France.

The Syndicate is wholly-aligned with capital provided by AXA XL, a division of AXA SA, through a subsidiary Catlin Syndicate Limited.

Stamp capacity of the Syndicate

The stamp capacity for the 2020 underwriting year is £1,349m.

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

P Bradbrook
Director
5 March 2020

MANAGING AGENT'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors of the managing agent present their report together with the audited financial statements for the year ended 31 December 2019.

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

The managing agent has received, in writing, agreement from Catlin Syndicate Limited, the sole member of Syndicate 2003, that no underwriting year accounts need to be prepared in respect of Syndicate 2003. This is in accordance with Section 6, Paragraph 1b of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations").

Loss collection

Losses will continue to be collected by reference to the results of individual underwriting years. Under Lloyd's accounting rules, the Syndicate's 2017 year of account was closed at the end of 2019 with a negative return equal to 11.2% of capacity.

The member's balance as at 31 December 2019 is a surplus $135.8m *(2018: deficit of $157.2m)*.

Directors

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

P Bradbrook		
P Greensmith		
R Littlemore		
L Prato		Appointed 27 June 2019
C Ighodaro	(Non Executive)	
B Joseph	(Non Executive)	
B Poupart-Lafarge	(Non Executive)	Appointed 27 November 2019
J Vereker	(Non Executive)	
J Weatherstone	(Non Executive)	Appointed 11 February 2020
P Wilson	(Non Executive)	

L Prato became Active Underwriter on 27 June 2019 taking over from P Greensmith.

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.

MANAGING AGENT'S REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Statement of managing agent's responsibilities

The directors of the managing agent are responsible for preparing the Syndicate annual accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Principles (GAAP), Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103 - "Insurance Contracts" ("FRS 103"), both issued by the Financial Reporting Council.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare syndicate annual accounts for the Syndicate at 31 December each year. The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that there will be future years of account of the Syndicate.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time, the financial position of the Syndicate and enable it to ensure that the Syndicate's annual accounts comply with the Regulations and the relevant provisions of the Companies Act 2006. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

Statement of disclosure of information to the auditors

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

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

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

P Bradbrook
Director
5 March 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2003

Report on the syndicate annual accounts

Opinion

In our opinion, 2003'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 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with 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 Annual Report and Accounts (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the statement of profit or loss for the year then ended, the statement of cash flows for the year then ended, the statement of changes in member's balances for the year then ended and the notes to the syndicate annual accounts, which include a description of the 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.

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 of the United Kingdom's withdrawal from the European Union 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 any form of assurance thereon.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2003 (CONTINUED)

Reporting on other information (continued)

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 The 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 2019 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 6, 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.

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. 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 member 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2003 (CONTINUED)

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

• adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; 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.

Andrew Moore (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

TECHNICAL ACCOUNT GENERAL BUSINESS	Note	**2019 $000's**	*2018 $000's*
Gross premiums written	4	**2,676,979**	*3,029,721*
Outward reinsurance premiums		**(688,040)**	*(827,152)*
Net premiums written		**1,988,939**	*2,202,569*
Change in the gross provision for unearned premiums	12	**219,300**	*72,075*
Change in the provision for unearned premiums, reinsurers' share	12	**(92,466)**	*(74,699)*
Change in the net provision for unearned premiums		**126,834**	*(2,624)*
Earned premiums, net of reinsurance		**2,115,773**	*2,199,945*
Allocated investment return transferred from the non technical account	10	**182,430**	*28,022*
Total technical income		**2,298,203**	*2,227,967*
Claims paid			
Gross amount		**(2,156,044)**	*(2,218,731)*
Reinsurers' share		**581,119**	*607,397*
		(1,574,925)	*(1,611,334)*
Change in the provision for claims			
Gross amount	12	**236,999**	*(253,539)*
Reinsurers' share	12	**(174,587)**	*173,629*
		62,412	*(79,910)*
Claims incurred, net of reinsurance		**(1,512,513)**	*(1,691,244)*
Net operating expenses	7	**(815,084)**	*(851,276)*
Balance on the technical account for general business		**(29,394)**	*(314,553)*

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

NON TECHNICAL ACCOUNT	Note	2019 $000's	2018 $000's
Balance on the technical account for general business		(29,394)	(314,553)
Investment income	10	176,006	192,008
Unrealised gains on investments	10	161,284	104,897
Investment expenses and charges	10	(10,564)	(11,168)
Losses on the realisation of investments	10	(36,194)	(113,164)
Unrealised losses on investments	10	(52,484)	(140,531)
		238,048	32,042
Allocated investment return transferred to the technical account for general business	10	(182,430)	(28,022)
Foreign exchange gains		1,340	7,766
Profit/(Loss) for the financial year		27,564	(302,768)

STATEMENT OF FINANCIAL POSITION - ASSETS AS AT 31 DECEMBER 2019

	Note	**2019 $000's**	*2018 $000's*
Investments			
Other financial investments	11	**3,527,669**	*3,176,364*
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	**271,817**	*361,470*
Claims outstanding	12	**1,754,207**	*1,806,565*
		2,026,024	*2,168,035*
Debtors amounts falling due within one year			
Debtors arising out of direct insurance operations	14	**1,154,766**	*1,082,571*
Debtors arising out of reinsurance operations		**530,850**	*711,419*
Other debtors	15	**107,487**	*108,462*
		1,793,103	*1,902,452*
Debtors amounts falling due after one year			
Debtors arising out of reinsurance operations		**10,836**	*166,438*
Other debtors	16	**34,420**	*39,033*
		45,256	*205,471*
Other assets			
Cash at bank and in hand		**104,910**	*299,149*
Overseas deposits	17	**542,234**	*529,168*
		647,144	*828,317*
Prepayments and accrued income			
Accrued interest		**22,972**	*21,189*
Deferred acquisition costs	6	**361,659**	*408,467*
Other prepayments and accrued income		**127**	*7,952*
		384,758	*437,608*
TOTAL ASSETS		**8,423,954**	8,718,247

STATEMENT OF FINANCIAL POSITION - CAPITAL AND LIABILITIES AS AT 31 DECEMBER 2019

	Note	2019 $000's	2018 $000's
Capital and reserves			
Member's balances		**135,828**	*(157,230)*
Technical provisions			
Provision for unearned premiums	12	**1,260,949**	*1,468,715*
Claims outstanding	12	**5,703,566**	*5,921,697*
		6,964,515	*7,390,412*
Creditors amounts falling due within one year			
Creditors arising out of direct insurance operations	18	**139,262**	*41,337*
Creditors arising out of reinsurance operations		**735,228**	*821,860*
Amounts owed to credit institutions		**216,050**	*100,006*
Other creditors	19	**143,198**	*132,634*
		1,233,738	*1,095,837*
Creditors amounts falling due after one year			
Creditors arising out of reinsurance operations		**38,670**	*323,105*
Other creditors	20	**720**	*402*
		39,390	*323,507*
Accruals and deferred income		**50,483**	*65,721*
TOTAL CAPITAL AND LIABILITIES		**8,423,954**	*8,718,247*

The notes on pages 16 to 48 form part of these financial statements.

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

P Bradbrook
Director
5 March 2020

STATEMENT OF CHANGES IN MEMBER'S BALANCES FOR THE YEAR ENDED 31 DECEMBER 2019

	Balance attributable to underwriting $000's	Funds in Syndicate (FIS) $000's	Total Member's Balances $000's
Balance as at 1 January 2018	(509,517)	442,331	(67,186)
Loss for the financial year	(306,579)	3,811	(302,768)
Profit distribution 2015 year of account	(47,591)	—	(47,591)
Contribution during the year	—	260,315	260,315
Balances as at 31 December 2018	(863,687)	706,457	(157,230)
Balance as at 1 January 2019	**(863,687)**	**706,457**	**(157,230)**
Profit for the financial year	(29,415)	56,979	27,564
Loss distribution 2016 year of account	276,176	(276,176)	—
Contribution during the year	—	265,494	265,494
Balances as at 31 December 2019	**(616,926)**	**752,754**	**135,828**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 $000's	2018 $000's
Reconciliation of Profit/(Loss) to net cash flow from operating activities		
Profit / (Loss) for the financial year	27,564	(302,768)
(Decrease)/Increase in gross technical provisions	(425,897)	500,905
Decrease/(Increase) in reinsurers' share of gross technical provisions	142,011	(60,159)
Decrease/(Increase) in debtors	322,413	(132,754)
(Decrease) in creditors	(277,498)	(259,799)
Investment return	(238,048)	(32,041)
Increase in overseas deposits	(13,066)	(30,997)
Movement in other assets/liabilities	(66,353)	157,684
Net cash used in operating activities	(528,874)	(159,929)
Cash flow from investing activities:		
Purchase of equity and debt instruments	(3,390,282)	(2,465,140)
Sale of equity and debt instruments	3,107,172	2,401,939
Investment income received	238,048	32,041
	(45,062)	(31,160)
Cash flows from financing activities:		
Collection/(Distribution) on closed year's result	276,176	(47,591)
Amounts added to funds in syndicate	265,494	260,315
FIS released to member	(276,176)	
	265,494	212,724
Net (decrease)/increase in cash and cash equivalents	(308,442)	21,635
Cash and cash equivalents at the beginning of the year	199,143	179,661
Foreign exchange on cash and cash equivalents	(1,841)	(2,153)
Cash and cash equivalents at end of the year	(111,140)	199,143
Cash at bank and in hand	104,910	299,149
Overdrafts	(216,050)	(100,006)
Cash and cash equivalents at end of the year	(111,140)	199,143

Funds in syndicate ("FIS") included within cash and cash equivalents are not readily available for use by the Syndicate. See note 22 for further detail on these assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES

A Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom Generally Accepted Accounting Principles (GAAP), including Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103 - "Insurance Contracts" ("FRS 103"), both issued by the Financial Reporting Council and in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies and other requirements of the Companies Act 2006.

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in the following notes:

Note 2(f) - fair value estimation: financial assets and liabilities (valuations based on models and unobservable inputs);
Note 5 - movement in prior year's provision for claims outstanding; and
Note 12 - insurance liabilities and reinsurance assets (estimates for losses incurred but not reported).

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

The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and ots chain of security for any members who are unable to meet their underwriting liabilities.

Separate accounts for the 2017 underwriting year have not been prepared, as the Syndicate has taken advantage of the exemption under paragraph 6 of the Regulations.

Preparation of Syndicate underwriting year accounts Managing Agents must, in respect of each Syndicate to which regulation 5(1) refers, prepare or cause to be prepared underwriting year accounts in accordance with paragraph (2) of Insurance Account Directive Regulation 2008 ("the Regulation"),unless -

(a) no underwriting year of that Syndicate has been closed in the preceding financial year or is being closed at the end of that financial year; or

(b) the members of the Syndicate for each underwriting year included in the underwriting year accounts, agree unanimously, in writing, that no underwriting year accounts shall be prepared in respect of that Syndicate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES (CONTINUED)

B Basis of accounting

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

(a) Premiums written

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

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

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

(b) Unearned premiums

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

(c) Acquisition costs

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

(d) Ceded Reinsurance

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

Any benefits to which the syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for Incurred but not reported (IBNR), net of estimated irrecoverable amounts having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved. The syndicate assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the profit or loss account

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

(e) Claims incurred

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES (CONTINUED)

B Basis of accounting (continued)

(f) Claims provisions and related recoveries

The outstanding claims comprise amounts set aside for claims notified and claims incurred but not reported.

Notified claims are estimated on a case by case basis. In estimating the cost of these the Syndicate has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in a previous period. Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortion of the development and incidence of these large claims.

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

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

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

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

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

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

The Syndicate discounts unpaid loss reserves arising from US Workers' Compensation business and on Periodic Payment Orders related to bodily injury claims in the UK Motor book.

Both of these payments are considered to have duration of greater than four years from the balance sheet date. The discounting rates and mean estimated terms used for both the US Workers' Compensation and UK Motor book are 3.8% over 21 years and 2.0% over 31 years, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES (CONTINUED)

B Basis of accounting (continued)

(f) Claims provisions and related recoveries (continued)

	Undiscounted reserves		**Discount credit**	
	2019 $000's	*2018 $000's*	**2019 $000's**	*2018 $000's*
US Workers' Compensation	**354,692**	*406,370*	**111,168**	*130,311*
UK Motor book	**85,009**	*75,808*	**39,098**	*34,559*

The Syndicate utilises tabular reserving for US Workers' Compensation unpaid losses that are considered fixed and determinable, and discount such losses using an interest rate of 3.8 %. The interest rate approximates the implied return on the market-based assets supporting the expected cash-flows of our liabilities. The tabular reserving methodology results in applying uniform and consistent criteria for establishing expected future indemnity and medical payments and the use of mortality tables to determine expected payment periods.

The allowance for Periodic Payment Orders ("PPOs") relates to bodily injury claims in the UK and includes the unpaid losses for claims already settled and notified as PPOs at 31 December 2019, as well as the unpaid losses for claims to be settled in the future. The future care element of the unpaid losses was discounted using an interest rate of 2%. The interest rate approximates the implied return on the market-based assets supporting the expected cash-flows of our liabilities.

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

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

(g) Unexpired risks provision

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

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

(h) Reinsurance to close

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES (CONTINUED)

B Basis of accounting (continued)

(h) Reinsurance to close (continued)

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

(i) Financial assets at fair value through the statement of profit or loss

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

The Syndicate has designated hedge funds, equity funds, equity securities and money market funds at fair value through the statement of profit or loss.

Designated debt securities and other fixed income securities are stated at fair value through the Statement of Profit or Loss. The fair value is based on the quoted market prices provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriter bid indications.

(j) Operating expenses

Costs incurred by the managing agent exclusively for the Syndicate are charged to the Syndicate on an accruals basis. Expenses incurred jointly by the managing agent and the Syndicate are charged to the Syndicate to reflect the costs of services provided. This recharge does not include any profit element. Syndicate operating expenses are allocated to the year of account for which they are incurred.

(k) Reinsurers' commissions and profit participations

Reinsurers' commissions and profit participations, which include reinsurance profit commission and overriders, are treated as a contribution to expenses.

(l) Bad debts

Bad debts are provided for only where specific information is available to suggest a debtor may be unable or unwilling to settle its debt to the Syndicate. The provision is calculated on a case-by-case basis.

C Pension costs

Staff working on the Syndicate are employed by a divisional service company, XL Catlin Services SE ("XLCSSE"), an approved, Central Bank of Ireland regulated intermediary. The pension contributions relating to staff working on the affairs of the Syndicate are charged to the Syndicate as part of the AXA XL expense recharging model across the international network, which includes the Syndicate and the amount is captured within the net operating expenses on the Statement of Profit or Loss.

D Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Gains or losses arising from changes in the fair value of financial assets are recognised through the Statement of Profit or Loss within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise. Investment return is recorded in the non-technical account within the statement of profit or loss. Dividends on equity securities are recorded as revenue on the ex-dividend date, which includes the imputed tax credits. Interest is recognised on an accruals basis for financial assets at fair value through the Statement of Profit or Loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES (CONTINUED)

D Investment return (continued)

a. Realised gains and losses

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

b. Unrealised gains and losses

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

c. Investment expenses, charges or interest

These are accounted for as incurred on an accruals basis. A transfer is made from the non-technical account to the technical account for investment return related to Syndicate assets supporting the underwriting business. Investment return attributable to funds in syndicate deposited by the participating member, has not been transferred to the technical account.

E Foreign currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Syndicate operates (the functional currency). The Syndicate's financial statements are presented in thousands of US dollars, which is the Syndicate's functional currency. Foreign currency transactions are translated at the rate of exchange ruling at the dates of the transactions or at an appropriate average rate.

All assets and liabilities arising from insurance contracts should be treated as monetary items. At each period end foreign currency monetary items are re-translated into US dollars at the rate of exchange at the balance sheet date.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

F Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct income tax from trading income. UK basic rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the Statement of Financial position under the heading "other debtors".

G Investments and Overseas Deposits

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES (CONTINUED)

H Associates

Investments over which the Syndicate exercises significant influence but not a controlling interest are carried at cost adjusted for the Syndicate's share of earnings or losses and distributions.

The Syndicate has elected to apply the cost basis for these investments as established by FRS102. Amounts relating to these investments are reported within other investments in note 11.

I Loans and receivables

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

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

J Cash and cash equivalents

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

K Financial liabilities

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

L Member's balances

Distributions to its member are made in the year following the year a reporting year of account closes, which is generally three years after the inception of the reporting year of account.

M Going concern

Having assessed the principle risks, the directors consider it appropriate to adopt a going concern basis of accounting in the preparation of these report and accounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

2 RISK MANAGEMENT

Financial risk management objectives

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

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

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

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

(a) Insurance risk

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

Capital resource sensitivities

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

Event risk

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

Pricing risk

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

Reinsurance risk

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

Expense risk

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

2 RISK MANAGEMENT (CONTINUED)

(a) Insurance risk (continued)

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

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

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 use 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% total Value at Risk (TVaR), however a range of return periods are reported and tracked over time.

Loss development tables providing information about historical claims development are included in note 13.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

2 MANAGEMENT OF FINANCIAL RISK (CONTINUED)

(b) Market risk

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

AXA XL division places restrictions on the external investment managers' investment strategies. Strict limits, by trust fund, are set for types of assets held, concentration limits and average investment grade ratings. Investments are typically investment grade bonds and investment grade asset backed securities. Guidelines and benchmarks are set annually and approved by the CUAL Board of Directors.

The performance of the investment managers is monitored constantly and reviewed quarterly by the CUAL Board of Directors. The Syndicate aims to manage exchange rate exposure in US dollar terms.

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

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

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

Sensitivity analysis

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

	Impact on result		**Impact on net assets**	
	2019	*2018*	**2019**	*2018*
	$m	*$m*	**$m**	*$m*
50 basis points increase	**(64.6)**	*(56.4)*	**(64.6)**	*(56.4)*
50 basis points decrease	**65.2**	*55.7*	**65.2**	*55.7*

(ii) Equity price risk

The Syndicate is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through statement of profit or loss. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

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

As at 31 December 2019, the Syndicate had $303m of unlisted equity investments *(2018: $340m)*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

2 MANAGEMENT OF FINANCIAL RISK (CONTINUED)

(b) Market risk (continued)

(ii) Equity price risk (continued)

	Impact on result		Impact on net assets	
	2019	*2018*	**2019**	*2018*
	$m	*$m*	**$m**	*$m*
5% increase in stock market prices	**14.9**	*18.2*	**14.9**	*18.2*
5% decrease in stock market prices	**(14.9)**	(18.2)	**(14.9)**	*(18.2)*

(iii) Currency risk

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

The Syndicate is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US Dollars. The most significant currencies to which the Syndicate is exposed are Pounds Sterling, 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. Profit and Loss is distributed in accordance with Lloyd's rules using a combination of Sterling and US Dollars.

Sensitivity analysis

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

The table below gives an indication of the impact on profit after tax and net assets of a percentage change in the relative strength of the US dollar.

	Impact on result		Impact on net assets	
	2019	*2018*	**2019**	*2018*
	$m	*$m*	**$m**	*$m*
USD weakens 10% against other currencies	**(63,668)**	(62,213)	**(63,668)**	*(62,610)*
USD weakens 5% against other currencies	**(31,834)**	(29,469)	**(31,834)**	*(31,305)*
USD strengthens 5% against other currencies	**30,318**	*26,663*	**30,318**	*29,814*
USD strengthens 10% against other currencies	**57,880**	*50,902*	**57,880**	*56,918*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

2 MANAGEMENT OF FINANCIAL RISK (CONTINUED)

(b) Market risk (continued)

(iii) Currency risk (continued)

The currency profile of the Syndicate's financial assets and liabilities is as follows:

2019	GBP	USD	EUR	CAD	AUD	OTH	TOTAL
	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Financial investments	385,170	2,766,775	38,050	337,674	—	—	3,527,669
Overseas deposits	—	32,164	—	91,732	314,275	104,063	542,234
Reinsurers' share of technical provisions	169,135	1,629,930	144,399	69,920	11,767	873	2,026,024
Insurance and Reinsurance receivables	260,847	1,258,665	130,353	15,065	31,267	255	1,696,452
Cash and cash equivalents	22,172	53,863	1,313	21,223	3,754	2,585	104,910
Other assets	45,873	297,498	90,688	45,529	45,920	1,157	526,665
Total assets	883,197	6,038,895	404,803	581,143	406,983	108,933	8,423,954
Technical provisions	1,271,443	4,660,120	583,915	342,805	99,190	7,042	6,964,515
Insurance and reinsurance payables	285,681	519,374	21,528	71,346	13,529	1,702	913,160
Other creditors	335,878	86,891	6,269	(987)	(16,738)	(862)	410,451
Total Liabilities	1,893,002	5,266,385	611,712	413,164	95,981	7,882	8,288,126

The debit balances within other creditors is due to the settlement of inter-company amounts in currencies different to that initially booked.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

2 MANAGEMENT OF FINANCIAL RISK (CONTINUED)

(b) Market risk (continued)

(iii) Currency risk (continued)

2018	*GBP $000's*	*USD $000's*	*EUR $000's*	*CAD $000's*	*AUD $000's*	*OTH $000's*	*TOTAL $000's*
Financial investments	*274,737*	*2,521,747*	*37,257*	*342,623*	—	—	*3,176,364*
Overseas deposits	*1*	*37,352*	—	*86,702*	*293,660*	*111,453*	*529,168*
Reinsurers' share of technical provisions	*160,759*	*1,824,162*	*118,259*	*64,855*	—	—	*2,168,035*
Insurance and Reinsurance receivables	*318,963*	*1,416,826*	*190,049*	*34,590*	—	—	*1,960,428*
Cash and cash equivalents	*8,086*	*276,478*	*6,775*	*7,810*	—	—	*299,149*
Other assets	*87,055*	*352,940*	*90,726*	*54,382*	—	—	*585,103*
Total assets	*849,601*	*6,429,505*	*443,066*	*590,962*	*293,660*	*111,453*	*8,718,247*
Technical provisions	*1,155,546*	*5,316,263*	*606,833*	*311,771*	—	—	*7,390,413*
Insurance and reinsurance payables	*336,888*	*631,318*	*119,171*	*98,925*	—	—	*1,186,302*
Other creditors	*346,470*	*13,057*	*(58,825)*	*(1,939)*	—	—	*298,763*
Total Liabilities	*1,838,904*	*5,960,638*	*667,179*	*408,757*	—	—	*8,875,478*

The debit balances within other creditors is due to the settlement of inter-company amounts in currencies different to that initially booked.

(c) Credit risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

2 MANAGEMENT OF FINANCIAL RISK (CONTINUED)

(c) Credit risk (continued)

The table below provides information on the credit quality of financial assets of the Syndicate that are neither past due nor impaired, based on S&P or equivalent rating at 31st December:

2019	AAA $000's	AA $000's	A $000's	BBB or below $000's	Not rated $000's	Total $000's
Debt securities and other fixed income securities	1,017,664	640,370	1,342,910	220,465	83	3,221,492
Shares and other variable yield securities and units in unit trusts	—	—	8,457	—	294,362	302,819
Other investments	—	—	—	3,358	—	3,358
Cash and cash equivalents	—	11,862	81,695	11,353	—	104,910
Overseas deposits as investments	295,048	63,381	51,426	37,487	94,892	542,234
Reinsurers' share of claims outstanding	112,286	8,139	1,620,720	12,709	352	1,754,206
Other Debtor	—	—	—	—	961,697	961,697
Insurance debtors	—	—	—	—	1,059,041	1,059,041
Total	1,424,998	723,752	3,105,208	285,372	2,410,427	7,949,757

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

2 MANAGEMENT OF FINANCIAL RISK (CONTINUED)

(c) Credit risk (continued)

2018	*AAA $000's*	*AA $000's*	*A $000's*	*BBB or below $000's*	*Not rated $000's*	*Total $000's*
Debt securities and other fixed income securities	*860,341*	*519,178*	*1,267,793*	*185,486*	*651*	*2,833,449*
Shares and other variable yield securities and units in unit trusts	—	—	—	—	*339,958*	*339,958*
Other investments	—	—	—	*2,442*	—	*2,442*
Loans with credit institutions	—	—	—	—	*515*	*515*
Cash and cash equivalents	—	*3,138*	*284,763*	*11,248*	—	*299,149*
Overseas deposits as investments	*284,531*	*71,399*	*37,649*	*28,646*	*106,943*	*529,168*
Reinsurers' share of claims outstanding	*203,789*	*11,187*	*1,562,158*	*5,965*	*23,466*	*1,806,565*
Other debtors	—	—	—	—	*1,290,623*	*1,290,623*
Insurance debtors	—	—	—	—	*995,051*	*995,051*
Total	*1,348,661*	*604,902*	*3,152,363*	*233,787*	*2,757,207*	*8,096,920*

The concentration of credit risk is substantially unchanged compared to prior year. There were no material unapproved breaches of credit limits during the year. For the current and prior period the Syndicate did not experience any material defaults on debt securities.

The Syndicate has insurance and reinsurance debtors that are past due but not considered to be impaired. The syndicate does not currently hold any impaired assets *(2018: no impaired assets held)*.

2019	**Up to three months $000's**	**Three to six months $000's**	**Six months to one year $000's**	**Greater than one year $000's**	**Total $000's**
Insurance debtors	**48,660**	**1,843**	**37,774**	**7,448**	**95,725**
Reinsurance debtors	**357,367**	**3,028**	**10,736**	**7,342**	**378,473**
Total	**406,027**	**4,871**	**48,510**	**14,790**	**474,198**

2018	*Up to three months $000's*	*Three to six months $000's*	*Six months to one year $000's*	*Greater than one year $000's*	*Total $000's*
Insurance debtors	*40,535*	*14,979*	*16,101*	*15,905*	*87,520*
Reinsurance debtors	*516,699*	*7,232*	*8,338*	*1,538*	*533,807*
Total	*557,234*	*22,211*	*24,439*	*17,443*	*621,327*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

2 MANAGEMENT OF FINANCIAL RISK (CONTINUED)

(d) Liquidity risk

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

The following tables analyse financial liabilities by maturity date:

2019	**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**
Other creditors	**1,233,738**	**39,390**	**—**	**—**	**1,273,128**
Claims outstanding	**1,759,891**	**1,821,045**	**870,647**	**1,251,983**	**5,703,566**
Financial liabilities	**2,993,629**	**1,860,435**	**870,647**	**1,251,983**	**6,976,694**

2018	*Less than one year on $000's*	*Between 1 and 3 years $000's*	*Between 3 and 5 years $000's*	*Over 5 years $000's*	*Total $000's*
Other creditors	*1,095,836*	*323,508*	*—*	*—*	*1,419,344*
Claims outstanding	*2,033,891*	*1,857,661*	*839,101*	*1,191,044*	*5,921,697*
Financial liabilities	*3,129,727*	*2,181,169*	*839,101*	*1,191,044*	*7,341,041*

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) Operational risk

This is the risk of loss resulting from inadequate or failed internal processes and systems, or from external events. Both the group and Lloyd's have formal disaster recovery plans which, in the event of an incident will support on going trading.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

2 MANAGEMENT OF FINANCIAL RISK (CONTINUED)

(f) Fair value estimation

With the adoption of FRS 102 on fair value hierarchy disclosures, below are the methods and assumptions used by the Syndicate in estimating the fair value of its financial instruments, together with its categorisation:

The categorising of these assets is defined as follows:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Fixed maturities and short term investments

Fair values of fixed maturities and short term investments are based on the quoted market price or evaluated bid prices of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriting bid indications.

The Syndicate's Level 3 fixed maturities include RMBS, CMBS, ABS and corporate securities, for which pricing vendors and non binding broker quotes are the primary source of the valuations. The Syndicate compares the price to independent valuations, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value. Although the Syndicate does not have access to the specific unobservable inputs that may have been used in the fair value measurements of RMBS, CMBS and ABS, the syndicate would expect that the significant inputs considered are prepayment rates, probability of default, loss severity in the event of default, recovery rates, liquidity premium and reinvestment rates. Significant increases or decreases in any of those inputs in isolation could result in a significantly different fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

The Syndicate's level 3 investments also include fixed maturities where the prices provided by vendors have been unchanged for 3 months or more.

Other investments

The fair value of investments in funds is based on the net asset value provided by the funds' administrators. The fair values of holdings in equity and loan instruments are based on the market price or evaluated bid prices of these securities provided by independent pricing services, or, when such prices are not available, by reference to broker or underwriting bid indications provided by administrators and recent transactions, if any.

The Syndicate's Level 3 other invested assets consist of investments in funds with significant redemption restrictions and unquoted private equity and debt, for which manager net asset value (NAV) statements are the primary source of the valuations. Although the Syndicate does not have access to the specific unobservable inputs that may have been used in the fair value measurements, the Syndicate would expect the significant inputs for private equity and debt to be discounted cash flows and valuations of similar sized peers. Significant increases or decreases in any of those inputs in isolation could result in a significantly different fair value measurement.

The Syndicate's level 3 investments also include other invested assets where the prices provided by vendors have been unchanged for 3 months or more.

Other assets and liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

2 MANAGEMENT OF FINANCIAL RISK (CONTINUED)

(f) Fair value estimation (continued)

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

2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	$000's	**$000's**	**$000's**	**$000's**
Fair value through Profit and Loss:				
Shares and other variable yield securities and units in unit trusts	**172,896**	**—**	**129,923**	**302,819**
Debt securities and other fixed income securities	**—**	**3,221,492**	**—**	**3,221,492**
Loans and deposits with credit institutions	**—**	**—**	**—**	**—**
Overseas deposits	**103,889**	**438,345**	**—**	**542,234**
	276,785	**3,659,837**	**129,923**	**4,066,545**

2018	*Level 1*	*Level 2*	*Level 3*	*Total*
	$000's	*$000's*	*$000's*	*$000's*
Fair value through Profit and Loss:				
Shares and other variable yield securities and units in unit trusts	*4,862*	*—*	*335,096*	*339,958*
Debt securities and other fixed income securities	*—*	*2,833,449*	*—*	*2,833,449*
Loans and deposits with credit institutions	*515*	*—*	*—*	*515*
Overseas deposits	*126,553*	*402,615*	*—*	*529,168*
	131,930	*3,236,064*	*335,096*	*3,703,090*

Fair value estimates included in Level 3 are hedge funds with significant redemption restrictions, collateralised debt obligations ("CDO"), sub prime securities, Alt A securities and securities rated CCC and below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

3 MANAGEMENT OF CAPITAL

(a) Capital Framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements applies at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2003 is not disclosed in these financial statements. See notes 21 and 22 for details of the Syndicate's FAL and FIS requirements.

(b Lloyd's Capital Setting Process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 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.

The level of FAL/FIS that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. This capital requirement is based on a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

4 SEGMENTAL ANALYSIS

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

2019	**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	**467,352**	**551,742**	**(373,265)**	**(179,291)**	**(61,609)**	**(62,423)**
Accident and health	**144,263**	**148,580**	**(66,320)**	**(75,384)**	**(4,824)**	**2,052**
Third party liability	**643,229**	**651,579**	**(366,825)**	**(231,859)**	**(61,126)**	**(8,231)**
Marine, aviation and transport	**468,776**	**512,927**	**(210,978)**	**(146,796)**	**(116,336)**	**38,817**
Motor (third party liability)	**—**	**—**	**—**	**—**	**—**	**—**
Miscellaneous	**362,882**	**362,546**	**(330,985)**	**(115,136)**	**(14,565)**	**(98,140)**
	2,086,502	**2,227,374**	**(1,348,373)**	**(748,466)**	**(258,460)**	**(127,924)**
Reinsurance	**590,477**	**668,906**	**(570,672)**	**(164,663)**	**(17,471)**	**(83,900)**
Total	**2,676,979**	**2,896,280**	**(1,919,045)**	**(913,129)**	**(275,931)**	**(211,824)**

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	*822,432*	*853,661*	*(837,643)*	*(317,950)*	*77,294*	*(224,638)*
Accident and health	*155,675*	*159,543*	*(83,715)*	*(75,253)*	*2,842*	*3,417*
Third party liability	*378,750*	*361,252*	*(240,598)*	*(140,211)*	*18,386*	*(1,171)*
Marine, aviation and transport	*517,098*	*574,061*	*(332,052)*	*(188,060)*	*(73,365)*	*(19,416)*
Motor (third party liability)	*—*	*—*	*(587)*	*97*	*(192)*	*(682)*
Miscellaneous	*377,873*	*373,200*	*(188,543)*	*(111,285)*	*(22,275)*	*51,097*
	2,251,828	*2,321,717*	*(1,683,138)*	*(832,662)*	*2,690*	*(191,393)*
Reinsurance	*777,893*	*780,080*	*(789,132)*	*(192,508)*	*50,380*	*(151,180)*
Total	*3,029,721*	*3,101,797*	*(2,472,270)*	*(1,025,170)*	*53,070*	*(342,573)*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

4 SEGMENTAL ANALYSIS (continued)

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

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

The geographical analysis of gross premiums written by risk location is as follows:

	Attributable to all business	
	2019 $000's	*2018 $000's*
United Kingdom	**62,425**	*121,189*
EU Countries	**141,796**	*157,546*
US	**831,724**	*1,011,927*
Oceania	**145,128**	*284,794*
Worldwide	**1,495,906**	*1,454,265*
	2,676,979	*3,029,721*

5 MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

An unfavorable run-off deviation (prior accident years' deterioration) of $36.2m for Syndicate 2003 was experienced during the year driven from various lines of business. The most significant contributors were International Financial Lines , International Property and casualty accounts due to unfavourable claims experience offset by the favourable movement on Marine , Crisis Management , Energy Property , Wholesale Property and Casualty.

6 DEFERRED ACQUISITION COSTS

	2019 $000's	*2018 $000's*
On insurance contracts	**361,659**	*408,467*

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

	2019 $000's	*2018 $000's*
At 1 January	**408,467**	*373,195*
Change in deferred acquisition costs	**(55,118)**	*26,205*
Foreign exchange	**8,310**	*9,067*
At 31 December	**361,659**	*408,467*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

7 NET OPERATING EXPENSES

	2019 $000's	2018 $000's
Acquisition costs	808,151	956,319
Change in deferred acquisition costs	55,118	(26,205)
	863,269	930,114
Administration expenses	49,859	95,036
Reinsurance commissions and profit participation	(98,044)	(173,874)
	815,084	851,276

Included within acquisition costs are amounts relating to commissions on direct insurance business of $326.6m (2018: $438.0).

Administrative expenses include:

	2019 $000's	2018 $000's
Audit Services:		
Fees payable to the Syndicate's auditors for the audit of the Syndicate's accounts	702	752
Non-audit Services:		
Fees payable to the Syndicate's auditors for other services:	6	28
Other services pursuant to legislation, including the audit of the regulatory return	261	279
	969	1,059

The auditors' remuneration for the year has been borne by an AXA XL division company, XL Catlin Services SE (“XLCSSE”).

8 STAFF NUMBERS AND COSTS

The Syndicate has no direct employees. Staff working on the affairs of the Syndicate are employed by a group service company, XL Catlin Services SE (“XLCSSE”), an approved, Central Bank of Ireland regulated intermediary. The recharge of the expenses from the service company to the Syndicate is through a recharge model across the international network, including UK domiciled entities and the recharge of the costs are dependent on the nature of the service performed for the Syndicate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

9 DIRECTORS AND ACTIVE UNDERWRITERS' EMOLUMENTS

XL Catlin Services SE charges the Syndicate the following amounts in respect of aggregate emoluments paid to the Directors of Catlin Underwriting Agencies Limited:

	2019 $000's	*2018 $000's*
Aggregate emoluments and other benefits	**878**	*1,144*
Pension contributions	**37**	*22*
	915	*1,166*

Emoluments of the highest paid director are:

	2019 $000's	*2018 $000's*
Aggregate emoluments and other benefits	**263**	*451*
Pension contributions	**13**	—
	276	*451*

The Active Underwriters received the following aggregate remuneration charged to the Syndicate:

	2019 $000's	*2018 $000's*
Aggregate emoluments and other benefits	**434**	*349*
Pension contributions	**23**	*20*
	457	*369*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

10 INVESTMENT RETURN

	2019	2018
	$000's	$000's
Investment income		
Income from financial investments	126,125	134,836
Gains on the realisation of investments	49,881	57,172
	176,006	192,008
Investment expenses and charges		
Investment management charges	(10,564)	(11,168)
Losses on the realisation of investments	(36,194)	(113,164)
	(46,758)	(124,332)
Unrealised gains on investments	161,284	104,897
Unrealised losses on investments	(52,484)	(140,531)
	108,800	(35,634)
Investment return	238,048	32,042

Investment return is analysed between:

	2019	2018
	$000's	$000's
Allocated investment return transferred to the general business technical account	182,430	28,022
Net investment return included in the non-technical account	55,618	4,020
Total investment return	238,048	32,042

Included in the above is a return of $55.6m *(2018: $4m)* of investment income earned on Funds in Syndicate deposited by Catlin Syndicate Limited into the Syndicate's Premium Trust Funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

11 OTHER FINANCIAL INVESTMENTS

	Market value		Cost	
	2019	*2018*	**2019**	*2018*
	$000's	*$000's*	**$000's**	*$000's*
Financial assets				
Fair value through Profit and Loss:				
Shares and other variable yield securities and units in unit trusts	**302,819**	*339,958*	**255,817**	*276,918*
Debt securities and other fixed income securities	**3,221,492**	*2,833,449*	**3,158,504**	*2,873,385*
Loans and deposits with credit institutions	**—**	*515*	**—**	*519*
Other investments	**3,358**	*2,442*	**2,157**	*2,727*
Total financial assets	**3,527,669**	*3,176,364*	**3,416,478**	*3,153,549*

Included in the above are Funds In Syndicate of $753m *(2018: $706m)* placed by Catlin Syndicate Limited (see note 22).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

12 INSURANCE LIABILITIES AND REINSURANCE ASSETS

2019	**Provision for unearned premium $000's**	**Claims Outstanding $000's**
Gross Technical Provisions		
As at 1 January 2019	1,468,715	5,921,697
Movement in the provision	(219,300)	(236,999)
Foreign exchange movements	11,534	18,868
As at 31 December 2019	1,260,949	5,703,566
Reinsurers' share of technical provisions		
As at 1 January 2019	361,470	1,806,565
Movement in the provision	(92,466)	174,587
Foreign exchange movements	2,813	(226,945)
As at 31 December 2019	271,817	1,754,207
Net technical provisions		
As at 1 January 2019	1,107,245	4,115,132
As at 31 December 2019	989,132	3,949,359

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

12 INSURANCE LIABILITIES AND REINSURANCE ASSETS (CONTINUED)

2018	*Provision for unearned premium $000's*	*Claims Outstanding $000's*
Gross Technical Provisions		
As at 1 January 2018	*1,545,443*	*5,344,064*
Movement in the provision	*(72,075)*	*253,539*
RITC from S1209	*17,670*	*532,922*
Foreign exchange movements	*(22,323)*	*(208,828)*
As at 31 December 2018	*1,468,715*	*5,921,697*
Reinsurers' share of technical provisions		
As at 1 January 2018	*448,171*	*1,659,705*
Movement in the provision	*(74,699)*	*(173,629)*
RITC from S1209	*3,759*	*108,882*
Foreign exchange movements	*(15,761)*	*211,607*
As at 31 December 2018	*361,470*	*1,806,565*
Net technical provisions		
As at 1 January 2018	*1,097,272*	*3,684,339*
As at 31 December 2018	*1,107,245*	*4,115,132*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

13 CLAIMS DEVELOPMENT TRIANGLES

The loss development tables below provide information about historical claims development by pure underwriting year.

Some business is not off risk after the first 12 months. therefore we would anticipate cumulative claims to increase in the second year as this business

Gross claims development

	2011 and prior $m's	2012 $m's	2013 $m's	2014 $m's	2015 $m's	2016 $m's	2017 $m's	2018 $m's	2019 $m's	Total $m's
12 months		798	714	762	716	885	1,576	1,182	816	
24 months		1,388	1,340	1,498	1,472	2,022	2,599	2,083		
36 months		1,379	1,329	1,593	1,592	2,152	2,676			
48 months		1,411	1,313	1,575	1,646	2,259				
60 months		1,385	1,321	1,695	1,685					
72 months		1,379	1,379	1,676						
84 months		1,441	1,357							
108 months		1,459								
Estimated total losses	21,735	1,459	1,357	1,676	1,685	2,259	2,676	2,083	816	35,746
Paid claims	(20,855)	(1,238)	(1,109)	(1,358)	(1,215)	(1,618)	(1,746)	(856)	(48)	(30,043)
Gross reserves	880	221	248	318	470	641	930	1,227	768	5,703

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

13 CLAIMS DEVELOPMENT TRIANGLES (CONTINUED)

Net claims development

	2011 and prior $m's	2012 $m's	2013 $m's	2014 $m's	2015 $m's	2016 $m's	2017 $m's	2018 $m's	2019 $m's	Total $m's
12 months		636	577	578	558	712	784	752	675	
24 months		1,154	1,061	1,144	1,173	1,496	1,625	1,424		
36 months		1,147	1,062	1,262	1,238	1,551	1,650			
48 months		1,155	1,064	1,201	1,338	1,754				
60 months		1,145	1,076	1,311	1,352					
72 months		1,136	1,118	1,197						
84 months		1,194	1,082							
108 months		1,194								
Estimate total losses	13,198	1,194	1,082	1,197	1,352	1,754	1,650	1,424	675	23,526
Paid claims	(12,502)	(1,002)	(878)	(937)	(964)	(1,219)	(1,320)	(711)	(44)	(19,577)
Net reserves	696	192	204	260	388	535	330	713	631	3,949

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

14 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2019 $000's	*2018 $000's*
Due within one year	**1,154,766**	*1,082,571*
	1,154,766	*1,082,571*

15 OTHER DEBTORS:

Amounts falling due within one year

	2019 $000's	*2018 $000's*
Amounts receivable from group undertakings	**105,071**	*89,418*
Overseas taxation including federal excise tax	**2,394**	*10,968*
Investment settlements	**—**	*1,568*
Other debtors	**22**	*6,507*
	107,487	*108,462*

16 OTHER DEBTORS:

Amounts falling due after one year

	2019 $000's	*2018 $000's*
Salvage and subrogation recoveries	**33,650**	*37,499*
Amounts receivable from group undertakings	**770**	*1,534*
	34,420	*39,033*

17 OVERSEAS DEPOSITS

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries and are managed by Lloyd's centrally or by investment managers on their behalf. Overseas deposits have not been included on the statement of financial position within investments or cash at bank or in hand as they are not under direct control of the Syndicate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

18 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2019 $000's	*2018 $000's*
Due within one year	**139,262**	*41,337*
	139,262	*41,337*

19 OTHER CREDITORS:

Amounts falling due within one year

	2019 $000's	*2018 $000's*
Amounts payable to group undertakings	**138,628**	*124,475*
Overseas taxation including federal excise tax	**4,460**	—
Other creditors	**110**	*8,159*
	143,198	*132,634*

20 OTHER CREDITORS:

Amounts falling due after one year

	2019 $000's	*2018 $000's*
Other creditors	**720**	*402*
	720	*402*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, the value of assets supporting FAL for the 2020 year of account is $1,896m. These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

22 FUNDS IN SYNDICATE

Catlin Syndicate 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.

23 ULTIMATE PARENT UNDERTAKING

Catlin Syndicate Limited is the sole member of Syndicate 2003.

The direct holding company of Catlin Syndicate Limited is Catlin (North America) Holdings Ltd.

The ultimate parent undertaking and controlling party is AXA SA ("AXA"), a company registered in France, which is the parent undertaking of the largest group to consolidate the financial statements of Catlin Syndicate Limited.

Copies of the AXA SA consolidated financial statements can be obtained from 25 Avenue Matignon FR-75008, Paris, France.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

24 RELATED PARTY TRANSACTIONS

Catlin Underwriting Agencies Limited ("CUAL") is the managing agent for Syndicate 2003. Under the managing agents' agreement, CUAL receives an annual fee of $0.5m *(2018: $14.8m).* The balance due to CUAL as at 31 December 2019 was $ 0.3m *(2018: $13.8m)*.

Catlin Syndicate Limited is the sole member of Syndicate 2003.

AXA SA wholly owns a number of cover holders which underwrite on behalf of Syndicate 2003 and these are listed below:

Catlin Canada Inc
Catlin Insurance Company Inc
Catlin Specialty Insurance Company
Catlin Insurance Services Inc
Catlin Underwriting Inc
Catlin Hong Kong Limited
AXA XL Services Limited
XL Catlin Middle East Limited
Catlin Brasil Servicos Tecnicos Ltda
Catlin Australia Pty Limited
Catlin Singapore Pte Limited
Catlin Labuan Limited
Catlin Risk Solutions Limited
Catlin Re Switzerland Ltd
XL Catlin Services SE

Recharge of the expenses from the service company, XL Catlin Services SE ("XLCSSE") is made on a monthly basis to the Syndicate through a Service Level Agreement. Quarterly full settlement is repaid in relation to the provision of services and other support costs provided by XLCSSE.

The Syndicate participates in reinsurance contracts with other AXA Group companies and Syndicates that are managed by Catlin Underwriting Agencies Limited. The following amounts reflected in the profit and loss were transacted with above related parties:

Net income and (expenses) reflected in the profit and loss	2019 $'000	*2018 $'000*
XL Bermuda Ltd	**51,102**	*127,961*
Syndicate 6111	**(2,489)**	*11,502*
Total	**48,613**	*139,463*

Balance sheet net assets and (liabilities) outstanding	2019 $'000	*2018 $'000*
XL Bermuda Ltd	**397,294**	*272,966*
Syndicate 6111	**12,703**	*28,078*
Total	**409,997**	*301,044*