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SYNDICATE 2003

**ANNUAL REPORT AND ACCOUNTS
YEAR ENDED
31 DECEMBER 2021**

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SYNDICATE INFORMATION

MANAGING AGENT:

Managing agent AXA XL Underwriting Agencies Limited ("AXUAL")
formerly Catlin Underwriting Agencies Limited ("CUAL")

Company number 01815126

Directors

M Cummings	
S McGovern	
L Prato Jaen	
C Ighodaro	(Non-Executive)
B Joseph	(Non-Executive)
B Poupart-Lafarge	(Non-Executive)
J Weatherstone	(Non-Executive)

Company secretary A M Bond

Registered office 20 Gracechurch Street
London
EC3V 0BG

SYNDICATE:

Active underwriter L Prato Jaen

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

FINANCIAL HIGHLIGHTS

Key Performance Indicators (KPI's)	2021	<i>2020</i>
Syndicate capacity (£'m)	1,163.1	<i>1,349.0</i>
Gross premiums written (£'m)	1,363.4	<i>1,676.2</i>
Net premium written (£'m)	920.6	<i>1,132.7</i>
Net premium earned (£'m)	1,053.4	<i>1,314.0</i>
Underwriting Profit/(loss) (£'m)	267.3	<i>(444.0)</i>
Total recognised Profit/(Loss) for the year (£'m)	367.9	<i>(333.9)</i>
Claims ratio (%)	39.2	<i>95.4</i>
Expense ratio (%)	35.4	<i>38.4</i>
Combined ratio (%)	74.6	<i>133.8</i>
Investment rate of return (%)	1.5	<i>3.6</i>

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 2021

Catlin Underwriting Agencies Limited has been renamed as AXA XL Underwriting Agencies Limited ("AXUAL"), with effect from 3 February 2022. The name change aligns the company more closely to AXA and is consistent with the AXA XL brand.

The Directors of AXA XL Underwriting Agencies Limited ("AXUAL"), the managing agent, present their strategic report and audited financial statements for the year ended 31 December 2021.

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. AXA which backs the Syndicate has an AA- rating from S&P, Aa3 rating from Moody's and AA- rating from Fitch.

Results and performance

Premiums

The gross written premiums for the Syndicate decreased by 18.7% in 2021 to £1,363.4m (2020: £1,676.2m). The gross written premiums reductions were primarily a result of business remediation which has been ongoing throughout this year and last year, in which the Syndicate has withdrawn from less profitable lines. During 2021 AXA XL initiated an internal reorganisation to simplify the legal entity structure within its Reinsurance segment and make it more consistent with AXA Group's structure which aligns businesses to legal entities.

As part of the reorganisation plans, it was decided that, as of January 1, 2022, all new and renewal contracts would be written via dedicated legal entities within the Reinsurance segment, as a consequence, no Reinsurance segment business will be written on the Syndicate's 2022 Year of Account.

In addition, to further the objectives of the reorganisation, the Syndicate entered into a retrocession agreement with AXA XL Reinsurance Ltd on 21 December 2021 providing a 100% Quota share protection of the net liabilities of the Reinsurance segment business for the 2021 and prior years of account. This became effective as of 31 December 2021. This contract removes future volatility from the reinsurance segment to the Syndicate. The impact of this 100% Quota share Retrocession is to reinsure net balance sheet liabilities of £1,308m at a net impact to the profit or loss of a £12.8m cost, further details of this transaction are disclosed in note 23 Related party transactions.

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 Syndicate has reported a strong underwriting result (net earned premiums less net claims incurred and net operating expenses), with an underwriting profit of £267.3m against an underwriting loss of £444.0m in 2020. The Syndicate's combined ratio has improved from 133.8% to 74.6%.

The underwriting result in 2021 benefited from prior year releases relating to Covid-19 predominantly London Wholesale Property and Crisis Management. CAT and large loss experience was not as significant as it was in 2020.

The 2019 year of account was closed at the end of 2021 with a loss of £75.6m which is equivalent to a negative return equal to 5.5% of capacity. This year of account suffered the greatest impact of the Covid-19 loss occurring in 2020 and significant CAT exposure including Typhoons Faxai and Hagibis. These losses were offset by positive prior year development of £150m occurring during 2021.

The 2020 year of account wrote less premium than was anticipated due to the remediation of less profitable lines of business and withdrawal from the International Financial Lines and Portfolio Deals classes.

STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

This year of account was again significantly impacted by Covid-19 losses especially on the Crisis Management class and the year is currently anticipated to close with a small loss.

The 2021 year of account has yet to make a profit but is expected to reach profitability within the next calendar year.

The Syndicate has commuted the Whole Account Stop Loss protections it previously purchased from another group company on all years other than the 2021 Year of Account. The commutations had no income statement impact other than the normal bookings of these contracts until the dates they were commuted. The 2018 and 2019 Years of Account policies were commuted at 30 September 2021 with a final settlement of £172m being received and the 2015, 2016 and 2020 Years of Account policies were commuted at 30 June 2021 with a final settlement of £17m being paid.

Overall result

The total recognised profit for the year is £367.9m (2020: total recognised loss of £333.9m). The overall investment return for the year is £49.6m (2020: £123.3m).

Strategy and future outlook

Our annual strategic planning cycle is designed to consider the most appropriate actions the Syndicate should take over the longer-term, which will contribute to the Syndicate's success. Performance against key strategic metrics are monitored and assessed for appropriateness by the AXUAL Board, at regular intervals. The AXUAL Board holds an annual strategy day in June at which the AXUAL Board reviews and considers the strategic priorities, purpose and parameters of the Syndicate.

AXUAL'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. 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's focus is to continue sustainable and disciplined growth across the diverse lines of business it writes. An enhanced focus is being placed on portfolio analysis and optimization actions to exit or re-underwrite poor performers and grow better performing 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. The Syndicate is an important part of the AXA 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 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.

In light of recent developments in and surrounding the Ukraine, we have undertaken a review of our exposures in the area (war, terrorism, political violence, marine, aerospace and energy) which are limited but are being actively monitored. We have immaterial exposure to investments in Ukraine and Russia .

Covid-19

The disruption resulting from the global outbreak of the Covid-19 has reduced throughout 2021 as the world learned to live with Covid-19 as global lockdowns and restrictions were reduced. The pandemic has not had a significant adverse impact on the Syndicate's turnover in the period. During the year favourable prior year releases were made in relation to pandemic affected businesses and in particular Crisis Management and London Wholesale Casualty.

**STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

Sustainability, Communities and People

The Syndicate adopts the AXA Purpose “Act for human progress by protecting what matters”, delivering through our values to put the customer first, act with integrity, have the courage to speak our mind and act as “One AXA” to make things happen. As part of the AXA XL Division, we also have a mission “To be your trusted expert and global partner in complex risk, protecting what matters to our customers, our colleagues and society”.

Sustainability

As part of the AXA Group, the Syndicate contributes to the AXA for Progress Index, a tool to measure progress and reinforce the impact of the AXA Sustainability strategy built around climate and inclusive protection with seven measurable commitments:

- Achieve Carbon Neutrality by 2025
- Make employees leaders of the transformation by training our teams in Climate issues by 2025
- Increasing our share of green insurance products
- Promote inclusive insurance for vulnerable populations
- Reach €25Bn in green investments by 2023
- Decrease the carbon footprint of AXA's general account assets by 20% by 2025
- Maintain AXA's position in the Dow Jones Sustainability Index

The Syndicate is contributing to the commitment to have an increased share of green insurance products which will encompass a framework for measuring green insurance products and setting growth targets for these.

The UK & Lloyd's Business Unit undertook a review of the Financial Risks of Climate Change impact for each of its products, covering all products written by the Syndicate. This has educated our teams from both a risk and impact perspective of how our clients' needs may change as we globally tackle the climate crisis through the energy transition and how these changes may impact the Syndicate.

The Syndicate has adopted AXA Group consistent restrictions and exclusions within its underwriting and investment portfolios and its statements of intent on appetite for carbon intensive industries, such as the 2021 AXA Oil and Gas Policy Statement. We are now working with clients and seeking to offer appropriate risk transfer and services to those that need support as they transition on their own Environmental, Social and Governance ('ESG') journeys. We are increasingly engaging with clients on these topics as the Syndicate considers the clients it wants to service, while clients consider their insurance companies as part of their supply chains and the ESG credentials of their partners.

Communities and People

Striving to achieve a balance between economic, social, and environmental activity is in the long-term interests of the Syndicate, the wider AXA XL Division, and the communities in which we operate.

The following initiatives demonstrate our commitment to our local communities:

- Our annual “AXA Week for Good”, event brings colleagues across all AXA entities together to support social and environmental causes. In 2021, this included AXA XL's Global Day of Giving, where colleagues are encouraged to donate time and skills in support of non-profit organisations in their communities and around the globe. In 2021, 308 UK colleagues took part in 30 Global Day of Giving projects.
- Our colleague-led “Hearts in Action” charity committees empowers our colleagues to manage charitable giving for their locations, including grant-giving, fundraising and awareness raising. Our UK Committee donated USD \$95,000 in 2021 to charities supporting young people with diverse needs as well as senior citizen care.
- AXA XL's Matching Gifts programme offers colleagues the opportunity to have their donations to non-profit organizations matched up to a total of USD \$800 per colleague per year.
- The Syndicate also has a Volunteering Leave Policy, designed to enable colleagues to donate time and skills to local communities at a time of their choosing. Colleagues are entitled to take time to volunteer in addition to annual participation in the company's volunteering day (Global Day of Giving).

**STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

The Syndicate's commitment to ethical conduct is set out in more detail in the AXA XL Division's Code of Conduct and Code Supplement which the AXUAL Board of Directors reviews on an annual basis. Policies with respect to anti-corruption and anti-bribery are contained in the Code of Conduct and Code Supplement. Failure to comply with these policies is taken very seriously and may result in disciplinary action, including but not limited to dismissal.

The Syndicate complies with the requirements of the Modern Slavery Act 2015 and AXA XL publishes an annual Slavery and Human Trafficking Statement.

The AXUAL Board monitors people-related issues through regular reports to it and its Governance Committee on people strategy, succession planning, remuneration, inclusion and diversity, the results of quarterly employee engagement surveys and other items, such as annual Gender Pay Gap – and since 2021 the Ethnicity Pay Gap – reporting in the UK. Given the COVID-19 pandemic, a key focus area has been the mental and physical health of colleagues and the support mechanisms provided by AXA XL.

We have a robust inclusion and diversity strategy and roadmap in place in the UK, to ensure we are setting concrete goals and holding our leaders accountable for achieving them. We implemented the Diverse Slate Policy for all roles across all levels. We have also made commitments to several Charters and initiatives to support us in making progress in bringing more diversity into the organisation at all levels, including Women in Finance, Flexible Working Charter, a Race at Work Charter and Race Action Through Leadership. We launched our global Dignity at Work policy to protect against harassment and discrimination and ensure colleagues feel safe, valued, and respected. We also offer regular webinars and live sessions to help with inclusion and diversity education, and we are working on inclusive leadership and inclusive hiring manager training, among other activities.

Managing Syndicates

AXUAL, the managing agent of the Syndicate, is a company registered in England and Wales. AXUAL is a wholly-owned subsidiary of its ultimate parent AXA SA ("AXA"), a company registered in France. Copies of the financial statements of AXA SA 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 2022 underwriting year has been reduced to £802.1m following the decision to no longer write reinsurance business on the syndicate (2021 underwriting year £1,163.1m).

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

S McGovern
Director
03 March 2022

M Cummings
Director
03 March 2022

**MANAGING AGENT'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021**

The Directors of the managing agent present their report together with the audited financial statements for the year ended 31 December 2021.

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").

Future developments and strategy are discussed within the strategic report.

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 2019 year of account was closed at the end of 2021 with a negative return equal to 5.5% of capacity.

The member's balance as at 31 December 2021 is a surplus £317.2m (2020: surplus of £292.9m).

Directors

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

M Cummings	
R Littlemore	(Resigned 9 February 2022)
S McGovern	
L Prato Jaen	
C Ighodaro	(Non-Executive)
B Joseph	(Non-Executive)
B Poupart-Lafarge	(Non-Executive)
J Weatherstone	(Non-Executive)
P Wilson	(Non-Executive) (Resigned 31 December 2021)

R Littlemore resigned as joint lead underwriter on 9th February 2022.

None of the Directors of the managing agent were underwriting participants on the Syndicate.

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 2021**

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 AXA XL Underwriting Agencies Limited and signed on its behalf by:

S McGovern
Director
03 March 2022

M Cummings
Director
03 March 2022

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2003

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, 2003's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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 2021; the statement of profit or loss; the statement of other comprehensive income; the statement of cash flows; the statement of changes in member's balances for the year ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

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 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2003 (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 our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires 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 2021 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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, 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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure or to manipulate member's balances. We also considered management bias in accounting estimates and judgemental areas of the Annual Report such as the valuation of the technical provisions for

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

claims outstanding, estimated premium income and the valuation of Level 3 financial investments. Audit procedures performed include:

- Discussion with management and internal audit, including considerations of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading key correspondence with Lloyd's in relation to compliance and relevant regulations;
- Reviewing relevant meeting minutes;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of or testing;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;
- For those classes of business considered higher risk, developing independent point estimates for valuation of the technical provisions for claims outstanding;
- Testing methodologies and assumptions applied by management in the valuation of the technical provision for claims outstanding for other classes of business;
- Performing risk-based targeted substantive testing over premium estimates; and
- Obtaining evidence from the third-party investment managers to support the valuation of level 3 investments and test the valuation of alternative investments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

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

- we have not obtained 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
03 March 2022

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 £000's	2020 £000's
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written	4	1,363,443	1,676,221
Outward reinsurance premiums		<u>(442,860)</u>	<u>(543,569)</u>
Net premiums written		920,583	1,132,652
Change in the gross provision for unearned premiums	12	73,983	177,231
Change in the provision for unearned premiums, reinsurers' share	12	<u>58,876</u>	<u>4,070</u>
Change in the net provision for unearned premiums		132,859	181,301
Earned premiums, net of reinsurance		1,053,442	1,313,953
Allocated investment return transferred from the non-technical account	10	62,802	82,688
Total technical income		<u>1,116,244</u>	<u>1,396,641</u>
Claims paid			
Gross amount		(1,102,129)	(1,361,056)
Reinsurers' share		<u>718,510</u>	<u>488,504</u>
		(383,619)	(872,552)
Change in the provision for claims			
Gross amount	12	590,916	(716,973)
Reinsurers' share	12	<u>(620,441)</u>	<u>336,159</u>
		(29,525)	(380,814)
Claims incurred, net of reinsurance		(413,144)	(1,253,366)
Net operating expenses	7	(372,993)	(504,539)
Balance on the technical account for general business		<u>330,107</u>	<u>(361,264)</u>

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 £000's	2020 £000's
NON-TECHNICAL ACCOUNT			
Balance on the technical account for general business		330,107	(361,264)
Investment income	10	155,691	77,737
Unrealised gains on investments	10	62,287	112,571
Investment expenses and charges	10	(7,876)	(8,347)
Losses on the realisation of investments	10	(113,308)	(25,102)
Unrealised losses on investments	10	(47,184)	(33,519)
		<u>49,610</u>	<u>123,340</u>
Allocated investment return transferred to the technical account for general business	10	(62,803)	(82,688)
Foreign exchange gains/(losses)		33,391	(392)
Profit/(Loss) for the financial year		<u>350,305</u>	<u>(321,004)</u>

**STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 £000's	2020 £000's
Profit/(Loss) for the financial year		350,305	(321,004)
Currency translation adjustments		17,618	(12,894)
Total recognised Gain/(Loss) for year		<u>367,923</u>	<u>(333,898)</u>

STATEMENT OF FINANCIAL POSITION - ASSETS
AS AT 31 DECEMBER 2021

	Note	2021 £000's	2020 £000's
Investments			
Other financial investments	11	2,804,440	2,961,153
Deposits with ceding undertakings		17,219	—
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	258,830	205,858
Claims outstanding	12	2,240,603	1,608,895
		<u>2,499,433</u>	<u>1,814,753</u>
Debtors - amounts falling due within one year			
Debtors arising out of direct insurance operations	14	719,476	762,682
Debtors arising out of reinsurance operations		185,050	351,771
Other debtors	15	48,030	69,510
		<u>952,556</u>	<u>1,183,963</u>
Debtors - amounts falling due after one year			
Debtors arising out of reinsurance operations		234	1,168
Other debtors	16	20,122	21,267
		<u>20,356</u>	<u>22,435</u>
Other assets			
Cash at bank and in hand		120,362	112,947
Overseas deposits	17	422,304	466,215
		<u>542,666</u>	<u>579,162</u>
Prepayments and accrued income			
Accrued interest		15,601	17,425
Deferred acquisition costs	6	178,018	199,732
Other prepayments and accrued income		—	97
		<u>193,619</u>	<u>217,254</u>
TOTAL ASSETS		<u><u>7,030,289</u></u>	<u><u>6,778,720</u></u>

**STATEMENT OF FINANCIAL POSITION - CAPITAL AND LIABILITIES
AS AT 31 DECEMBER 2021**

	Note	2021 £000's	2020 £000's
Capital and reserves			
Member's balances		<u>317,156</u>	<u>292,901</u>
Technical provisions			
Provision for unearned premiums	12	693,061	770,053
Claims outstanding	12	<u>4,317,154</u>	<u>4,946,966</u>
		5,010,215	5,717,019
Deposits received from reinsurers		<u>1,146,785</u>	<u>—</u>
Creditors - amounts falling due within one year			
Creditors arising out of direct insurance operations	18	67,004	19,542
Creditors arising out of reinsurance operations		217,461	539,662
Amounts owed to credit institutions		135,438	119,608
Other creditors including taxation and social security	19	<u>80,372</u>	<u>50,252</u>
		500,275	729,064
Accruals and deferred income		55,858	39,736
TOTAL CAPITAL AND LIABILITIES		<u><u>7,030,289</u></u>	<u><u>6,778,720</u></u>

The notes on pages 18 to 50 form part of these financial statements.

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

M Cummings
Director
03 March 2022

**STATEMENT OF CHANGES IN MEMBER'S BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Balance attributable to underwriting £000's	Funds in syndicate (FIS) £000's	Total member's balances £000's
Balance as at 1 January 2020	(447,330)	574,052	126,722
Total recognised (Loss)/Gain for the year	(342,073)	8,175	(333,898)
Loss distribution - 2017 year of account	181,952	(181,952)	—
Contribution during the year	—	500,077	500,077
Balances as at 31 December 2020	<u>(607,451)</u>	<u>900,352</u>	<u>292,901</u>
Balance as at 1 January 2021	<u>(607,451)</u>	<u>900,352</u>	<u>292,901</u>
Total recognised Gain for the year	367,101	822	367,923
Loss distribution - 2018 year of account	92,948	(92,948)	—
Release during the year	—	(343,668)	(343,668)
Balances as at 31 December 2021	<u>(147,402)</u>	<u>464,558</u>	<u>317,156</u>

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021**

	2021	2020
	£000's	£000's
Reconciliation of Profit/(Loss) to net cash flow from operating activities		
Profit/(Loss) for the financial year	350,305	(321,004)
(Decrease)/Increase in gross technical provisions	(706,803)	405,866
Increase in reinsurers' share of gross technical provisions	(684,680)	(284,671)
Decrease in debtors	234,497	254,260
Decrease in creditors	(258,618)	(97,828)
Investment return	(49,610)	(123,340)
Decrease/(Increase) in overseas deposits	43,911	(52,706)
Movement in other assets/liabilities	1,191,648	(23,640)
Net cash generated from/(used in) operating activities	<u>120,650</u>	<u>(243,063)</u>
Cash flow from investing activities:		
Purchase of equity and debt instruments	(1,245,197)	(765,580)
Sale of equity and debt instruments	1,424,434	541,090
Investment income received	34,507	44,288
Net cash generated from/(used in) investing activities	<u>213,744</u>	<u>(180,202)</u>
Cash flows from financing activities:		
Collection on closed year's loss	92,948	181,952
Amounts added to funds in syndicate (FIS)	67,638	500,077
FIS released to member	(504,254)	(181,952)
Net cash (used in)/ generated from financing activities	<u>(343,668)</u>	<u>500,077</u>
Net (Decrease)/Increase in cash and cash equivalents	(9,274)	76,812
Cash and cash equivalents at the beginning of the year	(6,661)	(84,756)
Foreign exchange on cash and cash equivalents	859	1,283
Cash and cash equivalents at end of the year	<u>(15,076)</u>	<u>(6,661)</u>
Cash at bank and in hand	120,362	112,947
Overdrafts	(135,438)	(119,608)
Cash and cash equivalents at end of the year	<u>(15,076)</u>	<u>(6,661)</u>

Funds in syndicate ("FIS") included within cash and cash equivalents are not readily available for use by the Syndicate.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

1 ACCOUNTING POLICIES**A Basis of preparation**

The Syndicate accounts have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006. The Syndicate accounts have been prepared under regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("IAD"), and reflect the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) as modified by the IAD.

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.

These annual accounts are presented in Sterling. The functional currency of the Syndicate is US Dollars. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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 its chain of security for any members who are unable to meet their underwriting liabilities.

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

B Basis of accounting

The financial statements have been prepared on a going concern basis, under the 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

1 ACCOUNTING POLICIES (continued)

B Basis of accounting (continued)

(a) Premiums written (continued)

Contracts with duration of greater than one year and payable in annual installments, generally, only the initial annual installment 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 installments 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.

The 100% Quota share protection of the net liabilities of the Reinsurance segment business purchased from AXA XL Reinsurance Ltd is accounted for on a bifurcated basis to reflect the prospective and retroactive elements of the contract. The prospective element of the contract is accounted for as a normal reinsurance contract with the premium paid included within Outwards Reinsurance Premiums in the statement of profit or loss. The retroactive transfer of reserves, representing the reinsurance premium payable for the transaction, offset by the increase in the reinsurers' share of technical provisions for claims outstanding, is reflected net within Outward reinsurance premiums in the statement of profit or loss to reflect the impact between the consideration paid and the reserves transferred. As reinsurance premiums are on a "funds withheld" basis, the Syndicate continues to own the assets backing the quota share arrangement, which are recorded as Deposits received from reinsurers in the statement of financial position. Further description of this transaction can be found in note 23 Related Party Transactions.

(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 2021**

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 AXUAL 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% (2020: 3.8%) over 19.8 years (2020: 20.2 years) and 2.0% (2020: 2.0%) over 35.5 years (2020: 25.5 years), respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

1 ACCOUNTING POLICIES (continued)**B Basis of accounting (continued)***(f) Claims provisions and related recoveries (continued)*

	Undiscounted reserves		Discount credit	
	2021	2020	2021	2020
	£000's	£000's	£000's	£000's
US Workers' Compensation	—	266,304	—	77,390
UK Motor book	—	69,298	—	31,461

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 2021, 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 2.0%. 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. In 2021 the net undiscounted reserves and discount credit are zero, due to the reserves related to this business being 100% recoverable from AXA XL Reinsurance Ltd.

(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 2021

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 overrides, 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 ("XLCSSSE"), 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 2021

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

The functional currency of the Syndicate is US Dollars. Assets, liabilities, revenues and costs denominated are translated into the functional currency using the exchange rates prevailing at the date of the transaction or an appropriate average rate. At the balance sheet date, monetary assets and liabilities are translated to functional currency at the year-end rates of exchange.

For the purpose of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on the translation of foreign currency amounts relating to insurance operations of the Syndicate are included within profit/(loss) on foreign exchange in the non-technical account.

The results and financial position are presented in Sterling rather than the functional currency of US Dollars. The Directors believe using Sterling as the presentation currency allows greater comparability with other syndicates and operational simplicity. The translation from functional currency to presentational currency is completed as follows:

- all assets and liabilities are translated from the functional currency amount, at the closing rate at the balance sheet date;
- all income and expenses are translated at average exchange rate; and
- differences resulting from the retranslation of the opening net assets and the results for the period have been presented in the other comprehensive income under currency translation adjustments.

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".

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

1 ACCOUNTING POLICIES (continued)

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.

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 principal 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 2021**

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 AXA XL strategies, approved by the AXUAL 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 2021**

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 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 2021

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 AXUAL Board of Directors.

The performance of the investment managers is monitored constantly and reviewed quarterly by the AXUAL 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 interest receipts and payments. This would affect reported result and net assets as indicated in the table below:

	Impact on result		Impact on net assets	
	2021	2020	2021	2020
	£m	£m	£m	£m
50 basis points increase	(60.2)	(55.5)	(60.2)	(55.5)
50 basis points decrease	61.8	57.7	61.8	57.7

(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 2021, the Syndicate had £258m of unlisted equity investments (2020: £203m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

2 MANAGEMENT OF FINANCIAL RISK (continued)

(b) Market risk (continued)

(ii) Equity price risk (continued)

	Impact on result		Impact on net assets	
	2021	2020	2021	2020
	£m	£m	£m	£m
5% increase in equity prices	11.7	8.9	11.7	8.9
5% decrease in equity prices	(11.7)	(8.9)	(11.7)	(8.9)

(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 result and net assets value.

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

The analysis is based on current information.

	Impact on result		Impact on net assets	
	2021	2020	2021	2020
	£000's	£000's	£000's	£000's
GBP weakens 10% against other currencies	(41,378)	(56,700)	(41,378)	(56,700)
GBP weakens 5% against other currencies	(21,674)	(29,700)	(21,674)	(29,700)
GBP strengthens 5% against other currencies	23,955	32,826	23,955	32,826
GBP strengthens 10% against other currencies	50,573	69,300	50,573	69,300

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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:

2021	GBP	USD	EUR	CAD	AUD	OTH	TOTAL
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Financial investments	389,730	2,075,763	45,276	293,671	—	—	2,804,440
Overseas deposits	—	21,480	—	79,987	215,539	105,298	422,304
Reinsurers' share of technical provisions	333,913	1,797,410	209,537	117,089	38,933	2,551	2,499,433
Insurance and Reinsurance receivables	12,740	735,965	91,525	19,977	45,149	(595)	904,761
Cash and cash equivalents	6,621	93,903	6,796	10,719	457	1,866	120,362
Other assets	65,971	139,868	42,836	16,692	13,399	223	278,989
Total assets	808,975	4,864,389	395,970	538,135	313,477	109,343	7,030,289
Technical provisions	655,009	3,455,687	422,853	309,763	154,978	11,925	5,010,215
Insurance and reinsurance payables	36,800	175,280	30,509	33,316	7,605	956	284,466
Other creditors	255,165	964,846	71,967	86,409	20,184	19,881	1,418,452
Total Liabilities	946,974	4,595,813	525,329	429,488	182,767	32,762	6,713,133

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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

2020	GBP £000's	USD £000's	EUR £000's	CAD £000's	AUD £000's	OTH £000's	TOTAL £000's
<i>Financial investments</i>	314,934	2,315,415	30,805	299,999	—	—	2,961,153
<i>Overseas deposits</i>	—	22,233	—	72,663	286,038	85,281	466,215
<i>Reinsurers' share of technical provisions</i>	135,304	1,418,066	175,741	65,243	18,773	1,626	1,814,753
<i>Insurance and Reinsurance receivables</i>	70,011	873,593	104,596	25,687	41,372	362	1,115,621
<i>Cash and cash equivalents</i>	3,236	92,500	2,603	6,044	1,153	7,411	112,947
<i>Other assets</i>	78,546	153,207	33,072	15,108	27,657	441	308,031
<i>Total assets</i>	<u>602,031</u>	<u>4,875,014</u>	<u>346,817</u>	<u>484,744</u>	<u>374,993</u>	<u>95,121</u>	<u>6,778,720</u>
<i>Technical provisions</i>	805,636	3,940,006	498,989	311,123	149,385	11,880	5,717,019
<i>Insurance and reinsurance payables</i>	68,062	404,583	9,768	51,932	21,978	2,881	559,204
<i>Other creditors</i>	59,135	13,672	35,872	55,040	15,227	30,651	209,597
<i>Total Liabilities</i>	<u>932,833</u>	<u>4,358,261</u>	<u>544,629</u>	<u>418,095</u>	<u>186,590</u>	<u>45,412</u>	<u>6,485,820</u>

(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 2021

2 MANAGEMENT OF FINANCIAL RISK

(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:

2021	AAA	AA	A	BBB or below	Not rated	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Debt securities and other fixed income securities	900,992	291,046	827,421	523,907	50	2,543,416
Shares and other variable yield securities and units in unit trusts	—	—	26,582	—	230,979	257,561
Other investments	—	—	—	3,463	—	3,463
Deposits with ceding undertakings	—	—	17,219	—	—	17,219
Reinsurers' share of claims outstanding	15,579	1,315,047	895,944	4,455	9,578	2,240,603
Insurance debtors	—	—	—	—	666,808	666,808
Cash and cash equivalents	—	556	108,838	10,968	—	120,362
Overseas deposits	186,361	57,638	38,740	45,730	93,835	422,304
Other debtors	—	—	—	—	535,123	535,123
Total	1,102,932	1,664,287	1,914,744	588,523	1,536,373	6,806,859

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

2 MANAGEMENT OF FINANCIAL RISK (continued)**(c) Credit risk (continued)**

2020	AAA £000's	AA £000's	A £000's	BBB or below £000's	Not rated £000's	Total £000's
<i>Debt securities and other fixed income securities</i>	1,049,085	407,113	926,813	369,830	2,580	2,755,421
<i>Shares and other variable yield securities and units in unit trusts</i>	—	—	26,582	—	176,842	203,424
<i>Other investments</i>	—	—	—	2,308	—	2,308
<i>Deposits with ceding undertakings</i>	—	—	—	—	—	—
<i>Reinsurers' share of claims outstanding</i>	47,176	64,597	1,491,298	2,441	3,384	1,608,896
<i>Insurance debtors</i>	—	—	—	—	701,254	701,254
<i>Cash and cash equivalents</i>	—	4,518	93,943	14,487	—	112,948
<i>Overseas deposits</i>	243,490	69,996	36,972	41,280	74,477	466,215
<i>Other debtors</i>	—	—	—	—	560,665	560,665
Total	1,339,751	546,224	2,575,608	430,346	1,519,202	6,411,131

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 (2020: no impaired assets held).

2021	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	36,938	458	10,013	5,260	52,669
Reinsurance debtors	149,720	6,756	6,595	7,690	170,761
Total	186,658	7,214	16,608	12,950	223,430

2020	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
<i>Insurance debtors</i>	36,811	1,714	21,743	1,160	61,428
<i>Reinsurance debtors</i>	292,878	2,779	5,351	5,153	306,161
Total	329,689	4,493	27,094	6,313	367,589

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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:

2021	Less than one year on demand	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
	£000's	£000's	£000's	£000's	£000's
Deposits received from reinsurers	345,995	320,656	156,034	324,100	1,146,785
Other creditors	500,275	—	—	—	500,275
Claims outstanding	1,312,401	1,236,105	538,793	1,229,855	4,317,154
Financial liabilities	<u>2,158,671</u>	<u>1,556,761</u>	<u>694,827</u>	<u>1,553,955</u>	<u>5,964,214</u>

2020	Less than one year on demand	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	Total
	£000's	£000's	£000's	£000's	£000's
<i>Deposits received from reinsurers</i>	—	—	—	—	—
<i>Other creditors</i>	729,063	—	—	—	729,063
<i>Claims outstanding</i>	1,807,476	1,521,012	631,909	986,569	4,946,966
<i>Financial liabilities</i>	<u>2,536,539</u>	<u>1,521,012</u>	<u>631,909</u>	<u>986,569</u>	<u>5,676,029</u>

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

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, or from external events. AXUAL actively monitors and controls its operational risks. Both the group and Lloyd's have formal disaster recovery plans which, in the event of an incident, will support alternative accommodation strategies. All computer systems are assessed for recovery time objectives and remote working technology is well used and familiar to staff.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

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 residential mortgage backed securities, commercial backed mortgage securities, asset backed securities 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 residential mortgage backed securities, commercial backed mortgage securities and asset backed securities, 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 three 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 three 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 2021

2 MANAGEMENT OF FINANCIAL RISK (continued)

(f) Fair value estimation (continued)

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

2021	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	257,556	257,560
Debt securities and other fixed income securities	—	2,543,416	—	2,543,416
Overseas deposits	82,296	340,008	—	422,304
	82,296	2,883,428	257,556	3,223,280

2020	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>
<i>Fair value through Profit and Loss:</i>				
<i>Shares and other variable yield securities and units in unit trusts</i>	—	—	203,425	203,425
<i>Debt securities and other fixed income securities</i>	—	2,755,420	—	2,755,420
<i>Overseas deposits</i>	77,868	388,347	—	466,215
	<i>77,868</i>	<i>3,143,767</i>	<i>203,425</i>	<i>3,425,060</i>

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 2021**

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 20 and 21 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 2021 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.

Lloyd's also retains the right to request a callable contribution equal to 3% of capacity from the Syndicate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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:

2021	Gross Premiums Written	Gross Premiums Earned	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Fire and other damage to property	259,165	277,012	13,288	(102,272)	(59,426)	128,602
Accident and health	47,380	50,133	(27,615)	(18,970)	(1,158)	2,390
Third-party liability	139,856	129,912	(109,440)	(33,813)	(889)	(14,230)
Marine, aviation and transport	298,038	300,128	(85,854)	(88,203)	(83,790)	42,281
Motor (third party liability)	—	—	—	—	—	—
Miscellaneous	154,236	182,189	(38,585)	(53,422)	(5,609)	84,573
	898,675	939,374	(248,206)	(296,680)	(150,872)	243,616
Reinsurance	464,768	498,052	(263,007)	(122,004)	(89,351)	23,690
Total	1,363,443	1,437,426	(511,213)	(418,684)	(240,223)	267,306
2020	Gross Premiums Written	Gross Premiums Earned	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Fire and other damage to property	261,941	326,071	(247,402)	(98,896)	72,432	52,205
Accident and health	35,702	59,665	(91,485)	(28,750)	29,821	(30,749)
Third-party liability	265,968	284,755	(272,132)	(108,059)	67,746	(27,690)
Marine, aviation and transport	234,071	227,322	(135,837)	(73,512)	7,800	25,773
Motor (third party liability)	—	—	—	—	—	—
Miscellaneous	275,041	319,684	(848,659)	(105,016)	289,803	(344,188)
	1,072,723	1,217,497	(1,595,515)	(414,233)	467,602	(324,649)
Reinsurance	603,498	635,955	(482,515)	(158,251)	(114,494)	(119,305)
Total	1,676,221	1,853,452	(2,078,030)	(572,484)	353,108	(443,954)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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	
	2021 £000's	2020 £000's
United Kingdom	44,370	45,593
EU Countries	22,222	33,022
US	621,945	665,963
Oceania	14,439	60,847
Worldwide	660,467	870,796
	1,363,443	1,676,221

5 MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

The underwriting result was impacted by positive developments on prior year claims estimates of £230 million (2020: £98 million strengthening).

The most significant contributors were London Wholesale Property, Crisis Management, Reinsurance and Marine.

6 DEFERRED ACQUISITION COSTS

	2021 £000's	2020 £000's
On insurance contracts	178,018	199,732

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

	2021 £000's	2020 £000's
At 1 January	199,732	275,802
Change in deferred acquisition costs	(20,687)	(76,752)
Foreign exchange	(1,027)	682
At 31 December	178,018	199,732

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

7 NET OPERATING EXPENSES

	2021	2020
	£000's	£000's
Acquisition costs	374,571	477,950
Change in deferred acquisition costs	20,687	76,752
	395,258	554,702
Administration expenses	23,427	17,780
Reinsurance commissions and profit participation	(45,692)	(67,943)
	372,993	504,539

Included within acquisition costs are amounts relating to commissions on direct insurance business of £127.8m (2020: £161.4m).

Administrative expenses include:

	2021	2020
	£000's	£000's
<i>Audit Services:</i>		
Fees payable to the Syndicate's auditors for the audit of the Syndicate's accounts	757	674
<i>Non-audit Services:</i>		
Fees payable to the Syndicate's auditors for other services:		
Other services pursuant to legislation are audit and review services relating to regulatory reporting to Lloyd's	324	282
	1,081	956

The auditors' remuneration for the year has been recharged to the Syndicate by an AXA XL division company, XL Catlin Services SE ("XLCSSSE").

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 ("XLCSSSE"), 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 2021

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 AXA XL Underwriting Agencies Limited:

	2021	<i>2020</i>
	£000's	<i>£000's</i>
Aggregate emoluments and other benefits	1,366	<i>941</i>
Pension contributions	44	<i>37</i>
	<u>1,410</u>	<i><u>978</u></i>

Emoluments of the highest paid Director are:

	2021	<i>2020</i>
	£000's	<i>£000's</i>
Aggregate emoluments and other benefits	604	<i>152</i>
Pension contributions	34	<i>6</i>
	<u>638</u>	<i><u>158</u></i>

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

	2021	<i>2020</i>
	£000's	<i>£000's</i>
Aggregate emoluments and other benefits	315	<i>282</i>
Pension contributions	14	<i>14</i>
	<u>329</u>	<i><u>296</u></i>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

10 INVESTMENT RETURN

	2021	<i>2020</i>
	£000's	<i>£000's</i>
Investment income		
Income from financial investments	94,889	<i>46,321</i>
Gains on the realisation of investments	60,802	<i>31,416</i>
	155,691	<i>77,737</i>
Investment expenses and charges		
Investment management charges	(7,876)	<i>(8,347)</i>
Losses on the realisation of investments	(113,308)	<i>(25,102)</i>
	(121,184)	<i>(33,449)</i>
Unrealised gains on investments	62,287	<i>112,571</i>
Unrealised losses on investments	(47,184)	<i>(33,519)</i>
	15,103	<i>79,052</i>
Investment return	49,610	<i>123,340</i>

Investment return is analysed between:

	2021	<i>2020</i>
	£000's	<i>£000's</i>
Allocated investment return transferred to the general business technical account	62,803	<i>82,688</i>
Net investment return included in the non-technical account	(13,193)	<i>40,652</i>
Total investment return	49,610	<i>123,340</i>

Included in the above is a loss of (£13.2m) (2020: Gain £40.6m) of investment return related to 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 2021

11 OTHER FINANCIAL INVESTMENTS

	<i>Market value</i>		<i>Cost</i>	
	2021	<i>2020</i>	2021	<i>2020</i>
	£000's	<i>£000's</i>	£000's	<i>£000's</i>
Financial assets				
Fair value through Profit and Loss:				
Shares and other variable yield securities and units in unit trusts	257,561	<i>203,425</i>	146,269	<i>176,335</i>
Debt securities and other fixed income securities	2,543,416	<i>2,755,420</i>	2,540,158	<i>2,647,676</i>
Other investments	3,463	<i>2,308</i>	1,605	<i>1,578</i>
Total financial assets	<u>2,804,440</u>	<i><u>2,961,153</u></i>	<u>2,688,032</u>	<i><u>2,825,589</u></i>

Included in the above are Funds In Syndicate of £464.6m (2020: £900.4m) placed by Catlin Syndicate Limited (see note 21).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

12 INSURANCE LIABILITIES AND REINSURANCE ASSETS

2021	Provision for unearned premium	Claims Outstanding
	£000's	£000's
Gross Technical Provisions		
As at 1 January 2021	770,053	4,946,966
Movement in the provision	(73,984)	(590,916)
Foreign exchange movements	(3,008)	(38,896)
As at 31 December 2021	<u>693,061</u>	<u>4,317,154</u>
Reinsurers' share of technical provisions		
As at 1 January 2021	205,858	1,608,895
Movement in the provision	58,876	(620,441)
Profit and loss impact of retrocession arrangement *	—	1,262,746
Foreign exchange movements	(5,903)	(10,597)
As at 31 December 2021	<u>258,831</u>	<u>2,240,603</u>
Net technical provisions		
As at 31 December 2020	<u>564,195</u>	<u>3,338,071</u>
As at 31 December 2021	<u>434,230</u>	<u>2,076,551</u>

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.

*100% quota share retrocession protection provided by AXA XL Reinsurance Ltd is reflected in the profit or loss account within the outwards reinsurance premiums line after being offset by related reinsurers share of claims. The accounting treatment of this transaction is disclosed in note 1) B) (d) Ceded Reinsurance for accounting treatment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

12 INSURANCE LIABILITIES AND REINSURANCE ASSETS

<i>2020</i>	<i>Provision for unearned premium</i>	<i>Claims Outstanding</i>
	<i>£000's</i>	<i>£000's</i>
<i>Gross Technical Provisions</i>		
<i>As at 1 January 2020</i>	961,602	4,349,551
<i>Movement in the provision</i>	(177,231)	716,973
<i>Foreign exchange movements</i>	(14,318)	(119,558)
<i>As at 31 December 2020</i>	<u>770,053</u>	<u>4,946,966</u>
<i>Reinsurers' share of technical provisions</i>		
<i>As at 1 January 2020</i>	207,288	1,322,793
<i>Movement in the provision</i>	4,070	336,159
<i>Foreign exchange movements</i>	(5,500)	(50,057)
<i>As at 31 December 2020</i>	<u>205,858</u>	<u>1,608,895</u>
<i>Net technical provisions</i>		
<i>As at 31 December 2019</i>	<u>754,314</u>	<u>3,026,758</u>
<i>As at 31 December 2020</i>	<u>564,195</u>	<u>3,338,071</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

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 twelve months. Therefore we would anticipate cumulative claims to increase in the second year as this business is earned.

Gross claims development

	2012 and Prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's	£m's
12 months		531	566	532	659	1,164	873	602	604	364	
24 months		997	1,113	1,095	1,494	1,919	1,538	1,724	942		
36 months		988	1,184	1,179	1,590	1,976	1,769	1,598			
48 months		977	1,161	1,219	1,669	2,050	1,717				
60 months		981	1,256	1,248	1,647	2,048					
72 months		1,024	1,242	1,316	1,656						
84 months		1,007	1,266	1,280							
108 months		1,011	1,266								
120 months		993									
Estimated total losses	17,199	993	1,266	1,280	1,656	2,048	1,717	1,598	942	364	29,063
Paid claims	(16,586)	(872)	(1,087)	(1,036)	(1,374)	(1,620)	(1,109)	(764)	(258)	(40)	(24,746)
Gross reserves	613	121	179	244	282	428	608	834	684	324	4,317

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

13 CLAIMS DEVELOPMENT TRIANGLES (continued)**Net claims development**

	2012 and Prior £m's	2013 £m's	2014 £m's	2015 £m's	2016 £m's	2017 £m's	2018 £m's	2019 £m's	2020 £m's	2021 £m's	Total £m's
12 months		430	430	415	530	579	555	498	409	143	
24 months		789	850	873	1,105	1,200	1,051	1,192	578		
36 months		790	939	917	1,146	1,218	1,114	862			
48 months		792	891	991	1,296	1,316	957				
60 months		786	972	1,001	1,243	1,199					
72 months		817	887	1,062	1,156						
84 months		790	904	943							
108 months		795	833								
120 months		730									
Estimate total losses	10,405	730	833	943	1,156	1,199	957	862	578	143	17,806
Paid claims	(10,143)	(675)	(768)	(827)	(1,000)	(961)	(657)	(451)	(217)	(31)	(15,730)
Net reserves	262	55	65	116	156	238	300	411	361	112	2,076

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

14 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2021	<i>2020</i>
	£000's	<i>£000's</i>
Due within one year	719,476	<i>762,682</i>
	<u>719,476</u>	<i><u>762,682</u></i>

15 OTHER DEBTORS:
Amounts falling due within one year

	2021	<i>2020</i>
	£000's	<i>£000's</i>
Amounts receivable from group undertakings	47,928	<i>66,884</i>
Overseas taxation including federal excise tax	85	<i>2,609</i>
Other debtors	17	<i>17</i>
	<u>48,030</u>	<i><u>69,510</u></i>

16 OTHER DEBTORS:
Amounts falling due after one year

	2021	<i>2020</i>
	£000's	<i>£000's</i>
Salvage and subrogation recoveries	20,122	<i>21,267</i>
	<u>20,122</u>	<i><u>21,267</u></i>

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.

18 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2021	<i>2020</i>
	£000's	<i>£000's</i>
Due within one year	67,004	<i>19,542</i>
	<u>67,004</u>	<i><u>19,542</u></i>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

19 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

Amounts falling due within one year

	2021	2020
	£000's	£000's
Amounts payable to group undertakings	67,300	39,456
Overseas taxation including federal excise tax	12,941	9,668
Other creditors	131	1,128
	80,372	50,252

20. 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 2021, the value of assets supporting FAL for the 2022 year of account is £1,313m (2020: £1,422m). 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.

21 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.

22 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 2021

23 RELATED PARTY TRANSACTIONS

AXA XL Underwriting Agencies Limited ("AXUAL") is the managing agent for Syndicate 2003. Under the managing agents' agreement, AXUAL receives an annual fee of £0.4m (2020: £0.4m). The balance due to AXUAL as at 31 December 2021 was £0.2m (2020: £0.1m).

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 Australia Pty Limited
Catlin Underwriting Inc	Catlin Singapore Pte Limited
Catlin Hong Kong Limited	Catlin Labuan Limited
XL Catlin Services SE	Catlin Risk Solutions Limited

Recharge of the expenses from the service company, XL Catlin Services SE ("XLCSSSE") 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 XLCSSSE.

The Syndicate participates in reinsurance contracts with other AXA Group companies and Syndicates that are managed by AXA XL 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	2021	2020
	£'000	£'000
AXA XL Reinsurance Ltd	(12,777)	—
XL Bermuda Ltd	(46,388)	353,637
Syndicate 6111	—	2,312
Total	(59,165)	355,949

Balance sheet net assets and (liabilities) outstanding	2021	2020
	£'000	£'000
AXA XL Reinsurance Ltd	161,479	—
XL Bermuda Ltd	264,027	691,834
Syndicate 6111	—	5,773
Total	425,506	697,607

Effective from the 31 December 2021 the Syndicate purchased a retrocession agreement providing a 100% quota share protection of the net liabilities of the Reinsurance segment business from AXA XL Reinsurance Ltd. Details of the relevant accounting policy used for this transaction is disclosed in note 1) B) (d) Ceded reinsurance.

The financial impact of this transaction on the profit and loss and Balance sheet of the Syndicate are set out in the table below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

23 RELATED PARTY TRANSACTIONS (Continued)

Statement of profit or loss impact of 100% QS retrocession arrangement

£000's

Outward reinsurance premiums	(70,134)
Change in the provision for unearned premiums, reinsurers' share	57,357
	<u>(12,777)</u>

Statement of financial position impact of 100% QS retrocession arrangement

£000's

Provision for unearned premiums, reinsurers' share	58,333
Claims outstanding, reinsurers' share	1,261,633
Deferred acquisition costs, reinsurers' share	(11,702)
Deposits received from reinsurers	<u>(1,146,785)</u>
	<u>161,479</u>

AXA XL Reinsurance Ltd has established a Trust Account with Syndicate 2003 as sole beneficiary, to secure and fund the obligations of AXA XL Reinsurance Ltd under the retrocession agreement. This contingent asset will match any shortfall of assets provided by AXA XL Reinsurance Ltd to meet liabilities of the reinsurance policyholders.