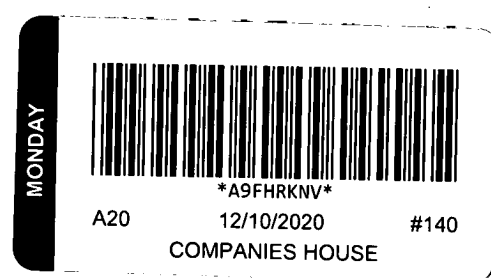


# **CATHEDRAL CAPITAL (1998) LIMITED**

## **Annual Report and Financial Statements**

For the year ended 31 December 2019



Registered in England and Wales Number 3402448

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## Directors and Officers

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### DIRECTORS

A C Beardon

C J Whittle

B Cass

appointed 27 August 2019

A M Mcleod

appointed 27 August 2019

### COMPANY SECRETARY

M E Lynn

### AUDITOR

KPMG LLP

15 Canada Square

Canary Wharf

London E14 5GL

### MEMBERS AGENT

Hampden Agencies Ltd

40 Gracechurch Street

London EC3V 0BT

### BANKER

Barclays Bank Plc

1 Churchill Place

London E14 5HP

### REGISTERED OFFICE

Level 29

20 Fenchurch Street

London EC3M 3BY

Registered Number

3402448 (England and Wales)

## Strategic Report

The Directors present the Strategic Report of Cathedral Capital (1998) Limited (the "Company") for the year ended 31 December 2019.

### Principal Activity and Future Developments

The Company is part of the Cathedral Group (the "Group"), comprised of Lancashire Syndicates Limited (formerly Cathedral Underwriting Limited), managing agent for Syndicates 2010 and 3010, Cathedral Capital Services Limited, Cathedral Capital Holdings Limited, Cathedral Capital (1999) Limited and Cathedral Capital Limited. During the year, Cathedral Capital Services Limited was liquidated.

The Company is authorised by the Council of Lloyd's to operate as a Corporate Member of Lloyd's and 1998 was its first underwriting year of account. The Company has underwritten the following capacity for the past three years of account:

Underwriting Year of Account	Capacity (£'000)
2019	£277,033
2018	£277,033
2017	£277,033

For the 2020 underwriting year of account, the Company will underwrite £332,797k of capacity, of which £182,797k of capacity will be allocated to Syndicate 2010 which currently specialises in non-marine, aviation reinsurance, satellite and direct and facultative property insurance and £150,000k will be allocated to Syndicate 3010 which currently specialises in marine cargo, aviation hull, aviation direct, aviation deductible, terrorism, energy, power, utility and marine hull lines.

Syndicate 2010 and Syndicate 3010 are managed by Lancashire Syndicates Limited ("LSL"), a fellow group subsidiary. The Directors intend that, subject to market conditions, the Company will continue for the foreseeable future to underwrite as a Corporate Member at Lloyd's.

As at 31 December 2019 the Company's funds at Lloyd's were provided by Cathedral Capital (1998) Limited (\$6.4m), Cathedral Capital Holdings Limited (\$48.7m) and Lancashire Insurance Company Limited (\$312.8m) and were invested in a mixture of fixed interest instruments and cash. After taking into account a solvency deficit of \$78.4m, the total capital requirement was \$289.5m.

### Business Review

The results attributable to the shareholder for the year are shown on pages 9 and 10.

No dividend was paid during the year (2018: nil).

All syndicates on which the Company participated for the 2019, 2018 and 2017 years of account are annually accounted and their contributions to the Company's result have been included in these financial statements.

On an annual accounting basis, the technical account result for the year ended 31 December 2019 split by syndicate and the open years of account, after the quota share reinsurance with Lancashire Insurance Company Limited, is as follows:

\$'000	2019 YoA	2018 YoA	2017 YoA	Total
Syndicate 2010	(4,864)	(5,169)	16,036	6,003
Syndicate 3010	(7,677)	11,735	4,205	8,263
Combined	(12,541)	6,566	20,241	14,266
Quota share reinsurance premium*	24,290	(20,149)	(10,493)	(6,352)
Reinsurance premium relating to umbrella cover	(4,125)	—	—	(4,125)
Profit commission**	—	—	(372)	(372)
<b>Result</b>	<b>7,624</b>	<b>(13,583)</b>	<b>9,376</b>	<b>3,417</b>

\* The amount of quota share reinsurance premium under the quota share arrangement with Lancashire Insurance Company Limited ("LICL") is \$6,808k, excluding total profit commission of \$456k from LICL.

\*\* Managing agency profit commission payable to LSL, a fellow group subsidiary.

The combined 2019 calendar year result showed a positive result with both syndicates returning a profit for the period on both underwriting and investment return.

On a traditional three year basis, the result for the performance of the Syndicates is summarised below:

	2020 YoA	2019 YoA	2018 YoA	2017 YoA
Capacity (Sterling)	£332.8m	£277.0m	£277.0m	£277.0m
Capacity (Converted US Dollar)	\$436.0m	\$374.0m	\$374.0m	\$374.0m
Cumulative corporate member share of aggregate syndicate results to date	n/a	\$(24.7m)	\$(19.6m)	\$(44.9m)
Forecast result (% of capacity)				
- Syndicate 2010	n/a	n/a	-7.5% to -12.5%	-20.0%
- Syndicate 3010	n/a	n/a	+5% to 0%	1.1%

Forecast result is before members' agency fees and is for a standard Name. The 2017 year of account result is the actual reported result to capital providers on the closure of that year of account. The 2018 year of account result is the current public forecast. No public forecast has yet been released for either the 2019 or 2020 years of account.

## Principal Risks to the Business

A detailed description of the principal risks to the business is set out in Note 4.

### *Risk relating to Brexit*

On 31 January 2020 the United Kingdom ceased to be a member of the European Union ("EU") and as a consequence Lloyd's members will no longer be authorised to underwrite insurance business in the EEA. In order to maintain access to this business, a new Lloyd's subsidiary, Lloyd's Insurance Company S.A. has been established and commenced underwriting on 1 January 2019.

LSL, a fellow subsidiary of the Company, has entered into an Outsourcing Agreement with Lloyd's Brussels, by which it is authorised to underwrite business on behalf of Lloyd's Brussels or to appoint a coverholder for the same purpose. This business is then reinsured on a 100% basis to syndicates managed by LSL, so that the members of those syndicates will continue to benefit from it.

As a result of entering into the Outsourcing Agreement, LSL has assumed duties and obligations to Lloyd's Brussels in respect of the services it provides to it. These duties could potentially give rise to a conflict of interest with LSL's duties to the members of its managed syndicates. Accordingly, the Outsourcing Agreement required that LSL informs the members of the syndicates of its duties under the Agreement and obtain their consent to the provision of services to Lloyd's Brussels by LSL. For the purposes of assessing the likelihood that a conflict of interest would arise, it should be noted that all business underwritten on behalf of Lloyd's Brussels by LSL is reinsured on a 100% basis to the relevant syndicates managed by LSL. As such, the interests of the LSL's principals are aligned and accordingly it is considered that the risk of a conflict of interest arising (which cannot be mitigated or resolved) is low.

## Financial Instruments

The Company's principal financial instruments are financial investments, reinsurers' share of technical provisions, receivables and cash and cash equivalents. The risks relating to financial instruments are explained in Note 4 of the financial statements.

## Impact of the Coronavirus ("Covid-19") Pandemic

In considering the appropriateness of the going concern basis, the Directors have undertaken a risk assessment of the potential impact of the Covid-19 pandemic on the Company's expected future operational and financial performance. The risk assessment considered a range of possible forward looking scenarios for a period of over 12 months from the date of this report. As part of this risk assessment various attributes of the business were stress tested to gain comfort over its liquidity and solvency position going forward. The tests applied to the various scenarios included but are not limited to the following. Gross and reinsurance premiums were subject to estimated reductions to demand in each class as a consequence of Covid-19, for example the grounding of aircraft and cargo held at ports. Forecast loss ratios, recovery rates and brokerage rates were applied to the outcomes. Claims were stress tested around the current reserved position and two other scenarios set by Lloyd's which were based on the conclusion of the pandemic lockdown on either 30 June 2020 or 30 September 2020. Certain worst case/doomsday scenarios were considered but were deemed too remote to apply to the Syndicates. The vast majority of the Syndicates' policies require physical property damage in order to trigger Business Interruption ('BI') coverage (i.e. contracts are not written on a 'all-risks' basis) and we would therefore not expect COVID-19 to generate a large number or amount of BI claims.

The Directors have also considered the impact on the performance of the Company's investment portfolio and considered certain scenarios which could trigger unrealised losses, the outcome of these tests were factored into the risk assessment. Further consideration was performed around the potential for reinsurance counterparty default risk at the Reinsurance Broker and Security Committee; there are currently no concerns in this regard, however the situation is being continuously monitored. The impact on the balance sheet of the scenarios have led the Directors of the Company to conclude there are no material consequences of the Covid-19 Pandemic on the Company.

### Statement by the Directors in Performance of their Statutory Duties in Accordance with S172(1) Companies Act 2006 (the "Act")

The Board of Directors of Cathedral Capital (1998) Limited consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its sole member (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2019.

In line with its annually approved business plan, and in accordance with its approved strategy, the Company seeks to effectively manage the insurance cycle by underwriting profitable business in the specialty insurance lines in which it operates. Our strategic priorities are that we do not seek top line growth for the sake of it in markets where we do not believe the right opportunities exist, we seek to underwrite our core portfolio profitably through the insurance cycle and look to seize opportunities when they present themselves. We focus on disciplined underwriting with a strong focus on profitability and risk selection. By reducing our risk levels in markets where we consider premiums do not justify the risks presented and, seeking to expand our portfolio where the risk/return metric improves, the Company seeks to create a sustainable business operation for the long term.

We recognise that our responsibility is not only to our parent company and our clients and we strive to be a good employer, a good corporate citizen and a responsible preserver of resources.

Our employees are the lifeblood of the Company and we strive to attract and retain excellent staff. The Company actively seeks to engage with its staff, and to afford them a stable and open workplace. Our staff work on a cross-departmental basis, are provided with regular training and development and management encourages engagement across all areas of the business. The Company promotes the Lancashire Holdings Limited group ("the Group") values<sup>(1)</sup> set out below, and during 2019 employees participated in a group-wide staff engagement survey, the feedback for which was positive. The Company recognises that promoting a positive and inclusive culture is an important factor in its continued ability to attract and retain the best talent and continues to explore how it can promote flexible working options and career development opportunities. All permanent staff are eligible to share in the Company's and Group's success through the granting of nil restricted share scheme cost awards and participation in the Company's bonus arrangements. To ensure alignment with the Company's values and to effectively monitor individual performance, certain senior managers' remuneration is overseen by the Company's Remuneration Committee.

It is crucial to the Company's long term success that it positively engages with its key stakeholders such as clients, brokers, outwards reinsurers and service providers to provide suitable (re)insurance products; the Company's underwriters, claims team, senior management, and the Company's directors will meet regularly with stakeholders both in the UK and internationally to receive their feedback and insight. Our policies are important to our clients in seeking to protect them and their business from risk events, and when losses do occur we are responsive in order to provide our policyholders with ongoing support and we seek to pay their claims as expeditiously as possible.

The Company also recognises the importance of an open and constructive relationship with government agencies and regulators both in the UK and internationally when it underwrites certain overseas (re)insurance contracts, and to this end the Company has developed a range of internal procedures and processes to establish a robust operating platform to ensure compliance with legal requirements and regulatory rules and standards; and seeks to be proactive in its provision of accurate information to such agencies and regulators.

The Company is active in supporting the promotion of the interests of the wider London insurance market, and as an example of that the CEO of LSL, a fellow group subsidiary, sits on the board of the LMA.

Through the Lancashire Foundation, the Lancashire Holdings Limited group ("the Group") makes financial contributions and provide human support to a number of good causes in the places we operate around the world. This is a Group-wide initiative, and further information can be found on pages 45 to 47 in the 2019 Annual Report for Lancashire Holdings Limited (our ultimate parent company). The Company also seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days and mentoring opportunities.

We are a wholly owned subsidiary of a Group that is committed to managing the environmental impacts of all its businesses, including the Company's, as well as reporting against the UNEP F1 Principles for Sustainable Insurance. Further information can be found in Lancashire Holdings Limited's Annual Report on pages 40 to 47 and 52 to 54.

(1)

Leadership, exhibiting passion and commitment in all aspects of Lancashire life and inspiring others to do the same, we are Aspirational, aspiring to deliver a superior service for our clients, ourselves and our business partners, we are Nimble in our decisions, actions and business processes, we are Collaborative, valuing teamwork and a diversity of skills and experience and sharing in our success, and we are Straightforward in conducting our business in an accountable, open, honest and sustainable way.

By order of the Board



C.J. Whittle

11 June 2020

## Directors' Report

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The Directors present their annual report and the audited financial statements of Cathedral Capital (1998) Limited (the "Company") for the year ended 31 December 2019.

### Directors

The Directors who served during the year are shown on page 1.

Information on Directors' interests in transactions is shown in Note 21 on page 33.

Lancashire Holdings Limited, a Bermudian registered company and the Company's ultimate parent company, has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and all of its subsidiary companies including this Company.

### Going Concern

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Political Contributions

The Company made no political donations or incurred any political expenditure during the year (2018: \$nil).

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

### Disclosure of Information to the Auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors, each Director has taken all the steps that they are obliged to take as a Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

## Directors' Report

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### Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



C.J Whittle

11 June 2020

Company Registered Number: 3402448



## Opinion

We have audited the financial statements of Cathedral Capital (1998) Limited ("the Company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income (Loss) - Technical Account - General Business, Statement of Comprehensive Loss - Non-Technical Account, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and related notes, including the accounting policies in Note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## Strategic Report and Directors' Report

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company'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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Independent Auditor's Report to the Members of Cathedral Capital (1998) Limited

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### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Timothy Butchart (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
KPMG LLP  
15 Canada Square  
Canary Wharf  
London E14 5GL

11 June 2020

**Statement of Comprehensive Income (Loss)**  
**Technical Account - General Business**  
For the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Gross premiums written	5	299,803	254,775
Outward reinsurance premiums		(111,997)	(57,445)
<b>Net premiums written</b>		<b>187,806</b>	<b>197,330</b>
Change in the gross provision for unearned premiums		(29,856)	(26,009)
Change in the reinsurers' share provision for unearned premiums		10,712	5,577
<b>Net premiums earned</b>		<b>168,662</b>	<b>176,898</b>
Allocated investment return transferred from the non-technical account		4,651	2,290
Gross claims paid		(148,407)	(155,937)
Reinsurers' share of claims paid		45,638	52,530
<b>Net claims paid</b>		<b>(102,769)</b>	<b>(103,407)</b>
Gross amount of change in the provision for claims		1,337	(6,519)
Reinsurers' share of change in the provision for claims		4,003	(1,488)
<b>Change in the provisions for claims</b>		<b>5,340</b>	<b>(8,007)</b>
<b>Claims incurred, net of reinsurance</b>	6	<b>(97,429)</b>	<b>(111,414)</b>
Other income		704	1,894
Net operating expenses	7	(73,171)	(71,734)
<b>Balance transferred to the non-technical account</b>		<b>3,417</b>	<b>(2,066)</b>

The notes on pages 14 to 34 are an integral part of these financial statements.

## Statement of Comprehensive Loss

### Non-Technical Account

For the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Balance on the general business technical account		3,417	(2,066)
Investment return	8	4,803	2,544
Allocated investment return transferred to the technical account		(4,651)	(2,290)
Other charges	9	(4,132)	(2,387)
<b>Loss on ordinary activities before tax</b>		<b>(563)</b>	<b>(4,199)</b>
Tax (charge)/credit on loss on ordinary activities	10	(981)	2,242
<b>Loss for the financial year</b>		<b>(1,544)</b>	<b>(1,957)</b>

All activities derived from continuing operations.

There are no other comprehensive gains or losses in the year (2018: \$nil).

The notes on pages 14 to 34 are an integral part of these financial statements.

**Balance Sheet**  
As at 31 December 2019

	Notes	2019 \$'000	2018 \$'000
<b>Assets</b>			
Cash and cash equivalents	11	117,585	68,312
Financial investments	12	81,230	105,882
Trade and other receivables:			
- Arising out of direct insurance operations - due from policy holders		18,332	37,244
- Arising out of reinsurance operations		109,263	73,487
- Other receivables	13	80,533	77,320
Reinsurers' share of technical provisions:			
- Reinsurance recoveries	17	139,360	133,410
- Unearned premiums on premiums ceded	17	25,934	15,393
Deferred acquisition costs	14	28,913	21,965
Prepayments and accrued income	15	2,102	587
Intangible assets	16	8,237	7,504
Deferred tax assets	18	15,388	20,332
<b>Total Assets</b>		<b>626,877</b>	<b>561,436</b>
<b>Liabilities</b>			
Technical provision:			
- Claims outstanding - gross	17	341,891	339,488
- Unearned premiums	17	133,732	105,171
Deferred tax liabilities	18	17,026	23,387
Trade and other payables:			
- Arising from direct insurance operations		10,920	7,015
- Arising from reinsurance operations		57,798	43,609
- Other payables	19	58,721	33,630
Accruals and deferred income		6,262	7,065
<b>Total Liabilities</b>		<b>626,350</b>	<b>559,365</b>
<b>Equity</b>			
Share capital	20	—	—
Retained earnings		527	2,071
<b>Total Equity</b>		<b>527</b>	<b>2,071</b>
<b>Total Liabilities and Equity</b>		<b>626,877</b>	<b>561,436</b>

The notes on pages 14 to 34 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 11 June 2020 and signed on its behalf by:

*C Whittle*

CJ Whittle  
Chief Financial Officer

**Statement of Changes in Equity**  
For the year ended 31 December 2019

	Share capital	Retained earnings	Total equity
	\$'000	\$'000	\$'000
As at 1 January 2018	—	4,028	4,028
Loss for the financial year	—	(1,957)	(1,957)
As at 31 December 2018	—	2,071	2,071
Loss for the financial year	—	(1,544)	(1,544)
<b>As at 31 December 2019</b>	<b>—</b>	<b>527</b>	<b>527</b>

The notes on pages 14 to 34 are an integral part of these financial statements.

**Statement of Cash Flows**  
For the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
<b>Cash flows from/(used in) operating activities</b>			
Loss for the financial year before tax		(563)	(4,199)
Adjustment for:			
Investment income	8	(3,707)	(3,026)
Net realised and unrealised (gain)/losses on investments	8	(1,213)	406
Foreign exchange gain	7,9	729	263
Tax expense	10	(981)	2,242
Changes in:			
Increase in trade and other receivables		(21,235)	(60,930)
Increase in reinsurers' share in technical provision		(14,544)	(7,059)
Increase in deferred acquisition costs		(6,948)	(4,898)
Increase/(decrease) in prepayments and accrued income		(1,552)	1,267
Increase in technical provision		27,223	33,150
Net decrease in deferred tax assets liabilities		(1,488)	(3,866)
Increase in trade and other payables		43,665	35,778
Decrease in accruals and deferred income		(769)	(5,383)
<b>Net cash outflow from/(used in) operating activities</b>		<b>18,617</b>	<b>(16,255)</b>
<b>Cash flows from investing activities</b>			
Investment income received		3,707	3,026
Proceeds from sale of investments		122,666	109,931
Purchases of investments		(95,439)	(87,688)
Purchase of underwriting capacity	16	(733)	—
<b>Net cash provided from investing activities</b>		<b>30,201</b>	<b>25,269</b>
Net increase in cash and cash equivalents		48,818	9,014
Cash and cash equivalents at 1 January		68,312	58,801
Effect of exchange rate fluctuations on cash and cash equivalents		455	497
<b>Cash and cash equivalents at 31 December</b>	11	<b>117,585</b>	<b>68,312</b>

The notes on pages 14 to 34 are an integral part of these financial statements.

## Notes to the Financial Statements

For the year ended 31 December 2019

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### 1. General Information

Cathedral Capital (1998) Limited ("the Company") is a limited company registered and domiciled in England and Wales. The address of its registered office and principal place of business is disclosed on page 1. The principal activities of the Company are described in the Strategic Report on page 2.

### 2. Basis of Preparation of the Financial Statements

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention.

Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Company determines appropriate measurement basis, to provide the most useful information to users of the financial statements, using their judgement and considering U.K. GAAP. In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimations as noted in the 'Use of Estimates' section below, that have had a significant effect on amounts recognised in the financial statements.

The accounts have been prepared in U.S. Dollars, which is the functional and presentational currency of Cathedral Capital (1998) Limited.

#### *Impact of Covid-19*

Whether the virus could trigger coverage is dependent on specific policy language, terms and exclusions. We have performed a review of our policy language, terms and exclusions and have provided for Covid-19 in our going concern assessment where appropriate. Our assessment over the Company's ability to continue as a going concern over the next 12 months is based on our intended contractual obligations. There is a risk, however, that legislative, regulatory, judicial or social influences may extend coverage beyond our intended contractual obligations or result in an increase in the frequency or severity of claims beyond expected levels.

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have undertaken a risk assessment of the potential impact of the COVID-19 pandemic on the Company's expected future operational and financial performance. The risk assessment considered a range of possible forward looking scenarios (including severe but plausible scenarios) for a period of over 12 months from the date of this report, taking account of actions already taken to mitigate the risks to the Company's employees and operations, as well as actions available in the future as needed.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through funding from its immediate parent company, Cathedral Capital Holdings Limited ("CCHL"), to meet its liabilities as they fall due for that period.

Those forecasts are dependent on CCHL providing additional financial support during that period. CCHL has indicated its intention to continue to make available such funds as are needed by the Company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

### 3. Significant Accounting Policies

#### a) Use of estimates

The preparation of the financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the reported and disclosed amounts at the balance sheet date and the reported and disclosed amounts of revenues and expenses during the reporting period. Actual results may differ materially from the estimates made.

The most significant estimate made by management is in relation to insurance claims and loss adjustment expenses, both gross and net of outwards reinsurance recoverable. This is discussed in the risk disclosures section in Note 4. Estimates in relation to insurance claims and loss adjustment expenses recoverable are discussed below.

The measurement of premiums written in the year involves judgements on the amounts of premiums written but not signed to the Syndicate until after the balance sheet date. In our estimation of unearned premium, we have made estimates on the allocation of premiums between accounting premiums based on judgements on the profile of the underlying risks associated with the written, and accordingly how the premium is recognised as earned.

Less significant estimates are made in determining the estimated fair value of certain financial instruments and management judgement is applied in determining impairment charges. The estimation of the fair value of financial instruments is discussed in Note 12.



## Notes to the Financial Statements

For the year ended 31 December 2019

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### b) Basis of accounting for underwriting results - insurance contracts

#### i) Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

#### ii) Premiums

Gross written premiums represent contracts on business incepting during the financial year, together with adjustments made in the year to premiums written in previous accounting periods. All premiums are gross of commission payable to intermediaries, and include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured by the syndicates. Reinsurance premium payable to Lancashire Insurance Company Limited (a related group company) under a reinsurance quota share agreement is recognised in line with the annual accounting underwriting result, gross of reinsurance profit commissions receivable.

#### iii) Provision for unearned premiums

Written premium is earned on a straight-line basis according to the risk profile of the policy commencing from the date of inception of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate. Estimates are based on managing agent's estimates of the exposures of the underlying business written.

The movement in the provision for unearned premium is taken to the Statement of Profit or Loss and Other Comprehensive Income.

#### Claims incurred

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

#### iv) Outstanding claims provision

The outstanding claims comprise amounts set aside for claims notified by the balance sheet date, IBNR and amounts in respect of external claims handling costs.

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on a detailed review of losses and loss development by the management of the Cathedral Group's managing agent subsidiary. This provision is reviewed by external consulting actuaries. IBNR for major catastrophe losses is individually assessed by underwriting and non-underwriting management of the Group's managing agent subsidiary. IBNR for smaller and more attritional losses is based on projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced 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.

The Group's managing agent subsidiary uses a number of statistical and other techniques to assist in making the above estimates. The two most critical assumptions as regards 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.

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so as to minimise any adverse run-off deviation.

#### v) Reinsurance

The reinsurers' share of provision for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Where reliance has been placed on the security rating by rating agencies, it has been assumed that they provide a reliable estimate of the likelihood of the reinsurer in question being able to meet its obligations when called upon to do so.

If a reinsurance asset is impaired, the Company reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the statement of comprehensive income. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the asset, that the Company may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

#### vi) Deferred acquisition costs

Acquisition costs represent commission and other expenses arising from the conclusion of insurance contracts. They are deferred over the period in which the related premiums are earned.

## Notes to the Financial Statements

For the year ended 31 December 2019

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### vii) Reinsurance to close

To the extent that the Company participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the Company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

Where the Company has increased or decreased its syndicate participation from one year of account to the next, the difference between the reinsurance to close received and the reinsurance to close paid is shown in the statement of comprehensive income as either gross premiums written or amounts payable to reinsurers as appropriate.

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims.

### c) Financial instruments

#### i) Financial investments

The Company classifies its financial assets held for investment purposes as designated at fair value through profit and loss at inception.

A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management. The fair values of quoted financial investments are based on bid prices at the balance sheet date. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques, such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models. Unlisted investments are stated fair value.

Investment income comprises interest receivable and dividends received plus realised gains or losses on the disposal of investments. Realised gains and losses arise from the difference between proceeds and cost. The realised gains reported by syndicates are net of any realised losses.

All investment income net of realised losses arising on syndicate participations is recognised in the Company's Technical Account – General Business, as an integral part of the Company's underwriting business.

Investment expenses and charges comprise investment management expenses.

#### ii) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of purchase.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

### d) Operating expenses

Operating expenses include the Company's share of the syndicates' operating expenses and the Company's corporate expenses. The Company's share of the syndicates' operating expenses includes the direct costs of membership of Lloyd's ("personal expenses"). Expenses are accounted for on an accruals basis. Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost or proceeds of the investment.

### e) Foreign currency translation

The functional currency, which is the currency of the primary economic environment in which operations are conducted, for the Company is U.S. Dollars. Items included in the financial statements of the Company are measured using the functional currency. The financial statements are also presented in U.S. Dollars. Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in the statement of comprehensive income. Non-monetary assets and liabilities carried at historical cost and denominated in a foreign currency are translated at historic rates.

## Notes to the Financial Statements

For the year ended 31 December 2019

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### f) Taxation

Income tax represents the sum of the tax currently payable and any deferred tax. The tax payable is calculated based on taxable profit for the period. The Company is taxed on its share of the underwriting results declared by syndicates and for tax purposes these are deemed to accrue evenly over the calendar year in which they are declared. HM Revenue & Customs determines the taxable results of individual syndicates on the basis of computations submitted by the relevant managing agent. At the date of approval of these accounts, none of the syndicate taxable results have been agreed. Any adjustments that may be necessary to the tax provisions established by the Company as a result of HM Revenue & Customs agreement of individual syndicate taxable results will be reflected in the accounts of subsequent periods.

Taxable profit for the period can differ from that reported in the statement of comprehensive income due to non-taxable income and certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on all temporary differences between the assets and liabilities in the balance sheet and their tax base. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The Group determines based on its tax compliance and transfer pricing study, the probability/certainty of the tax treatments being accepted by the taxation authorities and accounts for those in line with its determination.

### g) Other income

Other income relates to profit commission receivable under the quota share reinsurance contract with Lancashire Insurance Company Limited.

### h) Intangible asset - Syndicate participation rights

Syndicate participation rights are initially measured at fair value and are subsequently measured at cost less any accumulated impairment losses. Syndicate participation rights are considered to have an indefinite life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The value of the syndicate participation rights is reviewed for impairment at least annually, or when events or changes in circumstances indicate that it might be impaired.

## Notes to the Financial Statements

For the year ended 31 December 2019

### 4. Risk Disclosure

The Company is exposed to a variety of risks when undertaking its activities. The Board has policies in place to identify and manage the key risks in accordance with its risk appetite. These risks can be split into the following categories:

- Insurance risk;
- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk; and
- Capital management risk.

The Company only underwrites on syndicates managed by its affiliated managing agent subsidiary and the risks set out below relate to this. The sections below outline the Company's risk appetite and explain how it defines each category of risk.

#### 4.1 Insurance risk

The Company's underwriting of insurance risks is naturally a high-risk business, with the potential for earnings to be volatile. It would be possible for the capital supporting the underwriting to be completely eroded in extreme circumstances. Even in less extreme circumstances, major losses may cause erosion of capital which, if not replaced, may curtail the Company's ability to trade going forward and potentially recoup its losses. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

This risk is managed through portfolio diversification of insurance contracts as it is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy so as to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks in an attempt to reduce the variability of the expected outcome. However, it should be recognised that much of the business written by the Company is accumulative by nature. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

##### 4.1.1 Diversification across classes of business

The Company's underwriting covers various classes of business which, to some extent, have different exposure profiles and therefore provides an element of diversification to the Company. Concentrations of insurance risk are determined by class of business, as demonstrated below.

	2019	2019	2018	2018
Gross premiums written	\$'000	%	\$'000	%
Property	160,300	54 %	161,980	64 %
Energy	33,264	11 %	18,981	7 %
Cargo	35,786	12 %	29,929	12 %
Aviation	66,248	22 %	41,993	16 %
Marine	3,813	1 %	2,013	1 %
Other	392	0 %	(121)	0 %
Total	299,803	100 %	254,775	100 %

The Group's managing agency subsidiary monitors the type of business underwritten by its syndicates at a whole account level and, where appropriate, adjusts either the business mix or the level of reinsurance protection in place to try to reduce the extent of overly concentrated exposures.

##### 4.1.2 Frequency and severity of claims

The frequency and severity of claims in respect of the syndicates can be affected by several factors and these can impact the Company. The syndicates currently specialise in property reinsurance, aviation reinsurance, direct and facultative property insurance, satellite, marine cargo, marine hull, power and utility, direct aviation, aviation war, aviation deductible, energy and terrorism. These accounts are predominantly short-tail in nature, and some of them have a high degree of catastrophe exposure (for example the property accounts could be affected by hurricane and earthquake losses).

The catastrophe nature of the accounts is managed through the syndicates' underwriting strategy, aggregate management and reinsurance arrangements. Underwriting limits are in place to support appropriate risk selection criteria and loss aggregates are reviewed and managed by the managing agent.

The reinsurance arrangements include excess and catastrophe coverage. These arrangements are designed to mitigate the impact of any significant losses to a more manageable level. The Group's managing agent subsidiary models various loss scenarios and also considers specific realistic disaster scenarios ("RDS") in accordance with Lloyd's Franchise guidelines to enable it to monitor exposure at a gross and net level for the syndicates.

### 4.1.3 Underwriting risk

The syndicates have defined appetites and tolerances for catastrophe and non-catastrophe (premium) risks, as set out in the Risk Appetite Statements. This is reviewed and approved annually in advance of the business planning process but may be revised at the discretion of the Board.

For Syndicate 2010, whole account modelled natural catastrophe exposures net of reinsurance should only exceed 15% of Economic Capital Assessment ("ECA") once every 10 years, 25% of ECA once every 30 years or 35% of ECA once every 100 years for single events. For multiple (aggregate) events, net exposures should only exceed 25% of ECA once every 10 years, 35% of ECA once every 30 years or 45% of ECA once every 100 years.

For Syndicate 3010, whole account modelled natural catastrophe exposures net of reinsurance should only exceed 10% of ECA once every 10 years, 20% of ECA once every 30 years or 30% of ECA once every 100 years for single events. For multiple (aggregate) events, net exposures should only exceed 15% of ECA once every 10 years, 25% of ECA once every 30 years or 35% of ECA once every 100 years.

The Risk Appetite Statement also states that exposures for classes and perils not modelled in a probabilistic manner should not exceed more than 5% of the current underwriting year ULR, and that cyber attack scenarios should not exceed more than 10% of the ECA. Key underwriting risks include: accumulative loss involving unknown/unexpected accumulations (aggregation modelling risk); the risk of extreme losses (aggregation management risk); the frequency of major loss (risk selection risk); policy wording risk and unsustainable technical pricing risk. These are discussed in detail below:

#### a) Aggregation Modelling

There is a risk that failing to effectively analyse and communicate exposures could result in unknown and unexpected risk aggregations and losses.

The business written by the syndicates is short tail in nature and, whilst the U.S. Terror Attacks in 2001 showed that short tail classes are not immune from unknown / unexpected accumulations, the threat of this occurring is probably more pronounced in the liability fields. By and large the insurances and reinsurances provided by the syndicates are of a well-tested nature. More crucially, the approach taken to risk management is heavily exposure driven. The syndicates continually seek to model their portfolio of accounts in order to identify accumulations and to monitor the exposures of the syndicates, and the whole process is supported by sophisticated external modelling systems and bespoke, internally-developed aggregation systems. Quarterly Exposure Management reporting is undertaken for all classes of business and whole account Exceedance Probability modelled losses are monitored against agreed tolerances at a range of return periods as specified in the Risk Appetite Statements. All key classes of business have separate core reinsurance programmes supported by ancillary group or umbrella covers as appropriate.

#### b) Aggregation Management

A failure to appropriately manage aggregation could result in risk accumulations in excess of risk appetite, and extreme losses to natural or man-made events.

The occurrence of extreme catastrophe events could have a major destabilising effect on the insurance industry as a whole. Whilst the reinsurance writings for the syndicates (unlike direct insurance) provide policyholders with defined cover by way of both limits and number of reinstatements, the insurance portfolios such as the direct and facultative property account and the marine cargo account gives rise to large assured values which are vulnerable to failures in Probable Maximum Loss ("PML") assumptions. Also, the syndicates could be vulnerable to significant failure amongst their own reinsurers.

The key controls rest on the strict recording of aggregate exposures by underwriting staff and the comprehensive catastrophe loss modelling and aggregate monitoring undertaken by the Exposure Management Function, with the aid of various proprietary and bespoke modelling systems and approaches. The syndicates also purchase reinsurance programmes that are structured to limit the exposure to any single reinsurer.

#### c) Risk selection and frequency of major loss

The syndicates are vulnerable to a high frequency of major loss.

There is a risk that inappropriate risk selection practices could result in a poorly diversified underwriting portfolio, excessive attritional accumulations and/or higher claims frequency than expected.

The major defences the syndicates have to a high frequency of major loss on the inwards reinsurance accounts are both the level at which cover is given and the limited number of reinstatements which they will typically provide. Additionally, the syndicates seek to purchase a depth of cover at the lower levels particularly to protect against a frequency of mid-sized claims.

The insurance accounts are also more vulnerable to loss frequency, although this is mitigated by modulating line size by attachment point, geographical spread of risks and a separate reinsurance programmes.

The LSL Board approves Underwriting Line authorities for all underwriters. Automated exception reporting identifies any breaches of key metrics (line sizes, risk codes, territories, etc.). Catastrophe modelling analysis is undertaken for all catastrophe-exposed lines of business, with outputs monitored against agreed tolerances for a range of return periods, as set out in the Risk Appetite Statements at Syndicate level. The Weekly Underwriting Forum and the Monthly Underwriting Committee are both key controls in both the detection and prevention of risk selection issues, in addition to the independent peer review process.

#### d) Policy wording

The coverages provided by the syndicates may be extended in circumstances where either the wording used does not reflect the underwriters' intentions or where courts decide the wordings do provide wider coverage than intended.

## Notes to the Financial Statements

For the year ended 31 December 2019

While coverage may change depending on clients' needs, the coverage offered by the Syndicates is typically based upon widely used standard London market clauses within the respective contracts. Slip checking has always been part of the underwriting process. Senior underwriters, with specialisms in their respective classes of business and familiarity with market wordings, check all policy wordings prior to binding. Furthermore, an independent review process mandates that a sample of total risks underwritten are reviewed each quarter, and as part of this process the reviewer looks at wordings to identify any inconsistencies between slips and wordings. Contract certainty and pre-bind checks further mitigate this risk.

### e) Technical pricing

The cyclical nature of insurance means that rates constantly fluctuate. Whilst in the core reinsurance areas of the syndicates' accounts, deductible levels tend to be the crucial driver, like all insurers the overall account written needs to develop sufficient income to pay for the attritional losses which would typically attach to the type of business it writes, to pay for the reinsurance programme which is required to protect and/or mitigate the impact of catastrophes and to meet all expenses, whilst leaving sufficient money to produce a profit to capital providers, given normal loss experience.

The business planning process seeks to ensure the underwriting capacity is applied to those areas of business that offer sound prospects for profitable underwriting.

There is a risk of systemic under or over-pricing for a class of business. The inaccurate assessment of technical price relative to underlying exposure could lead to the syndicate being adversely selected against. Whilst the primary impact relates to the technical premium received not mirroring liabilities to which the company is exposed, there is the additional risk of loss of business due to overpricing.

For catastrophe exposed lines of business, catastrophe models and aggregation tools are utilised to forecast likely future exposures and loss potential. Pre-bind analysis is undertaken on the majority of US and International property reinsurance risks, in addition to selected accounts from other classes of business at the underwriter's discretion. Benchmark pricing and rating indices have been developed and act as key controls in the pricing of all other (non-catastrophe) premium risks and specialty classes of business. Risk adjusted rate change ("RARC") reporting is reviewed and discussed on a monthly basis at Underwriting Committee, thereby forming a key pricing control internally as well as a Lloyd's reporting requirement. The internal underwriting peer review process, in the form of the Weekly Underwriting Forum, exists alongside quarterly independent underwriting reviews.

The managing agency's syndicates' board reviews loss ratio statistics to identify adverse developments (which may be due to pricing issues) so that appropriate remedial action can be taken. It also reviews the rate monitoring index to identify pricing trends. The Lloyd's Franchise Board provides quarterly updates of key trends in the market at risk level, as well as benchmarking the syndicates' own performance.

### Other controls

In addition to the above, other controls in place to mitigate the key underwriting risks of the syndicates are set out below:

Each syndicate prepares an annual business plan which sets out the premium income to be written, by class of business. This plan is monitored on a continuous basis throughout the year. Line limits for each underwriting team are pre agreed as are the line limits that can be deployed on each risk/programme. These limits are monitored throughout the year.

A risk summary report is generated daily, setting out all new risks and any changes to existing risks, which is reviewed and signed off by the relevant class underwriter. The independent review process ensures that a sample of all risks underwritten by the syndicates is considered.

All risks underwritten by the syndicates are modelled with underlying exposure information being recorded. This output is used to build up aggregates by class of business, broad risk types and geographical location. Aggregate reports by class of business and geographical zone are presented to the syndicates' board monthly and these are monitored against those that had been expected per the syndicate's business plans. Aggregation systems are also used for the other accounts to monitor exposures.

Other underwriting (premium) risk considerations include:

- **Distribution channels:** The use of inappropriate distribution channels could result in the mis-selling of products to consumers and or incomplete or inappropriate advice contributing to unfair consumer outcomes.
- **Coverholder monitoring:** Failure of coverholders to adhere to the terms of the Binding Authority Agreement and/or inaccurately price business resulting in financial loss and/or reputational damage.
- **Underwriting procedures:** Failure to prevent an underwriter from knowingly underwriting risks outside of their authority and deliberately circumventing underwriting controls in order to hide activity, resulting in financial loss and/or reputational damage.

#### 4.1.4 Reinsurance risk

Reinsurance risk is the risk of inadequate reinsurance coverage in terms of vertical or horizontal limits purchased leading to larger than anticipated net losses, or the risk of disputes arising with reinsurers as to terms and conditions. The two key risks for the syndicates are an inappropriate reinsurance programme, and the inability or unwillingness of a reinsurer to pay. These are discussed in detail below:

### a) Reinsurance adequacy

The syndicates knowingly run exposures that are not covered by reinsurance. These exposures may be run below the attachment point of the outwards programme (syndicates' retention), in the form of co-insurance/partial placement of coverages or uncovered exposures in excess of the vertical protections placed on either the whole account or specific accounts.

Provided these unprotected exposures are known and recognised and are consistent with the modelled outputs produced by the syndicates then this would not be regarded as inappropriate. However, where gross exposures are assumed on the basis that reinsurance protection of a type or quantum is available then for that not to be the case could produce serious adverse consequences. Also, if following the occurrence of major losses, the reinsurance programmes do not respond or provide the level of recoveries expected, then there could be significant financial consequences to the syndicates. It is emphasised that the amount of reinsurance coverage which the syndicates purchase have finite limits which may not be sufficient to contain all loss activity.

The reinsurance programmes are planned and structured based on the business plan income and exposure assumptions. The syndicates aim to protect themselves to some degree against significant catastrophe losses. However, the level of reinsurance or retrocession cover that is bought is dependent on availability, and there can be no assurance that the level of cover required is either available or available on acceptable terms. Where such cover is not available, then the syndicate's exposure to large losses increases accordingly, though this may be mitigated somewhat by a reduction in the aggregate exposures taken on by them.

Reinsurance cover is continually reviewed by the Business. The controls applied include reviews of booked transactions by the Reinsurance Manager, monitoring of reinsurer exposures against predefined concentration limits and periodic reviews of the purchased reinsurance programme by external third parties. Extensive reinsurance optimisation analysis is undertaken by the capital modelling team, and the resultant actuarial function report is utilised by the underwriters to inform and assist with purchasing decisions for outwards reinsurance. There are known exclusions in our outwards cover, (e.g. terrorism, spiral and pollution) and the inwards book is written to take account of these factors. Whilst the syndicates aim to produce a gross underwriting profit across the cycle, in order to mitigate volatility, a significant amount of retrocessional cover is purchased. The availability of retrocessional cover going forward will be a function of the syndicates' record with their reinsurers together with the overall availability of retrocessional capacity.

The major controls rest at the underwriting level and are aimed at ensuring the syndicates underwrite accounts that do not expose their reinsurers to a scale or type of exposure which was not reasonably within their contemplation at the time of writing the syndicates' outward reinsurance programmes. The syndicates endeavour to provide their reinsurers with the most up to date and accurate information on their account, and advise them quickly of any losses incurred, to ensure that they have the best prospect of being regarded as a reliable and fair reassured. Should there be a collapse in the retrocessional market generally, the syndicates would endeavour to adjust the inwards books accordingly, although the circumstances described would almost certainly have a dramatic impact on rates, terms and deductibles on the inward book.

### b) Reinsurance security

There is a risk that reinsurance recoveries are less than planned, due to the inability or unwillingness to pay on the part of a reinsurer. The controls in place to mitigate this risk rest with the Reinsurance Security Committee which sets the exposure limits and reviews the exposure to each reinsurer and reviews the reinsurers' credit ratings.

There are some policies with collateralised reinsurers which are included within non-rated balances. These are closely monitored to ensure that they are sufficiently funded.

### 4.1.5 Reserving risk

There is a risk that loss reserving levels may be inappropriate, adversely affecting the Syndicate's balance sheet or solvency position, and potentially damaging the ability for the Syndicate to meet its obligations or to continue to underwrite. The risk involving the calculation of Technical Provisions includes both claims liabilities and provisions for unearned premiums.

Reserves for claims liabilities do not represent an exact calculation of liability. Rather, reserves are estimates of what the Company expects the ultimate settlement and administration of claims will cost. The reserving risk to the Company is that reserves established by the Company are insufficient to meet actual claims liabilities, or that reinsurance bad debt provisions or allowances for future expenses are inadequate.

When estimating claims liabilities, significant reserving judgements are required to be made, particularly in respect of the ultimate cost of major catastrophes, contentious or complex claims, reinsurance recoverables and liability awards. Provisions for unearned premiums are generally less contentious, but the reserving risk still remains that the written premiums are earned too quickly and not in accordance with the underlying exposure. The processes used to decide on assumptions and related sensitivities for both claims liabilities and unearned premiums are set out below:

#### a) Provision for unearned premiums

##### (i) Process used to decide on assumptions

The provision for unearned premiums is determined at an individual policy level and is earned on a straight-line basis.

##### (ii) Changes in assumptions and sensitivity analysis

From 2018, written premiums are being earned on a straight-line basis according to the risk profile of the policy from the inception of the policy.

##### (iii) Sensitivity analysis - sensitivity of provision for unearned premiums

The Company believes that the only significant sensitivity relates to the estimate of the underlying exposure of the book of business and how this is applied to the figures. This is not believed to be significant to the account. If a change in the proportion of total business written of one percentage point was to become unearned this would equate to an adjustment of \$1.3m to the unearned premium provision (2018: \$1.0m).

b) Claims outstanding

(i) Process used to decide on assumptions

The projection of claims outstanding (and reinsurance recoveries thereon) is subjective in nature as it relates to claims which have happened but for which there is limited information available at the year-end, or which relates to claims which can be complex (for example, subject to potential litigation or disputes over specific terms and conditions of the policies written).

For the syndicates, the Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The syndicates underwrite relatively short-tail accounts, which can often mean that after a short period of time (e.g. typically two years), a large proportion of the underwriting losses have already been notified to them.

The syndicates also have a catastrophe element to their accounts, giving the accounts exposure to large but relatively less frequent losses. When setting assumptions and projecting claims liabilities, this means that the underwriters will tend to know whether or not a loss large enough to materially impact the account has happened (e.g. severe windstorms, earthquakes, aircraft losses). Although catastrophic losses are known soon after an event occurs, such losses may have varying levels of complexity which can make the projection of some losses more difficult. Nevertheless, the assumptions used in projecting claims liabilities are derived from underwriter/management judgement, statistical projections and market data.

(ii) Changes in assumptions and sensitivity analysis

The broad assumptions used in respect of the syndicates have not significantly changed during the year. In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so as to minimise any adverse run-off deviation.

(iii) Sensitivity analysis - sensitivity of claims liabilities

When reviewing the claims liability projections in respect of the syndicates, the Company considers the factors and assumptions which could have a large impact on those projections. The main areas of sensitivity relate to:

- those claims which are of a complex nature, particularly where information is not forthcoming or have the potential to develop further in the light of litigation or legal dispute; and

- future advices/notifications with respect to significant losses occurring close to the year end. By their nature, these claims are large at a gross level and, given the limited time between their event and the year-end, notifications by year-end would not be expected to be complete. Any projections of these losses at this early stage will be subjective. Nonetheless, the Company has sought to consider all potential losses and reviews/follows up such losses on a regular basis.

If the provision for net outstanding claims changed by 1%, the impact would equate to a pre tax movement on net assets/profits of \$2.0m (2018: \$2.0m).

**Claims Development**

The development of insurance liabilities is indicative of the Company's ability to estimate the ultimate value of its insurance liabilities. The loss development table that follows provides information about the historical claims development for syndicates. It shows how the Syndicate's estimates of the claims ratio for the past ten underwriting years have changed at successive year ends. In effect it highlights the Syndicate's ability to provide a robust estimate of the claims cost. An underwriting year basis is considered to be the most appropriate basis for the Company's share of business written by the syndicates.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating redundancies or efficiencies of the past on current claims liabilities. The Company believes that the estimate of total claims liabilities as at 31 December 2019 are adequate. However due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Underwriting Year of Account (\$'000)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
<b>GROSS</b>											
At end of year of account	104,149	140,153	97,141	79,417	90,980	55,873	67,564	190,788	124,213	103,961	
One year later	233,325	211,669	131,132	125,002	122,785	102,106	123,063	247,984	195,614		
Two years later	238,346	204,309	120,833	122,557	111,597	99,460	118,683	246,986			
Three years later	233,543	190,922	116,587	118,926	106,901	95,757	111,338				
Four years later	234,698	185,385	116,176	115,853	106,393	91,369					
Five years later	233,029	184,343	115,963	114,516	105,561						
Six years later	233,068	183,845	113,696	108,774							
Seven years later	233,911	183,317	113,886								
Eight years later	234,216	184,000									
Nine years later	238,841										
Gross ultimate claims	238,841	184,000	113,886	108,774	105,561	91,369	111,338	246,986	195,614	103,961	1,500,330
Less: Cumulative gross paid claims	(226,765)	(180,663)	(108,987)	(100,690)	(97,022)	(79,753)	(95,396)	(172,198)	(97,871)	(12,016)	(1,171,361)
Gross claims reserves from 2010 to 2019	12,076	3,337	4,899	8,084	8,539	11,616	15,942	74,788	97,743	91,945	328,969
Gross claims reserves on 2009 and prior											12,922
Gross claims reserves											341,891



**Notes to the Financial Statements**  
For the year ended 31 December 2019

Underwriting Year of Account (\$'000)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
<b>REINSURANCE</b>											
At end of year of account	23,820	42,493	23,968	10,982	13,833	4,553	7,963	82,371	34,102	34,189	
One year later	88,368	54,031	23,690	13,485	12,561	17,595	20,450	98,251	63,929		
Two years later	94,494	52,219	24,278	14,428	9,662	19,509	22,697	96,983			
Three years later	94,786	45,705	23,548	14,349	8,888	19,024	23,022				
Four years later	95,551	45,669	23,584	13,502	8,978	16,145					
Five years later	95,533	45,464	23,583	13,619	8,773						
Six years later	97,387	45,651	23,406	10,869							
Seven years later	99,322	45,710	23,460								
Eight years later	99,818	45,659									
Nine years later	103,704										
RI ultimate claims	103,704	45,659	23,460	10,869	8,773	16,145	23,022	96,983	63,929	34,189	426,733
Less: Cumulative RI paid claims	(97,674)	(44,304)	(20,848)	(10,271)	(7,998)	(15,029)	(15,295)	(59,056)	(23,061)	(1,451)	(294,987)
RI claims reserves from 2010 to 2019	6,030	1,355	2,612	598	775	1,116	7,727	37,927	40,868	32,738	131,746
RI claims reserves on 2009 and prior											7,614
RI claims reserves											139,360

The amount of gross provision for claims outstanding and recoverable from reinsurers are shown in Note 17 of these financial statements.

Underwriting Year of Account (\$'000)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
<b>NET</b>											
At end of year of account	80,329	97,660	73,173	68,435	77,147	51,320	59,601	108,417	90,111	69,772	
One year later	144,957	157,638	107,442	111,517	110,224	84,511	102,613	149,733	131,685		
Two years later	143,852	152,090	96,555	108,129	101,935	79,951	95,986	150,003			
Three years later	138,757	145,217	93,039	104,577	98,013	76,733	88,316				
Four years later	139,147	139,716	92,592	102,351	97,415	75,224					
Five years later	137,496	138,879	92,380	100,897	96,788						
Six years later	135,681	138,194	90,290	97,905							
Seven years later	134,589	137,607	90,426								
Eight years later	134,398	138,341									
Nine years later	135,137										
Net ultimate claims	135,137	138,341	90,426	97,905	96,788	75,224	88,316	150,003	131,685	69,772	1,073,597
Less: Cumulative net paid claims	(129,091)	(136,359)	(88,139)	(90,419)	(89,024)	(64,724)	(80,101)	(113,142)	(74,810)	(10,565)	(876,374)
Net claims reserves from 2010 to 2019	6,046	1,982	2,287	7,486	7,764	10,500	8,215	36,861	56,875	59,207	197,223
Net claims reserves on 2009 and prior											5,308
Net claims reserves											202,531

Other reserving risks to the Company include:

- Claims procedures; inadequate claims management process resulting in delayed or incorrect payments, bad faith claims, poor case estimations and/or reputational damage.
- Complaints handling; ineffective claims and complaints handling resulting in unfair outcomes to customers, regulatory intervention and censure and reputational damage.

#### 4.2 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of paid claims;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries.

The Group's managing agency subsidiary's reinsurance and broker security committee has established guidelines on its exposure to a single counterparty. These guidelines are regularly reviewed by that committee and adjusted as appropriate by the managing agency subsidiary's board.

## Notes to the Financial Statements

For the year ended 31 December 2019

Reinsurance is used to manage insurance risk, specifically catastrophe losses. This does not, however, discharge the Company's liability to its assureds. If a reinsurer fails to pay a claim for any reason, the Company remains liable for payment to the policyholder. The creditworthiness of reinsurers is considered on a continuous basis by the Group's managing agency subsidiary by reviewing credit grades provided by rating agencies and other publicly available financial information. An external consultant is also employed by the Company's managing agency subsidiary to assist in assessing and evaluating reinsurers.

At the year-end, the Company has quantified the credit risk to the syndicates and reduced the amounts due from reinsurers and reinsurers' share of insurance liabilities for this. Where the syndicates have any legal right of off-set, this is assumed in the calculation of credit risk.

The following table analyses the Company's concentration of credit risk, using ratings from external rating agencies.

	A++ to A- \$'000	B++ to B- \$'000	Unrated \$'000	Total \$'000
<b>At 31 December 2019</b>				
Financial investments	81,230	—	—	81,230
Insurance receivables	—	—	127,595	127,595
Reinsurance assets	106,595	—	32,765	139,360
Cash and cash equivalents	117,585	—	—	117,585
<b>Total</b>	<b>305,410</b>	<b>—</b>	<b>160,360</b>	<b>465,770</b>

	A++ to A- \$'000	B++ to B- \$'000	Unrated \$'000	Total \$'000
<b>At 31 December 2018</b>				
Financial investments	87,753	18,129	—	105,882
Insurance receivables	88,823	—	21,908	110,731
Reinsurance assets	88,416	—	44,994	133,410
Cash and cash equivalents	68,312	—	—	68,312
<b>Total</b>	<b>333,304</b>	<b>18,129</b>	<b>66,902</b>	<b>418,335</b>

Credit ratings for financial investments are based on ratings available from Moody's but, in the event that they do not rate a specific investment, then either Standard & Poor or Fitch are used instead, depending on which agency/agencies rated the investment.

Of the \$32.8m (2018: \$45.0m) unrated reinsurance assets at 31 December 2019, \$17.1m (2018: \$26.1m) are fully collateralised in trust funds; \$10.1m (2018: \$14.0m) are in respect of attritional IBNR that have yet to be allocated to any specific loss and the remaining \$5.6m (2018: \$4.9m) relate to a handful of specific unsettled recoveries from reinsurers that have subsequently merged or been taken over by another reinsurer and therefore the original counterparty is no longer rated, however no recovery issues are currently anticipated with respect to these specific counterparties.

The ageing analysis of receivables arising out of direct insurance operations past due but not impaired is as follows:

	2019 \$'000	2018 \$'000
3 to 6 months past due	367	360
6 to 9 months past due	130	1,943
Greater than 9 months past due	43	4,677
<b>Total</b>	<b>540</b>	<b>6,980</b>

No financial assets have been impaired during the year.

In addition to credit risk from clients, reinsurers and other insurance intermediaries, there is a risk that any major Third Party provider may fail to adhere to the terms of the Third Party Agreement and fail to provide the agreed service to the company. This risk is mitigated contractually through Terms of Business Agreements and extensive due diligence vetting of new Third Party service providers and products.

### 4.3 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due on a timely basis. The Company is exposed to a call on its available cash resources as follows:

Claims arising from insurance contracts are settled by the syndicates using their own funds. Where insufficient liquid funds exist, the syndicates can cash call the Members supporting them and can ultimately draw down from the Members' Funds at Lloyd's. With respect to the syndicates, the funds are held in cash or in short-term, liquid stocks which are able to be converted to cash within a few days. Furthermore, Syndicate 2010 has a banking catastrophe facility available to it.

The Company has no corporate cash or investments.

The key controls operated by the Finance function include the monitoring of overdue premiums, cash flows and financials, settlement dates and currency exchange rate movements.

The following tables group the debt securities, cash and cash equivalents, and gross provisions for outstanding claims into maturity date periods. The gross provisions for outstanding claims reflect the estimated, undiscounted cash flows.

## Notes to the Financial Statements

For the year ended 31 December 2019

	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 December 2019	Balance sheet	< 1 year	1 - 3 years	4 - 5 years	> 5 years	Total
Fixed maturity securities	81,230	19,607	48,829	7,139	5,655	81,230
Cash and cash equivalents	117,585	117,585	—	—	—	117,585
Gross provision for claims outstanding	(341,891)	(222,343)	(93,240)	(21,860)	(4,448)	(341,891)
<b>Total</b>	<b>(143,076)</b>	<b>(85,151)</b>	<b>(44,411)</b>	<b>(14,721)</b>	<b>1,207</b>	<b>(143,076)</b>

	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 December 2018	Balance sheet	< 1 year	1 - 3 years	4 - 5 years	> 5 years	Total
Fixed maturity securities	105,882	32,134	73,601	147	—	105,882
Cash and cash equivalents	68,312	68,312	—	—	—	68,312
Gross provision for claims outstanding	(339,488)	(247,415)	(67,149)	(19,534)	(5,390)	(339,488)
<b>Total</b>	<b>(165,294)</b>	<b>(146,969)</b>	<b>6,452</b>	<b>(19,387)</b>	<b>(5,390)</b>	<b>(165,294)</b>

### 4.4 Market risk

#### 4.4.1 Investment performance risk

Significant movements in financial markets could result in realised or unrealised investment losses impacting the financial performance of the Company.

This can arise where the Company holds investments through its participation on syndicates with a fixed return, and market interest rates change which in turn change the market value of the investments.

The fixed interest securities held by the syndicates are managed with capital protection as a prime objective. As such, the portfolio durations are limited by the investment guidelines to a level designed to limit the downside risk due to rising bond yields to a level not deemed significant. Investment managers monitor return on investments, in addition to adherence with Board-approved investment portfolio guidelines.

#### 4.4.2 Asset and liability mismatching risk

The syndicates on which the Company participates hold a proportion of their assets and liabilities in a number of different currencies to match the risks assured. However, there remains a risk of a mismatch in assets and liabilities due to adverse movements in exchange rates and/or interest rates.

Syndicates for the most part aim to ensure that their assets and liabilities match by currency as closely as possible which mitigates the degree of currency risk.

Syndicate underwriting profits and losses are currently only capable of being distributed in either U.S. dollars or Sterling and so the Company is affected to some degree by movements in the Sterling rate of exchange. This is further compounded by the fact that any underwriting profits are normally only paid out once a year into members' reserves at the distribution date, although any release of members' funds is subject to Lloyd's release tests. The Company does not currently enter into any currency deals to mitigate this currency risk.

By way of controls, assets and liabilities are monitored by currency as part of the currency balance sheet which is the responsibility of the Investment Committee. The finance function closely monitors settlement dates and large claim payments by currency in order to anticipate any impacts on assets and liabilities.

If currency exchange rates moved 10%, the impact would be:

At 31 December 2019	USD \$'000	EUR \$'000	STG \$'000	CAD \$'000	Total \$'000
Net assets	38,516	(8,054)	(47,374)	17,439	527
Impact of 10% currency movement*	n/a	(805)	(4,737)	1,744	(3,798)

At 31 December 2018	USD \$'000	EUR \$'000	STG \$'000	CAD \$'000	Total \$'000
Net assets	43,143	(7,553)	(46,446)	12,928	2,072
Impact of 10% currency movement*	n/a	(755)	(4,645)	1,293	(4,107)

\*This is the pre-tax impact on net assets/profits of a movement in Euro, Sterling and Canadian dollar against U.S. dollars by 10%, with all other variables constant.

The Company holds no equity investments so there is no exposure to equity price risk.

## Notes to the Financial Statements

For the year ended 31 December 2019

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### 4.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. The Company has identified and evaluated its key operational risks and these are listed below:

- Staff Recruitment
- Staff Retention
- IT Availability
- IT Integrity
- Information Security
- Intra-Group Services
- Business Continuity
- Breaches in Compliance
- Corporate Governance failure
- Financial Crime and Sanctions
- Capital Modelling
- Financial Reporting
- Undue Group Influence, and
- Execution of Business plan

The Company has also established, and monitors compliance with, internal operational risk tolerances. The Risk and Compliance Committee reviews operational risk on at least an annual basis and operational risk is covered in the CRO's quarterly ORSA reporting to the Board of Directors.

In order to manage operational risks, the Company has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. The Company's internal audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through substantive testing. All higher risk areas are subject to an annual audit, while compliance with tax operating guidelines is audited quarterly. Frequency of audits for all other areas varies from quarterly at the most frequent to a minimum of once every three years, on a rotational basis.

### 4.6 Capital management risk

The Group's capital requirements vary with the insurance cycle.

Risks associated with the effectiveness of the Company's capital management are mitigated as follows:

- Regular monitoring of current regulatory and rating agency capital requirements;
- Oversight of capital requirements by the Board of Directors;
- Ability to purchase sufficient, cost effective reinsurance; and
- Maintaining contact with the regulator in order to stay abreast of upcoming developments.

Management reviews the level and composition of capital on an on-going basis with a view to:

- Maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- Maximising the return to its shareholder within pre-determined risk tolerances;
- Maintaining adequate financial strength ratings.

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements, and the capital requirements of the combination of a wide range of other risk categories. Management increasingly uses these approaches in decision making. The Company also conducts capital requirement assessments under internal measures and local regulatory requirements.

## Notes to the Financial Statements

For the year ended 31 December 2019

### 5. Segmental Information

For the year ended 31 December 2019	Gross Premiums Written \$'000	Gross Premiums Earned \$'000	Gross Claims Incurred \$'000	Net Operating Expenses \$'000	Reinsurance Balance \$'000	Total \$'000
<b>Direct Business:</b>						
Motor - third party liability	—	—	—	2	—	2
Motor - other classes	1,595	1,372	(474)	(550)	(232)	116
Marine, aviation and transport	60,383	49,413	(22,438)	(14,072)	(9,893)	3,010
Fire and other damage to property	76,741	71,634	(37,255)	(17,692)	(8,710)	7,978
Third party liability	450	422	(390)	(6)	(50)	(24)
Credit and suretyship	71	67	4	(168)	(8)	(105)
<b>Total Direct Business</b>	<b>139,240</b>	<b>122,908</b>	<b>(60,553)</b>	<b>(32,486)</b>	<b>(18,893)</b>	<b>10,977</b>
<b>Reinsurance Business:</b>						
Reinsurance acceptances	160,563	147,039	(86,517)	(40,685)	(21,818)	(1,981)
Quota share reinsurance	—	—	—	—	(10,933)	(10,933)
<b>Total Reinsurance Business</b>	<b>160,563</b>	<b>147,039</b>	<b>(86,517)</b>	<b>(40,685)</b>	<b>(32,751)</b>	<b>(12,914)</b>
<b>Total</b>	<b>299,803</b>	<b>269,947</b>	<b>(147,070)</b>	<b>(73,171)</b>	<b>(51,644)</b>	<b>(1,937)</b>

For the year ended 31 December 2018	Gross Premiums Written \$'000	Gross Premiums Earned \$'000	Gross Claims Incurred \$'000	Net Operating Expenses \$'000	Reinsurance Balance \$'000	Total \$'000
<b>Direct Business:</b>						
Motor - third party liability	5	2	(1)	1	—	2
Motor - other classes	1,559	1,330	(963)	(405)	(93)	(131)
Marine, aviation and transport	40,004	34,962	(12,629)	(13,274)	(6,428)	2,631
Fire and other damage to property	66,172	58,075	(42,229)	(27,457)	1,793	(9,818)
Third party liability	817	754	(379)	(476)	(94)	(195)
Credit and suretyship	(115)	(110)	86	(34)	37	(21)
<b>Total Direct Business</b>	<b>108,442</b>	<b>95,013</b>	<b>(56,115)</b>	<b>(41,645)</b>	<b>(4,785)</b>	<b>(7,532)</b>
<b>Reinsurance Business:</b>						
Reinsurance acceptances	146,333	133,753	(106,341)	(30,089)	(9,552)	(12,229)
Quota share reinsurance	—	—	—	—	15,405	15,405
<b>Total Reinsurance Business</b>	<b>146,333</b>	<b>133,753</b>	<b>(106,341)</b>	<b>(30,089)</b>	<b>5,853</b>	<b>3,176</b>
<b>Total</b>	<b>254,775</b>	<b>228,766</b>	<b>(162,456)</b>	<b>(71,734)</b>	<b>1,068</b>	<b>(4,356)</b>

All direct business is written in the United Kingdom.

The quota share reinsurance relates to quota share reinsurance premium net of profit commission under the quota share arrangement with LIGL, and reinsurance premiums under the umbrella cover.

### 6. Claims Incurred, Net of Reinsurance

	2019 \$'000	2018 \$'000
<b>Gross:</b>		
2019 Year of Account	101,753	—
2018 Year of Account	71,065	124,124
2017 Year of Account	(25,748)	57,606
2016 Year of Account	—	(19,274)
	<b>147,070</b>	<b>162,456</b>
<b>Reinsurance:</b>		
2019 Year of Account	(33,082)	—
2018 Year of Account	(29,596)	(34,011)
2017 Year of Account	13,037	(17,318)
2016 Year of Account	—	287
	<b>(49,641)</b>	<b>(51,042)</b>
<b>Claims incurred, net of reinsurance</b>	<b>97,429</b>	<b>111,414</b>

**Notes to the Financial Statements**  
For the year ended 31 December 2019

**7. Net Operating Expenses**

	2019 \$'000	2018 \$'000
Acquisition costs	54,469	44,442
Administrative expenses	14,659	18,540
Names' personal expenses on Lloyd's syndicates	4,043	7,820
Foreign exchange losses	—	932
<b>Total</b>	<b>73,171</b>	<b>71,734</b>

Names' personal expenses on Lloyd's syndicates for the year ended 31 December 2019 include profit commission of \$372k payable from LSL, a fellow subsidiary, in respect of the 2017 year of account (2018: \$3,740k in respect of the 2016 year of account).

In 2019, the amount of foreign exchange losses on the syndicates which the Company participated are included within total foreign exchange (losses)/gains as disclosed in Note 9.

**8. Investment Return**

	2019 \$'000	2018 \$'000
Investment income	3,707	3,026
Net realised and unrealised gains/(losses) on investments	1,213	(406)
Investment expenses and charges	(117)	(76)
<b>Total</b>	<b>4,803</b>	<b>2,544</b>

**9. Other Charges**

	2019 \$'000	2018 \$'000
Lloyd's charges	9	8
Salaries and related costs	286	351
Auditor's remuneration - for audit services	21	21
Fee to parent company for use of Funds at Lloyd's	2,872	2,262
Management fee charge from fellow subsidiary including Restricted Share Scheme costs	190	257
Foreign exchange (losses)/gains	729	(669)
Other	25	157
<b>Total</b>	<b>4,132</b>	<b>2,387</b>

Foreign exchange (losses)/gains in 2019 include the amount of net foreign exchange losses in respect of the syndicates which the Company has participated (see Note 7).

*Directors' remuneration*

The remuneration of the Directors charged to the Company was as follows:

	2019 \$'000	2018 \$'000
Emoluments	61	50
Pension costs	7	6
<b>Total</b>	<b>68</b>	<b>56</b>

*Highest-paid director*

The above amounts for the remuneration include the following in respect of the highest paid Director:

	2019 \$'000	2018 \$'000
Emoluments	25	25
Pension costs	4	4
<b>Total</b>	<b>29</b>	<b>29</b>

The highest paid Director did not exercise any share options and did not, nor is due to, receive shares under a long term incentive scheme.

The comparatives in respect of total directors' remuneration and highest-paid director's remuneration were re-presented to be in line with the presentation in 2019.

**Notes to the Financial Statements**  
For the year ended 31 December 2019

**10. Taxation**

	2019 \$'000	2018 \$'000
(a) Analysis of charge in year		
Current tax:		
UK corporation tax in the year at 19.00% (2018: 19.00%)	1,334	3,229
Overseas tax	—	37
Adjustments in respect of prior years	—	(229)
Amount received from a fellow subsidiary in respect of tax group relief:		
- relating to prior years	1,168	(1,415)
<b>Total current tax charge</b>	<b>2,502</b>	<b>1,622</b>
Deferred tax (see Note 18):		
Change in tax rates	(144)	233
Timing differences	(1,308)	(4,097)
Adjustment in respect of prior years	(36)	—
<b>Total deferred tax</b>	<b>(1,488)</b>	<b>(3,864)</b>
<b>Tax charge/(credit) on loss on ordinary activities</b>	<b>1,014</b>	<b>(2,242)</b>
(b) Factors affecting tax credit for the year		
Loss on ordinary activities before tax	(563)	(4,199)
UK corporation tax at 19.00% (2018: 19.00%)	(107)	(798)
Items not deductible for tax purposes	64	(70)
Change in tax rates	(144)	233
Adjustments in respect of prior years:		
- Corporation tax	—	(229)
- Amount received from/(paid to) a fellow subsidiary in respect of tax saved by group	1,168	(1,415)
Overseas tax	—	37
<b>Tax charge/(credit) on loss on ordinary activities</b>	<b>981</b>	<b>(2,242)</b>

The UK corporation tax rate as at 31 December 2019 was 19.0% (effective from 1 April 2017). These rates have been reflected in the closing deferred tax position on the balance sheet.

**11. Cash and Cash Equivalents**

	2019 \$'000	2018 \$'000
Cash at bank and in hand	44,672	27,646
Short-term investments	72,913	40,666
<b>Total</b>	<b>117,585</b>	<b>68,312</b>

Cash and cash equivalents held by the syndicates of \$96,478k (2018: \$63,266k) are restricted and are not freely available for use by the Company.

Cash and cash equivalents held by the Company include an amount of \$14,693k (2018: \$5,046k) freely available for use and Funds at Lloyd's cash of \$6,414k (2018: \$nil).

## 12. Financial Investments

	2019 \$'000	2018 \$'000
Fixed maturity securities	81,230	105,882

The fair value of securities in the Company's investment portfolio is estimated using the following techniques:

### Level 1

Level 1 investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### Level 2

Level 2 investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (ii) are valued via independent external sources using directly observable inputs to models or other valuation methods. The valuation methods used are typically industry accepted standards and include broker-dealer quotes and pricing models including present values and future cash flows with inputs such as yield curves, interest rates, prepayment speeds and default rates.

### Level 3

Level 3 includes securities for which valuation techniques are not based on observable market data.

The fair value hierarchy of the Company's investment holdings is as follows:

At 31 December 2019	Level (i) \$'000	Level (ii) \$'000	Total \$'000
Fixed maturity securities	51,146	30,084	81,230

At 31 December 2018	Level (i) \$'000	Level (ii) \$'000	Total \$'000
Fixed maturity securities	19,887	85,995	105,882

During 2019, the Company engaged a third-party service provider to assess the levelling of our investment portfolio. This resulted in a refinement in our methodology and we have therefore re-presented our 2018 investment levelling disclosures to conform with the 2019 presentation.

The Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. There have been no transfers between levels (i) and (ii). Transfers from Level (ii) to (i) securities amounted to \$27,414k during the year ended 31 December 2019.

There were no level (iii) investments as at 31 December 2019 or 2018 therefore a reconciliation of movements within that level has not been presented.

As part of its investment activities, the Company (by way of its participation on the syndicates) invests in unconsolidated structured entities. As at 31 December 2019, the Company's total interest in unconsolidated structured entities was \$4.4m (2018: \$6.8m), none of which are sponsored by the Company.

The debt and fixed income securities structured entities are created to meet specific investment needs of borrowers and investors which cannot be met from standard financial instruments available in capital markets. As such, they provide liquidity to the borrowers in these markets and provide investors with an opportunity to diversify away from standard fixed income securities. Whilst individual securities may differ in structure, the principles of the instruments are broadly the same and it is appropriate to aggregate the investments into the categories above.

The risks in respect of the investments in unstructured entities is similar to the risks in respect of other financial investments, in that fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in term structure of interest rates which change investors expectation of cash flows associated with the instruments and, therefore, its value in the market.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments held at 31 December. Generally, default rates would have to increase substantially from their current level before a loss would be suffered and this assessment is made prior to investing and continually through the holding period for the security.

The Company has not provided any other financial or other support in relation to any other than that described above as at the reporting date, and there are no intentions to provide support to any other unconsolidated structured entities in the foreseeable future.



# Notes to the Financial Statements

For the year ended 31 December 2019

## 13. Other Receivables

	2019 \$'000	2018 \$'000
Reinsurance premium receivable under quota share agreement	57,070	63,422
Amounts owed by group companies (see Note 21)	20,572	13,483
Other	2,891	415
<b>Total</b>	<b>80,533</b>	<b>77,320</b>

## 14. Movement in Deferred Acquisition Costs

	2019 \$'000	2018 \$'000
As at 1 January	21,965	16,996
Acquisition costs incurred in the year	61,417	49,340
Amounts used in the year	(54,469)	(44,442)
Exchange differences	—	71
<b>As at 31 December</b>	<b>28,913</b>	<b>21,965</b>

## 15. Prepayments and Accrued Income

	2019 \$'000	2018 \$'000
Prepayments	1,763	4
Accrued income	339	583
<b>Total</b>	<b>2,102</b>	<b>587</b>

Prepayments include prepayment in respect of the managing agency fee paid by the syndicates which the Company has participated. Accrued income includes accrued interest receivable in respect of cash and investments.

## 16. Intangible Assets

	2019 \$'000	2018 \$'000
As at 1 January	7,504	7,504
Additions in the year	733	—
<b>As at 31 December</b>	<b>8,237</b>	<b>7,504</b>

Intangible assets are the purchase costs of the Company's participations in certain Lloyd's syndicates. This is solely in respect of Syndicate 2010.

Syndicate participation rights are initially measured at fair value and are subsequently measured at cost less any accumulated impairment losses. Syndicate participation rights are considered to have an indefinite life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The value of the syndicate participation rights is reviewed for impairment at least annually, or when events or changes in circumstances indicate that it might be impaired.

In November 2019, the Company acquired further capacity relating to Syndicate 2010 of \$733k (2018: \$nil).

When testing impairment, the recoverable amount of the Syndicate CGU is determined based on value in use. Value in use is calculated using projected cash flows based on the financial projections of the CGU. These are approved by management and cover a three year period. The most significant assumption used to derive the projected cash flows include an assessment of business prospects, projected loss ratios, outward reinsurance expenditure and investment returns. A pre-tax discount rate of 7.5% (2018: 6.4%) has been used to discount the projected cash flows, which reflect a combination of factors including the Group's expected cost of equity and cost of borrowing. The growth rate used to extrapolate the cash flows of the unit beyond the three year period is 3.0% (2018 - 3.0%) based on historical growth rates and management's best estimate of future growth rates.

The results of the exercise indicate that the recoverable amount exceeds the intangible asset's carrying amount and would not be reasonably sensitive to any possible changes in assumptions. Therefore no impairment has been recognised during the years ended 31 December 2019 and 2018.

**Notes to the Financial Statements**  
For the year ended 31 December 2019

**17. Movement in Technical Provisions**

	Claims outstanding \$'000	Provision for unearned premiums \$'000	Total 2019 \$'000	Total 2018 \$'000
<b>Gross insurance liabilities</b>				
As at 1 January	339,488	105,171	444,659	415,768
Additional provisions - current year	101,752	124,013	225,765	221,049
Additional provisions - prior years	71,065	—	71,065	57,606
Amounts used in the year	(148,407)	(95,452)	(243,859)	(226,231)
Unused amount reversed during the year	(25,748)	—	(25,748)	(19,274)
Exchange differences	3,741	—	3,741	(4,259)
<b>As at 31 December</b>	<b>341,891</b>	<b>133,732</b>	<b>475,623</b>	<b>444,659</b>

	Claims outstanding \$'000	Provision for unearned premiums \$'000	Total 2019 \$'000	Total 2018 \$'000
<b>Reinsurance assets</b>				
As at 1 January	133,410	15,393	148,803	145,276
Additional provisions - current year	33,081	25,337	58,418	(19,422)
Additional provisions - prior years	29,596	—	29,596	(17,319)
Amounts used in the year	(45,638)	(14,796)	(60,434)	43,513
Unused amount reversed during the year	(13,036)	—	(13,036)	287
Exchange differences	1,947	—	1,947	(3,532)
<b>As at 31 December</b>	<b>139,360</b>	<b>25,934</b>	<b>165,294</b>	<b>148,803</b>

**18. Deferred Tax**

	2019 \$'000	2018 \$'000
Loss/(profit) of closed underwriting year	7,849	(4,019)
Claims equalisation reserve	(3,271)	(4,885)
Underwriting loss not yet recognised for tax	7,539	18,009
Reinsurance premium payable under quota share agreement	(13,755)	(12,160)
<b>Total</b>	<b>(1,638)</b>	<b>(3,055)</b>
Reflected in the balance sheet as follows:		
Deferred tax assets	15,388	20,332
Deferred tax liabilities	(17,026)	(23,387)
<b>Net deferred tax</b>	<b>(1,638)</b>	<b>(3,055)</b>
Reconciliation of deferred tax:		
	2019 \$'000	2018 \$'000
As at 1 January	(3,055)	(7,237)
Deferred tax credit in relation to prior year	36	—
Deferred tax credit in the year	1,452	3,864
Exchange differences	(71)	318
<b>As at 31 December</b>	<b>(1,638)</b>	<b>(3,055)</b>

**19. Other Payables**

	2019 \$'000	2018 \$'000
Group relief owed to Lancashire group company	11,004	8,408
Due to managing agent within one year	42,905	25,222
Amounts owed to group companies	4,740	—
Others	72	—
<b>Total</b>	<b>58,721</b>	<b>33,630</b>

Due to managing agent within one year includes the Company's share on the \$40.m loan obtained by Syndicate 2010 from its managing agent, Lancashire Syndicates Limited (see Note 21).

## Notes to the Financial Statements

For the year ended 31 December 2019

### 20. Share Capital

	2019 Number	2018 Number
Authorised:		
Ordinary shares of £1	1,000	1,000
	2019 \$	2018 \$
Allotted, issued, and fully paid:		
2 ordinary shares of £1	3	3

The amount of share capital was translated to U.S. Dollars at historical rate of \$1.55.

There are no rights or restriction regarding dividends and repayment of capital.

### 21. Related Party Transactions

(i) Transactions with parent and other group companies

The Company has an intercompany balance with its parent company, Cathedral Capital Holdings Limited ("CCHL"). All transactions with CCHL were in the normal course of business including funds at Lloyd's fee of \$2,872k (2018: \$2,262k) from CCHL (see Note 9). The Company paid a dividend of \$nil in the year (2018: \$nil).

During 2018, the Company has provided an intercompany loan of \$20.0m to LSL on behalf of its managed syndicate, Syndicate 2010, of which \$10.0m is outstanding as at 31 December 2018. In 2019 the Company has provided another \$10.0m intercompany loan to LSL on behalf of Syndicate 2010, all of which are outstanding as at 31 December 2019. The intercompany loan provided to LSL is subject to 3% interest per annum. The amount of intercompany loan and related interest recoverable from LSL are included within amounts owed by group companies in Note 13 of the financial statements. The amount of interest on intercompany loan net of C98's share on the syndicate's interest expense is included within other income.

	2019 \$'000	2018 \$'000
Amounts due (to)/from Cathedral Capital Holdings Limited	(3,946)	13,483
Amounts due from LSL	20,342	—
Total	16,396	13,483

The Company has provided capacity to the 2017, 2018 and 2019 underwriting years of LSL's managed syndicates, Syndicate 2010 and Syndicate 3010. The Company's share of the syndicates result for the 2019 calendar year is a total profit of \$12.1m (2018: \$15.9m loss).

The Company has quota share arrangement with LICL during 2018 and 2019. The amounts recognised through income statement in respect of the quota share reinsurance are: quota share reinsurance premiums of \$6,808k (2018: \$13,511k) and profit commission included within other income of \$456k (2018: \$1,894k).

All transactions with other group companies are also in the normal course of business. These include recharges of expenses from other group companies.

(ii) Directors interest in transactions

There were no Directors transactions during the year.

(iii) Key management personnel compensation

Key management personnel include all persons having authority and responsibility for planning, directing and controlling the activities of the Company. These people include both the executive and non-executive directors of the Company together with certain other members of the executive management team who are not themselves directors of the Company.

Details of the cost of the key management personnel compensation charged are as follows:

	2019 \$'000	2018 \$'000
Salaries and other short term employee benefits	61	50
Post-employment benefits	7	6
Total	68	56

The comparatives were re-presented to be in line with the presentation in 2019.

## Notes to the Financial Statements

For the year ended 31 December 2019

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### 22. Contingent Liabilities

With effect from 1 January 1998, the Company participates on insurance business written by Lloyd's syndicates. As a result of this participation, the Company is exposed to claims arising on insurance business written by those syndicates.

If the Company fails to meet any of its Lloyd's obligations, after having called on the Group under its guarantees, then Lloyd's will be entitled to require the Company to cease or reduce its underwriting.

### 23. Capital

The capital structure consists of equity attributable to equity holder, comprising of share capital and retained earnings, details of which are set out in the Statement of Changes in Equity on page 12. There has been no change to the Company's policy for managing capital.

Details of the Company's issued and allotted share capital are shown in Note 20 on page 33.

Details of the Company's Funds at Lloyd's are stated in the Strategic report on page 2. The Company has provided \$6.4m as at 31 December 2019 (2018: \$nil).

### 24. Ultimate Parent Undertaking

Cathedral Capital Holdings Limited ("CCHL"), registered in England and Wales, is the immediate parent company of the Company. Lancashire Holdings Limited ("LHL"), incorporated in Bermuda, is the ultimate parent company of the Company.

LHL is the largest group and CCHL is the smallest group which includes the Company and for which consolidated financial statements are prepared.

Copies of the consolidated financial statements for LHL and CCHL can be obtained from 29th Floor, 20 Fenchurch Street, London, EC3M 3BY.

### 25. Subsequent Events

Since 31 December 2019 the risk profile of the Company has changed with the emergence and spread of Covid-19 being declared a global pandemic. This situation is unprecedented in modern times with attempts to limit the potential consequences fundamentally changing the way people work and interact with each other. The significant uncertainty resulting from the impact of Covid-19, which is anticipated to continue for the foreseeable future, has massively disrupted daily lives and economic well being. Globally governments have introduced significant economic support measures, yet the immediate and longer term impact of these is unknown. The Company has considered the impacts of Covid-19 as noted in the strategic report and basis of preparation and notes that Covid-19 is not considered as an adjusting event.