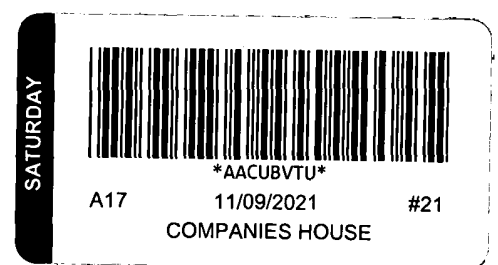


# **CATHEDRAL CAPITAL (1998) LIMITED**

## **Annual Report and Financial Statements**

For the year ended 31 December 2020



Registered in England and Wales Number 3402448

## Contents

---

Directors and Officers	1
Strategic Report	2
Directors' Report	5
Independent Auditor's Report to the Members of Cathedral Capital (1998) Limited	7
Statement of Comprehensive Loss	10
Balance Sheet	11
Statement of Changes in Shareholder's Equity	12
Statement of Cash Flows	13
Notes to the Financial Statements	14

## Directors and Officers

---

### DIRECTORS

A C Beardon

C J Whittle

B Cass

A M Mcleod

E L Woolley

appointed 17 December 2020

### 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 2020.

### Principal Activity and Future Developments

The Company is part of the Cathedral Group (the "Group"), comprised of Lancashire Syndicates Limited ("LSL") (managing agent for Syndicates 2010 and 3010), Cathedral Capital Holdings Limited ("CCHL"), Cathedral Capital (1999) Limited and Cathedral Capital Limited.

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 (£'m)
2020	332.8
2019	277.0
2018	277.0

For the 2021 underwriting year of account, the Company will underwrite £375.8m of capacity, of which £200.8m of capacity will be allocated to Syndicate 2010 which currently specialises in non-marine and aviation reinsurance, direct and facultative property insurance, and cargo specialty and £175.0m will be allocated to Syndicate 3010 which currently specialises in marine cargo, energy, aviation all risks including deductible and hull war, terrorism, power utility, marine hull and accident and health.

Syndicate 2010 and Syndicate 3010 are managed by 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 2020 the Company's funds at Lloyd's were provided by Cathedral Capital (1998) Limited (\$16.5m) (2019: \$6.4m), Cathedral Capital Holdings Limited (\$51.3m) (2019: \$48.7m) and Lancashire Insurance Company Limited (\$358.8m) (2019: \$312.8m) and were invested in a mixture of fixed interest instruments, letters of credit and cash. At the latest Lloyd's coming into line in November 2020, the Company had a surplus (2019: surplus).

### Business Review

The results attributable to the shareholder for the year are shown on page 10.

No dividend was paid during the year (2019: nil).

All syndicates on which the Company participated for the 2020, 2019 and 2018 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 2020 split by syndicate and the open years of account, after the quota share reinsurance with Lancashire Insurance Company Limited, is as follows:

\$'000	2020 YoA	2019 YoA	2018 YoA	Total
Syndicate 2010	(33,990)	4,794	25,479	(3,717)
Syndicate 3010	(6,602)	14,969	805	9,172
Combined	(40,592)	19,763	26,284	5,455
Quota share reinsurance premium*	33,925	(14,862)	(22,557)	(3,494)
Reinsurance premium relating to umbrella cover	(2,216)	—	—	(2,216)
Profit commission	—	997	113	1,110
<b>(Loss)/Profit</b>	<b>(8,883)</b>	<b>5,898</b>	<b>3,840</b>	<b>855</b>

\* The amount of quota share reinsurance premium under the quota share arrangement with Lancashire Insurance Company Limited ("LICL") is \$3.5m, excluding total profit commission of \$1.1m from LICL relating to 2018 and 2019 years of account.

The combined 2020 calendar year result showed a positive result with Syndicate 3010 returning a profit for the period.

On a traditional three year basis, the result for the performance of the syndicates is summarised below.

	2021 YoA	2020 YoA	2019 YoA	2018 YoA
Capacity (sterling)	£375.8m	£332.8m	£277.0m	£277.0m
Capacity (Converted US Dollar)	\$511.1m	\$436.0m	\$374.0m	\$374.0m
Cumulative corporate member share of aggregate syndicate results to date	n/a	(\$39.3m)	(\$7.0m)	\$6.5m
Forecast result (% of capacity)				
- Syndicate 2010	n/a	n/a	0 to -10%	+1.43%
- Syndicate 3010	n/a	n/a	12.5% to 5%	+2.29%

Forecast result is before members' agency fees and is for a standard Name. The 2018 year of account result is the actual reported result to capital providers on the closure of that year of account. The 2019 year of account result is the current public forecast. No public forecast has yet been released for either the 2020 or 2021 years of account.

### Principal Risks to the Business

A detailed description of the principal risks to the business is set out in Note 3.

#### *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. ("Lloyd's Europe") 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 Europe, by which it is authorised to underwrite business on behalf of Lloyd's Europe 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 Europe 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 Europe 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 Europe 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.

#### *Climate Change*

The Company is exposed to both climate-related risk and opportunities. The two major categories of risk being transition and physical risk. Transition risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputation risk. Physical risks are those relating to the physical impacts of climate change which can be acute (those from increased frequency and severity of climate related events) or chronic (due to longer-term shifts in climate patterns). The Company is more significantly affected by physical risk through its exposure to acute and chronic climate change. However, consideration must be, and is, given to transition and climate-related litigation risks. In our underwriting operations, we manage this risk effectively by supplementing our internal know-how with external vendor models. We have clear tolerances and preferences in place to actively manage exposures, and the board regularly monitors our Probable Maximum Loss ("PML"). The risks to the asset side of our balance sheet from exposure to climate change are mitigated in part through regular reviews of our third party asset managers, our asset allocation, and the underlying securities within our portfolio.

Climate change, its related risks and opportunities and their financial impact are a key focus of the board at their quarterly meetings. The stress and scenario tests performed as part of the business planning process include climate-related scenarios, these scenarios will continue to be refined and enhanced as more information becomes available. The work performed to date has not resulted in any material impact on our business strategy or change to our understanding of the risks' impacts to our business.

#### *Impact of the Coronavirus ("COVID-19") Pandemic*

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. The COVID-19 pandemic has caused significant disruption in global financial markets and to worldwide economies. The COVID-19 pandemic is an ongoing situation making it difficult to predict what the ultimate impact for the Group or the insurance industry will be.

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 the continuation of the COVID-19 pandemic throughout 2021 negatively impacting the economy, travel industry, global events and counterparty credit risk. 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.

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 2020.

In accordance with the Lancashire Holdings Limited group's ("the LHL Group") 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.

The LHL Group's employees are the lifeblood of the LHL Group and we strive to attract and retain excellent staff. The LHL Group 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 LHL Group's values<sup>(1)</sup> set out below, and during 2020 employees participated in a group-wide diversity 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 LHL 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 Lloyd's Market Association ("LMA").

Through the Lancashire Foundation, the Group makes financial contributions and provides human support to a number of good causes in the places we operate around the world. 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.

The Company is a wholly owned subsidiary of a Group that reports against the United Nations Environment Programme Finance Initiative (1) Principles for Sustainable Insurance, and is committed to managing the environmental impacts of all its businesses, including the Company's.

(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



CJ Whittle

8 April 2021

## Directors' Report

---

The Directors present their annual report and the audited financial statements of Cathedral Capital (1998) Limited (the "Company") for the year ended 31 December 2020.

### Directors

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

Information on Directors' interests in transactions is shown in Note 19 on page 35.

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.

### Dividends

No dividend was paid to Cathedral Capital Holdings Limited during the year (2019: \$nil). The Directors do not recommend the payment of a final dividend.

### Share Capital

There were no changes to the share capital during 2020 (2019: \$nil).

### Going Concern

The Directors have prepared the financial statements of the Company on a going concern basis.

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on page 2. In addition, the Directors have reviewed Note 3 of these financial statements which includes policies and processes for managing the Company's risks including insurance risk, capital management risk, liquidity risk, credit risk, market risk and operational risk.

The Company has sufficient financial resources. The level of cash and cash equivalents and investments of the Company are set out in Notes 10 and 11 although some of these are restricted. The Company's main exposure to liquidity risk is in respect of its ability to fund a loss-making year of account when it closes after three year. The Directors have prepared cash flow forecasts for a period of 12 months from the date of signing 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, CCHL, to meet its liabilities as they fall due for that period.

Further detail on the assessment of going concern, including the impact of COVID-19, is provided within the going concern section in Note 2.

Based on the going concern assessment performed as at 31 December 2020, the Directors consider there to be no material uncertainties that may cast significant doubt over the Company's ability to continue to operate as a going concern. The Directors have formed a judgment that there is a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future, a period of at least 12 months from the date of signing these financial statements.

### 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 3 of the financial statements.

### Directors' Remuneration

Details of the Directors' Remuneration are set out in Note 8 of the financial statements.

### Donations

The Company made no political donations or incurred any political expenditure during the year (2019: \$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

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## Directors' Report

---

### 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 accounting standards in conformity with the requirements of the Companies Act 2006 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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

By order of the Board



C.J Whittle

8 April 2021

Company Registered Number: 3402448



### Opinion

We have audited the financial statements of Cathedral Capital (1998) Limited ("the Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Loss, Balance Sheet, Statement of Changes in Shareholder's Equity, Statement of Cash Flows and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

### Fraud and breaches of laws and regulations – ability to detect

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the audit committee, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the revenue is composed of relatively simple income streams and has limited complexity in the nature of income earned by the Company from the Syndicate it manages.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management or individuals who do not frequently post journals, those posted with descriptions containing key words or phrases, those posted to unusual accounts including those related to cash and post-closing journals meeting certain criteria.

### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: corruption and bribery, regulatory capital and solvency regulations recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### **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

---

### 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

8 April 2021

## Statement of Comprehensive Loss

For the year ended 31 December 2020

### Technical Account - General Business

	Notes	2020 \$'000	2019 \$'000
Gross premiums written	4	356,496	299,803
Outward reinsurance premiums	4	(118,713)	(111,997)
<b>Net premiums written</b>		<b>237,783</b>	<b>187,806</b>
Change in the gross provision for unearned premiums	4	(37,269)	(29,856)
Change in the reinsurers' share provision for unearned premiums	4	10,819	10,712
<b>Net premiums earned</b>		<b>211,333</b>	<b>168,662</b>
Allocated investment return transferred from the non-technical account	5	3,319	4,651
Gross claims paid	4, 6	(161,489)	(148,407)
Reinsurers' share of claims paid	4, 6	38,376	45,638
<b>Net claims paid</b>		<b>(123,113)</b>	<b>(102,769)</b>
Gross amount of change in the provision for claims	4, 6	(24,649)	1,337
Reinsurers' share of change in the provision for claims	4, 6	16,282	4,003
<b>Change in the provisions for claims</b>		<b>(8,367)</b>	<b>5,340</b>
<b>Claims incurred, net of reinsurance</b>		<b>(131,480)</b>	<b>(97,429)</b>
Other income		1,110	456
Net operating expenses	4, 7	(83,427)	(72,915)
<b>Balance transferred to the non-technical account</b>		<b>855</b>	<b>3,425</b>

### Non-Technical Account

	Notes	2020 \$'000	2019 \$'000
Balance on the general business technical account		855	3,425
Investment return	5	3,483	5,051
Allocated investment return transferred to the technical account	5	(3,319)	(4,651)
Net foreign exchange gains (losses)		1,473	(729)
Other charges	8	(3,398)	(3,659)
<b>Loss on ordinary activities before tax</b>		<b>(906)</b>	<b>(563)</b>
Tax credit (charge)	9	586	(981)
<b>Loss for the financial year</b>		<b>(320)</b>	<b>(1,544)</b>

All activities are derived from continuing operations.

There are no other comprehensive gains or losses in the year (2019: \$nil).

The notes on pages 14 to 35 are an integral part of these financial statements.

## Balance Sheet

As at 31 December 2020

	Notes	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	10	101,795	117,585
Accrued interest receivable		361	338
Investments	11	116,911	81,230
Inwards premiums receivable from insureds and cedants		151,191	116,294
Reinsurance assets			
- Unearned premiums on premiums ceded		36,766	25,934
- Reinsurance recoveries	15	156,266	139,360
- Other receivables		19,627	11,301
Other receivables	12	43,764	82,296
Deferred acquisition costs	13	33,593	28,913
Intangible assets	14	8,237	8,237
<b>Total assets</b>		<b>668,511</b>	<b>611,488</b>
<b>Liabilities</b>			
Insurance contracts			
- Losses and loss adjustment expenses	15	371,333	341,891
- Unearned premiums		171,001	133,732
- Other payables		10,685	10,567
Amounts payable to reinsurers		72,347	58,151
Deferred acquisition costs ceded		7,614	4,804
Other payables	17	22,827	49,174
Corporation tax payable		11,221	11,004
Deferred tax liability	16	1,276	1,638
<b>Total liabilities</b>		<b>668,304</b>	<b>610,961</b>
<b>Shareholder's equity</b>			
Share capital	18	—	—
Other reserves		—	—
Retained earnings		207	527
<b>Total shareholder's equity</b>		<b>207</b>	<b>527</b>
<b>Total liabilities and shareholder's equity</b>		<b>668,511</b>	<b>611,488</b>

The notes on pages 14 to 35 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 8 April 2021 and signed on its behalf by:



CJ Whittle

Chief Financial Officer

## Statement of Changes in Shareholder's Equity

For the year ended 31 December 2020

	Share capital	Retained earnings	Total shareholder's equity
	\$'000	\$'000	\$'000
Balance as at 31 December 2018	—	2,071	2,071
Loss for the year	—	(1,544)	(1,544)
Balance as at 31 December 2019	—	527	527
Loss for the year	—	(320)	(320)
<b>Balance as at 31 December 2020</b>	<b>—</b>	<b>207</b>	<b>207</b>

The notes on pages 14 to 35 are an integral part of these financial statements.

## Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Loss on ordinary activities before tax		(906)	(563)
Tax paid		—	(981)
Interest and dividend income	5	(513)	(1,514)
Net foreign exchange gains (losses)		(1,473)	729
Net other investment income	5	(2,591)	(3,504)
Net realised gains	5	(379)	(33)
Changes in operational assets and liabilities			
- Insurance and reinsurance contracts		25,240	5,731
- Other assets and liabilities		(6,668)	18,621
<b>Net cash from operating activities</b>		<b>12,710</b>	<b>18,486</b>
<b>Cash flows (used in) from investing activities</b>			
Interest received		490	3,707
Purchase of underwriting capacity	14	—	(733)
Purchase of investments		(168,840)	(95,439)
Proceeds on sale of investments		137,120	122,797
<b>Net cash flows (used in) from investing activities</b>		<b>(31,230)</b>	<b>30,332</b>
<b>Net increase in cash and cash equivalents</b>		<b>(18,520)</b>	<b>48,818</b>
Cash and cash equivalents at 1 January		117,585	68,312
Effect of exchange rate fluctuations on cash and cash equivalents		2,730	455
<b>Cash and cash equivalents at 31 December</b>	10	<b>101,795</b>	<b>117,585</b>

The notes on pages 14 to 35 are an integral part of these financial statements.

## Notes to the Financial Statements

For the year ended 31 December 2020

---

### 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.

### Basis of Preparation of the Financial Statements

The financial statements have been prepared on a going concern basis in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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 US 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 ("USD"), which is the functional and presentational currency of Cathedral Capital (1998) Limited.

All amounts, excluding share data or where otherwise stated, are in thousands of USD.

#### *Change of Presentation*

A number of changes have been made to the presentation of certain line items in the financial statements, mainly within the balance sheet, to better align with the Lancashire Holdings Limited ("LHL") accounts and to provide more information and granularity that is useful to the users of these financial statements. The Directors believe that the changes made to the presentation provide users of the financial statements with more appropriate information. As the changes provide better and more disaggregated information, they have no material effect to users of the financial statements on information at the beginning of the preceding period.

The changes from the prior year are as follows:

- a. On the face of the statement of comprehensive loss, net foreign exchange gains (losses) were presented separately.
- b. On the face of the balance sheet:
  - trade and other receivables of \$208.1m have been disaggregated into other receivables, reinsurance assets - other receivables, and inwards premiums receivable from insureds and cedants;
  - prepayments and accrued income of \$2.1m have been disaggregated into other receivables and accrued interest receivable;
  - trade and other payables of \$127.4m have been disaggregated into insurance contracts other payables, amounts payable to reinsurers, corporation tax payable and other payables;
  - accruals and deferred income of \$6.3m have been disaggregated into deferred acquisition costs ceded and other payables; and
  - deferred tax asset of \$15.4m has been offset against deferred tax liability.

Corresponding notes to the financial statements have been updated to reflect this presentation.

#### *Going Concern*

The Directors have performed an assessment of the Company's ability as a going concern, including the impact of the COVID-19 pandemic.

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. The COVID-19 pandemic is an ongoing situation making it difficult to predict what the ultimate impact for the Company or the insurance industry will be and has heightened the inherent uncertainty in the Company's going concern assessment.

In response to the COVID-19 pandemic, the Company initiated its Post Loss Response process. The process reviewed and assessed the potential implications for each class of business that the syndicates underwrites, across all its platforms, with involvement from underwriting, exposure management, actuarial, claims, treasury and finance teams. The output of this review formed the basis of our loss reserving. The current best estimate financial impact of COVID-19 is \$17.1m, net of reinsurance and including the impact of reinstatement premiums. This constitutes 7.9% of our total net loss reserves.

The Company's financial forecasts reflect the outcomes that the Directors consider most likely, based on the information available at the date of signing these financial statements. To assess the Company's going concern, resilience and response to the COVID-19 pandemic, the financial stability of the Company was modelled for a period of at least 12 months and a number of sensitivity, stress and scenario tests were applied. This included, among other analysis, a best estimate forecast with scenario analysis covering the impact of reserve releases, attritional, large and catastrophe loss events alongside optimistic and pessimistic investment return scenarios. To further stress the financial stability of the Company, additional scenario testing was performed. This included modelling the breakeven capital requirements of our regulators and rating agencies, the impact of potential



## Notes to the Financial Statements

For the year ended 31 December 2020

---

management actions to reduce the syndicates' exposure to climate change-related risks, the continuation of the COVID-19 pandemic throughout 2021 negatively impacting the economy, travel industry, global events and counterparty credit risk and the occurrence of a number of high severity loss events impacting the Company's underwriting platforms in 2021. The testing identified that even under the more severe but plausible stress scenarios, the Company had more than adequate liquidity and solvency headroom.

In addition to the above, the following factors were also considered as part of our going concern assessment:

- The Company does not write the following lines of business: travel insurance; trade credit; and long-term life and prior to the COVID-19 pandemic did not write Directors' and Officers' liability or medical malpractice. The Company underwrites a small number of event cancellation contracts and has minimal exposure through mortgage, accident and health business.
- On 15 January 2021, the UK Supreme Court delivered its judgement on the FCA's business interruption test case. The aim of the test case was to obtain clarity on insurance contract wording and determine whether certain business interruption clauses were triggered by the COVID-19 pandemic. For the insurance industry, this means that in certain instances, policyholders will now have their COVID-19 related business interruption claims paid where previously these claims may have been denied. It may also impact the reinsurance industry as insurers will seek to recover from the reinsurance protection they have in place. In light of the UK Supreme Court ruling, the Company has performed a detailed review of the business interruption clauses in its insurance and reinsurance contracts and concluded that there is no material impact on the COVID-19 best estimate loss booked for the year ended 31 December 2020.
- The Company's long-term strategy is to deploy more capital into a hardening market, in which pricing strengthens due to market capital constraints, and to lower the amount of capital deployed in a softer market, where pricing is weaker due to over-supply of risk capital. The COVID-19 pandemic has generated (re)insurance market losses both in terms of the claims environment and the impact on financial markets. In the face of these challenges there has been a retrenchment in (re)insurance markets risk capital and capacity. This in turn has led to continued rate increases in many of the Company's core insurance segments and accelerated rating dislocation in the catastrophe exposed reinsurance lines. The Company expects the momentum of rising rates to continue in this and other classes of business across its portfolio throughout 2021 and beyond. The Company expects to take advantage of this rating improvement by writing increased levels of business at higher pricing levels.
- As at 31 December 2020, the Company considers that it has more than adequate liquidity to pay its obligations as they fall due. The Company held cash and cash equivalents of \$101.8m and fixed maturity investments of \$116.9m. In addition to the cash and cash equivalents and investment portfolio, the Company also has access to a number of LoC and revolving credit facilities. Additional liquidity risk disclosures are set out on pages 24. The Directors have performed stress test scenarios and under each modelled scenario, the Directors have concluded that the Company has sufficient resources to cover future liabilities.
- As at 31 December 2020, the average credit quality of the fixed maturity portfolio was – A+ (31 December 2019 – A+) and there has not been a change in our counterparty credit exposure as a result of the COVID-19 pandemic. However, it is an area we continue to monitor. Additional credit risk disclosures are set out on pages 23 and 24.
- The Company has not applied for, or received, any grants offered by the UK government to support businesses during the ongoing COVID-19 pandemic and is not expected to in the foreseeable future. None of our employees have been furloughed and we are not expected to furlough any employees in the foreseeable future.
- 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, 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.

Based on the going concern assessment performed as at 31 December 2020, the Directors consider there to be no material uncertainties that may cast significant doubt over the Company's ability to continue to operate as a going concern. The Directors have formed a judgment that there is a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future, a period of at least twelve months from the date of signing these financial statements.

### *Changes in Accounting Standards*

While a number of amended IFRS standards have become effective during the year ended 31 December 2020, none of these standards have had a material impact on the Company.

### *Future Accounting Changes*

IFRS 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts. In June 2020, the IASB published a number of amendments to the standard including a change to the effective date of the standard to accounting periods beginning on or after 1 January 2023. The standard includes a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition. The Company will continue to assess the impact that the new standard will have on its results and its presentation and disclosure requirements. IFRS 17 has not yet been endorsed by the EU and will need separate assessment by the UK Endorsement Board, following Brexit.

IFRS 9, Financial Instruments: Classification and Measurement, is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4, Insurance Contracts, issued in 2016, provide a temporary exemption from applying IFRS 9. The Company qualifies for, and has elected to apply, the temporary exemption available to companies whose predominant

## Notes to the Financial Statements

For the year ended 31 December 2020

activity is to issue insurance contracts. The exemption lasts until accounting periods beginning on or after 1 January 2023, subject to the proposed deferral of IFRS 17 as noted above, and addresses the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17, Insurance Contracts. IFRS 9 introduces new classification and measurement requirements for financial instruments, an expected credit loss impairment model that replaces the IAS 39 incurred loss model and new hedge accounting requirements. Applying the new requirements of IFRS 9, the Company currently anticipates that all investments held by the Company will be classified as FVTPL mandatory, because they are managed on a fair value basis. The Company's investments are all classified as FVTPL and therefore these changes are not applicable to the Company.

### 2. Significant Accounting Policies

#### a) Use of estimates

In preparing these financial statements, the directors of the Company have made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

#### *Estimation of premiums*

The measurement of premiums estimates comprises the estimated gross premium written during the year, that have not yet been notified by the financial year-end. For certain insurance contracts, premium is initially recognised based on estimated premium income ("EPI"). When premium is sourced through binders or treaty business, the EPI is pro-rated across the contract period. This is done on a straight-line basis unless the underlying writing pattern from the prior period indicates the actual underlying writing pattern is materially different. The underwriters adjust their EPI estimates as the year of account matures. After a set amount of time after a contract expires, premiums are adjusted to match the actual signed premium. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

#### *Estimation of claims*

The measurement of the provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgmental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported ("IBNR") to the syndicates.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by LSL's in-house actuaries and compared to the independent assessment performed by the external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 business accepted and assessments of underwriting conditions.

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.

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in Note 3.

#### 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 syndicates 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

## Notes to the Financial Statements

For the year ended 31 December 2020

---

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 Comprehensive Loss.

iv) 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.

v) 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 LSL. 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.

LSL 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.

vi) 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.

vii) 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.

viii) Reinsurance to close

To the extent that the Company participates on successive years of account of the same syndicates 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.

## Notes to the Financial Statements

For the year ended 31 December 2020

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 USD. Items included in the financial statements of the Company are measured using the functional currency. The financial statements are also presented in USD. 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.

### 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 syndicates' 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 syndicates' 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 Company 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 2020

### 3. Risk Disclosure

The Company is exposed to risks from several sources, classified into six primary risk categories. These are insurance risk, credit risk, liquidity risk, market risk, operational risk and capital management risk. The primary risk to the Company is insurance risk.

The primary objective of the Company's ERM framework is to ensure that the capital resources held are matched to the risk profile of the business and that the balance between risk and return is considered as part of all key business decisions. The Company has formulated, and keeps under review, a series of risk appetites which is set by the Board of Directors. Appetites for risk will vary from time to time to reflect the potential risks and returns that present themselves. However, protecting the Company's capital and maximising risk-adjusted returns for investors over the long term are constants. The setting of risk appetites is central to how the business is run and are expressed through detailed risk tolerances. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Company is prepared to expose to certain risks. All risk tolerances are subject to at least an annual review and consideration.

The Company only underwrites on the syndicates managed by LSL. The sections below outline the Company's risk appetite and explain how it defines and manages each category of risk.

#### 3.1 Insurance risk

##### *Management of insurance risk*

A key component of the management of underwriting risk for the syndicates is a disciplined underwriting strategy that is focused on writing quality business and not writing for volume. Product pricing is designed to incorporate appropriate premiums for each type of assumed risk. The underwriting strategy includes monitoring underwriting limits on the syndicates' total exposure to specific risks together with limits on geographical and industry exposures. The aim is to ensure a well-diversified book is maintained with no excessive exposure in any one geographical region.

Contracts can contain a number of features which help to manage the underwriting risk, such as the use of deductibles, or capping the maximum permitted loss, or number of claims (subject to local regulatory and legislative requirements).

The syndicates makes use of reinsurance to mitigate the risk of incurring significant losses linked to one event, including excess of loss and catastrophe reinsurance. Where an individual exposure is deemed surplus to the syndicates' appetite, additional facultative reinsurance is also purchased. The syndicates also purchase quota share reinsurance at selected sub account levels.

The Reserving Committee oversees the management of reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk. The Reserving Committee performs a comprehensive review of the projections, both gross and net of reinsurance. Following this review, the Reserving Committee makes recommendations to the Risk and Compliance Committee and LSL's Board of Directors of the claims provisions to be established.

LSL's in-house actuaries perform a reserving analysis on a quarterly basis liaising closely with underwriters, claims and reinsurance technicians. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The output of the reserving analysis is compared annually to the independent analysis performed by the external consulting actuaries.

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.

##### *Concentration of insurance risk*

The syndicates' underwriting covers various classes of business which, to some extent, have different exposure profiles and therefore provides an element of diversification. The managing agency monitors the type of business underwritten by the 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.

##### *3.1.1 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. An analysis of gross written premiums by class of business is as follows:

	2020	2020	2019	2019
Gross premiums written	\$'000	%	\$'000	%
Property	169,982	47.7	160,692	53.6
Aviation	94,927	26.6	66,248	22.1
Energy	46,043	12.9	33,264	11.1
Marine	45,544	12.8	39,599	13.2
Total	356,496	100.0	299,803	100.0

LSL 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.

The table above is different from the segmental reporting disclosure in Note 4, as Management reviews the Company's business primarily by its four segments: Property, Aviation, Energy, and Marine.

### 3.1.2 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, contingency, marine cargo, marine hull, power and utility, direct aviation, aviation war, aviation deductible, energy, accident & health 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 Company. 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 Company models various loss scenarios and also considers specific realistic disaster scenarios ("RDS") in accordance with Lloyd's franchise guidelines to enable it to monitor the exposure at a gross and net level for the syndicates.

### 3.1.3 Underwriting risk

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

Some of the key underwriting risks are discussed in detail below:

#### a) Underwriting Aggregation Management and Operations

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 exposures, 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) Risk Modelling and Exposure 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 PML assumptions. 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 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 used provide wider coverage than intended. 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 is 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.

## Notes to the Financial Statements

For the year ended 31 December 2020

### e) 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 syndicates 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 the 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 LSL 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.

### f) 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 LSL 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 outcomes for insureds.
- **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.

#### 3.1.4 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 syndicates' 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.

Some policies may be placed with collateralised reinsurers which are included within non-rated balances. These are closely monitored to ensure that they are sufficiently funded.

### 3.1.5 Reserving risk

There is a risk that loss reserving levels may be inappropriate, adversely affecting the syndicates' balance sheet or solvency position, and potentially damaging the ability for the syndicates to meet its obligations or to continue to underwrite. The risk involving the calculation of Technical Provisions (TP's) 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 claims liabilities are set out on page 32 and for unearned premiums are set out on the a) (iii) 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 based on the established earnings patterns or time apportionment as appropriate.

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

Written premiums are earned on a standard earning 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 \$1.7m to the unearned premium provision (2019: \$1.3m).

### 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.



## Notes to the Financial Statements

For the year ended 31 December 2020

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 \$2.2m (2019: \$2.0m).

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.

## 3.2 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.

LSL'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 LSL Board.

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 LSL by reviewing credit grades provided by rating agencies and other publicly available financial information. An external consultant is also employed by LSL 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.

At 31 December 2020	A++ to A- \$'000	B++ to B- \$'000	Unrated \$'000	Total \$'000
Investments	101,203	14,436	1,272	116,911
Inwards premiums receivable and other receivables	17,065	—	197,517	214,582
Reinsurance assets	134,905	2,985	18,376	156,266
Cash and cash equivalents	101,795	—	—	101,795
<b>Total</b>	<b>354,968</b>	<b>17,421</b>	<b>217,165</b>	<b>589,554</b>

## Notes to the Financial Statements

For the year ended 31 December 2020

At 31 December 2019	A++ to A- \$'000	B++ to B- \$'000	Unrated \$'000	Total \$'000
Investments	81,230	—	—	81,230
Inwards premiums receivable and other receivables	—	—	209,891	209,891
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>242,656</b>	<b>548,066</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 \$18.4m (2019: \$32.8m) unrated reinsurance assets at 31 December 2020, \$11.9m (2019: \$17.1m) are fully collateralised in trust funds; \$5.1m (2019: \$10.1m) are in respect of attritional IBNR that have yet to be allocated to any specific loss and the remaining \$1.4m (2019: \$5.6m) 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:

	2020 \$'000	2019 \$'000
Less than 90 days past due	20,053	367
Between 91 and 180 days past due	3,935	130
Over 180 days past due	4,569	43
<b>Total</b>	<b>28,557</b>	<b>540</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.

### 3.3 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 able to 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 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 gross provisions for outstanding claims and other payables into maturity date periods. The gross provisions for outstanding claims reflect the estimated, undiscounted cash flows.

At 31 December 2020	\$'000 Balance sheet	\$'000 < 1 year	\$'000 1 - 3 years	\$'000 4 - 5 years	\$'000 > 5 years	\$'000 Total
Losses and loss adjustment expenses	371,333	241,673	105,283	20,384	3,993	371,333
Insurance contracts - other payables	10,685	10,685	—	—	—	10,685
Amounts payable to reinsurers	72,347	72,347	—	—	—	72,347
Other payables	22,827	22,827	—	—	—	22,827
<b>Total</b>	<b>477,192</b>	<b>347,532</b>	<b>105,283</b>	<b>20,384</b>	<b>3,993</b>	<b>477,192</b>

At 31 December 2019	\$'000 Balance sheet	\$'000 < 1 year	\$'000 1 - 3 years	\$'000 4 - 5 years	\$'000 > 5 years	\$'000 Total
Losses and loss adjustment expenses	341,891	222,343	93,240	21,860	4,448	341,891
Insurance contracts - other payables	10,567	10,567	—	—	—	10,567
Amounts payable to reinsurers	58,151	58,151	—	—	—	58,151
Other payables	49,174	49,174	—	—	—	49,174
<b>Total</b>	<b>459,783</b>	<b>340,235</b>	<b>93,240</b>	<b>21,860</b>	<b>4,448</b>	<b>459,783</b>

## Notes to the Financial Statements

For the year ended 31 December 2020

### 3.4 Market risk

#### 3.4.1 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.

#### 3.4.2 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 USD 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 2020	USD \$'000	EUR \$'000	STG \$'000	CAD \$'000	Total \$'000
Net assets	7,726	(2,175)	(21,333)	15,989	207
Impact of 10% currency movement*	n/a	(218)	(2,133)	1,599	(752)

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)

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

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

### 3.5 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 Retention;
- Staff Recruitment;
- Data Management and Integrity;
- Systems, Technology and Services;
- Information Security and Cyber;
- Outsourcing and Contractual Risk;
- Business Continuity;
- Legal and Regulatory Compliance;
- Corporate Governance;
- Emerging Risks;
- Financial Crime and Sanctions;
- Financial Reporting;
- Group Support/Influence; and
- Business Planning and Execution.

## Notes to the Financial Statements

For the year ended 31 December 2020

The Company has also established, and monitors compliance with, internal operational risk tolerances. The Risk and Compliance Committee ("RCC") 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.

### 3.6 Capital management risk

The Company'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; and
- 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.

## 4. Segmental Information

For the year ended 31 December 2020	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 - other classes	—	—	—	—	(277)	(277)
Marine, aviation and transport	66,423	54,847	(25,678)	(17,535)	(9,171)	2,463
Fire and other damage to property	92,185	81,899	(41,453)	(24,525)	(16,267)	(346)
Third party liability	—	—	—	—	(96)	(96)
Credit and suretyship	—	—	—	—	(15)	(15)
<b>Total Direct Business</b>	<b>158,608</b>	<b>136,746</b>	<b>(67,131)</b>	<b>(42,060)</b>	<b>(25,826)</b>	<b>1,729</b>
<b>Reinsurance Business:</b>						
Reinsurance acceptances	197,888	182,481	(119,007)	(41,367)	(21,700)	407
Quota share reinsurance	—	—	—	—	(5,710)	(5,710)
<b>Total Reinsurance Business</b>	<b>197,888</b>	<b>182,481</b>	<b>(119,007)</b>	<b>(41,367)</b>	<b>(27,410)</b>	<b>(5,303)</b>
<b>Total</b>	<b>356,496</b>	<b>319,227</b>	<b>(186,138)</b>	<b>(83,427)</b>	<b>(53,236)</b>	<b>(3,574)</b>

## Notes to the Financial Statements

For the year ended 31 December 2020

	Gross Premiums Written \$'000	Gross Premiums Earned \$'000	Gross Claims Incurred \$'000	Net Operating Expenses \$'000	Reinsurance Balance \$'000	Total \$'000
For the year ended 31 December 2019						
<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)	7,977
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>10,976</b>
<b>Reinsurance Business:</b>						
Reinsurance acceptances	160,563	147,039	(86,517)	(40,429)	(21,818)	(1,725)
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>(40,429)</b>	<b>(32,751)</b>	<b>(12,658)</b>
<b>Total</b>	<b>299,803</b>	<b>269,947</b>	<b>(147,070)</b>	<b>(72,915)</b>	<b>(51,644)</b>	<b>(1,682)</b>

The quota share reinsurance relates to quota share reinsurance premium under the quota share arrangement with Lancashire Insurance Company Limited ("LICL"), and reinsurance premiums under the umbrella cover. The related profit commission on quota share reinsurance contract is recognised as other income through the statement of comprehensive loss (see Note 19).

The gross premiums written by geographical destination analysis is set out below. All premiums written are for contracts with external customers and are concluded in the UK, except for EU-domiciled business which is written through Lloyd's Europe, reinsured to the syndicates and concluded in Belgium.

	2020 \$'000	2019 \$'000
For the year ended 31 December		
United Kingdom	12,462	29,048
US	123,362	106,886
European Union Member States	22,106	31,388
Other countries	198,566	132,481
<b>Total</b>	<b>356,496</b>	<b>299,803</b>

### 5. Investment Return

	Net investment income \$'000	Net realised gains \$'000	Total investment return excluding foreign exchange \$'000	Net foreign exchange gains/ (losses) \$'000	Total investment return including foreign exchange \$'000
For the year ended 31 December 2020					
Fixed maturity securities - at FVTPL	2,436	379	2,815	258	3,073
Other investments	155	—	155	—	155
Cash and cash equivalents	513	—	513	(10)	503
<b>Total investment return</b>	<b>3,104</b>	<b>379</b>	<b>3,483</b>	<b>248</b>	<b>3,731</b>

	Net investment income \$'000	Net realised gains \$'000	Total investment return excluding foreign exchange \$'000	Net foreign exchange gains \$'000	Total investment return including foreign exchange \$'000
For the year ended 31 December 2019					
Fixed maturity securities - at FVTPL	3,256	33	3,289	807	4,096
Other investments	248	—	248	—	248
Cash and cash equivalents	1,514	—	1,514	(21)	1,493
<b>Total investment return</b>	<b>5,018</b>	<b>33</b>	<b>5,051</b>	<b>786</b>	<b>5,837</b>

Net unrealised gains (losses) on FVTPL investments are included within net investment income. Net investment income includes \$0.5m (2019: \$1.5m) of interest income on our cash and cash equivalents. Included in net investment income is \$0.1m (2019: \$0.1m) of investment management, accounting and custodian fees.

The allocated investment return transferred to the technical accounts relates to the Company's share on the amount of net investment return of the syndicates where the Company has participation.

## Notes to the Financial Statements

For the year ended 31 December 2020

### 6. Claims Incurred, Net of Reinsurance

The movement on claims incurred, net of reinsurance by reporting year of account is set out below:

For the year ended 31 December	2020 \$'000	2019 \$'000
<b>Gross</b>		
2020 year of account	119,157	—
2019 year of account	81,010	101,753
2018 year of account	(14,029)	71,065
2017 year of account	—	(25,748)
	<b>186,138</b>	<b>147,070</b>
<b>Reinsurance</b>		
2020 year of account	(28,741)	—
2019 year of account	(22,102)	(33,082)
2018 year of account	(3,815)	(29,596)
2017 year of account	—	13,037
	<b>(54,658)</b>	<b>(49,641)</b>
<b>Claims incurred, net of reinsurance</b>	<b>131,480</b>	<b>97,429</b>

### 7. Net Operating Expenses

For the year ended 31 December	2020 \$'000	2019 \$'000
Net insurance acquisition expenses	51,171	45,739
Administrative expenses	24,381	23,133
Names' personal expenses on Lloyd's syndicates	7,875	4,043
<b>Total net operating expenses</b>	<b>83,427</b>	<b>72,915</b>

Names' personal expenses on Lloyd's syndicates for the year ended 31 December 2020 include profit commission of \$2.7m payable to LSL, a fellow subsidiary, in respect of the 2018 and 2019 year of account (2019: \$0.4m in respect of the 2017 year of account).

The amount of foreign exchange gains (losses) on the syndicates which the Company participated are included within total foreign exchange gains (losses) as disclosed on the face of the Statement of Comprehensive Loss within the non-technical account.

The breakdown of net insurance acquisition expenses is as follows:

For the year ended 31 December	2020 \$'000	2019 \$'000
Insurance acquisition expenses	65,446	61,748
Changes in deferred insurance acquisition expenses	(4,680)	(7,279)
Insurance acquisition expenses ceded	(12,405)	(13,534)
Changes in deferred insurance acquisition expenses ceded	2,810	4,804
<b>Total net insurance acquisition expenses</b>	<b>51,171</b>	<b>45,739</b>

### 8. Other Charges

For the year ended 31 December	2020 \$'000	2019 \$'000
Lloyd's charges	11	9
Salaries and related costs	291	286
Auditor's remuneration - for audit services	28	21
Fee to parent company for use of Funds at Lloyd's	2,633	2,872
Management fee charge from fellow subsidiary including Restricted Share Scheme costs	78	190
Financing costs	176	256
Other	181	25
<b>Total other charges</b>	<b>3,398</b>	<b>3,659</b>

The Company has no employees. All employees are employed by Lancashire Insurance Services Limited, a fellow group company.

## Notes to the Financial Statements

For the year ended 31 December 2020

### Directors' remuneration

There has been a change in presentation in respect of the directors' remuneration from the prior year to include the total amount of bonus accrued during the year rather than bonus paid within directors' remuneration. The comparatives were amended to be consistent with the current year presentation.

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

For the year ended 31 December	2020 \$'000	2019 \$'000
Emoluments	133	82
Pension costs	13	7
<b>Total</b>	<b>146</b>	<b>89</b>

### Highest-paid director

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

For the year ended 31 December	2020 \$'000	2019 \$'000
Emoluments	38	35
Pension costs	4	4
<b>Total</b>	<b>42</b>	<b>39</b>

The highest paid Director did not exercise any share options.

## 9. Tax

For the year ended 31 December	2020 \$'000	2019 \$'000
(a) Analysis of charge in year		
Current tax:		
Corporation tax at 19.00% (2019: 19.00%)	(423)	1,301
Amount received from a fellow subsidiary in respect of tax group relief relating to prior years	184	1,168
<b>Total current tax charge</b>	<b>(239)</b>	<b>2,469</b>
Deferred tax (see Note 16):		
Other temporary differences	191	(1,308)
Change in tax rates	198	(144)
Adjustments in respect of previous years	(736)	(36)
<b>Total deferred tax</b>	<b>(347)</b>	<b>(1,488)</b>
<b>Tax (credit)/charge on loss before tax</b>	<b>(586)</b>	<b>981</b>
(b) Factors affecting tax credit for the year		
Loss before tax	(906)	(563)
UK corporation tax at 19.00% (2019: 19.00%)	(172)	(107)
Items not (taxable)/deductible for tax purposes	(60)	100
Change in tax rates	198	(144)
Adjustments in respect of previous years	(736)	(36)
Amount received from a fellow subsidiary in respect of tax saved by group	184	1,168
<b>Tax (credit)/charge on loss before tax</b>	<b>(586)</b>	<b>981</b>

The UK corporation tax rate as at 31 December 2020 was maintained at 19% (effective 1 April 2017). These rates have been reflected in the closing deferred tax position on the balance sheet.

## 10. Cash and Cash Equivalents

	2020 \$'000	2019 \$'000
Cash at bank and in hand	46,277	44,672
Cash equivalents	55,518	72,913
<b>Total cash and cash equivalents</b>	<b>101,795</b>	<b>117,585</b>

Cash and cash equivalents held by the syndicates of \$77.9m (2019: \$82.8m) are restricted and are not freely available for use by the Company.

Cash and cash equivalents held by the Company include an amount of \$7.3m (2019: \$14.7m) freely available for use and Funds at Lloyd's cash of \$16.5m (2019: \$6.4m).

## Notes to the Financial Statements

For the year ended 31 December 2020

### 11. Investments

	2020 \$'000	2019 \$'000
Fixed maturity securities - at FVTPL	116,911	81,230

The Company determines the estimated fair value of each individual security utilising the highest-level inputs available. Prices for the Company's investment portfolio are provided via a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. Various recognised reputable pricing sources are used including pricing vendors and broker-dealers. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing. The Company has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending 31 December.

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 investments are securities for which valuation techniques are not based on observable market data and require significant management judgement. During the years ended 31 December 2020 and 2019, the Company did not hold any level 3 investments.

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

At 31 December 2020	Level (i) \$'000	Level (ii) \$'000	Total \$'000
Fixed maturity securities - at FVTPL	52,500	64,411	116,911

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

The 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.

### 12. Other Receivables

	2020 \$'000	2019 \$'000
<i>Due within one year:</i>		
Reinsurance quota share premium receivable	26,686	57,070
Amounts due from group undertaking	8,306	20,572
Prepayment	860	1,763
Other receivables	2,676	1,958
<i>Due after one year:</i>		
Loan to Lloyd's Central Fund	5,236	933
<b>Total other receivables</b>	<b>43,764</b>	<b>82,296</b>

For the details of reinsurance quota share premium receivable, refer to Note 19.

The amounts due from group undertaking mainly relates to the amount due from LSL as at 31 December 2020 of \$8.3m (2019: \$nil).

Prepayment consists of managing agency fee prepayment of \$0.8m (2019: \$0.7m). Other receivables largely include members agency fee receivable of \$1.9m as at 31 December 2020 (2019: \$1.8m).

The interest income earned on loan to Lloyd's central fund is included within total net investment income in Note 5. Based on the terms of the loan, the amount of loans for any year of account will not be repaid before 5 years have elapsed.



## Notes to the Financial Statements

For the year ended 31 December 2020

### 13. Movement in Deferred Acquisition Costs

	2020 \$'000	2019 \$'000
As at 1 January	28,913	21,965
Acquisition costs incurred in the year	65,446	61,417
Amounts used in the year	(60,766)	(54,469)
<b>As at 31 December</b>	<b>33,593</b>	<b>28,913</b>

### 14. Intangible Assets

	Syndicate participations \$'000	Total \$'000
Net book value as at 31 December 2018	7,504	7,504
Additions during 2019	733	733
<b>Net book value as at 31 December 2020 and 2019</b>	<b>8,237</b>	<b>8,237</b>

The cost of syndicate participations relates to the Company's right to participate on a Syndicate for future underwriting years. This is solely in respect of Syndicate 2010. The value of such a right is dependent on the expected underwriting results generated by each syndicate, plus any residual value in the Syndicate capacity auctions. The useful lives of the Syndicate participations are deemed to be indefinite. The amount of intangible assets relating to syndicate participation are not annually amortised but the Company annually tests these assets for impairment. The Company's intangible assets relate to one cash generating unit, being the Syndicate 2010.

There have been no movements during the year. In November 2020, the Company acquired 2.1% of further capacity on Syndicate 2010 for \$nil consideration, increasing its share on the 2021 year of account from 59.7% to 61.8%.

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 assumptions used to derive the projected cash flows include an assessment of business prospects, expected future market conditions, premium growth rates, outwards reinsurance expenditure, projected loss ratios, investment returns and current events such as the COVID-19 pandemic and Brexit. A pre-tax discount rate of 4.9% (2019: 7.5%) has been used to discount the projected cash flows, which reflect a combination of factors including the Company's expected cost of equity and cost of borrowing. The growth rate used to extrapolate the cash flows is 3.0% (2019 - 3.0%) based on historical growth rates and management's best estimate of future growth rates.

Sensitivity testing has been performed to model the impact of reasonably possible changes in input assumptions to our base case impairment analysis and headroom. The discount rate has been flexed to 100 basis points above the central assumption, the growth rate has been flexed to 100 basis points below the central assumption and the pre-tax projected cash flows have been flexed 500 basis points below the central assumption. Within these ranges, the recoverable amount remains supportable.

Therefore, no impairments has been recognised in relation to the amount of syndicate participations for the years ending 31 December 2020 and 2019.

## Notes to the Financial Statements

For the year ended 31 December 2020

### 15. Movement in Technical Provisions

	Losses and loss adjustment expenses \$'000	Reinsurance recoveries \$'000	Net losses and loss adjustment expenses \$'000
<b>As at 31 December 2018</b>	<b>339,488</b>	<b>(133,410)</b>	<b>206,078</b>
Net incurred losses for:			
Prior years	45,318	(16,560)	28,758
Current year	101,752	(33,081)	68,671
Exchange adjustments	3,740	(1,947)	1,793
<b>Incurred losses and loss adjustment expenses</b>	<b>150,810</b>	<b>(51,588)</b>	<b>99,222</b>
Net paid losses for:			
Prior years	136,400	(44,183)	92,217
Current year	12,007	(1,455)	10,552
<b>Paid losses and loss adjustment expenses</b>	<b>148,407</b>	<b>(45,638)</b>	<b>102,769</b>
<b>As at 31 December 2019</b>	<b>341,891</b>	<b>(139,360)</b>	<b>202,531</b>
Net incurred losses for:			
Prior years	66,981	(25,917)	41,064
Current year	119,157	(28,741)	90,416
Exchange adjustments	4,793	(624)	4,169
<b>Incurred losses and loss adjustment expenses</b>	<b>190,931</b>	<b>(55,282)</b>	<b>135,649</b>
Net paid losses for:			
Prior years	128,692	(32,068)	96,624
Current year	32,797	(6,308)	26,489
<b>Paid losses and loss adjustment expenses</b>	<b>161,489</b>	<b>(38,376)</b>	<b>123,113</b>
<b>As at 31 December 2020</b>	<b>371,333</b>	<b>(156,266)</b>	<b>215,067</b>

Further information on the calculation of loss reserves and the risks associated with them is provided in the risk disclosures section in Note 3.

If the provision for gross and net outstanding claims changed by 20%, the impact would equate to a pre-tax movement on net assets/profits of \$74.3m gross (2019: \$68.4m) and \$43.0m net (2019: \$40.5m).

The split of losses and loss adjustment expenses is shown below:

As at 31 December	2020		2019	
	\$'000	%	\$'000	%
Outstanding losses	184,722	49.7	174,251	51.0
Losses incurred but not reported	186,611	50.3	167,640	49.0
<b>Total</b>	<b>371,333</b>	<b>100.0</b>	<b>341,891</b>	<b>100.0</b>

### 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 provides information about the historical claims development for syndicates. It shows how the Company's estimates of the claims ratio for the past ten underwriting years have changed at successive year-ends.

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 deficiencies of the past on current claims liabilities. The Company believes that the estimate of total claims liabilities as at the balance sheet date are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

COVID-19 is an unprecedented event for the insurance industry and the effects of COVID-19 as a loss event to the insurance and reinsurance markets remain both ongoing and uncertain. Reserving for the impacts of the COVID-19 pandemic is difficult, both in estimating the direct impacts of the pandemic itself and also in allowing for additional reserves related to the secondary impacts of lockdowns on the costs of settling claims across all lines of business. Given the uncertainty noted above and the continuation of the impacts of the pandemic into 2021 our final COVID-19-related losses may be materially different from those booked to date.

The loss development table below has been adjusted for revaluation of foreign currencies at the exchange rates as at 31 December 2020.

# Notes to the Financial Statements

For the year ended 31 December 2020

Underwriting Year (\$'000)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
<b>GROSS</b>											
At end of year of account	142,375	98,024	80,933	91,991	56,515	68,494	191,486	125,868	106,241	120,196	
One year later	215,515	132,617	127,296	124,178	103,338	124,502	249,192	198,410	188,247		
Two years later	207,982	121,996	124,877	112,861	100,699	120,200	248,453	206,087			
Three years later	194,330	117,699	121,390	108,176	96,977	112,775	237,007				
Four years later	188,685	117,252	118,296	107,679	92,576	111,641					
Five years later	187,608	117,019	116,932	106,778	89,609						
Six years later	187,102	114,738	111,004	106,754							
Seven years later	186,549	114,975	109,361								
Eight years later	187,230	114,397									
Nine years later	187,052										
Gross ultimate claims	187,052	114,397	109,361	106,754	89,609	111,641	237,007	206,087	188,247	120,196	1,470,351
Less: Cumulative gross paid claims	(184,464)	(110,212)	(103,383)	(98,801)	(83,623)	(101,353)	(195,295)	(139,628)	(70,504)	(32,872)	(1,120,135)
Gross claims reserves from 2011 to 2020	2,588	4,185	5,978	7,953	5,986	10,288	41,712	66,459	117,743	87,324	350,216
Gross claims reserves on 2010 and prior											21,117
Gross claims reserves											371,333

Underwriting Year (\$'000)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
<b>REINSURANCE</b>											
At end of accident year	37,135	13,604	9,665	17,437	7,753	22,651	91,939	38,250	50,619	49,882	
One year later	37,174	13,595	8,961	14,014	4,741	25,691	108,623	53,726	61,805		
Two years later	37,274	13,781	8,951	13,014	4,981	24,249	105,165	52,643			
Three years later	32,037	12,903	8,098	11,494	5,309	22,567	102,597				
Four years later	32,066	13,003	8,039	11,698	5,450	21,015					
Five years later	32,034	12,953	8,027	9,310	5,347						
Six years later	33,778	12,732	7,377	9,320							
Seven years later	34,163	12,649	7,346								
Eight years later	34,303	12,633									
Nine years later	34,291										
RI ultimate claims	34,291	12,633	7,346	9,320	5,347	21,015	102,597	52,643	61,805	49,882	356,879
Less: Cumulative RI paid claims	(30,775)	(9,950)	(7,314)	(8,219)	(5,008)	(19,524)	(77,198)	(27,648)	(14,714)	(10,383)	(210,733)
RI claims reserves from 2011 to 2020	3,516	2,683	32	1,101	339	1,491	25,399	24,995	47,091	39,499	146,146
RI claims reserves on 2010 and prior											10,120
RI claims reserves											156,266

Underwriting Year (\$'000)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
<b>NET</b>											
At end of year of account	99,453	74,053	69,891	78,074	51,921	60,492	109,083	91,453	71,092	91,388	
One year later	160,612	108,916	113,773	111,577	85,705	103,905	150,839	133,656	131,477		
Two years later	155,221	97,706	110,414	103,153	81,134	97,342	151,266	132,898			
Three years later	148,044	94,141	106,993	99,244	77,894	89,594	141,164				
Four years later	142,454	93,655	104,740	98,654	76,374	89,452					
Five years later	141,591	93,424	103,256	97,959	73,761						
Six years later	140,888	91,320	100,101	98,025							
Seven years later	140,275	91,503	98,347								
Eight years later	141,006	91,063									
Nine years later	140,808										
Net ultimate claims	140,808	91,063	98,347	98,025	73,761	89,452	141,164	132,898	131,477	91,388	1,088,383
Less: Cumulative net paid claims	(139,586)	(89,344)	(93,060)	(90,850)	(68,223)	(85,223)	(124,751)	(105,024)	(59,431)	(26,557)	(882,049)
Net claims reserves from 2011 to 2020	1,222	1,719	5,287	7,175	5,538	4,229	16,413	27,874	72,046	64,831	206,334
Net claims reserves on 2010 and prior											8,733
Net claims reserves											215,067

## Notes to the Financial Statements

For the year ended 31 December 2020

### 16. Provision for Deferred Tax

	2020 \$'000	2019 \$'000
Profit/(loss) of closed underwriting year	1,406	(7,849)
Underwriting losses not yet recognised for tax	(9,319)	(7,539)
Claims equalisation reserve	1,761	3,271
Reinsurance premium payable under quote share agreement	7,428	13,755
<b>Net deferred tax liability</b>	<b>1,276</b>	<b>1,638</b>

All deferred tax assets included within net deferred tax balance above as at 31 December 2020 are considered to be recoverable.

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. The Company has considered the current impact of the COVID-19 pandemic on future taxable profits. It is anticipated that sufficient taxable profits will be available within the Company in 2021 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

For the years ended 31 December 2020 and 2019, the Company had no uncertain tax positions.

All deferred tax assets and liabilities are classified as non-current.

### 17. Other Payables

	2020 \$'000	2019 \$'000
Amounts due to group undertakings	21,836	48,310
Other payables	64	70
Accruals and deferred income	927	794
<b>Total other payables</b>	<b>22,827</b>	<b>49,174</b>

Refer to Note 19 for the details of amounts due to group undertaking, relating to the Company's amounts due to its parent company.

Amounts due to group undertakings include managing agency profit commission payable of \$3.1m as at 31 December 2020 (2019: \$13.9m).

### 18. Share Capital

	2020 Number	2019 Number
Authorised ordinary shares:		
Ordinary shares of £1	1,000	1,000

	2020 \$	2019 \$
Allotted, issued, and fully paid:		
2 ordinary shares of £1	3	3

The amount of share capital was translated to USD at historical rate of \$1.55.

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

### 19. 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 \$2.6m (2019: \$2.9m) from CCHL (see Note 8). The Company paid a dividend of \$nil in the year (2019: \$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 amount of intercompany loan has been fully settled during 2020.

The intercompany loan provided to LSL was subject to 3% interest per annum. The amount of intercompany loan and related interest recoverable from LSL are included within amounts due from group undertaking in Note 12 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 net investment income as disclosed in Note 5.

## Notes to the Financial Statements

For the year ended 31 December 2020

The amount of intercompany balance of the Company is set out below:

	2020 \$'000	2019 \$'000
Amounts due to Cathedral Capital Holdings Limited	(17,491)	(3,946)
Amounts due from LSL	10,057	20,342
Total	(7,434)	16,396

The Company has provided capacity to the 2018, 2019 and 2020 underwriting years of LSL's managed syndicates, Syndicate 2010 and Syndicate 3010. The Company's share of the syndicates result for the 2020 calendar year is a total profit of \$6.1m (2019: \$12.1m loss).

The Company has quota share arrangement with LICL during 2020 and 2019. The amounts recognised through income statement in respect of the quota share reinsurance are: quota share reinsurance premiums of \$3.5m (2019: \$6.8m) and profit commission of \$1.1m (2019: \$0.5m). The amount of reinsurance quota share premium receivable from LICL as at 31 December 2020 is \$26.7m (2019: \$57.1m) (see Note 12).

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 executive directors of the Company.

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

	2020 \$'000	2019 \$'000
Salaries and other short term employee benefits	133	82
Post-employment benefits	13	7
Total	146	89

## 20. 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.

## 21. 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 Shareholder's 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 18 on page 34.

Details of the Company's Funds at Lloyd's are stated in the Strategic report on page 2. The Company has provided \$16.5m as at 31 December 2020 (2019: \$6.4m).

## 22. Ultimate Parent Undertaking

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

## 23. Post Balance Sheet Events

On 13 February 2021, the Winter Storm Uri loss event commenced in the US State of Texas. At the time of signing the financial statements, it is too early to quantify the effects, however it is an event which is in the normal course of insurance business and the Company will closely monitor developments in the coming weeks. This will be a 2021 calendar year loss and will not impact the 2020 financial statements.