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CATHEDRAL

SYNDICATE 3010

Annual Report
31 December 2017

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Underwriter's Report

2017 Calendar Year Result

The 2017 calendar year GAAP result is a loss of \$2.6 million (combined ratio 100.8%). This consists of profits of \$2.7 million and \$0.6 million on the 2015 and prior and 2016 years of account respectively, while the 2017 year of account produced a calendar year loss of \$5.9 million. This result is more fully analysed in the managing agent's report. From the underwriting and claims perspective, I will comment further below by reference to the individual underwriting years of account.

Closed years

There were no issues arising from our closed years (2007 to 2014) and all of these years combined produced a surplus which contributed both to the calendar year result and the closing 2015 account result.

Prior to 2014, the main business of the account was marine cargo, With the addition of the Energy and Terror accounts from 1st April 2014 the capacity was increased from £30m to £60m leveraging the strong presence Lancashire enjoys in these markets. The account was further grown from 1st August 2014 with the addition of a new aviation team.

2015 Account

At thirty-six months the account has produced a profit of \$3.7 million (£2.8 million) which equates to 2.8% of stamp. This compares to the previous forecast range provided to Lloyd's at 30th September 2017 of 0% to +7.5%.

It is pleasing that all classes, including those in startup, have made positive contributions to the Underwriting Balance. This result for Energy includes exposure on the Ghanaian Jubilee oil field loss, the largest man-made loss for 2016.

2015 was also the first full year for the Syndicate's terrorism account and here too both rates and coverage continued to be impacted by the competitive environment. In spite of these pressures, we were able to slightly increase the income compared to 2014.

2016 Account

For 2016 we maintained our capacity at £100m, however, in the absence of a market changing event we were aware that our income level was unlikely to increase from 2015 despite our continuing attempts to build the newer classes we established in 2014 and 2015.

Our forecast result for the 2016 year of account is currently in the range of -5% to +5% of capacity.

2017 Account

Whilst all of our underwriters are operating in hugely competitive markets, they continue to underwrite in a disciplined fashion and are not compromising underwriting principles in pursuit of growth.

The cargo account core portfolio continues to perform well but new business tends to be extremely competitive and more and more business is being placed under broker facilities; something we do not typically support.

The nature of the account dictates that the exposure to natural catastrophe events is likely to be modest. Consequently, the anticipated aggregate losses emanating from the series of unusually severe natural catastrophe events are small and anticipated to be less than \$3.5m (\$2m from Hurricanes Harvey Irma and Maria combined and \$1.5m from Californian wildfires).

Prospective 2018 year

We are committed to remaining relevant and useful to brokers, leading over 30% of the account by premium.

The immediate market response and aftermath of the severe 2017 catastrophe activity prompted a reversal of recent trends with hardening of rates. Although very welcome, this has largely been restricted to specific loss impacted areas and classes. Disappointingly, the balance of the book continues to be presented with "as before" rating. Even this modest localised improvement could be short-lived as new capacity continues to enter the market.

Due to a number of market and business challenges, we are beginning to see competitors withdraw from certain classes. We remain vigilant and poised to capitalise on any suitable market opportunities.

Underwriter's Report

continued

Recent years have seen a dramatic increase in the proliferation of market facilities which have had an impact on the way open market business is transacted. The FCA and Lloyd's are increasingly concerned about the implications of such facilities and potential conflicts of interest. The FCA has recently initiated a comprehensive market study to assess the long-term operation of such facilities and the market awaits the findings.

Following a period of poor and indifferent results, a number of lineslips are starting to lose capacity; this could present us with increased opportunities.

The consequences and impact of Brexit are still unknown, Lloyd's are working on a solution to enable syndicates to continue to access business from within the EU and we endorse this approach.

I would like to thank Richard Williams, who resigned from the Active underwriter early in 2017, for his careful, diligent and prudent stewardship of the Syndicate. I have inherited a strong and well-placed syndicate, complimented with a team of skilled and experienced underwriters providing a fantastic base from which to take the Syndicate forward.

We will strive to meet the needs of our clients and brokers whilst looking to provide the best possible returns for our capital providers at all times

J D Spence
Active Underwriter

15 March 2018

Report of the Directors of the Managing Agent At 31 December 2017

Introduction

The Directors of Cathedral Underwriting Limited, the managing agency for Syndicate 3010, present the Annual Report for the Syndicate at 31 December 2017, together with the Underwriter's Report. The Syndicate commenced trading for the 2007 Year of Account on 1 July 2007.

This annual report is prepared using the annual basis of accounting required by the Statutory Instrument No 1950 of 2008, the Insurance Accounting Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS 103'). Separate underwriting year accounts for the 2015 closed year of account will be made available to Syndicate members.

The Managing Agent

Principal activity

The principal activity of Syndicate 3010 remains the transaction of general insurance and reinsurance business in the United Kingdom.

Cathedral Underwriting Limited is the managing agent for Syndicate 3010. It also acts as managing agent for Syndicate 2010. Cathedral Underwriting Limited is subject to the dual regulation of the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"), as well as Lloyd's.

The Managing Agent's company registration number is 292093

Syndicate	Principal class of business	Active underwriter	2017 Capacity £'000
3010	Marine cargo, energy, aviation all risks and hull war and terrorism	J D Spence	100,000
2010	Non marine and aviation reinsurance, direct and facultative property and contingency	J M Barnes	304,584

Lancashire Holdings Limited, a company that is incorporated in Bermuda, is the ultimate parent company of Cathedral Underwriting Limited, and is deemed to be the controller of the managing agency and has been approved as such by Lloyd's, the PRA and the FCA.

All the capacity of Syndicate 3010 is provided by Cathedral Capital (1998) Limited, a subsidiary company of the Lancashire Holdings Limited Group. The 2018 year of account capacity will remain at £100.0 million.

Directors

The Directors of Cathedral Underwriting Limited who served during the year (and their date of appointment if within last 3 years) were as follows:

N P Davenport	Chairman (appointed 5 April 2017, previously Non-Executive Director from 23 June 2016)
S W Fraser	Non-Executive Director (appointed 29 February 2016)
L J Gibbins	Non-Executive Director (appointed 23 June 2016)
P Martin	Non-Executive Director (appointed 13 October 2017)
A T Maloney	Non-Executive Director
W A McKee	Managing Director (appointed 12 September 2017)
A C Beardon	Director (appointed 20 February 2017)
J M Barnes	Director (appointed 8 March 2017)
J D Spence	Director (appointed 20 February 2017)
E L Woolley	Compliance Director (appointed 20 February 2017)
A S Minns	Chairman (resigned 28 February 2017)
J P Tilling	Non-Executive Director (resigned 18 May 2017)
D C Grainger	Compliance Director (resigned 8 January 2017)
M A Madden	Managing Director (resigned 10 July 2017)
R C P Williams	Director (resigned 23 March 2017)
H R M Verzin	Chief Financial Officer (resigned 24 November 2017)
L J Townsend	Company Secretary (resigned 22 September 2017)
E L Woolley	Company Secretary (resigned 14 February 2017)
M E Lynn	Company Secretary (appointed 14 February 2017)
H R M Verzin	Chief Financial Officer (resigned 24 November 2017)

Report of the Directors of the Managing Agent At 31 December 2017

continued

C J Whittle has been nominated as Chief Financial Officer subject to formal regulatory approval of his appointment and directorship.

As of 22 September 2017 L J Townsend resigned as company secretary, her responsibilities were assumed by E L Woolley on a temporary basis until 14 February 2018 when succeeded on a permanent basis by M E Lynn.

Mr Maloney owns shares in the ultimate parent company Lancashire Holdings Limited, which are disclosed in the Annual Report and Accounts of Lancashire Holdings Limited

Directors and their participations in Syndicate 3010

None of the Directors of Cathedral Underwriting Limited participated directly as Names on the Syndicate. However the corporate member company Cathedral Capital (1998) Limited has a £100 million participation for the 2016, 2017 and 2018 Years of Account.

Active Underwriter

On 23 January 2017, J D Spence received regulatory approval to assume the role of Active Underwriter of Syndicate 3010. On 8 March 2017, J M Barnes received the same for Syndicate 2010.

Multiple syndicates consent

On 25 July 2007 Lloyd's confirmed that A Butler and L Aspinall of Syndicate 3010 were approved under the Multiple Syndicates Byelaws (No.5 of 1989) to underwrite for Syndicates 3010 and 2010. This approval is given only in respect of Fire, Theft and Collision (FTC) business that was written into Syndicate 2010.

Registered Office/accounting records

The registered office and principal place of business of Cathedral Underwriting Limited is 29th Floor, 20 Fenchurch Street, London, EC3M 3BY. Telephone 0207 170 9000; Fax 020 7170 9001; Email info@cathedralcapital.com; Website www.cathedralcapital.com. The accounting records are kept at the registered office.

Management of Syndicate 3010

The Board of Cathedral Underwriting Limited is ultimately responsible for the management of the Syndicate and has delegated responsibilities for its day-to-day management to the Active Underwriter and a management board which includes senior management and underwriting representatives of Syndicate 3010 together with representatives of the Managing Agent's Board.

2017 Calendar Year

The Annual Report includes the results for the calendar year on an annual accounting basis and is prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounts standards, and in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards. The accounting policies that have been adopted to produce the annual accounting results are set out in full on pages 20 to 23. The functional and presentational currency of the Syndicate is US Dollars.

Results

The overall calendar year result is the aggregate of the calendar year results of all Years of Account. The results are all from continuing operations. The annual accounting result is a loss of \$2.6 million in the year (2016: profit \$3.3 million) and this can be analysed as follows:

	2015* account \$'000	2016 account \$'000	2017 account \$'000	Year Ended 31 December 2017 \$'000	Restated Year Ended 31 December 2016 \$'000
Gross earned premium	1,546	29,387	25,398	56,331	63,549
Reinsurers' share	(1,185)	(7,038)	(6,143)	(14,366)	(14,467)
Net earned premium	361	22,349	19,255	41,965	49,082
Gross claims incurred	2,125	(13,801)	(14,954)	(26,630)	(29,942)
Reinsurers' share	2,355	2,425	2,664	7,444	8,256
Net claims incurred	4,480	(11,376)	(12,290)	(19,186)	(21,686)
Net operating expenses	(2,019)	(10,136)	(12,701)	(24,856)	(25,315)
Balance on Technical Account before investment return	2,822	837	(5,736)	(2,077)	2,081
Net investment return	185	44	12	241	216
Exchange gain and (loss)	(325)	(264)	(127)	(716)	1,009
Profit for the financial year	2,682	617	(5,851)	(2,552)	3,306

* The 2015 account includes the movement in the 2007 to 2014 accounts which have closed into the 2015 account.

Premiums above are grossed up for brokerage.

The insurance and reinsurance contracts underwritten by the Syndicate are earned over the life of the policy, normally commencing at the inception of the policy. An earnings pattern is established for each class of business written by the Syndicate and these earnings patterns are applied at the policy level. The earning patterns aim to reflect the underlying exposures of the business written. Thus net earned premiums during 2017 include premiums on policies incepting during 2017 together with estimates for premiums and adjustments to premiums on policies incepting in prior periods.

Description of business and methods of acceptance

The Syndicate writes:

- a broad based cargo account including specie, fine art and war;
- an energy account, focused on upstream operational coverages, including property damage, operators' extra expenses and third party liability, together with other areas of energy related business such as upstream construction and stand-alone catastrophe coverages;
- a terrorism and political violence account with a focus on property physical damage and business interruption coverages; and
- aviation all risk and aviation war accounts.

Business is largely written by Syndicate 3010 either direct or by way of facultative reinsurance (including through open covers, lineslips and binding authorities) but there are also treaty elements. Syndicate 3010 leads three Lloyd's aviation war consortia.

Reinsurance protection

The accounts written by the Syndicate have the benefit of excess of loss reinsurance programmes which provide protection in the event of large risk or catastrophe loss.

Report of the Directors of the Managing Agent At 31 December 2017

continued

Syndicate investments

The Syndicate funds have been kept liquid in order to meet any cash demands that arise. Some cash balances are swept overnight into pooled arrangements and therefore are classified as investments. The syndicate is also invested in short-term fixed income exchange-traded funds.

Foreign exchange hedging

The managing agency, in so far as possible, matches assets and liabilities by currency within the Syndicate. To date, the managing agency has not entered into any transaction to hedge the foreign exchange exposure to the non-US Dollar (Sterling, Canadian Dollars or Euro) currencies held within the Syndicate's premium trust funds. The managing agency will continue to keep this possibility under review and may at some future date enter into such transactions.

Bank borrowing facilities

The Syndicate does not have any bank borrowing facilities.

Principal risks impacting the Syndicate

The Syndicate is exposed to a variety of risks when undertaking its activities all of which are taken into account when setting the Ultimate Solvency Capital Requirement (uSCR) of the Syndicate, details of which are disclosed in note 24. All areas of risk are subject to the managing agency's risk management framework and enterprise wide risk management practices and controls.

Subcontracted functions

The managing agent has subcontracted its software support to Computer Sciences Corporation.

Actuaries

Willis Towers Watson Limited acted as reporting actuaries to the Syndicate for the period under review.

Statement as to disclosure of information to auditors

The Directors of the managing agent at the date of this report have individually taken all necessary steps to make themselves aware, as Directors, of any relevant audit information and to establish that the Syndicate auditors are aware of that information. As far as the Directors are aware, there is no relevant audit information of which the auditors are unaware.

Advanced consents procedure notification

Agency and Syndicate Auditor

On 3 May 2017 a resolution was passed to appoint KPMG LLP as the Syndicate's auditor.

KPMG LLP are the independent auditors to all of the Lancashire Group companies and the Syndicate.

By order of the Board

W A McKee
Managing Director
Cathedral Underwriting Limited
29th Floor, 20 Fenchurch Street
London EC3M 3BY

15 March 2018

Statement of Managing Agent's Responsibilities

The directors of the managing agent are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing these financial statements, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Assess the syndicate'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 cease trading, or have no realistic alternative but to do so.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

On behalf of the board

W A McKee
Managing Director

15 March 2018

**SYNDICATE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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Independent Auditor's Report to the Members of Syndicate 3010

Opinion

We have audited the financial statements of Syndicate 3010 for the year ended 31 December 2017 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: Non-technical account, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Members' Balances, 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 syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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 syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent 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 that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, 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.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 9, the directors of the Managing Agent 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 syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

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.

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

This report is made solely to the syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate'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 syndicate'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

15 Canada Square

London

E14 5GL

15 March 2018

**Statement of Profit or Loss
Technical Account – General Business
For the year ended 31 December 2017**

	Notes	Year ended 31 December 2017 \$'000	Restated Year ended 31 December 2016 \$'000
Earned premiums, net of reinsurance:			
Gross premiums written	3	53,987	57,459
Outward reinsurance premiums		(15,024)	(15,594)
Net premiums written		38,963	41,865
Change in the provision for unearned premiums:			
Gross amount		2,344	6,090
Reinsurers' share		658	1,127
Earned premiums, net of reinsurance		41,965	49,082
Allocated investment return transferred from the non-technical account		241	216
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(25,206)	(20,493)
Reinsurers' share		4,306	1,461
Net claims paid		(20,900)	(19,032)
Change in the provision for claims:			
Gross amount		(1,424)	(9,449)
Reinsurers' share		3,138	6,795
Net change in the provision for claims		1,714	(2,654)
Claims incurred, net of reinsurance		(19,186)	(21,686)
Net operating expenses	4	(24,856)	(25,315)
Balance on the technical account for general business		(1,836)	2,297

All items relate to continuing operations only.

The notes on pages 20 to 40 form part of these accounts.

Statement of Profit or Loss Non-Technical Account For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 \$'000	Restated Year ended 31 December 2016 \$'000
Balance on the technical account for general business		(1,836)	2,297
Investment income	8	379	216
Unrealised (loss) on investments		(138)	–
Allocated investment return transferred to the general business technical account		(241)	(216)
Exchange (loss)/gain		(716)	1,009
(Loss)/profit for the financial year		(2,552)	3,306

All operations relate to continuing activities

Statement of Comprehensive Income For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 \$'000	Restated Year ended 31 December 2016 \$'000
(Loss)/profit for the financial year		(2,552)	3,306
Total comprehensive (loss)/ income since last annual report		(2,552)	3,306

The notes on pages 20 to 40 form part of these accounts.

**Statement of Financial Position
As At 31 December 2017**

	Notes	2017 \$'000	Restated 2016 \$'000
Investments:			
Financial investments	9	30,992	31,648
		30,992	31,648
Reinsurers' share of technical provisions:			
Provision for unearned premiums	10	6,852	6,120
Claims outstanding	11,12	13,649	10,336
		20,501	16,456
Debtors:			
Debtors arising out of direct insurance operations			
– Intermediaries	13	17,978	19,608
Debtors arising out of reinsurance operations	14	13,281	12,719
Other debtors	15	91	61
		31,350	32,388
Other assets:			
Cash and cash equivalents	16	6,844	8,250
Other	17	1,910	2,045
		8,754	10,295
Prepayments and accrued income:			
Deferred acquisition costs	18	8,600	8,876
Other prepayments and accrued income		543	187
		9,143	9,063
Total assets		100,740	99,850

The notes on pages 20 to 40 form part of these accounts.

	Notes	2017 \$'000	Restated 2016 \$'000
Capital and reserves:			
Member's balances		(6,589)	(2,334)
		(6,589)	(2,334)
Technical provisions:			
Provision for unearned premiums	10	33,380	35,096
Claims outstanding	12	54,774	51,924
		88,154	87,020
Creditors:			
Creditors arising out of direct insurance operations	19	5,469	5,134
Creditors arising out of reinsurance operations	20	9,322	6,757
Other creditors including taxation and social security	21	2,514	2,052
		17,305	13,943
Accruals and deferred income		1,870	1,221
Total liabilities		100,740	99,850

The Syndicate annual accounts on pages 14 to 40 were approved by the Board of Cathedral Underwriting Limited on 13 March 2018 and were signed on its behalf by

W A McKee
Managing Director

J D Spence
Active Underwriter

15 March 2018

**Statement of Changes in Members' Balances
For the year ended 31 December 2017**

	2017 \$'000
Member's balances at 1 January	(2,334)
Loss for the year	(2,552)
Transfer (to) member personal reserve fund	(1,703)
Member's balances carried forward at 31 December	(6,589)

	Restated 2016 \$'000
Member's balances at 1 January	(5,584)
Profit for the year	3,306
Transfer (to) member personal reserve fund	(56)
Member's balances carried forward at 31 December	(2,334)

Member's balances do not include member's agency fees or non-standard expenses.

Member's participate on syndicates by reference to Years of Account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that Year of Account in respect of their membership of that particular year.

Transfers to member's personal funds comprise the 2014 (2013) closed Year of Account profit.

Statement of Cash Flows

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 \$'000	Restated Year ended 31 December 2016 \$'000
Cash flows from operating activities			
Profit for the financial year		(2,552)	3,306
Realised and unrealised investments losses on cash and investments, including currency movements		(652)	150
Income from investments		(379)	(216)
Decrease in debtors, prepayments and accrued income		685	5,139
(Decrease) in net technical provisions		(2,635)	(4,746)
Increase in creditors, accruals and deferred income		4,011	128
Net cash (outflow)/ inflow from operating activities		(1,522)	3,761
Cash flows from investing activities			
Interest received		375	206
Movement of shares and other variable yield securities		514	(426)
Movement of overseas deposits		135	(476)
Net cash inflow/(outflow) from investing activities		1,024	(696)
Cash flows from financing activities			
Transfer (to) members in respect of underwriting participations		(1,702)	(56)
Net cash outflow from financing activities		(1,702)	(56)
(Decrease)/increase in cash and cash equivalents in the year		(2,200)	3,009
Cash and cash equivalents at 1 January		8,250	5,363
Effect of exchange rates and change in market value on cash and cash equivalents		794	(122)
Cash and cash equivalents at 31 December		6,844	8,250

The notes on pages 20 to 40 form part of these accounts.

Notes to the Financial Statements For the year ended 31 December 2017

I Statement of Compliance

Cathedral Underwriting Limited, incorporated in the United Kingdom, is ultimately responsible for the management of Syndicate 3010. The registered office is 29th Floor, 20 Fenchurch Street, London, EC3M 3BY. The financial statements cover those of the individual Syndicate and are prepared as at 31 December 2017 and for the year ended 31 December 2017.

Basis of Preparation

The financial statements for the year ended 31 December 2017 were approved for issue by the Board of Directors on 13 March 2018.

The financial statements are prepared in US Dollars which is the presentational & functional currency of the Syndicate and rounded to the nearest \$'000.

2 Accounting Policies

a) Basis of accounting

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as described below.

In accordance with FRS 103 "Insurance Contracts", the Syndicate continues to apply existing accounting policies to its insurance contracts but has the option to make improvements to its policies if the changes make the financial statements more relevant to the decision making needs of the user.

b) Use of judgement and key sources of estimation and uncertainty

The financial statements have been prepared using critical estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on management's best knowledge of the current events and actions, actual outcomes may differ from those estimates, possibly significantly. The most significant estimate made by management is in relation to insurance risk, where the key risk factors impacting management's estimate are disclosed in Note 23.

In addition, estimates are used for premiums written and the fair value of financial investments. For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgmental and could result in misstatements of revenue recorded in the financial statements. Note 2(g) sets out the valuation processes for financial investments.

c) Underwriting

(i) Premiums written

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

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

(ii) Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(iii) Unearned premiums

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

2 Accounting Policies *continued*

(iv) *Claims incurred*

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

(v) *Claims provisions and related recoveries*

The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (“IBNR”).

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 management and further reviewed by external consulting actuaries. IBNR for major catastrophe losses is individually assessed by underwriting and non– underwriting management. IBNR for smaller and more attritional losses is based on projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

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

The reinsurers’ share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, 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.

If a reinsurance asset is impaired, the Syndicate reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the profit and loss account.

The Syndicate 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.

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

(vi) *Unexpired risks provision*

A provision for unexpired risks is made where claims and related expenses estimated to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together. No account is taken of any future investment return.

At each period end, liability adequacy tests are performed, employing the current estimates of the Syndicate’s future cash flows under its insurance contracts. If, as a result of these tests, the carrying amount of the Syndicate’s insurance liabilities is found to be inadequate in comparison to the value of these future cash flows, the deficiency is charged to the profit and loss account for that accounting period.

(vii) *Acquisition costs*

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the Statement of Financial Position date.

(viii) *Profit commission*

Profit commission is charged to the Syndicate as incurred but does not become payable until after the appropriate Year of Account closes, normally at 36 months.

Notes to the Financial Statements For the year ended 31 December 2017

continued

2 Accounting Policies continued

d) Foreign currencies

The presentational & functional currency of the Syndicate is US Dollars. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the rate of exchange ruling at the date of the transaction or at an appropriate average rate.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks and other short-term, highly liquid investments with maturities of three months or less from the date of acquisition.

f) Financial Instruments

(i) Financial Investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39-Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

The investments are held for investment purposes as designated at fair value through profit and loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management. The investment strategy is to manage financial instruments acquired on a fair value basis. The fair values of quoted financial instruments are based on bid prices at the Statement of Financial Position date. Unlisted investments for which a market exists are stated at the average price at which they were traded on the Statement of Financial Position date or the last trading day before that date.

Realised and unrealised gains and losses on investments classified as fair value through profit and loss are recognised through the Income Statement.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Syndicate commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(ii) Other financial assets and liabilities

Insurance debtors and other short term debtors are classed as loans and receivables under IAS 39, which have fixed or determinable payments that are not quoted in an active market, are initially recorded at fair value and subsequently held at amortised cost. These receivables are assessed for impairment on an annual basis.

Insurance creditors are initially recorded at fair value and subsequently held at amortised cost.

g) Fair Value of Financial Assets

The fair value hierarchy is as follows:

- (a) Level 1 is financial assets which are measured at quoted prices in an active market, where quoted prices are readily available, and those prices represent actual and regularly occurring market transactions on an arm's length basis;
- (b) Level 2 is using a valuation technique based on securities with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data. These investments are valued via independent external sources using modelled or other valuation methods; and
- (c) Level 3 is using a valuation technique based on the Syndicate's own assumptions.

2 Accounting Policies *continued*

h) *Investment return*

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the Statement of Financial Position date and their purchase price or, if they have been previously valued, their valuation at the last Statement of Financial Position date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Realised and unrealised gains and losses on investments classified as fair value through profit and loss are recognised through the Income Statement.

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the Technical Account – General Business to reflect the investment return on funds supporting underwriting business. All investment return is deemed to arise on such funds.

i) *Taxation*

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the Statement of Financial Position under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on underwriting results.

j) *Pension costs*

Cathedral Underwriting Limited operates a defined contribution pension scheme and it recharges to the Syndicate staff costs which include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

k) *Operating lease rentals*

Amounts recharged by Cathedral Underwriting Limited include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Notes to the Financial Statements For the year ended 31 December 2017

continued

3 Analysis of underwriting result

An analysis of the technical account balance before investment return for the year and the net technical provisions for the year end are set out below:

Type of business	31 December 2017						
	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Net operating expenses \$'000	Reinsurance balance \$'000	Total \$'000	Net technical provisions \$'000
Direct insurance:							
Motor (other classes)	276	103	(12)	(42)	8	57	133
Marine, aviation and transport	19,610	19,377	(10,325)	(8,874)	(929)	(751)	30,622
Fire and other damage to property	12,085	14,086	(7,834)	(5,608)	(1,213)	(569)	6,533
Credit and suretyship	19	19	–	(8)	(33)	(22)	–
	31,990	33,585	(18,171)	(14,532)	(2,167)	(1,285)	37,288
Reinsurance acceptances	21,997	22,746	(8,459)	(10,324)	(4,755)	(792)	21,765
Total	53,987	56,331	(26,630)	(24,856)	(6,922)	(2,077)	59,053

Type of business	Restated 31 December 2016						
	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Net operating expenses \$'000	Reinsurance balance \$'000	Total \$'000	Net technical provisions \$'000
Direct insurance:							
Marine, aviation and transport	24,955	29,710	(22,679)	(12,256)	1,213	(4,012)	35,213
Fire and other damage to property	8,538	8,618	354	(2,255)	(1,592)	5,125	4,489
Credit and suretyship	19	21	3	(9)	(17)	(2)	3
	33,512	38,349	(22,322)	(14,520)	(396)	1,111	39,705
Reinsurance acceptances	23,947	25,200	(7,620)	(10,795)	(5,815)	970	21,983
Total	57,459	63,549	(29,942)	(25,315)	(6,211)	2,081	61,688

Net technical provisions are net of deferred acquisition costs.

Geographical analysis by destination

	Restated	
	Gross written premiums 2017 \$'000	Gross written premiums 2016 \$'000
UK	13,438	13,859
US	11,941	17,151
Other EU member states	4,801	5,101
Rest of the world	23,807	21,348
	53,987	57,459

All premiums written are for contracts with external customers and are concluded in the UK.

4 Net operating expenses

	Year ended 31 December 2017 \$'000	Restated Year ended 31 December 2016 \$'000
Acquisition costs:		
Brokerage and commission	12,271	12,435
Other acquisition costs	2,227	2,694
	14,498	15,129
Change in deferred acquisition costs	552	1,201
Administrative expenses	6,586	5,723
Reinsurance commissions and profit participation	755	886
Personal expenses	2,465	2,376
	24,856	25,315

Administrative expenses include:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Auditors' remuneration:		
– Audit of the Syndicate annual accounts	108	109
– Other services pursuant to regulations and Lloyd's Byelaws	58	33
	166	142

Total commissions for direct insurance accounted for in the year amounted to \$7,770,244 (2016: \$8,297,276).

5 Staff numbers and costs

All staff are employed by the managing agency. The following amounts were recharged to the Syndicate in respect of salary costs:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Wages and salaries	3,493	3,787
Social security costs	398	392
Pension costs	220	319
	4,111	4,498

The average number of employees employed by the managing agency but working for the Syndicate during the year was as follows:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Operations, administration and finance	5	6
Underwriting and claims	17	17
	22	23

Notes to the Financial Statements For the year ended 31 December 2017

continued

6 Emoluments of the Directors of Cathedral Underwriting Limited

Cathedral Underwriting Limited charged the Syndicate the following amounts in respect of emoluments paid to its Directors, including the Active Underwriter of the Syndicate:

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Emoluments	583	373

7 Active Underwriter's emoluments

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

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Emoluments	383	124

8 Investment income

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Income from investments	383	202
(Losses)/gains on realisation of investments	(4)	14
	379	216

The average Syndicate funds and investment return in the calendar year by currency is as follows:

	31 December 2017		31 December 2016	
	Average funds \$'000	Investment yield %	Average funds \$'000	Investment yield %
Sterling	3,451	0.01	2,969	0.00
Euro	3,174	0.00	2,231	0.00
US Dollars	32,763	0.01	31,774	0.00
Canadian Dollars	2,860	0.01	2,680	0.00
All currencies converted to US Dollars	42,249	0.01	39,654	0.00

Investment return includes investment income, realised investment gains and losses and movements on unrealised investment gains and losses.

9 Financial investments at fair value

	Carrying value		Purchase Price	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Shares and other variable yield securities	13,631	31,648	13,631	31,648
Debt securities and other fixed income securities	17,361	–	17,500	–
	30,992	31,648	31,131	31,648

9 Financial investments at fair value *continued*

Debt securities and other fixed income securities are all listed on recognised stock exchanges. All investments, are stated at bid price value. An analysis of financial investments by external rating agencies are set out in Note 23.

All investments held by the Syndicate are only available for investment and for paying of claims by the Syndicate to its policyholders and expenses.

10 Provisions for unearned premiums

	2017		
	Gross \$'000	Reinsurers' share \$'000	Net \$'000
At 1 January 2017	35,096	6,120	28,976
Premiums written in the year	53,987	15,024	38,963
Premiums earned in the year	(56,331)	(14,366)	(41,965)
Foreign exchange	628	74	554
At 31 December 2017	33,380	6,852	26,528

	Restated 2016		
	Gross \$'000	Reinsurers' share \$'000	Net \$'000
At 1 January 2016	41,881	5,093	36,788
Premiums written in the year	57,459	15,594	41,865
Premiums earned in the year	(63,549)	(14,467)	(49,082)
Foreign exchange	(695)	(100)	(595)
At 31 December 2016	35,096	6,120	28,976

11 Reinsurers' share of claims outstanding

The year end assessment of the recoverability of the Syndicate's reinsurance assets is a subjective one. The managing agent considers that the provision is fairly stated based on the current information available. However, the ultimate amount recoverable may be different as a result of subsequent information and future events.

The table below analyses the exposure to reinsurers by credit quality. The grading refers to the year end grade of the relevant reinsurer by reference to their A. M. Best and/or S&P rating. These ratings will not necessarily be the same as when the relevant reinsurances were purchased.

	2017 \$'000	2016 \$'000
AA grade security	224	2
A grade security	10,992	8,936
Other*	2,597	1,559
	13,813	10,497
Less provision for bad debt	(164)	(161)
	13,649	10,336

* includes carriers which are subject to collateralisation/LOC arrangements ,recoveries not allocated to a particular reinsurer, carriers within A rated groups which are no longer actively trading following acquisition or group re-organisation.

**Notes to the Financial Statements
For the year ended 31 December 2017**

continued

12 Claims Outstanding

	2017		
	Gross \$'000	Reinsurers' share \$'000	Net \$'000
At 1 January 2017	51,924	10,336	41,588
Claims incurred in current underwriting year	14,954	2,665	12,289
Claims incurred in prior underwriting year	11,676	4,778	6,898
Claims paid during the year	(25,206)	(4,306)	(20,900)
Foreign exchange	1,426	176	1,250
At 31 December 2017	54,774	13,649	41,125

	Restated 2016		
	Gross \$'000	Reinsurers' share \$'000	Net \$'000
At 1 January 2016	43,851	3,667	40,184
Claims incurred in current underwriting year	14,220	1,396	12,824
Claims incurred in prior underwriting year	14,979	6,860	8,119
Claims paid during the year	(20,493)	(1,461)	(19,032)
Foreign exchange	(633)	(126)	(507)
At 31 December 2016	51,294	10,336	41,588

13 Debtors arising out of direct insurance operations

	2017 \$'000	Restated 2016 \$'000
Due within one year – intermediaries	17,978	19,608

14 Debtors arising out of reinsurance operations

	2017 \$'000	2016 \$'000
Due within one year	13,281	12,719

15 Other debtors

	2017 \$'000	2016 \$'000
Due within one year	88	24
Due after one year	3	37
	91	61

16 Cash and cash equivalents

	2017 \$'000	2016 \$'000
Cash and cash equivalents exist of:		
Cash at bank and in hand	3,266	5,241
Participation in investment pools	3,578	3,009
	6,844	8,250

Cash and cash equivalents represents cash at bank and in hand, short term bank deposits and other short-term highly liquid investments that are subject to insignificant risk of change in fair value.

17 Other assets – overseas deposits

	2017 \$'000	2016 \$'000
Amounts advanced in other countries as a condition of carrying on business there	1,910	2,045

18 Deferred acquisition costs

	2017 \$'000	2016 \$'000
At 1 January	8,876	10,538
Change in deferred acquisition costs	(552)	(1,201)
Foreign exchange	276	(461)
At 31 December	8,600	8,876

19 Creditors arising out of direct insurance operations

	2017 \$'000	2016 \$'000
Due within one year	5,469	5,134

20 Creditors arising out of reinsurance operations

	2017 \$'000	2016 \$'000
Due within one year	9,322	6,757

21 Other creditors including taxation and social security

	2017 \$'000	2016 \$'000
Due within one year:		
Expenses owed to managing agent	934	425
Profit commission owed to managing agent	1,580	1,627
	2,514	2,052

Notes to the Financial Statements For the year ended 31 December 2017

continued

22 Related parties

Cathedral Underwriting Limited manages Syndicates 3010 and 2010. The immediate parent company of Cathedral Underwriting Limited is Cathedral Capital Holdings Limited and the ultimate parent company is Lancashire Holdings Limited. Lancashire Holdings Limited is the largest group and Cathedral Capital Holdings Limited is the smallest group which includes the Company and for which consolidated financial statements are prepared. Cathedral Capital Holdings Limited is registered in England & Wales. Lancashire Holdings Limited is incorporated in Bermuda.

Within the Lancashire group there are two (re) insurance companies, Lancashire Insurance Company (UK) Limited (incorporated in the UK) and Lancashire Insurance Company Limited (incorporated in Bermuda). In addition, the Lancashire group includes Kinesis Capital Management Limited (incorporated in Bermuda) which is the underwriting manager for Kinesis Reinsurance Limited, a special purpose insurer. There have been no transactions with this latter company.

Total managing agency fees paid during calendar year 2017 to Cathedral Underwriting Limited in respect of services provided to the Syndicate amounted to \$1,280,000 (2016: \$1,370,000).

Profit commission of \$934,293 (2016: \$425,527) is also due to the managing agent, Cathedral Underwriting Limited, in respect of the profit on the 2015 (2014) closed year.

A number of non-executive directors are also directors of other Lloyd's entities. The syndicates managed by those entities may from time to time transact business with the syndicates managed by Cathedral Underwriting Limited. All such insurance contracts will have been dealt with on an arm's length basis.

Expenses totalling \$7,656,121 (2016: \$7,277,766) were recharged to the Syndicate by Cathedral Underwriting Limited. Where expenses were incurred jointly by the managing agent and the Syndicate, they were apportioned as follows:

Salaries and related costs	– according to the estimated time of each individual spent on syndicate matters
Accommodation costs	– according to the number of personnel
Other costs	– as appropriate in each case

Amounts owed to Cathedral Underwriting Limited at 31 December 2017 totalled \$2,514,416 (2016: \$2,052,165) and are included in "Other creditors including taxation and social security".

Cathedral Capital (1998) Limited, a fellow subsidiary of Cathedral Underwriting Limited, provided 100% of capacity to the 2015, 2016 and 2017 underwriting years. Therefore, all profits and losses of the Syndicate are attributable to Cathedral Capital (1998) Limited. Amounts owed to Cathedral Capital (1998) Limited at 31 December 2017 totalled \$3,737,178 (2016: \$1,702,115).

During the normal course of business Syndicate 3010 has purchased certain reinsurances from Lancashire group (re) insurance companies and Lloyd's Syndicate 2010 on a commercial arm's length basis.

The aggregate amounts of premium involved to date are not material in the context of the Syndicate's overall spend.

Syndicate 3010 leads an Aviation Consortia which is managed by Cathedral Underwriting Limited. As the manager of these consortia, Cathedral Underwriting Limited charges all members an annual fee at the rate of 7.5% of each consortium members' share of the signed premium income and profit commission equal to 22.5% of any net profit. A continuous deficit clause for renewing members exists within each consortia agreement. The fee has decreased to 6.0% in 2018.

Key management compensation

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

22 Related parties continued

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

	Year ended 31 December 2017 \$'000	Year ended 31 December 2016 \$'000
Key management compensation		
Salaries and other short-term employee benefits	583	379
Post-employment benefits	41	6
	624	385

23 Risk disclosure

The Syndicate is exposed to a variety of risks and uncertainties when undertaking its activities. The Board has policies and procedures in place to identify and manage the key risks in accordance with its risk appetite. These largely relate to:

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

Insurance Risk

The Syndicate's underwriting of insurance risks is naturally a high-risk business, with the potential for earnings to be volatile. It would be possible for the capital supporting the underwriting to be completely eroded in extreme circumstances. Even in less extreme circumstances, major losses may cause erosion of capital which, if not replaced, may curtail the Syndicate's ability to trade forward and potentially recoup its losses.

The risk under any one insurance / reinsurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Syndicate has developed its insurance underwriting strategy so as to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks in an attempt to reduce the variability of the expected outcome. However, it should be recognised that much of the business written by the Syndicate is accumulative in nature.

Factors that aggravate insurance risk include lack of diversification in terms of type and amount of risk, geographical location and type of industry covered.

Diversification across classes of business

The Syndicate's 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 Syndicate 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.

Notes to the Financial Statements For the year ended 31 December 2017

continued

23 Risk disclosure continued

Frequency and severity of claims

The frequency and severity of claims in respect of the Syndicate can be affected by several factors. The Syndicate specialises in marine cargo, energy, aviation war, and aviation all risks and terrorism. These accounts are predominantly short-tail in nature, and some of them have a high degree of catastrophe exposure (for example the energy account could be affected by hurricane losses).

The catastrophe nature of these accounts is managed through the Syndicate's 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 Syndicate.

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 Syndicate models various loss scenarios and also runs 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 Syndicate.

Based on the July 2017 RDS submission to Lloyd's, the largest gross RDS was for the collision of the Syndicate's two largest airline exposures at \$64.4 million. The largest net RDS based on the July 2017 Lloyd's RDS submission using version 15 of RMS was for a Gulf of Mexico hurricane with an industry loss estimate of \$118 billion and a net of reinsurance recoveries and reinstatement costs loss to the Syndicate of \$14.4 million.

Underwriting risk

The Syndicate has a defined event risk appetite. Best efforts are made to restrict the maximum gross and net loss such that the Syndicate may retain/lose for any single major catastrophe event (taken to be a Lloyd's RDS) to be not more than 20% of capacity net of 70% of capacity gross. This is when applying rates of exchange used for planning purposes. The Syndicate models various loss scenarios and also prepares prescribed RDS which seek to analyse and quantify its exposures to certain specified events, and the Syndicate endeavours to ensure that its potential loss exposures remain within Franchise Board guidelines (or where dispensations exist within these). The Lloyd's guidelines measure maximum RDS exposures as a percentage of both Gross Net Premium (GNP) (Although this measure will not be applied from 2017) and Economic Capital Assessment (ECA); however, internally the Syndicate continues to manage RDS exposure against capacity.

Key underwriting risks include unrecognised/unexpected accumulations, the risk of extreme losses, frequency of major loss, wording issues and unsustainable pricing. These are discussed in detail as follows:

a) Accumulative loss including unknown / unexpected accumulations

The business written by the Syndicate is short tail in nature and, whilst 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 Syndicate are of a well-tested nature. More crucially, the approach taken to risk management is heavily exposure driven. The Syndicate continually seeks to model the portfolio of its accounts in order to identify accumulations and to monitor the exposures of the Syndicate, and the whole process is supported by sophisticated internal and external modelling systems. Finally, to ensure the maximum depth of reinsurance coverage, accounts have separate reinsurance programmes (energy and terrorism have combined covers).

b) Risk of extreme losses

Whilst the non-proportional reinsurance writings for the Syndicate normally provide policyholders with defined cover by way of both limits and the number of reinstatements, the direct writings of the accounts give rise to large assured values which are vulnerable to failures in modelled or PML assumptions.

The key controls rest on the strict recording of aggregate exposures and modelling work carried out on these numbers utilising various risk modelling systems and approaches. The Syndicate also purchases reinsurance programmes that are structured so as to limit the exposure to any single reinsurer.

c) Frequency of major loss

The Syndicate is vulnerable to a high frequency of major loss. The major defences the Syndicate has to a high frequency of major loss is by modulating line size by attachment point, geographical spread of risks and separate reinsurance programme.

23 Risk disclosure continued

d) *Wording issues*

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

Despite this risk, most coverages utilised are fairly standard. Slip checking has always been part of the underwriting process. Furthermore, the independent reviewers consider a sample of risks written, and as part of their review, look at wordings to identify inconsistencies between slips and wordings. Contract certainty and pre-bind checks further mitigate this risk.

e) *Unsustainable pricing*

The cyclical nature of insurance means that rates constantly fluctuate. 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. The major controls applied on a day-to-day basis include the peer review processes within the Syndicate and the Syndicate's rate monitoring processes. The managing agency's 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 frequent updates on key trends in the market at risk level, as well as benchmarking the Syndicate's own performance against its peers.

Other controls

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

The Syndicate prepares an annual business plan which sets out the forecast 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 reviews sample a number of risks underwritten by the Syndicates.

Risks underwritten by the Syndicate are modelled in a timely fashion with underlying risk 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 regularly presented to the managing agency's syndicate board and these are monitored against those that had been expected per the Syndicate's business plans. Aggregation systems are also used for other accounts to monitor exposure.

Reinsurance risk

Reinsurance risk is the risk of inadequate reinsurance coverage in terms of vertical or horizontal limits purchased or the risk of disputes arising with reinsurers as to terms and conditions. The three key risks for the Syndicate include inappropriate reinsurance programme or a reinsurance programme with gaps, the collapse of the retrocession market and the lack of availability of reinsurance cover on acceptable terms. These are discussed below:

a) *Inappropriate reinsurance programme/gaps*

The Syndicate knowingly runs exposures which are not covered by reinsurance. These exposures may be run below the attachment point of the outwards programme (Syndicate's 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 quantified and are consistent with the RDS and other modelled outputs produced by the Syndicate 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 cover that was assumed, then there could be significant financial consequences to the Syndicate. It is emphasised that the reinsurance cover which the Syndicate purchases has finite limits which may not be sufficient to contain all loss activity.

Notes to the Financial Statements For the year ended 31 December 2017

continued

23 Risk disclosure continued

The controls applied include a full review of the purchased reinsurance programme by the independent reviewers. There are known exclusions in our outwards cover, and the inwards book is written to take account of these factors. Various loss scenarios are also modelled through the programme to determine where unexpected gaps, if any, may arise.

b) Collapse of the retrocession market

Whilst the Syndicate aims 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 Syndicate's record with its reinsurers together with the overall availability of retrocessional capacity.

The major controls rest at the underwriting level and are aimed at ensuring the Syndicate underwrites accounts that do not expose its reinsurers to a scale or type of exposure which was not reasonably within their contemplation at the time of writing the Syndicate's outward reinsurance programmes. The Syndicate endeavours to provide its reinsurers with the most up to date and accurate information on its account (and advise them quickly of any losses incurred) to ensure that it has the best prospect of being regarded as a reliable and fair reassured.

Should there be a collapse in the retrocessional market generally, the Syndicate 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 which would result in less risk being assumed.

c) Lack of availability of reinsurance cover on acceptable terms

The reinsurance programmes are planned and structured based on the business plan income and exposure assumptions. The Syndicate aims to protect itself 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 terms acceptable to it. Where such cover is not available, then the Syndicate's exposure to large losses increases accordingly, though this may be mitigated somewhat by a reduction in the aggregate exposures taken on by it.

Reserving Risk

Reserves include 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 Syndicate expects the ultimate settlement and administration of claims will cost. The reserving risk is that reserves established by the Syndicate 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 recoverable and liability awards.

Provisions for unearned premiums are generally less contentious, but the reserving risk still remains that the written premiums are earned too quickly and not in accordance with the underlying exposure.

The processes used to decide on assumptions and related sensitivities for both claims liabilities and unearned premiums are set out below.

Claims outstanding

(i) Processes 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 may be limited information available at the year end, or which relates to claims which can be complex. The Syndicate underwrites relatively short-tail accounts, which can often mean that after a short period of time, a large proportion of the underwriting losses have already been notified to them and, more importantly, catastrophe losses are known soon after the event occurs. Therefore projections are able to be undertaken using underwriter judgement, market share analysis and comparison to the rest of the market.

The Syndicate has a catastrophe element, giving the account exposure to large but relatively less frequent losses. When setting assumptions and projecting claims liabilities, this means the underwriters will tend to know whether or not a loss large enough to materially impact the account has happened (e.g. severe windstorms). However 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 experience and judgement, statistical projections and market data.

23 Risk disclosure continued

(ii) Changes in assumptions and sensitivity analysis

The broad assumptions and sensitivity analysis used by the Syndicate have not significantly changed during the year.

(iii) Sensitivity analysis – sensitivity of claims liabilities

When reviewing the claims liability projections, the factors and assumption are considered which could have a large impact on the projections. The main areas of sensitivity relate to:

- 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 particularly 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 Syndicate has sought to consider all potential losses and reviews/ follows up on 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 \$411,000 (Restated 2016: \$416,000).

The loss development table below provides information on the historical claims development for Syndicate 3010. It shows how the estimates of the claims ratio for the past five underwriting years have changed at successive year-ends. In effect, the table highlights the Syndicate's ability to provide a robust estimate of the claims costs. An underwriting year basis is considered to be the most appropriate basis for business written by the Syndicate. The loss ratios are in respect of the pure Year of Account and are the cumulative annually accounted loss ratios at each stage. The Syndicate believes the estimate of total claims liabilities as at 31 December 2017 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Underwriting year – Gross	2011	2012	2013	2014	2015	2016	2017
12 months	127%	103%	65%	76%	45%	53%	53%
24 months (restated)	83%	61%	72%	54%	51%	59%	–
36 months	78%	58%	67%	45%	50%	–	–
48 months	61%	56%	71%	53%	–	–	–
60 months	59%	55%	40%	–	–	–	–
72 months	59%	70%	–	–	–	–	–
80 months	54%	–	–	–	–	–	–

Underwriting year – Net	2011	2012	2013	2014	2015	2016	2017
12 months	113%	109%	166%	107%	56%	63%	54%
24 months (restated)	71%	68%	71%	63%	49%	64%	–
36 months	66%	56%	67%	54%	57%	–	–
48 months	60%	54%	70%	49%	–	–	–
60 months	58%	53%	49%	–	–	–	–
72 months	58%	69%	–	–	–	–	–
80 months	52%	–	–	–	–	–	–

The managing agency took advantage of the transitional rules of FRS 103 that permit five years of claims development information to be disclosed upon adoption. This will, however, be increased to ten years of claims development information over time.

Notes to the Financial Statements For the year ended 31 December 2017

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23 Risk disclosure continued

Provision for unearned premiums

(iv) Processes used to decide on assumptions

The provision for unearned premiums is determined at an individual policy level and is either based on a straightforward time basis or, where appropriate, weighted towards where the exposure is believed to fall.

(v) Changes in assumptions and sensitivity analysis

The broad assumptions and sensitivity analysis used by the Syndicate for determining the provision for unearned premiums has not significantly changed during the year.

(vi) Sensitivity analysis – sensitivity of provision for unearned premiums

The managing agent believes that the only significant sensitivity relates to the estimate of underwriters as to the underlying exposure of the book of business and how this applies to the figures. This is not believed to be material to the account.

Credit Risk

The Syndicate 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 Syndicate is exposed to credit risk are:

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

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

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

At the year end the managing agency has quantified the credit risk to the Syndicate and reduced the amounts due from reinsurers and reinsurers share of insurance liabilities for this. Where the Syndicate has any legal right of offset, this is assumed in the calculation of credit risk.

The Syndicate is also exposed to credit risk on its investments and cash holdings, whereby an issuer default results in the Syndicate losing all or part of the value of a financial instrument. All funds are held in either cash or investment pools.

The table below shows the concentration of credit risk exposure at 31 December 2017, using ratings from external rating agencies. Credit ratings for financial investments are based on rating available from Standard and Poor's but, in the event that they do not rate a specific investment, then either Moody's or Fitch are used instead, depending on which agency/agencies rated the investment. Debtors, other than amounts due from reinsurers and insurance receivables have been excluded from the table as these are not rated.

At 31 December 2017

	A++ \$'000	B++ to B- \$'000	Unrated \$'000	Statement of Financial Position total \$'000
Financial investments	27,884	3,108	–	30,992
Cash and cash equivalents	6,844	–	–	6,844
Other assets	966	548	396	1,910
Reinsurance assets	11,698	–	2,874	14,572
	47,392	3,656	3,270	54,318

23 Risk disclosure continued

At 31 December 2016				
	A++ \$'000	B++ to B- \$'000	Unrated \$'000	Statement of Financial Position total \$'000
Financial investments	31,648	–	–	31,648
Cash and cash equivalents	8,250	–	–	8,250
Other assets	951	1,094	–	2,045
Reinsurance assets	8,897	–	1,508	10,405
	49,746	1,094	1,508	52,348

The unrated reinsurance assets at 31 December 2017 are mainly in respect of attritional IBNR that has yet to be allocated to any specific loss.

The maximum exposure to credit risk from ageing analysis of debtors arising out of direct insurance operations and reinsurance operations past due but not impaired is as follows:

	2017 \$'000	2016 \$'000
3 to 6 months past due	763	988
6 to 9 months past due	366	402
Greater than 9 months past due	1,975	1,485
	3,104	2,875

Liquidity Risk

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

Claims arising from insurance contracts are settled by the Syndicate using its own funds. Where insufficient liquid funds exist, the Syndicate can cash call the member supporting it and can ultimately draw down from the member's funds at Lloyd's.

The funds are held in cash or in short-term, liquid stocks which are able to be converted to cash within a few days.

The following table shows the financial liabilities (gross provision for outstanding claims and claims outstanding recoverable from reinsurers) grouped into maturity dates.

At 31 December 2017					
	< 1 year \$'000	1-3 years \$'000	4-5 years \$'000	> 5 years \$'000	Statement of Financial Position total \$'000
Gross provision for claims outstanding	(36,303)	(14,526)	(3,344)	(601)	(54,774)
Claims outstanding recoverable from reinsurers	9,017	4,121	463	48	13,649
	(27,286)	(10,405)	(2,881)	(553)	(41,125)

At 31 December 2016					
	< 1 year \$'000	1-3 years \$'000	4-5 years \$'000	> 5 years \$'000	Restated Statement of Financial Position total \$'000
Gross provision for claims outstanding	(16,912)	(24,846)	(6,418)	(3,748)	(51,924)
Claims outstanding recoverable from reinsurers	1,661	5,271	1,970	1,434	10,336
	(15,251)	(19,575)	(4,448)	(2,314)	(41,588)

Notes to the Financial Statements For the year ended 31 December 2017

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23 Risk disclosure continued

Market Risk

Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the Syndicate through the investments held with a fixed return, and market interest rates change which in turn change the market value of the investments. The investments held have a short duration and so foreseeable changes in market interest rates would not be expected to have a significant impact on their value.

Currency risk

The Syndicate holds assets and liabilities in four main currencies – Sterling, Euro, Canadian Dollars and US Dollars. The Syndicate aims to ensure its assets and liabilities match by currency as closely as possible, which mitigates the degree of currency risk somewhat.

Converted US Dollar '000s As at 31 December 2017	GBP	USD	EUR	CAD	Total
Total assets	6,432	81,844	7,776	4,688	100,740
Total liabilities	(17,399)	(78,519)	(9,069)	(2,342)	(107,329)
Member's balance	(10,967)	3,325	(1,293)	2,346	(6,589)

Converted US Dollar '000s As at 31 December 2016	GBP	USD	EUR	CAD	Restated Total
Total assets	8,581	82,000	6,208	3,061	99,850
Total liabilities	(14,900)	(77,114)	(9,176)	(994)	(102,184)
Member's balance	(6,319)	4,886	(2,968)	2,067	(2,334)

The table above summarises the exposure of the finance assets and liabilities to foreign currency exchange risk at the reporting date.

The Syndicate participates in the currency conversion scheme at Lloyd's so only hold assets and liabilities in the four currencies disclosed above. Any other currencies are converted to sterling and disclosed under the GBP caption above.

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

At 31 December 2017, if the exchange rate of Sterling, Euro and Canadian Dollars had varied 10% against US Dollars with all other variables remaining constant the impact on result / net assets/(liabilities) is \$0.9 million (2016: 0.7 million).

Fair value estimation

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

Converted US Dollar '000s As at 31 December 2017	Level 1	Level 2	Level 3	Total
Shares and other variable yield securities	–	13,631	–	13,631
Debt securities and other fixed income securities	6,960	10,401	–	17,361
Cash and cash equivalents	6,844	–	–	6,844
Overseas deposits	632	1,278	–	1,910
Total	14,436	25,310	–	39,746

23 Risk disclosure continued

Converted US Dollar '000s As at 31 December 2016				
	Level 1	Level 2	Level 3	Total
Shares and other variable yield securities	–	31,648	–	31,648
Cash and cash equivalents	8,250	–	–	8,250
Overseas deposits	1,101	670	–	2,045
Total	9,351	32,318	–	41,943

Operational risk

The Syndicate has exposure to operational risk. Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal and regulatory risk.

24 Syndicate capital requirements

The capital framework at Lloyd's requires each managing agent to calculate the capital requirement for each Syndicate it manages. Since 2013 Solvency II internal models have been used to determine this requirement. Lloyd's requires the submission of an ultimate SCR (uSCR); the uSCR takes account of one year of new business in full, attaching to the next underwriting year, and the risks over the lifetime of the liabilities (to ultimate) assessed at 1:200 confidence level.

The uSCR of each syndicate at Lloyd's is regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's has the discretion to take into account other factors at Syndicate level to uplift the calculated uSCR (including the need to maintain the market's overall security rating). This produces a Syndicate Economic Capital Assessment (ECA).

The Syndicate's objective when managing capital is to ensure there is sufficient capital to meet the requirements set out above.

The table below summarises Syndicate 3010's uSCR return for the 2015 to 2017 of account. These figures are as agreed with Lloyd's. The ECA reflects the capital loadings that were a market-wide 35%.

	2018		2017		2016	
	£'m	%*	£'m	%*	£'m	%*
uSCR	45.8	45.8	53.5	53.5	47.9	47.9
Lloyd's loading	16.3	16.0	18.7	18.7	16.8	16.8
ECA	61.8	61.8	72.2	72.2	64.7	64.7

* Note: % = percentage of stamp capacity

25 Post Statement of Financial Position events

The following amounts will be transferred to member's personal reserve funds on 10 April 2018:

2015 Year of Account US\$3,737,178

On the same date, outstanding profit commission of \$934,293 will be paid to Cathedral Underwriting Limited on the 2015 closed Year of Account.

Notes to the Financial Statements For the year ended 31 December 2017

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26 Funds at Lloyd's

In case syndicate assets prove insufficient to meet member's underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL").

The level of FAL Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. FAL is not hypothecated to any specific syndicate participation of a member. Therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.

27 Foreign exchange rates

	31 December 2017 Year-end rate
Euro	1.20
GBP	1.35
Canadian dollar	0.80

28 Prior period restatements

During 2017 the management discovered that the Syndicate had not fully accrued for profit commission payable on its aviation consortium contracts for the year ended 31 December 2016. As a consequence, net operating expenses and accrued expenses (within accruals and deferred income) were understated by \$0.6 million in the 2016 calendar year result.

In addition, management identified a calculation error in the prior year estimate of the energy construction claim liabilities at 31 December 2016. The impact of this was a \$1.0 million overstatement in claims outstanding provision and gross amount of change in provision for claims expense in the 2016 calendar year result.

An adjustment was also required as a result of an input error to correct a \$0.5 million understatement of gross written premium and debtors arising out of direct insurance operations in 2016.

The cumulative effect of the above was to increase profit and member's balances for the year ended 31 December 2016 by \$0.8 million (from \$2.4 million to \$3.3 million and (\$2.3 million) to (\$3.2 million) respectively), and increase total assets by \$0.5 million from \$99.3 million to \$99.9 million and decrease total liabilities (excluding member's balances) by \$0.4 million from \$88.6 million to \$88.2 million.

These errors have been corrected by restating each of the affected financial statement line items for the prior period. There is no cumulative impact on members' balances or the 2015 year of account closing result as at 31 December 2017.

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