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Cathedral
Part of the Lancashire Group

SYNDICATE 2010
MMX

Annual Report and Accounts
31 December 2018

Contents

Chairman's Statement

These accounts have been prepared on both an annual accounting basis for the 2018 calendar year and on the traditional three year basis, in relation to the closure of the 2016 Year of Account.

On the traditional basis of reporting, Syndicate 2010 has closed the 2016 Year of Account with a profit of 6.8% for a participant paying Standard Managing Agency Fee and Profit Commission. In common with prior years, the loss development activity for the account has been relatively benign and we are pleased that the result has approached the "Best Case Expectation" of the previously indicated range, due to strong pure year performance across all classes and reserve releases across most years.

The 2018 year has seen an improvement in rating conditions with average rate increases of 7% for Syndicate 2010 and this is reflected in the top line growth. Unfortunately, the insurance market has experienced two of the most devastating years in quick succession. 2017 proved to be the most costly ever recorded for insured natural catastrophe losses according to Sigma and 2018 is now believed to be the fourth most costly.

The most expensive 2018 natural catastrophe is expected to be the wildfires which occurred in the US including the "Camp Fire", a wildfire in northern California with an estimated insured loss of $12.5 billion and Hurricane Michael with $10 billion. These events have largely fallen on the 2018 year of account although a portion has also impacted the 2017 year of account.

Whilst we are disappointed with the loss on the 2017 year of account, the business classes underwritten by the Syndicate are particularly sensitive to the kind of losses outlined above. At present the forecast loss for 2017 remains within the published -15% to -25% range.

Again unsurprisingly, given the nature of the Syndicate's account and the recent catastrophe activity (more fully discussed in the Report of the Directors of the Managing Agent), the 2018 calendar year result is a loss of $29.8m and a combined ratio of 115%. The Syndicate's performance is consistent with expectations, given the frequency and severity of recent events. The overarching strategy of the Syndicate remains to maintain our disciplined and prudent approach to underwriting, reinsurance protection and reserving, whilst focusing on risk mitigation and serving the needs of our brokers and clients.

Emma Woolley, having established herself as a valued member of the Cathedral management team and respected member of the CUL Board, has been appointed Chief Executive Officer from 1 February 2019, subject to regulatory approval. She replaces Andrew McKee, who has been CEO since 2017. I would like to take this opportunity to thank Andrew for his contribution to Cathedral and the wider Group and wish him well for the future.

Although the underwriting environment continues to prove challenging, the market is seeing positive signs in most classes. We continue to be a lean organisation, responsive to market changes whilst providing dependable value, strength, longevity and expertise to our clients and brokers. We maintain our disciplined approach to underwriting, balancing the risk and reward and focusing on profitability not just top line growth.

I would like to thank all of the Cathedral team for their hard work and continued commitment during a challenging 2018.

N P Davenport
Chairman

21 March 2019

Directors and Administration

Managing Agent:

Cathedral Underwriting Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY

Managing Agent's Registered Number

00292093

Directors

N P Davenport	non-executive chairman
A C Beardon	
J M Barnes	
S W Fraser	non-executive
L J Gibbins	non-executive
S Keshani	
A T Maloney	resigned 13 February 2019
W A McKee	resigned 31 January 2019
P Martin	non-executive
J D Spence	
C J Whittle	
E L Woolley	

Company Secretary

M E Lynn

Syndicate:

Active Underwriter

J M Barnes

Bankers

Barclays Bank Plc
Citibank N.A.
Royal Bank of Canada

Investment Manager

Conning Asset Management Limited
24 Monument Street
London EC3R 8AJ

Lloyd's Treasury Services
One Lime Street
London EC3M 7HA

Registered Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Cathedral
Syndicate 2010

Report of the Directors of the Managing Agent
31 December 2018

Introduction

The Directors of Cathedral Underwriting Limited ("CUL"), the managing agent for Syndicate 2010, present their annual report and accounts for the year ended 31 December 2018.

These annual report and accounts have been prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards. The Syndicate continues to adopt the going concern basis in preparing the syndicate annual accounts.

Separate underwriting year accounts for the closed 2016 year of account of Syndicate 2010 are included following these annual accounts.

Principal activity

The principal activity of Syndicate 2010 remains the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London. The main lines of business are non-marine and aviation reinsurance and direct and facultative property.

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

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

Calendar year results and business review

The result for the 2018 calendar year is a loss of $29.8m (2017: $87.8m loss) and a combined ratio of 115.0% (2017: 148.9%). An analysis of the contribution to the overall result made by the individual underwriting years is as follows:

	2016 account $'000	2017 account $'000	2018 account $'000	31 December 2018 $'000	31 December 2017 $'000
Gross premiums written	(2,085)	18,428	276,058	292,401	267,299
Gross premiums earned	1,394	90,036	185,969	277,399	271,676
Net premiums earned	3,492	77,538	114,250	195,280	182,617
Profit/(Loss) for the financial year	21,731	8,187	(59,763)	(29,845)	(87,797)
Loss ratio (%)	(695.1)	61.9	114.4	79.1	114.5
Expense ratio (%)	1.6	30.5	40.6	35.9	34.4
Combined ratio (%)	(693.5)	92.4	155.0	115.0	148.9

The results are reflective of another challenging year faced by the market as a whole. 2018 experienced a high frequency of catastrophe losses in the second half of the year with net claims for Hurricanes Florence and Michael, Typhoons Jebi and Trami and Californian wildfires being booked at $70 million. The losses hit the reinsurance and property classes most heavily with the majority of losses being borne by the 2018 year of account. From an insurance perspective, 2018 is estimated to be the fourth-most costliest year on record at approximately $80 billion, while 2017 and 2018 were the costliest back-to-back years for weather disasters.

Underwriting

A breakdown of divisional performance is shown below:

	31 December 2018		31 December 2017	
	Gross premiums written $'000	Net loss ratio %	Gross premiums written $'000	Net loss ratio %
Non-marine reinsurance	**141,504**	**89.5**	152,605	114.0
Direct and facultative property	**127,906**	**75.3**	96,789	129.3
Aviation reinsurance	**20,886**	**43.1**	15,999	43.9
Satellite	**2,105**	**35.8**	1,906	601.7
Total	**292,401**	**79.1**	267,299	114.5

The gross written premiums for the calendar year have increased by 9.4% to $292.4m (2017: $267.3m). The Syndicate increased the amount of premium income written on the Property and Aviation accounts. The reduction in Non-marine reinsurance income reflects the lower level of inwards reinstatement premium relating to the lower loss activity.

Although the market experienced an improvement in the rating environment in 2018, this was largely concentrated in loss affected classes/territories. The market had hoped for more widespread rate improvement following the significant loss activity in 2017. The main reason for the tempered rate improvements is the continued excess capacity within the marketplace in 2018, particularly for catastrophe business. Cathedral maintains a strong underwriting discipline across all lines with the primary focus on the profitability of business being written rather than top line premium growth. Growth was sourced through sectors where we found the risk and rating environment aligned to our appetite.

The Syndicate purchases outwards reinsurance cover principally to limit the impact of catastrophes or multiple large losses. Reinsurance is purchased on both an excess of loss and proportional basis. Ceded reinsurance premiums in 2018 decreased by 4.2% to $84.9m (2017: $88.6m). This decrease is due to a reduction in reinstatement premiums as a result of less lower claims activity, however the underlying cost of the Syndicate's reinsurance (excluding reinstatement premiums) increased for 2018 as reinsurance rates increased.

During 2018 the market was significantly impacted by losses from natural catastrophes. The Syndicate 2010 was affected by the following catastrophe losses: Hurricane Florence and Typhoons Jebi and Trami in September, Hurricane Michael in October and Californian Wildfires in November. Collectively, these devastating events represented gross losses to the Syndicate of $117.5m. The Syndicate benefitted significantly from external catastrophe reinsurance protection. Net of all reinsurance and related reinstatement premiums, the total losses to the Syndicate were $70.4m. In addition to these natural catastrophes, the market and the Syndicate have also experienced a number of material non-elemental losses.

There have been positive reserve movements in the year, particularly on the 2015 and prior years of account and to a lesser extent 2016, amounting to $24.3m.

The net loss ratio for the 2018 calendar year was 79.1% (2017: 114.5%).

Net operating expenses including business acquisition costs and administrative expenses were $76.0m (2017: $65.3m) and the expense ratio was 35.9% (2017: 34.4%). The breakdown of these costs is summarised in Note 6 of the accounts.

Non marine reinsurance

This class which accounts for 48% of the overall calendar year income includes the Syndicate's non-marine property reinsurance business comprising catastrophe reinsurance, retrocession, risk excess and pro-rata reinsurance. In common with the rest of the market, this class has experienced a challenging period due to the frequency of catastrophe events in 2017 and 2018, however the division was able to increase underlying premium excluding reinstatements in 2018 mostly driven by rate increases.

Following the modest market wide improvements in terms and conditions experienced in 2018 following the record losses of 2017, the market has been more measured in its anticipation for 2019. Although catastrophe rates were largely flat over the 1 January 2019 renewal season the market did experience a rate increase in the per risk class and the outlook for the 1st April Japanese and the mid-year U.S catastrophe renewals is positive.

Direct and facultative property

This class comprises property binding authorities principally focussed on the US, insuring small property risks and open market business which encompasses a range of risks from large complex property schedules down to small single locations. The class contributed 44% of the 2018 income and achieved growth through increases in binding authority income. Recent years have seen continued rate reductions with broadening coverage and consequently the open market book has been reducing as disciplined underwriting is maintained.

The catastrophe events in the latter part of 2017 and 2018, compounded by the Lloyd's decile 10 initiatives, have had a significant impact within the Direct and Facultative ("D&F") market and to some extent on the Syndicate's portfolio. As a result, we have seen some rate improvements in the January 2019 renewals, particularly in loss affected zones. Whilst we have not yet seen a significant uptick in the wider market, we anticipate that we are entering a more encouraging rating environment and we are well positioned to capitalise on improved trading conditions. Certainly, the outlook is far more encouraging for this portfolio than in recent years.

Aviation reinsurance and satellite

This class consists of a number of subclasses of the Aviation business. The core portfolio is airline excess of loss which is complemented by aviation war and general aviation business. The period of relatively benign loss activity continued through 2018, which was the third safest year in terms of fatal accidents which would affect the account.

The class has increased its income through a strategy of broadening its client base through relationship and leadership and has been successful in securing new business to maintain spread and balance within the portfolio. The direct market is seeing a welcome uptick in pricing following poor results over a number of years thus helping to secure elements of our client base.

The Satellite market continues to suffer from overcapacity and volatility. The Syndicate's involvement continues to be restrained in this area as a result of the poor rating environment.

Outlook and business environment

Following the losses from 2017 and 2018, the market continues to present challenges. Although terms and conditions have been improving, the high level of capacity which has been available in most classes has hampered a more positive improvement in the wider market place.

Although the reinsurance market remains over capitalised, the market has seen less appetite from the ILS sector for certain products as potential returns have declined as a result of recent loss activity. The reduction in returns has been compounded by the high level of trapped capital which has further impacted results in the ILS market. The expectation is that capacity from this area will level off or reduce, particularly for retrocessional/aggregate protections. This will lead to more pressure on underlying results of some carriers who have benefitted from such protections in recent years. The market is also seeing signs of property insurers, particularly large U.S. carriers reducing their capacity in certain areas in order to improve returns. Although this has yet to have a material impact in areas underwritten by the Syndicate it should start to have a positive impact.

Syndicate 2010 is well established in the market place in the classes written. We have experienced underwriting teams who are ably assisted by capable support departments overseen by the Cathedral Executive team and Board. In addition, the Syndicate has the full support of the wider Lancashire Group. The Syndicate is well reserved, has a strong reinsurance programme with good security and a conservative investment portfolio.

Our strategy is to continue to focus on our core lines of business and to optimise results by taking prudent underwriting decisions. When the time is right the Syndicate will grow in the areas that offer the best returns but if necessary, reduce in any underperforming areas. We will also continue to look at the viability of adding new diversifying classes providing they complement the existing lines of business. We will continue to maintain an effective infrastructure in order to provide an efficient and effective platform from which our underwriting teams can trade.

The Syndicate capacity for the 2019 year of account remained at £306m.

Underwriting year of account summary

The table below shows Syndicate 2010's actual results for the closed 2016 year of account and the forecast results for the 2017 and 2018 open years of account:

Year of account	2018 forecast £'000	2017 forecast £'000	2016 actual £'000
Stamp capacity	305,954	304,584	305,720
Profit	*	n/a	20,835
Profit/(loss) on stamp	*	-15.0% to -25.0%	6.8%

* A formal forecast range for the 2018 year of account will be released at the time of publishing the Q1 2019 QMA.

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Lancashire Group Company, provided £177.0 million for the 2016, 2017 and 2018 years of account through Hampden Agencies Limited.

2016 underwriting year result

The 2016 year of account closed on 31 December 2018 with a profit of $26.5m, inclusive of currency translation gains but before standard personal expenses. This includes movement on the closed years of account. For a Name with standard personal expenses, this equates to a profit of 6.8% of capacity, before members' agency fees. The gross signed premium income, net of brokerage, was circa 59% of capacity at year-end rates of exchange.

The 2016 underwriting accounts are set out on pages 39 to 55.

2017 account forecast

Last year's report summarised the underwriting conditions and loss activity associated with the 2017 year of account.

Our current forecast for the 2017 year of account result is in the range -15% to -25% of capacity. As with all years, due to the nature of the business written, any fluctuation in USD to GBP rate of exchange will influence the final result. The result is potentially more volatile than recent years given the high level of major loss activity.

2018 account forecast

For 2018, the Syndicate's capacity was maintained at £306m. Although it is still too early to produce a 2018 forecast range, given the frequency and quantum of the catastrophe losses, we currently anticipate a loss. The commentary outlining the 2018 experience is contained within the Calendar Year Results and Business Review section of this report.

Principle risks and uncertainties

The Syndicate is exposed to a variety of risks when undertaking its activities all of which are taken into account when setting its Ultimate Solvency Capital Requirement ('uSCR'). The key risks to the Syndicate are: insurance risk, strategic risk, credit risk, liquidity risk, market risk and operational risk, details of which are disclosed in Note 4. All areas of risk are subject to the managing agency's risk management framework and enterprise wide risk management practices and controls.

Syndicate investments

Investment policy

The investment objective for the Syndicate's investment manager is to invest the Premium Trust Funds to preserve capital and maintain liquidity to support underwriting operations in line with policies approved by the Board of Cathedral Underwriting Limited. The investment mandate is to invest the Premiums Trust Funds in a manner calculated to maximise returns within agreed restraints. Portfolios are invested predominantly in short-term, high quality fixed income securities. The Syndicate investment manager has been instructed to maintain adequate liquidity and security and has discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall portfolio controls the exposure of the investments to adverse price movements.

Portfolio management is delegated to Conning Asset Management Limited. An Investment Committee and formal procedures for monitoring investments exist in line with the guidance from Lloyd's.

Investment performance

Syndicate 2010's investment portfolio achieved a return of $3.0m in 2018 (2017: $2.5m). The Syndicate's invested assets totalled $189.9m at 31 December 2018 (2017: $238.2m) with the increased level of claims payments and distribution of the 2015 underwriting result accounting for the decrease over the year.

In 2018 the US combined syndicate portfolio returned 1.65% compared to the composite swaps benchmark return of 1.71%. The relative under-performance of 0.06% was driven by credit performance as credit widened relative to swaps, partly offset by the higher yield.

The Canadian regulated syndicate portfolio returned 2.07% compared to the composite swaps benchmark return of 1.86%. The relative out-performance of 0.21% was driven by a higher yield and duration positioning.

The Syndicate euro portfolio was liquidated in April; prior to liquidation it returned 0.03% compared to the 1-3 year European Government bond benchmark return of -0.17%. The relative out-performance of 0.20% was driven by a higher yield.

Investment strategy

The ability to generate investment income for short-maturity portfolios has improved in US dollars and Canadian dollars, both of which saw increases in government bond yields and credit spreads. Nevertheless, there still remain risks to performance as yield curves flattened and the US curve is not discounting any movement in interest rates.

Portfolio duration remains low and this is likely to be maintained in the medium term, since the investment objectives are currently biased towards protecting the Syndicate against capital losses, and government yield curves are flat. The extent of this short duration position will be limited by the additional yield on longer maturity credit issues, and the potential for "rolling down the credit curve" giving extra returns, both in the US dollar and Canadian dollar portfolio, and also the risk that the current economic slowdown and trade tensions may develop into something more serious, causing central banks to ease policy and yields to fall.

Portfolio returns will be enhanced by the exposure to corporate bonds and other "spread" products, carefully selected by sector and individual issuer to limit risks. While credit spreads may widen further given that the credit cycle is late stage in the US, they remain attractive for the Syndicate's shorter maturity portfolio. The additional income that these issues generate acts to offset any short term losses generated by spread widening, which is naturally limited to some extent by the short dated nature of these positions.

Foreign exchange hedging

The managing agent, 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 Dollars (Sterling, Canadian Dollars or Euro) currencies held within the Syndicate's premium trust funds. The managing agent will continue to keep this possibility under review and may at some future date enter into such transactions.

Bank borrowing facilities

Details of bank borrowing facilities are set out in Note 22.

Risks relating to Brexit

The European risk landscape is changing as a result the planned departure of the United Kingdom from the European Union (Brexit). In order to maintain access to this business, a new Lloyd's subsidiary, Lloyd's Insurance Company S.A. ("Lloyd's Brussels") has been established and commenced underwriting on 1 January 2019.

Lloyd's Brussels benefits from the market's financial strength through the Central Fund and has the same financial ratings as Lloyd's, AM Best (A "excellent"), Standard & Poor's (A+ "strong") and Fitch (AA- "very strong"). The company is authorised and regulated by the National Bank of Belgium and capitalised under Solvency II rules.

With the uncertainties surrounding Brexit the success of Lloyd's Brussels has been positive and it has proved to be a useful platform allowing Lloyd's to defend its position on European business. In addition to the Lloyd's Brussels solution Syndicate 2010 was also able to avail of Lancashire Insurance Company Limited (LICL) based in Bermuda, although the vast majority of clients were willing to use either Syndicate or Lloyd's Brussels paper. Any business written by LICL via this arrangement has then been reinsured back into the Syndicate allowing it to retain the business.

Syndicate annual general meeting

In accordance with the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000), notice is hereby given that the managing agent does not propose to hold an annual general meeting of the members of the Syndicate.

Directors

The Directors of the managing agent who served during the year ended 31 December 2018, as well as any subsequent changes are listed under the section 'Directors and Administration' on page 3. The directors' participations in the Syndicate are set out in the related parties note on page 37.

Disclosure of information to auditors

The Directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are aware, there is no relevant audit information of which the Syndicate's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Auditors

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board

E L Woolley
Chief Executive Officer
(Subject to regulatory approval)

21 March 2019

Statement of Managing Agent's Directors Responsibilities
31 December 2018

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates annual accounts for each financial year. Under that law they have elected to prepare the annual accounts 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 (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the annual accounts 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 annual accounts;
- 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 (Lloyd'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

E L Woolley
Chief Executive Officer
(Subject to regulatory approval)

21 March 2019

SYNDICATE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Independent Auditor's Report to the Members of Syndicate 2010

Opinion

We have audited the financial statements of Syndicate 2010 for the year ended 31 December 2018 which comprise the Statement of Profit or Loss: Technical Account – General Business, Statement of Profit or Loss: Non-Technical Account, Statement of Financial Position, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in Note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 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

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

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

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

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 10, 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

21 March 2019

Cathedral
Syndicate 2010

Statement of Profit or Loss
Technical Account – General Business
For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Earned premiums, net of reinsurance			
Gross premiums written	5	292,401	267,299
Outward reinsurance premiums		(84,860)	(88,605)
Net premiums written		207,541	178,694
Change in the provision for unearned premiums:			
Gross amount		(15,002)	4,377
Reinsurers' share		2,741	(454)
Earned premiums, net of reinsurance		195,280	182,617
Allocated investment return transferred from the non-technical account		2,969	2,485
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount	5	(227,491)	(180,098)
Reinsurers' share		79,102	32,397
Net claims paid		(148,389)	(147,701)
Change in the provision for claims:			
Gross amount	5	(2,840)	(177,736)
Reinsurers' share		(3,164)	116,275
Net change in the provision for claims		(6,004)	(61,461)
Claims incurred, net of reinsurance		(154,393)	(209,162)
Net operating expenses	5, 6	(75,982)	(65,348)
Balance on the technical account – general business		(32,126)	(89,408)

All operations relate to continuing activities.

The notes on pages 19 to 38 form part of these annual accounts.

Statement of Profit or Loss
Non-Technical Account
For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Balance on the technical account – general business		**(32,126)**	(89,408)
Investment income and realised gains on investments	10	**3,898**	3,921
Unrealised gains on investments	10	**396**	85
Investment expenses, charges and realised losses on investments	10	**(954)**	(611)
Unrealised losses on investments	10	**(371)**	(910)
Allocated investment return transferred to the technical account – general business	10	**(2,969)**	(2,485)
Gain on foreign exchange		**2,281**	1,611
Loss for the financial year		**(29,845)**	(87,797)

All operations relate to continuing activities.

There are no other comprehensive gains or losses in the year.

The notes on pages 19 to 38 form part of these annual accounts.

Cathedral
Syndicate 2010

Statement of Financial Position
As at 31 December 2018

	Notes	2018 $'000	2017 $'000
Investments:			
Financial investments	11	**149,150**	195,162
		149,150	195,162
Reinsurers' share of technical provisions:			
Provision for unearned premiums	18	**7,931**	5,245
Claims outstanding	18	**206,791**	210,634
		214,722	215,879
Debtors:			
Debtors arising out of direct insurance operations	12	**26,100**	19,394
Debtors arising out of reinsurance operations	13	**84,680**	88,413
Other debtors	14	**3,978**	5,352
		114,758	113,159
Other assets:			
Cash and cash equivalents	15	**23,987**	22,090
Other – overseas deposits		**16,176**	20,193
		40,163	42,283
Prepayments and accrued income:			
Deferred acquisition costs	16	**17,804**	14,906
Other prepayments and accrued income		**792**	2,260
		18,596	17,166
Total Assets		**537,389**	583,649
Capital and reserves:			
Members' balances		**(129,359)**	(42,859)
		(129,359)	(42,859)
Technical provisions:			
Provision for unearned premiums	18	**92,904**	79,669
Claims outstanding	18	**485,327**	488,317
		578,231	567,986
Creditors:			
Creditors arising out of direct insurance operations	19	**4,604**	2,344
Creditors arising out of reinsurance operations	19	**45,976**	36,896
Other creditors including taxation and social security	19	**37,259**	18,196
		87,839	57,436
Accruals and deferred income		**678**	1,086
Total Liabilities		**537,389**	583,649

The notes on pages 19 to 38 form part of these annual accounts.

The Syndicate annual accounts on pages 14 to 38 were approved by the Board of Cathedral Underwriting Limited on 21 March 2018 and were signed on its behalf by:

C J Whittle
Chief Financial Officer

21 March 2019

Statement of Changes in Members' Balances
For the year ended 31 December 2018

	2018 $'000	2017 $'000
Members' balances as at 1 January	**(42,859)**	105,747
Loss for the financial year	**(29,845)**	(87,797)
Members' agent fee	**(1,506)**	(1,541)
Transfer to members' personal reserve fund	**(55,149)**	(59,268)
Members' balances as at 31 December	**(129,359)**	(42,859)

The notes on pages 19 to 38 form part of these annual accounts.

Members' balances do not include members' agency fees or non-standard expenses.

Members 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 members' personal funds comprise the 2015 (2014) closed year of account profit.

Cathedral
Syndicate 2010

Statement of Cash Flows
For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Loss for the financial year		**(29,845)**	(87,797)
Realised and unrealised investments losses/(gains) on cash and investments	10	**483**	1,085
Investment income	10	**(3,585)**	(3,805)
Gain on foreign exchange		**(778)**	(982)
Increase in debtors, prepayments and accrued income		**(14,257)**	8,016
Increase in net technical provisions		**18,265**	55,253
Increase in creditors, accruals and deferred income		**27,448**	(6,851)
Net cash inflow/(outflow) from operating activities		**(2,269)**	(35,081)
Cash flows from investing activities			
Interest received		**3,585**	3,805
Purchase of debt securities and other fixed income securities		**(105,717)**	(128,165)
Sale of debt securities and other fixed income securities		**160,361**	142,945
Net (purchase)/sale of shares and other variable yield securities		**(11,945)**	48,279
Net movement in overseas deposits		**4,884**	469
Net cash inflow from investing activities		**51,168**	67,333
Cash flows from financing activities			
Proceeds from intercompany loan		**20,000**	–
Payment of intercompany loan		**(10,000)**	–
Transfer to members in respect of underwriting participations		**(55,149)**	(59,268)
Members' agent fees paid on behalf of members		**(1,506)**	(1,542)
Net cash outflow from financing activities		**(46,655)**	(60,810)
Increase/(decrease) in cash and cash equivalents in the year		**2,244**	(28,558)
Cash and cash equivalents as at 1 January		**22,090**	51,753
Effect of change on exchange rates on cash and cash equivalents		**(347)**	(1,105)
Cash and cash equivalents as at 31 December	15	**23,987**	22,090

The notes on pages 19 to 38 form part of these annual accounts.

The comparatives were amended to be in line with the presentation of cash flows for the year ended 31 December 2018.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2018

1 Basis of Preparation

Syndicate 2010 ('The Syndicate') comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the Syndicate's Managing Agent, Cathedral Underwriting Limited, is 29th Floor, 20 Fenchurch Street, London, EC3M 3BY.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, including Financial Reporting Standard 102 ('FRS 102') and Financial Reporting Standard 103 Insurance Contracts ('FRS 103'). 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.

The financial statements have been prepared on a going concern basis under the historical cost convention, except for financial assets at fair value through profit or loss that are measured at fair value.

The financial statements are prepared in US Dollars (USD) which is the presentational and functional currency of the Syndicate. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2 Use of Judgements and Estimates

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

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

Estimation of premiums

The measurement of premiums written in the year involves judgements on the amounts of premiums written but not signed to the Syndicate until after the balance sheet date.

In our estimation of unearned premium, we have made estimates on the allocation of premiums between accounting premiums based on judgements on the profile of the underlying risks associated with the written, and accordingly how the premium is recognised as earned.

Estimation of claims

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

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in-house actuaries and compared to the independent assessment performed by the external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

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

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in Note 4.

3 Accounting Policies

a) *Premiums written*

Premiums written comprise premiums on contracts incepted during the financial year, together with adjustments made in the year to premiums written in prior accounting periods. They also include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified. Premiums are shown gross of commission payable and exclude taxes and duties levied on them.

b) *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.

c) *Unearned premiums*

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

d) *Claims provisions and related recoveries*

Claims incurred comprise claims and claims handling expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses.

Outstanding claims including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end ('IBNR'). Claims outstanding are reduced by anticipated salvage and other recoveries.

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. A number of statistical techniques are used to assist in making these estimates. The most critical assumption in regards to claims provisions is that the past is a reasonable predictor of the likely level of claims development.

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that event has a reliably measureable impact on the amount that the Syndicate will receive from the reinsurer. Impairment losses are recognised immediately in the profit or loss account.

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.

e) *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 deferred acquisition costs.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account the relevant investment return.

f) *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 balance sheet date.

3 Accounting Policies *continued*

g) *Foreign currencies*

The presentational & functional currency of the Syndicate is US Dollars. Transactions denominated in currencies other 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. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency using the exchange rates at the date when the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to the functional currency using the exchange rate at the date of transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisitions costs are treated as if they are monetary items.

Differences arising on translation of the foreign currency amounts relating to the insurance operations of the Syndicate are included in the non-technical account.

h) *Financial assets and liabilities*

As permitted by FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

(i) *Classification*

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the statement of profit or loss and other comprehensive income. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate's investment strategy.

(ii) *Recognition*

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire. Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

(iii) *Measurement*

A financial asset or financial liability is measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Loans and receivables and non-derivative financial liabilities are measured at amortised cost using the effective interest method.

(iv) *Identification and measurement of impairment*

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not measured at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

3 Accounting Policies *continued*

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

(v) *Offsetting*

Financial assets and financial liabilities are set off and the net amount presented in the Statement of Financial Position when, and only when, the Syndicate currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

i) *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.

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. For investments measured at amortised cost, realised gains and losses represents the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date, the purchase price).

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investment disposed of in the current period.

Investment return is initially recorded in the Non-Technical Account. The return is transferred in full to the Technical Account – General Business to reflect the investment return on funds supporting underwriting business.

j) *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

k) *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 (currently at 19%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

l) *Pension costs*

Lancashire Insurance Services Limited operates a defined contribution pension scheme. Pension contributions relating to staff are recharged to the Syndicate via CUL as incurred and are included within net operating expenses.

m) *Profit commission*

Profit commission is charged by the managing agent at a rate of 20% of the profit on a year of account basis subject to the operation of a 2-year deficit clause. This is charged to the Syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

4 Risk and Capital Management

The Syndicate is exposed to a variety of insurance and financial risks when undertaking its activities. The Board of Directors of Cathedral Underwriting Limited ("CUL"), the Syndicate's managing agent, has policies in place for measuring and managing insurance and financial risks, and for managing the Syndicate's capital. These risks can be split into the following categories:

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

Risk management framework

The Board of Directors of CUL has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Board has established a Risk Committee to oversee the operation of the Syndicate's risk management framework and to review and monitor the management of the risks to which the Syndicate is exposed. The Risk Committee has delegated oversight of the management of aspects of insurance risks to the Underwriting and Reserving Committees, which are responsible for developing and monitoring insurance risk management policies, and the management of aspects of financial risk to the Investment Committee, which is responsible for developing and monitoring financial risk management policies. The risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Risk, Underwriting, Reserving and Investment Committees report regularly to the Board of Directors on their activities.

The sections below set out the Syndicate's risk appetite and explain how it defines each category of risk.

Insurance Risk

Management of insurance risk

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

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

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

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

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

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

4 Risk and Capital Management *continued*

Concentration of insurance risk

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.

Sensitivity of insurance risk

The frequency and severity of claims in respect of the Syndicate can be affected by several factors. The Syndicate specialises in non-marine reinsurance, aviation reinsurance, and direct and facultative property insurance. These accounts are predominantly short-tail in nature, and some of them have a high degree of catastrophe exposure (for example the property accounts could be affected by hurricane or earthquake 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.

Based on the July 2018 Lloyd's RDS submission using version 17 of RMS, the largest RDS on both a gross and net basis was $267.3m gross / $73.1m net of reinsurance recoveries and reinstatement costs. This was for a North-East USA windstorm event with an industry loss estimate of $81 billion.

Financial Risk

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

Credit Risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

- Debt securities
- Reinsurers' share of insurance liabilities;
- Amounts due from intermediaries;
- Amounts due from reinsurers in respect of settled claims;
- Cash and cash equivalents; and
- Other debtors and accrued interest.

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

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.

4 Risk and Capital Management *continued*

Management of credit risk

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies such as Standard and Poor's. The Syndicate has a policy of investing mainly in government issued and government backed debts. The Syndicate does not currently invest new monies in speculative grade assets (i.e. those rated below BBB).

The Syndicate limits the amount of cash and cash equivalents that can be deposited with a single counterparty, and maintains an authorised list of acceptable cash counterparties.

The Syndicate's exposure to intermediaries and reinsurance counterparties is monitored as part of its credit control processes.

All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The Managing Agent's Reinsurance and Broker Security Committee assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations. The impact of reinsurer default is regularly assessed and managed accordingly.

Exposure to credit risk

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Syndicate does not hold any collateral as security or purchase any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of claims outstanding, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors that are neither past due, nor impaired.

At 31 December 2018	**A++ $'000**	**B++ to B- $'000**	**Unrated $'000**	**Total $'000**
Financial investments	**148,299**	**851**	**–**	**149,150**
Cash and cash equivalents	**23,927**	**–**	**60**	**23,987**
Other assets	**13,619**	**1,943**	**614**	**16,176**
Reinsurance assets	**144,728**	**–**	**72,338**	**217,066**

At 31 December 2017	A++ $'000	B++ to B- $'000	Unrated $'000	Total $'000
Financial investments	184,437	10,725	–	195,162
Cash and cash equivalents	22,045	–	45	22,090
Other assets	15,860	3,665	668	20,193
Reinsurance assets	147,643	–	77,579	225,222

Of the $72.3m (2017: $77.6m) unrated reinsurance assets, $45.1m (2017: $45.9m) are fully collateralised in trust funds; $15.3m (2017: $15.6m) is in respect of attritional IBNR that has yet to be allocated to any specific loss; $7.9m (2017: $8.2m) relates to a handful of specific unsettled recoveries from reinsurers that have subsequently merged or been taken over by another reinsurer and therefore the original counterparty is no longer rated. However, no recovery issues are currently anticipated with respect to these specific counterparties. The remaining $4.0m (2017: $7.9m) relates to reinsurance debtors.

Financial assets that are past due or impaired

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate does not consider these debtors to be impaired on the basis of stage of collection of amounts owed to the Syndicate.

4 Risk and Capital Management *continued*

An analysis of the carrying amounts of past due but not impaired debtors is presented in the table below.

	2018 $'000	2017 $'000
3 to 6 months past due	**1,962**	462
6 to 9 months post due	**892**	1,201
Greater than 9 months past due	**2,607**	1,853
Total	**5,461**	3,516

Liquidity Risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations arising from its insurance contracts and financial liabilities. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts.

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Management of liquidity risk

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation.

The Syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and revised on a regular basis to predict cash outflows from insurance contracts over the short, medium and long term;
- The Syndicate purchases assets with durations not greater than its estimated insurance contract outflows;
- Assets purchased by the Syndicate are required to satisfy specified marketability requirements;
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts;
- The Syndicate holds significant committed borrowing facilities to enable cash to be raised in a relatively short time-span, details of which are set out in Note 22; and
- The Syndicate regularly updates its contingency funding plans to ensure that adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

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

As at 31 December 2018	< 1 year $'000	1-3 years $'000	4-5 years $'000	> 5 years $'000	Total $'000
Gross provision for claims outstanding	**(233,580)**	**(199,141)**	**(45,977)**	**(6,629)**	**(485,327)**
Claims outstanding recoverable from reinsurers	**118,086**	**73,916**	**14,214**	**575**	**206,791**
Creditors	**87,839**	**–**	**–**	**–**	**87,839**
Total	**(27,655)**	**(125,225)**	**(31,763)**	**(6,054)**	**(190,697)**

As at 31 December 2017	< 1 year $'000	1-3 years $'000	4-5 years $'000	> 5 years $'000	Total $'000
Gross provision for claims outstanding	(358,602)	(91,905)	(29,299)	(8,511)	(488,317)
Claims outstanding recoverable from reinsurers	167,088	31,532	10,268	1,746	210,634
Creditors	57,436	–	–	–	57,436
Total	(134,078)	(60,373)	(19,031)	(6,765)	(220,247)

4 Risk and Capital Management *continued*

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

Management of market risks

For each of the major components of market risk, the Syndicate has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of market risk and the exposure of the Syndicate at the reporting date to each major risk is addressed as follows:

Interest rate risk

Interest rate risk arises primarily from the Syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Investment Committee monitors the duration of these assets on a regular basis.

Currency risk

The Syndicate writes business primarily in US dollars, Canadian dollars, Sterling and Euros and is therefore exposed to currency risk arising from fluctuations in the exchange rates of US Dollars against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to hedge the currency risk inherent in these contracts.

The table below summarises the carrying value of the Syndicate's assets and liabilities, at the reporting date.

As at 31 December 2018 ($'000)	**GBP**	**USD**	**EUR**	**CAD**	**Total**
Total assets	**51,112**	**427,224**	**16,063**	**42,990**	**537,389**
Total liabilities	**(106,261)**	**(513,170)**	**(21,352)**	**(25,965)**	**(666,748)**
Members' balance	**(55,149)**	**(85,946)**	**(5,289)**	**17,025**	**(129,359)**

As at 31 December 2017 ($'000)	GBP	USD	EUR	CAD	Total
Total assets	41,892	456,551	34,294	50,912	583,649
Total liabilities	(74,655)	(500,356)	(21,093)	(30,404)	(626,508)
Members' balance	(32,763)	(43,805)	13,201	20,508	(42,859)

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.

4 Risk and Capital Management *continued*

Sensitivity analysis to market risks for financial instruments

An analysis of the Syndicate's sensitivity to interest rate and currency risk is presented in the table below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

	2018 Profit or loss for the year $'000	2017 Profit or loss for the year $'000
Interest rate risk		
+50 basis points increase	**(1,039)**	(1,532)
-50 basis points decrease	**1,050**	1,532
Currency risk		
10% USD strengthening	**(69)**	98
10% USD weakening	**69**	(98)

Operational Risk

Operational risk is the risk of loss from people, processes, systems or external events with origins outside the scope of other risk categories. The Managing Agent actively monitors and controls its operational risks.

CUL recognises that the ability to continue operations in the event of a business interruption, whether from a major disaster or minor incident, is a fundamental factor in meeting the expectations of our customers and internal and external stakeholders. Both the Syndicate and Lloyd's have a formal disaster recovery plan which, in the event of an incident, will support alternative accommodation strategies.

Capital Management Risk

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 2010 is not disclosed in these financial statements.

4 Risk and Capital Management *continued*

Lloyd's capital setting process

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

A Syndicate comprises one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operate on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate's SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's and not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was maintained at 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), assets held and managed within a Syndicate (funds in Syndicate), or as the member's share of the members' balances on each Syndicate on which it participates.

Accordingly, all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the Statement of Financial Position on page 16, represent resources available to meet members' and Lloyd's capital requirements.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2018

continued

5 Analysis of Underwriting Result

An analysis of the underwriting result before investment return for the year and the net technical provisions for the year end are presented in the table below:

31 December 2018

Type of business	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Net operating expenses $'000	Reinsurance balance $'000	Total excluding investment return $'000	Net technical provisions $'000
Direct insurance							
Motor (third party liability)	**–**	**–**	**1**	**–**	**–**	**1**	**5**
Motor (other classes)	**927**	**718**	**(380)**	**(108)**	**(159)**	**71**	**481**
Marine, aviation and transport	**6,090**	**5,021**	**(1,357)**	**(335)**	**(2,095)**	**1,234**	**2,377**
Fire and other damage to property	**95,333**	**86,574**	**(70,224)**	**(40,882)**	**6,091**	**(18,441)**	**95,207**
Third party liability	**1,404**	**1,296**	**(649)**	**(845)**	**(174)**	**(372)**	**2,280**
Credit and suretyship	**(223)**	**(221)**	**141**	**(42)**	**88**	**(34)**	**12**
	103,531	**93,388**	**(72,468)**	**(42,212)**	**3,751**	**(17,541)**	**100,362**
Reinsurance acceptances	**188,870**	**184,011**	**(157,863)**	**(33,770)**	**(9,932)**	**(17,554)**	**245,343**
Total	**292,401**	**277,399**	**(230,331)**	**(75,982)**	**(6,181)**	**(35,095)**	**345,705**

31 December 2017

Type of business	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Net operating expenses $'000	Reinsurance balance $'000	Total excluding investment return $'000	Net technical provisions $'000
Direct insurance							
Motor (third party liability)	–	–	14	–	–	14	5
Motor (other classes)	349	346	(228)	(50)	(51)	17	243
Marine, aviation and transport	3,121	1,876	(1,208)	(920)	(714)	(966)	3,113
Fire and other damage to property	73,237	74,231	(99,089)	(37,076)	20,329	(41,605)	84,824
Third party liability	1,295	1,322	(1,240)	(988)	(64)	(970)	2,298
Credit and suretyship	33	434	157	(147)	314	758	1,823
	78,035	78,209	(101,594)	(39,181)	19,814	(42,752)	92,306
Reinsurance acceptances	189,264	193,467	(256,240)	(26,167)	39,799	(49,141)	244,895
Total	267,299	271,676	(357,834)	(65,348)	59,613	(91,893)	337,201

Net technical provisions are net of deferred acquisition costs (See Note 16 and Note 18). No gains or losses were recognised in profit or loss during the year on buying reinsurance (2017: $nil).

The gross premiums written by geographical destination analysis is set out below. All premiums written are for contracts with external customers and are concluded in the UK.

	2018 $'000	2017 $'000
United Kingdom	**30,544**	24,732
US	**133,090**	129,282
Other European Union Member States	**22,146**	22,483
Other countries	**106,621**	90,802
Total	**292,401**	267,299

6 Net Operating Expenses

	2018 $'000	2017 $'000
Brokerage and commissions	**48,395**	38,588
Other acquisition costs	**1,946**	1,835
Change in deferred acquisition costs	**(3,316)**	648
Administrative expenses	**19,164**	17,483
Reinsurance commission and profit participation	**(702)**	(292)
Personal expenses	**10,495**	7,086
Total	**75,982**	65,348

Total commissions for direct insurance business accounted for in the year amounted to $25.3m (2017: $20.2m).

Administrative expenses include:

	2018 $'000	2017 $'000
Auditors' remuneration:		
– Fees payable to the Syndicate's auditor for the audit of these annual accounts	**148**	142
– Other services pursuant to regulations and Lloyd's Byelaws	**101**	96
Total	**249**	238

7 Staff Number and Costs

During the year, the Lancashire and Cathedral group have consolidated the employment and payroll services within Lancashire Insurance Services Limited ("LISL"), a fellow group undertaking of the Syndicate's managing agent. LISL pays all salaries to the employees and recharges a proportion to CUL. All staff are employed by LISL. The following amounts were recharged by the managing agent to the Syndicate in respect of salary costs:

	2018 $'000	2017 $'000
Wages and salaries	**8,143**	7,798
Social security costs	**1,197**	857
Pension costs	**636**	535
Total	**9,976**	9,190

The average number of employees employed by LISL but working for the Syndicate during the year, analysed by category, is as follows:

	2018 Number	2017 Number
Operations, administration and finance	**11**	15
Underwriting and claims	**38**	31
Total	**49**	46

8 Emoluments of the Directors of Cathedral Underwriting Limited

The Syndicate has incurred the following amounts in respect of emoluments paid to its managing agent's Directors, excluding the Active Underwriter of the Syndicate.

	2018 $'000	2017 $'000
Emoluments	**932**	863

9 Active Underwriter's Emoluments

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

	2018 $'000	2017 $'000
Emoluments	**358**	404

10 Investment Return

The investment return transferred from the technical account to the non-technical account comprises the following:

	2018 $'000	2017 $'000
Investment income:		
Interest and dividend income	**3,585**	3,805
Realised gains on investments	**313**	116
Unrealised gains on investments	**396**	85
Investment expenses and charges:		
Investment management expenses, including interest	**(133)**	(235)
Realised losses on investments	**(821)**	(376)
Unrealised losses on investments	**(371)**	(910)
Investment return transferred to the technical account from the non-technical account	**2,969**	2,485

Investment return includes investment income, realised investment gains and losses and movements on unrealised investment gains and losses. There are no impairment losses on debtors recognised in administrative expenses included in technical account (2017: $nil).

The total income, expenses, net of gains or losses, including changes in fair value, recognised on all financial assets and financial liabilities comprises the following:

	2018 $'000	2017 $'000
Financial assets at fair value through profit or loss	**3,102**	2,721
Investment management expenses, excluding interest	**(133)**	(236)
Total investment return	**2,969**	2,485

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

	31 December 2018		31 December 2017	
	Average funds $'000	Investment yield %	Average funds $'000	Investment yield %
Sterling	**12,325**	**0.9**	12,308	1.8
Euro	**12,944**	**0.4**	33,436	0.3
US Dollars	**135,925**	**1.6**	188,901	1.1
Canadian Dollars	**38,907**	**1.7**	60,361	0.5
All currencies converted to US Dollars	**200,101**	**1.5**	295,006	0.9

11 Financial Investments

	Carrying value		Cost	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
Shares and other variable yield securities and units in unit trusts	**12,648**	610	**12,656**	610
Debt securities and other fixed income securities	**136,502**	194,552	**135,414**	195,391
Total	**149,150**	195,162	**148,070**	196,001

All financial assets are measured at fair value through profit or loss. The amount ascribable to listed investments is $136.5m (2017: $194.6m). The Syndicate classifies its financial instruments held at fair value in its Statement of Financial Position using a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Prices based on recent transactions in identical assets; and
- Level 3 – Prices determined using a valuation technique.

The table below analyses financial instruments held at fair value in the Syndicate's Statement of Financial Position at the reporting date by its level in the fair value hierarchy:

As at 31 December 2018 ($'000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Shares and other variable yield securities and units in unit trusts	**–**	**12,648**	**–**	**12,648**
Debt securities and other fixed income securities	**32,599**	**103,903**	**–**	**136,502**
Cash and cash equivalents	**23,987**	**–**	**–**	**23,987**
Overseas deposits	**2,691**	**13,485**	**–**	**16,176**
Total	**59,277**	**130,036**	**–**	**189,313**

As at 31 December 2017 ($'000)	Level 1	Level 2	Level 3	Total
Shares and other variable yield securities and units in unit trusts	–	610	–	610
Debt securities and other fixed income securities	43,010	151,542	–	194,552
Cash and cash equivalents	22,090	–	–	22,090
Overseas deposits	2,813	17,380	–	20,193
Total	67,913	169,532	–	237,445

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

Shares and other variable securities and units in unit trusts are generally categorised as level 1 in the fair value hierarchy except where they are not actively traded, in which case they are generally measured on prices of recent transactions in the same instrument. The Syndicate has no exposure to hedge funds.

Debt securities and derivative financial assets are generally valued using prices provided by external pricing vendors. Pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price.

Some government and supranational securities are listed on recognised exchanges and are generally classified as level 1 in the fair value hierarchy. Those that are not listed on a recognised exchange are generally based on composite prices of recent trades in the same instrument and are generally classified as level 2 in the fair value hierarchy.

Corporate bonds, including asset backed securities that are not listed on a recognised exchange or are traded in an established over-the-counter market are also mainly valued using composite prices. Where prices are based on multiple quotes and those quotes are based on actual recent transactions in the same instrument the securities are classified as level 2, otherwise they are classified as level 3 in the fair value hierarchy.

12 Debtors Arising Out of Direct Insurance Operations

	2018 $'000	2017 $'000
Due within one year – amounts due from intermediaries	**26,100**	19,394

13 Debtors Arising Out of Reinsurance Operations

	2018 $'000	2017 $'000
Due within one year	**84,680**	88,413

14 Other Debtors

	2018 $'000	2017 $'000
Due within one year:		
Amounts due from members	**1,612**	2,188
Others	**112**	121
Due after one year:		
Amounts due from members	**2,254**	3,043
Total	**3,978**	5,352

15 Cash and Cash Equivalents

	2018 $'000	2017 $'000
Cash at bank and in hand	**10,614**	1,731
Participation in investment pools	**13,314**	20,299
Deposits with approved credit institutions	**59**	60
Total	**23,987**	22,090

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.

16 Deferred Acquisition Costs

	2018 $'000	2017 $'000
As at 1 January	**14,906**	14,977
Acquisition costs incurred in the year	**50,341**	40,423
Amounts used in the year	**(47,025)**	(41,071)
Effect of movement in exchange rates	**(418)**	577
As at 31 December	**17,804**	14,906

17 Claims Development

Claims development is shown in the tables below on an underwriting year basis. Balances have been translated at exchange rates as at 31 December 2018. These balances are reflected on the Statement of Financial Position.

Underwriting Year – Gross ($'000)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of the year of account	105,981	164,795	219,130	148,254	108,584	128,037	72,788	90,776	303,653	178,295	
One year later	215,440	368,825	317,027	185,903	173,020	159,550	117,741	162,039	379,865	–	
Two years later	203,264	370,626	299,902	170,123	166,727	145,528	111,476	158,518	–	–	
Three years later	193,265	363,214	287,275	163,625	158,246	141,707	108,125	–	–	–	
Four years later	189,658	364,247	279,031	163,517	153,189	139,415	–	–	–	–	
Five years later	180,811	362,447	277,377	163,609	151,246	–	–	–	–	–	
Six years later	175,173	363,522	276,264	160,348	–	–	–	–	–	–	
Seven years later	172,217	366,215	275,384	–	–	–	–	–	–	–	
Eight years later	171,601	366,949	–	–	–	–	–	–	–	–	
Nine years later	170,360	–	–	–	–	–	–	–	–	–	
Gross ultimate claims	170,360	366,949	275,384	160,348	151,246	139,415	108,125	158,518	379,865	178,295	2,088,505
Less: Cumulative gross paid claims	(165,444)	(352,247)	(271,604)	(150,678)	(135,600)	(127,931)	(86,880)	(116,242)	(203,337)	(32,088)	(1,642,051)
Gross claims reserves from 2009 to 2018	**4,916**	**14,702**	**3,780**	**9,670**	**15,646**	**11,484**	**21,245**	**42,276**	**176,528**	**146,207**	**446,454**
Gross claims reserves – 2008 and prior											38,873
Gross claims reserves (see Note 18)											**485,327**

Underwriting Year – Ceded ($'000)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of the year of account	17,588	40,650	64,340	37,308	13,460	19,878	6,207	11,328	137,819	48,881	
One year later	43,636	148,901	80,069	35,765	18,582	17,108	15,266	28,648	164,508	–	
Two years later	47,229	159,103	76,300	36,651	20,603	14,373	14,848	31,508	–	–	
Three years later	47,877	159,946	74,581	35,749	19,645	13,309	13,628	–	–	–	
Four years later	47,064	161,754	74,706	35,684	17,575	13,363	–	–	–	–	
Five years later	43,533	161,764	74,372	35,410	17,463	–	–	–	–	–	
Six years later	41,197	164,920	74,991	35,414	–	–	–	–	–	–	
Seven years later	40,349	168,189	75,169	–	–	–	–	–	–	–	
Eight years later	39,917	169,020	–	–	–	–	–	–	–	–	
Nine years later	40,025	–	–	–	–	–	–	–	–	–	
RI ultimate claims	40,025	169,020	75,169	35,414	17,463	13,363	13,628	31,508	164,508	48,881	608,979
Less: Cumulative RI paid claims	(40,179)	(164,226)	(72,711)	(30,570)	(13,355)	(11,736)	(11,158)	(17,046)	(71,123)	(75)	(432,179)
RI claims reserves from 2009 to 2018	**(154)**	**4,794**	**2,458**	**4,844**	**4,108**	**1,627**	**2,470**	**14,462**	**93,385**	**48,806**	**176,800**
RI claims reserves from 2008 and prior											29,991
RI claims reserves (see Note 18)											**206,791**

Underwriting Year – Net ($'000)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of the year of account	88,393	124,145	154,790	110,946	95,124	108,159	66,581	79,448	165,834	129,414	
One year later	171,804	219,924	236,958	150,138	154,438	142,442	102,475	133,391	215,357	–	
Two years later	156,035	211,523	223,602	133,472	146,124	131,155	96,628	127,010	–	–	
Three years later	145,388	203,268	212,694	127,876	138,601	128,398	94,497	–	–	–	
Four years later	142,594	202,493	204,325	127,833	135,614	126,052	–	–	–	–	
Five years later	137,278	200,683	203,005	128,199	133,783	–	–	–	–	–	
Six years later	133,976	198,602	201,273	124,934	–	–	–	–	–	–	
Seven years later	131,868	198,026	200,215	–	–	–	–	–	–	–	
Eight years later	131,684	197,929	–	–	–	–	–	–	–	–	
Nine years later	130,335	–	–	–	–	–	–	–	–	–	
Net ultimate claims	130,335	197,929	200,215	124,934	133,783	126,052	94,497	127,010	215,357	129,414	1,479,526
Less: Cumulative net paid claims	(125,265)	(188,021)	(198,893)	(120,108)	(122,245)	(116,195)	(75,722)	(99,196)	(132,214)	(32,013)	(1,209,872)
Net claims reserves from 2009 to 2018	**5,070**	**9,908**	**1,322**	**4,826**	**11,538**	**9,857**	**18,775**	**27,814**	**83,143**	**97,401**	**269,654**
Net claims reserves from 2008 and prior											8,882
Net claims reserves (see Note 18)											**278,536**

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For the year ended 31 December 2018

continued

18 Technical Provisions

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

	Gross provisions $'000	Reinsurance assets $'000	2018 Net $'000	Gross provisions $'000	Reinsurance assets $'000	2017 Net $'000
Claims outstanding:						
Claims notified	**266,708**	**95,773**	**170,935**	205,049	77,680	127,369
Claims incurred but not reported	**221,609**	**114,861**	**106,748**	97,635	15,891	81,744
As at 1 January	**488,317**	**210,634**	**277,683**	302,684	93,571	209,113
Change in prior year provisions	**179,777**	**49,101**	**130,676**	303,407	135,475	167,932
Expected cost of current year claims	**50,554**	**26,837**	**23,717**	52,141	13,196	38,945
Claims paid during the year	**(227,491)**	**(79,102)**	**(148,389)**	(180,098)	(32,397)	(147,701)
Effects of movements in exchange rates	**(5,830)**	**(679)**	**(5,151)**	10,183	789	9,394
As at 31 December	**485,327**	**206,791**	**278,536**	488,317	210,634	277,683
Claims notified	**252,220**	**86,343**	**165,877**	266,708	95,773	170,935
Claims incurred but not reported	**233,107**	**120,448**	**112,659**	221,609	114,861	106,748
As at 31 December	**485,327**	**206,791**	**278,536**	488,317	210,634	277,683
Provision for unearned premiums:						
As at 1 January	**79,669**	**5,245**	**74,424**	80,648	5,474	75,174
Premiums written during the year	**292,401**	**84,860**	**207,541**	267,299	88,605	178,694
Premiums earned during the year	**(277,399)**	**(82,119)**	**(195,280)**	(271,676)	(89,059)	(182,617)
Effects of movements in exchange rates	**(1,767)**	**(55)**	**(1,712)**	3,398	225	3,173
As at 31 December	**92,904**	**7,931**	**84,973**	79,669	5,245	74,424

19 Creditors

	2018 $'000	2017 $'000
Creditors arising out of direct insurance operations	**4,604**	2,344
Creditors arising out of reinsurance operations	**45,976**	36,896
Other creditors including taxation and social security	**37,259**	18,196
Total	**87,839**	57,436

Other creditors including taxation and social security balance includes administrative expenses of $16.5m (2017: $15.4m) and profit commission of $20.8m (2017: $2.8m) due to the managing agent.

20 Foreign Exchange Rates

The following currency exchange rates have been used for principal foreign currency transactions:

	2018 Year-end rate	2018 Average rate	2017 Year-end rate	2017 Average rate
Sterling	**1.27**	**1.34**	1.35	1.28
Euro	**1.14**	**1.19**	1.20	1.12
Canadian dollar	**0.73**	**0.78**	0.80	0.77

21 Related Parties

Cathedral Underwriting Limited ("CUL") manages Syndicates 2010 and 3010. Cathedral Capital Holdings Limited ("CCHL"), registered in England and Wales, is the immediate parent company of CUL. Lancashire Holdings Limited ("LHL"), registered in Bermuda, is the ultimate parent company of CUL. LHL is the largest group and CCHL is the smallest group which includes CUL and for which the consolidated financial statements are prepared.

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 charged during calendar year 2018 to CUL in respect of services provided to the Syndicate amounted to $2.7m (2017: $2.6m).

Profit commission payable to the managing agent of $nil (2017: $1.2m) has been accrued in respect of the 2017 (2016) year of account, with $nil (2017: $nil) accrued in respect of the 2018 (2017) year of account.

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

Mr Maloney and his spouse acquired 100% of the shares in Nameco 801 on 7 November 2016. Nameco 801 provides capacity to a number of Lloyd's Syndicates including Syndicate 2010. Nameco 801 has provided $0.2m of capacity to Syndicate 2010 for the 2018 year of account ($0.2m for the 2017 year of account). Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation. Nameco has, on advice from its members' agent, increased its participation on Syndicate 2010 for the 2019 underwriting year of account by $0.02m to $0.2m.

The administrative expenses disclosed in Note 6 were recharged to the Syndicate by CUL. 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 CUL at 31 December 2018 totalled $37.3m (2017: $18.2m) and are included in "Other creditors including taxation and social security". This includes amounts due to CUL in relation to profit commission, managing agency fees and expenses.

Cathedral Capital (1998) Limited, a fellow subsidiary of CUL, provided capacity to the 2016, 2017 and 2018 underwriting years. Cathedral Capital (1998) Limited's share of the result for the 2018 calendar year is a loss of $17.2m (2017: $50.7m loss). During 2018, the Syndicate received a loan of $20.0m from Cathedral Capital (1998) Limited, out of which $10.0m is outstanding as at 31 December 2018.

In the normal course of business Syndicate 2010 has underwritten reinsurances of Syndicate 3010. These contracts were entered into and dealt with on a purely commercial arms-length basis. To date, no reinsurances of any Lancashire company have been written by Syndicate 2010. The following reinsurances of Syndicate 2010's business have been placed with related parties.

Group reinsurance cover

The Syndicate benefits from a group reinsurance cover that sits on top of various pillars of reinsurance including the Non Marine account and also the Direct Property account. The limit is collateralised and Syndicate 2010's share is circa 15% for 2018 year of account (2017 year of account: 22%). Should the limit be exhausted by more than one loss / class of business then recoveries will be apportioned on a pro rata basis between the respective losses.

21 Related Parties *continued*

Consortia participation

Syndicate 2010 participates on Aviation Consortia contracts which are led by Syndicate 3010 and managed by CUL. As the manager of these consortia, CUL charges all members an annual fee and profit commission in proportion to each consortium members' share of the signed premium income and any net profit.

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, CUL, together with certain other members of the executive management team who are not themselves directors of the managing agent.

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

Key management compensation	2018 $'000	2017 $'000
Salaries and other short-term employee benefits (see Note 8 and Note 9)	**1,290**	1,267
Post-employment benefits	**164**	94
Total	**1,454**	1,361

22 Bank Facilities

The Syndicate has arranged a catastrophe facility (up to a maximum of $80.0m) with Barclays Bank Plc. The facility is there to assist in paying claims and gross funding of catastrophes. The whole facility can be utilised by way of Letter of Credit or pure credit to assist the Syndicate's gross funding requirements. The facility was not utilised during the calendar year 2018 and Syndicate 2010 renewed for another year in December 2018.

23 Post Statement of Financial Position Events

A total distribution of $25.0m will be transferred to the members' personal reserve funds on 10 April 2019 in respect of the 2016 year of account (2017: $55.1m in relation to the 2015 year of account).

24 Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ('FAL'). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulatory Authority requirements and resource criteria. The determination of FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these Financial Statements by way of such capital resources. However, the Managing Agent is able to make a call on the Member's FAL to meet liquidity requirements or to settle losses.

SYNDICATE UNDERWRITING YEAR ACCOUNTS FOR THE 2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

Independent Auditor's Report to the Members of Syndicate 2010 - 2016 Closed Year of Account

We have audited the Syndicate underwriting year accounts for the 2016 year of account of Syndicate 2010 for the three year period ended 31 December 2018, which comprise the Statement of Profit or Loss – Technical Account – General Business, Statement of Profit or Loss – Non-Technical Account, Statement of Financial Position, Statement of Changes in Members' Balances, Statement of Cash Flows and related notes, including the accounting policies in Note 2. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw. Note 1 to the financial statements further explains the basis of preparation of the underwriting year accounts.

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 and the Lloyd's Syndicate Accounting Byelaw. 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 Syndicate and the Syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors of the managing agent and auditor

As explained more fully in the statement of the directors of the managing agent's responsibilities set out on page 41, the directors of the Managing Agent are responsible for the preparation of the underwriting year accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express and opinion on, the underwriting year accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the underwriting year of accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on underwriting year accounts

In our opinion the underwriting year accounts:

- give a true and fair view of the syndicate's profit for the 2016 closed year; and
- have been properly prepared in accordance with the requirements of the Lloyd's Syndicate Accounting Byelaw.

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 and proper accounting records have not been kept by the directors of the managing agent on behalf of the syndicate; or
- the underwriting year accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

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

21 March 2019

Statement of Managing Agent's Responsibilities

The directors of the managing agent are responsible for preparing the Syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw. They have elected to prepare the accounts in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the underwriting year accounts unless they are satisfied that they give a true and fair view of the result of the underwriting year at closure. In preparing these accounts, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected is used;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts;
- Assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; an
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so. As explained in Note 1, the directors of the managing agent do not believe that it is appropriate to prepare the underwriting year accounts on a going concern basis.

The directors of the managing agent are responsible for keeping adequate and proper 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 underwriting year accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board

E L Woolley
Chief Executive Officer
(Subject to regulatory approval)
Cathedral Underwriting Limited

21 March 2019

Statement of Profit or Loss
Technical Account – General Business
2016 Year of Account
For the 36 months ended 31 December 2018

	Notes	2018 $'000
Earned premiums, net of reinsurance		
Gross premiums written	3	278,171
Outward reinsurance premiums		(66,639)
Net premiums written		211,532
Change in the provision for unearned premiums		
Gross amount		(2,295)
Reinsurers' share		233
Earned premiums, net of reinsurance		209,470
Reinsurance to close premiums received, net of reinsurance		97,326
Allocated investment return transferred from the non-technical account		2,547
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(138,499)
Reinsurers' share		23,763
Net claims paid		(114,736)
Reinsurance to close premium payable, net of reinsurance	7	(90,408)
Claims incurred net of reinsurance		(205,144)
Net operating expenses	3, 5	(76,106)
Balance on the technical account for general business		28,093

The underwriting year has closed and all items therefore relate to discontinued operations.

The notes on pages 47 to 55 form part of these accounts.

Statement of Profit or Loss
Non-Technical Account
2016 Year of Account
For the 36 months ended 31 December 2018

	Notes	2018 $'000
Balance on the technical account for general business		**28,093**
Investment income and realised gains on investments	6	3,269
Unrealised gains on investments	6	207
Investment expenses and charges and realised losses on investments	6	(593)
Unrealised losses on investments	6	(336)
Allocated investment return transferred to the general business technical account		(2,547)
Exchange loss		(1,633)
Profit for the closed year of account		**26,460**

There are no other comprehensive gains or losses for the 36 months ended 31 December 2018.

The notes on pages 47 to 55 form part of these accounts.

Cathedral
Syndicate 2010

Statement of Financial Position
2016 Year of Account
For the 36 months ended 31 December 2018

	Notes	31 December 2018 $'000
Assets		
Financial investments	8	**89,165**
Debtors:		
Debtors arising out of direct insurance operations	9	**1,834**
Debtors arising out of reinsurance operations	10	**21,267**
Other debtors	11	**28,853**
		51,954
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	7	**64,601**
Other assets:		
Cash and cash equivalents	12	**8,190**
Other		**8,644**
		16,834
Prepayments and accrued income		**347**
Total Assets		**222,901**
Liabilities		
Amounts due to members		**26,460**
Reinsurance to close premiums payable to close the account – gross amount	7	**162,592**
Creditors:		
Creditors arising out of direct insurance operations	13	**1,722**
Creditors arising out of reinsurance operations	13	**9,876**
Other creditors including taxation and social security	13	**21,993**
		33,591
Accruals and deferred income		**258**
Total Liabilities		**222,901**

The notes on pages 47 to 55 form part of these accounts.

The Syndicate underwriting year accounts on pages 42 to 55 were approved by the Board of Cathedral Underwriting Limited on 21 March 2019 and were signed on its behalf by:

E L Woolley
Chief Executive Officer
(Subject to regulatory approval)

J M Barnes
Active Underwriter

21 March 2019

Statement of Changes in Members' Balance
2016 Year of Account
For the 36 months ended 31 December 2018

	36 months ended 31 December 2018 $'000
Members' balance as at 1 January 2016	–
Profit for the closed year of account	**26,460**
Members' balance as at 31 December 2018	**26,460**

The notes on pages 47 to 55 form part of these accounts.

Cathedral
Syndicate 2010

Statement of Cash Flows
2016 Year of Account
For the 36 months ended 31 December 2018

	Notes	36 months ended 31 December 2018 $'000
Cash flow from operating activities		
Profit for the closed year of account		26,460
Realised and unrealised investment losses		422
Income from investments		(3,128)
Net reinsurance to close premium payable		97,991
Increase in debtors		23,980
Increase in prepayments and accrued income		(278)
Increase in creditors		10,316
Increase in accruals and deferred income		247
Non cash consideration received as part of RITC received	14	(79,456)
Net cash inflow from operating activities		76,554
Cash flows from investing activities		
Interest received		3,128
Purchase of debt securities and other fixed income securities		(161,356)
Sale of debt securities and other fixed income securities		99,404
Movement of shares and other variable yield securities		(1,349)
Movement of overseas deposits		(8,191)
Net cash outflow from investing activities		(68,364)
Increase in cash and cash equivalents in the period		8,190
Cash and cash equivalents at 1 January 2016		–
Effect of exchange rates and change in market value on cash and cash equivalents		–
Cash and cash equivalents at 31 December 2018		8,190

The notes on pages 47 to 55 form part of these accounts.

Notes to the Syndicate Underwriting Year Accounts
2016 Year of Account
For the 36 months ended 31 December 2018

1 Basis of Preparation

These underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 "Insurance Contracts" ("FRS 103").

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2016 year of account which has been closed by reinsurance to close at 31 December 2018. Consequently the Statement of Financial Position represents the assets and liabilities of the 2016 year of account and the Statement of Profit or Loss, and the Statement of Cash Flows reflect the transactions for that year of account during the 36 month period until closure.

Whilst the directors of the managing agent have a reasonable expectation that the syndicate has adequate resources to continue in operational existence for the foreseeable future, these financial statements represent the participation of members in the 2016 year of account, which closed on 31 December 2018. The accumulated profits of the 2016 year of account will be distributed shortly after publication of these accounts. Therefore the 2016 year of account is not continuing to trade and, accordingly the directors have not adopted the going concern basis in the preparation of these accounts. This has no effect on the amounts reported in the accounts as the 2016 year of account will be closed by payment of a reinsurance to close premium, as outlined in Note 7 below, which is consistent with the normal course of business for a Lloyd's syndicate and with the approach we have applied to earlier underwriting years.

Use of estimates

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 managements estimate are disclosed in Note 4 of the Syndicate Annual Accounts.

2 Significant Accounting Policies

a) *Underwriting transactions*

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

b) *Reinsurance to close premium*

The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, IBNR, unearned premiums, net of deferred acquisition costs, and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance with the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

c) *Premiums written, reinsurance premium ceded and unearned premiums*

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, line slips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the Syndicate year of account.

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the balance of premiums written in the period to the Statement of Financial Position date that relate to unexpired terms of policies in force at that date.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being protected.

2 Significant Accounting Policies *continued*

d) *Claims and related recoveries*

Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

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. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. 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.

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 methods used, and the estimates made, are reviewed regularly.

e) *Acquisition costs*

Acquisition costs comprise commission and other internal and external costs related to the acquisition of new insurance contracts. These are recognised in line with gross earned premiums.

f) *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.

g) *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 Statement of Profit or Loss.

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.

2 Significant Accounting Policies *continued*

h) *Fair Value of Financial Assets*

The fair value hierarchy is as follows:

(i) 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;
(ii) 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 date. These investments are valued via independent external sources using modelled or other valuation methods; and
(iii) Level 3 is using a valuation technique based on the Syndicates own assumptions.

i) *Investments and investment return*

Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the Syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

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 end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years in respect of investment disposals in the current period.

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 considered to arise on such funds.

j) *Syndicate operating expenses*

Costs incurred by the managing agent in respect of the Syndicate are charged to the Syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the managing agent and the Syndicate, they are 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

The managing agent 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.

Amounts recharged by the managing agent 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.

k) *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 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. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

2 Significant Accounting Policies *continued*

l) *Basis of currency translation*

The functional and presentational currency of the Syndicate is US Dollars. Transactions in currencies other than the functional currency are translated at the rate of exchange at the date of the transaction or at an approximate average rate.

Assets and liabilities are retranslated into US Dollars at the rate of exchange at the Statement of Financial Position date unless contracts to sell currency for Sterling have been entered into prior to the year end, in which case the contracted rates are used. This includes all assets and liabilities arising from insurance contracts including unearned premium and deferred acquisition costs. 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.

Although transactions are translated as described above, the final result for the year of account is calculated with Sterling, Canadian Dollars and Euros translated at the Statement of Financial Position date rates of exchange.

Differences arising on the retranslation of foreign currency amounts are included in the non-technical account, except when a gain or loss on a non-monetary item is recognised in Other Comprehensive Income. Realised exchange differences are included in the technical account within net operating expenses.

Where Canadian Dollars or Euros are sold or bought relating to the profit or loss of a closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where US Dollars relating to the profit or loss of a closed underwriting account are bought or sold by members for that year, any exchange profit or loss accrues to those members.

m) *Profit commission*

Profit commission is charged by the managing agent at a rate of 20% of the profit on a year of account basis subject to the operation of a 2-year deficit clause. This is charged to the Syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

3 Analysis of Underwriting Result

An analysis of the underwriting result before investment return for the 36 months and the net technical provisions as at 31 December 2018 are presented below:

	36 months ended 31 December 2018						
Type of business	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Net operating expenses $'000	Reinsurance balance $'000	Total excluding investment return $'000	Net technical provisions $'000
Direct insurance:							
Motor (third party liability)	–	1	–	(1)	–	–	31
Motor (other classes)	424	404	(258)	(151)	(39)	(44)	5
Marine, aviation and transport	3,194	3,084	(1,502)	(1,368)	(652)	(438)	143
Fire and other damage to property	81,861	79,462	(54,219)	(24,187)	(3,284)	(2,228)	15,803
Third party liability	1,400	1,344	(760)	(509)	(99)	(24)	1,492
Credit and suretyship	5,312	5,045	(3,352)	(2,010)	(1,753)	(2,070)	12
	92,191	89,340	(60,091)	(28,226)	(5,827)	(4,804)	17,486
Reinsurance acceptances*	185,980	186,536	(78,408)	(47,880)	(29,898)	30,350	80,505
Total	278,171	275,876	(138,499)	(76,106)	(35,725)	25,546	97,991

* Reinsurance acceptances include the reinsurance to close premium of $97,326,478 received from the 2015 year of account.

The gross premiums written by geographical destination is set out below. All premiums written are for contracts with external customers and are concluded in the UK.

Geographical analysis by destination	Gross written premiums $'000
United Kingdom	31,848
US	134,282
Other EU member states	22,549
Rest of the world	89,492
Total	278,171

4 Technical Account Balance Before Allocated Investment Return and Net Operating Expenses

	2018 $'000
Balance attributable to business allocated to the 2016 year of account	10,416
Balance attributable to the reinsurance to close of the 2015 years of account and prior	16,044
Total	26,460

Notes to the Syndicate Underwriting Year Accounts 2016 Year of Account For the 36 months ended 31 December 2018

continued

5 Net Operating Expenses

	2018 $'000
Acquisition costs	46,316
Other acquisition costs	6,765
Change in deferred acquisition costs	(128)
Administrative expenses	14,207
Reinsurers' commissions and profit participation	(586)
Loss on exchange	4,603
Personal expenses	4,929
Total	**76,106**

The closed year profit is stated after charging:

	2018 $'000
Auditors' remuneration:	
– Fees payable to the Syndicate's auditor for the audit of these accounts	197

6 Investment Return

	2018 $'000
Investment income:	
Interest and dividend income	3,128
Realised gains on investments	141
Unrealised gains on investments	207
Investment expenses and charges:	
Investment management expenses, including interest	(159)
Realised losses on investments	(434)
Unrealised losses on investments	(336)
Total	**2,547**

7 Reinsurance Premium Payable to Close the 2016 Year of Account

	2018 $'000
Gross outstanding claims	116,091
Reinsurance recoveries anticipated	(48,090)
Net outstanding claims	68,001
Provision for gross claims incurred but not reported	46,501
Reinsurance recoveries anticipated	(16,511)
Provision for net claims incurred but not reported	29,990
Provision for future inwards gross premiums	(16,268)
Provision for future reinsurance protection	8,685
Provision for net premiums incurred but not reported	(7,583)
Reinsurance premium payable to close the account	**90,408**

8 Financial Investments

	2018 $'000
Shares and other variable yield securities	1,983
Debt Securities and other fixed income securities	87,182
Total	**89,165**

Debt securities and other fixed income securities are all listed on recognised stock exchanges.

The Syndicate classifies its financial instruments held at fair value in its Statement of Financial Position using a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Prices based on recent transactions in identical assets;
- Level 3 – Prices determined using a valuation technique.

As at 31 December 2018 ($'000)	Level 1	Level 2	Level 3	Total
Shares and other variable yield securities and units in unit trusts	–	1,983	–	1,983
Debt securities and other fixed income securities	20,820	66,362	–	87,182
Total	**20,820**	**68,345**	**–**	**89,165**

9 Debtors Arising Out of Direct Insurance Operations

	2018 $'000
Due within one year – amounts due from intermediaries	1,834

10 Debtors Arising Out of Reinsurance Operations

	2018 $'000
Due within one year	21,267

11 Other Debtors

	2018 $'000
Amount due from members	1,612
Other	13
Inter-year loans	27,228
Total	**28,853**

12 Cash and Cash Equivalents

	2018 $'000
Cash at bank and in hand	1,665
Participation in investment pools	6,465
Deposits with approved credit institutions and approved financial institutions	60
Total	**8,190**

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

Notes to the Syndicate Underwriting Year Accounts
2016 Year of Account
For the 36 months ended 31 December 2018

continued

13 Creditors

	2018 $'000
Creditors arising out of direct insurance operations	1,722
Creditors arising out of reinsurance operations	9,876
Other creditors including taxation and social security	21,993
Total	33,591

Creditors are all due within one year. Other creditors including taxation and social security include expenses and profit commission payable to the managing agent.

14 Non Cash Consideration Received as Part of RITC Received

	2018 $'000
Financial investments	26,286
Debtors	76,456
Creditors	(23,286)
Total	79,456

15 Related Parties

Cathedral Underwriting Limited ("CUL") manages Syndicates 2010. Cathedral Capital Holdings Limited ("CCHL"), registered in England and Wales, is the immediate parent company of CUL. Lancashire Holdings Limited ("LHL"), registered in Bermuda, is the ultimate parent company of CUL. LHL is the largest group and CCHL is the smallest group which includes CUL and for which the consolidated financial statements are prepared.

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 payable to CUL in respect of services provided to the Syndicate in respect of the 2016 year of account amounted to $2.7m of which $nil was outstanding as at 31 December 2018. Profit commission of $6.6m is also due to the managing agent in respect of the profit on the 2016 closed year which is outstanding as at 31 December 2018.

The administrative expenses disclosed in Note 5 were recharged to the Syndicate by CUL to the 2016 year of account. The basis on which expenses are apportioned is set out in Note 2(j).

Amounts owed to CUL relating to profit commission as at 31 December 2018 totalled $22.0m and are included in "Other creditors including taxation and social security".

Cathedral Capital (1998) Limited, a fellow subsidiary of CUL, provided capacity to the underwriting years as follows:

Year of Account	2016 £	2017 £	2018 £
Cathedral Capital (1998) Limited	177,021,715	177,033,147	177,033,147

A number of non-executive directors are also directors of other Lloyd's and non-Lloyd's insurance entities. Those Syndicates and insurance companies may from time to time transact business with the Syndicates managed by CUL. All such insurance contracts will have been dealt with on an arm's length basis.

16 Borrowings

During the period to 31 December 2018, the Syndicate had an unsecured catastrophe facility of $80.0m with Barclays Bank plc to assist with the paying or funding of any significant catastrophe losses. This facility was never utilised by the 2016 year of account and accordingly the balance outstanding at the Statement of Financial Position date was $nil.

17 Foreign Exchange Rates

	2018 Year-end rate
Euro	**1.14**
Sterling	**1.27**
Canadian dollar	**0.73**

18 Post Statement of Financial Position Events

The reinsurance premium to close the 2016 year of account as at 31 December 2018 was agreed by the managing agent on 7 February 2019. Consequently the technical provisions at 31 December 2018 have been presented in the Statement of Financial Position under the headings "reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account" and "reinsurance to close premiums payable to close the account – gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw. The actual amount of reinsurance to close premiums paid will be after deduction of unsigned premiums.

The amount of $25.0m will be transferred to members' personal reserve funds on 10 April 2019.

Seven Year Summary of Results (Unaudited)

	2016 YoA	2015 YoA	2014 YoA	2013 YoA	2012 YoA	2011 YoA	2010 YoA
Syndicate allocated capacity	**£306m**	£306m	£350m	£349.7m	£349.50	£349.70	£349.80
Gross capacity utilised(i)	**64.0%**	65.3%	60.3%	75.9%	80.1%	83.6%	80.8%
Number of underwriting members	**1,303**	1,250	1,251	1,230	1,186	1,118	1,058
Aggregate net written premiums(i)	**£150.8m**	£151.7m	£162.6m	£195.9m	£207.4	£215.3	£197.2
Net capacity utilised(i)	**49.3%**	49.6%	46.5%	56.0%	59.3%	61.6%	56.4%
Loss ratio(ii)	**66.9%**	58.2%	59.3%	59.4%	57.2%	75.5%	77.4%
Results for an illustrative share of £10,000							
Gross written premiums	**6,398**	6,534	6,026	7,590	8,026	8,364	8,076
Net earned premiums	**5,232**	5,056	4,735	5,506	5,954	6,164	5,585
Reinsurance to close received from an earlier account	**2,358**	2,440	2,233	2,424	2,715	2,735	2,704
Net claims paid	**(2,865)**	(2,187)	(2,560)	(2,608)	(2,529)	(4,008)	(3,682)
Reinsurance to close payable	**(2,329)**	(2,356)	(2,133)	(2,235)	(2,426)	(2,714)	(2,734)
Profit/(loss) on exchange	**-**	–	(0)	(7)	(30)	(71)	(8)
Acquisition costs	**(1,138)**	(1,053)	(997)	(1,228)	(1,299)	(1,280)	(1,219)
Syndicate operating expenses	**(365)**	(352)	(290)	(259)	(247)	(236)	(208)
Balance on technical account before investment return	**893**	1,548	987	1,593	2,138	590	438
Investment income and gains less losses, less expenses and charges	**65**	73	74	63	69	87	108
Profit for closed year of account before personal expenses	**958**	1,621	1,062	1,656	2,207	677	546
Currency translation differences	**–**	214	823	48	112	(114)	(134)
Total recognised gains and losses before personal expenses	**958**	1,835	1,885	1,704	2,319	563	412
Illustrative personal expenses for a traditional Name:							
- Managing agent's salary	**(65)**	(65)	(65)	(65)	(65)	(65)	(65)
- Central Fund contributions	**(13)**	(28)	(26)	(33)	(17)	(36)	(35)
- Lloyd's subscription	**(28)**	(28)	(26)	(32)	(34)	(36)	(35)
- Profit commission	**(170)**	(343)	(353)	(315)	(440)	(85)	(55)
Total illustrative personal expenses for a traditional Name	**(276)**	(464)	(471)	(445)	(556)	(222)	(190)
Total result after illustrative personal expenses	**682**	1,371	1,415	1,259	1,763	341	222

Notes

(i) Premiums above are gross of brokerage. Therefore, it is possible that the capacity utilisation could exceed 100%, as the traditional way of monitoring utilisation is net of brokerage.

(ii) The loss ratio is claims paid plus the reinsurance to close divided by net earned premiums plus reinsurance to close received.

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