Accounts disclaimer

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Cathedral

Part of the Lancashire Group

SYNDICATE 3010

Annual Report and Accounts

31 December 2018

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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 Spence	
C J Whittle	
E L Woolley	

Company Secretary

M E Lynn

Syndicate:

Active Underwriter

J D Spence

Bankers

Barclays Bank plc
Citibank N.A
Royal Bank of Canada

Investment Manager

Payden and Rygel
1 Bartholomew Lane
London EC2N 2AX

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

Registered Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Report of the Directors of the Managing Agent
31 December 2018

Introduction

The Directors of Cathedral Underwriting Limited ("CUL"), the managing agent for Syndicate 3010, present their annual report and accounts for the year ended 31 December 2018.

These annual report and accounts are 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.

Principal activity

The principal activity of Syndicate 3010 remains the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London. The main lines of business are marine cargo, energy, aviation all risks including deductible and hull war, terrorism, power utility and marine hull.

CUL is the 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.

Lancashire Holdings Limited ("LHL"), a company that is 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 profit of $1.7m (2017: loss of $2.6m) and a combined ratio of 97.6% (2017: 102.9%). 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 written premium	(865)	9,935	75,621	84,691	53,987
Gross earned premium	4,325	32,269	30,821	67,415	56,331
Net earned premium	3,786	26,333	19,723	49,842	41,965
Profit/(loss) for the financial year	6,749	4,271	(9,345)	1,675	(2,552)
Loss ratio (%)	(130.3)	45.0	73.5	43.0	45.7
Expense ratio (%)	49.2	40.0	75.1	54.6	57.1
Combined ratio (%)	(81.1)	85.0	148.7	97.6	102.9

Underwriting

The gross written premiums for the calendar year have increased by 56.9% to $84.7m (2017: $54.0m). The Syndicate increased the amount of premium income written across existing divisions and introduced three new classes: Power Utility, Marine Hull and Aviation Deductible to further diversify the Syndicate's business mix and complement its existing Aviation business.

The rating environment saw some hardening which was expected following the exceptional loss activity in 2017. Although very welcome, this was largely restricted to specific loss impacted areas and classes. Cathedral maintains a strong underwriting discipline across all lines with a focus on the profitability of business being written rather than premium income. 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. Reinsurance premiums ceded in the year have increased by 43.5% to $21.6m (2017: $15.0m). The increased programme spend reflects the extended coverage of the new classes and rate increases.

The underwriting result was impacted by losses from the Bahamas Power and Light Company and the Lion Airlines crash. Losses from Hurricanes Florence and Michael, Typhoon Jebi and the Californian Wildfires were minor. Collectively, these events represented gross losses to the Syndicate of $7.1m (net: $4.3m).

There have been positive reserve movements in the year, particularly on the 2016 and prior years of account amounting to $4.9m.

The net loss ratio for the 2018 calendar year is 43.0% (2017: 45.7%).

Net operating expenses including business acquisition costs and administrative expenses were $27.8m (2017: $24.9m) and the expense ratio was 54.6% (2017: 57.1%). The breakdown of these costs is summarised in Note 6 of the accounts.

Outlook

The well-publicised performance drive initiated by Lloyd's during last year's 2019 planning process has resulted in the closure of some syndicates and the Lloyd's market shrinking by approximately 5%. All syndicates have been required to minimise loss-making business, identify and increase profitable lines, develop new revenue streams and reduce operating expenses.

We are beginning to see some competitors either withdrawing from classes, or operating with reduced appetites. This is allowing us the opportunity to quote and re-underwrite business that had previously been placed under broker lineslips and facilities, in accordance with our underwriting strategy.

For 2019, the income is planned to increase through organic growth of the Power and Aviation Deductible teams introduced in 2018. We anticipate that improving rating conditions, most notably in Cargo and Aviation, will further contribute to this growth. The Energy and Terrorism accounts are still suffering from excess capacity and as a result, expansion in these areas is unlikely. We will continue to grow and diversify the business in a sensible manner while reducing the volatility where possible.

The success of Lloyd's Brussels will be crucial in its inaugural year, to stem the flow of European business which has started to leak away from London as a result of fears over the regulatory complexities of using UK carriers after Brexit.

Syndicate 3010 is well established in the market place in the core 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 which continues to prove beneficial. The Syndicate is well reserved, has a strong reinsurance programme with good security and a conservative investment portfolio. Cathedral continues to be a lean organisation and responsive to market changes whilst providing dependable value, strength, longevity and expertise to our clients and brokers.

The Syndicate capacity for the 2019 year of account is £100.0m.

Underwriting year of account summary

The table below shows Syndicate 3010'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	100,000	100,000	100,000
Profit/(Loss)	*	n/a	1,790
Return on stamp/(Loss)	*	-5% to 5%	1.8%

* 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 £100.0m for the 2016, 2017 and 2018 years of account.

2016 underwriting result

The 2016 year of account closed on 31 December 2018 with a profit of $2.3m, inclusive of currency translation gains but before standard personal expenses. This includes movement on the closed years of account. This equates to a profit of 1.8% of capacity. The gross signed premium income, net of brokerage, was circa 37% of capacity at year-end rates of exchange.

All classes have made positive contributions to the underwriting balance with the year of account benefiting from relatively benign catastrophe experience, together with favourable development on prior years.

Report of the Directors of the Managing Agent
31 December 2018

continued

2017 Account

The latest forecast for the 2017 year of account was issued in the Syndicate's Q4 QMA submission on 14 February 2019, with the range maintained at (5%) to 5% of stamp capacity.

The Syndicate's exposure to the large losses incurred during 2018 is modest. The net impact of these losses to the 2017 year of account ($3.8m) is offset by favourable attritional experience.

2018 Account

For 2018, the Syndicate's capacity was maintained at £100.0m. Although it is still too early to produce a 2018 forecast range due to a large amount of unexpired exposure, the events of 2019 will remain critical to how the year of account develops. 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.

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 35.

Statement as to 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.

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.

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.

Agency and Syndicate auditor

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 3010

Opinion

We have audited the financial statements of Syndicate 3010 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 Member's 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 profit 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 8, 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 3010

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	**84,691**	53,987
Outward reinsurance premiums		**(21,561)**	(15,024)
Net premiums written		**63,130**	38,963
Change in the provision for unearned premiums:			
Gross amount		**(17,276)**	2,344
Reinsurers' share		**3,988**	658
Earned premiums, net of reinsurance		**49,842**	41,965
Allocated investment return transferred from the non-technical account		**569**	241
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount	5	**(23,709)**	(25,206)
Reinsurers' share		**6,563**	4,306
Net claims paid		**(17,146)**	(20,900)
Change in the provision for claims:			
Gross amount	5	**(4,311)**	(1,424)
Reinsurers' share		**32**	3,138
Net change in the provision for claims		**(4,279)**	1,714
Claims incurred, net of reinsurance		**(21,425)**	(19,186)
Net operating expenses	5, 6	**(27,788)**	(24,856)
Balance on the technical account for general business		**1,198**	(1,836)

All items relate to continuing operations only.

The notes on pages 17 to 36 form part of these 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 for general business		**1,198**	(1,836)
Investment income	10	**701**	392
Investment expenses and charges	10	**(132)**	(13)
Unrealised losses on investments	10	**–**	(138)
Allocated investment return transferred to the general business technical account	10	**(569)**	(241)
Foreign exchange gain/(loss)		**477**	(716)
Profit/(loss) for the financial year		**1,675**	(2,552)

All operations relate to continuing activities

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

The notes on pages 17 to 36 form part of these accounts.

Cathedral
Syndicate 3010

Statement of Financial Position
As At 31 December 2018

	Notes	2018 $'000	2017 $'000
Investments:			
Financial investments	11	**36,831**	30,992
		36,831	30,992
Reinsurers' share of technical provisions:			
Provision for unearned premiums	18	**10,802**	6,852
Claims outstanding	18	**13,486**	13,649
		24,288	20,501
Debtors:			
Debtors arising out of direct insurance operations	12	**22,132**	17,978
Debtors arising out of reinsurance operations	13	**24,377**	13,281
Other debtors	14	**153**	91
		46,662	31,350
Other assets:			
Cash and cash equivalents	15	**9,556**	6,844
Other – overseas deposits		**1,942**	1,910
		11,498	8,754
Prepayments and accrued income:			
Deferred acquisition costs	16	**11,325**	8,600
Other prepayments and accrued income		**124**	543
		11,449	9,143
Total Assets		**130,728**	100,740
Capital and reserves:			
Member's balances		**(8,650)**	(6,589)
		(8,650)	(6,589)
Technical provisions:			
Provision for unearned premiums	18	**50,039**	33,380
Claims outstanding	18	**58,140**	54,774
		108,179	88,154
Creditors:			
Creditors arising out of direct insurance operations	19	**4,347**	5,469
Creditors arising out of reinsurance operations	19	**16,966**	9,322
Other creditors including taxation and social security	19	**7,846**	2,514
		29,159	17,305
Accruals and deferred income		**2,040**	1,870
Total Liabilities		**130,728**	100,740

The notes on pages 17 to 36 form part of these accounts.

The Syndicate annual accounts on pages 12 to 36 were approved by the Board of Cathedral Underwriting Limited on 21 March 2019 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
Member's balances as at 1 January	**(6,589)**	(2,334)
Profit/(loss) for the financial year	**1,675**	(2,552)
Transfer to member personal reserve fund	**(3,736)**	(1,703)
Member's balances as at 31 December	**(8,650)**	(6,589)

The notes on pages 17 to 36 form part of these accounts.

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

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

Transfers to member's personal funds comprise the 2015 (2014) closed Year of Account profit.

Cathedral
Syndicate 3010

Statement of Cash Flows
For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Profit/(loss) for the financial year		**1,675**	(2,552)
Realised and unrealised investments losses on cash and investments	10	**126**	142
Income from investments	10	**(695)**	(383)
Foreign exchange gain		**(417)**	769
(Increase)/decrease in debtors, prepayments and accrued income		**(19,622)**	3,026
Increase/(decrease) in net technical provisions		**17,566**	(4,715)
Increase in creditors, accruals and deferred income		**13,100**	3,032
Net cash inflow/(outflow) from operating activities		**11,733**	(681)
Cash flows from investing activities			
Interest received		**695**	383
Purchase of debt securities and other fixed income securities		**(17,583)**	–
Sale of debt securities and other fixed income securities		**17,242**	–
Movement on shares and other variable yield securities		**(5,617)**	514
Movement on overseas deposits		**(17)**	92
Net cash inflow/(outflow) from investing activities		**(5,280)**	989
Cash flows from financing activities			
Transfer (to) members in respect of underwriting participations		**(3,736)**	(1,703)
Net cash outflow from financing activities		**(3,736)**	(1,703)
Increase/(decrease) in cash and cash equivalents in the year		**2,717**	(1,395)
Cash and cash equivalents as at 1 January		**6,844**	8,250
Effect of exchange rates and change in market value on cash and cash equivalents		**(5)**	(11)
Cash and cash equivalents as at 31 December	15	**9,556**	6,844

The notes on pages 17 to 36 form part of these 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 3010 ('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 is Cathedral Underwriting Limited, 29th Floor, 20 Fenchurch Street, London, EC3M 3BY.

The annual accounts 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 the historical cost basis, 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 & 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.

3 Accounting Policies *continued*

(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.

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.

3 Accounting Policies *continued*

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

Introduction and overview

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;
- Operational risk; and
- Capital management 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 $52.4m gross / $2.1m net of reinsurance recoveries and reinstatement costs. This was for an Aviation collision.

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.

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).

4 Risk and Capital Management *continued*

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 technical provisions, 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	**33,479**	**3,196**	**156**	**36,831**
Cash and cash equivalents	**9,556**	**–**	**–**	**9,556**
Other assets	**1,084**	**499**	**359**	**1,942**
Reinsurance assets	**10,537**	**–**	**5,426**	**15,963**

At 31 December 2017	A++ $'000	B++ to B- $'000	Unrated $'000	Total $'000
Financial investments	27,884	3,108	–	30,992
Cash and cash equivalents	6,844	–	–	6,844
Other assets	966	548	396	1,910
Reinsurance assets	11,698	–	2,874	14,572

The total unrated reinsurance assets are in respect of attritional IBNR that has yet to be allocated to any specific loss.

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.

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	**809**	763
6 to 9 months post due	**542**	366
Greater than 9 months past due	**2,113**	1,975
Total	**3,464**	3,104

4 Risk and Capital Management *continued*

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 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.

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	**(27,798)**	**(22,426)**	**(6,572)**	**(1,344)**	**(58,140)**
Claims outstanding recoverable from reinsurers	**4,512**	**7,450**	**1,314**	**210**	**13,486**
Creditors	**29,159**	**–**	**–**	**–**	**29,159**
Total	**5,873**	**(14,976)**	**(5,258)**	**(1,134)**	**(15,495)**

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	(36,303)	(14,526)	(3,344)	(601)	(54,774)
Claims outstanding recoverable from reinsurers	9,017	4,121	463	48	13,649
Creditors	17,305	–	–	–	17,305
Total	(9,981)	(10,405)	(2,881)	(553)	(23,820)

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.

4 Risk and Capital Management *continued*

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	**9,661**	**106,078**	**8,126**	**6,863**	**130,728**
Total liabilities	**(20,894)**	**(102,370)**	**(12,609)**	**(3,505)**	**(139,378)**
Members' balance	**(11,233)**	**3,708**	**(4,483)**	**3,358**	**(8,650)**

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

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

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	**(33)**	(25)
-50 basis points decrease	**132**	25
Currency risk		
10% USD strengthening	**9**	9
10% USD weakening	**(9)**	(9)

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

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 3010 is not disclosed in these financial statements.

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 14, 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 technical account balance 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 (other classes)	**1,020**	**912**	**(742)**	**(350)**	**(6)**	**(186)**	**432**
Marine, aviation and transport	**30,544**	**24,733**	**(13,093)**	**(10,482)**	**(3,006)**	**(1,848)**	**35,233**
Fire and other damage to property	**16,637**	**15,028**	**14**	**(5,710)**	**(3,797)**	**5,535**	**8,041**
Credit and suretyship	**20**	**19**	**2**	**(8)**	**(13)**	**–**	**11**
	48,221	**40,692**	**(13,819)**	**(16,550)**	**(6,822)**	**3,501**	**43,717**
Reinsurance acceptances	**36,470**	**26,723**	**(14,201)**	**(11,238)**	**(4,156)**	**(2,872)**	**28,849**
Total	**84,691**	**67,415**	**(28,020)**	**(27,788)**	**(10,978)**	**629**	**72,566**

							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 (other classes)	276	103	(12)	(42)	8	57	133
Marine, aviation and transport	19,610	19,377	(10,325)	(8,874)	(929)	(751)	30,622
Fire and other damage to property	12,085	14.086	(7,834)	(5,608)	(1,213)	(569)	6,533
Credit and suretyship	19	19	–	(8)	(33)	(22)	–
	31,990	33,585	(18,171)	(14,532)	(2,167)	(1,285)	37,288
Reinsurance acceptances	21,997	22,746	(8,459)	(10,324)	(4,755)	(792)	21,765
Total	53,987	56,331	(26,630)	(24,856)	(6,922)	(2,077)	59,053

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
UK	**16,724**	13,438
US	**16,607**	11,941
Other EU member states	**14,029**	4,801
Rest of the world	**37,331**	23,807
Total	**84,691**	53,987

6 Net Operating Expenses

	2018 $'000	2017 $'000
Brokerage and commissions	17,972	12,271
Other acquisition costs	2,096	2,227
Change in deferred acquisition costs	(2,969)	552
Administrative expenses	9,386	6,586
Reinsurance commissions and profit participation	(646)	755
Personal expenses	1,949	2,465
Total	**27,788**	**24,856**

Total commissions for direct insurance business accounted for in the year amounted to $11.1m (2017: $7.8m).

Administrative expenses include:

	2018 $'000	2017 $'000
Auditors' remuneration:		
– Fees payable to the Syndicate's auditor for the audit of these annual accounts	114	108
– Other services pursuant to regulations and Lloyd's Byelaws	60	58
Total	**174**	**166**

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	3,595	3,493
Social security costs	541	398
Pension costs	260	220
Total	**4,396**	**4,111**

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	3	5
Underwriting and claims	18	17
Total	**21**	**22**

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	231	200

9 Active Underwriter's Emoluments

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

	2018 $'000	2017 $'000
Emoluments	**355**	383

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	**695**	383
Realised gains on investments	**6**	9
Investment expenses and charges:		
Realised losses on investments	**(132)**	(13)
Unrealised losses on investments	**–**	(138)
Investment return transferred to the technical account from the non-technical account	**569**	241

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	**569**	241
Total investment return	**569**	241

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	**2,100**	**1.6**	3,451	1.0
Euro	**1,938**	**–**	3,174	–
US Dollars	**33,422**	**1.4**	32,763	0.6
Canadian Dollars	**4,076**	**1.4**	2,860	0.7
All currencies converted to US Dollars	**41,536**	**1.4**	42,248	0.6

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	**19,248**	13,631	**19,248**	13,631
Debt securities and other fixed income securities	**17,583**	17,361	**17,620**	17,500
Total	**36,831**	30,992	**36,868**	31,131

All financial assets are measured at fair value through profit or loss. The amount ascribable to listed investments is $17.6m (2017: $17.4m).

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.

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	**–**	**19,248**	**–**	**19,248**
Debt securities and other fixed income securities	**–**	**17,583**	**–**	**17,583**
Cash and cash equivalents	**9,556**	**–**	**–**	**9,556**
Overseas deposits	**1,563**	**379**	**–**	**1,942**
Total	**11,119**	**37,210**	**–**	**48,329**

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

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.

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For the year ended 31 December 2018

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12 Debtors Arising Out of Direct Insurance Operations

	2018 $'000	2017 $'000
Due within one year – amounts due from intermediaries	**22,132**	17,978

13 Debtors Arising Out of Reinsurance Operations

	2018 $'000	2017 $'000
Due within one year	**24,377**	13,281

14 Other Debtors

	2018 $'000	2017 $'000
Due within one year	**146**	88
Due after one year	**7**	3
Total	**153**	91

15 Cash and Cash Equivalents

	2018 $'000	2017 $'000
Cash at bank and in hand	**3,188**	3,266
Participation in investment pools	**6,368**	3,578
Total	**9,556**	6,844

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	**8,600**	8,876
Acquisition costs incurred in the year	**20,068**	14,498
Amounts used in the year	**(17,099)**	(15,050)
Effect of movement in exchange rates	**(244)**	276
As at 31 December	11,325	8,600

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	6,180	7,816	12,020	11,100	16,187	16,490	13,501	14,451	14,860	19,946	
One year later	18,003	16,335	26,325	22,778	24,159	29,979	32,998	28,173	26,472	–	
Two years later	19,673	20,358	29,061	21,683	25,354	26,947	33,882	25,756	–	–	
Three years later	18,673	19,923	23,061	21,252	26,656	24,463	32,154	–	–	–	
Four years later	18,172	20,379	22,307	20,912	26,492	25,265	–	–	–	–	
Five years later	18,097	19,751	22,229	20,652	26,289	–	–	–	–	–	
Six years later	17,613	19,111	22,386	20,286	–	–	–	–	–	–	
Seven years later	17,288	18,324	22,370	–	–	–	–	–	–	–	
Eight years later	17,009	18,196	–	–	–	–	–	–	–	–	
Nine years later	16,925	–	–	–	–	–	–	–	–	–	
Gross ultimate claims	16,925	18,196	22,370	20,286	26,289	25,265	32,154	25,756	26,472	19,946	233,659
Less: Cumulative gross paid claims	(16,821)	(17,818)	(21,249)	(19,765)	(21,114)	(21,094)	(25,040)	(17,853)	(12,110)	(2,807)	(175,671)
Gross claims reserves from 2009 to 2018	**104**	**378**	**1,121**	**521**	**5,175**	**4,171**	**7,114**	**7,903**	**14,362**	**17,139**	**57,988**
Gross claims reserves – 2008 and prior											152
Gross claims reserves (see Note 18)											**58,140**

Underwriting Year – Ceded ($'000)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of the year of account	38	6	4,949	2,400	3,155	2,245	952	1,422	2,691	5,582	
One year later	984	593	7,212	2,987	2,712	2,672	8,754	3,866	2,599	–	
Two years later	894	781	7,790	3,062	2,480	1,361	10,910	4,445	–	–	
Three years later	870	701	2,238	2,855	2,956	1,201	11,127	–	–	–	
Four years later	871	682	2,129	2,929	3,309	1,260	–	–	–	–	
Five years later	872	682	2,136	3,087	3,487	–	–	–	–	–	
Six years later	823	668	1,948	2,907	–	–	–	–	–	–	
Seven years later	775	668	1,901	–	–	–	–	–	–	–	
Eight years later	748	668	–	–	–	–	–	–	–	–	
Nine years later	760	–	–	–	–	–	–	–	–	–	
RI ultimate claims	760	668	1,901	2,907	3,487	1,260	11,127	4,445	2,599	5,582	34,736
Less: Cumulative RI paid claims	(747)	(668)	(1,864)	(2,827)	(2,489)	(1,162)	(7,141)	(1,916)	(1,626)	(831)	(21,271)
RI claims reserves from 2009 to 2018	**13**	**–**	**37**	**80**	**998**	**98**	**3,986**	**2,529**	**973**	**4,751**	**13,465**
RI claims reserves from 2008 and prior											21
RI claims reserves (see Note 18)											**13,486**

Underwriting Year – Net ($'000)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of the year of account	6,142	7,810	7,071	8,700	13,032	14,245	12,549	13,029	12,169	14,364	
One year later	17,019	15,742	19,113	19,791	21,447	27,307	24,244	24,307	23,873	–	
Two years later	18,779	19,577	21,271	18,621	22,874	25,586	22,972	21,311	–	–	
Three years later	17,803	19,222	20,823	18,397	23,700	23,262	21,027	–	–	–	
Four years later	17,301	19,697	20,178	17,983	23,183	24,005	–	–	–	–	
Five years later	17,225	19,069	20,093	17,565	22,802	–	–	–	–	–	
Six years later	16,790	18,443	20,438	17,379	–	–	–	–	–	–	
Seven years later	16,513	17,656	20,469	–	–	–	–	–	–	–	
Eight years later	16,261	17,528	–	–	–	–	–	–	–	–	
Nine years later	16,165	–	–	–	–	–	–	–	–	–	
Net ultimate claims	16,165	17,528	20,469	17,379	22,802	24,005	21,027	21,311	23,873	14,364	198,923
Less: Cumulative net paid claims	(16,074)	(17,150)	(19,385)	(16,938)	(18,625)	(19,932)	(17,899)	(15,937)	(10,484)	(1,976)	(154,400)
Net claims reserves from 2009 to 2018	**91**	**378**	**1,084**	**441**	**4,177**	**4,073**	**3,128**	**5,374**	**13,389**	**12,388**	**44,523**
Net claims reserves from 2008 and prior											131
Net claims reserves (see Note 18)											**44,654**

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

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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	**25,997**	**9,165**	**16,832**	23,254	2,062	21,192
Claims incurred but not reported	**28,777**	**4,484**	**24,293**	28,670	8,274	20,396
As at 1 January	**54,774**	**13,649**	**41,125**	51,924	10,336	41,588
Change in prior year provisions	**20,101**	**5,599**	**14,502**	14,954	2,665	12,289
Expected cost of current year claims	**7,918**	**996**	**6,922**	11,676	4,778	6,898
Claims paid during the year	**(23,709)**	**(6,563)**	**(17,146)**	(25,206)	(4,306)	(20,900)
Effects of movements in exchange rates	**(944)**	**(195)**	**(749)**	1,426	176	1,250
As at 31 December	**58,140**	**13,486**	**44,654**	54,774	13,649	41,125
Claims notified	**26,512**	**7,373**	**19,139**	25,997	9,165	16,832
Claims incurred but not reported	**31,628**	**6,113**	**25,515**	28,777	4,484	24,293
As at 31 December	**58,140**	**13,486**	**44,654**	54,774	13,649	41,125
Provision for unearned premiums:						
As at 1 January	**33,380**	**6,852**	**26,528**	35,096	6,120	28,976
Premiums written during the year	**84,691**	**21,561**	**63,130**	53,987	15,024	38,963
Premiums earned during the year	**(67,415)**	**(17,573)**	**(49,842)**	(56,331)	(14,366)	(41,965)
Effects of movements in exchange rates	**(617)**	**(38)**	**(579)**	628	74	554
As at 31 December	**50,039**	**10,802**	**39,237**	33,380	6,852	26,528

19 Creditors

	2018 $'000	2017 $'000
Creditors arising out of direct insurance operations	**4,347**	5,469
Creditors arising out of reinsurance operations	**16,966**	9,322
Other creditors including taxation and social security	**7,846**	2,514
Total	**29,159**	17,305

Other creditors including taxation and social security balance includes $7.8m (2017: $2.5m) due to the managing agent, which is explained further in Note 21.

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 paid during calendar year 2018 to CUL in respect of the services provided to the Syndicate amounted to $1.0m (2017: $1.3m).

Profit commission payable to the managing agent of $0.6m (2017: $0.9m) has been accrued in respect of the profit on the 2016 (2015) closed year of account.

A number of non-executive directors are also directors of other Lloyd's and non-Lloyd's 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.

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 as at 31 December 2018 totalled $7.8m (2017: $2.5m) 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 100% of capacity to the 2016, 2017 and 2018 underwriting years. Therefore, all profits and losses of the Syndicate are attributable to Cathedral Capital (1998) Limited. Amounts owed to Cathedral Capital (1998) Limited as at 31 December 2018 totalled $2.3m (2017: $3.7m), which is further explained in Note 22.

During the normal course of business Syndicate 3010 has purchased certain reinsurances from Lancashire group (re) insurance companies and Lloyd's Syndicate 2010 on a commercial arm's length basis. The aggregate amounts of premium involved to date are not material in the context of the Syndicate's overall spend.

Syndicate 3010 leads an Aviation Consortia which is managed by 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)	**586**	583
Post-employment benefits	**70**	41
Total	**656**	624

22 Post Statement of Financial Position Events

A total distribution of $2.3m will be transferred to the members' personal reserve funds on 10 April 2019 in respect of the 2016 year of account (2017: $3.7m in relation to the 2015 year of account).

23 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.

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