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SYNDICATE 3010

Annual Report and Accounts
31 December 2021

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Directors and Administration

MANAGING AGENT:

Lancashire Syndicates Limited
29th Floor
20 Fenchurch Street
London EC3M 3BY

MANAGING AGENT'S REGISTERED NUMBER

00292093

DIRECTORS

| | |
|---------------|------------------------|
| N P Davenport | Non-Executive Chairman |
| E L Woolley | |
| C J Whittle | |
| S W Fraser | Non-Executive |
| L J Gibbins | Non-Executive |
| P Martin | Non-Executive |
| A C Beardon | |
| J M Barnes | |
| J D Spence | |
| P T Dawe | |
| R D Milner | |

COMPANY SECRETARY

M E Lynn

SYNDICATE ACTIVE UNDERWRITER

J D Spence

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

Report of the Directors of the Managing Agent

31 December 2021

INTRODUCTION

The Directors of Lancashire Syndicates Limited ("LSL"), the Managing Agent for Syndicate 3010, present their Annual Report and Accounts for the year ended 31 December 2021.

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 including Financial Reporting Standard 102: The Financial Reporting Standard Applicable in the United Kingdom and Ireland ('FRS102') and Financial Reporting Standard 103 Insurance Contracts ('FRS103').

The Directors continue to prepare the Syndicate annual accounts on a going concern basis as the Syndicate does not intend to cease underwriting or cease its operations, and the Directors have concluded that the Syndicate's financial position means that this is realistic. The Directors have also concluded that there are no material uncertainties that could cast significant doubt over the Syndicate's ability to continue as a going concern for at least a year from the date of approval of the Syndicate annual accounts. Management's assessment of the Syndicate as a going concern is set out in Note 1 on page 17.

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, Marine Hull and Accident and Health. The Syndicate started writing Casualty and Property Construction classes during the second half of the year.

LSL is the Managing Agent for Syndicate 3010. It also acts as Managing Agent for Syndicate 2010. LSL is subject to the dual regulation of the Prudential Regulation 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 LSL. Lancashire Holdings Limited ("LHL"), incorporated in Bermuda, is the ultimate parent company of LSL.

CALENDAR YEAR RESULTS AND BUSINESS REVIEW

The result for the 2021 calendar year is a profit of \$35.3m (2020: profit of \$9.3m) and a combined ratio of 71.4% (2020: 87.8%). An analysis of the contribution to the overall result made by the individual underwriting years is as follows:

| | 2019 account \$'000 | 2020 account \$'000 | 2021 account \$'000 | 31 December 2021 \$'000 | 31 December 2020 \$'000 |
|-------------------------------|---------------------------|---------------------------|---------------------------|-------------------------------|-------------------------------|
| Gross premiums written | (6,158) | 20,398 | 244,151 | 258,391 | 169,465 |
| Gross premiums earned | 6 | 104,874 | 94,898 | 199,778 | 140,713 |
| Net premiums earned | 445 | 72,474 | 56,980 | 129,899 | 93,278 |
| Profit for the financial year | 5,925 | 27,283 | 2,121 | 35,329 | 9,292 |
| Loss ratio (%) | (1,761.7) | 37.2 | 47.0 | 35.3 | 48.3 |
| Expense ratio (%)* | 162.0 | 24.9 | 49.3 | 36.1 | 39.5 |
| Combined ratio (%) | (1,599.7) | 62.1 | 96.3 | 71.4 | 87.8 |

* The expense ratio excludes profit commission to LSL, the Syndicate's Managing Agent.

UNDERWRITING

A breakdown of divisional performance is shown below:

| | 31 December 2021 | | 31 December 2020 | |
|---------------------|-------------------------------|------------------|-------------------------------|------------------|
| | Gross premiums written \$'000 | Net loss ratio % | Gross premiums written \$'000 | Net loss ratio % |
| Marine Cargo | 43,798 | 46.1 | 38,953 | 34.6 |
| Energy | 19,674 | 11.6 | 16,629 | 69.4 |
| Aviation | 95,880 | 19.8 | 69,932 | 46.1 |
| Terrorism | 8,776 | 5.8 | 7,030 | 2.9 |
| Power Utility | 39,163 | 66.4 | 26,800 | 92.3 |
| Marine Hull | 11,107 | 56.7 | 4,292 | 41.5 |
| Accident and Health | 19,470 | 30.3 | 3,154 | 110.7 |
| Other* | 20,523 | 79.7 | 2,675 | 151.4 |
| Total | 258,391 | 35.3 | 169,465 | 48.3 |

* Other includes the Lancashire UK Limited ("LUK") quota share class, as well as the new Casualty and Property Construction classes.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT 31 DECEMBER 2021 CONTINUED

The gross written premiums for the calendar year have increased by 52.5% to \$258.4m (2020: \$169.5m). The Syndicate increased the amount of premium income written across existing classes with a combination of new business and increased pricing on renewal business. All classes made valuable contributions during the year including the new Accident and Health account that only commenced underwriting mid-year 2020.

The Lloyd's performance initiative combined with the Decile 10 approach continued to enforce market discipline. The Syndicate's track record meant that the Syndicate was well placed to achieve ambitious growth plans. The rating environment continued to improve with several classes now seeing the third consecutive year of positive rate movements. All of these factors combined to put Syndicate 3010 in an optimal position.

LSL maintains a strong underwriting discipline across all lines with a focus on the profitability of business being written rather than pure 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 69.2% to \$96.7m (2020: \$57.1m). The increased programme spend reflects the continued growth of some classes where we purchase quota share reinsurance and increased income in most areas.

The underwriting result was impacted by losses from Hurricane Ida, Storm Uri, several Power and Cargo losses coupled with strengthening on Hurricane Sally. Consistent with previous years, losses from major natural catastrophes had little impact. The Syndicate also benefited from releases on prior year losses, from Energy and Cargo classes.

The net loss ratio for the 2021 calendar year is 35.3% (2020: 48.3%).

Net operating expenses, including business acquisition costs and administrative expenses, were \$48.3m (2020: \$39.6m) and the expense ratio was 37.2% (2020: 42.4%). The breakdown of these costs is summarised in Note 6 of the accounts, which includes profit commission due to LSL for \$1.4m (2020: \$2.7m).

OUTLOOK AND BUSINESS ENVIRONMENT

The increased focus on performance by Lloyd's since 2019 is helping to ensure strong levels of market discipline. Poorer performers are finding it difficult to grow and this is having a positive effect on pricing in some areas. We are however seeing some new entrants enter the market and a market wide desire to offset catastrophe exposures is likely to increase competition in the specialty markets. We are well placed to navigate this with many of our classes being well-established and all our underwriters being known for their expertise. We are continuing to add further classes to diversify and grow the Syndicate into 2022 and beyond. As the income of the Syndicate continues to increase, we are seeing further economies of scale and a beneficial effect on the expense ratio.

For 2022, the income is again planned to increase through organic growth of existing classes, however the bulk of the growth for 2022 will emanate from new classes of business to the Syndicate. These are Property Construction, Australian Property D&F, Political Risks and a small Casualty account where we will support existing market specialists by way of a Consortium.

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 Lancashire Syndicates Executive team and Board. In addition, the Syndicate has the full support of the wider Lancashire Group which continues to be beneficial to capitalise on market opportunities. The Syndicate has a prudent approach to reserving, a strong reinsurance programme with good security and a conservative investment portfolio. Lancashire Syndicates 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 2022 year of account is increased to £250.0m from £175.0m.

2021 was a very different year to that which we expected. COVID-19 continued to significantly change our working practices. The manner in which the entire LSL team was able to manage this and still continue to grow the business in such a significant way has been a fantastic achievement.

UNDERWRITING YEAR OF ACCOUNT SUMMARY

The table below shows Syndicate 3010's actual results for the closed 2019 year of account and the forecast results for the 2020 and 2021 open years of account:

| Year of account | 2021 forecast £'000 | 2020 forecast £'000 | 2019 actual £'000 |
|-----------------|------------------------|------------------------|----------------------|
| Stamp capacity | 175,000 | 150,000 | 100,000 |
| Profit | n/a | n/a | 10,098 |
| Return on stamp | * | +15.0% to +10.0% | +10.1% |

* A formal forecast range for the 2021 year of account will be submitted in the Q1 2022 QMA.

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Lancashire Group Company, is the sole capital provider for all years of account.

2019 UNDERWRITING RESULT

The 2019 year of account closed on 31 December 2021 with a profit of \$13.6m. This includes movement on the closed years of account and equates to a profit of +10.1% of capacity.

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.

2020 ACCOUNT

The latest forecast for the 2020 year of account was issued in the Syndicate's Q4 QMA submission on 10 February 2022, with the range narrowed at +15.0% to +10.0% of stamp capacity.

The Syndicate's exposure to the large losses incurred during 2021 is modest. The net impact of these losses to the 2020 year of account is offset by favourable attritional experience.

2021 ACCOUNT

For 2021, the Syndicate's capacity was increased to £175.0m. Although it is still too early to produce a 2021 forecast range due to a large amount of unexpired exposure, the events of 2021 will remain critical to how the year of account develops. The commentary outlining the 2021 experience is contained within the Calendar Year Results and Business Review section of this report.

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 LSL. 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 maturity 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 Lloyd's guidance.

INVESTMENT PERFORMANCE

Syndicate 3010's investment portfolio returned an investment loss of \$0.7m in 2021 (2020: profit of \$0.5m). The Syndicate's cash and investments totalled \$147.8m at 31 December 2021 (2020: \$81.9m).

In 2021 the US combined Syndicate portfolio returned -0.6% (2020: 0.2%) compared to the composite swaps benchmark return of -0.9% (2020: 0.3%).

INVESTMENT STRATEGY

The investment strategy places an emphasis on the preservation of invested assets and provision of sufficient liquidity for the prompt payment of claims, in conjunction with providing a reasonably stable income stream. These objectives are reflected in the Syndicate's investment guidelines and its relatively conservative asset allocation. Management reviews the composition, duration and asset allocation of the investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT 31 DECEMBER 2021 CONTINUED

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. Foreign exchange exposures across the Lancashire Group are hedged by Lancashire Holdings Limited.

PRINCIPAL RISKS AND UNCERTAINTIES

In addition to strategic risk, including an inappropriate or poorly executed business plan, 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, Financial risk, Credit risk, Liquidity risk, Operational risk, Market risk and Capital Management 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.

Below are risks for which quantitative assessment is difficult but for which a structured approach is still required to ensure that their potential impact is considered and mitigated insofar as practicable.

RISKS RELATING TO CLIMATE CHANGE

The Syndicate is exposed to both climate-related risk and opportunities. The two major categories of risk being transition and physical risk. Transition risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputation risk. Physical risks are those relating to the physical impacts of climate change which can be acute (those from increased frequency and severity of climate related events) or chronic (due to longer-term shifts in climate patterns). The Syndicate is more significantly affected by physical risk through its exposure to acute and chronic climate change. However, consideration must be, and is, given to transition and climate-related litigation risks. The potential financial impact from these climate-related risks is assessed through scenario testing and mitigated by the Syndicate's strategic and risk management decisions on managing these risks. A risk radar has been prepared to illustrate the risks identified, the likelihood of the risks and their product impact. The risk assessment also considers the products currently offered by the Syndicate and how these might change over time during the transition to a lower carbon economy.

In our underwriting operations, we manage this risk effectively by supplementing our internal systems, data and procedures with external vendor models. Underwriting guidelines were developed in 2021 to support the underwriting process and provide guidance to assist underwriters in their decision making. Performance against guidelines is monitored via the LSL Underwriting Committee Forum and Risk and Compliance Committee. We have clear tolerances and preferences in place to actively manage exposures, and the Board regularly monitors our Probable Maximum Loss (PMLs). The risks to the asset side of our balance sheet from exposure to climate change are mitigated in part through regular reviews of our third-party asset managers, our asset allocation, and the underlying securities within our portfolio.

Climate change, its related risks and opportunities and their financial impact are a key focus of the Board at their quarterly meetings. The regulatory requirements around companies' climate-related financial disclosures are increasing and failure to address these requirements sufficiently may result in the risk of reputational damage or increased regulatory oversight.

RISKS RELATING TO COVID-19

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. The COVID-19 pandemic has caused significant disruption in global financial markets and to worldwide economies. The loss environment continues to evolve and the Syndicate is monitoring the impact it has on our business. During the year ended 31 December 2021, the Syndicate's ultimate loss estimate, net of reinsurance and the impact of inwards and outwards reinstatement premiums, for COVID-19 related losses has remained stable.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

Sustainable underwriting is one of the pillars of the Lancashire Group ESG strategy. However, in a complex world there are many challenges and we understand that there are not always easy solutions. The risk solutions that we provide help protect people, companies and economies from uncertainty and give them confidence and stability. Our property (re)insurance products insure clients against the risk of major weather and other catastrophic events and we have long-standing expertise in this area. In our energy portfolio we support our clients' transition to renewable energy and insure a number of projects, from wind and solar farms to biomass facilities and others. Our product offering will continue to evolve to meet the changing needs of our clients in supporting the world's net-zero target. We are committed to playing our part in making the world more sustainable in an open and honest way. To help us with this, during 2021, we put in place a number of internal underwriting guidelines focused on consideration of climate change and other ESG factors in line with our values.

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 2021, as well as any subsequent changes are listed under the section 'Directors and Administration' on page 1.

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

3 March 2022

Statement of Managing Agent's Directors Responsibilities 31 December 2021

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 (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the Directors of the Managing Agent to prepare their Syndicate's 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 (Lloyds'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 annual accounts, 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; and
- assess the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The Directors of the Managing Agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the Syndicate annual accounts comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of Syndicate annual 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 Syndicate 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 Syndicate annual accounts may differ from legislation in other jurisdictions.

On behalf of the board

E L Woolley
Chief Executive Officer

3 March 2022

SYNDICATE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2021

Independent Auditor's Report to the Members of Syndicate 3010

OPINION

We have audited the Syndicate annual accounts of Syndicate 3010 ("the Syndicate") for the year ended 31 December 2021 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: non-technical account, Balance Sheet, 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 Syndicate annual accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2021 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 FRC Ethical Standard as applied to other entities of public interest. 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 Syndicate annual accounts on the going concern basis as they do not intend to cease underwriting 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 Syndicate annual accounts ("the going concern period").

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

Our conclusions based on this work:

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Syndicate will continue in operation.

FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD

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

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

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

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of insurance contract liabilities and the valuation of estimated premium income. We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to significant risk areas (estimated premium income and IBNR) containing key words such as reversal, restatement, reclassification; those posted by senior finance management; those posted by an individual who posts journals infrequently, unusual postings to cash and revenue accounts; those posted to unusual accounts; and post-closing journals meeting certain criteria.
- Assessing whether the judgements made in making accounting estimates are indicative of potential bias.

IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

The potential effect of these laws and regulations on the Syndicate annual accounts varies considerably.

Firstly, the Syndicate is subject to laws and regulations that directly affect the Syndicate annual accounts including financial reporting legislation (including Lloyd's regulations) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Syndicate annual accounts items.

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

CONTEXT OF THE ABILITY OF THE AUDIT TO DETECT FRAUD OR BREACHES OF LAW OR REGULATION

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

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

OTHER INFORMATION - 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 Syndicate annual accounts 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 Syndicate annual accounts audit work, the information therein is materially misstated or inconsistent with the Syndicate annual accounts or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Report of the Directors of the Managing Agent;
- in our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the Syndicate annual accounts; and
- in our opinion the information given in the Report of the Directors of the Managing Agent have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 3010

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 Syndicate annual accounts 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 7, the Directors of the Managing Agent are responsible for: the preparation of the Syndicate annual accounts 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 Syndicate annual accounts 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 Syndicate annual accounts 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 Syndicate annual accounts.

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 Syndicate 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
London

3 March 2022

Statement of Profit or Loss Technical Account - General Business

For the year ended 31 December 2021

| | Notes | 2021 \$'000 | 2020 \$'000 |
|---|-------|----------------|----------------|
| Earned premiums, net of reinsurance | | | |
| Gross premiums written | 5 | 258,391 | 169,465 |
| Outward reinsurance premiums | | (96,695) | (57,144) |
| Net premiums written | | 161,696 | 112,321 |
| Change in the provision for unearned premiums: | | | |
| Gross amount | | (58,613) | (28,752) |
| Reinsurers' share | | 26,816 | 9,709 |
| Earned premiums, net of reinsurance | | 129,899 | 93,278 |
| Allocated investment return transferred from the non-technical account | | (688) | 489 |
| Claims incurred, net of reinsurance | | | |
| Claims paid: | | | |
| Gross amount | 5 | (37,193) | (43,278) |
| Reinsurers' share | | 12,599 | 11,443 |
| Net claims paid | | (24,594) | (31,835) |
| Change in the provision for claims: | | | |
| Gross amount | 5 | (31,423) | (15,671) |
| Reinsurers' share | | 10,102 | 2,495 |
| Net change in the provision for claims | | (21,321) | (13,176) |
| Claims incurred, net of reinsurance | | (45,915) | (45,011) |
| Net operating expenses | 5, 6 | (48,297) | (39,582) |
| Balance on the technical account for general business | | 34,999 | 9,174 |

All operations relate to continuing activities.

Statement of Profit or Loss Non-Technical Account

For the year ended 31 December 2021

| | Notes | 2021 \$'000 | 2020 \$'000 |
|---|-------|----------------|----------------|
| Balance on technical account for general business | | 34,999 | 9,174 |
| Investment income | 10 | 809 | 509 |
| Unrealised gains on investments | 10 | 34 | 92 |
| Investment expenses and charges | 10 | (132) | (40) |
| Unrealised losses on investments | 10 | (1,399) | (72) |
| Allocated investment return transferred to the general business technical account | | 688 | (489) |
| Foreign exchange gains | | 330 | 118 |
| Profit for the financial year | | 35,329 | 9,292 |

All operations relate to continuing activities.

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

Balance Sheet

As at 31 December 2021

| | Notes | 2021 \$'000 | 2020 \$'000 |
|--|-------|----------------|----------------|
| Investments: | | | |
| Financial investments | 11 | 56,765 | 35,642 |
| Deposits with ceding undertakings | 12 | 496 | — |
| | | 57,261 | 35,642 |
| Reinsurers' share of technical provisions: | | | |
| Provision for unearned premiums | 19 | 57,177 | 31,026 |
| Claims outstanding | 19 | 33,124 | 23,211 |
| | | 90,301 | 54,237 |
| Debtors: | | | |
| Debtors arising out of direct insurance operations | 13 | 46,887 | 36,754 |
| Debtors arising out of reinsurance operations | 14 | 89,454 | 55,194 |
| Other debtors | 15 | 96 | 107 |
| | | 136,437 | 92,055 |
| Other assets: | | | |
| Cash and cash equivalents | 16 | 90,515 | 46,260 |
| | | 90,515 | 46,260 |
| Prepayments and accrued income: | | | |
| Deferred acquisition costs | 17 | 33,107 | 21,509 |
| Other prepayments and accrued income | | 761 | 557 |
| | | 33,868 | 22,066 |
| Total Assets | | 408,382 | 250,260 |
| Capital and reserves: | | | |
| Member's balances | | 36,398 | 4,178 |
| | | 36,398 | 4,178 |
| Technical provisions: | | | |
| Provision for unearned premiums | 19 | 160,668 | 104,210 |
| Claims outstanding | 19 | 118,866 | 88,129 |
| | | 279,534 | 192,339 |
| Creditors: | | | |
| Creditors arising out of direct insurance operations | 20 | 3,263 | 3,051 |
| Creditors arising out of reinsurance operations | 20 | 67,462 | 39,137 |
| Other creditors including taxation and social security | 20 | 4,877 | 3,835 |
| | | 75,602 | 46,023 |
| Accruals and deferred income | | 16,848 | 7,720 |
| Total Liabilities | | 408,382 | 250,260 |

The notes on pages 17 to 37 form part of these annual accounts.

The Syndicate annual accounts on pages 12 to 37 were approved by the Board of Lancashire Syndicates Limited on 3 March 2022 and were signed on its behalf by:

C J Whittle
Chief Financial Officer

3 March 2022

Statement of Changes in Member's Balances

For the year ended 31 December 2021

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Member's balances as at 1 January | 4,178 | (3,722) |
| Profit for the financial year | 35,329 | 9,292 |
| Transfer to member's personal reserve fund | (3,109) | (1,392) |
| Member's balances as at 31 December | 36,398 | 4,178 |

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 member's personal funds comprise the 2018 (2017) closed year of account profit.

Statement of Cash Flows

For the year ended 31 December 2021

| | Notes | 2021 \$'000 | 2020 \$'000 |
|--|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit for the financial year | | 35,329 | 9,292 |
| Realised and unrealised investments losses on cash and investments, including currency movements | 10 | 1,465 | 11 |
| Income from investments | 10 | (797) | (509) |
| Exchange gains | | (330) | (118) |
| Increase in debtors, prepayments and accrued income | | (57,515) | (33,243) |
| Increase in net technical provisions | | 53,117 | 32,217 |
| Increase in creditors, accruals and deferred income | | 39,275 | 13,097 |
| Net cash inflow from operating activities | | 70,544 | 20,747 |
| Cash flows from investing activities | | | |
| Interest received | | 797 | 509 |
| Purchase of equity and debt securities | | (45,577) | (32,942) |
| Sale of equity and debt securities | | 21,492 | 1,137 |
| Net cash outflow from investing activities | | (23,288) | (31,296) |
| Cash flows from financing activities | | | |
| Transfer to members in respect of underwriting participations | | (3,109) | (1,392) |
| Net cash flow from financing activities | | (3,109) | (1,392) |
| Increase/(decrease) in cash and cash equivalents in the year | | 44,147 | (11,941) |
| Cash and cash equivalents at 1 January | | 46,260 | 57,413 |
| Effect of exchange rates and change in market value on cash and cash equivalents | | 108 | 788 |
| Cash and cash equivalents at 31 December | 16 | 90,515 | 46,260 |

Notes to the Syndicate Annual Accounts

For the year ended 31 December 2021

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 Lancashire Syndicates 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 annual accounts more relevant to the decision-making needs of the user.

The annual accounts 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 annual accounts 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.

The annual accounts are prepared on a going concern basis in accordance with FRS102.

In assessing the Syndicate's going concern position as at 31 December 2021, the Directors have considered a number of factors. These include the current balance sheet and liquidity position, the level and composition of the Syndicate's capital and solvency ratios, the current performance against the Syndicate's strategic and financial business plan, and the current market environment including consideration of the ongoing COVID-19 pandemic and climate change.

The Syndicate's financial forecasts reflect the outcomes that the Directors consider most likely, based on the information available at the date of signing these annual accounts. To assess the Syndicate's going concern, the financial stability of the Syndicate was modelled for a period of at least 12 months and a number of sensitivity, stress and scenario tests were applied. This included, among other analysis, a best estimate forecast as well as various scenarios. This incorporated different magnitudes of reserve releases and, attritional, large and catastrophe events plus optimistic and pessimistic investment return scenarios. To further stress the financial stability of the Syndicate, additional stress testing was performed. This included modelling the breakeven capital requirements of our regulators, the impact of potential management actions to reduce the Syndicate's exposure to climate change-related risks, an operational risk stress of the main input assumption to the base case, the occurrence of a number of high severity loss events impacting the Syndicate in 2022 alongside an investment shock and finally a reverse stress test scenario designed to render the business model unviable. The testing identified that even under the most severe but plausible stress scenarios, the Syndicate had more than adequate liquidity and solvency headroom.

Based on the going concern assessment performed as at 31 December 2021, the Directors consider there to be no material uncertainties that may cast significant doubt over the Syndicate's ability to continue to operate as a going concern. The Directors have formed a judgment that there is a reasonable expectation that the Syndicate has adequate resources to continue in operational existence in the foreseeable future, a period of at least 12 months from the date of signing these annual accounts.

2 USE OF JUDGEMENTS AND ESTIMATES

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

ESTIMATION OF CLAIMS

The measurement of the provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a 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.

2 USE OF JUDGEMENTS AND ESTIMATES CONTINUED

ESTIMATION OF CLAIMS (CONTINUED)

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 inception during the financial year, together with adjustments made in the year to premiums written in prior accounting periods. They also include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified. Premiums are shown gross of 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 with regards to claims provisions is that the past is a reasonable predictor of the likely level of claims development. In addition, a management prudence margin is added to the actuarial best estimate.

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 measurable 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.

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

3 ACCOUNTING POLICIES CONTINUED

G) FOREIGN CURRENCIES

The presentational and functional currency of the Syndicate is USD. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the rate of exchange ruling at the date of the transaction or at an appropriate average rate. 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. This includes Deposits with ceding undertakings.

(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.

3 ACCOUNTING POLICIES CONTINUED

H) FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(V) OFFSETTING

Financial assets and financial liabilities are set off and the net amount presented in the Balance Sheet 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 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 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. Cash and cash equivalents are carried at amortised cost in the balance sheet.

K) DEPOSITS WITH CEDING UNDERTAKINGS

Deposits with ceding undertakings represent funds held by Lloyd's Europe on behalf of the Syndicate to settle Part VII claims. These funds are held at amortised cost in the balance sheet.

L) 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 U.S. 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 Balance Sheet under the heading 'other debtors'.

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

M) PENSION COSTS

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

N) 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 two-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. This profit commission does not apply to the 2020 Year of Account onwards.

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

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 LSL, 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;
- Financial risk;
- Credit risk;
- Liquidity risk;
- Operational risk;
- Market risk; and
- Capital management risk.

RISK MANAGEMENT FRAMEWORK

The Board of Directors of LSL has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Board has established a Risk and Compliance 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 and Compliance 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 explain how each category of risk is defined and managed.

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 monitoring 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 and Compliance 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

INSURANCE RISK (CONTINUED)

CONCENTRATION OF INSURANCE RISK

The Syndicate's underwriting covers various classes of business which, to some extent, have different exposure profiles and therefore provide 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.

The table below provides an analysis of the geographical breakdown of the Syndicate's gross written premium by class of business.

| | Accident and health \$'000 | Marine, aviation and transport \$'000 | Fire and other damage to property \$'000 | Reinsurance \$'000 | Total \$'000 |
|-------------------------------|-------------------------------|---|---|-----------------------|-----------------|
| As at 31 December 2021 | | | | | |
| United Kingdom | 2,652 | 2,768 | 1,686 | 5,605 | 12,711 |
| US | 8,181 | 18,293 | 20,333 | 10,462 | 57,269 |
| European Union Member States | 23 | 2,658 | 589 | 22,651 | 25,921 |
| Other countries | 248 | 49,983 | 7,162 | 105,097 | 162,490 |
| Total | 11,104 | 73,702 | 29,770 | 143,815 | 258,391 |

| | Accident and health \$'000 | Marine, aviation and transport \$'000 | Fire and other damage to property \$'000 | Reinsurance \$'000 | Total \$'000 |
|-------------------------------|-------------------------------|---|---|-----------------------|-----------------|
| As at 31 December 2020 | | | | | |
| United Kingdom | 661 | 2,942 | 1,499 | 2,114 | 7,216 |
| US | 157 | 11,561 | 17,471 | 5,549 | 34,738 |
| European Union Member States | 270 | 1,409 | 339 | 12,671 | 14,689 |
| Other countries | 19 | 42,342 | 4,935 | 65,526 | 112,822 |
| Total | 1,107 | 58,254 | 24,244 | 85,860 | 169,465 |

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 short-tail business lines, some of which have a degree of catastrophe exposure. The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit for the year and member's balances.

| 31 December 2021 | Movement in claims reserves | | | |
|---|-----------------------------|---------|-------|---------|
| | +2.5% | -2.5% | +5% | -5% |
| Impact on gross liabilities | 2,972 | (2,972) | 5,943 | (5,943) |
| Impact on net liabilities | 2,144 | (2,144) | 4,287 | (4,287) |
| Impact on profit for the year and member's balances | 2,144 | (2,144) | 4,287 | (4,287) |

| 31 December 2020 | Movement in claims reserves | | | |
|---|-----------------------------|---------|-------|---------|
| | +2.5% | -2.5% | +5% | -5% |
| Impact on gross liabilities | 2,203 | (2,203) | 4,406 | (4,406) |
| Impact on net liabilities | 1,623 | (1,623) | 3,246 | (3,246) |
| Impact on profit for the year and member's balances | 1,623 | (1,623) | 3,246 | (3,246) |

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 2021 Lloyd's RDS submission using version 18 of RMS, the largest RDS on a gross basis was for an Aviation Collision event at \$102.0m [unaudited]. The largest event net of reinsurance recoveries and reinstatement costs was for a Marine Collision event at \$12.9m [unaudited].

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

4 RISK AND CAPITAL MANAGEMENT CONTINUED

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. A climate value at risk ("VaR") has been implemented to provide a forward looking return-based valuation assessment to measure climate-related risks and opportunities in the investment portfolio.

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; and
- Cash and cash equivalents.

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 and investment grade corporate 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 potential 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 reinsurance operations, cash at bank and in hand, and other assets that are neither past due, nor impaired.

| As at 31 December 2021 | AAA to A- \$'000 | BBB+ to B- \$'000 | Unrated \$'000 | Total \$'000 |
|---|---------------------|----------------------|-------------------|-----------------|
| Financial investments | 47,052 | 7,904 | 1,809 | 56,765 |
| Cash and cash equivalents | 90,515 | — | — | 90,515 |
| Deposits with ceding undertakings | 496 | — | — | 496 |
| Reinsurers' share of claims outstanding | 32,966 | — | 158 | 33,124 |
| Debtors arising out of reinsurance operations | 11,624 | — | 77,830 | 89,454 |
| Total | 182,653 | 7,904 | 79,797 | 270,354 |

4 RISK AND CAPITAL MANAGEMENT CONTINUED

CREDIT RISK (CONTINUED)

| As at 31 December 2020 | AAA to A- \$'000 | BBB+ to B- \$'000 | Unrated \$'000 | Total \$'000 |
|---|---------------------|----------------------|-------------------|-----------------|
| Financial investments | 27,599 | 7,132 | 911 | 35,642 |
| Cash and cash equivalents | 46,260 | — | — | 46,260 |
| Deposits with ceding undertakings | — | — | — | — |
| Reinsurers' share of claims outstanding | 19,078 | — | 4,133 | 23,211 |
| Debtors arising out of reinsurance operations | 8,122 | — | 47,072 | 55,194 |
| Total | 101,059 | 7,132 | 52,116 | 160,307 |

Of the \$0.2m (2020: \$4.1m) unrated reinsurers' share of claims outstanding, nil (2020: \$3.7m) are in respect of attritional IBNR that have yet to be allocated to any specific loss and the remaining \$0.2m (2020: \$0.4m) 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.

Of the \$77.8m (2020: \$47.1m) unrated debtors arising out of reinsurance operations, \$77.8m (2020: \$46.9m) are due from ceding insurers under reinsurance business and nil (2020: \$0.2m) relates to reinsurance recoverable on paid claims.

The total unrated financial investments represent overseas deposits held in trust funds.

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.

| As at 31 December 2021 | Neither due nor impaired \$'000 | 0-3 months past due \$'000 | 3-6 months past due \$'000 | 6-12 months past due \$'000 | Greater than 1 year past due \$'000 | Total \$'000 |
|--|---------------------------------------|----------------------------------|----------------------------------|-----------------------------------|---|-----------------|
| Debtors arising out of direct insurance operations | 36,240 | 7,769 | 1,476 | 563 | 839 | 46,887 |
| Debtors arising out of reinsurance operations | 72,620 | 12,608 | 2,254 | 839 | 1,133 | 89,454 |
| Total | 108,860 | 20,377 | 3,730 | 1,402 | 1,972 | 136,341 |

| As at 31 December 2020 | Neither due nor impaired \$'000 | 0-3 months past due \$'000 | 3-6 months past due \$'000 | 6-12 months past due \$'000 | Greater than 1 year past due \$'000 | Total \$'000 |
|--|---------------------------------------|----------------------------------|----------------------------------|-----------------------------------|---|-----------------|
| Debtors arising out of direct insurance operations | 29,231 | 4,538 | 1,584 | 660 | 741 | 36,754 |
| Debtors arising out of reinsurance operations | 45,970 | 5,848 | 2,031 | 788 | 557 | 55,194 |
| Total | 75,201 | 10,386 | 3,615 | 1,448 | 1,298 | 91,948 |

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.

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

4 RISK AND CAPITAL MANAGEMENT CONTINUED

LIQUIDITY RISK (CONTINUED)

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

| As at 31 December 2021 | < 1 year \$'000 | 1-3 years \$'000 | 4-5 years \$'000 | > 5 years \$'000 | Total \$'000 |
|--|--------------------|---------------------|---------------------|---------------------|-----------------|
| Gross provision for claims outstanding | 71,906 | 37,623 | 7,056 | 2,281 | 118,866 |
| Creditors | 75,602 | — | — | — | 75,602 |
| Total | 147,508 | 37,623 | 7,056 | 2,281 | 194,468 |

| As at 31 December 2020 | < 1 year \$'000 | 1-3 years \$'000 | 4-5 years \$'000 | > 5 years \$'000 | Total \$'000 |
|--|--------------------|---------------------|---------------------|---------------------|-----------------|
| Gross provision for claims outstanding | 64,745 | 22,125 | 1,242 | 17 | 88,129 |
| Creditors | 46,023 | — | — | — | 46,023 |
| Total | 110,768 | 22,125 | 1,242 | 17 | 134,152 |

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.

LSL 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.

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.

4 RISK AND CAPITAL MANAGEMENT CONTINUED

MARKET RISK (CONTINUED)

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, as far as possible, maintain assets in the currency in which the cash flows from liabilities are to be settled in order to match the currency risk inherent in these contracts. Foreign exchange exposures across the Lancashire Group are hedged by Lancashire Holdings Limited.

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

| As at 31 December 2021 | GBP \$'000 | USD \$'000 | EUR \$'000 | CAD \$'000 | Total \$'000 |
|-------------------------|---------------|---------------|---------------|---------------|-----------------|
| Total assets | 31,254 | 328,627 | 38,403 | 10,098 | 408,382 |
| Total liabilities | (30,683) | (301,747) | (35,034) | (4,520) | (371,984) |
| Member's balance | 571 | 26,880 | 3,369 | 5,578 | 36,398 |

| As at 31 December 2020 | GBP \$'000 | USD \$'000 | EUR \$'000 | CAD \$'000 | Total \$'000 |
|------------------------|---------------|---------------|---------------|---------------|-----------------|
| Total assets | 23,966 | 197,805 | 19,015 | 9,474 | 250,260 |
| Total liabilities | (20,115) | (200,301) | (22,005) | (3,661) | (246,082) |
| Member's balance | 3,851 | (2,496) | (2,990) | 5,813 | 4,178 |

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

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 tables below. The tables show 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.

| Interest rate risk | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Increase/(decrease) on profit for the year ended | | |
| +50 basis points increase | (477) | (537) |
| - 50 basis points decrease | 469 | 411 |

| Currency risk | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Increase/(decrease) on profit for the year ended | | |
| 10% strengthening of Sterling to US Dollar | 43 | 244 |
| 10% weakening of Sterling to US Dollar | (43) | (244) |
| 10% strengthening of Euro to US Dollar | 337 | 55 |
| 10% weakening of Euro to US Dollar | (337) | (55) |
| 10% strengthening of Canadian Dollar to US Dollar | 421 | 318 |
| 10% weakening of Canadian Dollar to US Dollar | (421) | (318) |

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

4 RISK AND CAPITAL MANAGEMENT CONTINUED

CAPITAL MANAGEMENT RISK

CAPITAL FRAMEWORK AT LLOYD'S

The Society of Lloyd's ("Lloyd's") is regulated by the Financial Conduct Authority ("FCA") and 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. Accordingly, the capital requirement in respect of Syndicate 3010 is not disclosed in these annual accounts.

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 2021 was maintained at 35.0% 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 Balance Sheet on page 14, represent resources available to meet members' and Lloyd's capital requirements.

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:

| Type of business | Gross premiums written \$'000 | Gross premiums earned \$'000 | Gross claims incurred \$'000 | Net operating expenses \$'000 | Reinsurance balance \$'000 | 31 December 2021 | |
|-----------------------------------|----------------------------------|---------------------------------|---------------------------------|----------------------------------|-------------------------------|---|------------------------------------|
| | | | | | | Total excluding investment return \$'000 | Net technical provisions \$'000 |
| Direct insurance | | | | | | | |
| Accident and health | 11,104 | 5,552 | (554) | (2,762) | (200) | 2,036 | 5,823 |
| Marine, aviation and transport | 73,702 | 60,443 | (15,356) | (19,169) | (12,786) | 13,132 | 53,540 |
| Fire and other damage to property | 29,770 | 27,923 | (13,530) | (5,233) | (8,707) | 453 | 21,888 |
| | 114,576 | 93,918 | (29,440) | (27,164) | (21,693) | 15,621 | 81,251 |
| Reinsurance acceptances | 143,815 | 105,860 | (39,176) | (21,133) | (25,485) | 20,066 | 91,568 |
| Total | 258,391 | 199,778 | (68,616) | (48,297) | (47,178) | 35,687 | 172,819 |

| Type of business | Gross premiums written \$'000 | Gross premiums earned \$'000 | Gross claims incurred \$'000 | Net operating expenses \$'000 | Reinsurance balance \$'000 | 31 December 2020 | |
|-----------------------------------|----------------------------------|---------------------------------|---------------------------------|----------------------------------|-------------------------------|---|------------------------------------|
| | | | | | | Total excluding investment return \$'000 | Net technical provisions \$'000 |
| Direct insurance | | | | | | | |
| Accident and health | 1,107 | 213 | (60) | (140) | (26) | (13) | 787 |
| Marine, aviation and transport | 58,254 | 48,350 | (19,285) | (15,415) | (8,569) | 5,081 | 42,321 |
| Fire and other damage to property | 24,244 | 18,875 | (10,204) | (5,880) | (2,559) | 232 | 17,107 |
| | 83,605 | 67,438 | (29,549) | (21,435) | (11,154) | 5,300 | 60,215 |
| Reinsurance acceptances | 85,860 | 73,275 | (29,400) | (18,147) | (22,343) | 3,385 | 63,543 |
| Total | 169,465 | 140,713 | (58,949) | (39,582) | (33,497) | 8,685 | 123,758 |

Net technical provisions are net of deferred acquisition costs. No gains or losses were recognised in profit or loss during the year on buying reinsurance (2020: \$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, except for EU-domiciled business which is written through Lloyd's Europe, reinsured to the Syndicate and concluded in Belgium.

| | 2021 \$'000 | 2020 \$'000 |
|------------------------------|----------------|----------------|
| United Kingdom | 12,711 | 7,216 |
| US | 57,269 | 34,738 |
| European Union Member States | 25,921 | 14,689 |
| Other countries | 162,490 | 112,822 |
| Total | 258,391 | 169,465 |

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

6 NET OPERATING EXPENSES

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Brokerage and commissions | 52,715 | 35,061 |
| Change in deferred acquisition costs | (12,077) | (5,005) |
| Administrative expenses | 16,825 | 12,116 |
| Reinsurance commission and profit participation | (13,925) | (7,628) |
| Personal expenses | 4,759 | 5,038 |
| Total | 48,297 | 39,582 |

Total commissions for direct insurance business accounted for in the year amounted to \$23.5m (2020: \$17.0m).

Administrative expenses include:

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Auditors' remuneration: | | |
| Audit of the Syndicate annual accounts | 173 | 160 |
| Other services pursuant to regulations and Lloyd's Byelaws | 95 | 88 |
| Total | 268 | 248 |

7 STAFF NUMBER AND COSTS

Lancashire Insurance Services Limited ("LISL") pays all salaries to the employees and recharges a proportion to LSL. All staff are employed by LISL. The following amounts were recharged by LSL to the Syndicate in respect of salary costs:

| | 2021 \$'000 | 2020 \$'000 |
|-----------------------|----------------|----------------|
| Wages and salaries | 5,994 | 4,830 |
| Social security costs | 660 | 534 |
| Pension costs | 478 | 352 |
| Total | 7,132 | 5,716 |

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

| | 2021 Number | 2020 Number |
|--|----------------|----------------|
| Operations, administration and finance | 8 | 5 |
| Underwriting and claims | 33 | 26 |
| Total | 41 | 31 |

8 EMOLUMENTS OF THE DIRECTORS OF LANCASHIRE SYNDICATES 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 (see Note 9). Fees relates to fees paid to the Non-Executive Directors.

| | 2021 \$'000 | 2020 \$'000 |
|----------------|----------------|----------------|
| Emoluments | 418 | 426 |
| Fees | 18 | 18 |
| Other benefits | 182 | 120 |

There has been a change in presentation from prior year to include Other benefits for the Directors of the Managing Agent.

9 ACTIVE UNDERWRITER'S EMOLUMENTS

The Active Underwriter, the highest paid Director, received the following aggregate remuneration charged to the Syndicate:

| | 2021 \$'000 | 2020 \$'000 |
|----------------|----------------|----------------|
| Emoluments | 460 | 427 |
| Other benefits | 183 | 197 |

There has been a change in presentation from prior year to include Other benefits for the Active Underwriter.

10 INVESTMENT RETURN

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

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Investment income: | | |
| Interest and dividend income | 797 | 509 |
| Realised gains on investments | 12 | — |
| Unrealised gains on investments | 34 | 92 |
| Investment expenses and charges: | | |
| Investment management expenses, including interest | (20) | (9) |
| Realised losses on investments | (112) | (31) |
| Unrealised losses on investments | (1,399) | (72) |
| Investment return transferred to the technical account from the non-technical account | (688) | 489 |

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:

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Financial assets at fair value through profit or loss | (668) | 498 |
| Investment management expenses, excluding interest | (20) | (9) |
| Total investment return | (688) | 489 |

There are no impairment losses on any financial assets recognised in administrative expenses included in technical account (2020: \$nil).

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

| | 31 December 2021 | | 31 December 2020 | |
|--|----------------------|--------------------|----------------------|--------------------|
| | Average funds \$'000 | Investment yield % | Average funds \$'000 | Investment yield % |
| Sterling | 6,154 | (8.0) | 3,818 | 3.0 |
| Euro | 90 | (0.5) | — | — |
| US Dollars | 43,250 | (0.5) | 7,644 | 4.1 |
| Canadian Dollars | 767 | 0.8 | 776 | 8.8 |
| All currencies converted to US Dollars | 50,261 | (1.4) | 12,238 | 4.0 |

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

11 FINANCIAL INVESTMENTS

| | Carrying value | | Cost | |
|---|----------------|----------------|----------------|----------------|
| | 2021 \$'000 | 2020 \$'000 | 2021 \$'000 | 2020 \$'000 |
| Shares and other variable yield securities and units in unit trusts | 1,878 | 2,498 | 2,498 | 2,498 |
| Debt securities and other fixed income securities | 49,417 | 28,884 | 50,168 | 28,917 |
| Overseas deposits | 5,470 | 4,260 | 5,470 | 4,260 |
| Total | 56,765 | 35,642 | 58,136 | 35,675 |

All financial assets are measured at fair value through profit or loss. The amount ascribable to listed investments is \$49.4m (2020: \$28.9m).

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

- Level 1 – financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- Level 2 – financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.
- Level 3 – financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data. This includes the loan to Lloyd's Central Fund.

The table below analyses financial instruments held at fair value in the Syndicate's Balance Sheet at the reporting date by its level in the fair value hierarchy:

| As at 31 December 2021 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| Shares and other variable yield securities and units in unit trusts | — | — | 1,878 | 1,878 |
| Debt securities and other fixed income securities | — | 49,417 | — | 49,417 |
| Deposits with ceding undertakings | 496 | — | — | 496 |
| Cash and cash equivalents | 90,515 | — | — | 90,515 |
| Overseas deposits | 1,601 | 3,869 | — | 5,470 |
| Total | 92,612 | 53,286 | 1,878 | 147,776 |

| As at 31 December 2020 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| Shares and other variable yield securities and units in unit trusts | — | — | 2,498 | 2,498 |
| Debt securities and other fixed income securities | — | 28,884 | — | 28,884 |
| Deposits with ceding undertakings | — | — | — | — |
| Cash and cash equivalents | 46,260 | — | — | 46,260 |
| Overseas deposits | 977 | 3,283 | — | 4,260 |
| Total | 47,237 | 32,167 | 2,498 | 81,902 |

11 FINANCIAL INVESTMENTS CONTINUED

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. This includes the syndicate loan to central fund. The loan has no fixed repayment date and has been classified as level 3; a valuation model has been used to approximate fair value. 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.

MOVEMENT IN LEVEL 3 INVESTMENTS

The following table provides an analysis of investments values with reference to level 3 inputs.

| | 2021 \$'000 | 2020 \$'000 |
|---------------------------------------|----------------|----------------|
| As at 1 January | 2,498 | 395 |
| Purchases | — | 1,969 |
| Net loss recognised in profit or loss | (618) | — |
| Foreign exchange | (2) | 134 |
| Total | 1,878 | 2,498 |

12 DEPOSITS WITH CEDING UNDERTAKINGS

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| As at 31 December | | |
| Deposits with approved credit institutions | 496 | — |

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

13 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

| | 2021 \$'000 | 2020 \$'000 |
|--------------------------|----------------|----------------|
| As at 31 December | | |
| Due within one year | 46,887 | 36,754 |

14 DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

| | 2021 \$'000 | 2020 \$'000 |
|--------------------------|----------------|----------------|
| As at 31 December | | |
| Due within one year | 89,454 | 55,194 |

15 OTHER DEBTORS

| | 2021 \$'000 | 2020 \$'000 |
|--------------------------|----------------|----------------|
| As at 31 December | | |
| Due within one year: | | |
| Amounts due from members | 11 | 12 |
| VAT recoverable | 83 | 92 |
| Due after one year: | | |
| Amounts due from members | 2 | 3 |
| Total | 96 | 107 |

16 CASH AND CASH EQUIVALENTS

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| As at 31 December | | |
| Cash at bank and in hand | 31,815 | 17,478 |
| Holdings in collective investment schemes | 58,700 | 28,782 |
| Total | 90,515 | 46,260 |

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

17 DEFERRED ACQUISITION COSTS

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| As at 1 January | 21,509 | 16,213 |
| Acquisition costs incurred in the year | 52,715 | 35,061 |
| Amounts used in the year | (40,638) | (30,056) |
| Effect of movement in exchange rates | (479) | 291 |
| As at 31 December | 33,107 | 21,509 |

18 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 2021. These balances are reflected on the Balance Sheet.

| Underwriting Year - Gross | 2012 \$'000 | 2013 \$'000 | 2014 \$'000 | 2015 \$'000 | 2016 \$'000 | 2017 \$'000 | 2018 \$'000 | 2019 \$'000 | 2020 \$'000 | 2021 \$'000 | Total \$'000 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| At end of the year of account | 11,209 | 16,511 | 16,895 | 13,568 | 14,530 | 15,075 | 20,051 | 25,590 | 27,697 | 35,522 | |
| One year later | 22,964 | 24,540 | 30,263 | 33,244 | 28,493 | 26,854 | 44,938 | 57,851 | 68,868 | | |
| Two years later | 21,872 | 25,747 | 27,221 | 34,106 | 26,216 | 31,131 | 44,983 | 54,090 | | | |
| Three years later | 21,430 | 27,042 | 24,758 | 32,395 | 23,325 | 31,091 | 44,025 | | | | |
| Four years later | 21,091 | 26,876 | 25,613 | 29,505 | 24,492 | 30,619 | | | | | |
| Five years later | 20,830 | 26,670 | 26,418 | 29,998 | 24,092 | | | | | | |
| Six years later | 20,463 | 24,008 | 25,627 | 29,362 | | | | | | | |
| Seven years later | 21,037 | 23,368 | 24,620 | | | | | | | | |
| Eight years later | 20,832 | 22,886 | | | | | | | | | |
| Nine years later | 20,800 | | | | | | | | | | |
| Gross ultimate claims | 20,800 | 22,886 | 24,620 | 29,362 | 24,092 | 30,619 | 44,025 | 54,090 | 68,868 | 35,522 | 354,884 |
| Less: Cumulative gross paid claims | (20,580) | (22,535) | (22,144) | (28,653) | (22,765) | (26,741) | (36,773) | (33,455) | (19,424) | (3,433) | (236,503) |
| Gross claims reserves from 2012 to 2021 | 220 | 351 | 2,476 | 709 | 1,327 | 3,878 | 7,252 | 20,635 | 49,444 | 32,089 | 118,381 |
| Gross claims reserves - 2011 and prior | | | | | | | | | | | 485 |
| Gross claims reserves (see Note 19) | | | | | | | | | | | 118,866 |

| Underwriting Year - Ceded | 2012 \$'000 | 2013 \$'000 | 2014 \$'000 | 2015 \$'000 | 2016 \$'000 | 2017 \$'000 | 2018 \$'000 | 2019 \$'000 | 2020 \$'000 | 2021 \$'000 | Total \$'000 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| At end of the year of account | 2,400 | 3,240 | 2,380 | 956 | 1,420 | 2,701 | 5,582 | 8,042 | 6,650 | 8,871 | |
| One year later | 2,987 | 2,733 | 2,681 | 8,756 | 3,870 | 2,634 | 12,730 | 17,564 | 20,896 | | |
| Two years later | 3,062 | 2,507 | 1,361 | 10,912 | 4,500 | 5,346 | 10,711 | 16,131 | | | |
| Three years later | 2,856 | 2,983 | 1,203 | 11,133 | 4,323 | 5,517 | 11,435 | | | | |
| Four years later | 2,931 | 3,337 | 1,263 | 8,468 | 3,837 | 5,429 | | | | | |
| Five years later | 3,089 | 3,519 | 1,477 | 8,549 | 3,949 | | | | | | |
| Six years later | 2,908 | 2,578 | 1,403 | 8,578 | | | | | | | |
| Seven years later | 2,851 | 2,619 | 1,686 | | | | | | | | |
| Eight years later | 2,850 | 2,585 | | | | | | | | | |
| Nine years later | 2,849 | | | | | | | | | | |
| RI ultimate claims | 2,849 | 2,585 | 1,686 | 8,578 | 3,949 | 5,429 | 11,435 | 16,131 | 20,896 | 8,871 | 82,409 |
| Less: Cumulative RI paid claims | (2,829) | (2,491) | (1,427) | (8,411) | (3,699) | (5,679) | (8,614) | (10,411) | (5,538) | (271) | (49,370) |
| RI claims reserves from 2012 to 2021 | 20 | 94 | 259 | 167 | 250 | (250) | 2,821 | 5,720 | 15,358 | 8,600 | 33,039 |
| RI claims reserves from 2011 and prior | | | | | | | | | | | 85 |
| RI claims reserves (see Note 19) | | | | | | | | | | | 33,124 |

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

18 CLAIMS DEVELOPMENT CONTINUED

| Underwriting Year - Net | 2012 \$'000 | 2013 \$'000 | 2014 \$'000 | 2015 \$'000 | 2016 \$'000 | 2017 \$'000 | 2018 \$'000 | 2019 \$'000 | 2020 \$'000 | 2021 \$'000 | Total \$'000 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| At end of the year of account | 8,809 | 13,271 | 14,515 | 12,612 | 13,110 | 12,374 | 14,469 | 17,548 | 21,047 | 26,651 | |
| One year later | 19,977 | 21,807 | 27,582 | 24,488 | 24,623 | 24,220 | 32,208 | 40,287 | 47,972 | | |
| Two years later | 18,810 | 23,240 | 25,860 | 23,194 | 21,716 | 25,785 | 34,272 | 37,959 | | | |
| Three years later | 18,574 | 24,059 | 23,555 | 21,262 | 19,002 | 25,574 | 32,590 | | | | |
| Four years later | 18,160 | 23,539 | 24,350 | 21,037 | 20,655 | 25,190 | | | | | |
| Five years later | 17,741 | 23,151 | 24,941 | 21,449 | 20,143 | | | | | | |
| Six years later | 17,555 | 21,430 | 24,224 | 20,784 | | | | | | | |
| Seven years later | 18,186 | 20,749 | 22,934 | | | | | | | | |
| Eight years later | 17,982 | 20,301 | | | | | | | | | |
| Nine years later | 17,951 | | | | | | | | | | |
| Net ultimate claims | 17,951 | 20,301 | 22,934 | 20,784 | 20,143 | 25,190 | 32,590 | 37,959 | 47,972 | 26,651 | 272,475 |
| Less: Cumulative net paid claims | (17,751) | (20,044) | (20,717) | (20,242) | (19,066) | (21,062) | (28,159) | (23,044) | (13,886) | (3,162) | (187,133) |
| Net claims reserves from 2012 to 2021 | 200 | 257 | 2,217 | 542 | 1,077 | 4,128 | 4,431 | 14,915 | 34,086 | 23,489 | 85,342 |
| Net claims reserves from 2011 and prior | | | | | | | | | | | 400 |
| Net claims reserves (see Note 19) | | | | | | | | | | | 85,742 |

19 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 | 2021 net \$'000 | Gross provisions \$'000 | Reinsurance assets \$'000 | 2020 net \$'000 |
|---|----------------------------|---------------------------------|-----------------------|----------------------------|---------------------------------|-----------------------|
| Claims outstanding: | | | | | | |
| Claims notified | 41,426 | 11,234 | 30,192 | 36,877 | 8,963 | 27,914 |
| Claims incurred but not reported | 46,703 | 11,977 | 34,726 | 34,326 | 11,617 | 22,709 |
| As at 1 January | 88,129 | 23,211 | 64,918 | 71,203 | 20,580 | 50,623 |
| Change in prior year provisions | 32,945 | 13,819 | 19,126 | 31,375 | 7,302 | 24,073 |
| Expected cost of current year claims | 35,671 | 8,882 | 26,789 | 27,574 | 6,636 | 20,938 |
| Claims paid during the year | (37,193) | (12,599) | (24,594) | (43,278) | (11,443) | (31,835) |
| Effects of movements in exchange rates | (686) | (189) | (497) | 1,255 | 136 | 1,119 |
| As at 31 December | 118,866 | 33,124 | 85,742 | 88,129 | 23,211 | 64,918 |
| Claims notified | 57,201 | 19,087 | 38,114 | 41,426 | 11,234 | 30,192 |
| Claims incurred but not reported | 61,665 | 14,037 | 47,628 | 46,703 | 11,977 | 34,726 |
| As at 31 December | 118,866 | 33,124 | 85,742 | 88,129 | 23,211 | 64,918 |
| Provision for unearned premiums: | | | | | | |
| As at 1 January | 104,210 | 31,026 | 73,184 | 74,295 | 21,104 | 53,191 |
| Premiums written during the year | 258,391 | 96,695 | 161,696 | 169,465 | 57,144 | 112,321 |
| Premiums earned during the year | (199,778) | (69,879) | (129,899) | (140,713) | (47,435) | (93,278) |
| Effects of movements in exchange rates | (2,155) | (665) | (1,490) | 1,163 | 213 | 950 |
| As at 31 December | 160,668 | 57,177 | 103,491 | 104,210 | 31,026 | 73,184 |

20 CREDITORS

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Creditors arising out of direct insurance operations | 3,263 | 3,051 |
| Creditors arising out of reinsurance operations | 67,462 | 39,137 |
| Other creditors including taxation and social security | 4,877 | 3,835 |
| Total | 75,602 | 46,023 |

Other creditors including taxation and social security balance includes \$4.9m (2020: \$3.8m) due to the Managing Agent, which is explained further in Note 22.

21 FOREIGN EXCHANGE RATES

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

| | 2021 year end rate | 2021 average rate | 2020 year end rate | 2020 average rate |
|-----------------|-----------------------|----------------------|-----------------------|----------------------|
| Sterling | 1.35 | 1.38 | 1.36 | 1.28 |
| Euro | 1.13 | 1.19 | 1.23 | 1.13 |
| Canadian dollar | 0.78 | 0.80 | 0.78 | 0.74 |

22 RELATED PARTIES

LSL manages Syndicates 2010 and 3010. Cathedral Capital Holdings Limited ("CCHL"), registered in England and Wales, is the immediate parent company of LSL. Lancashire Holdings Limited ("LHL"), registered in Bermuda, is the ultimate parent company of LSL. LHL is the largest and smallest group which includes LSL and for which the consolidated annual accounts 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 Lancashire 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 incurred during calendar year 2021 to LSL in respect of the services provided to the Syndicate amounted to \$1.4m (2020: \$1.2m).

Total profit commission accrued to the Managing Agent in the year is \$1.4m (2020: \$2.7m). Profit commission of \$1.4m relates to the 2019 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 LSL. 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 LSL. 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 LSL as at 31 December 2021 totalled \$4.9m (2020: \$4.0m) and are included in "Other creditors including taxation and social security" and "accruals and deferred income". This includes amounts due to LSL in relation to managing agency profit commission, consortium fees and profit commission, and recharged expenses.

Cathedral Capital (1998) Limited, a fellow subsidiary of LSL, provided 100% of capacity to the 2019, 2020 and 2021 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 2021 totalled \$13.6m (2020: \$3.0m), which is further explained in Note 23.

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. Total reinsurance premium written from Lancashire UK ("LUK") is \$15.5m (2020: \$2.3m). Other Lancashire Group companies and Syndicate 2010 premium involved to date are not material in the context of the Syndicate's overall spend.

NOTES TO THE SYNDICATE ANNUAL ACCOUNTS CONTINUED
For the year ended 31 December 2021

22 RELATED PARTIES CONTINUED

Syndicate 3010 leads an Aviation consortia which is managed by LSL. As the manager of these consortia, LSL 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. From 2019, the consortia fee and profit commission has been waived for Syndicate 3010.

Syndicate 3010 also leads a further three consortia: Cargo, Accident and Health and Property Construction. Syndicate 3010 is the manager of these consortia and charges Syndicate 2010, the only other member, a fee based on a percentage of signed premium.

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, LSL, 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:

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Salaries and other short-term employee benefits | 924 | 898 |
| Post-employment benefits | 98 | 95 |
| Other benefits | 394 | 339 |

There has been a change in presentation from prior year to include the Other benefits for the Directors of the Managing Agent.

23 POST BALANCE SHEET EVENTS

A total distribution of \$13.6m will be transferred to the member's personal reserve funds on 11 April 2022 in respect of the 2019 year of account (2020: \$3.0m in relation to the 2018 year of account).

On 24 February 2022, Russia invaded Ukraine. Following the invasion, sanctions have been imposed by the UK, EU and US. At the time of signing the annual accounts, it is too early to quantify the effects, however it is an event which is in the normal course of insurance business and the Syndicate will monitor developments in the coming weeks. This will be a 2022 calendar year loss and will not impact the 2021 annual accounts.

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 annual accounts 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.

25 PART VII TRANSFER

On 30 December 2020, the members and former members of the Syndicate transferred its EEA non-life insurance policies written between 2001 and 2020 to Lloyd's Insurance Company S.A. ('Lloyd's Europe') pursuant to Part VII of the Financial Services and Markets Act 2000. The value of the net liabilities transferred was \$2.9 million for Syndicate 3010. The Syndicate transferred cash of the same amount to Lloyd's Europe. Lloyd's Europe subsequently reinsured the same liabilities back to the Syndicate on the same day. The reinsurance premium received was of the same amount of \$2.9 million for the Syndicate. There was no gain or loss arising on either transaction.

Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd's Europe have been included in the gross premium written line within the statement of profit or loss. This is the appropriate treatment that best reflects the connection between the economic substance of both the Part VII transfer and the associated reinsurance arrangement, and the resulting economic substance of the combined transaction.

On the balance sheet, certain policy-level balances impacted by the transfer that were previously reflected as amounts arising from direct insurance operations, have now been treated as amounts arising from inwards reinsurance business.

On 4 January 2021, the Syndicate transferred advance funds into segregated Part VII Settlement accounts managed by the Managing Agency on behalf of Lloyd's Europe to settle Part VII claims. The accounts are denominated in US dollars, Euros and Sterling. These balances are reported under Deposits with ceding undertakings on the balance sheet.

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29th Floor
20 Fenchurch Street
London EC3M 3BY
United Kingdom

Tel: +44 (0)20 7170 9000
Fax: +44 (0)20 7170 9001
e-mail enquiries: info@cathedralcapital.com