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Lancashire
Syndicate 2010

SYNDICATE 2010

Annual Report and Accounts
31 December 2020

Contents

Chairman's Statement	1
Directors and Administration	2
Report of the Directors of the Managing Agent	3
Statement of Managing Agent's Directors Responsibilities	10
Syndicate Annual Accounts for the Year Ended 31 December 2020	11
Independent Auditor's Report to the Members of Syndicate 2010	12
Statement of Profit or Loss - Technical Account - General Business	15
Statement of Profit or Loss - Non-Technical Account	16
Balance Sheet	17
Statement of Changes in Members' Balances	18
Statement of Cash Flows	19
Notes to the Syndicate Annual Accounts	20
Syndicate Underwriting Year Accounts for the 2018 Year of Account	42
Independent Auditor's Report to the Members of Syndicate 2010 - 2018 Closed Year of Account	43
Statement of Managing Agent's Responsibilities	46
Statement of Profit or Loss - Technical Account - General Business	47
Statement of Profit or Loss - Non-Technical Account	48
Balance Sheet	49
Statement of Changes in Members' Balances	50
Statement of Cash Flows	51
Notes to the Syndicate Underwriting Year Accounts	52
Seven Year Summary of Results (Unaudited)	60

Chairman's Statement

This last year has posed exceptional challenges in the areas of health and stability to individuals, societies and to the global economy and commerce. Our thoughts go out to those whose lives and livelihoods have been impacted and to those key workers whose service has helped sustain us all. Much of the Board's focus has been on monitoring the operational and strategic impacts of the pandemic on our business. I would like to thank the Executive and all our team for the resilience demonstrated during these challenging times.

The Syndicate has faced a number of challenges this year. These related not only to the COVID-19 pandemic but also included a run of natural catastrophe losses, that were broadly in line with our expectations for such events, and a series of medium-sized risk losses above our usual expectations for attritional losses. Despite these, the Syndicate has delivered strong top-line growth of 9.9% and it is pleasing to be able to report a small profit on the closing 2018 Year of Account.

These accounts have been prepared on both an annual accounting basis for the 2020 calendar year and on the traditional three year basis, in relation to the closure of the 2018 Year of Account.

On the traditional basis of reporting, Syndicate 2010 has closed the 2018 Year of Account with a profit of 1.4% for a participant paying Standard Managing Agency Fee and Profit Commission. The 2018 Year of Account experienced a high frequency of severe catastrophes however it is pleasing to note that, in common with prior years, the loss development activity in the past twelve months for the account has been relatively benign. In addition, following a detailed review of prior year loss reserves in Q4 2020, the Syndicate has benefited from a favourable improvement which has contributed to the positive results on the 2018 Year of Account. This demonstrates the prudent reserving approach adopted by the Syndicate. Following this review, the result is better than the "Best Case Expectation" of the previously indicated range.

The 2020 year has seen a continuation of market strengthening with further improvement in rating conditions and an average rate increase of circa 11.0%. This rate increase together with strong new business have increased the gross written premium for the year from $285.4m to $313.6m. In addition to COVID-19, there were several major catastrophe losses during the year including hurricanes Laura and Sally, the Beirut explosion and the US Derecho storm together with a number of mid-sized losses. These have increased the combined ratio to 104.6% and resulted in a calendar year loss of $5.8m.

The 2019 year of account was also impacted by a number of catastrophe losses. At present the forecast result for 2019 remains within the published 0% to -10.0% range. Due to COVID-19, there remains a high level of uncertainty around our 2019 Year of Account result. We will continue to monitor potential losses and will adjust any result forecasts accordingly.

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

I would like to thank all of the Lancashire Syndicates team for their hard work and continued commitment during 2020.

N P Davenport
Chairman

3 March 2021

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 M Barnes

Bankers

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

Investment Manager

Conning Asset Management Limited
24 Monument Street
London EC3R 8AJ

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

Registered Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Lancashire
Syndicate 2010

Report of the Directors of the Managing Agent 31 December 2020

Introduction

The Directors of Lancashire Syndicates Limited ("LSL"), the managing agent for Syndicate 2010, present their annual report and accounts for the year ended 31 December 2020.

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 20.

Separate underwriting year accounts for the closed 2018 year of account of Syndicate 2010 are included following these annual accounts.

Principal activity

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

LSL is the managing agent for Syndicate 2010. It also acts as managing agent for Syndicate 3010. 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 2020 calendar year is a profit of $5.8m (2019: $7.8m profit) and a combined ratio of 104.6% (2019: 97.9%). An analysis of the contribution to the overall result made by the individual underwriting years is as follows:

	2018 account $'000	2019 account $'000	2020 account $'000	31 December 2020 $'000	31 December 2019 $'000
Gross premiums written	(1,014)	17,121	297,462	313,569	285,375
Gross premiums earned	3,186	108,715	187,705	299,606	278,044
Net premiums earned	4,969	95,784	106,890	207,643	187,950
(Loss)/Profit for the financial year	43,644	5,299	(54,776)	(5,833)	7,762
Loss ratio (%)	(646.6)	66.8	110.0	72.0	60.4
Expense ratio (%)	(81.9)	26.5	43.4	32.6	37.5
Combined ratio (%)	(728.5)	93.3	153.4	104.6	97.9

The market experienced another loss active year with a record number of storms during the North Atlantic hurricane season, a large Derecho storm in the U.S. Mid-West, Californian Wildfires, the Beirut port explosion and the ongoing COVID-19 global pandemic. These events have impacted the classes written by Syndicate 2010 and follows a challenging period for insurers and reinsurers through the high loss active years 2017-2019.

The Syndicate has always adopted a conservative approach to reserving and following an extensive review of loss reserves in Q4 2020, the Syndicate has benefited from a favourable improvement in 2018 and prior year loss reserves which has contributed to the positive 2018 Year of Account result.

Underwriting

A breakdown of divisional performance is shown below:

	31 December 2020		31 December 2019	
	Gross premiums written $'000	Net loss ratio %	Gross premiums written $'000	Net loss ratio %
Non-marine reinsurance	**136,019**	**94.4**	143,418	73.5
Direct and facultative property	**131,579**	**55.6**	118,954	56.4
Aviation reinsurance	**39,767**	**45.0**	22,151	(26.1)
Cargo Specialty	**3,980**	**44.9**	—	—
Satellite	**2,224**	**107.3**	852	164.6
Total	**313,569**	**72.0**	285,375	60.4

The gross written premiums for the calendar year have increased by 9.9% to $313.6m (2019: $285.4m). The Syndicate increased the amount of premium income written on the Direct and facultative property and Aviation accounts whilst there was a reduction in the Non-marine reinsurance account. The decrease in Non-marine reinsurance income was largely due to underwriting actions taken in order to reduce attritional losses in the portfolio and improve overall profitability. In addition, there were lower inwards reinstatement premiums.

Our underwriting philosophy centres around our belief that the (re)insurance market is cyclical. During the depths of the soft cycle, many questioned if the cycle was dead after years of softening rates and no obvious sign that appetite and capital would shrink. However, we stuck to our belief that supply and demand always dictate our market and ultimately there will always be events and circumstances, often those that are completely unexpected, that tip the balance.

Given this belief, we ensured the foundations were laid during the softer part of the cycle to ensure the Syndicate was primed to build when better market conditions returned. We believe that these market conditions are now here, and we are looking forward to 2021 and beyond encouraged that the building blocks we put in place have put us in a strong position as we look to grow our business in the future.

The green shoots of recovery started in 2018 following the numerous natural catastrophe events in 2017, the largest aggregate loss year on record for the (re)insurance industry. Then 2018 provided further catastrophe losses and challenges, including the first sight of reserve deficiencies in the long-tail casualty classes following the impacts of social inflation on loss costs. Momentum was building, and as we entered 2020 our outlook was positive.

Market momentum further accelerated following events that few had foreseen. The COVID-19 pandemic has impacted the entire world and every industry. It will undoubtedly be costly for the (re)insurance industry albeit the exact quantum will not be known for many years, given the complex nature of the recent events. The impacts will generate some of the most challenging losses our industry has ever faced. The cost and uncertainty it has brought to the market, at a time when the industry was grappling with sustainable profitability, has been the catalyst for pricing, as well as terms and conditions of coverage, to shift gear.

It was this change of pace that strengthened our belief that the underwriting landscape would be better than we originally hoped for in 2020, and more importantly was sustainable into 2021 and beyond.

In the catastrophe-exposed classes, we remain very aware of the changing climate and the elevated risks this brings. Our strong risk management is supplemented with the use of vendor models that collate the latest available data on the frequency and severity of the principal catastrophe events such as windstorm, flood and earthquake. This information forms part of our underwriting process which helps us assess and price natural catastrophe risk. With the heightened awareness of climate change, demand for the products we sell increases and as the understanding of climate change improves so does our assessment of such risk. Natural catastrophe events are damaging to businesses and economies. The products our industry sells help people, businesses and economies to rebuild.

LSL maintains a strong underwriting discipline across all lines with the primary focus on profitability rather than top line premium growth.

The Syndicate purchases outwards reinsurance cover principally to limit the impact of catastrophes or multiple large losses. Reinsurance is purchased on both an excess of loss and proportional basis. Ceded reinsurance premiums in 2020 increased by 3.8% to $93.6m (2019: $90.1m). The increased spend was due to market conditions and an increase in reinstatement premiums on the major losses.

The net loss ratio for the 2020 calendar year was 72.0% (2019: 60.4%).

Net operating expenses including business acquisition costs and administrative expenses were $67.8m (2019: $70.5m) and the expense ratio was 32.6% (2019: 37.5%). The breakdown of these costs is summarised in Note 6 of the accounts.

Non marine reinsurance

This class, which accounts for 43.4% of the overall calendar year income (2019: 50.3%) comprises of catastrophe reinsurance, retrocession, risk excess and pro-rata reinsurance.

The property reinsurance class has experienced a challenging period since the record catastrophe loss year of 2017. The high level of losses experienced between 2017 and 2019 has led to some disappointing returns. As a result, in 2020 the class experienced a third consecutive year of improving terms and conditions, particularly in loss affected regions. Unlike previous hardening markets the level of capacity available has remained relatively buoyant which has led to a more tempered correction. However the Syndicate has returned healthy compound rate increases during this and we expect this to continue into 2021. In addition to the more traditional losses, in 2020 we have also been dealing with the impacts of the ongoing COVID-19 global pandemic. Although the full impact is unlikely to be known for some time, we consider that this will contribute to further rate increase. Moving into 2021 we anticipate that the market will continue to experience improvements in the property reinsurance classes in which we operate and we are extremely confident that we have both the underwriting talent and infrastructure to take full advantage of the improving rates.

Direct and facultative property ("D&F")

This class comprises property binding authorities principally focused on the US, insuring small property risks and open market business which encompasses a range of risks from large complex property schedules down to small single locations. The class contributed 42.0% of the 2020 written income (2019: 41.7%).

The property D&F insurance class has experienced some material changes since 2017. Not only has this class been impacted by the well documented natural catastrophe losses during the period 2017-2020, it has also suffered from a high level of attritional losses at a time when rating levels have been low. The soft market cycle was largely being fuelled by overcapacity including from the large domestic U.S. insurers. In addition, the Lloyd's Decile 10 performance review included D&F and as a result some participants withdrew from the class and others cut back. Decile 10 is a performance review initiated by Lloyd's which requires Syndicates to submit remediation plans for the worst-performing 10% of their business.

Following some poor results capacity in the market has reduced which has contributed to a material compound hardening of terms and conditions. This hardening should lead to an improvement in underlying results and although capacity has started to increase once again in some sub-classes, we expect terms and conditions to continue improving into 2021. The Syndicates experienced underwriting team are well positioned to optimise the portfolio through this promising market cycle. Property D&F remains the Syndicate's Decile 10 class and as a result we are under increased scrutiny from Lloyd's, however, the improvements in this class continue to have a positive impact on loss ratios.

The wider Lancashire Group re-entered this class of business in the latter part of 2019 through Lancashire UK Limited ("LUK"). LUK's risk appetite and portfolio is different to the Syndicate's portfolio and the Syndicate will benefit from the leverage that can be gained from any combined group offering. In accordance with Lloyd's regulations, LSL has a documented policy for the allocation of business between the Syndicate and LUK. Although in certain instances the group will market a combined offering there are two distinctly separate underwriting teams. With effect from March 2021, Richard Wood will assume the role of Group Head of Property D&F although he will maintain the role of class head for Property D&F for Syndicate 2010. The Lancashire Group continues to write the majority of property D&F via the Syndicate.

Aviation reinsurance and satellite

This class consists of a number of subclasses of the Aviation business. The core portfolio is airline excess of loss which is complemented by aviation war and general aviation business. The class contributed 13.4% of the 2020 written income (2019: 8.0%).

Following a number of years of benign major loss activity, the market continues to feel the impact of the combined Lion Air (2018) and Ethiopian Airlines (2019) tragedies involving the Boeing 737 Max aircraft. Although there is still uncertainty around the quantum of these events, in 2020 the Ethiopian loss estimate significantly increased and will have a material financial impact on both the insurance and reinsurance markets. Any increase in the Ethiopian Airlines loss will be largely absorbed by the Syndicate's reinsurance programme. The Syndicate has prudently managed its aggregations particularly in relation to product liabilities, so although our gross loss has increased, our estimated loss currently remains comfortably within our reinsurance programme which significantly mitigates our net loss.

As a result of these events the Aviation reinsurance class has experienced a material improvement in terms and conditions over the past 18 months and this trend is expected to continue in 2021. However, with COVID-19 unexpectedly impacting global demand for air travel, airlines have been severely tested, and they will continue to face challenges in years to come. This will impact direct insurers who we reinsure. The managing agency has a wealth of Aviation experience and the Syndicate has an underwriting team with a proven track record in this class who will continue to support clients through these challenging times.

The Satellite market in recent years has suffered from overcapacity and volatility. The Syndicate's involvement continues to be restrained in this area as a result of the recent poor rating environment. There have been a number of significant losses recently which will lead to an improvement in rating levels going forward although due to the nature of the placements this will take some time to manifest itself.

Our general outlook for 2021 is for continued pricing momentum in both Aviation and Satellite allowing us the opportunity to continue to increase our footprint.

Specialty

This specialty class currently consists of a number of classes written via consortia agreements. In 2020 these classes were originally Cargo focused with Accident and Health added during 2020. The class contributed 1.3% of the 2020 written income (2019: nil).

The current arrangements are assumed by writing a following line on consortia led by Syndicate 3010 which is a fully aligned Syndicate also managed by LSL. Currently the only participants on these consortia are Syndicate 3010 and Syndicate 2010 and each Syndicates' respective share in every risk is predetermined by the consortium agreement.

Terms and conditions in both the Cargo and Accident and Health class are experiencing improvements which we expect to continue in 2021. This specialty class may be expanded to include other classes in the future. Providing positive market conditions prevail, the plan is to grow this class into a more meaningful size in order to add some positive diversity to the Syndicate.

Outlook and business environment

From every angle 2020 has been challenging. As highlighted earlier we have seen multiple loss events across our classes including COVID-19, which will generate some of the most complex losses our industry has ever faced. Our underwriting result reflects this challenging year. COVID-19 also presented operational challenges with LSL and the Syndicate working from home for large portions of the year. We are incredibly proud of the underwriting team, and everyone that supports them, for continuing to execute our underwriting strategy so seamlessly and successfully.

2021 should be an exciting year for the Syndicate and the wider Lancashire group. We can never predict when loss events will occur, but we do know when we are getting paid to assume more risk, and we have the operational structure at both Syndicate and wider Lancashire group level to embrace the market opportunity to continue to develop the Syndicate.

Following some challenging years for the industry, it is pleasing to report that during 2020, terms and conditions in the Syndicate's core classes improved for a third consecutive year and we fully expect this to trend to continue in 2021.

Although we do not believe that we are entering into a truly "hard" market in 2021, on the assumption that the market continues to improve throughout 2021, four years of compound improvements in terms and conditions as outlined above should have a material positive impact on future results, provided loss activity is in line with planned expectations. It is central to our strategy to develop and retain underwriters and other experts in risk management with the expertise to appraise and price risk properly and to ensure that we use our capital to support our business whilst delivering sustainable returns.

In 2020 the managing agent and Syndicate adopted the "Lancashire" brand to bring it in line with its parent company. This gives the Syndicate the benefit of the larger brand whilst still retaining its core values and product offering. As a result, we believe the Syndicate is well positioned to maximise opportunities that arise.

Our strategy is to continue to focus on our core lines of business and to optimise results by taking prudent underwriting decisions. When the time is right the Syndicate will grow in the areas that offer the best returns but if necessary, reduce in any underperforming areas. We will also continue to look at the viability of adding new diversifying classes providing they complement the existing lines of business. An example of this being the addition of Cargo and Accident and Health which was added for the 2020 year of account. We will continue to maintain an effective infrastructure in order to provide an efficient and effective platform from which our underwriting teams can trade.

The Syndicate capacity for the 2021 year of account has increased to £324.9m from £305.9m due to the anticipated increase in premium income for 2021 largely as a result of improving market conditions and opportunities for the Syndicate.

Underwriting year of account summary

The table below shows Syndicate 2010's actual results for the closed 2018 year of account and the forecast results for the 2019 and 2020 open years of account:

Year of account	2020 forecast £'000	2019 forecast £'000	2018 actual £'000
Stamp capacity	305,877	305,943	305,954
Profit	n/a	n/a	4,390
Return on stamp	*	0% to -10.0%	1.4%

* A formal forecast range for the 2020 year of account will be released at the time of publishing the Q1 2021 QMA.

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Lancashire Group Company, provided £177.0 million for the 2018 and 2019 years of account and £182.8m for the 2020 year of account through Hampden Agencies Limited.

2018 underwriting year result

The 2018 year of account closed on 31 December 2020 with a profit of $6.0m. For Capital providers of Syndicate 2010 with standard personal expenses, this equates to a return of 1.4% of capacity. The gross signed premium income, net of brokerage, was circa 63.8% of capacity at year-end rates of exchange.

The 2018 underwriting accounts are set out on pages 42 to 60.

2019 account forecast

Last year's report summarised the underwriting conditions and loss activity associated with the 2019 year of account.

Our current forecast for the 2019 year of account result is in the range 0% to -10.0% of capacity. As with all years, due to the nature of the business written, any fluctuation in USD to GBP rate of exchange will influence the final result. The result is potentially more volatile than a standard year given the high level of major loss activity.

2020 account forecast

For 2020, the Syndicate's capacity was maintained at £305.9m. The commentary outlining the 2020 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 income securities. The Syndicate investment manager has been instructed to maintain adequate liquidity and security and has discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall portfolio controls the exposure of the investments to adverse price movements.

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

Investment performance

Syndicate 2010's investment portfolio achieved a return of $4.9m in 2020 (2019: $6.1m). The Syndicate's invested assets totalled $148.3m at 31 December 2020 (2019: $175.0m).

In 2020 the US combined Syndicate portfolio returned 3.4% (2019: 3.9%) compared to the composite swaps benchmark return of 3.3% (2019: 3.7%).

The Canadian regulated Syndicate portfolio returned 3.6% (2019: 2.3%) compared to the composite swaps benchmark return of 3.7% (2019: 1.2%).

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.

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.

Bank borrowing facilities

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

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 COVID-19

In considering the appropriateness of the going concern basis, the Directors have undertaken a risk assessment of the potential impact of the COVID-19 pandemic on the Syndicate's expected future operational and financial performance. The risk assessment considered a range of possible forward looking scenarios for a period of over 12 months from the date of this report. As part of this risk assessment various attributes of the business were stress tested to gain comfort over its liquidity and solvency position going forward. The tests applied to the various scenarios included but are not limited to the following. Gross and reinsurance premiums were subject to estimated reductions to demand in each class as a consequence of COVID-19, for example the grounding of aircraft and cargo held at ports. Forecast loss ratios, recovery rates and brokerage rates were applied to the outcomes. Claims were stress tested around the current reserved position and two other scenarios set by Lloyd's which were based on the conclusion of the pandemic lockdown on either 30 June 2020 or 30 September 2020. Certain worst case/doomsday scenarios were considered but were deemed too remote to apply to the Syndicate. The vast majority of the Syndicate's policies require physical property damage in order to trigger Business Interruption ('BI') coverage (i.e. contracts are not written on a 'all-risks' basis) and we would therefore not expect COVID-19 to generate a large number or amount of BI claims.

The Directors have also considered the impact on the performance of the Syndicate's investment portfolio and considered certain scenarios which could trigger unrealised losses, the outcome of these tests were factored into the risk assessment. Further consideration was performed around the potential for reinsurance counterparty default risk at the Reinsurance Broker and Security Committee; there are currently no concerns in this regard, however the situation is being continuously monitored. The impact on the balance sheet of the scenarios have led the Directors of the Syndicate to conclude there are no material consequences of the COVID-19 Pandemic on the Syndicate.

Risks relating to Brexit

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

Lloyd's Europe benefits from the market's financial strength through the Central Fund and has the same financial ratings as Lloyd's, AM Best (A "excellent"), Standard & Poor's (A+ "strong") and Fitch (AA- "very strong"). The company is authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority. Lloyd's Europe's activity is conducted according to Solvency II and to Belgian legislation and regulation.

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

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. In our underwriting operations, we manage this risk effectively by supplementing our internal know-how with external vendor models. We have clear tolerances and preferences in place to actively manage exposures, and the board regularly monitors our Probable Maximum Loss (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 stress and scenario tests performed as part of the business planning process include climate-related scenarios, these scenarios will continue to be refined and enhanced as more information becomes available. The work performed to date has not resulted in any material impact on our business strategy or change to our understanding of the risks' impacts to our business.

Our Board has discussed issues of sustainability, in particular concerning the understanding and management of climate change risks. Our business has always had a strong and purposeful focus on its insurance liability exposures to weather-related events, such as windstorms, floods and wildfires, which are sensitive to climate change trends. The Board and management team have taken steps to broaden the formal oversight, strategic understanding, risk management and forward-looking scenario testing of climate change risk and opportunity. We have taken further steps on the journey to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), in particular in starting to utilise tools for the understanding of climate change risk on the Syndicate's investment portfolio.

Whilst we view climate change as a factor relevant principally to our underwriting and investment risks (see previous), the Board and business continue to monitor the effects of climate change risk perceptions as a driver of global economic, political and regulatory change.

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.

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 2020, as well as any subsequent changes are listed under the section 'Directors and Administration' on page 2. The directors' participations in the Syndicate are set out in the related parties note on page 40.

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 2021

Statement of Managing Agent's Directors Responsibilities 31 December 2020

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 company and to prevent and detect fraud and other irregularities.

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

On behalf of the board

E L Woolley
Chief Executive Officer

3 March 2021

SYNDICATE ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2020

Independent Auditor's Report to the Members of Syndicate 2010

Opinion

We have audited the Syndicate annual accounts of Syndicate 2010 ("the Syndicate") for the year ended 31 December 2020 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 Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

In our opinion the annual accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Syndicate in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors of the Managing Agent have prepared the 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 by senior finance management or individuals who do not frequently post journals, those posted with descriptions containing key words or phrases, those posted to unusual accounts including those related to cash and post-closing journals meeting certain criteria.
- Assessing significant accounting estimates for 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 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 annual accounts varies considerably.

Firstly, the Syndicate is subject to laws and regulations that directly affect the 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 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 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 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 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. we have not identified material misstatements in the Report of the Directors of the Managing Agent;

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 10, 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 Managing Agent and the Syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

3 March 2021

Lancashire
Syndicate 2010

Statement of Profit or Loss
Technical Account - General Business

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Earned premiums, net of reinsurance			
Gross premiums written	5	**313,569**	285,375
Outward reinsurance premiums		**(93,581)**	(90,146)
Net premiums written		**219,988**	195,229
Change in the provision for unearned premiums:			
Gross amount		**(13,963)**	(7,331)
Reinsurers' share		**1,618**	52
Earned premiums, net of reinsurance		**207,643**	187,950
Allocated investment return transferred from the non-technical account		**4,889**	6,062
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount	5	**(205,820)**	(198,731)
Reinsurers' share		**46,094**	66,269
Net claims paid		**(159,726)**	(132,462)
Change in the provision for claims:			
Gross amount	5	**(12,737)**	23,670
Reinsurers' share		**23,030**	(4,735)
Net change in the provision for claims		**10,293**	18,935
Claims incurred, net of reinsurance		**(149,433)**	(113,527)
Net operating expenses	5, 6	**(67,752)**	(70,516)
Balance on the technical account for general business		**(4,653)**	9,969

All operations relate to continuing activities.

Statement of Profit or Loss Non-Technical Account

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Balance on technical account for general business		**(4,653)**	9,969
Investment income	10	**4,052**	6,771
Unrealised gains on investments	10	**1,884**	—
Investment expenses and charges	10	**(306)**	(510)
Unrealised losses on investments	10	**(741)**	(199)
Allocated investment return transferred to the general business technical account		**(4,889)**	(6,062)
Foreign exchange losses		**(613)**	(1,173)
Other charges		**(567)**	(1,034)
(Loss)/profit for the financial year		**(5,833)**	7,762

All operations relate to continuing activities.

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

Cathedral
Syndicate 2010

Balance Sheet

As at 31 December 2020

	Notes	2020 $'000	2019 $'000
Investments:			
Financial investments	11	**148,295**	174,997
		148,295	174,997
Reinsurers' share of technical provisions:			
Provision for unearned premiums	18	**10,067**	8,383
Claims outstanding	18	**228,594**	204,853
		238,661	213,236
Debtors:			
Debtors arising out of direct insurance operations	12	**37,290**	22,654
Debtors arising out of reinsurance operations	13	**96,104**	90,312
Other debtors	14	**3,730**	3,564
		137,124	116,530
Other assets:			
Cash and cash equivalents	15	**54,540**	9,598
Other - overseas deposits		**—**	18,148
		54,540	27,746
Prepayments and accrued income:			
Deferred acquisition costs	16	**21,103**	19,271
Other prepayments and accrued income		**1,327**	2,287
		22,430	21,558
Total Assets		**601,050**	554,067
Capital and reserves:			
Members' balances		**(74,194)**	(148,057)
		(74,194)	(148,057)
Technical provisions:			
Provision for unearned premiums	18	**115,914**	100,673
Claims outstanding	18	**485,170**	466,959
		601,084	567,632
Creditors:			
Creditors arising out of direct insurance operations	19	**9,320**	13,715
Creditors arising out of reinsurance operations	19	**60,319**	50,620
Other creditors including taxation and social security	19	**1,616**	68,249
		71,255	132,584
Accruals and deferred income		**2,905**	1,908
Total Liabilities		**601,050**	554,067

The notes on pages 20 to 41 form part of these annual accounts.

The Syndicate annual accounts on pages 15 to 41 were approved by the Board of Lancashire Syndicates Limited on 3 March 2021 and were signed on its behalf by:

C J Whittle
Chief Financial Officer

3 March 2021

Statement of Changes in Members' Balances

For the year ended 31 December 2020

	2020 $'000	2019 $'000
Members' balances as at 1 January	**(148,057)**	(129,359)
(Loss)/profit for the financial year	**(5,833)**	7,762
Members' agent fee	**(1,059)**	(1,413)
Transfer from/(to) members' personal reserve fund	**80,755**	(25,047)
Members' balances as at 31 December	**(74,194)**	(148,057)

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 from/(to) members' personal funds comprise the 2017 (2016) closed year of account loss/(profit).

Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
(Loss)/profit for the financial year		**(5,833)**	7,762
Realised and unrealised investments (losses)/gains on cash and investments, including currency movements	10	**(1,850)**	142
Income from investments	10	**(3,197)**	(6,407)
Exchange losses		**613**	1,173
Increase in debtors, prepayments and accrued income		**(19,368)**	(6,772)
Increase/(decrease) in net technical provisions		**2,053**	(12,389)
(Decrease)/increase in creditors, accruals and deferred income		**(18,795)**	16,361
Net cash outflow from operating activities		**(46,377)**	(130)
Cash flows from investing activities			
Interest received		**3,197**	6,407
Purchase of equity and debt securities		**(202,925)**	(168,077)
Sale of equity and debt securities		**233,296**	155,833
Movement of shares and other variable yield securities		**—**	(11,009)
Movement of overseas deposits		**18,148**	(1,163)
Net cash inflow/(outflow) from investing activities		**51,716**	(18,009)
Cash flows from financing activities			
Proceeds from intercompany loan		**—**	30,000
Payment of intercompany loan and interest		**(41,601)**	—
Transfer from/(to) members in respect of underwriting participations		**80,755**	(25,047)
Members' agents' fees paid on behalf of members		**(1,059)**	(1,413)
Net cash flow from financing activities		**38,095**	3,540
Increase/(decrease) in cash and cash equivalents in the year		**43,434**	(14,599)
Cash and cash equivalents at 1 January		**9,598**	23,987
Effect of exchange rates and change in market value on cash and cash equivalents		**1,508**	210
Cash and cash equivalents at 31 December	15	**54,540**	9,598

Notes to the Syndicate Annual Accounts

For the year ended 31 December 2020

1 Basis of Preparation

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

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, including Financial Reporting Standard 102 ("FRS 102") and Financial Reporting Standard 103 Insurance Contracts ("FRS 103"). In accordance with FRS 103 "Insurance Contracts", the Syndicate continues to apply existing accounting policies to its insurance contracts but has the option to make improvements to its policies if the changes make the financial statements more relevant to the decision-making needs of the user.

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

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

The financial statements are prepared on a going concern basis in accordance with FRS102. The Directors have performed an assessment of the Syndicate's ability to continue as a going concern, including the impact of the COVID-19 pandemic.

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

In response to the COVID-19 pandemic, the Syndicate initiated its Post Loss Response process. The process reviewed and assessed the potential implications for each class of business that the Syndicate underwrites, across all its platforms, with involvement from underwriting, exposure management, actuarial, claims, treasury and finance teams. The output of this review formed the basis of our loss reserving. The current best estimate financial impact of COVID-19 is $26.3 million, net of reinsurance and including the impact of reinstatement premiums. This constitutes 10.2% of our total net loss reserves.

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 financial statements. To assesses the Syndicate's going concern, resilience and response to the COVID-19 pandemic, 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 with scenario analysis covering the impact of reserve releases, attritional, large and catastrophe loss events alongside optimistic and pessimistic investment return scenarios. To further stress the financial stability of the Syndicate, additional scenario testing was performed. This included modelling the breakeven capital requirements of our regulators and rating agencies, the impact of potential management actions to reduce the Syndicate's exposure to climate change-related risks, the continuation of the COVID-19 pandemic throughout 2021 negatively impacting the economy, travel industry, global events and counterparty credit risk and the occurrence of a number of high severity loss events impacting the Syndicate's underwriting platforms in 2021. The testing identified that even under the more severe but plausible stress scenarios, the Syndicate had more than adequate liquidity and solvency headroom.

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

- The Syndicate does not write the following lines of business: travel insurance; trade credit; and long-term life and prior to the COVID-19 pandemic did not write Directors' and Officers' liability or medical malpractice. The Syndicate has minimal exposure through accident and health business.
- On 15 January 2021, the UK Supreme Court delivered its judgement on the FCA's business interruption test case. The aim of the test case was to obtain clarity on insurance contract wording and determine whether certain business interruption clauses were triggered by the COVID-19 pandemic. For the insurance industry, this means that in certain instances, policyholders will now have their COVID-19 related business interruption claims paid where previously these claims may have been denied. It may also impact the reinsurance industry as insurers will seek to recover from the reinsurance protection they have in place. In light of the UK Supreme Court ruling, the Syndicate has performed a detailed review of the business interruption clauses in its insurance and reinsurance contracts and concluded that there is no material impact on the COVID-19 best estimate loss booked for the year ended 31 December 2020.
- The Syndicate's long-term strategy is to deploy more capital into a hardening market, in which pricing strengthens due to market capital constraints, and to lower the amount of capital deployed in a softer market, where pricing is weaker due to over-supply of risk capital. The COVID-19 pandemic has generated (re)insurance market losses both in terms of the claims environment and the impact on financial markets. In the face of these challenges there has been a retrenchment in (re)insurance markets risk capital and capacity. This in turn has led to continued rate increases in many of the Syndicate's core insurance segments and accelerated rating dislocation in the catastrophe exposed reinsurance lines. The Syndicate expects the momentum of rising rates to continue in this and other classes of business across its portfolio throughout 2021 and beyond. The Syndicate expects to take advantage of this rating improvement by writing increased levels of business at higher pricing levels.

1 Basis of Preparation continued

- The maintenance of financial strength ratings are a key factor impacting on the ability of the Syndicate to continue as a going concern. A ratings downgrade to lower than A- could adversely impact on the ability of the Syndicate to source and write new business, retain existing business or enter into new financing arrangements. The Syndicate benefits from an A.M. Best rating of A (Excellent) assigned to all Lloyd's of London syndicates. This was reaffirmed on 15 July 2020 and the outlook is stable.
- As at 31 December 2020, the Syndicate considers that it has more than adequate liquidity to pay its obligations as they fall due. The Syndicate held cash and cash equivalents of $54.5 million and fixed maturity investments with maturity dates of less than one year of $29.5 million. In addition to the cash and investment portfolio, the Syndicate also has access to credit facilities as set out in note 22. Additional liquidity risk disclosures are set out on page 29.
- As at 31 December 2020, the average credit quality of the fixed maturity portfolio was A+ (31 December 2019 – A+) and there has not been a change in our counterparty credit exposure as a result of the COVID-19 pandemic. However, it is an area we continue to monitor. Additional credit risk disclosures are set out on pages 27 to 28.

Based on the going concern assessment performed as at 31 December 2020, the Directors consider there to be no material uncertainties that may cast significant doubt over the 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 financial statements.

2 Use of Judgements and Estimates

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

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

Estimation of premiums

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

Estimation of claims

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

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

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

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

3 Accounting Policies

a) Premiums written

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

b) Reinsurance premium ceded

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

c) Unearned premiums

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

d) Claims provisions and related recoveries

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

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

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical techniques are used to assist in making these estimates. The most critical assumption in regards to claims provisions is that the past is a reasonable predictor of the likely level of claims development. 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.

3 Accounting Policies continued

g) Foreign currencies

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

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

h) Financial assets and liabilities

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

(i) Classification

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

(iv) Identification and measurement of impairment

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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

(v) Offsetting

Financial assets and financial liabilities are set off and the net amount presented in the 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.

3 Accounting Policies continued

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) Taxation

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

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

l) Pension costs

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

m) Profit commission

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

4 Risk and Capital Management

The Syndicate is exposed to a variety of insurance and financial risks when undertaking its activities. The Board of Directors of 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 provides an element of diversification. The managing agency monitors the type of business underwritten by the Syndicate at a whole account level and, where appropriate, adjusts either the business mix or the level of reinsurance protection in place to try to reduce the extent of overly concentrated exposures.

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

As at 31 December 2020	Marine, aviation and transport $'000	Fire and other damage to property $'000	Third party liability $'000	Other direct $'000	Reinsurance $'000	Total $'000
United Kingdom	3,295	276	—	—	5,225	8,796
US	—	77,436	—	—	71,148	148,584
European Union Member States	—	114	—	—	12,321	12,435
Other countries	10,399	34,226	—	—	99,129	143,754
Total	13,694	112,052	—	—	187,823	313,569

As at 31 December 2019	Marine, aviation and transport $'000	Fire and other damage to property $'000	Third party liability $'000	Other direct $'000	Reinsurance $'000	Total $'000
United Kingdom	919	14,330	87	137	25,754	41,227
US	3,074	47,906	291	458	86,097	137,826
European Union Member States	601	9,358	57	89	16,819	26,924
Other countries	1,771	27,597	167	264	49,599	79,398
Total	6,365	99,191	602	948	178,269	285,375

Sensitivity of insurance risk

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

The catastrophe nature of these accounts is managed through the Syndicate's underwriting strategy, aggregate management and reinsurance arrangements.

Underwriting limits are in place to support appropriate risk selection criteria and loss aggregates are reviewed and managed by the Syndicate.

The reinsurance arrangements include excess and catastrophe coverage. These arrangements are designed to mitigate the impact of any significant losses to a more manageable level. The Syndicate models various loss scenarios and also runs specific realistic disaster scenarios ("RDS") in accordance with Lloyd's franchise guidelines to enable it to monitor the exposure at a gross and net level.

Based on the July 2020 Lloyd's RDS submission using version 17 of RMS, the largest RDS on a gross basis was for a North-East USA windstorm event for $265.6m [unaudited]. The largest event net of reinsurance recoveries and reinstatement costs was an Aviation Collision event for $72.9 [unaudited].

4 Risk and Capital Management continued

Insurance Risk (continued)

The following table presents the sensitivity of the value of insurance liabilities disclosed in the accounts to potential movements in the assumptions applied within the technical provisions. Given the nature of the business underwritten by the company, the approach to calculating the technical provisions for each class can vary and as a result the sensitivity performed is to apply a beneficial and adverse risk margin to the total insurance liability.

Management deem a range of +/-2.5% and +/-5.0% to be reasonable in showing sensitivities in insurance liabilities based on the ultimate cost of settling gross claims.

	Movement in claims reserves			
31 December 2020	+2.5%	-2.5%	+5.0%	-5.0%
Impact on gross liabilities	**12,129**	**(12,129)**	**24,258**	**(24,258)**
Impact on net liabilities	**6,414**	**(6,414)**	**12,829**	**(12,829)**
Impact on profit for the year and member's balances	**6,414**	**(6,414)**	**12,829**	**(12,829)**

	Movement in claims reserves			
31 December 2019	+2.5%	-2.5%	+5.0%	-5.0%
Impact on gross liabilities	11,674	(11,674)	23,348	(23,348)
Impact on net liabilities	6,553	(6,553)	13,105	(13,105)
Impact on profit for the year and member's balances	6,553	(6,553)	13,105	(13,105)

Financial Risk

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

Credit Risk

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

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

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

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.

4 Risk and Capital Management continued

Credit Risk (continued)

Exposure to credit risk

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

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

As at 31 December 2020	AAA to A- $'000	BBB+ to B- $'000	Unrated $'000	Total $'000
Financial investments	135,147	12,529	619	148,295
Cash and cash equivalents	54,540	—	—	54,540
Other - overseas deposits	—	—	—	—
Reinsurers' share of claims outstanding	204,077	—	24,517	228,594
Debtors arising out of reinsurance operations	16,579	—	79,525	96,104
Total	**410,343**	**12,529**	**104,661**	**527,533**

As at 31 December 2019	AAA to A- $'000	BBB+ to B- $'000	Unrated $'000	Total $'000
Financial investments	150,844	—	24,153	174,997
Cash and cash equivalents	9,598	—	—	9,598
Other - overseas deposits	15,090	2,643	415	18,148
Reinsurers' share of claims outstanding	163,695	—	41,158	204,853
Debtors arising out of reinsurance operations	8,483	—	81,829	90,312
Total	347,710	2,643	147,555	497,908

Of the $24.5m (2019: $41.2m) unrated reinsurers' share of claims outstanding, $20.5m (2019: $32.7m) are fully collateralised in trust funds; $2.4m (2019: $1.6m) is in respect of attritional IBNR that has yet to be allocated to any specific loss; $1.6m (2019: $6.9m) relates to a handful of specific unsettled recoveries from reinsurers that have subsequently merged or been taken over by another reinsurer and therefore the original counterparty is no longer rated. However, no recovery issues are currently anticipated with respect to these specific counterparties.

The total unrated financial investments represent cash and 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 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	27,359	7,738	286	1,010	897	37,290
Debtors arising out of reinsurance operations	86,203	8,484	251	847	319	96,104
Total	**113,562**	**16,222**	**537**	**1,857**	**1,216**	**133,394**

As at 31 December 2019	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	22,210	346	92	6	—	22,654
Debtors arising out of reinsurance operations	90,312	—	—	—	—	90,312
Total	112,522	346	92	6	—	112,966

4 Risk and Capital Management continued

Liquidity Risk

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

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

Management of liquidity risk

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

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

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

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

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	**303,103**	**142,463**	**32,793**	**6,811**	**485,170**
Creditors	**71,255**	**—**	**—**	**—**	**71,255**
Total	**374,358**	**142,463**	**32,793**	**6,811**	**556,425**

As at 31 December 2019	< 1 year $'000	1-3 years $'000	4-5 years $'000	> 5 years $'000	Total $'000
Gross provision for claims outstanding	290,233	133,713	35,491	7,522	466,959
Creditors	132,584	—	—	—	132,584
Total	422,817	133,713	35,491	7,522	599,543

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.

4 Risk and Capital Management continued

Market Risk

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

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

Management of market risks

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

Interest rate risk

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

Currency risk

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

The foreign exchange policy is to, 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.

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

As at 31 December 2020	GBP $'000	USD $'000	EUR $'000	CAD $'000	Total $'000
Total assets	**105,044**	**431,081**	**21,734**	**43,191**	**601,050**
Total liabilities	**(144,260)**	**(484,013)**	**(21,248)**	**(25,723)**	**(675,244)**
Members' balance	**(39,216)**	**(52,932)**	**486**	**17,468**	**(74,194)**

As at 31 December 2019	GBP $'000	USD $'000	EUR $'000	CAD $'000	Total $'000
Total assets	108,318	379,069	16,191	50,489	554,067
Total liabilities	(165,451)	(483,472)	(24,549)	(28,652)	(702,124)
Members' balance	(57,133)	(104,403)	(8,358)	21,837	(148,057)

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.

4 Risk and Capital Management continued

Market Risk (continued)

Sensitivity analysis to market risks for financial instruments

An analysis of the Syndicate's sensitivity to interest rate and currency risk is presented in the 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	2020 $'000	2019 $'000
Increase/(decrease) on profit for the year ended		
+50 basis points increase	**(1,221)**	(1,644)
- 50 basis points decrease	**862**	1,644

Currency risk	2020 $'000	2019 $'000
Increase/(decrease) on profit for the year ended		
10% strengthening of Sterling to US Dollar	**67**	(3,341)
10% weakening of Sterling to US Dollar	**(67)**	3,341
10% strengthening of Euro to US Dollar	**2,608**	1,666
10% weakening of Euro to US Dollar	**(2,608)**	(1,666)
10% strengthening of Canadian Dollar to US Dollar	**2,011**	5,093
10% weakening of Canadian Dollar to US Dollar	**(2,011)**	(5,093)

Capital Management Risk

Capital framework at Lloyd's

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

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

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

Lloyd's capital setting process

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

A Syndicate comprises one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operate on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate's SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment ("ECA"). The purpose of this uplift, which is a Lloyd's and not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 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 17, 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:

						31 December 2020	
Type of business	**Gross premiums written $'000**	**Gross premiums earned $'000**	**Gross claims incurred $'000**	**Net operating expenses $'000**	**Reinsurance balance $'000**	**Total excluding investment return $'000**	**Net technical provisions $'000**
Direct insurance							
Motor (third party liability)	—	—	—	—	—	—	—
Motor (other classes)	—	—	—	—	—	—	—
Marine, aviation and transport	**13,694**	**10,318**	**(11,487)**	**(2,061)**	**1,248**	**(1,982)**	**2,723**
Fire and other damage to property	**112,052**	**105,830**	**(53,466)**	**(29,558)**	**(25,138)**	**(2,332)**	**108,235**
Third party liability	—	—	—	—	—	—	—
Credit and suretyship	—	—	—	—	—	—	—
	125,746	**116,148**	**(64,953)**	**(31,619)**	**(23,890)**	**(4,314)**	**110,958**
Reinsurance acceptances	**187,823**	**183,458**	**(153,604)**	**(36,133)**	**1,051**	**(5,228)**	**231,221**
Total	**313,569**	**299,606**	**(218,557)**	**(67,752)**	**(22,839)**	**(9,542)**	**342,179**

						31 December 2019	
Type of business	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Net operating expenses $'000	Reinsurance balance $'000	Total excluding investment return $'000	Net technical provisions $'000
Direct insurance							
Motor (third party liability)	—	—	—	—	—	—	—
Motor (other classes)	860	838	(465)	(398)	(86)	(111)	1,443
Marine, aviation and transport	6,365	6,201	(4,130)	1,585	(637)	3,019	1,207
Fire and other damage to property	99,191	96,643	(54,694)	(24,002)	(9,927)	8,020	77,342
Third party liability	602	586	(682)	11	(60)	(145)	—
Credit and suretyship	88	86	3	(264)	(9)	(184)	1,637
	107,106	104,354	(59,968)	(23,068)	(10,719)	10,599	81,629
Reinsurance acceptances	178,269	173,690	(115,093)	(47,448)	(17,841)	(6,692)	253,496
Total	285,375	278,044	(175,061)	(70,516)	(28,560)	3,907	335,125

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 (2019: $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.

	2020 $'000	2019 $'000
United Kingdom	**8,796**	41,227
US	**148,584**	137,826
European Union Member States	**12,435**	26,924
Other countries	**143,754**	79,398
Total	**313,569**	285,375

6 Net Operating Expenses

	2020 $'000	2019 $'000
Brokerage and commissions	**45,832**	47,205
Change in deferred acquisition costs	**(1,601)**	72
Administrative expenses	**22,091**	21,855
Members' standard personal expenses	**4,765**	3,995
Reinsurance commissions and profit participation	**(3,335)**	(2,611)
Total	**67,752**	70,516

Total commissions for direct insurance business in the year amounted to $25.2m (2019: $27.0m).

Administrative expenses include:

	2020 $'000	2019 $'000
Auditors' remuneration:		
Audit of the Syndicate annual accounts	**194**	142
Other services pursuant to regulations and Lloyd's Byelaws	**124**	96
Total	**318**	238

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:

	2020 $'000	2019 $'000
Wages and salaries	**9,209**	8,327
Social security costs	**1,104**	1,125
Pension costs	**729**	650
Total	**11,042**	10,102

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

	2020 Number	2019 Number
Operations, administration and finance	**14**	12
Underwriting and claims	**40**	37
Total	**54**	49

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. Fees relates to fees paid to the non-executive directors.

	2020 $'000	2019 $'000
Emoluments	**643**	970
Fees	**18**	18
	1,094	1,400

9 Active Underwriter's Emoluments

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

	2020 $'000	2019 $'000
Emoluments	**433**	412

10 Investment Return

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

	2020 $'000	2019 $'000
Investment income:		
Interest and dividend income	**3,197**	6,407
Realised gains on investments	**855**	364
Unrealised gains on investments	**1,884**	—
Investment expenses and charges:		
Investment management expenses, including interest	**(158)**	(203)
Realised losses on investments	**(148)**	(307)
Unrealised losses on investments	**(741)**	(199)
Investment return transferred to the technical account from the non-technical account	**4,889**	6,062

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:

	2020 $'000	2019 $'000
Financial assets at fair value through profit or loss	**5,047**	6,265
Investment management expenses, excluding interest	**(158)**	(203)
Total investment return	**4,889**	6,062

There are no impairment losses on any financial assets recognised in administrative expenses included in technical account (2019: $nil).

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

	31 December 2020		31 December 2019	
	Average funds $'000	Investment yield %	Average funds $'000	Investment yield %
Sterling	**4,100**	**4.9**	—	—
US Dollars	**96,071**	**3.6**	131,879	3.7
Canadian Dollars	**28,610**	**4.5**	35,345	2.4
All currencies converted to US Dollars	**128,781**	**3.8**	167,224	3.4

11 Financial Investments

	Carrying value		Cost	
As at 31 December	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Shares and other variable yield securities and units in unit trusts	**4,615**	35,162	**4,615**	35,107
Debt securities and other fixed income securities	**122,936**	139,835	**119,448**	138,384
Overseas deposits	**20,744**	—	**20,744**	—
Total	**148,295**	174,997	**144,807**	173,491

Overseas deposits are reported under Financial Investments in the Balance Sheet this year, reflecting the nature of the underlying assets. In 2019, they were included under Other assets.

All financial assets are measured at fair value through profit or loss. The amount ascribable to listed investments is $122.9m (2019: $139.8m).

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 loans 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 2020	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Shares and other variable yield securities and units in unit trusts	—	—	**4,615**	**4,615**
Debt securities and other fixed income securities	—	**122,936**	—	**122,936**
Cash and cash equivalents	**54,485**	**55**	—	**54,540**
Overseas deposits	**2,003**	**18,741**	—	**20,744**
Total	**56,488**	**141,732**	**4,615**	**202,835**

As at 31 December 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Shares and other variable yield securities and units in unit trusts	—	34,237	925	35,162
Debt securities and other fixed income securities	—	139,835	—	139,835
Cash and cash equivalents	9,556	42	—	9,598
Overseas deposits	2,114	16,034	—	18,148
Total	11,670	190,148	925	202,743

There were no transfers between levels during the year.

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, in which case they are generally measured on prices of recent transactions in the same instrument. The Syndicate has no exposure to hedge funds.

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

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

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

During 2019 Lloyd's introduced syndicate loans to the central fund in order to facilitate the injection of capital to Lloyd's Insurance Company SA ("Lloyd's Europe"). The loan has no fixed repayment date and has been classified as level 3; the cost of this loan approximates to fair value.

Movement in level 3 investments

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

	2020 $'000	2019 $'000
As at 1 January	**925**	—
Purchases	**3,451**	917
Foreign exchange	**239**	8
As at 31 December	**4,615**	925

12 Debtors Arising Out of Direct Insurance Operations

As at 31 December	2020 $'000	2019 $'000
Due within one year	**37,290**	22,654

13 Debtors Arising Out of Reinsurance Operations

As at 31 December	2020 $'000	2019 $'000
Due within one year	**96,104**	90,312

14 Other Debtors

As at 31 December	2020 $'000	2019 $'000
Due within one year:		
Amounts due from members	**1,450**	1,338
VAT recoverable	**106**	—
Due after one year:		
Amounts due from members	**2,174**	2,226
Total	**3,730**	3,564

15 Cash and Cash Equivalents

As at 31 December	2020 $'000	2019 $'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	**25,280**	9,598
Holdings in collective investment schemes	**29,260**	—
Total	**54,540**	9,598

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

16 Deferred Acquisition Costs

	2020 $'000	2019 $'000
As at 1 January	**19,271**	17,804
Acquisition costs incurred in the year	**45,832**	47,205
Amounts used in the year	**(44,231)**	(45,827)
Effect of movement in exchange rates	**231**	89
As at 31 December	**21,103**	19,271

17 Claims Development

Claims development is shown in the tables below on an underwriting year basis. Balances have been translated at exchange rates as at 31 December 2020. These balances are reflected on the Balance Sheet.

Underwriting Year - Gross	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
At end of the year of account	225,184	150,035	111,347	129,779	74,232	92,954	305,064	182,591	139,868	156,220	
One year later	326,406	188,945	177,381	161,985	120,928	165,399	382,311	265,543	226,944		
Two years later	308,583	172,588	171,002	147,702	114,879	161,854	374,793	280,667			
Three years later	295,384	165,933	162,468	143,858	111,416	153,802	355,037				
Four years later	286,927	165,762	157,413	141,464	108,846	149,852					
Five years later	285,220	165,811	155,416	138,570	102,876						
Six years later	284,062	162,509	150,019	139,976							
Seven years later	283,144	161,846	148,339								
Eight years later	282,888	161,202									
Nine years later	283,445										
Gross ultimate claims	283,445	161,202	148,339	139,976	102,876	149,852	355,037	280,667	226,944	156,220	2,004,558
Less: Cumulative gross paid claims	(279,948)	(154,682)	(140,490)	(132,256)	(94,767)	(136,236)	(293,541)	(185,460)	(84,611)	(52,193)	(1,554,184)
Gross claims reserves from 2011 to 2020	**3,497**	**6,520**	**7,849**	**7,720**	**8,109**	**13,616**	**61,496**	**95,207**	**142,333**	**104,027**	**450,374**
Gross claims reserves - 2010 and prior											34,796
Gross claims reserves (see Note 18)											**485,170**

Underwriting Year - Ceded	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
At end of the year of account	65,643	37,320	13,481	19,957	6,284	11,337	137,865	49,803	46,784	37,093	
One year later	82,441	35,785	18,632	17,113	15,323	28,748	164,645	89,855	67,522		
Two years later	77,737	36,672	20,656	14,374	14,904	31,561	157,887	107,920			
Three years later	76,132	35,764	19,696	13,309	13,691	32,348	155,246				
Four years later	76,227	35,699	17,623	13,363	13,327	31,491					
Five years later	75,843	35,424	17,515	12,646	12,578						
Six years later	76,507	35,430	14,385	12,629							
Seven years later	76,693	35,624	14,507								
Eight years later	76,653	35,386									
Nine years later	76,692										
RI ultimate claims	76,692	35,386	14,507	12,629	12,578	31,491	155,246	107,920	67,522	37,093	551,064
Less: Cumulative RI paid claims	(74,332)	(31,154)	(13,508)	(11,768)	(12,003)	(21,862)	(115,160)	(47,860)	(6,659)	(9,140)	(343,446)
RI claims reserves from 2011 to 2020	**2,360**	**4,232**	**999**	**861**	**575**	**9,629**	**40,086**	**60,060**	**60,863**	**27,953**	**207,618**
RI claims reserves from 2010 and prior											20,976
RI claims reserves (see Note 18)											**228,594**

17 Claims Development continued

Underwriting Year - Net	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
At end of the year of account	159,541	112,715	97,866	109,822	67,948	81,617	167,199	132,788	93,084	119,127	
One year later	243,965	153,160	158,749	144,872	105,605	136,651	217,666	175,688	159,422		
Two years later	230,846	135,916	150,346	133,328	99,975	130,293	216,906	172,747			
Three years later	219,252	130,169	142,772	130,549	97,725	121,454	199,791				
Four years later	210,700	130,063	139,790	128,101	95,519	118,361					
Five years later	209,377	130,387	137,901	125,924	90,298						
Six years later	207,555	127,079	135,634	127,347							
Seven years later	*206,451*	*126,222*	*133,832*								
Eight years later	206,235	125,816									
Nine years later	206,753										
Net ultimate claims	206,753	125,816	133,832	127,347	90,298	118,361	199,791	172,747	159,422	119,127	1,453,494
Less: Cumulative net paid claims	(205,616)	(123,528)	(126,982)	(120,488)	(82,764)	(114,374)	(178,381)	(137,600)	(77,952)	(43,053)	(1,210,738)
Net claims reserves from 2011 to 2020	**1,137**	**2,288**	**6,850**	**6,859**	**7,534**	**3,987**	**21,410**	**35,147**	**81,470**	**76,074**	**242,756**
Net claims reserves from 2010 and prior											13,820
Net claims reserves (see Note 18)											**256,576**

18 Technical Provisions

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

	Gross provisions $'000	Reinsurance assets $'000	2020 net $'000	Gross provisions $'000	Reinsurance assets $'000	2019 net $'000
Claims outstanding:						
Claims notified	**229,053**	**84,231**	**144,822**	252,220	86,343	165,877
Claims incurred but not reported	**237,906**	**120,622**	**117,284**	233,107	120,448	112,659
As at 1 January	**466,959**	**204,853**	**262,106**	485,327	206,791	278,536
Change in prior year provisions	**63,984**	**32,089**	**31,895**	132,679	43,402	89,277
Expected cost of current year claims	**154,573**	**37,035**	**117,538**	41,649	18,132	23,517
Claims paid during the year	**(205,820)**	**(46,094)**	**(159,726)**	(198,731)	(66,269)	(132,462)
Effects of movements in exchange rates	**5,474**	**711**	**4,763**	6,035	2,797	3,238
As at 31 December	**485,170**	**228,594**	**256,576**	466,959	204,853	262,106
Claims notified	**240,720**	**96,806**	**143,914**	229,053	84,231	144,822
Claims incurred but not reported	**244,450**	**131,788**	**112,662**	237,906	120,622	117,284
As at 31 December	**485,170**	**228,594**	**256,576**	466,959	204,853	262,106
Provision for unearned premiums:						
As at 1 January	**100,673**	**8,383**	**92,290**	92,904	7,931	84,973
Premiums written during the year	**313,569**	**93,581**	**219,988**	285,375	90,146	195,229
Premiums earned during the year	**(299,606)**	**(91,963)**	**(207,643)**	(278,044)	(90,094)	(187,950)
Effects of movements in exchange rates	**1,278**	**66**	**1,212**	438	400	38
As at 31 December	**115,914**	**10,067**	**105,847**	100,673	8,383	92,290

19 Creditors

As at 31 December	2020 $'000	2019 $'000
Creditors arising out of direct insurance operations	**9,320**	13,715
Creditors arising out of reinsurance operations	**60,319**	50,620
Other creditors including taxation and social security	**1,616**	68,249
Total	**71,255**	132,584

Other creditors including taxation and social security balance includes administrative expenses of $1.6m (2019: $7.4m), profit commission of $nil (2019: $20.8m) and intercompany loan of $nil (2019: $40.0m)due to the managing agent.

20 Foreign Exchange Rates

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

	2020 year end rate	2020 average rate	2019 year end rate	2019 average rate
Sterling	**1.36**	**1.28**	1.31	1.27
Euro	**1.23**	**1.13**	1.12	1.12
Canadian dollar	**0.78**	**0.74**	0.77	0.75

21 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 group and CCHL is the smallest group which includes LSL and for which the consolidated financial statements are prepared.

Within the Lancashire Group there are two (re)insurance companies, Lancashire Insurance Company (UK) Limited (incorporated in the UK) and Lancashire Insurance Company Limited (incorporated in Bermuda). In addition, the Lancashire group includes 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 charged during calendar year 2020 by LSL in respect of services provided to the Syndicate amounted to $2.5m (2019: $1.7m). The amount of profit commission to the managing agent incurred in 2020 is $nil (2019: $nil).

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

Mr Maloney, CEO of LHL, and his spouse acquired 100% of the shares in Nameco 801 on 7 November 2016. Nameco 801 provides capacity to a number of Lloyd's syndicates including Syndicate 2010. Nameco 801 has provided $0.2m of capacity to Syndicate 2010 for the 2020 year of account ($0.2m for the 2019 year of account). Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation. Nameco 801 has, on advice from its members' agent, maintained its participation on Syndicate 2010 for the 2021 underwriting year of account for $0.2m.

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 at 31 December 2020 totalled $3.0m (2019: $68.2m) 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 profit commission, intercompany loan and recharged expenses.

Cathedral Capital (1998) Limited ("C98"), a fellow subsidiary of LSL, provided capacity to the 2018, 2019 and 2020 underwriting years. C98's share of the result for the 2020 calendar year is a loss of $3.8m (2019: $4.5m profit). In 2019, the Syndicate had $10.0m outstanding of a loan it received from C98 in the previous year and received another $10.0m loan from C98 and $20.0m loan from Cathedral Capital Holdings Limited, all of which are outstanding as at 31 December 2019. In June 2020, the Syndicate has settled the amount of intercompany loan with incurred interest.

In the normal course of business Syndicate 2010 has underwritten reinsurances of Syndicate 3010 and Lancashire Insurance Company Limited ("LICL"). The total premiums receivable from Syndicate 3010 amounted to $0.1m (2019: $0.7m). The total premium receivable from LICL amounted to $4.7m (2019: $4.6m). These contracts were entered into and dealt with on a purely commercial arms-length basis and are in the interests of all names on the Syndicate. The following reinsurances of Syndicate 2010's business have been placed with related parties.

Group reinsurance cover

Periodically, the Syndicate benefits from a group reinsurance cover that sits on top of various pillars of reinsurance including the Non Marine account and also the Direct Property account. The limit is collateralised and Syndicate 2010's share is 15% for 2020 year of account (2019 year of account: 15%). Should the limit be exhausted by more than one loss / class of business then recoveries will be apportioned on a pro rata basis between the respective losses.

21 Related Parties continued

Consortia participation

Syndicate 2010 participates on Aviation Consortia contracts which are led by Syndicate 3010 and managed by 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. The amount of consortium fee incurred in 2020 is $0.1m (2019: $0.3m). The amount of consortium profit commission incurred in 2020 is $1.2m (2019: $0.5m).

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:

Key management compensation	2020 $'000	2019 $'000
Salaries and other short-term employee benefits (see Note 8 and Note 9)	**1,206**	1,262
Post-employment benefits	**129**	138
Total	**1,335**	1,400

22 Bank Facilities

As at 31 December 2020 and 2019, the Syndicate had in place an $80.0 million catastrophe facility. The facility is available to assist in paying claims and the gross funding of catastrophes for the Syndicate. While up to $80.0 million in aggregate can be utilised by way of a Letter of Credit (LoC) or a Revolving Credit Facility (RCF) to assist the Syndicate's gross funding requirements, only $40.0 million of this amount can be utilised by way of an RCF. With effect from 1 January 2021, the RCF element has been removed and the facility now solely operates as a letter of credit facility, available up to a maximum amount of $60.0 million. A separate uncommitted overdraft facility will be made available to the Syndicate of $20.0 million.

23 Post Balance Sheet Events

A total profit of $6.0m will be distributed to the members' personal reserve funds on 9 April 2021 in respect of the 2018 year of account (2019: $79.7m loss in relation to the 2017 year of account).

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

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 Members' 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 $7.7 million for Syndicate 2010. 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 $7.7 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 Brussels 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.

SYNDICATE UNDERWRITING YEAR ACCOUNTS FOR THE 2018 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2020

Independent Auditor's Report to the Members of Syndicate 2010 - 2018 Closed Year of Account

Opinion

We have audited the Syndicate underwriting year accounts for the 2018 year of account of Syndicate 2010 for the three year period ended 31 December 2020 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 Members' Balances; Statement of Cash Flows and related notes, including the accounting policies in Note 2.

In our opinion the underwriting year accounts:

- give a true and fair view of the Syndicate's profit for the 2018 closed year; and
- have been properly prepared in accordance with the requirements of the Lloyd's Syndicate Accounting Byelaw.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter - non-going concern basis of preparation

We draw attention to the disclosure made in Note 1 to the underwriting year accounts which explains that the underwriting year accounts have not been prepared on the going concern basis for the reasons set out in that note. Our opinion is not modified in respect of this matter.

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 by senior finance management or individuals who do not frequently post journals, those posted with descriptions containing key words or phrases, those posted to unusual accounts including those related to cash and post-closing journals meeting certain criteria.
- Assessing significant accounting estimates for 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 underwriting year 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 underwriting year accounts varies considerably.

Firstly, the Syndicate is subject to laws and regulations that directly affect the underwriting year 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 underwriting year 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 underwriting year 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 underwriting year 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 underwriting year 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.

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 underwriting year 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 underwriting year accounts audit work, the information therein is materially misstated or inconsistent with the underwriting year 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 underwriting year 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.

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 underwriting year 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 46, the directors of the Managing Agent are responsible for: the preparation of the Syndicate underwriting year 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 underwriting year 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 underwriting year 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 underwriting year 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 Managing Agent 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 2021

Statement of Managing Agent's Responsibilities

The directors of the managing agent are responsible for preparing the Syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Account) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw.

Regulations require the directors of the managing agent to prepare their Syndicate's underwriting year accounts for each financial year. Under the relevant regulations they have elected to prepare the underwriting year 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 underwriting year accounts unless they are satisfied that they give a true and fair view of the result of the underwriting year at closure. In preparing these underwriting year accounts, the directors of the managing agent are required to:

- select suitable accounting policies and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the Syndicate affected is used and 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 underwriting year 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. As explained in Note 1, the directors of the managing agent do not believe that it is appropriate to prepare the underwriting year accounts on a going concern basis.

The directors of the managing agent are responsible for keeping adequate 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 underwriting year accounts comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw. 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 company and to prevent and detect fraud and other irregularities.

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

On behalf of the Board

E L Woolley
Chief Executive Officer

Lancashire Syndicates Limited

3 March 2021

Statement of Profit or Loss Technical Account - General Business 2018 Year of Account

For the 36 months ended 31 December 2020

	Notes	2020 $'000
Gross premiums written	3	297,818
Outward reinsurance premiums		(89,212)
Earned premiums, net of reinsurance		**208,606**
Reinsurance to close premiums received, net of reinsurance		**114,032**
Allocated investment return transferred from the non-technical account		**5,429**
Claims incurred, net of reinsurance		
Gross amount		(222,425)
Reinsurers' share		64,087
Net claims paid		**(158,338)**
Reinsurance to close premium payable, net of reinsurance	7	(99,044)
Claims incurred net of reinsurance		**(257,382)**
Net operating expenses	3, 5	**(69,179)**
Balance on the technical account for general business		**1,506**

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

Statement of Profit or Loss Non-Technical Account 2018 Year of Account

For the 36 months ended 31 December 2020

	Notes	2020 $'000
Balance on technical account for general business		**1,506**
Investment income and realised gains on investments	6	**4,318**
Unrealised gains on investments	6	**2,501**
Investment expenses and charges and realised losses on investments	6	**(840)**
Unrealised losses on investments	6	**(550)**
Allocated investment return transferred to the general business technical account		**(5,429)**
Exchange gain		**5,024**
Other charges		**(567)**
Profit for the closed year of account		**5,963**

There are no other comprehensive gains or losses for the 36 months ended 31 December 2020.

Lancashire
Syndicate 2010

Balance Sheet
2018 Year of Account

As at 31 December 2020

	Notes	2020 $'000
Assets		
Financial investments	8	**64,018**
Debtors:		
Debtors arising out of direct insurance operations	9	**514**
Debtors arising out of reinsurance operations	10	**27,370**
Other debtors	11	**1,716**
		29,600
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	7	**139,778**
Other assets:		
Cash and cash equivalents	12	**37,160**
		37,160
Prepayments and accrued income		**499**
Total Assets		**271,055**
Liabilities		
Amounts due to members		**5,963**
Reinsurance to close premiums payable to close the account - gross amount	7	**238,822**
Creditors:		
Creditors arising out of direct insurance operations	13	**3,488**
Creditors arising out of reinsurance operations	13	**21,615**
		25,103
Accruals and deferred income		**1,167**
Total Liabilities		**271,055**

The notes on pages 52 to 59 form part of these accounts.

The Syndicate underwriting year accounts on pages 47 to 59 were approved by the Board of Lancashire Syndicates Limited and were signed on its behalf by:

E L Woolley
Chief Executive Officer

J M Barnes
Active Underwriter

3 March 2021

Statement of Changes in Members' Balance 2018 Year of Account

For the 36 months ended 31 December 2020

	2020 $'000
Members' balance at 1 January 2018	—
Profit for the closed year of account	**5,963**
Members' balance as at 31 December 2020	**5,963**

Lancashire
Syndicate 2010

Statement of Cash Flows
2018 Year of Account

For the 36 months ended 31 December 2020

	Notes	2020 $'000
Cash flow from operating activities		
Profit for the closed year of account		**5,963**
Realised and unrealised investment gains		**(2,070)**
Income from investments		**(3,606)**
Net reinsurance to close premium payable		**99,044**
Increase in debtors		**(12,618)**
Increase in prepayments and accrued income		**(47)**
Increase in creditors		**11,188**
Increase in accruals and deferred income		**1,061**
Non cash consideration received as part of RITC received	14	**(70,823)**
Net cash inflow from operating activities		**28,092**
Cash flows from investing activities		
Interest received		**3,606**
Purchase of debt securities and other fixed income securities		**—**
Sale of debt securities and other fixed income securities		**5,462**
Net cash outflow from investing activities		**9,068**
Increase in cash and cash equivalents in the period		**37,160**
Cash and cash equivalents as at 1 January 2018		**–**
Effect of exchange rates and change in market value on cash and cash equivalents		**–**
Cash and cash equivalents as at 31 December 2020		**37,160**

Notes to the Syndicate Underwriting Year Accounts 2018 Year of Account

For the 36 months ended 31 December 2020

1 Basis of Preparation

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

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2018 year of account which has been closed by reinsurance to close at 31 December 2020. Consequently the Balance Sheet represents the assets and liabilities of the 2018 year of account and the Statement of Profit or Loss, and the Statement of Cash Flows reflect the transactions for that year of account during the 36 month period until closure.

Whilst the directors of the managing agent have a reasonable expectation that the syndicate has adequate resources to continue to operate, these underwriting year accounts represent the participation of members in the 2018 year of account, which closed on 31 December 2020. Therefore the 2018 year of account is not continuing to trade and, accordingly the directors have not adopted the going concern basis in the preparation of these accounts. This has no effect on the amounts reported in the accounts as the 2018 year of account will be closed by payment of a reinsurance to close premium, as outlined in note 2 below, which is consistent with the normal course of business for a Lloyd's syndicate and with the approach we have applied to earlier underwriting years.

Use of estimates

The financial statements have been prepared using critical estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on management's best knowledge of the current events and actions, actual outcomes may differ from those estimates, possibly significantly. The most significant estimate made by management is in relation to insurance risk, where the key risk factors impacting managements estimate are disclosed in Note 4 of the Syndicate Annual Accounts.

2 Significant Accounting Policies

a) Underwriting transactions

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

b) Reinsurance to close premium

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

c) Premiums written, reinsurance premium ceded and unearned premiums

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

c) Premiums written, reinsurance premium ceded and unearned premiums (continued)

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

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

2 Significant Accounting Policies continued

d) Claims and related recoveries

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

Outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported ("IBNR"). Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on a detailed review of losses and loss development by management and further reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims includes amounts in respect of internal and external claims handling costs. 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.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The methods used, and the estimates made, are reviewed regularly.

e) Acquisition costs

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

f) Cash and cash equivalents

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

g) Financial Instruments

(i) Financial Investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments. The investments are held for investment purposes as designated at fair value through profit and loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking, or if so designated by management. The investment strategy is to manage financial instruments acquired on a fair value basis. The fair values of quoted financial instruments are based on bid prices at the Balance Sheet date. Unlisted investments for which a market exists are stated at the average price at which they were traded on the Balance Sheet date or the last trading day before that date.

Realised and unrealised gains and losses on investments classified as fair value through profit and loss are recognised through the Statement of Profit or Loss.

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

(ii) Other financial assets and liabilities

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

2 Significant Accounting Policies continued

h) Fair Value of Financial Assets

The fair value hierarchy is as follows:

(i) Level 1 is financial assets which are measured at quoted prices in an active market, where quoted prices are readily available, and those prices represent actual and regularly occurring market transactions on an arm's length basis;

(ii) Level 2 is using a valuation technique based on securities with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market date. These investments are valued via independent external sources using modelled or other valuation methods; and

(iii) Level 3 is using a valuation technique based on the Syndicates own assumptions.

i) Investments and investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the Balance Sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years in respect of investment disposals in the current period.

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

j) Syndicate operating expenses

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

Where expenses are incurred jointly by the managing agent and the Syndicate, they are apportioned as follows:

Salaries and related costs – according to the estimated time of each individual spent on syndicate matters

Accommodation costs – according to the number of personnel

Other costs – as appropriate in each case

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

2 Significant Accounting Policies continued

k) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

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

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

l) Basis of currency translation

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

Assets and liabilities are retranslated into US Dollars at the rate of exchange at the Balance Sheet date unless contracts to sell currency for Sterling have been entered into prior to the year end, in which case the contracted rates are used. This includes all assets and liabilities arising from insurance contracts including unearned premium and deferred acquisition costs. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

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

m) Profit commission

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

3 Analysis of Underwriting Result

An analysis of the underwriting result before investment return for the 36 months and the net technical provisions as at 31 December 2020 are presented below:

Type of business	Gross premiums earned $'000	Gross claims incurred $'000	Net operating expenses $'000	Reinsurance balance $'000	Total excluding investment return $'000	Net technical provisions $'000
		36 months ended 31 December 2020				
Direct insurance:						
Accident and health	9	—	1	—	10	—
Motor (other classes)	906	—	(423)	(324)	159	—
Marine, aviation and transport	4,127	(44)	539	9,792	14,414	67
Fire and other damage to property	93,529	(59,610)	(29,386)	(57,486)	(52,953)	21,105
Third party liability	1,780	—	(1,046)	(333)	401	—
	100,351	(59,654)	(30,315)	(48,351)	(37,969)	21,172
Reinsurance acceptances	197,467	(162,771)	(38,864)	38,214	34,046	77,872
Total	297,818	(222,425)	(69,179)	(10,137)	(3,923)	99,044

Reinsurance acceptances include the reinsurance to close premium of $114,032k received from the 2017 year of account.

Reinsurance balance includes all reinsurance related balances including the 2018 reinsurance to close premium payable of $99,044k.

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

Geographical analysis by destination	Gross written premiums $'000
United Kingdom	4,490
US	128,971
European Union Member States	15,299
Rest of the world	149,058
Total	297,818

4 Analysis of Result by current and prior years

	2020 $'000
Balance attributable to business allocated to the 2018 year of account	(28,486)
Balance attributable to the reinsurance to close of the 2017 years of account and prior	34,449
Total	5,963

5 Net Operating Expenses

	2020 $'000
Brokerage and commissions	27,131
Change in deferred acquisition costs	16,322
Administrative expenses	22,027
Members' standard personal expenses	4,958
Reinsurance commission and profit participation	(1,259)
Total	69,179

	2020 $'000
Auditors' remuneration:	
- Fees payable to the Syndicate's auditor for the audit of these accounts	6

6 Investment Return

	2020 $'000
Investment income:	
Interest and dividend income	3,606
Realised gains on investments	712
Unrealised gains on investments	2,501
Investment expenses and charges:	
Investment management expenses, including interest	(247)
Realised losses on investments	(593)
Unrealised losses on investments	(550)
Total	**5,429**

7 Reinsurance Premium Payable to Close the 2018 Year of Account

	Reported $'000	IBNR $'000	Total $'000
Gross reinsurance to close premium payable	138,527	100,295	238,822
Reinsurance recoveries anticipated	(76,803)	(62,975)	(139,778)
Reinsurance to close premium payable, net of reinsurance	**61,724**	**37,320**	**99,044**

8 Financial Investments

	2020 $'000
Overseas deposits	7,250
Debt Securities and other fixed income securities	56,768
Total	**64,018**

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

The Syndicate classifies its financial instruments held at fair value in its 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.

As at 31 December 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Overseas deposits	700	6,550	—	7,250
Debt securities and other fixed income securities	—	56,768	—	56,768
Total	**700**	**63,318**	**—**	**64,018**

9 Debtors Arising Out of Direct Insurance Operations

	2020 $'000
Due within one year	**514**

10 Debtors Arising Out of Reinsurance Operations

	2020 $'000
Due within one year	**27,370**

11 Other Debtors

	2020 $'000
Amount due from members	**1,434**
Debtors arising from Group undertakings	**282**
Total	**1,716**

12 Cash and Cash Equivalents

	2020 $'000
Cash at bank and in hand	**37,160**

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

13 Creditors

	2020 $'000
Creditors arising out of direct insurance operations	**3,488**
Creditors arising out of reinsurance operations	**21,615**
Total	**25,103**

Creditors are all due within one year.

14 Non Cash Consideration as Part of RITC Received

	2020 $'000
Financial investments	**67,410**
Debtors	**17,434**
Creditors	**(14,021)**
Total	**70,823**

15 Related Parties

Lancashire Syndicates Limited ("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 group and CCHL is the smallest group which includes LSL and for which the consolidated financial statements are prepared.

Within the Lancashire Group there are two (re)insurance companies, Lancashire Insurance Company (UK) Limited (incorporated in the UK) and Lancashire Insurance Company Limited (incorporated in Bermuda). In addition, the Lancashire group includes 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 outstanding payable to LSL in respect of services provided to the Syndicate in respect of the 2018 year of account amounted to $nil as at 31 December 2020. No profit commission is due to the managing agent in respect of the profit on the 2018 closed year as at 31 December 2020. The administrative expenses disclosed in Note 5 were recharged to the Syndicate by LSL to the 2018 year of account. The basis on which expenses are apportioned is set out in Note 2(j).

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

Year of Account	2018 (£)	2019 (£)	2020 (£)
Cathedral Capital (1998) Limited	**177,033,147**	**177,033,147**	**182,797,385**

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

16 Borrowings

During the period to 31 December 2020, the Syndicate had an unsecured catastrophe facility of $80.0m with Barclays Bank plc to assist with the paying or funding of any significant catastrophe losses. This facility was never utilised by the 2018 year of account and accordingly the balance outstanding at the Balance Sheet date was $nil.

17 Foreign Exchange Rates

	2020 year end rate
Euro	**1.23**
Sterling	**1.36**
Canadian dollar	**0.78**

18 Post Balance Sheet Events

The reinsurance premium to close the 2018 year of account as at 31 December 2020 was agreed by the managing agent on 5 February 2021. Consequently the technical provisions at 31 December 2020 have been presented in the Balance Sheet under the headings "reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account" and "reinsurance to close premiums payable to close the account - gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw. The actual amount of reinsurance to close premiums paid will be after deduction of unsigned premiums.

The amount of $6.0m profit will be transferred from members' personal reserve funds on 9 April 2021.

Seven Year Summary of Results (Unaudited)

	2018 YOA	2017 YOA	2016 YOA	2015 YOA	2014 YOA	2013 YOA	2012 YOA
Syndicate allocated capacity	**£306.0m**	£304.6m	£305.7m	£305.9m	£350.0m	£349.7m	£349.5m
Gross capacity utilised(i)	**72.7 %**	67.8 %	64.0 %	65.3 %	60.3 %	75.9 %	80.1 %
Number of underwriting members	**1,292**	1,293	1,303	1,250	1,251	1,230	1,186
Aggregate net written premiums(i)	**£155.5m**	£141.9m	£150.8m	£151.7m	£162.6m	£195.9m	£207.4m
Net capacity utilised(i)	**50.8 %**	46.6 %	49.3 %	49.6 %	46.5 %	56.0 %	59.3 %
Loss ratio(ii)	**79.3 %**	105.6 %	66.9 %	58.2 %	59.3 %	59.4 %	57.2 %
Results for an illustrative share of £10,000							
Gross written premiums	**7,274**	6,782	6,398	6,534	6,026	7,590	8,026
Net earned premiums	**5,084**	4,568	5,232	5,056	4,735	5,506	5,954
Reinsurance to close received from an earlier account	**2,845**	2,337	2,358	2,440	2,233	2,424	2,715
Net claims paid	**(4,046)**	(4,531)	(2,865)	(2,187)	(2,560)	(2,608)	(2,529)
Reinsurance to close payable	**(2,384)**	(2,763)	(2,329)	(2,356)	(2,133)	(2,235)	(2,426)
Profit/(Loss) on exchange	**239**	(40)	—	—	—	(7)	(30)
Acquisition costs	**(1,072)**	(1,063)	(1,138)	(1,053)	(997)	(1,228)	(1,299)
Syndicate operating expenses	**(532)**	(485)	(365)	(352)	(290)	(259)	(247)
Balance on technical account before investment return	**134**	(1,977)	893	1,548	988	1,593	2,138
Investment income and gains less losses, less expenses and charges	**146**	91	65	73	74	63	69
Other charges	**(15)**	—	—	—	—	—	—
Profit for closed year of account before personal expenses	**265**	(1,886)	958	1,621	1,062	1,656	2,207
Currency translation differences	**(5)**	10	—	214	823	48	112
Total recognised gains and losses before personal expenses	**260**	(1,876)	958	1,835	1,885	1,704	2,319
Illustrative personal expenses for a traditional Name:							
- Managing agent's salary	**(63)**	(65)	(65)	(65)	(65)	(65)	(65)
- Central Fund contributions	**(26)**	(25)	(13)	(28)	(26)	(33)	(17)
- Lloyd's subscription	**(29)**	(31)	(28)	(28)	(26)	(32)	(34)
- Profit commission	**—**	—	(170)	(343)	(353)	(315)	(440)
Total illustrative personal expenses for a traditional Name	**(118)**	(121)	(276)	(464)	(470)	(445)	(556)
Total result after illustrative personal expenses	**142**	(1,997)	682	1,371	1,415	1,259	1,763

Notes

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

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

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