

### **Important information about Syndicate Reports and Accounts**

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.



CATHEDRAL

SYNDICATE 3010

**Annual Report**  
31 December 2016



## Contents

Underwriter's Report	3
Managing Agent's Report	5
Annual Accounts for the year ended 31 December 2016	11
Independent Auditor's Report to the Member of Syndicate 3010	13
Income Statement – Technical Account – General Business	14
Income Statement – Non-Technical Account – General Business	15
Statement of Comprehensive Income	15
Statement of Financial Position	16
Statement of Changes in Member's Balances	18
Statement of Cash Flows	19
Notes to the Accounts	20

This page is left intentionally blank.

# Underwriter's Report

## 2016 Calendar Year Result

The 2016 calendar year result is a profit of \$2.4 million (combined ratio 96.5%). The calendar year result is made up of the movements we have seen during 2016 to actual or assessed premium earnings, claims, expenses, investment returns and the like, as they relate to all Years of Account, as more fully analysed in the managing agent's report. From the underwriting and claims perspective, I will comment further below by reference to the individual underwriting Years of Account.

## Closed years

There were no issues arising from our closed years being 2007 to 2013 and all of these years combined produced a surplus which contributed both to the calendar year result and the closing 2014 account result.

## 2014 Account

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

At thirty-six months the account has produced a profit of \$1.7 million (£1.4 million) which equates to 2.3% of stamp. This compares to the previous forecast range provided to Lloyd's at 30th September 2016 of -5% to +5%.

## 2015 Account

With the addition of the new accounts described above, we increased our capacity to £100 million for 2015. This was largely to allow for the first full year of trading for the new lines of business introduced during 2014. However, as the year unfolded it became clear that a number of issues in both the markets we insure as well as the wider issue of increasing global insurance capacity meant that we would not achieve the sort of income levels that were proposed in our original business plan for 2015.

During 2015, insurers came under further rating pressure due to surplus capacity and increased competition. This was further compounded by the collapse of commodity prices, particularly oil, which profoundly affected the energy and cargo markets. Premiums in the energy market went into freefall as the low oil price meant that certain projects were no longer viable. Production was cut dramatically and exploration virtually halted, with the corresponding reduction in exposure to the market. The remaining business became very competitive as insurers sought to maintain their income.

2015 saw an alarming acceleration in the freefall of rates in the aviation market, this was particularly acute for the "all risks" section of the account. This was exacerbated by the volumes of business being placed under broker's line slips. This was the first full year for aviation business and whilst we were well supported by clients and brokers alike we did not write the volume of income we had initially planned. We also spent more on reinsurance to protect this account.

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

Our forecast result for the 2015 Year of Account is currently in the range of -10% to +10% of capacity.

## 2016 Account

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

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

The cargo account has a core portfolio that performs well but new business tends to be extremely competitive and more and more business is being placed under broker facilities; something we would not typically support.

In the aviation all risks account pricing remains under pressure. The major airlines remain, in our view, substantially under-priced and hence we are limiting ourselves to the smaller airline accounts. General aviation continues to be dominated by broker line slips and we are not prepared to surrender underwriting control to others. There are finally long overdue signs that rate reductions are becoming harder to come by. The aviation

## **Underwriter's Report**

*Continued*

war account is benefiting from a reduction in the level of capacity provided by the broker line slips which is forcing some larger risks back into the open market.

The energy market remains challenging and rate reductions are set to continue into 2017. We successfully renewed our core portfolio in the 4th quarter which was pleasing. In recent months the oil price seems to have stabilised, but reduced activity, coupled with a relatively benign loss year and surplus market capacity has had a negative impact on written premium.

In the terror market trading conditions remain difficult. Events such as the attack at a Berlin Christmas market and several incidents in Turkey have caused significant loss of human life and widespread fear. However, the lack of costly physical damage or subsequent business interruption claims has resulted in little impact on the rating of the business in the commercial market.

The market continues to move towards largescale facilitation of business, which in the most part we actively avoid. Where we do participate on facility agreements these are well considered and supported with modest line sizes on long standing, well performing programmes.

Having taken over the role of Active Underwriter in 2016, I have recently relinquished this role. John Spence, who joined the syndicate in 2014, will replace me having received regulatory approval on 23 January 2017. I wish him and his team every success in leading Syndicate 3010 through the next stage of its life.

**R C P Williams**  
*Active Underwriter*

20 March 2017

# Managing Agent's Report

## At 31 December 2016

### Introduction

The Directors of Cathedral Underwriting Limited, the managing agency for Syndicate 3010, present the Annual Report for the Syndicate at 31 December 2016, together with the Underwriter's Report. The Syndicate commenced trading for the 2007 Year of Account on 1 July 2007.

### The Managing Agent

#### Principal activity

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

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

Syndicate	Principal class of business	Active underwriter	2016 Capacity £'000
3010	Marine cargo, and from 2014 energy, aviation all risks and hull war and terrorism	R C P Williams <sup>2</sup>	100,000
2010	Non marine and aviation reinsurance, direct and facultative property and contingency	R C P Williams <sup>2</sup>	306,264

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

All the capacity of Syndicate 3010 is provided by Cathedral Capital (1998) Limited, a subsidiary company of the Lancashire Holdings Limited Group.

### Directors

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

A S Minns	Chairman (appointed 1st July 2016, previously Non-Executive Director from 3rd May 2011)
N P Davenport	Non-Executive Director (appointed 23rd June 2016)
S W Fraser	Non-Executive Director (appointed 29th February 2016)
L J Gibbins	Non-Executive Director (appointed 23rd June 2016)
D C Grainger <sup>1</sup>	Compliance Director
J C Hamblin	Director (resigned 12th April 2016)
L A Holder	Managing Director (resigned 31st July 2016)
J A Lynch	Finance Director (resigned 31st March 2016)
M A Madden	Managing Director (appointed 23rd November 2016)
A T Maloney	Non-Executive Director
R G Oakes	Non-Executive Director (resigned 31st August 2016)
E E Patrick	Non-Executive Director (resigned 21st April 2016)
P D Scales	Director (resigned 31st March 2016)
A I G C South	Chairman (resigned 30th June 2016)
J P Tilling	Non-Executive Director
H R M Verzin	Chief Financial Officer (appointed 25th August 2016)
R C P Williams <sup>2</sup>	Director (appointed 14th June 2016)

<sup>1</sup>As of 8 January D C Grainger retired and resigned his directorship. His compliance directorship responsibilities have been assumed by E L Woolley, who became a Director on 20 February 2017.

<sup>2</sup>In 2016, R C P Williams assumed the role of Active Underwriter from J C Hamblin for both Syndicates 2010 and 3010. In 2017, these roles will move to J M Barnes and J D Spence for Syndicates 2010 and 3010 respectively. J M Barnes was made a Director on 8 March 2017. J D Spence was made a Director on 20 February 2017.

Mr Maloney owns shares in the ultimate parent company Lancashire Holdings Limited, which are disclosed in the Annual Report and Accounts of Lancashire Holdings Limited. All of the Directors disposed of their interests in Cathedral Capital Limited to Lancashire Holdings Limited on completion of its takeover of the Cathedral Group on 7 November 2013.

Mr S Fraser, a non-executive director of Lancashire Holdings Limited, was appointed a Director on 29 February 2016.

## **Managing Agent's Report At 31 December 2016**

*Continued*

### **Directors and their participations in Syndicate 3010**

None of the Directors of Cathedral Underwriting Limited participated directly as Names on the Syndicate. However the corporate member company Cathedral Capital (1998) Limited had an initial participation of £30 million on the 2014 Year of Account, but this increased to £60 million with effect from April 2014. Its participation is £100 million for the 2015, 2016 and 2017 Years of Account.

### **Active Underwriter**

In 2016, R C P Williams assumed the role of active underwriter for both 2010 and 3010. On 23 January 2017, J D Spence received regulatory approval to assume the role of Active Underwriter of Syndicate 3010. On 8 March 2017, J M Barnes received the same for Syndicate 2010.

### **Multiple syndicates consent**

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

### **Registered Office/accounting records**

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

### **Management of Syndicate 3010**

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

## 2016 Calendar Year

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

## Results

The overall calendar year result is the aggregate of the calendar year results of all Years of Account. The results are all from continuing operations. The annual accounting result is a profit of \$2.4 million in the year (2015: profit \$7.8 million) and this can be analysed as follows:

	2014* account \$'000	2015 account \$'000	2016 account \$'000	Year Ended 31 December 2016 \$'000	Year Ended 31 December 2015 \$'000
Gross earned premium	3,669	32,268	27,088	63,025	69,712
Reinsurers' share	(373)	(7,610)	(6,484)	(14,467)	(11,956)
Net earned premium	3,296	24,658	20,604	48,558	57,756
Gross claims incurred	3,276	(19,757)	(14,432)	(30,913)	(25,927)
Reinsurers' share	(832)	7,692	1,396	8,256	689
Net claims incurred	2,444	(12,065)	(13,036)	(22,657)	(25,238)
Net operating expenses	(1,790)	(10,019)	(12,888)	(24,697)	(25,030)
Balance on Technical Account before investment return	3,950	2,574	(5,320)	1,204	7,488
Net investment return	135	46	35	216	94
Exchange gain and (loss)	573	243	193	1,009	174
Profit for the financial year	4,658	2,863	(5,092)	2,429	7,756

\* The 2014 account includes the movement in the 2007 to 2013 accounts which have closed into the 2014 account.

Premiums above are grossed up for brokerage.

The insurance and reinsurance contracts underwritten by the Syndicate are earned over the life of the policy, normally commencing at the inception of the policy. An earnings pattern is established for each class of business written by the Syndicate and these earnings patterns are applied at the policy level. The earning patterns aim to reflect the underlying exposures of the business written. Thus net earned premiums during 2016 include premiums on policies incepting during 2016 together with estimates for premiums and adjustments to premiums on policies incepting in prior periods.

Most of the business written by Syndicate 3010 until April 2014 was within its marine cargo account although it also wrote quota share reinsurances of certain of the accounts written by Syndicate 2010 for the 2013 and prior Years of Account. Since April 2014 the Syndicate has also written energy and terrorism business and since August 2014 direct aviation and aviation war business.

## **Managing Agent's Report At 31 December 2016**

*Continued*

### *Statement of Managing Agent's Responsibilities*

Cathedral Underwriting Limited as managing agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare annual accounts for the Syndicate at 31 December each year which give a true and fair view of the state of affairs of the Syndicate and its profit or loss for that period, in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these Syndicate annual accounts, the managing agent is required to:

- a) select suitable accounting policies which are applied consistently, with the exception of any changes arising from the adoption of new accounting standards in the year;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material differences disclosed and explained; and
- d) prepare the Syndicate annual financial statements on a going concern basis unless it is inappropriate to presume that there will be future years of account of the Syndicate.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information relating to the Syndicate included on the managing agent's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

### **Description of business and methods of acceptance**

The Syndicate writes:

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

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

### **Reinsurance protection**

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

### **Syndicate investments**

The Syndicate funds have been kept liquid in order to meet any cash demands that arise. Some cash balances are swept overnight into pooled arrangements and therefore are classified as investments. However, none of the funds are under the management of external fund managers.

### **Foreign exchange hedging**

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

### **Bank borrowing facilities**

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

### **Principal risks impacting the Syndicate**

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

### **Subcontracted functions**

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

### **Actuaries**

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

### **Statement as to disclosure of information to auditors**

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

## **Managing Agent's Report At 31 December 2016**

*Continued*

### **Advanced consents procedure notifications**

#### *Agency and Syndicate Auditor*

Ernst & Young LLP are the independent auditors to all of the Lancashire Group companies and the Syndicate.

During 2016 Lancashire Holdings Limited (LHL), Cathedral Underwriting Limited's ultimate parent company, conducted an audit tender process and, as a result, a resolution is being proposed at LHL's annual general meeting (to be held on 3 May 2017) to appoint KPMG LLP as LHL's auditor. The intention is for KPMG LLP also to be appointed as auditor to all other Lancashire Group companies. Cathedral Underwriting Limited intends to utilise the procedures referred to in the Advance Consents Regime (Market Bulletin Y31 I 6) in order to approve the appointment KPMG LLP as auditor to both the Syndicate and to Cathedral Underwriting Limited (conditional upon KPMG LLP being appointed as auditor to LHL) and will therefore provide the relevant notice to the Syndicate's capital providers at an appropriate time in order for them to register any objections to this proposal.

The safeguards against conflicts of interests arising from the same audit firm being auditors to both the managing agent and the Syndicate remain the same as stated in our memorandum dated 22 June 2004, as amended by that of 21 September 2006, addressed to Members' Agents and Direct Corporate Capital Providers, copies of which are available on request to all syndicate members.

By order of the Board

**M A Madden**  
Managing Director  
Cathedral Underwriting Limited  
29th Floor, 20 Fenchurch Street  
London EC3M 3BY

20 March 2017

**SYNDICATE ANNUAL ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

This page is left intentionally blank.

## Independent Auditor's Report to the Members of Syndicate 3010

We have audited the syndicate annual accounts of syndicate 3010 ('the syndicate') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Member's Balances, the Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the managing agent and auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8 the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on the syndicate annual accounts

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### Opinion on the other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, the information given in the Managing Agent's Report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

**Angus Millar** (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

20 March 2017

**Income Statement  
Technical Account – General Business  
For the year ended 31 December 2016**

	Notes	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
<b>Principal risks impacting the Syndicate</b>			
<b>Earned premiums, net of reinsurance:</b>			
Gross premiums written	3	56,935	71,885
Outward reinsurance premiums		(15,594)	(11,253)
<b>Net premiums written</b>		<b>41,341</b>	<b>60,632</b>
<b>Change in the provision for unearned premiums:</b>			
Gross amount		6,090	(2,173)
Reinsurers' share		1,127	(703)
<b>Earned premiums, net of reinsurance</b>		<b>48,558</b>	<b>57,756</b>
<b>Allocated investment return transferred from the non-technical account</b>		<b>216</b>	<b>94</b>
<b>Claims paid:</b>			
Gross amount		(20,493)	(21,327)
Reinsurers' share		1,461	780
		<b>(19,032)</b>	<b>(20,547)</b>
<b>Change in the provision for claims:</b>			
Gross amount		(10,420)	(4,600)
Reinsurers' share		6,795	(91)
		<b>(3,625)</b>	<b>(4,691)</b>
<b>Claims incurred, net of reinsurance</b>		<b>(22,657)</b>	<b>(25,238)</b>
<b>Net operating expenses</b>	4	<b>(24,697)</b>	<b>(25,030)</b>
<b>Balance on the technical account for general business</b>		<b>1,420</b>	<b>7,582</b>

All items relate to continuing operations only.

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

**Income Statement**  
**Non-Technical Account – General Business**  
**For the year ended 31 December 2016**

	Notes	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
<b>Balance on the technical account for general business</b>		<b>1,420</b>	7,582
Investment income	8	<b>202</b>	103
Gains/(Losses) on realisation of investments		<b>14</b>	(9)
Allocated investment return transferred to the general business technical account		<b>(216)</b>	(94)
Exchange gains and losses		<b>1,009</b>	174
<b>Profit for the financial year</b>		<b>2,429</b>	7,756

**Statement of Comprehensive Income**  
**For the year ended 31 December 2016**

	Notes	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Profit for the financial year		<b>2,429</b>	7,756
<b>Total comprehensive income since last annual report</b>		<b>2,429</b>	7,756

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

**Statement of Financial Position  
As At 31 December 2016**

	Notes	2016 \$'000	2015 \$'000
<b>Investments:</b>			
Financial investments	9	31,648	31,222
		<b>31,648</b>	31,222
<b>Reinsurers' share of technical provisions:</b>			
Provision for unearned premiums	10	6,120	5,093
Claims outstanding	11,12	10,336	3,667
		<b>16,456</b>	8,760
<b>Debtors:</b>			
Debtors arising out of direct insurance operations			
– Intermediaries	13	19,084	21,163
Debtors arising out of reinsurance operations	14	12,719	16,055
Other debtors	15	61	103
		<b>31,864</b>	37,321
<b>Other assets:</b>			
Cash and cash equivalents	16	8,250	5,363
Other	17	2,045	1,583
		<b>10,295</b>	6,946
<b>Prepayments and accrued income:</b>			
Deferred acquisition costs	18	8,876	10,538
Other prepayments and accrued income		187	397
		<b>9,063</b>	10,935
<b>Total assets</b>		<b>99,326</b>	95,184

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

	Notes	2016 \$'000	2015 \$'000
<b>Capital and reserves:</b>			
Member's balances		(3,211)	(5,584)
		<b>(3,211)</b>	<b>(5,584)</b>
<b>Technical provisions:</b>			
Provision for unearned premiums	10	35,096	41,881
Claims outstanding	12	52,895	43,851
		<b>87,991</b>	<b>85,732</b>
<b>Creditors:</b>			
Creditors arising out of direct insurance operations	19	5,134	4,191
Creditors arising out of reinsurance operations	20	6,757	6,938
Other creditors including taxation and social security	21	2,052	3,473
		<b>13,943</b>	<b>14,602</b>
<b>Accruals and deferred income</b>		<b>603</b>	<b>434</b>
<b>Total liabilities</b>		<b>99,326</b>	<b>95,184</b>

The Syndicate annual accounts on pages 14 to 41 were approved by the Board of Cathedral Underwriting Limited on 20 March 2017 and were signed on its behalf by

**M A Madden**  
Managing Director

**H R M Verzin**  
Chief Financial Officer

20 March 2017

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

## Statement of Changes in Member's Balances For the year ended 31 December 2016

	Notes	2016 \$'000
Member's balances at 1 January		(5,584)
Profit for the year		2,429
Transfer (to) member personal reserve fund		(56)
<b>Member's balances carried forward at 31 December</b>		<b>(3,211)</b>

	Notes	2015 \$'000
Member's balances at 1 January		(9,117)
Profit for the year		7,756
Transfer (to) member personal reserve fund		(4,223)
<b>Member's balances carried forward at 31 December</b>		<b>(5,584)</b>

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

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

Transfers to member's personal funds comprise the 2013 (2012) closed Year of Account profit.

## Statement of Cash Flows

### For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
<b>Reconciliation of profit to net cash inflow from operating activities</b>			
Profit for the financial year		2,429	7,756
Realised and unrealised investments losses on cash and investments, including currency movements		136	829
Income from investments		(202)	(103)
Decrease/(increase) in debtors, prepayments and accrued income		5,663	(8,323)
(Decrease)/increase in net technical provisions		(3,775)	5,416
(Decrease)/increase in creditors, accruals and deferred income		(490)	1,279
<b>Net cash inflow from operating activities</b>		<b>3,761</b>	<b>6,854</b>
<b>Cash flows from investing activities</b>			
Interest received		206	114
Movement of shares and other variable yield securities		(426)	(4,846)
Movement of overseas deposits		(476)	5
<b>Net cash (outflow) from investing activities</b>		<b>(696)</b>	<b>(4,727)</b>
<b>Cash flows from financing activities</b>			
Transfer (to) members in respect of underwriting participations		(56)	(4,223)
<b>Net cash outflow from financing activities</b>		<b>(56)</b>	<b>(4,223)</b>
<b>Increase/(Decrease) in cash and cash equivalents in the year</b>		<b>3,009</b>	<b>(2,096)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>5,363</b>	<b>8,279</b>
Effect of exchange rates and change in market value on cash and cash equivalents		(122)	(820)
<b>Cash and cash equivalents at 31 December</b>		<b>8,250</b>	<b>5,363</b>

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

## Notes to the Accounts For the year ended 31 December 2016

### I Statement of Compliance

Cathedral Underwriting Limited, incorporated in the United Kingdom, is ultimately responsible for the management of Syndicate 3010. The registered office is 29th Floor, 20 Fenchurch Street, London, EC3M 3BY. The financial statements cover those of the individual Syndicate and are prepared as at 31 December 2016 and for the year ended 31 December 2016.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations"). The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards.

#### Basis of Preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 20 March 2017.

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

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

### 2 Accounting Policies

#### a) Basis of accounting

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

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

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

The financial statements have been prepared using critical estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on management's best knowledge of the current events and actions, actual outcomes may differ from those estimates, possibly significantly. The most significant estimate made by management is in relation to insurance risk, where the key risk factors impacting management's estimate are disclosed in Note 24.

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

#### c) Underwriting

##### (i) Premiums written

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

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

##### (ii) Reinsurance premium ceded

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

(iii) *Unearned premiums*

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

(iv) *Claims incurred*

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

(v) *Claims provisions and related recoveries*

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

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

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

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

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

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

The Syndicate uses a number of statistical and other techniques to assist in making the above estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

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

(vi) *Unexpired risks provision*

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

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

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

## Notes to the Accounts For the year ended 31 December 2016

(vii) *Acquisition costs*

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

(viii) *Profit commission*

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

d) *Foreign currencies*

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

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

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

e) *Cash and cash equivalents*

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

f) *Financial Instruments*

(i) *Financial Investments*

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

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

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

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

(ii) *Other financial assets and liabilities*

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

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

g) *Fair Value of Financial Assets*

The fair value hierarchy is as follows:

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

h) *Investment return*

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

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

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

i) *Taxation*

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

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

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

j) *Pension costs*

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

k) *Operating lease rentals*

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

**Notes to the Accounts**  
**For the year ended 31 December 2016**

**3 Particulars of business written**

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

Type of business	31 December 2016						
	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Net operating expenses \$'000	Reinsurance balance \$'000	Total \$'000	Net technical provisions \$'000
<b>Direct insurance:</b>							
Marine, aviation and transport	24,431	29,186	(22,679)	(11,638)	1,213	(3,918)	35,213
Fire and other damage to property	8,538	8,618	(617)	(2,255)	(1,592)	4,154	5,460
Credit and suretyship	19	21	3	(9)	(17)	(2)	3
	<b>32,988</b>	<b>37,825</b>	<b>(23,293)</b>	<b>(13,902)</b>	<b>(396)</b>	<b>234</b>	<b>40,676</b>
<b>Reinsurance acceptances</b>	<b>23,947</b>	<b>25,200</b>	<b>(7,620)</b>	<b>(10,795)</b>	<b>(5,815)</b>	<b>970</b>	<b>21,983</b>
<b>Total</b>	<b>56,935</b>	<b>63,025</b>	<b>(30,913)</b>	<b>(24,697)</b>	<b>(6,211)</b>	<b>1,204</b>	<b>62,659</b>

Type of business	31 December 2015						
	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Net operating expenses \$'000	Reinsurance balance \$'000	Total \$'000	Net technical provisions \$'000
<b>Direct insurance:</b>							
Marine, aviation and transport	31,009	35,115	(14,332)	(13,498)	(5,191)	2,094	36,070
Fire and other damage to property	9,298	8,672	(1,659)	(1,791)	(1,624)	3,598	5,445
Credit and suretyship	20	22	(1)	(5)	(1)	15	(11)
	<b>40,327</b>	<b>43,809</b>	<b>(15,992)</b>	<b>(15,294)</b>	<b>(6,816)</b>	<b>5,707</b>	<b>41,504</b>
<b>Reinsurance acceptances</b>	<b>31,558</b>	<b>25,903</b>	<b>(9,935)</b>	<b>(9,736)</b>	<b>(4,451)</b>	<b>1,781</b>	<b>24,930</b>
<b>Total</b>	<b>71,885</b>	<b>69,712</b>	<b>(25,927)</b>	<b>(25,030)</b>	<b>(11,267)</b>	<b>7,488</b>	<b>66,434</b>

Net technical provisions are net of deferred acquisition costs.

### 3 Particulars of business written *continued*

Geographical analysis by origin

	Gross written premiums		2016 \$'000	Profit 2015 \$'000	Net assets/(liabilities)	
	2016 \$'000	2015 \$'000			2016 \$'000	2015 \$'000
Direct	<b>32,988</b>	40,327	<b>2,299</b>	5,190	<b>(1,892)</b>	(2,744)
Reinsurance	<b>23,947</b>	31,558	<b>130</b>	2,566	<b>(1,319)</b>	(2,840)
	<b>56,935</b>	71,885	<b>2,429</b>	7,756	<b>(3,211)</b>	(5,584)

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

Geographical analysis by destination

	Gross written premiums 2016 \$'000	Gross written premiums 2015 \$'000
UK	<b>13,859</b>	16,901
US	<b>17,151</b>	17,919
Other EU member states	<b>5,101</b>	6,834
Rest of the world	<b>20,824</b>	30,231
	<b>56,935</b>	71,885

**Notes to the Accounts**  
**For the year ended 31 December 2016**

**4 Net operating expenses**

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Acquisition costs	15,129	18,347
Change in deferred acquisition costs	1,201	(1,141)
Administrative expenses	5,449	4,211
Reinsurance commissions and profit participation	886	1,035
Gain on exchange	(344)	165
Personal expenses	2,376	2,413
	<b>24,697</b>	<b>25,030</b>

Administrative expenses include:

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Auditors' remuneration:		
– Audit of the Syndicate annual accounts	109	112
– Other services pursuant to regulations and Lloyd's Byelaws	33	40

Total commissions for direct insurance accounted for in the year amounted to \$8,297,276 (2015: \$8,842,784).

Exchange gains arising on translation of monetary assets and liabilities amounted to \$1,008,594 (2015: \$174,000).

**5 Staff numbers and costs**

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

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
	Notes	
Wages and salaries	3,787	2,768
Social security costs	392	340
Pension costs	319	411
	<b>4,498</b>	<b>3,519</b>

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

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Operations, administration and finance	6	3
Underwriting and claims	17	14
	<b>23</b>	<b>17</b>

## 6 Emoluments of the Directors of Cathedral Underwriting Limited

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

	Notes	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Emoluments		373	147

## 7 Active Underwriter's emoluments

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

		Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Emoluments		124	22

## 8 Investment income

	Notes	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Income from investments		202	103

## 9 Financial investments at fair value

	Carrying value		Purchase Price	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Shares and other variable yield securities	31,648	31,222	31,648	31,222

All investments held by the Syndicate are only available for investment and for paying of claims by the Syndicate to its policyholders and expenses. They are categorised as investments at fair value through profit and loss. All investments are classified as level 2 of the fair value hierarchy.

All investments are stated at bid price value. For an analysis of financial investments by external credit rating, refer to Note 24.

**Notes to the Accounts**  
**For the year ended 31 December 2016**

**10 Provisions for unearned premiums**

	2016		
	Gross \$'000	Reinsurers' share \$'000	Net \$'000
At 1 January 2016	41,881	5,093	36,788
Premiums written in the year	56,935	15,594	41,341
Premiums earned in the year	(63,025)	(14,467)	(48,558)
Foreign exchange	(695)	(100)	(595)
At 31 December 2016	<b>35,096</b>	<b>6,120</b>	<b>28,976</b>

	2015		
	Gross \$'000	Reinsurers' share \$'000	Net \$'000
At 1 January 2015	40,193	5,814	34,379
Premiums written in the year	71,885	11,253	60,632
Premiums earned in the year	(69,712)	(11,956)	(57,756)
Foreign exchange	(485)	(18)	(467)
At 31 December 2015	41,881	5,093	36,788

**11 Reinsurers' share of claims outstanding**

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

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

	2016 \$'000	2015 \$'000
A grade security	8,792	1,859
Other*	1,544	1,808
	<b>10,336</b>	<b>3,667</b>

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

## 12 Claims Outstanding

	2016		
	Gross \$'000	Reinsurers' share \$'000	Net \$'000
At 1 January 2016	43,851	3,667	40,184
Claims incurred in current underwriting year	14,220	1,396	12,824
Claims incurred in prior underwriting year	15,950	6,860	9,090
Claims paid during the year	(20,493)	(1,461)	(19,032)
Foreign exchange	(633)	(126)	(507)
At 31 December 2016	52,895	10,336	42,559

	2015		
	Gross \$'000	Reinsurers' share \$'000	Net \$'000
At 1 January 2015	40,081	3,877	36,204
Claims incurred in current underwriting year	13,535	957	12,578
Claims incurred in prior underwriting year	11,732	(268)	12,000
Claims paid during the year	(21,327)	(780)	(20,547)
Foreign exchange	(170)	(119)	(51)
At 31 December 2015	43,851	3,667	40,184

## 13 Debtors arising out of direct insurance operations

	2016 \$'000	2015 \$'000
Due within one year – intermediaries	19,084	21,163

## 14 Debtors arising out of reinsurance operations

	2016 \$'000	2015 \$'000
Due within one year	12,719	16,055

## 15 Other debtors

	2016 \$'000	2015 \$'000
Due within one year:	24	84
Due after one year:	37	19
	61	103

**Notes to the Accounts**  
**For the year ended 31 December 2016**

**16 Cash and cash equivalents**

	2016 \$'000	2015 \$'000
Cash and cash equivalents exist of:		
Cash at bank and in hand	5,241	2,678
Participation in investment pools	3,009	2,685
	<b>8,250</b>	<b>5,363</b>

Cash and cash equivalents held by the Syndicate are only available for investing, paying of claims to its policyholders and expenses.

**17 Other assets – overseas deposits**

	2016 \$'000	2015 \$'000
Amounts advanced in other countries as a condition of carrying on business there	2,045	1,583

**18 Deferred acquisition costs**

	2016 \$'000	2015 \$'000
At 1 January	10,538	9,565
Change in deferred acquisition costs	(1,201)	1,141
Foreign exchange	(461)	(168)
At 31 December	<b>8,876</b>	<b>10,538</b>

**19 Creditors arising out of direct insurance operations**

	2016 \$'000	2015 \$'000
Due within one year	5,134	4,191

**20 Creditors arising out of reinsurance operations**

	2016 \$'000	2015 \$'000
Due within one year	6,757	6,938

**21 Other creditors including taxation and social security**

	2016 \$'000	2015 \$'000
<b>Due within one year:</b>		
Expenses owed to managing agent	2,052	3,473

## 22 Bank borrowing facilities

The Syndicate has arranged a catastrophe facility (up to a maximum of \$40 million) with Barclays Bank Plc. The facility is there to assist in paying claims and gross funding of catastrophes. Up to \$20 million can be utilised by way of letter of credit to assist the Syndicate's gross funding requirements. Combined borrowing to both Syndicate 3010 and Syndicate 2010 of \$120 million. The facility was not utilised during calendar year 2016 and Syndicate 3010 has not renewed for 2017.

## 23 Related parties

### Key management compensation

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

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

	Year ended 31 December 2016 \$'000	Year ended 31 December 2015 \$'000
Key management compensation		
Salaries and other short-term employee benefits	379	148
Post-employment benefits	6	5
	<b>385</b>	<b>153</b>

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

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

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

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

In the normal course of business Syndicate 3010 has underwritten reinsurances of Syndicate 2010 all of which have been dealt with on a commercial arm's length basis.

Total managing agency fees paid during calendar year 2016 to Cathedral Underwriting Limited in respect of services provided to the Syndicate amounted to \$1,370,000 (2015: \$1,545,000).

Profit commission of \$425,527 (2015: nil) is also due to the managing agent, Cathedral Underwriting Limited, in respect of the profit on the 2014 (2013) closed year.

## Notes to the Accounts For the year ended 31 December 2016

Expenses totalling \$7,277,766 (2015: \$5,935,296) were recharged to the Syndicate by Cathedral Underwriting Limited. Where expenses were incurred jointly by the managing agent and the Syndicate, they were apportioned as follows:

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

Amounts owed to Cathedral Underwriting Limited at 31 December 2016 totalled \$2,052,165 (2015: \$3,473,124) and are included in “Other creditors including taxation and social security”.

Cathedral Capital (1998) Limited, a fellow subsidiary of Cathedral Underwriting Limited, provided 100% of capacity to the 2014, 2015 and 2016 underwriting years. Therefore all profits and losses of the Syndicate are attributable to Cathedral Capital (1998) Limited. Amounts owed to Cathedral Capital (1998) Limited at 31 December 2016 totalled \$1,702,115 (2015: \$54,263).

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

### 24 Risk disclosure

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

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

#### *Insurance Risk*

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

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

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

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

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

#### *Diversification across classes of business*

The Syndicate's underwriting covers various classes of business which, to some extent, have different exposure profiles and therefore provides an element of diversification. The managing agency monitors the type of business underwritten by the Syndicate at a whole account level and, where appropriate, adjusts either the business mix or the level of reinsurance protection in place to try to reduce the extent of overly concentrated exposures.

#### *Frequency and severity of claims*

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

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

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

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

Based on the July 2016 RDS submission to Lloyd's, the largest gross RDS was for the collision of the Syndicate's two largest airline exposures at \$62.7 million. The largest net RDS based on the July 2016 Lloyd's RDS submission using version 10 of RMS was for a Gulf of Mexico hurricane with an industry loss estimate of in excess of \$100 billion and a net of reinsurance recoveries and reinstatement costs loss to the Syndicate of \$18.0 million.

#### *Underwriting risk*

The Syndicate has a defined event risk appetite. Best efforts are made to restrict the maximum gross and net loss such that the Syndicate may retain/lose for any single major catastrophe event (taken to be a Lloyd's RDS) to be not materially more than circa 20% of capacity net of circa 70% of capacity gross. This is when applying rates of exchange used for planning purposes. The Syndicate models various loss scenarios and also prepares prescribed RDS which seek to analyse and quantify its exposures to certain specified events, and the Syndicate endeavours to ensure that its potential loss exposures remain within Franchise Board guidelines (or where dispensations exist within these). The Lloyd's guidelines measure maximum RDS exposures as a percentage of both Gross Net Premium (GNP) (Although this measure will not be applied from 2016) and Economic Capital Assessment (ECA); however, internally the Syndicate continues to manage RDS exposure against capacity.

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

##### *a) Accumulative loss including unknown / unexpected accumulations*

The business written by the Syndicate is short tail in nature and, whilst short tail classes are not immune from unknown/unexpected accumulations, the threat of this occurring is probably more pronounced in the liability fields. By and large the insurances and reinsurances provided by the Syndicate are of a well tested nature. More crucially, the approach taken to risk management is heavily exposure driven. The Syndicate continually seeks to model the portfolio of its accounts in order to identify accumulations and to monitor the exposures of the Syndicate, and the whole process is supported by sophisticated internal and external modelling systems. Finally, to ensure the maximum depth of reinsurance coverage, accounts have separate reinsurance programmes (energy and terrorism have combined covers).

## Notes to the Accounts For the year ended 31 December 2016

b) *Risk of extreme losses*

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

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

c) *Frequency of major loss*

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

d) *Wording issues*

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

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

e) *Unsustainable pricing*

The cyclical nature of insurance means that rates constantly fluctuate. Like all insurers the overall account written needs to develop sufficient income to pay for the attritional losses which would typically attach to the type of business it writes, to pay for the reinsurance programme which is required to protect and/or mitigate the impact of catastrophes and to meet all expenses, whilst leaving sufficient money to produce a profit to capital providers, given normal loss experience.

The business planning process seeks to ensure the underwriting capacity is applied to those areas of business that offer sound prospects for profitable underwriting. The major controls applied on a day-to-day basis include the peer review processes within the Syndicate and the Syndicate's rate monitoring processes. The managing agency's board reviews loss ratio statistics to identify adverse developments (which may be due to pricing issues) so that appropriate remedial action can be taken. It also reviews the rate monitoring index to identify pricing trends.

The Lloyd's Franchise Board provides frequent updates on key trends in the market at risk level, as well as benchmarking the Syndicate's own performance against its peers.

*Other controls*

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

The Syndicate prepares an annual business plan which sets out the forecast premium income to be written, by class of business. This plan is monitored on a continuous basis throughout the year. Line limits for each underwriting team are pre-agreed as are the line limits that can be deployed on each risk/programme. These limits are monitored throughout the year.

A risk summary report is generated daily, setting out all new risks and any changes to existing risks, which is reviewed and signed off by the relevant class underwriter. The independent review director reviews a sample of all risks underwritten by the Syndicates.

Risks underwritten by the Syndicate are modelled in a timely fashion with underlying risk exposure information being recorded. This output is used to build up aggregates by class of business, broad risk types and geographical location. Aggregate reports by class of business and geographical zone are regularly presented to the managing agency's syndicate board and these are monitored against those that had been expected per the Syndicate's business plans. Aggregation systems are also used for other accounts to monitor exposure.

#### *Reinsurance risk*

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

##### *a) Inappropriate reinsurance programme/gaps*

The Syndicate knowingly runs exposures which are not covered by reinsurance. These exposures may be run below the attachment point of the outwards programme (Syndicate's retention), in the form of co-insurance/partial placement of coverages or uncovered exposures in excess of the vertical protections placed on either the whole account or specific accounts. Provided these unprotected exposures are known and quantified and are consistent with the RDS and other modelled outputs produced by the Syndicate then this would not be regarded as inappropriate. However, where gross exposures are assumed on the basis that reinsurance protection of a type or quantum is available then for that not to be the case could produce serious adverse consequences.

Also, if following the occurrence of major losses, the reinsurance programmes do not respond or provide the cover that was assumed, then there could be significant financial consequences to the Syndicate. It is emphasised that the reinsurance cover which the Syndicate purchases has finite limits which may not be sufficient to contain all loss activity.

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

##### *b) Collapse of the retrocession market*

Whilst the Syndicate aims to produce a gross underwriting profit across the cycle, in order to mitigate volatility, a significant amount of retrocessional cover is purchased. The availability of retrocessional cover going forward will be a function of the Syndicate's record with its reinsurers together with the overall availability of retrocessional capacity.

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

Should there be a collapse in the retrocessional market generally, the Syndicate would endeavour to adjust the inwards books accordingly, although the circumstances described would almost certainly have a dramatic impact on rates, terms and deductibles on the inward book which would result in less risk being assumed.

##### *c) Lack of availability of reinsurance cover on acceptable terms*

The reinsurance programmes are planned and structured based on the business plan income and exposure assumptions. The Syndicate aims to protect itself to some degree against significant catastrophe losses. However, the level of reinsurance or retrocession cover that is bought is dependent on availability, and there can be no assurance that the level of cover required is either available or available on terms acceptable to it. Where such cover is not available, then the Syndicate's exposure to large losses increases accordingly, though this may be mitigated somewhat by a reduction in the aggregate exposures taken on by it.

## Notes to the Accounts For the year ended 31 December 2016

### *Reserving Risk*

Reserves include both claims liabilities and provisions for unearned premiums.

Reserves for claims liabilities do not represent an exact calculation of liability. Rather, reserves are estimates of what the Syndicate expects the ultimate settlement and administration of claims will cost. The reserving risk is that reserves established by the Syndicate are insufficient to meet actual claims liabilities, or that reinsurance bad debt provisions or allowances for future expenses are inadequate. When estimating claims liabilities, significant reserving judgements are required to be made, particularly in respect of the ultimate cost of major catastrophes, contentious or complex claims, reinsurance recoverable and liability awards.

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

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

### *Claims outstanding*

#### *(i) Processes used to decide on assumptions*

The projection of claims outstanding (and reinsurance recoveries thereon) is subjective in nature as it relates to claims which have happened but for which there may be limited information available at the year end, or which relates to claims which can be complex. The Syndicate underwrites relatively short-tail accounts, which can often mean that after a short period of time, a large proportion of the underwriting losses have already been notified to them and, more importantly, catastrophe losses are known soon after the event occurs. Therefore projections are able to be undertaken using underwriter judgement, market share analysis and comparison to the rest of the market.

The Syndicate has a catastrophe element, giving the account exposure to large but relatively less frequent losses. When setting assumptions and projecting claims liabilities, this means the underwriters will tend to know whether or not a loss large enough to materially impact the account has happened (e.g. severe windstorms). However such losses may have varying levels of complexity which can make the projection of some losses more difficult. Nevertheless, the assumptions used in projecting claims liabilities are derived from underwriter experience and judgement, statistical projections and market data.

#### *(ii) Changes in assumptions and sensitivity analysis*

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

#### *(iii) Sensitivity analysis – sensitivity of claims liabilities*

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

- Claims which are of a complex nature, particularly where information is not forthcoming or have the potential to develop further in the light of litigation or legal dispute; and
- Future advices/notifications particularly with respect to significant losses occurring close to the year end. By their nature, these claims are large at a gross level and, given the limited time between their event and the year end, notifications by year end would not be expected to be complete. Any projections of these losses at this early stage will be subjective. Nonetheless, the Syndicate has sought to consider all potential losses and reviews/ follows up on such losses on a regular basis.

If the provision for net outstanding claims changed by 1%, the impact would equate to a pre-tax movement on net assets/ profits of \$426,000 (2015: \$402,000).

The loss development table below provides information on the historical claims development for Syndicate 3010. It shows how the estimates of the claims ratio for the past five underwriting years have changed at successive year-ends. In effect, the table highlights the

Syndicate's ability to provide a robust estimate of the claims costs. An underwriting year basis is considered to be the most appropriate basis for business written by the Syndicate. The loss ratios are in respect of the pure Year of Account and are the cumulative annually accounted loss ratios at each stage. The Syndicate believes the estimate of total claims liabilities as at 31 December 2016 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

<b>Underwriting year – Gross</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
12 months	127%	103%	65%	76%	45%	53%
24 months	83%	61%	72%	54%	53%	–
36 months	78%	58%	67%	45%	–	–
48 months	61%	56%	71%	–	–	–
60 months	59%	55%	–	–	–	–
72 months	59%	–	–	–	–	–

<b>Underwriting year – Net</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
12 months	113%	109%	166%	107%	56%	63%
24 months	71%	68%	71%	63%	52%	–
36 months	66%	56%	67%	54%	–	–
48 months	60%	54%	70%	–	–	–
60 months	58%	53%	–	–	–	–
72 months	58%	–	–	–	–	–

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

#### *Provision for unearned premiums*

##### *(iv) Processes used to decide on assumptions*

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

##### *(v) Changes in assumptions and sensitivity analysis*

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

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

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

If a change in the proportion of total business written of 1% was to become unearned this would equate to an adjustment of \$569,000 to the unearned premium provision (2015: \$719,000).

#### *Credit Risk*

The Syndicate has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Syndicate is exposed to credit risk are:

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

## Notes to the Accounts For the year ended 31 December 2016

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

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

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

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

The table below shows the concentration of credit risk exposure at 31 December 2016, using ratings from external rating agencies. Credit ratings for financial investments are based on rating available from Standard and Poor's but, in the event that they do not rate a specific investment, then either Moody's or Fitch are used instead, depending on which agency/agencies rated the investment. Debtors, other than amounts due from reinsurers and insurance receivables have been excluded from the table as these are not rated.

At 31 December 2016				Statement of Financial Position total
	A++ \$'000	B++ to B- \$'000	Unrated \$'000	\$'000
Financial investments	31,649	-	-	31,649
Cash and cash equivalents	8,250	-	-	8,250
Other assets	951	1,095	-	2,045
Reinsurance assets	8,897	-	1,508	10,405

At 31 December 2015				Statement of Financial Position total
	A++ \$'000	B++ to B- \$'000	Unrated \$'000	\$'000
Financial investments	31,222	-	-	31,222
Cash and cash equivalents	5,363	-	-	5,363
Other assets	1,095	485	3	1,583
Reinsurance assets	1,854	-	3,004	4,858

The unrated reinsurance assets at 31 December 2016 are mainly in respect of attritional IBNR that has yet to be allocated to any specific loss.

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

	2016 \$'000	2015 \$'000
3 to 6 months past due	988	284
6 to 9 months past due	402	91
Greater than 9 months past due	1,485	516
	<b>2,875</b>	<b>891</b>

### Liquidity Risk

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

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

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

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

<b>At 31 December 2016</b>	<b>&lt; 1 year \$'000</b>	<b>1-3 years \$'000</b>	<b>4-5 years \$'000</b>	<b>&gt; 5 years \$'000</b>	<b>Statement of Financial Position total \$'000</b>
Gross provision for claims outstanding	(17,883)	(24,846)	(6,418)	(3,749)	(52,895)
Claims outstanding recoverable from reinsurers	1,661	5,271	1,970	1,434	10,336
	<b>(16,222)</b>	<b>(19,575)</b>	<b>(4,448)</b>	<b>(2,315)</b>	<b>(42,559)</b>

<b>At 31 December 2015</b>	<b>&lt; 1 year \$'000</b>	<b>1-3 years \$'000</b>	<b>4-5 years \$'000</b>	<b>&gt; 5 years \$'000</b>	<b>Statement of Financial Position total \$'000</b>
Gross provision for claims outstanding	(20,367)	(18,095)	(3,764)	(1,625)	(43,851)
Claims outstanding recoverable from reinsurers	1,295	1,609	477	286	3,667
	<b>(19,072)</b>	<b>(16,486)</b>	<b>(3,287)</b>	<b>(1,339)</b>	<b>(40,184)</b>

### Market Risk

#### Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the Syndicate through the investments held with a fixed return, and market interest rates change which in turn change the market value of the investments. The Syndicate has no investments with a fixed return and so the effective interest rate of the Syndicate's financial instruments exposed to interest rate risk at the Statement of Financial Position date is nil (2015: nil)

## Notes to the Accounts For the year ended 31 December 2016

### Currency risk

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

Converted US Dollar '000s As at 31 December 2016	GBP	USD	EUR	CAD	OTH	Total
Total assets	7,614	81,476	6,208	3,061	968	99,327
Total liabilities	(6,660)	(77,467)	(9,176)	(994)	(8,241)	(102,538)
<b>Member's balance</b>	<b>954</b>	<b>4,009</b>	<b>(2,968)</b>	<b>2,067</b>	<b>(7,273)</b>	<b>(3,211)</b>

Converted US Dollar '000s As at 31 December 2015	GBP	USD	EUR	CAD	OTH	Total
Total assets	8,243	76,078	6,424	3,352	1,087	95,184
Total liabilities	(9,263)	(72,457)	(7,573)	(1,062)	(10,413)	(100,768)
Member's balance	(1,020)	3,621	(1,149)	2,290	(9,326)	(5,584)

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

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

If the currency exchange rates moved 10% against the US Dollar, the impact would be US\$722,000 (2015: US\$920,000)

### Fair value estimation

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

Converted US Dollar '000s As at 31 December 2016	Level 1	Level 2	Level 3	Level 4
Shares and other variable yield securities	-	26,685	-	26,685
Cash and cash equivalents	2,510	-	-	2,510
Overseas deposits	1,101	670	-	1,771
<b>Total</b>	<b>3,611</b>	<b>27,355</b>	<b>-</b>	<b>30,966</b>

Converted US Dollar '000s As at 31 December 2015	Level 1	Level 2	Level 3	Level 4
Shares and other variable yield securities	-	31,222	-	31,222
Cash and cash equivalents	2,685	-	-	2,685
Overseas deposits	811	772	-	1,583
<b>Total</b>	<b>3,496</b>	<b>31,994</b>	<b>-</b>	<b>35,490</b>

### Operational risk

The Syndicate has exposure to operational risk. This includes risks associated with:

- the failure of the management controls;
- loss, failure or corruption of information technology systems;
- loss of key management and underwriting personnel;
- legal and regulatory issues; and
- other operational disruption.

## 25 Syndicate capital requirements

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

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

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

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

	2017		2016		2015	
	£'m	%*	£'m	%*	£'m	%*
uSCR	53.5	53.5	47.9	47.9	37.5	37.5
Lloyd's loading	18.7	18.7	16.8	16.8	13.1	13.1
ECA	72.2	72.2	64.7	64.7	50.6	50.6

\* Note: % = percentage of stamp capacity

## 26 Post Statement of Financial Position events

The following amounts will be transferred to member's personal reserve funds on 11 April 2017:

2014 Year of Account                      US\$1,702,115

On the same date, outstanding profit commission of \$425,707 will be paid to Cathedral Underwriting Limited on the 2014 closed Year of Account.

## 27 Funds at Lloyd's

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

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

This page is left intentionally blank.

**CATHEDRAL**  
UNDERWRITING LTD

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

