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CATHEDRAL

# SYNDICATE 2010

MMX

## Annual Report

31 December 2017

# Contents

CATHEDRAL
SYNDICATE 2010

## Chairman's Statement

These accounts have been prepared on both an annual accounting basis for the 2017 calendar year and on the traditional three year basis, in relation to the closure of the 2015 Year of Account, as in previous years. In common with last year, these accounts have been produced in US Dollars.

On the traditional basis of reporting, Syndicate 2010 has closed the 2015 Year of Account with a profit of 13.7% for a participant paying Standard Managing Agency Fee and Profit Commission. The loss development activity for this year of account has been relatively benign and the result has just surpassed the upper limit of the previously indicated range due to strong pure year performance across all classes and reserve releases across most years.

After a long period of relatively benign catastrophe loss event activity, and a quiet first half year, 2017 has experienced an unusually high frequency of severe catastrophes, making it one of the most expensive loss years ever. There remains considerable uncertainty as to the total cost of these events. However, it has been estimated that the re/insurance industry will bear record catastrophe losses after a combination of hurricanes, earthquakes and wildfires. These events have largely fallen on the 2017 year of account, although a significant proportion has also impacted the 2016 year.

The forecast result range for the 2016 Year of Account has nevertheless been maintained at 0% to 7.5%.

Unsurprisingly, given the nature of the syndicate's account and the recent catastrophe activity, which is more fully discussed in the Underwriter's Report, the calendar year result is a loss of $87.8 million and a combined ratio of 148.9%. The Syndicate's performance is consistent with our expectations and understanding, given the frequency and severity of recent events. The overarching strategy of the Syndicate remains unchanged: maintaining our disciplined and prudent approach to underwriting, reinsurance protection and reserving, whilst focusing on risk and serving the needs of our brokers and clients. The Syndicate has a strong and experienced underwriting team which is well placed to capitalise on market opportunities and to navigate what remains a difficult and challenging market.

The immediate market response and aftermath of the severe 2017 catastrophe activity prompted a reversal of the recent downward rating trends. Although very welcome, this recovery remains fragile and even such a modest improvement could be short-lived as new capacity and capital continues to enter the market.

The management transformation and change which started during 2016 was concluded in 2017. As indicated in last year's statement, Jon Barnes has successfully assumed the role of Active Underwriter from Richard Williams, maintaining the careful, diligent and prudent stewardship the Syndicate has enjoyed over many years. Additionally, Andrew McKee and Chris Whittle have taken over the respective executive roles of CEO and CFO. I, myself, have taken over the responsibilities of Chairman from my predecessor Anthony Minns. As testament to the previous management's collective contribution, professionalism and ability, we have inherited an outstanding Syndicate and Agency. I am grateful for the opportunity and the privilege of helping the Cathedral Syndicates to successfully meet the challenges of future years.

**N P Davenport**
*Chairman*

15 March 2018

# Underwriter's Report

## Introduction

The result for the 2017 calendar year, on an annual accounted basis is a loss of $87.8 million (2016: profit $57.0 million).

The 2017 calendar year result is made up of contributions from all open years of account (2015, 2016 and 2017) together with movements on the closed years of account (2001 to 2014) that occurred during the year.

The combined ratio for the 2017 calendar year is 148.9%, including all managing agency related expenses, other than profit commission (2016: 71.2%).

Further details of the Syndicate's calendar year result are set out in the Managing Agent's Report.

## 2015 Account

I am pleased to report that the year has closed with a profit of $77.5 million, inclusive of currency retranslation but before personal expenses. For a Natural Name with standard personal expenses, this equates to a profit of 13.7% of capacity, before members' agency fees.

In anticipation of softening market conditions across our core classes and to reduce certain capacity associated expenses the 2015 capacity was cut from £350 million to approximately £306 million. The gross signed premium income, net of brokerage, was circa 65% of capacity at year-end rates of exchange.

The loss activity was relatively benign, the losses of note being the warehouse explosion in Tianjin China, the deliberate crashing of Germanwings Flight 9525 and the Fort McMurray Alberta wildfires which occurred in May 2016. Although a large proportion of the Alberta wildfire loss has been settled, a proportion remains outstanding which we continue to reserve for.

The combined 2014 and prior years continued to run off favourably across all classes, this has culminated in a result that exceeds our previous official forecast range +8.5% to +13.5% (September 2017).

## 2016 Account

The 2016 stamp capacity remained unchanged at £306m.

Last year's report summarised the underwriting conditions and loss activity associated with the 2016 year of account. The prudent reserve estimates previously set for 2016 continued to develop favourably over the year. This improvement has gone a long way to offset the impact of the 2017 catastrophe events (described more fully within the 2017 Account), a proportion of which will have an impact on the 2016 account.

The 2016 account experienced further rate reductions across most of the account as the market reacted to another relatively inactive catastrophe loss year in 2015. Whilst our gross income reduced again, we continued our strategy of purchasing comprehensive reinsurance protections, which due to market conditions, benefited from improvements in terms.

Our current forecast for the 2016 year of account result is in the range 0% to 7.5% of capacity, which is unchanged from the previous forecast (September 2017). As with all years, due to the nature of the business written, any fluctuation in USD to GBP rate of exchange will influence the final result.

Following a period of indifferent performance on the Contingency account and the resignation of the underwriting team we decided to discontinue writing this class of business from 2017. To mitigate our exposures and reduce the tail of the portfolio, we were successful in getting many of the Syndicate's lines replaced on some longer-term contracts.

# Underwriter's Report

*continued*

### 2017 Account

For 2017, we maintained our capacity of £304 million. With the exception of the discontinuation of the small contingency book, we continued writing the same established core classes of business. We anticipate generating a gross signed income, net of brokerage, of approximately 52.5% of capacity. This increase in utilisation from 2016 is the result of the estimated inwards reinstatement premiums being generated from the Non Marine treaty book following the catastrophe events.

Prior to the major loss activity in Q3 and Q4 the market continued to soften in all classes although the level of rate reductions had started to slow compared to previous years as compound rating levels started to approach marginal levels.

After a long period of minimal major catastrophe loss activity, 2017 experienced an unusually high frequency of catastrophe events. Although considerable uncertainty remains as to the total cost of these events, it has been estimated that the re/insurance industry will bear insured catastrophe losses in the region of $130 billion making 2017 one of the most costly years on record for re/insurers. These events include Hurricanes Harvey, Irma and Maria, two earthquakes in Mexico and wildfires in California. Although no single event is particularly extraordinary, the accumulation of these events both in size and the relatively short period in which they occurred has proved very challenging for the market. In addition to these major losses the market also experienced a number significant storm and hail events in the midwest of the United States and a large man-made loss from the Ruwais Refinery explosion in Abu Dhabi.

Although we are disappointed with the prospect of making a loss on the 2017 year of account, the business classes underwritten by the Syndicate are particularly sensitive to the losses experienced during 2017. Our prudent approach and strategies for underwriting and reinsurance purchasing will continue to serve the Syndicate well and we are in a great position to capitalise on any future market opportunities.

### Non Marine Treaty

The largest part of this account is catastrophe excess of loss. In recent years, this class of business has produced very attractive returns as the market experienced a lack of major catastrophe loss activity. As a consequence, there has been an increase in appetite from many traditional rated carriers and also new investors, including insurance linked securities (ILS), entering the market seeking favourable returns. This has led to excess capacity as supply exceeds demand which has helped to fuel the soft market environment.

This class has been materially impacted by the catastrophe events of 2017 previously highlighted in this report. As a result of these events we are no longer seeing rate reductions across the board and in most areas, particularly on loss affected accounts, we are seeing rate increases.

We remain optimistic that this correction will continue throughout 2018, although until capacity reduces in this market we are unlikely to see a truly hard market in the short term.

We have a very experienced underwriting team who lead approximately a quarter of the business written. The team continue to receive loyal support from our client and broker network and are well positioned to continue to manage and develop this portfolio in what we expect to be an improving market place.

### Direct Property/Direct & Facultative

For many reasons 2017 was a challenging year. The underwriting climate and rating environment had become very competitive, we had seen several years of rate reductions and broadening of coverage, consequently our mind set in the early part of 2017 was to manage our exposures by using the reinsurance market to reduce our positions on single accounts and across the whole account. The competitive nature of the market saw our income continue to reduce with our business mix almost exactly 50/50 open market/delegated authority.

The events in the latter part of 2017 have had a significant impact within the D&F market and to some extent on our portfolio. As a result of the catastrophic losses, we have seen some changes in market conditions particularly in loss affected zones. Whilst we have not yet seen the uptick in the wider market, we do anticipate that we are entering a more encouraging rating environment and we are well positioned to capitalise on improved trading conditions. Certainly the outlook going forward is far more encouraging for this portfolio than in recent years.

### Aviation Reinsurance & Satellite

The benign loss activity continued in 2017 with no known fatalities being reported from any major commercial airline accidents.

In the first half of 2017, the aviation reinsurance market was highly competitive. However it stabilised during the latter part of 2017 as a result of the multiple natural catastrophe losses previously mentioned in this report. The Aviation market managed to resist the 'automatic' reductions on renewals (that were prevalent) for the last six months of the year. The direct market is also reacting in a similar manner but it has a long way to go before it returns to long term profitability.

It is important to note that there is no capacity withdrawing from the aviation reinsurance market, which combined with reinsurers continuing insatiable appetite for additional premium and aggregate, means that the stability of the market is uncertain. That said, we managed to maintain stability for the last half of 2017 and that has had traction into 2018. We have preserved our market share, and arguably increased it slightly, which is also reflected by a growth in the number of policies we lead. In summary, the current environment has been beneficial to our overall portfolio for 2017.

The Satellite market continues to suffer from overcapacity and volatility, albeit new launch vehicles have increased launches and slightly reduced volatility. Our involvement continues to be restrained in this area as a result of the poor rating environment.

### Future Prospects and Concluding Comments

It has been a busy and very challenging first year for me and all the staff at Cathedral. Aside from the loss activity and disappointing result for 2017, it has been very pleasing to be a part of the successful transition of the company following the changes in personnel both in the senior management group and within the underwriting teams. The high calibre of individuals that have joined the company and those that have been present for some time is a testament to Cathedral's standing within the market place.

Although the 2017 major loss events have had a material impact on market results, they have not materially affected the level of capital within the market place. Any capital that has been depleted in 2017 appears to have been seamlessly replenished. As a result there is still excess capital in the re/insurance sector and supply continues to exceed demand. Unless this changes and/or the dynamics within the financial sector alter, it is unlikely that the market will materially harden in the short term. However, post the 2017 events, it has been encouraging to see that the arbitrary softening of terms and conditions across almost all classes in the market has all but ceased and most of the classes that we operate in are seeing improvement in terms.

Further merger and acquisition activity is a strong possibility given the current market dynamics. Examples of this are the recent AIG/Validus and AXA/XL announcements.

Recent years have seen a dramatic increase in the proliferation of market facilities which have had an impact on the way certain business is transacted. The FCA and Lloyd's are increasingly concerned about the implications of such facilities and potential conflicts of interest. The FCA has recently initiated a comprehensive market study to assess the long term operation of such facilities and the market awaits the outcome.

The consequences and impact of Brexit are still unknown, Lloyd's is working on a solution to enable syndicates to continue to access business from within the EU and we endorse this approach.

Although the market landscape going forward remains uncertain and challenging, the Syndicate is well positioned in its core classes to take advantage of any improved conditions. We will continue to maintain and if necessary adapt the infrastructure of the company in order to provide an efficient and effective platform from which our underwriting teams can trade.

What has been particularly pleasing is the positive support that we have received from our parent Lancashire Holdings Limited over this difficult period. Wherever possible we will look to work closely with them in order to maximise any opportunities for the Syndicate that may arise from being part of a larger, more diverse entity.

I would like to thank Richard Williams, who resigned as Active underwriter early in 2017, for his careful, diligent and prudent stewardship of the syndicate. I have inherited a strong and well placed Syndicate, populated with a team of skilled and experienced underwriters providing a fantastic base from which to take the business forward.

Most importantly I would like to thank the Syndicate's capital providers for their continued support through what has been a difficult period. The result for 2017 is disappointing but acts as a reminder of the volatile nature of the re/insurance arena in which we operate. I, along with all the team at Cathedral, relish the challenges that lie ahead. We will strive to meet the needs of our clients and brokers whilst looking to provide the best possible returns for our capital providers at all times.

**J M Barnes**
*Active Underwriter*

15 March 2018

CATHEDRAL
SYNDICATE 2010

# Report of the Directors of the Managing Agent
# At 31 December 2017

## Introduction

The Directors of Cathedral Underwriting Limited, the managing agency for Syndicate 2010, present the Annual Report for the Syndicate at 31 December 2017, together with the Chairman's Statement and the Underwriter's Report.

This Annual Report includes the Annual Accounts for the year ended 31 December 2017 and the Underwriting Year Accounts for the 2015 Year of Account. The annual accounting result for the 2017 calendar year is a loss of $87.8 million (2016: profit of $57.0 million). Unfortunately the severe catastrophe activity generated a pure year loss for 2017, this was mitigated to an extent by the positive contributions from mature open years of account, being 2015 and 2016, together with the positive movements on the closed years of account (2001 through 2014) that occurred during the calendar year.

The 2015 Year of Account closed on 31 December 2017 with a profit of $77.5 million, inclusive of currency translation gains but before standard personal expenses. This includes movement on the closed Years of Account.

## 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 2010. It also acts as managing agent for Syndicate 3010. 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.

The Managing Agent's company registration number is 292093

| Syndicate | Principal class of business | Active underwriter | 2017 Capacity £'000 |
|---|---|---|---|
| 2010 | Non marine and aviation reinsurance, direct and facultative property | J M Barnes | 304,584 |
| 3010 | Marine cargo, energy, aviation all risks and hull war and terrorism | J D Spence | 100,000 |

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, approved as such by Lloyd's, the PRA and the FCA.

## 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:

| | |
|---|---|
| N P Davenport | Chairman (appointed 5 April 2017, previously Non-Executive Director from 23 June 2016) |
| S W Fraser | Non-Executive Director (appointed 29 February 2016) |
| L J Gibbins | Non-Executive Director (appointed 23 June 2016) |
| P Martin | Non-Executive Director (appointed 13 October 2017) |
| A T Maloney | Non-Executive Director |
| W A McKee | Managing Director (appointed 12 September 2017) |
| A C Beardon | Director (appointed 20 February 2017) |
| J M Barnes | Director (appointed 8 March 2017) |
| J D Spence | Director (appointed 20 February 2017) |
| E L Woolley | Compliance Director (appointed 20 February 2017) |
| A S Minns | Chairman (resigned 28 February 2017) |
| J P Tilling | Non-Executive Director (resigned 18 May 2017) |
| D C Grainger | Compliance Director (resigned 8 January 2017) |
| M A Madden | Managing Director (resigned 10 July 2017) |
| R C P Williams | Director (resigned 23 March 2017) |
| H R M Verzin | Chief Financial Officer (resigned 24 November 2017) |
| L J Townsend | Company Secretary (resigned 22 September2017) |
| E L Woolley | Company Secretary (resigned 14 February 2018) |
| M E Lynn | Company Secretary (appointed 14 February 2018) |

C J Whittle has been nominated as Chief Financial Officer subject to formal regulatory approval of his appointment and directorship.

As of 22 September 2017 L J Townsend resigned as company secretary, her responsibilities were assumed by E L Woolley on a temporary basis until 14 February 2018 when succeeded on a permanent basis by M E Lynn.

### Multiple syndicates consent

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

### Directors and their participations in Syndicate 2010

None of the Directors of Cathedral Underwriting Limited participated directly as Names on the Syndicate. However the corporate member company Cathedral Capital (1998) Limited has a £177.0 million participation on the 2016, 2017 and 2018 Years of Account.

Mr Maloney and his spouse acquired 100% of the shares in Nameco 801 on 7th November 2016. Nameco 801 provides capacity to a number of Lloyd's Syndicates including Syndicate 2010 which is managed by Cathedral Underwriting Limited. Nameco 801 has provided $0.2 million of capacity to Syndicate 2010 for the 2017 year of account and $0.2 million for the 2018 year of account. Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation.

### Active Underwriter

On 8 March 2017, J M Barnes received regulatory approval to assume the role of Active Underwriter of Syndicate 2010. On 23 January 2017, J D Spence received the same for Syndicate 3010.

### 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; Website www.cathedralcapital.com. The accounting records are kept at the registered office.

### Management of Syndicate 2010

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 2010 together with representatives of the Managing Agent's Board.

# Report of the Directors of the Managing Agent
# At 31 December 2017

*continued*

### 2017 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 accounting 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 26 to 29. 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 loss of $87.8 million in the year (2016: profit of $57.0 million) and this can be analysed as follows:

| | 2015 account $'000 | 2016 account $'000 | 2017 account $'000 | 31 December 2017 $'000 | 31 December 2016 $'000 |
|---|---|---|---|---|---|
| Gross earned premium | (5,410) | 88,980 | 188,106 | 271,676 | 284,492 |
| Reinsurers' share | (152) | (8,671) | (80,236) | (89,059) | (69,173) |
| Net earned premium | (5,562) | 80,309 | 107,869 | 182,617 | 215,319 |
| Gross claims incurred | 17,693 | (71,468) | (304,059) | (357,834) | (106,053) |
| Reinsurers' share | (3,839) | 17,036 | 135,748 | 148,672 | 17,776 |
| Net claims incurred | 13,854 | (54,432) | (168,311) | (209,162) | (88,277) |
| Net operating expenses | 668 | (22,972) | (43,045) | (65,348) | (83,322) |
| Balance on Technical account before investment return | 8,961 | 2,905 | (103,760) | (91,893) | 43,720 |
| Net investment return | 1,963 | 433 | 89 | 2,485 | 4,043 |
| Exchange (losses) and gains | 1,547 | 637 | (573) | 1,611 | 9,254 |
| Profit for the financial year | 12,471 | 3,975 | (104,244) | (87,797) | 57,017 |

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 earnings patterns aim to reflect the underlying exposures of the business written. Thus net earned premiums during 2017 include premiums on policies incepting during 2017 together with estimates for premiums and adjustments to premiums on policies incepting in prior periods. The gross and net earned premiums can be analysed as follows:

### Earned premiums by underwriting team

| | 31 December 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| | Gross $'000 | Net $'000 | Gross $'000 | Net $'000 |
| Non-marine reinsurance | 157,729 | 109,371 | 154,377 | 118,932 |
| Aviation | 16,479 | 11,243 | 18,217 | 11,389 |
| Satellite | 1,240 | 56 | 2,000 | 999 |
| Direct & facultative property | 95,773 | 61,825 | 103,341 | 79,774 |
| Contingency | 434 | 101 | 6,547 | 4,215 |
| Other | 21 | 21 | 10 | 10 |
| Total | 271,676 | 182,617 | 284,492 | 215,319 |

At the year end the Syndicate had net unearned premiums of $74.4 million (2016: $75.2 million) on the Statement of Financial Position.

The impact of major losses on the account are individually assessed. In addition, an attritional loss ratio has been determined for each class of business written by the Syndicate. Attritional losses on an annual accounting basis are derived by applying the estimated attritional ultimate loss ratios to the earned premium. This presumes that the attritional loss ratios remain the same over the year of account. However where appropriate, adjustments are made to the attritional loss ratio applied to the earned premiums.

The annual accounting result includes the impact of any losses identified with a date of loss in 2017 regardless of the year of account when the cover incepted. When a loss occurs, the full impact of that loss (gross and net) is recognised at that time. The Underwriter's Report contains further detail of loss activity during calendar year 2017.

The 2017 net combined ratio is 148.9% (2016: 71.2%). This combined ratio is expressed as a percentage of net earned premiums and excludes investment return, profit commission and any other gains and losses that have been accounted for through the Statement of Comprehensive Income. The combined ratio is analysed as follows:

| | **31 December 2017** | | 31 December 2016 | |
|---|---|---|---|---|
| | **Gross %** | **Net %** | Gross % | Net % |
| Claims Ratio: | | | | |
| Non-marine reinsurance | **132.6** | **114.0** | 46.0 | 44.7 |
| Aviation | **0.8** | **43.9** | (19.0) | (30.5) |
| Satellite | **65.6** | **603.6** | 14.9 | 11.4 |
| Direct & facultative property | **154.4** | **129.3** | 34.6 | 44.6 |
| Contingency | **(27)** | **(762)** | 38.4 | 70.0 |
| Total | **131.7** | **114.5** | 37.3 | 41.0 |
| Expense Ratio | **23.1** | **34.4** | 22.8 | 30.2 |
| **Combined Ratio** | **154.8** | **148.9** | 60.1 | 71.2 |

The combined ratio excludes managing agent's profit commission and is the basis used throughout these financial statements.

The expense ratio includes brokerage on inwards business which accounts for approximately 62.5% of the net operating expenses. The operating expenses are set out in more detail in Note 4 on page 31.

The Annual Report includes a Statement of Comprehensive Income. The purpose of this statement is to show the extent to which members' balances have increased or decreased following the recognition of all gains and losses in the period, including currency translations.

## Year of Account

*Members' Agents*

The following members' agent has provided more than 20% of the Syndicate's allocated capacity for the 2016, 2017 and 2018 years of account.

| | **2018 account** | | 2017 account | | 2016 account | |
|---|---|---|---|---|---|---|
| Name of Agent | **£'000** | % | £'000 | % | £'000 | % |
| Hampden Agencies Limited | **239,013** | **78.0** | 237,956 | 78.1 | 237,749 | 77.8 |

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Lancashire Group Company, provided £177.0 million for the 2015, 2016, 2017 and 2018 Years of Account through Hampden Agencies Limited.

# Report of the Directors of the Managing Agent
# At 31 December 2017

*continued*

*Capacity by member type and Year of Account*

| | **2018 account** | | 2017 account | | 2016 account | |
|---|---|---|---|---|---|---|
| Name of Agent | **£'000** | **%** | £'000 | % | £'000 | % |
| Syndicate allocated capacity attributable to: | | | | | | |
| Corporate members | **290,780** | **94.9** | 289,450 | 95.0 | 289,827 | 94.8 |
| External members | **14,120** | **4.6** | 13,507 | 4.4 | 14,250 | 4.7 |
| Working members (none of whom are employed by the managing agency) | **1,364** | **0.4** | 1,627 | 0.5 | 1,643 | 0.5 |
| | **306,264** | **100.0** | 304,584 | 100.0 | 305,720 | 100.0 |

*Result*

The 2015 account closed with a profit of $77.5 million inclusive of currency translation but before standard personal expenses. For a Name with standard personal expenses, this equates to a profit of 13.7% of capacity, before members' agency fees.

The analysis of the 2015 closed year result, before personal expenses, by member type is as set out below:

| | 2015 account | |
|---|---|---|
| | $'000 | % |
| Result attributable to: | | |
| Corporate members | 72,988 | 94.2 |
| External members | 4,075 | 5.2 |
| Working members (none of whom are employed by the managing agency) | 431 | 0.6 |
| | 77,494 | 100.0 |

### 2016 account forecast

The forecast 2016 Year of Account result at 31 December 2017, on the traditional three year Lloyd's basis after charging standard managing agent's fees and profit commission but before charging members' agents fees, is in the range of 0.0% to +7.5% of Syndicate capacity.

This forecast has been based on the following assumptions:

- Future claims development will follow an expected pattern. In particular, the incidence or development of major or attritional losses or in the ability of the Syndicate's reinsurers to respond to potential recoveries will not materially diverge from expectations based on developments to date;
- No material changes occur in estimates as to ultimate income levels and future reinsurance costs;
- There will be no material reinsurance failure;
- There will be no material surplus or deficiency arising from the reinsurance to close of the 2015 Year of Account;
- There will be no significant changes in the regulatory or legislative policies which will affect the activities of the Syndicate; and
- Interest, inflation and exchange rates as at 31 December 2017 will not differ significantly from those taken into account in the forecast.

*Historical summary of results*

A summary of results for all of the closed Years of Account of the Syndicate is set out on page 65 of this annual report.

### Description of business and methods of acceptance

The Syndicate commenced underwriting for the 2001 Year of Account. For the 2001 and 2002 underwriting years, the Syndicate's account was made up of two main pillars, those of aviation and non-marine reinsurance. In 2003, a direct and facultative property account was introduced which was developed during 2004 to constitute the third major pillar of the Syndicate's business. Since its inception for the 2001 underwriting year, Syndicate 2010 has built its books of business based on longstanding relationships with clients and their brokers and not on pricing considerations alone.

The non-marine reinsurance account is built around a core book comprising catastrophe reinsurances of regional North American companies. These companies generally write in a tightly defined geographical area. Their underlying accounts are largely made up of domestic properties, cars and small commercial risks. Where we write accounts in the US with more nationwide exposures, these tend to protect more specialist companies writing the likes of churches, agricultural risks, farms or similar risks which are spread by their nature. These companies have proved very loyal and continue to value their relationships with London underwriters.

The Syndicate also writes an international book which is largely focused on companies in developed regions including Canada, Europe, Australasia and Japan. We do write in other areas of the world but these exposures are more modest.

Often, hand in hand with the catastrophe programme, comes the risk excess programme. This protects companies from exposure to large individual risk losses. We have built a more modest portfolio of this business which includes US national as well as US regional and international cedants.

We also write a small book of retrocession business, which is reinsurance of other reinsurers. There are no spiral exposures in this account.

The aviation account is built around a core book which protects insurers of airlines or major aviation manufacturers against catastrophic loss. In general, this account requires a market loss of $200-$250 million or more to involve us to any material degree but we will accept business at lower levels if the price is attractive. Again, we have a small amount of retrocessional business which, as with non-marine, contains no spiral exposure.

We are also involved in the aviation war market and the general aviation (light aircraft) market, including as a participant in three direct aviation war consortia which are led by Cathedral Syndicate 3010 and for each of which Cathedral Underwriting Limited is the consortium manager.

We have continued our long involvement with SATEC, a specialist Venice based satellite underwriting agency, to which we delegate underwriting authority. The Syndicate also writes satellite excess of loss.

From 2003, the Syndicate began writing a direct and facultative property account. The account written covers a broad spectrum of commercial property business with a global spread of business, but with a leaning towards the United States. It falls into two main areas:

(i) Open market business which encompasses the whole range of risk sizes from large complex property schedules down to small single locations; and
(ii) Delegated binding authority business which targets small property risks principally in the US, Canada, Australasia and Europe.

From the final quarter of 2005 the Syndicate has written a contingency account focused on non-appearance insurance. This account has been discontinued for 2017.

Going forward, Syndicate 2010 intends to retain its focus on these accounts and will continue to seek opportunities within these classes.

### Reinsurance protection

The non-marine reinsurance portfolio is protected by separate catastrophe and risk excess programmes. Proportional treaties are also employed.

On the aviation account, separate excess of loss protections are purchased for the main reinsurance account, the general aviation account and the war account. As with the non-marine account, proportional treaties are also employed. The satellite account has proportional treaty protection.

The direct and facultative property account has separate catastrophe and risk excess programmes.

The Syndicate also purchased facultative reinsurance on individual risks.

The Group has bought additional cover to sit on top of various pillars of reinsurance including the Non Marine account and also the Direct Property account. The limit is collateralised and should it be exhausted by more than one loss/class of business then recoveries will be apportioned on a pro rata basis between the respective losses.

Every effort is made to ensure that the security from which cover is purchased is of good quality but it must be emphasised that even the most scrupulous approach in this area does not obviate the potential for reinsurance failure to occur.

# Report of the Directors of the Managing Agent At 31 December 2017

*continued*

## Syndicate investments

### *Investment policy*

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

The Syndicate investment manager's performance is measured against the Bank of America Merrill Lynch 1-3 year Government Index of the domestic Government bond market for each Premiums Trust Funds, which are the benchmarks defined by the investment committee. Funds not managed by the investment manager were held predominantly in cash throughout the year. Portfolio management is delegated to Conning Asset Management Limited.

### *Investment performance*

*US Market*

In 2017 the US combined syndicate portfolio returned 1.22% compared to the 1-3 year US Treasury benchmark return of 0.42%. The relative out-performance of 0.80% was driven by credit performance as spreads tightened together with the higher than benchmark yield, generated through holding an overweight position in corporate bonds, and some contribution from shorter than benchmark duration as yields increased.

*Euro Market*

In 2017 the Euro syndicate portfolio returned 0.57% compared to the 1-3 year European Government bond benchmark return of -0.78%. The relative out-performance of 1.35% was driven by a higher than benchmark yield and credit spread narrowing. The portfolio maintained an overweight exposure to corporate bonds, but also built up an exposure during the year to AAA-rated CLOs (Collateralised Loan Obligations), which made up over one-third of the portfolio at year-end; CLOs were purchased at wide spreads and saw significant spread tightening during the period.

*Canadian Market*

In 2017 the Canadian regulated syndicate portfolio returned 0.26% compared to the 1-3 year Canadian Government benchmark return of -0.36%. The relative out-performance of 0.63% was driven by a higher than benchmark yield together and credit spread narrowing, together with some contribution from shorter than benchmark duration as yields increased. The credit spread narrowing saw the portfolio's holdings in Canada Housing and provincial issues out-perform relative to Canadian government issues, together with its holdings in corporates; the portfolio first took an exposure to corporate issues late in 2016, and the exposure was increased in 2017.

### *Investment strategy*

The ability to generate investment income for short-maturity portfolios has improved in US dollars and Canadian dollars, both of which saw significant increases in government bond yields last year. Nevertheless there still remain risks to performance as yield curves flattened last year and the US curve in particular is discounting less movement in interest rates than the median FOMC dot-plot projection of three 25 basis point increases in 2018.

Portfolio duration remains low and this is likely to be maintained in the medium term, since the investment objectives are currently biased towards protecting the Syndicate against capital losses. The extent of this short duration position will be limited by the additional yield on longer maturity issues, giving additional yield for longer maturity issues, and the potential for "rolling down the yield curve" giving extra returns, both in the US dollar and Canadian dollar portfolio. Over the next 12 months, we expect a further modest flattening of the US yield curve as the FOMC continues to increase the Federal Funds rate target, though this is likely to be limited in the short maturity range of the Syndicate portfolio. Negative deposit rates in the Euro-zone and European Central Bank government bond buying have kept yields at very low levels. The low level of yields, both historically and in real terms, suggests an overall short duration position on a longer term horizon, though this has been balanced by some investment in longer maturity (three to five year) corporate issues to increase portfolio yield.

Portfolio returns will be enhanced by the exposure to corporate bonds and other "spread" products, carefully selected by sector and individual issuer to limit risks. While credit spreads may widen given that the credit cycle is late stage in the US and that credit spreads are close to post-GFC (Global Financial Crisis) lows, they remain attractive for shorter maturity portfolios such as the Syndicate portfolios. The additional income that these issues generate acts to offset any short term losses generated by spread widening, which is naturally limited to some extent by the short dated nature of these positions. In the Euro portfolio yields on government and government related bonds are negative in the portfolio's maturity range, so every attempt is made to find assets with a positive yield to try to keep returns positive. For this reason the exposure to spread products is likely to remain high, and will be increased opportunistically.

*Stock lending*

The Board of Cathedral Underwriting Limited prohibits Conning from entering into any stock lending arrangements on behalf of the Syndicate.

## 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 Dollars (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 25.

## 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 (Ultimate Solvency Capital Requirement) of the Syndicate, details of which are disclosed in Note 27. 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 the following functions:

| | |
|---|---|
| Investment management: | Conning Asset Management Limited |
| Software support: | 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.

## Advanced consents procedure notifications

*Names Annual General Meeting Notice*

In line with the conditions and requirements prescribed under paragraph 2(3) of the Syndicate Meetings Byelaw, notice is hereby given that the managing agent does not propose to hold an annual general meeting of the members of the Syndicate.

*Agency and Syndicate Auditor*

On 3 May 2017 a resolution was passed to appoint KPMG LLP as the Syndicate's auditor.

KPMG LLP are the independent auditors to all of the Lancashire Group companies and the Syndicate.

# Report of the Directors of the Managing Agent
# At 31 December 2017

*continued*

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

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

15 March 2018

# Statement of Managing Agent's Directors Responsibilities
# At 31 December 2017

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

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing these financial statements, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

On behalf of the board

**W A McKee**
Managing Director

15 March 2018

# SYNDICATE ANNUAL ACCOUNTS

# FOR THE YEAR ENDED 31 DECEMBER 2017

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# Independent Auditor's Report to the Members of Syndicate 2010

## Opinion

We have audited the financial statements of Syndicate 2010 for the year ended 31 December 2017 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: Non-technical account, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

## Basis for opinion

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

## Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

## Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

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

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 15, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

## Auditor’s responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor’s report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC’s website at www.frc.org.uk/auditorsresponsibilities.

## The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the syndicate’s members, as a body, in accordance with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the syndicate’s members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

15 March 2018

CATHEDRAL
SYNDICATE 2010

# Statement of profit or loss
# Technical Account – General Business
# For the year ended 31 December 2017

| | Notes | Year ended 31 December 2017 $'000 | Year ended 31 December 2016 $'000 |
|---|---|---|---|
| **Earned premiums, net of reinsurance:** | | | |
| Gross premiums written | 3 | **267,299** | 273,122 |
| Outward reinsurance premiums | | **(88,605)** | (68,104) |
| **Net premiums written** | | **178,694** | 205,018 |
| **Change in the provision for unearned premiums:** | | | |
| Gross amount | | **4,377** | 11,370 |
| Reinsurers' share | | **(454)** | (1,069) |
| **Earned premiums, net of reinsurance** | | **182,617** | 215,319 |
| **Allocated investment return transferred from the non-technical account** | | **2,485** | 4,043 |
| **Claims incurred, net of reinsurance:** | | | |
| **Claims paid:** | | | |
| Claims incurred, net of reinsurance | | | |
| Gross amount | | **(180,098)** | (124,070) |
| Reinsurers' share | | **32,397** | 16,212 |
| **Net Claims Paid** | | **(147,701)** | (107,858) |
| **Change in the provision for claims:** | | | |
| Gross amount | | **(177,736)** | 18,017 |
| Reinsurers' share | | **116,275** | 1,564 |
| **Net change in the provision for claims** | | **(61,461)** | 19,581 |
| **Claims incurred, net of reinsurance** | | **(209,162)** | (88,277) |
| **Net operating expenses** | 4 | **(65,348)** | (83,322) |
| **Balance on the technical account for general business** | | **(89,408)** | 47,763 |

All items relate to continuing operations only.

The notes on pages 26 to 47 form part of these accounts

# Statement of profit or loss
# Non-Technical Account
# For the year ended 31 December 2017

| | Notes | Year ended 31 December 2017 $'000 | Year ended 31 December 2016 $'000 |
|---|---|---|---|
| **Balance on the technical account for general business** | | **(89,408)** | 47,763 |
| Investment income | 8 | **3,921** | 4,924 |
| Unrealised gains on investments | | **85** | 767 |
| Investment expenses and charges | 9 | **(611)** | (1,283) |
| Unrealised losses on investments | | **(910)** | (365) |
| Exchange gains | | **1,611** | 9,254 |
| Allocated investment return transferred to the general business technical account | | **(2,485)** | (4,043) |
| **(Loss)/profit for the financial year** | | **(87,797)** | 57,017 |

All items relate to continuing operations only.

# Statement of Comprehensive Income
# For the year ended 31 December 2017

| | Notes | Year ended 31 December 2017 $'000 | Year ended 31 December 2016 $'000 |
|---|---|---|---|
| (Loss)/profit for the financial year | | **(87,797)** | 57,017 |
| **Total comprehensive income** | | **(87,797)** | 57,017 |

The notes on pages 26 to 47 form part of these accounts

CATHEDRAL
SYNDICATE 2010

# Statement of Financial Position
# As at 31 December 2017

| | Notes | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|---|
| **Investments:** | | | |
| Financial investments | 11 | **195,162** | 258,221 |
| | | **195,162** | 258,221 |
| **Reinsurers' share of technical provisions:** | | | |
| Provision for unearned premiums | 12 | **5,245** | 5,474 |
| Claims outstanding | 14 | **210,634** | 93,571 |
| | | **215,879** | 99,045 |
| **Debtors:** | | | |
| Debtors arising out of direct insurance operations | | | |
| – Intermediaries | 15 | **19,394** | 17,320 |
| Debtors arising out of reinsurance operations | 16 | **88,413** | 72,433 |
| Other debtors | 17 | **5,352** | 5,834 |
| | | **113,159** | 95,587 |
| **Other assets:** | | | |
| Cash and cash equivalents | 18 | **22,090** | 51,753 |
| Other | 19 | **20,193** | 21,252 |
| | | **42,283** | 73,005 |
| **Prepayments and accrued income:** | | | |
| Deferred acquisition costs | 20 | **14,906** | 14,977 |
| Other prepayments and accrued income | | **2,260** | 2,076 |
| | | **17,166** | 17,053 |
| **Total assets** | | **583,649** | 542,911 |

The notes on pages 26 to 47 form part of these accounts

| | Notes | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Capital and reserves:** | | | |
| Members' balances | | **(42,859)** | 105,747 |
| | | **(42,859)** | 105,747 |
| **Technical provisions:** | | | |
| Provision for unearned premiums | 12 | **79,669** | 80,648 |
| Claims outstanding | 14 | **488,317** | 302,684 |
| | | **567,986** | 383,332 |
| **Creditors:** | | | |
| Creditors arising out of direct insurance operations | 21 | **2,344** | 2,607 |
| Creditors arising out of reinsurance operations | 22 | **36,896** | 20,644 |
| Other creditors including taxation and social security | 23 | **18,196** | 29,889 |
| | | **57,436** | 53,140 |
| **Accruals and deferred income** | | **1,086** | 692 |
| **Total liabilities** | | **583,649** | 542,911 |

The Syndicate annual accounts on pages 20 to 47 were approved by the Board of Cathedral Underwriting Limited on 13 March 2018 and were signed on its behalf by

**W A McKee**
*Managing Director*

**J M Barnes**
*Active Underwriter*

15 March 2018

The notes on pages 26 to 47 form part of these accounts

# Statement of Changes in Members' Balances
# For the year ended 31 December 2017

| | 2017 $'000 |
|---|---|
| Members' balances at 1 January | **105,747** |
| Loss for the year | **(87,797)** |
| Member Agent fee | **(1,541)** |
| Transfer to member personal reserve fund | **(59,268)** |
| **Members' balances carried forward at 31 December** | **(42,859)** |

| | 2016 $'000 |
|---|---|
| Members' balances at 1 January | 123,291 |
| Profit for the year | 57,017 |
| Members Agent fee | (1,260) |
| Transfer to member personal reserve fund | (73,301) |
| **Members' balances carried forward at 31 December** | 105,747 |

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

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of that particular year.

Transfers to members' personal funds comprise the 2014 (2013) closed year of account profit.

The notes on pages 26 to 47 form part of these accounts

# Statement of Cash Flows
## For the year ended 31 December 2017

| | Notes | **Year ended 31 December 2017 $'000** | Year ended 31 December 2016 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit for the financial year | | **(87,797)** | 57,017 |
| Realised and unrealised investments (gains)/losses on cash and investments, including currency movements | | **(3,224)** | 1,351 |
| Income from investments | | **(3,805)** | (4,379) |
| (Increase)/decrease in debtors, prepayments and accrued income | | **(17,913)** | 1,868 |
| Decrease/(increase) in net technical provisions | | **67,891** | (39,351) |
| Increase in creditors, accruals and deferred income | | **4,690** | 13,132 |
| **Net cash (outflow)/inflow from operating activities** | | **(40,158)** | 29,638 |
| **Cash flows from investing activities** | | | |
| Interest received | | **3,962** | 4,605 |
| Purchase of debt securities and other fixed income securities | | **(128,165)** | (146,071) |
| Sale of debt securities and other fixed income securities | | **142,945** | 230,555 |
| Movement of shares and other variable yield securities | | **48,279** | (13,214) |
| Movement of overseas deposits | | **(25)** | (3,727) |
| **Net cash inflow from investing activities** | | **66,996** | 72,148 |
| **Cash flows from financing activities** | | | |
| Transfer (to) members in respect of underwriting participations | | **(59,268)** | (73,301) |
| Members' Agents' fees paid on behalf of members | | **(1,542)** | (1,260) |
| **Net cash outflow from financing activities** | | **(60,810)** | (74,561) |
| **(Decrease)/increase in cash and cash equivalents in the year** | | **(33,972)** | 28,485 |
| **Cash and cash equivalents at 1 January** | | **51,753** | 25,839 |
| Effect of exchange rates and change in market value on cash and cash equivalents | | **4,309** | (2,571) |
| **Cash and cash equivalents at 31 December** | | **22,090** | 51,753 |

The notes on pages 26 to 47 form part of these accounts

# Notes to the Syndicate Annual Accounts
# For the year ended 31 December 2017

## 1 Statement of Compliance

Cathedral Underwriting Limited, incorporated in the United Kingdom, is ultimately responsible for the management of Syndicate 2010. 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 2017 and for the year ended 31 December 2017.

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

### Basis of Preparation

The financial statements for the year ended 31 December 2017 were approved for issue by the Board of Directors on 13 March 2018.

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

## 2 Significant 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 this are disclosed in Note 26.

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

Premiums are shown gross of 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.

## 2 Significant Accounting Policies *continued*

(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.

## 2 Significant Accounting Policies *continued*

(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 profit and loss account.

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

(ii) *Other financial assets and liabilities*

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

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

## 2 Significant Accounting Policies *continued*

g) *Fair Value of Financial Assets*

The fair value hierarchy is as follows:

(i) Level 1 is financial assets which are measured at quoted prices in an active market, where quoted prices are readily available, and those prices represent actual and regularly occurring market transactions on an arm's length basis;
(ii) Level 2 is using a valuation technique based on securities with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market date. These investments are valued via independent external sources using modelled or other valuation methods; and
(iii) Level 3 is using a valuation technique based on the 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 balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet 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 profit and loss account.

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 Syndicate Annual Accounts
# For the year ended 31 December 2017

*continued*

## 3 Analysis of underwriting result

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

| | | | | | | | 31 December 2017 |
|---|---|---|---|---|---|---|---|
| **Type of business** | **Gross premiums written $'000** | **Gross premiums earned $'000** | **Gross claims incurred $'000** | **Net operating expenses $'000** | **Reinsurance balance $'000** | **Total $'000** | **Net technical provisions $'000** |
| **Direct insurance:** | | | | | | | |
| Motor (third party liability) | – | – | 14 | – | – | 14 | 5 |
| Motor (other classes) | 349 | 346 | (228) | (50) | (51) | 17 | 243 |
| Marine, aviation and transport | 3,121 | 1,876 | (1,208) | (920) | (714) | (966) | 3,113 |
| Fire and other damage to property | 73,237 | 74,231 | (99,089) | (37,076) | 20,329 | (41,605) | 84,824 |
| Third party liability | 1,295 | 1,322 | (1,240) | (988) | (64) | (970) | 2,298 |
| Credit and suretyship | 33 | 434 | 157 | (148) | 314 | 757 | 1,823 |
| | 78,035 | 78,209 | (101,594) | (39,182) | 19,814 | (42,753) | 92,306 |
| **Reinsurance acceptances** | 189,264 | 193,467 | (256,240) | (26,167) | 39,799 | (49,141) | 244,895 |
| **Total** | 267,299 | 271,676 | (357,834) | (65,348) | 59,613 | (91,894) | 337,201 |

| | | | | | | | 31 December 2016 |
|---|---|---|---|---|---|---|---|
| Type of business | 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 |
| **Direct insurance:** | | | | | | | |
| Motor (third party liability) | (6) | (16) | (7) | 8 | (4) | (19) | 46 |
| Motor (other classes) | 433 | 384 | (217) | (168) | (26) | (27) | 256 |
| Marine, aviation and transport | 3,714 | 3,697 | (868) | (1,214) | (1,202) | 413 | 1,719 |
| Fire and other damage to property | 79,590 | 80,957 | (26,621) | (18,678) | (13,861) | 21,797 | 70,038 |
| Third party liability | 1,425 | 1,296 | (389) | (376) | (61) | 470 | 1,959 |
| Credit and suretyship | 6,237 | 6,478 | (2,808) | (2,409) | (2,703) | (1,442) | 4,240 |
| | 91,393 | 92,796 | (30,910) | (22,837) | (17,857) | 21,192 | 78,258 |
| **Reinsurance acceptances** | 181,729 | 191,696 | (75,143) | (60,485) | (33,540) | 22,528 | 191,052 |
| **Total** | 273,122 | 284,492 | (106,053) | (83,322) | (51,397) | 43,720 | 269,310 |

Net technical provisions are net of deferred acquisition costs.

## 4 Net operating expenses

| | **Year ended 31 December 2017 $'000** | Year ended 31 December 2016 $'000 |
|---|---|---|
| Acquisition costs | **38,588** | 43,093 |
| Other acquisition costs | **1,835** | 2,132 |
| Change in deferred acquisition costs | **648** | 1,769 |
| Administrative expenses | **17,483** | 13,941 |
| Reinsurance commissions and profit participation | **(292)** | (177) |
| Personal expenses | **7,086** | 22,564 |
| | **65,348** | 83,322 |

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

Administrative expenses include:

| | **Year ended 31 December 2017 $'000** | Year ended 31 December 2016 $'000 |
|---|---|---|
| Auditors' remuneration: | | |
| – Audit of the Syndicate annual accounts | **142** | 151 |
| – Other services pursuant to regulations and Lloyd's Byelaws | **96** | 53 |
| | **238** | 204 |

Total commissions for direct insurance accounted for in the year amounted to $20,151,749 (2016: $22,430,400).

# Notes to the Syndicate Annual Accounts
# For the year ended 31 December 2017

*continued*

## 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 2017 $'000 | Year ended 31 December 2016 $'000 |
|---|---|---|
| Wages and salaries | **7,798** | 7,985 |
| Social security costs | **857** | 889 |
| Pension costs | **535** | 742 |
| | **9,190** | 9,616 |

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 2017 $'000 | Year ended 31 December 2016 $'000 |
|---|---|---|
| Operations, administration and finance | **15** | 17 |
| Underwriting and claims | **31** | 29 |
| | **46** | 46 |

## 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:

| | Year ended 31 December 2017 $'000 | Year ended 31 December 2016 $'000 |
|---|---|---|
| Emoluments | **1,267** | 1,167 |

## 7 Active Underwriter's emoluments

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

| | Year ended 31 December 2017 $'000 | Year ended 31 December 2016 $'000 |
|---|---|---|
| Emoluments | **404** | 303 |

## 8 Investment income

| | Year ended 31 December 2017 $'000 | Year ended 31 December 2016 $'000 |
|---|---|---|
| Income from investments | **3,805** | 4,379 |
| Gains on the realisation of investments | **116** | 545 |
| | **3,921** | 4,924 |

## 9 Investment expenses and charges

| | Year ended 31 December 2017 $'000 | Year ended 31 December 2016 $'000 |
|---|---|---|
| Investment management expenses, including interest payable | **(235)** | (294) |
| Losses on realisation of investments | **(376)** | (989) |
| | **(611)** | (1,283) |

## 10 Investment return

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

| | 31 December 2017 | | Restated 31 December 2016 | |
|---|---|---|---|---|
| | Average funds $'000 | Investment yield % | Average funds $'000 | Investment yield % |
| Sterling | **12,308** | **1.8** | 10,181 | 2.8 |
| Euro | **33,436** | **0.3** | 32,291 | 0.5 |
| US Dollars | **188,901** | **1.1** | 237,546 | 1.5 |
| Canadian Dollars | **60,361** | **0.5** | 57,893 | 0.5 |
| All currencies converted to US Dollars | **295,006** | **0.9** | 337,911 | 1.3 |

Investment return includes investment income, realised investment gains and losses and movements on unrealised investment gains and losses.

## 11 Financial investments at fair value

| | Carrying value | | Purchase Price | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| Shares and other variable yield securities | **610** | 48,888 | **610** | 48,888 |
| Debt securities and other fixed income securities | **194,552** | 209,333 | **195,391** | 209,729 |
| | **195,162** | 258,221 | **196,001** | 258,617 |

Debt securities and other fixed income securities are all listed on recognised stock exchanges. All investments, are stated at bid price value. An analysis of financial investments by external rating agencies are set out in Note 26.

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

## 12 Provisions for unearned premiums

| | | | 2017 |
|---|---|---|---|
| | Gross $'000 | Reinsurers' share $'000 | Net $'000 |
| At 1 January 2017 | **80,648** | **5,474** | **75,174** |
| Premiums written in the year | **267,299** | **88,605** | **178,694** |
| Premiums earned in the year | **(271,676)** | **(89,059)** | **(182,617)** |
| Foreign exchange | **3,398** | **225** | **3,173** |
| At 31 December 2017 | **79,669** | **5,245** | **74,424** |

| | | | 2016 |
|---|---|---|---|
| | Gross $'000 | Reinsurers' share $'000 | Net $'000 |
| At 1 January 2016 | 95,178 | 6,799 | 88,379 |
| Premiums written in the year | 273,122 | 68,104 | 205,018 |
| Premiums earned in the year | (284,492) | (69,173) | (215,319) |
| Foreign exchange | (3,160) | (256) | (2,904) |
| At 31 December 2016 | 80,648 | 5,474 | 75,174 |

## 13 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.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| AAA grade security | **–** | 4,477 |
| AA grade security | **30** | 38 |
| A grade security | **144,225** | 71,227 |
| Other* | **70,001** | 19,075 |
| | **214,256** | 94,817 |
| Less provision for bad debt | **(3,622)** | (1,246) |
| | **210,634** | 93,571 |

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

## 14 Claims Outstanding

| | Gross $'000 | Reinsurers' share $'000 | Net $'000 |
|---|---|---|---|
| | | | **2017** |
| At 1 January 2017 | **302,684** | **93,571** | **209,113** |
| Claims incurred in current underwriting year | **303,407** | **135,475** | **167,932** |
| Claims incurred in prior underwriting year | **52,141** | **13,196** | **38,945** |
| Claims paid during the year | **(180,098)** | **(32,397)** | **(147,701)** |
| Foreign exchange | **10,183** | **789** | **9,394** |
| At 31 December 2017 | **488,317** | **210,634** | **277,683** |

| | Gross $'000 | Reinsurers' share $'000 | Net $'000 |
|---|---|---|---|
| | | | 2016 |
| At 1 January 2016 | 331,302 | 93,680 | 237,622 |
| Claims incurred in current underwriting year | 91,718 | 11,527 | 80,191 |
| Claims incurred in prior underwriting year | 12,007 | 6,248 | 5,759 |
| Claims paid during the year | (124,070) | (16,212) | (107,858) |
| Foreign exchange | (8,273) | (1,672) | (6,601) |
| At 31 December 2016 | 302,684 | 93,571 | 209,113 |

## 15 Debtors arising out of direct insurance operations

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Due within one year – intermediaries | **19,394** | 17,320 |

## 16 Debtors arising out of reinsurance operations

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Due within one year | **88,413** | 72,433 |

## 17 Other debtors

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Due within one year:** | | |
| Amounts due from members | **2,188** | 2,189 |
| Other | **121** | 551 |
| **Due after one year:** | | |
| Amounts due from members | **3,043** | 3,094 |
| | **5,352** | 5,834 |

# Notes to the Syndicate Annual Accounts
# For the year ended 31 December 2017

*continued*

## 18 Cash and cash equivalents

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Cash and cash equivalents exist of:** | | |
| Cash at bank and in hand | **1,731** | 10,082 |
| Participation in investment pools | **20,299** | 41,606 |
| Deposits with approved credit institutions | **60** | 65 |
| | **22,090** | 51,753 |

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

## 19 Other assets – overseas deposits

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Amounts advanced in other countries as a condition of carrying on business there | **20,193** | 21,252 |

## 20 Deferred acquisition costs

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| At 1 January | **14,977** | 17,340 |
| Change in deferred acquisition costs | **(648)** | (1,769) |
| Foreign exchange | **577** | (594) |
| At 31 December | **14,906** | 14,977 |

## 21 Creditors arising out of direct insurance operations

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Due within one year | **2,344** | 2,607 |

## 22 Creditors arising out of reinsurance operations

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Due within one year | **36,896** | 20,644 |

## 23 Other creditors including taxation and social security

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Due within one year:** | | |
| Profit commission owed to managing agent | **14,164** | 15,202 |
| Expenses owed to managing agent | **2,849** | 3,452 |
| **Due after one year:** | | |
| Profit commission owed to managing agent | **1,182** | 11,235 |
| | **18,195** | 29,889 |

## 24 Related parties

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.

Total managing agency fees paid during calendar year 2017 to Cathedral Underwriting Limited in respect of services provided to the Syndicate amounted to $2,554,798 (2016: $2,727,280).

Profit commission of $14,163,608 (2016: $15,202,379) is also due to the managing agent in respect of the profit on the 2015 (2014) closed year.

Profit commission of $1,182,052 (2016: $11,045,936) has also been accrued in respect of the 2016 (2015) year of account, with $Nil (2016: $188,362) accrued in respect of the 2017 (2016) year of account.

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.

Mr Maloney and his spouse acquired 100% of the shares in Nameco 801 on 7th November 2016. Nameco 801 provides capacity to a number of Lloyd's Syndicates including Syndicate 2010 which is managed by Cathedral Underwriting Limited. Nameco 801 has provided $0.2 million of capacity to Syndicate 2010 for the 2017 year of account and $0.2 million for the 2018 year of account. Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation.

Expenses totalling $15,341,732 (2016: $16,137,293) 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 2017 totalled $18,194,658 (2016: $29,888,661) and are included in "Other creditors including taxation and social security".

Cathedral Capital (1998) Limited, a fellow subsidiary of Cathedral Underwriting Limited, provided capacity to the 2015, 2016 and 2017 underwriting years. Cathedral Capital (1998) Limited's share of the result for the 2017 calendar year is a loss of $50,736,687 (2016: $32,988,275 profit).

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

Syndicate 2010 purchased a D&F excess of loss protection from Lancashire Insurance Company (UK) Limited for the value of $3.1 million on a commercial arms-length basis.

## 24 Related parties *continued*

### Group reinsurance cover

The Group has bought additional cover to sit on top of various pillars of reinsurance including the Non Marine account and also the Direct Property account. The limit is collateralised and Syndicate 2010 is paying premium circa 22% ($2,373,000) and 15% ($1,868,625) for 2017 and 2018 respectively. Should the limit be exhausted by more than one loss / class of business then recoveries will be apportioned on a pro rata basis between the respective losses.

### Consortia participation

Syndicate 2010 participates on Aviation Consortia contracts which are led by Syndicate 3010 and managed by Cathedral Underwriting Limited. As the manager of these consortia, Cathedral Underwriting Limited charges all members an annual fee at the rate of 7.5% of each consortium members' share of the signed premium income and profit commission equal to 22.5% of any net profit. A continuous deficit clause for renewing members exists within each consortia agreement. The fee has decreased to 6.0% in 2018.

### 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:

| Key management compensation | **Year ended 31 December 2017 $'000** | Year ended 31 December 2016 $'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **1,267** | 1,187 |
| Post-employment benefits | **94** | 20 |
| | **1,361** | 1,207 |

## 25 Bank facilities

The Syndicate has arranged a catastrophe facility (up to a maximum of $80 million) with Barclays Bank Plc. The facility is there to assist in paying claims and gross funding of catastrophes. Up to $50 million can be utilised by way of Letter of Credit to assist the Syndicate's gross funding requirements. The facility was not utilised during the calendar year 2017 and Syndicate 2010 renewed for another year in December 2017.

## 26 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.

## 26 Risk disclosure *continued*

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Syndicate faces under its insurance contracts 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 increase 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 non marine reinsurance, aviation reinsurance, and direct and facultative property insurance. These accounts are predominantly short-tail in nature, and some of them have a high degree of catastrophe exposure (for example the property accounts could be affected by hurricane or earthquake losses).

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

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

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

Based on the July 2017 Lloyd's RDS submission using version 15 of RMS, the largest RDS on both a gross and net basis was $275.1 million gross / $73.7 million net of reinsurance recoveries and reinstatement costs. This was for a North-East USA windstorm event with an industry loss estimate of $81 billion.

*Underwriting risk*

The Syndicate has a defined event risk appetite. Best efforts are made to restrict the maximum gross and net loss that the Syndicate may retain/lose for any single major catastrophe event (taken to be a Lloyd's RDS) to be not more than 20% of capacity net or 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.

# Notes to the Syndicate Annual Accounts For the year ended 31 December 2017

*continued*

## 26 Risk disclosure *continued*

The Syndicate continually seeks to model the portfolio of its accounts in order to identify accumulations and to monitor its exposures, and the whole process is supported by sophisticated internal and external modelling systems. Finally, to ensure the maximum depth of reinsurance coverage, all accounts have purchased separate reinsurance programmes.

*b) Risk of extreme losses*

Whilst the reinsurance excess of loss writings of the Syndicate provide policyholders with defined cover by way of both limits and the number of reinstatements, the direct and facultative account gives rise to large assured values which are vulnerable to failures in modelled or PML (Probable Maximum Loss) 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 on the reinsurance accounts are both the level at which cover is given and the limited number of reinstatements which they will typically provide. Additionally, the Syndicate seeks to purchase a depth of cover at the lower levels particularly to protect against a frequency of mid-sized claims. The direct and facultative account is more vulnerable to loss frequency, although this is mitigated 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 reviewers consider a sample of risks written and, as part of their review, look at wordings to identify inconsistencies between slips and wordings. Contract certainty and pre-bind checks further mitigates this risk.

*e) Unsustainable pricing*

The cyclical nature of insurance means that rates constantly fluctuate. Whilst in the core reinsurance areas of the Syndicate's account, deductible levels tend to be the crucial driver, 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 of 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 reviewers sample a number of risks underwritten by the syndicate.

## 26 Risk disclosure *continued*

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 full review of the purchased reinsurance programme by the independent reviewers. 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 outwards reinsurance programme. The Syndicate endeavours to provide its reinsurers with the most up to date and accurate information on their account (and advise them quickly of any losses incurred) to ensure that it has have 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 the Syndicate. 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.

## 26 Risk disclosure *continued*

*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 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 significant 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, earthquakes). 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 has not significantly changed during the year.

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

When reviewing the claims liability projections, the factors and assumptions 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 $2,776,830 (2016: $2,091,120).

The loss development table below provides information on the historical claims development for Syndicate 2010. 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 2017 are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

## 26 Risk disclosure *continued*

| Underwriting year – Gross | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| 12 months | 79% | 53% | 43% | 39% | 37% | 49% | 160% |
| 24 months | 76% | 44% | 44% | 48% | 39% | 59% | – |
| 36 months | 68% | 40% | 42% | 43% | 38% | – | – |
| 48 months | 66% | 38% | 40% | 42% | – | – | – |
| 60 months | 64% | 39% | 39% | – | – | – | – |
| 72 months | 64% | 39% | – | – | – | – | – |
| 80 months | 64% | – | – | – | – | – | – |

| Underwriting year – Net | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| 12 months | 86% | 61% | 57% | 68% | 49% | 64% | 154% |
| 24 months | 77% | 49% | 54% | 55% | 45% | 65% | – |
| 36 months | 73% | 43% | 51% | 51% | 44% | – | – |
| 48 months | 69% | 41% | 49% | 50% | – | – | – |
| 60 months | 66% | 42% | 48% | – | – | – | – |
| 72 months | 63% | 42% | – | – | – | – | – |
| 80 months | 64% | – | – | – | – | – | – |

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.

*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.

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.

# Notes to the Syndicate Annual Accounts
# For the year ended 31 December 2017

*continued*

## 26 Risk disclosure *continued*

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 Syndicate has quantified its credit risk 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 short-dated fixed interest securities (either government or high quality investment grade bonds). Fixed interest managers are employed and their asset allocation is regularly monitored by the managing agency's investment committee. Detailed requirements regarding asset diversification and concentration limits are set out in investment mandates given to external investment managers.

The table below shows the concentration of credit risk exposure at 31 December 2017, using ratings from external rating agencies. Credit ratings for financial investments are based on ratings 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 2017** | **A++ $'000** | **B++ to B- $'000** | **Unrated $'000** | **Statement of Financial Position total $'000** |
|---|---|---|---|---|
| Financial investments | **184,437** | **10,725** | **–** | **195,162** |
| Cash and cash equivalents | **22,045** | **–** | **44** | **22,090** |
| Other assets | **15,860** | **3,665** | **668** | **20,193** |
| Reinsurance assets | **147,643** | **–** | **77,579** | **225,222** |

| At 31 December 2016 | A++ $'000 | B++ to B- $'000 | Unrated $'000 | Statement of Financial Position total $'000 |
|---|---|---|---|---|
| Financial investments | 249,718 | 8,503 | – | 258,221 |
| Cash and cash equivalents | 51,753 | – | – | 51,753 |
| Other assets | 18,890 | 1,705 | 657 | 21,252 |
| Reinsurance assets | 74,711 | 22 | 18,838 | 93,571 |

Of the $77.6 million (2016: $18.8 million) unrated reinsurance assets, $45.9 million (2016: $9.7 million) are fully collateralised in trust funds; $15.6 million (2016: $0.4 million) is in respect of attritional IBNR that has yet to be allocated to any specific loss; $8.2 million (2016: $8.7 million) relates to a handful of specific unsettled recoveries from reinsurers that have subsequently merged or been taken over by another reinsurer and therefore the original counterparty is no longer rated. However, no recovery issues are currently anticipated with respect to these specific counterparties. The remaining $7.9m relates to reinsurance debtors.

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:

| | **2017 $'000** | 2016 $'000 |
|---|---|---|
| 3 to 6 months past due | **462** | 1,066 |
| 6 to 9 months post due | **1,201** | 1,103 |
| Greater than 9 months past due | **1,853** | 1,621 |
| | **3,516** | 3,790 |

## 26 Risk disclosure *continued*

*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 members and can ultimately draw down from the members' funds at Lloyd's.

Syndicate funds are held in cash or in short-term liquid stocks which are able to be converted to cash within a few days. Furthermore, the Syndicate has banking catastrophe facilities available to it as set out in Note 25.

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

| **At 31 December 2017** | **< 1 year $'000** | **1-3 years $'000** | **4-5 years $'000** | **> 5 years $'000** | **Statement of Financial Position total $'000** |
|---|---|---|---|---|---|
| Gross provision for claims outstanding | **(358,602)** | **(91,905)** | **(29,299)** | **(8,511)** | **(488,317)** |
| Claims outstanding recoverable from reinsurers | **167,088** | **31,532** | **10,268** | **1,746** | **210,634** |
| | **(191,514)** | **(60,373)** | **(19,031)** | **(6,765)** | **(277,683)** |

| At 31 December 2016 | < 1 year $'000 | 1-3 years $'000 | 4-5 years $'000 | > 5 years $'000 | Statement of Financial Position total $'000 |
|---|---|---|---|---|---|
| Gross provision for claims outstanding | (137,014) | (115,169) | (33,845) | (16,656) | (302,684) |
| Claims outstanding recoverable from reinsurers | 37,823 | 44,674 | 9,493 | 1,581 | 93,571 |
| | (99,191) | (70,495) | (24,352) | (15,075) | (209,113) |

*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 investments held have a short duration and so foreseeable changes in market interest rates would not be expected to have a significant impact on their value.

An increase/(decrease) in market interest rates of 0.5% would equate to a ($1,532,289 loss)/$1,551,820 gain (2016: ($1,701,798 loss)/$1,722,824 gain), with an equal impact on net assets. This has been calculated by revaluing the assets and liabilities that would be affected by a movement in interest rates.

*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 2017** | **GBP** | **USD** | **EUR** | **CAD** | **Total** |
|---|---|---|---|---|---|
| Total assets | **41,892** | **456,551** | **34,294** | **50,912** | **583,649** |
| Total liabilities | **(74,655)** | **(500,356)** | **(21,093)** | **(30,405)** | **(626,509)** |
| **Members' balance** | **(32,763)** | **(43,805)** | **13,201** | **20,508** | **(42,859)** |

## 26 Risk disclosure *continued*

| Converted US Dollar '000s<br>As at 31 December 2016 | GBP | USD | EUR | CAD | Total |
|---|---|---|---|---|---|
| Total assets | 42,722 | 372,778 | 35,991 | 91,420 | 542,911 |
| Total liabilities | (97,131) | (284,881) | (18,380) | (32,772) | (437,164) |
| Members' balance | (54,409) | 87,897 | 17,611 | 58,648 | 105,747 |

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

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

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 in US Dollars. This is further compounded by the fact that any underwriting profits are normally paid out once a year into members' 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.

At 31 December 2017, if the exchange rate of Sterling, Euro and Canadian Dollars had varied 10% against US Dollars with all other variables remaining constant the impact on result / net assets/(liabilities) is $0.1 million (2016: 0.7 million).

*Fair value estimation*

The Syndicate classifies its financial instruments held at fair value in it balance sheet using a fair value hierarchy based on the inputs used in the valuation techniques as follows;

- 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;
- Level 2 is using a valuation technique based on securities with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market date. These investments are valued via independent external sources using modelled or other valuation methods; and
- Level 3 is using a valuation technique based on the Syndicates own assumptions.

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

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

| Converted US Dollar '000s<br>As at 31 December 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | – | 48,888 | – | 48,888 |
| Debt securities and other fixed income securities | – | 209,333 | – | 209,333 |
| Cash and cash equivalents | 51,688 | – | 65 | 51,753 |
| Overseas deposits | 4,147 | 17,105 | – | 21,252 |
| Total | 55,835 | 275,326 | 65 | 331,226 |

## 26 Risk disclosure *continued*

*Operational risk*

The Syndicate has exposure to operational risk. Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal and regulatory risk.

## 27 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 2010's uSCR return for the 2016, 2017 and 2018 years of account. These figures are as agreed with Lloyd's. The ECA reflects the capital loadings that were a market-wide 35%.

| | | **2018** | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| | **£'m** | **%*** | £'m | %* | £'m | %* |
| uSCR | **195.0** | **74.1** | 233.4 | 76.1 | 152.6 | 49.8 |
| Lloyd's loading | **68.3** | **25.9** | 81.7 | 26.7 | 53.4 | 17.5 |
| ECA | **263.3** | **100.0** | 315.1 | 102.8 | 206.0 | 67.3 |

* Note: % = percentage of stamp capacity

## 28 Post Statement of Financial Position events

The following amounts will be transferred to members' personal reserve funds on 10 April 2018:

2015 year of account US$55,148,915

## 29 Funds at Lloyd's

In case Syndicate assets prove insufficient to meet members' 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.

# SYNDICATE UNDERWRITING YEAR ACCOUNTS
# FOR THE 2015 YEAR OF ACCOUNT
# CLOSED AT 31 DECEMBER 2017

# Independent Auditor's Report
# to the Members of Syndicate 2010 – 2015 Closed Year of Account

We have audited the Syndicate underwriting year accounts for the 2015 year of account of Syndicate 2010 for the three year period ended 31 December 2017, which comprise the Income Statement – Technical Account – General Business, Income Statement – Non-Technical Account, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Members' Balances, Statement of Cash Flows and related notes, including the accounting policies in note 2. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw.

This report is made solely to the Syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate and the Syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the directors of the managing agent and auditor

As explained more fully in the statement of the directors of the managing agent's responsibilities set out on page 50, the directors of the Managing Agent are responsible for the preparation of the underwriting year accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express and opinion on, the underwriting year accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the underwriting year of accounts

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

### Opinion on underwriting year accounts

In our opinion the underwriting year accounts:

- give a true and fair view of the syndicate's profit for the 2015 closed year; and
- have been properly prepared in accordance with the requirements of the Lloyd's Syndicate Accounting Byelaw.

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

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

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

15 March 2018

# Statement of Managing Agent's Directors Responsibilities

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

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

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

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

By order of the Board

**W A McKee**
*Managing Director*
*Cathedral Underwriting Limited*

15 March 2018

# Income Statement
# Technical Account – General Business
# 2015 Year of Account
# For the 36 months ended 31 December 2017

| | | Notes | 36 months ended 31 December 2017 $'000 |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | | 3 | **307,409** |
| Outward reinsurance premiums | | | **(74,245)** |
| **Net premiums written** | | | **233,164** |
| **Change in the provision for unearned premiums** | | | |
| Gross amount | | | **(3,720)** |
| Reinsurers' share | | | **206** |
| **Earned premiums, net of reinsurance** | | | **229,650** |
| **Reinsurance to close premiums received, net of reinsurance** | | 3 | **91,842** |
| **Allocated investment return transferred from the non-technical account** | | | **2,981** |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid | Gross amount | | **(110,545)** |
| | Reinsurers' share | | **20,674** |
| | | | **(89,871)** |
| Reinsurance to close premium payable, net of reinsurance | | 8 | **(97,326)** |
| **Claims incurred net of reinsurance** | | | **(187,197)** |
| **Net operating expenses** | | 5 | **(84,057)** |
| **Balance on the technical account for general business** | | | **53,219** |

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

The notes on pages 56 to 64 form part of these accounts.

CATHEDRAL SYNDICATE 2010

# Income Statement
# Non-Technical Account – General Business
# 2015 Year of Account
# For the 36 months ended 31 December 2017

| | Notes | 36 months ended 31 December 2017 $'000 |
|---|---|---|
| **Balance on the technical account for general business** | | **53,219** |
| Investment income | 6 | **4,156** |
| Unrealised gains on investments | | **236** |
| Investment expenses and charges | 7 | **(542)** |
| Unrealised losses on investments | | **(869)** |
| Exchange gains | | **557** |
| Allocated investment return transferred to the general business technical account | | **(2,981)** |
| **Profit for the closed year of account** | | **53,776** |

# Statement of Comprehensive Income
# 2015 Year of Account
# For the 36 months ended 31 December 2017

| | Notes | 36 months ended 31 December 2017 $'000 |
|---|---|---|
| Profit for the closed year of account | | **53,776** |
| Currency translation differences | | **2,879** |
| **Total recognised gains and losses** | | **56,655** |

The notes on pages 56 to 64 form part of these accounts.

# Statement of Financial Position
# 2015 Year of Account
# For the 36 months ended 31 December 2017

| | Notes | 31 December 2017 $'000 |
|---|---|---|
| **Assets** | | |
| **Investments** | 9 | **124,601** |
| **Debtors:** | | |
| Debtors arising out of direct insurance operations | | |
| – Intermediaries | 10 | **2,033** |
| Debtors arising out of reinsurance operations | 11 | **20,926** |
| Other debtors | 12 | **21,536** |
| | | **44,495** |
| **Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account** | 8 | **62,648** |
| **Other assets:** | | |
| Cash and cash equivalents | 13 | **7,384** |
| Other | 14 | **9,070** |
| | | **16,454** |
| **Prepayments and accrued income** | | **669** |
| **Total assets** | | **248,867** |
| **Liabilities** | | |
| **Amounts due to members** | | **56,655** |
| **Reinsurance to close premiums payable to close the account – gross amount** | 8 | **166,716** |
| **Creditors:** | | |
| Creditors arising out of direct insurance operations | 15 | **1,180** |
| Creditors arising out of reinsurance operations | 16 | **9,628** |
| Other creditors including taxation and social security | 17 | **14,361** |
| | | **25,169** |
| **Accruals and deferred income** | | **327** |
| **Total liabilities** | | **248,867** |

The Syndicate underwriting year accounts on pages 51 to 64 were approved by the Board of Cathedral Underwriting Limited on 13 March 2018 and were signed on its behalf by:

**W A McKee**
*Managing Director*

**J M Barnes**
*Active Underwriter*

15 March 2018

The notes on pages 55 to 63 form part of these accounts.

CATHEDRAL
SYNDICATE 2010

# Statement of Changes in Members' Balances
# 2015 Year of Account
# For the 36 months ended 31 December 2017

| | Notes | 36 months ended 31 December 2017 $'000 |
|---|---|---|
| Members' balance at 1 January 2015 | | - |
| Profit for the closed year of account | | **55,281** |
| Members Agents fees | | **(1,505)** |
| Currency translation differences | | **2,879** |
| **Members' balance carried forward at 31 December 2017** | | **56,655** |

The notes on pages 56 to 64 form part of these accounts.

# Statement of Cash Flows
# 2015 Year of Account
# For the 36 months ended 31 December 2017

| | Notes | 36 months ended 31 December 2017 $'000 |
|---|---|---|
| Cash flow from operating activities | | |
| Profit for the closed year of account | | **53,776** |
| Realised and unrealised investment losses, including currency movements | | **927** |
| Income from investments | | **(4,352)** |
| Net reinsurance to close premium payable | | **97,326** |
| (Increase) in debtors | | **(28,961)** |
| (Increase) in prepayments and accrued income | | **(272)** |
| Increase in creditors | | **16,378** |
| Increase in accruals and deferred income | | **326** |
| Exchange gain | | **2,879** |
| **Net cash inflow from operating activities** | | **138,027** |
| **Cash flows from investing activities** | | |
| Interest received | | **3,955** |
| Purchase of debt securities and other fixed income securities | | **(270,274)** |
| Sale of debt securities and other fixed income securities | | **144,888** |
| Movement of shares and other variable yield securities | | **(123)** |
| Movement of overseas deposits | | **(9,089)** |
| **Net cash (outflow) from investing activities** | | **(130,643)** |
| **Increase in cash and cash equivalents in the period** | | **7,384** |
| **Cash and cash equivalents at 1 January 2015** | | **–** |
| Effect of exchange rates and change in market value on cash and cash equivalents | | **–** |
| **Cash and cash equivalents at 31 December 2017** | | **7,384** |

The notes on pages 56 to 64 form part of these accounts.

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Year of Account
# For the 36 months ended 31 December 2017

## 1 Basis of Preparation

Cathedral Underwriting Limited, incorporated in the United Kingdom, is ultimately responsible for the management of Syndicate 2010. The registered office is 29th Floor, 20 Fenchurch Street, London, EC3M 3BY. The Syndicate underwriting year accounts cover those of the individual syndicate and are prepared as at 31 December 2017 and for the 36 months ended 31 December 2017.

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The reinsurance premium to close for the 2015 year of account at 31 December 2017 was agreed by the managing agent on the 8 January 2017. Accordingly, these underwriting year of accounts do not have associated risk disclosures as required by Section 34 of FRS 102 and by Section 4 of FRS 103.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2015 year of account which has been closed by reinsurance to close at 31 December 2017; consequently the Statement of Financial Position represents the assets and liabilities of the 2015 year of account and the Income Statement, the Statement of Comprehensive Income and the Statement of Cash Flows reflect the transactions for that year of account during the 36 month period until closure.

The underwriting year of account is an annual venture and the 2015 year of account is due to close shortly after distribution of these accounts. Therefore, the directors of the managing agent have prepared the underwriting year of accounts on a non-going concern basis. There was no effect of this on the amounts reported in the accounts

*Use of estimates*

The financial statements have been prepared using critical estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on management's best knowledge of the current events and actions, actual outcomes may differ from those estimates, possibly significantly. The most significant estimate made by management is in relation to insurance risk, where the key risk factors impacting managements estimate are disclosed in Note 26 of the Syndicate Annual Accounts.

## 2 Significant Accounting Policies

*Underwriting transactions*

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

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

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

## 2 Significant Accounting Policies *continued*

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

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 balance of premiums written in the period to the Statement of Financial Position date that relate to unexpired terms of policies in force at that date.

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

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

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

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

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

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

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

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

g) 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.

h) *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.

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Year of Account
# For the 36 months ended 31 December 2017

*continued*

## 2 Significant Accounting Policies *continued*

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.

i) Fair Value of Financial Assets

The fair value hierarchy is as follows:

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

*Investments and investment return*

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

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

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

*Syndicate operating expenses*

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

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

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

Accommodation costs – according to the number of personnel

Other costs – as appropriate in each case

## 2 Significant Accounting Policies *continued*

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

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

*Taxation*

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

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

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

*Basis of currency translation*

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

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

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

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

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

*Profit commission*

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

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Year of Account
# For the 36 months ended 31 December 2017

*continued*

## 3 Analysis of underwriting result

An analysis of the technical account balance before investment return for the 36 months and the net technical provisions at the year end are set out below:

| | 36 months ended 31 December 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| Type of business | Gross premiums written $'000 | Gross premiums earned $'000 | Gross claims incurred $'000 | Gross operating expenses $'000 | Reinsurance balance $'000 | Total $'000 | Net technical provisions $'000 |
| **Direct insurance:** | | | | | | | |
| Motor (third party liability) | 15 | 0 | 43 | 1 | 0 | 42 | 3,380 |
| Motor (other classes) | 427 | 438 | (717) | (127) | 4 | (402) | 11,694 |
| Marine, aviation and transport | 4,313 | 4,428 | (1,228) | (1,413) | 311 | 2,098 | 71,054 |
| Fire and other damage to property | 111,718 | 112,510 | (91,516) | (23,561) | 3,073 | 508 | 13,376 |
| Third party liability | 1,853 | 1,879 | (3,591) | (568) | 17 | (2,263) | 1,118 |
| Credit and suretyship | 11,321 | 11,080 | (16,574) | (2,607) | 210 | (7,891) | 117,656 |
| | 129,647 | 130,335 | (113,583) | (28,275) | 3,615 | (7,908) | 218,278 |
| **Reinsurance acceptances*** | 269,604 | 265,196 | (163,677) | (55,780) | 12,413 | 58,152 | 62,391 |
| **Total** | 399,251 | 395,531 | (277,260) | (84,055) | 16,028 | 50,244 | 77,088 |

* Reinsurance acceptances include the reinsurance to close premium of $91,841,813 received from the 2014 year of account.

| Geographical analysis by destination | Gross written premiums $'000 |
|---|---|
| UK | 47,831 |
| US | 34,333 |
| Other EU member states | 129,074 |
| Rest of the world | 188,013 |
| | 399,251 |

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

## 4 Technical account balance before allocated investment return and net operating expenses

| | 36 months ended 31 December 2017 $'000 |
|---|---|
| Balance attributable to business allocated to the 2015 year of account | 121,341 |
| Balance attributable to the reinsurance to close of the 2014 years of account and prior | 12,954 |
| | 134,295 |

## 5 Net operating expenses

| | 36 months ended 31 December 2017 $'000 |
|---|---|
| Acquisition costs | 46,636 |
| Other acquisition costs | 2,339 |
| Change in deferred acquisition costs | (638) |
| Administrative expenses | 16,258 |
| Reinsurers' commissions and profit participation | (207) |
| Loss on exchange | (1,170) |
| Personal expenses | 20,839 |
| | 84,057 |

The closed year profit is stated after charging:

| | 36 months ended 31 December 2017 $'000 |
|---|---|
| Auditors' remuneration: | |
| – Audit of Syndicate annual accounts | 251 |
| Staff pension costs | 1,021 |

## 6 Investment income

| | 36 months ended 31 December 2017 $'000 |
|---|---|
| Income from investments | 3,955 |
| Gains on the realisation of investments | 201 |
| | 4,156 |

## 7 Investment expenses and charges

| | 36 months ended 31 December 2017 $'000 |
|---|---|
| Investment management expenses, including interest | 47 |
| Losses on realisation of investments | 495 |
| | 542 |

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Year of Account
# For the 36 months ended 31 December 2017

*continued*

## 8 Reinsurance premium payable to close the 2015 year of account

| | 36 months ended $'000 |
|---|---|
| Gross outstanding claims | 122,277 |
| Reinsurance recoveries anticipated | (53,161) |
| Net outstanding claims | 69,116 |
| Provision for gross claims incurred but not reported | 44,440 |
| Reinsurance recoveries anticipated | (9,487) |
| Provision for net claims incurred but not reported | 34,953 |
| Provision for future inwards gross premiums | (15,534) |
| Provision for future reinsurance protection | 8,791 |
| Provision for net premiums incurred but not reported | (6,743) |
| Reinsurance premium payable to close the account | 97,326 |

## 9 Investments

| | 31 December 2017 Market value $'000 |
|---|---|
| Shares and other variable yield securities | 123 |
| Debt Securities and other fixed income securities | 124,478 |
| | 124,601 |

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

The Syndicate classifies its financial instruments held at fair value in it balance sheet using a fair value hierarchy based on the inputs used in the valuation techniques as follows;

- 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;
- Level 2 is using a valuation technique based on securities with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market date. These investments are valued via independent external sources using modelled or other valuation methods; and
- Level 3 is using a valuation technique based on the Syndicates own assumptions.

| Converted US Dollar '000s As at 31 December 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | - | 123 | – | 123 |
| Debt securities and other fixed income securities | 17,527 | 106,952 | – | 124,478 |
| **Total** | 17,527 | 107,075 | – | 124,601 |

## 10 Debtors arising out of direct insurance operations

| | 31 December 2017 $'000 |
|---|---|
| Due within one year – intermediaries | 2,033 |

## 11 Debtors arising out of reinsurance operations

| | 31 December 2017 $'000 |
|---|---|
| Due within one year | 20,926 |

## 12 Other debtors

| | 31 December 2017 $'000 |
|---|---|
| Amount due from members | **2,189** |
| Other | **29** |
| Inter-year loans | **19,318** |
| | **21,536** |

Amounts due from members include members' agency fees paid by the Syndicate on behalf of members and other non-standard personal expenses.

## 13 Cash and cash equivalents

| | 31 December 2017 $'000 |
|---|---|
| Cash and cash equivalents consist of: | |
| Cash at bank and in hand | **591** |
| Participation in investment pools | **6,733** |
| Deposits with approved credit institutions and approved financial institutions | **60** |
| | **7,384** |

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

## 14 Other assets – overseas deposits

| | 31 December 2017 $'000 |
|---|---|
| Amounts advanced in other countries as a condition of carrying on business there | **9,070** |

## 15 Creditors arising out of direct insurance operations

| | 31 December 2017 $'000 |
|---|---|
| Due within one year | **1,180** |

## 16 Creditors arising out of reinsurance operations

| | 31 December 2017 $'000 |
|---|---|
| Due within one year | **9,628** |

## 17 Other creditors including taxation and social security

| | 31 December 2017 $'000 |
|---|---|
| Inter-year loans | **–** |
| Profit commission payable to managing agent | **14,164** |
| Expenses payable to managing agent | **197** |
| | **14,361** |

# Notes to the Syndicate Underwriting Year Accounts
# 2015 Year of Account
# For the 36 months ended 31 December 2017

*continued*

## 18 Borrowings

During the period to 31 December 2017, the Syndicate had an unsecured catastrophe facility with Barclays Bank plc to assist with the paying or funding of any significant catastrophe losses. This facility was never utilised by the 2015 year of account and accordingly the balance outstanding at the Statement of Financial Position date was $nil.

## 19 Related parties

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.

Total managing agency fees payable to Cathedral Underwriting Limited in respect of services provided to the Syndicate in respect of the 2015 year of account amounted to $2,545,682 of which $nil was outstanding at 31 December 2017. Profit commission of $14,163,603 is also due to the managing agent in respect of the profit on the 2015 closed year. Of this, $14,163,603 was outstanding at 31 December 2017.

Expenses totalling $14,334,541 were recharged to the 2015 year of account by Cathedral Underwriting Limited. The basis on which expenses are apportioned is set out in note 2(k).

Amounts owed to Cathedral Underwriting Limited at 31 December 2017 totalled $14,360,322 and are included in "Other creditors including taxation and social security".

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

| | 2015 Year of Account £ | 2016 Year of Account £ | 2017 Year of Account £ |
|---|---|---|---|
| Cathedral Capital (1998) Limited | **177,021,669** | **177,021,715** | **177,033,147** |

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.

## 20 Post Statement of Financial Position events

The reinsurance premium to close the 2015 year of account at 31 December 2017 was agreed by the managing agent on 7 February 2018. Consequently the technical provisions at 31 December 2017 have been presented in the Statement of Financial Position under the headings "reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account" and "reinsurance to close premiums payable to close the account – gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw. The actual amount of reinsurance to close premiums paid will be after deduction of unsigned premiums.

The amount of $55,148,915 will be transferred to members' personal reserve funds on 10 April 2018.

## 21 Foreign exchange rates

| | 31 December 2017 Year-end rate |
|---|---|
| Euro | **1.20** |
| GBP | **1.35** |
| Canadian dollar | **0.80** |

CATHEDRAL
SYNDICATE 2010

# Seven Year Summary of Results (unaudited)

| | 2015 YoA | 2014 YoA | 2013 YoA | 2012 YoA | 2011 YoA | 2010 YoA | 2009 YoA |
|---|---|---|---|---|---|---|---|
| Syndicate allocated capacity | **£306m** | £350.0m | £349.7m | £349.5m | £349.7m | £349.8m | £299.8m |
| Gross capacity utilised(i) | **65.3%** | 60.3% | 75.9% | 80.1% | 83.6% | 80.8% | 93.5% |
| Number of underwriting members | **1,250** | 1,251 | 1,230 | 1,186 | 1,118 | 1,058 | 1,024 |
| Aggregate net written premiums(i) | **£151.7m** | £162.6m | £195.9m | £207.4m | £215.3m | £197.2m | £202.7m |
| Net capacity utilised(i) | **49.6%** | 46.5% | 56.0% | 59.3% | 61.6% | 56.4% | 67.6% |
| Loss ratio(ii) | **58.2%** | 59.3% | 59.4% | 57.2% | 75.5% | 77.4% | 61.7% |
| **Results for an illustrative share of £10,000** | | | | | | | |
| Gross written premiums | **6,534** | 6,026 | 7,590 | 8,026 | 8,364 | 8,076 | 9,349 |
| Net earned premiums | **5,056** | 4,735 | 5,506 | 5,954 | 6,164 | 5,585 | 6,798 |
| Reinsurance to close received from an earlier account | **2,440** | 2,233 | 2,424 | 2,715 | 2,735 | 2,704 | 2,799 |
| Net claims paid | **(2,187)** | (2,560) | (2,608) | (2,529) | (4,008) | (3,682) | (2,762) |
| Reinsurance to close payable | **(2,536)** | (2,133) | (2,235) | (2,426) | (2,714) | (2,734) | (3,155) |
| Profit/(loss) on exchange | **–** | – | (7) | (30) | (71) | (8) | 13 |
| Acquisition costs | **(1,053)** | (997) | (1,228) | (1,299) | (1,280) | (1,219) | (1,457) |
| Syndicate operating expenses | **(352)** | (290) | (259) | (247) | (236) | (208) | (234) |
| Balance on technical account before investment return | **1,548** | 988 | 1,593 | 2,138 | 590 | 438 | 2,002 |
| Investment income and gains less losses, less expenses & charges | **73** | 74 | 63 | 69 | 87 | 108 | 125 |
| Profit for closed year of account before personal expenses | **1,621** | 1,062 | 1,656 | 2,207 | 677 | 546 | 2,127 |
| Currency translation differences | **214** | 823 | 48 | 112 | (114) | (134) | 31 |
| Total recognised gains and losses before personal expenses | **1,835** | 1,885 | 1,704 | 2,319 | 563 | 412 | 2,158 |
| **Illustrative personal expenses for a traditional Name:** | | | | | | | |
| – Managing agent's salary | **(65)** | (65) | (65) | (65) | (65) | (65) | (65) |
| – Central Fund contributions | **(28)** | (26) | (33) | (17) | (36) | (35) | (41) |
| – Lloyd's subscription | **(28)** | (26) | (32) | (34) | (36) | (35) | (41) |
| – Profit commission | **(343)** | (353) | (315) | (440) | (85) | (55) | (402) |
| Total illustrative personal expenses for a traditional Name | **(464)** | (470) | (445) | (556) | (222) | (190) | (549) |
| **Total result after illustrative personal expenses** | **1,371** | 1,415 | 1,259 | 1,763 | 341 | 222 | 1,609 |

## Notes

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

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

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