CATHEDRAL

SYNDICATE 3010

Annual Report

31 December 2014

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Underwriter's Report

2014 Calendar Year Result

The 2014 calendar year result is a profit of £1.7 million (combined ratio 93.9%). The calendar year result is made up of the movements we have seen during 2014 due to actual or assessed premium earnings, claims, expenses, investment returns and the like, as they relate to all years of account, as more fully analysed in the managing agent's report. From the underwriting and claims perspective, I will comment further below by reference to the individual underwriting years of account.

Closed years

There were no issues arising from our closed years being 2007 to 2011 and all of these years combined produced a surplus which contributed both to the calendar year result and the closing 2012 account result. A long running disputed claim, which affected the 2011 underwriting year, was settled in July producing a satisfactory reserve release.

2012 Account

At thirty-six months the account has produced both a pure and prior year underwriting profit together with a small amount of investment income. Overall the result is a profit of £2.7 million which is 9% of a stamp capacity of £30 million.

2013 Account

Capacity remained unchanged at £30 million. The account written for the 2013 underwriting year was the same as it had been in previous years, predominantly cargo, with a growing book of specie business together with two small books emanating from our sister syndicate, Syndicate 2010 which were accepted as quota share reinsurances. The book is now running off and, at this stage, is producing a small surplus.

Our forecast result for the 2013 year of account is unchanged at between -5% to +5% of capacity.

2014 Account

Our capacity remained unchanged at £30 million at the beginning of the year, with the book continuing to be made up of general cargo and specie business where rates flattened after the small increases seen in areas affected by Hurricane Sandy the year before. There will be a small drop in premium in this area of the account when compared to the previous year as global commodity prices for raw materials, and oil in particular, began to fall sharply in the latter part of the year. As much of our cargo business is written under line slips or facilities the effects of this will be felt throughout 2015 as values fall and the number of shipments decrease as the world economy begins to slow down once again. Specie business is more buoyant as investors have been seeking other avenues for their investments, with values pushing higher.

We did not renew the two small quota share arrangements with Syndicate 2010 for 2014.

Following the acquisition of Cathedral by the Lancashire Group in November 2013 we began looking to develop new opportunities for Syndicate 3010 in conjunction with our new colleagues. With approval from Lloyd's to do the same, we increased stamp capacity to £60 million in April 2014 and began writing energy and terrorism, leveraging the strong position our parent has in these markets.

The new energy account is led by James Flude and his team from Lancashire and very much mirrors their account. The account is offshore, mainly deep water drilling, with little onshore exposure. Although the bulk of the business is for the physical damage risks associated with offshore activities including cost of control of well and re-drilling post loss, the account also includes some offshore liability business and construction risks which give the account longer tail exposures than has been typical of our appetite up to now. In the first nine months of operating we have a very low loss ratio in this area of account but naturally this could change very quickly given the nature of the business.

Our terrorism account is led by Chris Wilkinson supported by the terrorism team at Lancashire. The exposures are global in nature with an emphasis on excess layers of property schedules.

During the summer of 2014 we were joined by the aviation team formerly at the Atrium syndicate. Following approval from Lloyd's we began underwriting a war and direct aviation portfolio with effect from August 2014.

Much of the aviation war account is written in a lead capacity including via three Lloyd's consortia which are all led by Syndicate 3010 and managed by Cathedral. The account is a mixture of major airline business with exposures across the world, as well as smaller aircraft which often operate on a bespoke basis into some of the more difficult areas of the world. The team quote and lead much of their business and are regarded as a major lead in their market place and bring a long track record of profitability to the Syndicate.

The direct aviation account, while capable of writing major airlines, is largely focused on smaller fleets of fixed and rotor wing craft with an emphasis on risks outside the United States. Once again, the team is a respected leader in their class, with a long track record of sound risk selection and profitability; business has followed based on relationship rather than price.

Exposures for all our new accounts are tracked, aggregated and reported upon within Cathedral's established governance and risk management framework and practices. We equally apply other Cathedral controls in areas such as exception reporting, claims reserving and IT to the new accounts to ensure they are being handled in the same way as with the rest of our business. All accounts are protected with comprehensive reinsurance programmes.

Future Prospects

With excess capacity in most lines across the global market, the outlook for 2015 and beyond will be challenging to say the least. We increased our stamp capacity to £100 million for the 2015 year of account to accommodate our new lines of business but growth, while achievable, will be more difficult than envisaged when plans were drawn up for the year. Oil prices have dropped dramatically in the last few months which will lead to less activity in drilling, exploration and construction business in the onshore/offshore energy market. This knocks onto our cargo business with much lower values being shipped and in smaller quantities, foreshadowing a likely slowdown in world trade once again.

Since the war losses of 2014 in the aviation market, early optimism surrounding increased rating was soon dampened by a flood of capacity arriving in the market in anticipation of increased rates. Much of this came in the form of increased capacity under broker line slips all of which means that rates have remained pretty much flat on the larger airlines with some increases on smaller business exposed to the world's trouble spots. Aviation insurance rates are seeing some increases but, again, capacity remains high and, until the supply and demand curves move closer, the market will continue to be difficult.

In spite of the above we will continue to entertain new business lines which fit our appetite for short tail business provided it is written by teams who offer genuine expertise and leadership in their class.

Finally I would like to thank our established cargo and specie underwriters, Alasdair Butler and Lee Aspinall and cargo claims manager Martin Menzies. I would also like to welcome and thank our new teams for 2014, including our energy underwriter James Flude and terrorism underwriter Chris Wilkinson and their respective Lancashire underwriting teams as well as our newest underwriting colleagues, our aviation team, led by Bruce Carman and John Spence for their professionalism and their hard work.

J C Hamblin
Active Underwriter

16 March 2015

Managing Agent's Report
At 31 December 2014

Introduction

The directors of Cathedral Underwriting Limited, the managing agency for Syndicate 3010, present the Annual Report for the Syndicate at 31 December 2014, together with the Underwriter's Report. The Syndicate commenced trading for the 2007 year of account on 1 July 2007.

The Managing Agent

Principal activity

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

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

Syndicate	Principal class of business	Active underwriter	2014 Capacity £'000
3010	Marine cargo, and from 2014, energy, aviation all risks and hull war and terrorism	J C Hamblin	60,000
2010	Non marine and aviation reinsurance, direct and facultative property and contingency	J C Hamblin	350,016

On 7th November 2013 Lancashire Holdings Limited, a company that is incorporated in Bermuda, acquired the entire issued share capital of Cathedral Capital Limited to become the ultimate parent company of Cathedral Underwriting Limited, and is deemed to be the controller of the managing agency and has been approved as such by Lloyd's, the PRA and the FCA.

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

Multiple syndicates consent

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

Directors' shareholdings

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

A I G C South	Chairman
J M G Andrews	Non-Executive Director (resigned 31st December 2013)
D C Grainger	Compliance Director
J C Hamblin	Director
L A Holder	Managing Director
J A Lynch	Finance Director
A T Maloney	Non-Executive Director (appointed 7th January 2014)
A S Minns	Non-Executive Director
R G Oakes	Non-Executive Director
E E Patrick	Non-Executive Director
P D Scales	Director
J P Tilling	Non-Executive Director

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

Managing Agent's Report
At 31 December 2014

continued

Directors and their participations in Syndicate 3010

None of the Directors of Cathedral Underwriting Limited participated directly as Names on the Syndicate. However the corporate member company Cathedral Capital (1998) Limited has a £30 million participation in the 2013 year of account. It had an initial participation of £30 million on the 2014 year of account, but this increased to £60 million with effect from April 2014. Its participation is £100 million on the 2015 year of account. Up until 7th November 2013, certain of the Directors owned shares in Cathedral Capital Limited which owns 100% of the interest in Cathedral Capital (1998) Limited. Lancashire Holdings Limited has now replaced Cathedral Capital Limited as the ultimate parent company of Cathedral Capital (1998) Limited.

Active Underwriter

John Hamblin was appointed active underwriter from when the Syndicate commenced trading. He is also active underwriter of Syndicate 2010.

Registered Office/accounting records

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

Management of Syndicate 3010

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

2014 Calendar Year

This Annual Report includes the results, for the calendar year, on an annual accounting basis, and is prepared 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 21 to 23.

Results

The overall calendar year result is the aggregate of the calendar year results of all years of account. The results are all from continuing operations. The annual accounting result is a profit of £1.7 million before currency translation differences in the year (2013: loss £2.0 million) and this can be analysed as follows:

	2012* account £'000	2013 account £'000	2014 account £'000	31 December 2014 £'000	31 December 2013 £'000
Gross earned premium	3,220	14,776	14,339	32,335	26,852
Reinsurers' share	486	(2)	(5,666)	(5,182)	(3,134)
Net earned premium	3,706	14,774	8,673	27,153	23,718
Gross claims incurred	4,389	(5,071)	(11,056)	(11,738)	(19,789)
Reinsurers' share	(3,321)	(448)	1,636	(2,133)	3,006
Net claims incurred	1,068	(5,519)	(9,420)	(13,871)	(16,783)
Net operating expenses	(1,160)	(4,681)	(5,784)	(11,625)	(9,023)
Balance on Technical Account before investment return	3,614	4,574	(6,531)	1,657	(2,088)
Net investment return	30	34	2	66	47
Profit/(loss) for the financial year	3,644	4,608	(6,529)	1,723	(2,041)

* The 2012 account includes the movement in the 2007 to 2011 accounts which have closed into the 2012 account.

Premiums above are grossed up for brokerage.

The insurance and reinsurance contracts underwritten by the Syndicate are earned over the life of the policy, normally commencing at the inception of the policy. An earnings pattern is established for each class of business written by the Syndicate and these earnings patterns are applied at an individual policy level. The earning patterns aim to reflect the underlying exposures of the business written. Thus net earned premiums during 2014 include premiums on policies incepting during 2014 together with estimates for premiums and adjustments to premiums on policies incepting in prior periods.

Most of the business written by Syndicate 3010 until April 2014 was within its marine cargo account although it also wrote quota share reinsurances of certain of the accounts written by Syndicate 2010 for the 2012 and 2013 years of account. Since April 2014 the Syndicate has also written energy and terrorism business and since August 2014 direct aviation and aviation war.

Statement of Managing Agent's Responsibilities

Cathedral Underwriting Limited as managing agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare annual accounts for the Syndicate at 31 December each year which give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period.

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

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

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

Description of business and methods of acceptance

The Syndicate writes:

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

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

Reinsurance protection

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

Syndicate investments

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

Foreign exchange hedging

The managing agent, in so far as possible, matches assets and liabilities, by currency, within the Syndicate. To date, the managing agent has not entered into any transaction to hedge the foreign exchange exposure to the non-sterling (US Dollars, 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 facilities

The Syndicate has arranged a United States catastrophe facility (minimum of $20 million to maximum of $40 million) with Barclays Bank plc. This facility is there to assist in paying claims and gross funding of exceptional catastrophes. Up to United States $20 million can be utilised by way of letter of credit to assist the Syndicate's gross funding requirements.

This facility was not utilised during calendar year 2014 and was renewed for another year in December 2014.

Syndicate capital requirement

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 continues to be used in the member capital setting process, as, together with the Solvency II balance sheet, it provides equivalent policyholder protection to the mandatory ICAS regime.

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 table below summarises Syndicate 3010's uSCR return for the 2013, 2014 and 2015 years of account. These figures are as agreed with Lloyd's. The ECA reflects the capital loadings that were a market-wide 35% for 2014 and 2015. Lloyd's loading for the 2013 year of account was based on the final uplift applied to the 2012 mid-year Coming-into-Line exercise.

Syndicate 3010 is capitalised solely by Cathedral's corporate member that has an overall premium limit of £277 million for the 2015 year of account.

	2015		2014		2013	
	£'m	**%***	£'m	%*	£'m	%*
ICA/uSCR	**37.5**	**37.5**	16.9	56.4	13.8	46.0
Lloyd's loading	**13.1**	**13.1**	5.9	19.7	4.5	15.1
ECA	**50.6**	**50.6**	22.8	76.1	18.3	61.1

* Note: % = percentage of stamp capacity

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 ICA/uSCR of the Syndicate. 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 has exposure to insurance risk (including reserving risk). Key areas where it is exposed to insurance risk are:

- Frequency of claims – the risk that the business written is subject to an unexpected frequency of claims;
- Severity of claims – the risk that the Syndicate is subject to an unexpected severity of claim;
- Inadequate pricing – the risk that business written is under-priced for the risk assumed;
- Lack of reinsurance cover - the risk that reinsurance of a type or quantum necessary to effectively manage the gross exposures assumed is either unavailable or unavailable at a viable cost;

- Inappropriate reinsurance – the risk that the Syndicate assumes gross exposures on the basis that effective reinsurance protection of a type or quantum is available and for that to prove not to be the case;
- Reserving risk – the risk that provisions in respect of already incurred claims prove inadequate.
- Accumulative loss including unknown/unexpected accumulations – the risk that risks accumulate including the extent or manner to which this is unexpected; and
- Wording issues – the risk that wordings are interpreted to provide coverage in a manner or to an extent which is beyond that intended.

The loss development tables that follow provide information about historical claims development.

Underwriting year - Gross	2008	2009	2010	2011	2012	2013	2014
12 months	69%	68%	95%	127%	103%	65%	76%
24 months	73%	63%	59%	83%	61%	72%	-
36 months	70%	58%	56%	78%	58%	-	-
48 months	56%	54%	54%	61%	-	-	-
60 months	52%	53%	55%	-	-	-	-
72 months	49%	53%	-	-	-	-	-
84 months	48%	-	-	-	-	-	-

Underwriting year - Net	2008	2009	2010	2011	2012	2013	2014
12 months	100%	88%	128%	113%	109%	166%	107%
24 months	67%	66%	62%	71%	68%	71%	-
36 months	66%	60%	58%	66%	56%	-	-
48 months	58%	56%	57%	60%	-	-	-
60 months	52%	55%	58%	-	-	-	-
72 months	49%	55%	-	-	-	-	-
84 months	48%	-	-	-	-	-	-

The loss ratios above are in respect of the pure year of account and are cumulative annually accounted loss ratios at each stage. It should be noted that any losses in year two onwards will not be recognised at the 12 months stage under annual accounting.

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 it is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries; and
- Assets held as financial investments.

Liquidity risk

The Syndicate has exposure to liquidity risk. Liquidity risk is the risk that cash may not be available to pay obligations when due on a timely basis. Where insufficient liquid funds exist, the Managing Agent can cash call the Name supporting the Syndicate and can ultimately drawdown from the Name's Funds at Lloyd's.

Market risk

The Syndicate has exposure to market risk. This includes the risks associated with currency movements which can alter the sterling translated value of its assets and liabilities.

Operational risk

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

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

Risk Management

All areas of risk are subject to the managing agency's risk management framework and enterprise wide risk management practices and controls.

Sub contracted functions

The managing agent has sub contracted its software support to Agencyport Limited.

Actuaries

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

Agency and Syndicate Auditor

Ernst & Young LLP are the independent auditors to all of the Cathedral Group companies and the Syndicate. Ernst & Young LLP has signified its willingness to continue in office as the independent auditor to both the managing agent and the Syndicate. Appointment as syndicate auditor will be addressed in accordance with the "deemed reappointment of auditor" provisions under the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

By order of the Board

L A Holder
Managing Director
Cathedral Underwriting Limited
29th Floor, 20 Fenchurch Street
London EC3M 3BY
16 March 2015

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SYNDICATE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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Independent Auditor's Report to the Member of Syndicate 3010

We have audited the syndicate annual accounts of Syndicate 3010 for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows, and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's member, 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 member those matters we are required to state to it in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's member, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditor

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

Scope of the audit of the syndicate annual accounts

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

Opinion on the syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

Matters on which we are required to report by exception

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

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

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

17 March 2015

CATHEDRAL
SYNDICATE 3010

Profit and Loss Account
Technical Account - General Business
For the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Earned premiums, net of reinsurance:			
Gross premiums written	3	**45,015**	27,323
Outward reinsurance premiums		**(8,551)**	(3,244)
Net premiums written		**36,464**	24,079
Change in the provision for unearned premiums:			
Gross amount		**(12,680)**	(471)
Reinsurers' share		**3,369**	110
Earned premiums, net of reinsurance		**27,153**	23,718
Allocated investment return transferred from the non-technical account		**66**	47
Claims paid:			
Gross amount		**(13,580)**	(17,865)
Reinsurers' share		**1,184**	3,257
		(12,396)	(14,608)
Change in the provision for claims:			
Gross amount		**1,842**	(1,924)
Reinsurers' share		**(3,317)**	(251)
		(1,475)	(2,175)
Claims incurred, net of reinsurance		**(13,871)**	(16,783)
Net operating expenses	4	**(11,625)**	(9,023)
Balance on the technical account for general business		**1,723**	(2,041)

All items relate to continuing operations only.

The notes on pages 21 to 31 form part of these accounts.

Profit and Loss Account
Non-Technical Account
For the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Balance on the general business technical account		**1,723**	(2,041)
Investment income	8	**78**	54
Losses on realisation of investments		**(12)**	(7)
Allocated investment return transferred to the general business technical account		**(66)**	(47)
Profit/(loss) for the financial year	15	**1,723**	(2,041)

Statement of Total Recognised Gains and Losses
For the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit/(loss) for the financial year	15	**1,723**	(2,041)
Currency translation differences	15	**39**	(167)
Total recognised gains/(losses) since last annual report		**1,762**	(2,208)

The notes on pages 21 to 31 form part of these accounts.

CATHEDRAL
SYNDICATE 3010

Balance Sheet
As at 31 December 2014

	Notes	2014 £'000	2013 £'000
Investments:			
Financial investments	9	**19,273**	14,522
		19,273	14,522
Reinsurers' share of technical provisions:			
Provision for unearned premiums		**3,751**	172
Claims outstanding	10	**2,501**	5,747
		6,252	5,919
Debtors:			
Debtors arising out of direct insurance operations			
- Intermediaries	11	**12,093**	3,287
Debtors arising out of reinsurance operations	12	**6,625**	3,947
Other debtors	13	**75**	80
		18,793	7,314
Other assets:			
Cash at bank and in hand		**3,085**	3,260
Other	14	**1,030**	1,054
		4,115	4,314
Prepayments and accrued income:			
Deferred acquisition costs		**6,171**	3,521
Other prepayments and accrued income		**179**	76
		6,350	3,597
Total assets		**54,783**	35,666

The notes on pages 21 to 31 form part of these accounts.

	Notes	2014 £'000	2013 £'000
Capital and reserves:			
Member's balance	15	**(5,882)**	(7,390)
		(5,882)	(7,390)
Technical provisions:			
Provision for unearned premiums		**25,931**	11,997
Claims outstanding		**25,859**	26,688
		51,790	38,685
Creditors:			
Creditors arising out of direct insurance operations	16	**579**	602
Creditors arising out of reinsurance operations	17	**5,397**	1,373
Other creditors including taxation and social security	18	**2,593**	2,216
		8,569	4,191
Accruals and deferred income		**306**	180
Total liabilities		**54,783**	35,666

The Syndicate annual accounts on pages 16 to 31 were approved by the Board of Cathedral Underwriting Limited on 16 March 2015 and were signed on its behalf by

L A Holder
Managing Director

J A Lynch
Finance Director

16 March 2015

The notes on pages 21 to 31 form part of these accounts.

CATHEDRAL
SYNDICATE 3010

Statement of Cash Flows
For the year ended 31 December 2014

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities			
Profit/(loss) for the financial year		**1,723**	(2,041)
Realised and unrealised investments (gains)/losses on cash and investments, including currency movements		**(725)**	391
Income from investments		**(79)**	(52)
(Increase)/decrease in debtors, prepayments and accrued income		**(14,231)**	171
Increase in net technical provisions		**12,772**	2,106
Increase/(decrease) in creditors, accruals and deferred income		**4,503**	(1,970)
Exchange gain/(loss)		**39**	(167)
Net cash inflow/(outflow) from operating activities		**4,002**	(1,562)
Returns on investment and servicing of finance:			
Interest received		**79**	52
Transfer (to) member in respect of underwriting		**(254)**	(2,986)
Increase/(decrease) in cash and portfolio investments in the year	19	**3,827**	(4,496)
Cash flows were invested as follows:			
(Decrease) in cash holdings	19	**(7)**	(174)
Net portfolio investments	20	**3,834**	(4,322)
Net investment of cash flows		**3,827**	(4,496)

The notes on pages 21 to 31 form part of these accounts.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2014

1 Basis of Preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (revised in December 2006) ("the ABI SORP").

2 Accounting Policies

(a) *Basis of accounting*

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

(b) *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.

(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 balance sheet 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 balance sheet 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.

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.

(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 balance sheet date.

(c) *Foreign currencies*

Transactions in US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date of the transaction or at an appropriate average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date unless contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates are used. Differences arising on the re-translation of foreign currency amounts are included in the Statement of Total Recognised Gains and Losses.

Realised exchange differences are included in the technical account within net operating expenses.

(d) *Investments*

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid price value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date. Some of the Syndicate's cash balances are swept overnight into pooled arrangements. These balances have been classified as investments.

(e) *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.

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.

(f) *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 the member is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

(g) *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.

(h) *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 2014

continued

3 Particulars of business written

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

Type of business	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	31 December 2014 Net technical provisions £'000
Direct insurance:							
Marine aviation and transport	**29,815**	**19,384**	**(6,867)**	**(6,918)**	**(6,022)**	**(423)**	**22,642**
Fire and other damage to property	**3,526**	**2,541**	**(626)**	**(780)**	**(454)**	**681**	**2,439**
Credit and suretyship	**14**	**14**	**(2)**	**(6)**	**(7)**	**(1)**	**10**
	33,355	**21,939**	**(7,495)**	**(7,704)**	**(6,483)**	**257**	**25,091**
Reinsurance acceptances	**11,660**	**10,396**	**(4,243)**	**(3,921)**	**(832)**	**1,400**	**14,276**
Total	**45,015**	**32,335**	**(11,738)**	**(11,625)**	**(7,315)**	**1,657**	**39,367**

Type of business	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	31 December 2013 Net technical provisions £'000
Direct insurance:							
Marine aviation and transport	14,798	14,202	(7,418)	(4,972)	(2,804)	(992)	14,368
Fire and other damage to property	1,826	1,712	2,001	(406)	59	3,366	1,206
Credit and suretyship	15	13	-	(4)	(14)	(5)	1
	16,639	15,927	(5,417)	(5,382)	(2,759)	2,369	15,575
Reinsurance acceptances	10,684	10,925	(14,372)	(3,641)	2,631	(4,457)	13,670
Total	27,323	26,852	(19,789)	(9,023)	(128)	(2,088)	29,245

Net technical provisions are net of deferred acquisition costs.

3 Particulars of business written *continued*

Geographical analysis by origin

	Gross written premiums		Profit/(loss)		Net liabilities	
	2014	2013	**2014**	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Direct	**33,356**	16,639	**(78)**	2,402	**(1,870)**	(1,690)
Reinsurance	**11,659**	10,684	**1,801**	(4,443)	**(4,012)**	(5,700)
	45,015	27,323	**1,723**	(2,041)	**(5,882)**	(7,390)

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

Geographical analysis by destination

	Gross written premiums 2014 £'000	Gross written premiums 2013 £'000
UK	**8,816**	6,793
US	**10,788**	5,753
Other EU member states	**5,910**	5,351
Rest of the world	**19,501**	9,426
	45,015	27,323

4 Net operating expenses

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Acquisition costs	**10,562**	7,724
Change in deferred acquisition costs	**(2,368)**	(172)
Administrative expenses	**2,134**	1,173
Reinsurance commissions and profit participation	**366**	-
(Profit)/loss on exchange	**28**	(185)
Personal expenses	**903**	483
	11,625	9,023

Administrative expenses include:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Auditors' remuneration: Ernst & Young LLP		
- Audit of accounts	**53**	44
- Audit-related assurance services	**22**	17
Auditors' remuneration: Mazars LLP		
- Audit-related assurance services	**-**	11
- Taxation compliance services	**3**	2

Total commissions for direct insurance accounted for in the year amounted to £7,551,733 (2013: £4,506,270).

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 2014 £'000	Year ended 31 December 2013 £'000
Wages and salaries	**1,131**	492
Social security costs	**141**	61
Other pension costs	**136**	79
	1,408	632

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 2014	Year ended 31 December 2013
Operations, administration and finance	**2**	1
Underwriting and claims	**8**	4
	10	5

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 2014 £'000	Year ended 31 December 2013 £'000
Emoluments	**89**	56

7 Active underwriter's emoluments

The active underwriter received the following aggregate remuneration charged to the Syndicate:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Emoluments	**14**	14

8 Investment income

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Income from investments	**78**	54
Gain on the realisation of investments	**-**	-
	78	54

9 Financial investments

	Market value		Cost	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Shares and other variable yield securities	**17,017**	12,060	**17,017**	12,060
Participation in investments pools	**2,256**	2,462	**2,256**	2,462
	19,273	14,522	**19,273**	14,522

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2014

continued

10 Reinsurers' share of claims outstanding

The year end assessment of the recoverability of the Syndicate's reinsurance assets has taken into account the current global economic uncertainty. 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:

	2014 £'000	2013 £'000
A grade security	**2,536**	5,809
Provision for bad debt	**(35)**	(62)
	2,501	5,747

11 Debtors arising out of direct insurance operations

	2014 £'000	2013 £'000
Due within one year - intermediaries	**12,093**	3,287

12 Debtors arising out of reinsurance operations

	2014 £'000	2013 £'000
Due within one year	**6,625**	3,947

13 Other debtors

	2014 £'000	2013 £'000
Due within one year	**62**	20
Due after one year	**13**	60
	75	80

14 Other assets - overseas deposits

	2014 £'000	2013 £'000
Amounts advanced in other countries as a condition of carrying on business there	**1,030**	1,054

15 Reconciliation of member's balance

	2014 £'000	2013 £'000
Member's balance at 1 January	**(7,390)**	(2,196)
Profit/(loss) for the financial year	**1,723**	(2,041)
Exchange gain/(loss) for the financial year	**39**	(167)
Transfer (to) member personal reserve fund	**(254)**	(2,986)
Member's balance carried forward at 31 December	**(5,882)**	(7,390)

The Member's balance does not include members' agency fees or non-standard personal expenses.

16 Creditors arising out of direct insurance operations

	2014 £'000	2013 £'000
Due within one year	**579**	602

17 Creditors arising out of reinsurance operations

	2014 £'000	2013 £'000
Due within one year	**5,397**	1,373

18 Other creditors including taxation and social security

	2014 £'000	2013 £'000
Due within one year:		
Expenses owed to managing agent	**2,593**	2,216

19 Movement in opening and closing portfolio investments, net of financing

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Net cash outflow for the period	**(7)**	(174)
Cash flow – portfolio investments	**3,834**	(4,322)
Movement arising from cash flows	**3,827**	(4,496)
Changes in market value and exchange rates	**725**	(391)
Total movement in portfolio investments net of financing	**4,552**	(4,887)
Balance brought forward at 1 January	**18,836**	23,723
Balance carried forward at 31 December	**23,388**	18,836

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2014

continued

19 Movement in opening and closing portfolio investments, net of financing *continued*

	At 1 January 2014 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2014 £'000
Cash at bank and in hand	3,260	(7)	(168)	3,085
Overseas deposits	1,054	(29)	5	1,030
Shares and other variable yield securities	12,060	4,101	856	17,017
Participation in investment pools	2,462	(238)	32	2,256
Total portfolio investments	15,576	3,834	893	20,303
Total cash at bank and in hand and portfolio investments	18,836	3,827	725	23,388

20 Net cash (outflow)/inflow on portfolio investments

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Movement of shares and other variable yield securities	(4,101)	4,576
Movement of participation in investment pools	238	(356)
Movement of overseas deposits	29	102
Net cash (outflow)/inflow on portfolio investments	(3,834)	4,322

21 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 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 manages Kinesis Re I Limited, a special purpose insurer. There have been no transactions with this latter company.

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

The aggregate amounts of premium involved to date is not material in the context of the Syndicates overall spend.

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

Total managing agency fees paid during calendar year 2014 to Cathedral Underwriting Limited in respect of services provided to the Syndicate amounted to £525,000 (2013: £300,000).

From the 2014 year of account, profit commission will be payable to the managing agent, Cathedral Underwriting Limited.

Expenses totalling £2,217,038 (2013: £1,031,292) 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 2014 totalled £2,592,950 (2013: £2,215,880) and are included in "Other creditors including taxation and social security".

Cathedral Capital (1998) Limited, a fellow subsidiary of Cathedral Underwriting Limited, provided 100% of capacity for the 2012, 2013 and 2014 underwriting years. Therefore all profits and losses of the Syndicate are attributable to Cathedral Capital (1998) Limited. Amounts owed to Cathedral Capital (1998) Limited at 31 December 2014 totalled £nil (2013: £nil) and are included in "other creditors including taxation and social security".

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 have been dealt with on an arm's length basis.

22 Post balance sheet events

The following amounts will be transferred to members' personal reserve funds on 10 April 2015:

2012 year of account	$4,224,274

23 Funds at Lloyd's

In case syndicate assets prove insufficient to meet the member's underwriting liabilities, the 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 the 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.

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