LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 5.4% IN Q4 2014, 13.9% IN 2014
COMBINED RATIO OF 50.4% IN Q4 2014, 68.7% IN 2014
SPECIAL DIVIDEND OF $0.50 PER COMMON SHARE
FINAL ORDINARY DIVIDEND OF $0.10 PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $6.96 AT 31 DECEMBER 2014

12 February 2015
London, UK

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the fourth quarter of 2014 and the year ended 31 December 2014.

Financial highlights:

	As at 31 December 2014	**As at 31 December 2013**
Fully converted book value per share	**$6.96**	**$7.50**
Return on equity[1] – Q4	**5.4%**	**3.7%**
Return on equity[1]– YTD	**13.9%**	**18.9%**
Return on tangible equity[2] – Q4	**5.9%**	not relevant[4]
Return on tangible equity[2] – YTD	**17.1%**	not relevant[4]
Operating return on average equity – Q4	**5.7%**	**3.4%**
Operating return on average equity – YTD	**14.8%**	**12.5%**
Special dividends per common share [3]	**$1.70**	**$0.65**

[1]Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
[2] Return on equity excluding goodwill and other intangible assets.
[3] See "Dividends" below for Record Date and Dividend Payment Date.
[4] The 2013 return on tangible equity calculation is not a relevant comparator due to the impact of the Cathedral acquisition in Q4 2013.

Financial highlights:

	Three months ended		**Year ended**	
	31 Dec 2014	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Highlights ($m)				
Gross premiums written	120.4	130.8	907.6	679.7
Net premiums written	110.3	128.3	742.8	557.6
Profit before tax	91.5	55.2	226.5	218.1
Profit after tax[5]	86.8	63.0	229.3	222.5
Comprehensive income[5]	83.5	60.2	227.2	190.0
Net operating profit[5]	89.4	51.5	231.9	184.2
Per share data				
Diluted earnings per share	$0.44	$0.31	$1.16	$1.17
Diluted earnings per share – operating	$0.45	$0.25	$1.17	$0.97
Financial ratios				
Total investment return including internal FX hedges	0.2%	0.3%	1.0%	0.3%
Total investment return excluding internal FX hedges	0.1%	0.3%	0.7%	0.3%
Net loss ratio	12.2%	29.5%	31.7%	33.1%
Combined ratio	50.4%	71.4%	68.7%	70.2%
Accident year loss ratio	25.2%	34.6%	35.9%	36.1%

[5] These amounts are attributable to Lancashire and exclude non-controlling interests.

Alex Maloney, Group Chief Executive Officer, commented:

"I'm delighted to report another good quarter and year for Lancashire, with our key performance indicators demonstrating that our business model is built to provide strong results across the market cycle. A solid return on equity and an excellent combined ratio have been achieved in difficult trading conditions and allowed us to maintain our excellent dividend record, based on our continued commitment to focusing on our underwriting and capital management. With market-leading underwriters across all three of our business platforms we have defended our core portfolio, built out lines where we had true growth opportunities, reduced exposures where competition made returns unacceptable, and maintained our relevance to brokers and clients. We attracted quality new underwriting talent, and this helped us to grow the stamp capacity of Cathedral Syndicate 3010 from £30 million when we acquired it in November 2013 to £100 million for 2015, building out new specialist teams in energy, terrorism and aviation lines.

Lancashire has always given a realistic view of the market, and the truth is that there is too much capacity in many of the reinsurance and specialty arenas. This is driving competition on both price and terms and conditions. But our focus on employing lead underwriters with the ability to work with clients and brokers to design programmes and supply meaningful capacity protects us from the pressures on the smaller following markets who cannot fulfil these requirements. We did see some pressure on signings throughout the year, but on our core books we maintained, and even in some cases added to, our share of the risks we really like. And so we thank our business partners in broking houses large and small, and the core clients we work with year after year for their support, and pledge our continuing support to them.

The greatest pressures are in the reinsurance, and in particular, the retrocession markets where barriers to entry are comparatively low. But as a company that spent over $164 million in 2014 on outwards reinsurance premiums we are obviously a beneficiary of this as well. We enter 2015 with historically low retained risk levels, without having had to sacrifice any meaningful share of our inwards portfolio, except property retrocession which has been replaced with better margin, less volatile catastrophe business. Of course you only get the credit for doing the right thing and reducing net exposure in a soft market if there are losses to prove it, and the last couple of years have been very quiet in terms of major insured events; but we are committed to underwriting for profit not volume, and we still have plenty of firepower in Lancashire, Cathedral and Kinesis to take advantage of any market dislocation.

Our finance, operations and investment teams have continued to make sure that underwriting has the support it needs. We are able to draw on a wide and deep talent pool with experience that goes back decades across rated companies, Lloyd's and collateralised balance sheets and that has experienced hard and soft markets. Our Board is adding new talent with additional experience which only bolsters this. We believe that our business model keeps on demonstrating that it is capable of producing the results our shareholders want and our clients rely on across all kinds of markets. Our strategy is unchanged, and our goals are clear, and I think that puts us in a very good place for 2015."

Elaine Whelan, Group Chief Financial Officer, commented:

"I am happy to report a strong finish to the year, with an RoE of 5.4% for the quarter bringing us to 13.9% for the year. Our combined ratio for the quarter was 50.4%. While it was a volatile quarter in the investment markets, with no notable losses in the quarter all our business segments produced excellent underwriting results. In line with expectations, Cathedral contributed 1.0% to our RoE for the quarter and 1.6% in total for the year, after acquisition adjustments.

Given our outlook for 2015, and further reductions in our exposure at 1 January 2015, which are largely due to the impact of expanded outwards reinsurance and retrocession purchases, we are topping up last quarter's special dividend with a further 50 cents per share. Combined with dividend equivalent payments, that results in a capital return of $103.0 million. Together with the special dividend declared in November, plus the interim and final dividends for this financial year, we have returned 167.8% of comprehensive income for the year. Including all forms of capital returns, from inception we have returned 101.9% of comprehensive income."

Lancashire Renewal Price Index for major classes

The Lancashire Companies' Renewal Price Index ("RPI") is an internal methodology that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects the Lancashire Companies' assessment of relative changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume (see "Note Regarding RPI Methodology" at the end of this announcement for further guidance). The RPI does not include new business and only covers business written by the Lancashire Companies to offer a consistent basis for analysis and therefore does not include Cathedral's Lloyd's business. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2013:

Class	Year 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Aviation (AV52)	90%	92%	94%	90%	87%
Gulf of Mexico energy	92%	85%	n/a*	91%	97%
Energy offshore worldwide	94%	94%	103%	91%	95%
Marine	102%	91%	97%	102%	105%
Property retrocession and reinsurance	87%	94%	83%	83%	89%
Terrorism	93%	94%	94%	94%	93%
Combined	**94%**	**93%**	**96%**	**92%**	**95%**

* There was no renewing Gulf of Mexico energy business written in Q3 2014.

Underwriting results

Gross premiums written

	Q4				YTD			
	2014 $m	2013 $m	Change $m	Change %	2014 $m	2013 $m	Change $m	Change %
Property	24.7	42.7	(18.0)	(42.2)	263.0	333.4	(70.4)	(21.1)
Energy	30.8	34.0	(3.2)	(9.4)	239.4	209.9	29.5	14.1
Marine	8.2	10.6	(2.4)	(22.6)	67.7	63.0	4.7	7.5
Aviation	12.9	19.0	(6.1)	(32.1)	53.2	48.9	4.3	8.8
Lloyd's	43.8	24.5	19.3	78.8	284.3	24.5	259.8	1,060.4
Total	**120.4**	**130.8**	**(10.4)**	**(8.0)**	**907.6**	**679.7**	**227.9**	**33.5**

Gross premiums written decreased by 8.0% for the fourth quarter of 2014 compared to the same period in 2013. In 2014, gross premiums written increased by 33.5% compared to 2013. The increase in premiums for the whole of 2014 is derived primarily from the new Lloyd's segment following the acquisition of Cathedral in the fourth quarter of 2013. The Group's five principal segments, and the key market factors impacting them, are discussed below.

Property gross premiums written decreased by 42.2% for the fourth quarter of 2014 compared to the same period in 2013 and decreased by 21.1% in 2014 compared to 2013. The decrease in the quarter is largely due to the timing of non-annual contract renewals in the terrorism book. For the year, the decrease is driven primarily by reductions in the property retrocession book at the 1 January 2014 renewals, offset in part by the expansion of our property catastrophe excess of loss book. As property retrocession rates, terms and conditions continued to deteriorate, we redeployed capital to property catastrophe excess of loss, adding some new business and restructuring some existing programs for core clients, including writing some business on a multi-year basis. Otherwise, we saw a reduction in both the terrorism and political and sovereign risk books due to the impact of timing from long-term contract renewals.

Energy gross premiums written decreased by 9.4% for the fourth quarter of 2014 compared to the same period in 2013 and increased by 14.1% in 2014 compared to 2013. The reduction in the fourth quarter of 2014 compared to the fourth quarter of 2013 is due to non-renewable multi-year construction lines written in the fourth quarter of 2013, somewhat offset by non-annual contract renewals in the worldwide offshore energy class. The increase for the year is driven primarily by the Gulf of Mexico book where a number of both new and renewing deals were written on a multi-year basis. Volumes across other energy lines are fairly flat for the year.

Marine gross premiums written decreased by 22.6% for the fourth quarter of 2014 compared to the same period in 2013 and increased by 7.5% in 2014 compared to 2013. The dollar value of the decrease in premiums quarter on quarter is minimal. The increase for the year is largely due to non-annual contract renewals in the marine hull subclass in the second quarter of 2014.

Aviation gross premiums written decreased by 32.1% for the fourth quarter of 2014 compared to the same period in 2013 and increased by 8.8% in 2014 compared to 2013. The decrease in the fourth quarter of 2014 compared to the same period in 2013 is due to a change in the pattern of business attaching in one large AV52 contract. AV52 premiums for the year are comparable to 2013. The overall increase in aviation for 2014 compared to 2013 is mainly due to new satellite business plus additional satellite launches on contracts written in previous years.

The fourth quarter of 2014 reflects the fourth full quarter of gross premiums written attributable to the Lloyd's segment since the Cathedral acquisition in the fourth quarter of 2013. Two months of gross premiums written, from the date of acquisition, were included in the fourth quarter of 2013. The Lloyd's segment gross premiums written in the fourth quarter of 2014 were $43.8 million, $9.6 million or 28.1%, higher than the corresponding quarter of 2013 and totalled $284.3 million for 2014. For both the quarter and year, while there have been decreases across the existing book of business due to declining rates, these rate declines have been offset by premiums written by the new energy, terrorism and aviation classes of business being written by Syndicate 3010.

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Ceded reinsurance premiums increased by $7.6 million, or 304.0%, for the quarter and increased by $42.7 million, or 35.0%, for 2014, in each case compared to the same periods in 2013. The increase in the fourth quarter of 2014 compared to the fourth quarter of 2013 is primarily due to the purchase of more facultative cover on our satellite and energy lines of business, plus a full quarter's cessions in the new Lloyd's segment. In 2013, $47.9 million of premiums were ceded to the Accordion sidecar. The Accordion quota share contract was commuted in the first quarter of 2014 and, other than standard premium adjustments, no premiums were ceded to the facility this year. This reduction was more than offset by $64.9 million of ceded premiums in relation to the Lloyd's segment. Lancashire also took advantage of lower reinsurance rates to purchase some new non-marine retrocession aggregate cover and to restructure and increase limits for the marine, energy and terror programmes.

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Net premiums earned as a proportion of net premiums written were 158.4% in the fourth quarter of 2014 compared to 135.3% for the same period in 2013 and 96.3% in 2014, compared to 101.9% in 2013. The increase for the quarter compared to the same period in 2013 is largely due to the new Lloyd's book where the majority of business is written in the first half of the year; earnings are therefore typically higher during the fourth quarter. The decreased percentage in premiums earned for the year compared to 2013 reflects the impact of increased multi-year premiums written in the property catastrophe and energy Gulf of Mexico classes in 2014.

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The Group's net loss ratio for the fourth quarter of 2014 was 12.2% compared to 29.5% for the same period in 2013 and 31.7% for 2014 compared to 33.1% for 2013. There were no significant losses in the fourth quarter of 2014 and prior year losses developed favourably. The fourth quarter 2013 net loss ratio was driven by a low level of reported losses somewhat offset by some adverse development in the energy line of business. For the year ended 31 December 2014 there were relatively low reported losses across all lines, although there was some negative development on prior accident year mid-sized marine and energy claims. In 2013 attritional losses were exceptionally low, offset by prior year adverse development on the Costa Concordia marine loss of $37.9 million, after reinsurance and reinstatement premium. The first quarter of 2013 also included the benefit of the settlement reached for our North East Industry Loss Warranty (“ILW”).

Prior year favourable development for the fourth quarter of 2014 was $25.0 million, compared to $8.2 million for the fourth quarter of 2013, which saw some adverse development on the energy line of business. Favourable development was $34.4 million for 2014, compared to favourable development of $15.9 million for 2013, which included the adverse development on Costa Concordia noted above. Both years otherwise experienced releases due to lower than expected reported losses.

The following tables show the impact of prior year development and large losses on the Group’s loss ratio:

	Q4 2014		**Year 2014**	
	Losses	**Loss Ratio**	**Losses**	**Loss Ratio**
	$m	**%**	**$m**	**%**
At 31 December	21.3	12.2	226.5	31.7
Absent prior year development	46.3	26.5	260.9	36.5
Adjusted losses and ratio	**46.3**	**26.5**	**260.9**	**36.5**

Note: Adjusted loss ratio excludes large losses and prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

	Q4 2013		**Year 2013**	
	Losses	**Loss Ratio**	**Losses**	**Loss Ratio**
	$m	**%**	**$m**	**%**
At 31 December	51.2	29.5	188.1	33.1
Absent Europe hail & flood	50.2	28.9	167.2	29.4
Absent Costa Concordia	51.0	29.4	154.6	27.0
Absent remaining prior year development	59.6	34.3	237.5	41.8
Adjusted losses and ratio	**58.4**	**33.6**	**183.1**	**32.0**

Note: Adjusted loss ratio excludes large losses and prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

The table below provides further detail of the prior year’s loss development by class, excluding the impact of foreign exchange revaluations.

	Q4		**Year**	
	2014	**2013**	**2014**	**2013**
	$m	**$m**	**$m**	**$m**
Property	1.3	0.8	19.8	13.2
Energy	7.6	(2.9)	5.4	18.4
Marine	2.2	1.2	(9.7)	(23.4)
Aviation	0.4	-	0.9	(1.4)
Lloyd’s	13.5	9.1	18.0	9.1
Total	**25.0**	**8.2**	**34.4**	**15.9**

Note: Positive numbers denote favourable development.

The accident year loss ratio for the fourth quarter of 2014, including the impact of foreign exchange revaluations, was 25.2% compared to 34.6% for the same period in 2013 and 35.9% for 2014 compared to 36.1% for 2013. The 2014 accident year loss ratio for the quarter and year ended 31 December 2014 did not include any significant large losses. The corresponding periods of 2013 also included low levels of current accident year losses.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during 2014 and 2013:

	Year ended 31 Dec 2014 $m	**Year ended 31 Dec 2013 $m**
2006 accident year and prior	1.8	(0.7)
2007 accident year	(0.3)	(0.9)
2008 accident year	3.6	(4.1)
2009 accident year	4.3	2.0
2010 accident year	5.7	1.4
2011 accident year	(6.1)	(4.1)
2012 accident year	11.1	22.3
2013 accident year	14.3	-
Total	**34.4**	**15.9**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 31.6% at 31 December 2014 compared to 31.8% at 31 December 2013.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $7.2 million for the fourth quarter of 2014, an increase of 7.5% from the fourth quarter of 2013. Net investment income was $28.6 million for 2014, an increase of 12.6% compared to 2013. The increase for both the quarter and year compared to the same periods of 2013 is mainly due to the increased size of the investment portfolio resulting from the acquisition of Cathedral. Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $3.7 million for the fourth quarter of 2014 compared to $6.6 million for the fourth quarter of 2013, and was $22.0 million for 2014 compared to $6.9 million for 2013. Wider credit spreads driven by the drop in oil prices, global growth concerns and strong new issuance in the fixed income market depressed our investment portfolio returns in the fourth quarter of 2014. In the fourth quarter of 2013, significant credit spread narrowing offset a rise in treasury yields to generate positive investment returns.

For the year ended 31 December 2014 returns were generated primarily by a reduction in treasury yields, which offset the slight widening of investment grade credit spreads. This was in contrast to 2013 which saw a significant increase in treasury yields, offset somewhat by notable investment grade credit spread narrowing. In addition, in 2013, our emerging market debt ("EMD") portfolio was detrimentally impacted by rising treasury yields and wider EMD credit spreads which led to negative performance in this asset class.

The corporate bond allocation represented 31.7% of managed invested assets at 31 December 2014 compared to 29.7% at 31 December 2013. At 31 December 2014 the Group's allocation to bank loans represented 5.8% of the portfolio compared to 4.5% at 31 December 2013. The Group's portfolio also included a 6.8% allocation to a diversified portfolio of low volatility hedge funds.

The managed portfolio was as follows:

	As at 31 December 2014	As at 31 December 2013
Fixed income securities	81.9%	84.4%
Cash and cash equivalents	10.6%	14.7%
Equity securities	0.7%	0.7%
Hedge funds	6.8%	-
Other investments	-	0.2%
Total	**100.0%**	**100.0%**

Key investment portfolio statistics are:

	As at 31 December 2014	As at 31 December 2013
Duration	1.5 years	1.0 years
Credit quality	AA-	AA-
Book yield	1.5%	1.4%
Market yield	1.5%	1.2%

Third Party Capital Management

The $1.6 million and $5.9 million share of profit of associates for the fourth quarter and for 2014, respectively, mostly reflects Lancashire's 10% equity interest in Kinesis Holdings I Limited. The share of profit of associates of $0.5 million for the fourth quarter of 2013 and $9.2 million for 2013 was related to the Accordion and Saltire vehicles.

Other income recorded in the fourth quarter reflects the underwriting fee of $1.9 million that Kinesis Capital Management earned for providing underwriting services to the Kinesis vehicle, and $6.2 million of profit commission and managing agency fees relating to the Lloyd's segment. For the year ended 31 December 2014 other income includes $6.2 million for underwriting services to the Kinesis vehicle, $10.1 million of profit commission and managing agency fees relating to the Lloyd's segment and $3.0 million of final profit commission from the Saltire vehicle. During the first quarter of 2014 final profit commission of $6.7 million was also received from the Accordion vehicle; this was recorded in net insurance acquisition costs.

Other operating expenses

Operating expenses consist of the following items:

	Q4		Year	
	2014 $m	**2013 $m**	**2014 $m**	**2013 $m**
Employee salaries and benefits	7.1	11.7	36.0	37.3
Payroll taxes and national insurance on equity compensation	(0.1)	2.0	(2.0)	4.2
Other operating expenses	9.1	13.4	36.8	36.2
Total Lancashire, excluding Lloyd's segment	**16.1**	**27.1**	**70.8**	**77.7**
Lloyd's segment*	10.9	2.6	32.1	2.6
Amortisation of intangible assets	–	4.7	8.4	4.7
Total	**27.0**	**34.4**	**111.3**	**85.0**

* Note: Expenses incurred for the period post the date of the Cathedral acquisition on 7 November 2013.

Excluding the Lloyd's segment, employee remuneration costs were $1.3 million lower in 2014 compared to 2013 largely due to the retirement of the Company's previous CEO earlier in the year. The fourth quarter of 2014 and the year ended 31 December 2014 included reversals of employee national insurance accruals in relation to equity compensation exercises, driven by both the timing of exercises and fluctuations in the share price. The fourth quarter of 2013 included one-off expenses arising on the acquisition of Cathedral totalling $6.1 million.

The Lloyd's segment in the fourth quarter includes $7.3 million of employee remuneration costs and $3.6 million of other operating expenses. The employee remuneration costs and other operating expenses for the corresponding period of 2013, being the two months post acquisition, were $1.2 million and $1.4 million, respectively. For the year ended 31 December 2014 the Lloyd's segment includes $20.1 million of employee remuneration costs and $12.0 million of other operating expenses. For comparison, for the full year 2013, including the period pre-acquisition, the Lloyd's segment included $17.2 million of employee remuneration cost and $14.1 million of other operating expenses. The amortisation of intangible assets arising on the acquisition is now complete and there will be no further amortisation in 2015.

Equity based compensation was $8.9 million in the fourth quarter of 2014 compared to $4.9 million in the same period last year. For 2014 and 2013, the charge was $23.3 million and $16.7 million respectively. Included in the 2014 charge is $4.4 million for awards made to Cathedral employees. The equity based compensation charge is driven by the anticipated vesting level of the active awards based on current performance expectations.

Capital

At 31 December 2014, total capital available to Lancashire was $1.683 billion, comprising shareholders' equity of $1.357 billion and $326 million of long-term debt. Tangible capital was $1.530 billion. Leverage was 19.4% on total capital and 21.4% on total tangible capital. Total capital and total tangible capital at 31 December 2013 was $1.792 billion and $1.615 billion respectively.

Repurchase program

During the fourth quarter of 2014, under the current Repurchase Program ratified at the Annual General Meeting ("AGM") on 30 April 2014, the Group continued the repurchase of its own shares by way of open market purchases. $16.6 million of shares were repurchased during the fourth quarter of 2014 compared to $nil in the same period in the prior year. The total value of shares repurchased during the year ended 31 December 2014 was $25.0 million compared to $nil in the year ended 31 December 2013.

The Repurchase Program is subject to renewal at the 2015 AGM in an amount up to 10% of the Company's then issued common share capital.

Warrants

The outstanding warrants to purchase the Company's common shares were issued on 16 December 2005 and expire on 16 December 2015. We saw a higher volume of warrant exercises during 2014, relative to the prior year, and would expect this trend to continue until expiry. Warrant exercises during the quarter were as follows:

	Number of Management Team Performance warrants	Number of Management Team Ordinary warrants	Number of Founder warrants	Number of Lancashire Foundation warrants	Number of ordinary warrants	Total Number of warrants
Outstanding and exercisable as at 30 September 2014	117,480	559,182	15,264,073	648,143	2,350,000	**18,938,878**
Exercised during the period	–	–	(231,394)	–	–	(231,394)
Outstanding and exercisable as at 31 December 2014	117,480	559,182	15,032,679	648,143	2,350,000	**18,707,484**

Dividends

The Lancashire Board declared the following dividends during 2014:

- A final dividend in respect of 2013 of $0.10 per common share;
- An interim dividend of $0.05 per common share; and
- Special dividends of $1.20 per common share.

Lancashire announces that its Board of Directors has declared the following dividend payments (collectively the "Dividends"):

(i) a final dividend for 2014 of $0.10 per common share (approximately £0.06 per common share at the current exchange rate) amounting to an aggregate payment of approximately $18.8 million.

(ii) an additional special dividend for 2014 of $0.50 per common share (approximately £0.33 per common share at the current exchange rate) amounting to an aggregate payment of approximately $93.9 million.

The Dividends will result in an aggregate payment of approximately $112.7 million. The Dividends will be paid as a single payment in Pounds Sterling on 15 April 2015 (the "Dividend Payment Date") to shareholders of record on 20 March 2015 (the "Record Date") using the £ / $ spot market exchange rate at 12 noon London time on the Record Date.

Shareholders interested in participating in the dividend reinvestment plan ("DRIP") or other services including international payment, are encouraged to contact the Group registrars, Capita Registrars for more details at: http://www.capitaassetservices.com/products-and-services/corporate-clients/shareholder-and-employee-solutions/registration-services/managing-dividends.cshtml

In addition to the Dividends, a dividend equivalent payment of approximately $10.7 million in aggregate will be paid on the Dividend Payment Date to holders of share warrants issued by the Company pursuant to the terms of the warrants.

The Group will continue to review the appropriate level and composition of capital for the Group with the intention of managing capital to enhance risk-adjusted returns on equity.

Note: In this release the term "Cathedral" means Cathedral Capital Limited (a wholly owned subsidiary of Lancashire) and its subsidiaries and the term "Lancashire Companies" means the subsidiaries of Lancashire excluding Cathedral.

Financial information

Further details of our 2014 fourth quarter results can be obtained from our Financial Supplement. This can be accessed via our website www.lancashiregroup.com.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call at 1:00pm UK time / 8:00am EST on Thursday, 12 February 2015. The conference call will be hosted by Lancashire management.

The call can be accessed by dialling +44 (0) 203 139 4830 / + 1 718 873 9077 (Toll Free UK +44 (0) 808 237 0030 / Toll Free US + 1 866 928 7517) all with the confirmation code 75293539#. The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access.

A replay facility will be available until Friday, 13 March 2015. The dial in number for the replay facility is Toll +44 (0) 203 426 2807 or (Toll Free UK +44 (0) 808 237 0026 / Toll Free US +1 866 535 8030) with passcode 653327#. The replay facility will also be accessible at www.lancashiregroup.com

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Investor enquiries and questions can also be directed to info@lancashiregroup.com or by accessing the Group's website www.lancashiregroup.com.

About Lancashire

Lancashire, through its UK and Bermuda-based operating subsidiaries, is a global provider of specialty insurance and reinsurance products. The Group companies carry the following ratings:

	Financial Strength Rating (1)	**Financial Strength Outlook(1)**	**Long Term Issuer Rating (2)**
A.M. Best	A (Excellent)	Stable	bbb
Standard & Poor's	A-	Stable	BBB
Moody's	A3	Stable	Baa2

(1)Financial Strength Rating and Financial Strength Outlook apply to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited.

(2) Long Term Issuer Rating applies to Lancashire Holdings Limited.

Cathedral benefits from Lloyd's ratings: A.M. Best: A (Excellent); Standard & Poor's: A+ (Strong); and Fitch: AA- (Very Strong).

Lancashire has capital in excess of $1.5 billion and its common shares trade on the premium segment of the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate headquarters and mailing address at 29th Floor, 20 Fenchurch Street, London EC3M 3BY, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

For more information on Lancashire and Lancashire's subsidiary and Lloyd's segment, Cathedral Capital Limited ("Cathedral"), visit the Company's website at www.lancashiregroup.com

Lancashire Insurance Company Limited is regulated by the Bermuda Monetary Authority in Bermuda.

Lancashire Insurance Company (UK) Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

Kinesis Capital Management Limited is regulated by the Bermuda Monetary Authority in Bermuda.

Cathedral Underwriting Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

NOTE REGARDING RPI METHODOLOGY

LANCASHIRE'S RENEWAL PRICE INDEX ("RPI") IS AN INTERNAL METHODOLOGY THAT ITS MANAGEMENT USES TO TRACK TRENDS IN PREMIUM RATES OF A PORTFOLIO OF INSURANCE AND REINSURANCE CONTRACTS. THE RPI DOES NOT TAKE INTO ACCOUNT ANY BUSINESS OR CONTRACTS OF THE CATHEDRAL GROUP. THE RPI WRITTEN BY THE LANCASHIRE COMPANIES IS CALCULATED ON A PER CONTRACT BASIS AND REFLECTS LANCASHIRE'S ASSESSMENT OF RELATIVE CHANGES IN PRICE, TERMS, CONDITIONS AND LIMITS AND IS WEIGHTED BY PREMIUM VOLUME. THE CALCULATION INVOLVES A DEGREE OF JUDGEMENT IN RELATION TO COMPARABILITY OF CONTRACTS AND THE ASSESSMENT NOTED ABOVE. TO ENHANCE THE RPI METHODOLOGY, MANAGEMENT OF LANCASHIRE MAY REVISE THE METHODOLOGY AND ASSUMPTIONS UNDERLYING THE RPI, SO THE TRENDS IN PREMIUM RATES REFLECTED IN THE RPI MAY NOT BE COMPARABLE OVER TIME. CONSIDERATION IS ONLY GIVEN TO RENEWALS OF A COMPARABLE NATURE SO IT DOES NOT REFLECT EVERY CONTRACT IN LANCASHIRE'S PORTFOLIO. THE FUTURE PROFITABILITY OF THE PORTFOLIO OF CONTRACTS WITHIN THE RPI IS DEPENDENT UPON MANY FACTORS BESIDES THE TRENDS IN PREMIUM RATES.

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE INCLUDING, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS "BELIEVES", "ANTICIPATES", "PLANS", "PROJECTS", "FORECASTS", "GUIDANCE", "INTENDS", "EXPECTS", "ESTIMATES", "PREDICTS", "MAY", "CAN", "WILL", "SEEKS", "SHOULD", OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL SUCH STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THE GROUP'S FINANCIAL POSITION, LIQUIDITY, TAX RESIDENCY, RESULTS OF OPERATIONS, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS AND EFFICIENCIES, ABILITY TO CREATE VALUE, DIVIDEND POLICY, OPERATIONAL FLEXIBILITY, COMPOSITION OF MANAGEMENT, BUSINESS STRATEGY, PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS (INCLUDING DEVELOPMENT PLANS AND OBJECTIVES RELATING TO THE GROUP'S INSURANCE BUSINESS) ARE FORWARD LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE GROUP TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE GROUP'S ABILITY TO INTEGRATE ITS BUSINESSES AND PERSONNEL; THE SUCCESSFUL RETENTION AND MOTIVATION OF THE GROUP'S KEY MANAGEMENT; THE INCREASED REGULATORY BURDEN FACING THE GROUP, THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT THE GROUP WRITES OR MAY WRITE; THE GROUP'S ABILITY TO IMPLEMENT SUCCESSFULLY ITS BUSINESS STRATEGY DURING 'SOFT' AS WELL AS 'HARD' MARKETS; THE PREMIUM RATES WHICH MAY BE AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN THE GROUP'S TARGETED BUSINESS LINES; THE POSSIBLE LOW FREQUENCY OF LARGE EVENTS; POTENTIALLY UNUSUAL LOSS FREQUENCY; THE IMPACT THAT THE GROUP'S FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS MAY HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES OR DIVIDENDS; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN THE GROUP'S UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; INCREASED COMPETITION FROM EXISTING ALTERNATIVE CAPITAL PROVIDERS, INSURANCE LINKED FUNDS AND COLLATERALISED SPECIAL PURPOSE INSURERS AND THE RELATED DEMAND AND SUPPLY DYNAMICS AS CONTRACTS COME UP FOR RENEWAL; THE EFFECTIVENESS OF THE GROUP'S LOSS LIMITATION METHODS; THE POTENTIAL LOSS OF KEY PERSONNEL; A DECLINE IN THE GROUP'S OPERATING SUBSIDIARIES' RATING WITH A.M. BEST, STANDARD & POOR'S, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; A CYCLICAL DOWNTURN OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED INCOME INVESTMENTS; THE IMPACT OF SWINGS IN

MARKET INTEREST RATES AND SECURITIES PRICES; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN ITS INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE THE GROUP CONDUCTS BUSINESS; ANY OF THE GROUP'S BERMUDIAN SUBSIDIARIES BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE UNITED KINGDOM; THE INAPPLICABILITY TO THE GROUP OF SUITABLE EXCLUSIONS FROM THE UK CFC REGIME; AND ANY CHANGE IN THE UK GOVERNMENT OR UK GOVERNMENT POLICY WHICH IMPACTS THE CFC REGIME.

ALL FORWARD-LOOKING STATEMENTS IN THIS RELEASE SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 $m	2013 $m
Gross premiums written	2	**907.6**	679.7
Outwards reinsurance premiums	2	**(164.8)**	(122.1)
Net premiums written		**742.8**	557.6
Change in unearned premiums	2	**(37.0)**	24.3
Change in unearned premiums on premiums ceded	2	**9.8**	(13.8)
Net premiums earned		**715.6**	568.1
Net investment income	3	**28.6**	25.4
Net other investment income	3	**1.4**	1.4
Net realised (losses) gains and impairments	3	**(5.9)**	12.6
Share of profit of associates	17	**5.9**	9.2
Other income	27	**19.3**	4.1
Net foreign exchange (losses) gains		**(0.1)**	21.8
Total net revenue		**764.8**	642.6
Insurance losses and loss adjustment expenses	2, 13	**237.9**	250.0
Insurance losses and loss adjustment expenses recoverable	2, 13	**(11.4)**	(61.9)
Net insurance losses		**226.5**	188.1
Insurance acquisition expenses	2, 4	**161.8**	135.1
Insurance acquisition expenses ceded	2, 4	**(8.4)**	(9.3)
Other operating expenses	5, 6, 25	**111.3**	85.0
Equity based compensation	6	**23.3**	16.7
Total expenses		**514.5**	415.6
Results of operating activities		**250.3**	227.0
Financing costs	7	**23.8**	8.9
Profit before tax		**226.5**	218.1
Tax credit	8	**3.1**	3.8
Profit for the year		**229.6**	221.9
Profit (loss) for the year attributable to:			
Equity shareholders of LHL		**229.3**	222.5
Non-controlling interests		**0.3**	(0.6)
Profit for the year		**229.6**	221.9
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Net change in unrealised gains/losses on investments	3, 10	**(2.2)**	(33.3)
Tax provision on net change in unrealised gains/losses on investments	10	**0.1**	0.8
Other comprehensive loss	10	**(2.1)**	(32.5)
Total comprehensive income for the year		**227.5**	189.4
Total comprehensive income (loss) attributable to:			
Equity shareholders of LHL		**227.2**	190.0
Non-controlling interests		**0.3**	(0.6)
Total comprehensive income for the year		**227.5**	189.4
Earnings per share			
Basic	26	**$1.24**	$1.31
Diluted	26	**$1.16**	$1.17

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Notes	**2014 $m**	2013 $m
Assets			
Cash and cash equivalents	9, 22	**303.5**	403.0
Accrued interest receivable		**7.7**	8.9
Investments	10, 11, 22	**1,986.9**	2,016.0
Reinsurance assets			
– Unearned premiums on premiums ceded	12	**24.7**	14.9
– Reinsurance recoveries	13	**112.4**	183.0
– Other receivables	12, 14	**5.3**	10.8
Deferred acquisition costs	15	**104.6**	73.8
Other receivables		**36.6**	18.7
Inwards premiums receivable from insureds and cedants	14	**316.2**	288.4
Corporation tax receivable		**4.3**	5.6
Investment in associates	11, 17	**52.7**	64.7
Property, plant and equipment	18	**9.1**	2.8
Intangible assets	19, 28	**153.8**	177.2
Total assets		**3,117.8**	3,267.8
Liabilities			
Insurance contracts			
– Losses and loss adjustment expenses	13	**752.6**	853.4
– Unearned premiums	20	**479.1**	442.1
– Other payables	20, 21	**40.8**	28.9
Amounts payable to reinsurers	12, 21	**34.2**	30.9
Deferred acquisition costs ceded	15	**0.1**	0.2
Other payables	21	**83.5**	80.7
Deferred tax liability	16	**38.7**	38.7
Interest rate swap	22	**4.9**	0.2
Long-term debt	22	**326.6**	332.3
Total liabilities		**1,760.5**	1,807.4
Shareholders' equity			
Share capital	23	**96.1**	92.7
Own shares	23	**(43.3)**	(36.8)
Share premium		**–**	192.2
Contributed surplus		**855.9**	645.7
Accumulated other comprehensive income	10	**0.8**	2.9
Other reserves	24	**31.2**	55.2
Retained earnings		**416.1**	507.8
Total shareholders' equity attributable to equity shareholders of LHL		**1,356.8**	1,459.7
Non-controlling interests	27	**0.5**	0.7
Total shareholders' equity		**1,357.3**	1,460.4
Total liabilities and shareholders' equity		**3,117.8**	3,267.8

The consolidated financial statements were approved by the Board of Directors on 11 February 2015 and signed on its behalf by:

MARTIN THOMAS
DIRECTOR/CHAIRMAN

ELAINE WHELAN
DIRECTOR/CFO

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2014

	Notes	Share capital $m	Own shares $m	Share premium $m	Contributed surplus $m	Accumulated other comprehensive income $m	Other reserves $m	Retained earnings $m	Shareholders' equity attributable to equity shareholders of LHL $m	Non-controlling interests $m	Total shareholders' equity $m
Balance as at 31 December 2012		84.3	(57.1)	2.4	654.4	35.4	57.1	610.9	1,387.4	–	1,387.4
Total comprehensive income for the year	10	–	–	–	–	(32.5)	–	222.5	190.0	(0.6)	189.4
Issue of shares	23	8.4	–	189.8	–	–	–	–	198.2	–	198.2
Issue of shares to non-controlling interests	27	–	–	–	–	–	–	–	–	1.3	1.3
Distributed by trust	23	–	30.1	–	(38.7)	–	–	–	(8.6)	–	(8.6)
Shares donated to trust	23, 27	–	(12.8)	–	12.8	–	–	–	–	–	–
Dividends on common shares	23	–	–	–	–	–	–	(276.7)	(276.7)	–	(276.7)
Dividend equivalents on warrants	24	–	–	–	–	–	–	(48.9)	(48.9)	–	(48.9)
Warrant exercises – Founder	24	–	3.0	–	(1.1)	–	(1.9)	–	–	–	–
Equity based compensation – tax	8	–	–	–	–	–	1.6	–	1.6	–	1.6
Equity based compensation – exercises	6, 23, 24	–	–	–	18.3	–	(18.3)	–	–	–	–
Equity based compensation – expense	6	–	–	–	–	–	16.7	–	16.7	–	16.7
Balance as at 31 December 2013		92.7	(36.8)	192.2	645.7	2.9	55.2	507.8	1,459.7	0.7	1,460.4
Total comprehensive income for the year	10	**–**	**–**	**–**	**–**	**(2.1)**	**–**	**229.3**	**227.2**	**0.3**	**227.5**
Share premium reclassification	29	**–**	**–**	**(192.2)**	**192.2**	**–**	**–**	**–**	**–**	**–**	**–**
Share repurchases	23	**–**	**(25.0)**	**–**	**–**	**–**	**–**	**–**	**(25.0)**	**–**	**(25.0)**
Purchase of shares from non-controlling interests	27	**–**	**–**	**–**	**(0.6)**	**–**	**–**	**–**	**(0.6)**	**(0.5)**	**(1.1)**
Distributed by trust	23	**–**	**21.6**	**–**	**(28.3)**	**–**	**–**	**–**	**(6.7)**	**–**	**(6.7)**
Shares donated to trust	23, 27	**–**	**(8.1)**	**–**	**8.1**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends on common shares	23	**–**	**–**	**–**	**–**	**–**	**–**	**(288.9)**	**(288.9)**	**–**	**(288.9)**
Dividend equivalents on warrants	24	**–**	**–**	**–**	**–**	**–**	**–**	**(32.1)**	**(32.1)**	**–**	**(32.1)**
Warrant exercises	23, 24	**3.4**	**5.0**	**–**	**33.1**	**–**	**(27.4)**	**–**	**14.1**	**–**	**14.1**
RSS compensation	6	**–**	**–**	**–**	**(9.8)**	**–**	**–**	**–**	**(9.8)**	**–**	**(9.8)**
Equity based compensation – tax	8	**–**	**–**	**–**	**–**	**–**	**(4.4)**	**–**	**(4.4)**	**–**	**(4.4)**
Equity based compensation – exercises	6, 23, 24	**–**	**–**	**–**	**15.5**	**–**	**(15.5)**	**–**	**–**	**–**	**–**
Equity based compensation – expense	6	**–**	**–**	**–**	**–**	**–**	**23.3**	**–**	**23.3**	**–**	**23.3**
Balance as at 31 December 2014		**96.1**	**(43.3)**	**–**	**855.9**	**0.8**	**31.2**	**416.1**	**1,356.8**	**0.5**	**1,357.3**

STATEMENT OF CONSOLIDATED CASH FLOWS
For the year ended 31 December 2014

	Notes	2014 $m	2013 $m
Cash flows from operating activities			
Profit before tax		**226.5**	218.1
Tax paid		**1.0**	(0.4)
Depreciation	5	**2.1**	1.4
Amortisation of intangible asset	19	**23.4**	13.2
Interest expense on long-term debt	7	**15.5**	13.2
Interest and dividend income		**(50.5)**	(43.9)
Net amortisation of fixed income securities		**9.9**	12.9
Equity based compensation	6	**23.3**	16.7
Foreign exchange losses (gains)		**7.3**	(11.8)
Share of profit of associates	17	**(5.9)**	(9.2)
Net other investment income	3	**(1.4)**	(1.4)
Net realised losses (gains) and impairments	3	**5.9**	(12.6)
Net unrealised losses (gains) on interest rate swaps		**4.7**	(7.8)
Changes in operational assets and liabilities			
– Insurance and reinsurance contracts		**(35.5)**	(26.1)
– Other assets and liabilities		**(13.8)**	5.4
Net cash flows from operating activities		**212.5**	167.7
Cash flows from investing activities			
Interest and dividends received		**52.0**	44.4
Net purchase of property, plant and equipment		**(8.7)**	(0.1)
Investment in associates		**17.9**	26.6
Acquisition of subsidiaries, net of cash acquired	28	**–**	(227.2)
Purchase of investments		**(2,153.7)**	(1,277.9)
Proceeds on sale of investments		**2,159.0**	1,521.2
Net cash flows from investing activities		**66.5**	87.0
Cash flows used in financing activities			
Interest paid		**(15.5)**	(12.0)
Proceeds from issue of shares, net of share issue costs	23	**–**	198.2
Dividends paid	23	**(321.0)**	(325.6)
Share repurchases		**(25.0)**	–
Warrant exercises		**14.1**	–
RSS compensation		**(9.8)**	–
Distributions by trust		**(6.7)**	(8.6)
(Repurchase) issue of shares to non-controlling interests	27	**(1.1)**	1.3
Net cash flows used in financing activities		**(365.0)**	(146.7)
Net (decrease) increase in cash and cash equivalents		**(86.0)**	108.0
Cash and cash equivalents at beginning of year		**403.0**	295.8
Effect of exchange rate fluctuations on cash and cash equivalents		**(13.5)**	(0.8)
Cash and cash equivalents at end of year	9	**303.5**	403.0

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation, consolidation principles and significant accounting policies adopted in the preparation of LHL and the Group's consolidated financial statements are set out below.

BASIS OF PREPARATION

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted under IFRS as adopted by the European Union.

Where IFRS is silent, as it is in respect of the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group determines appropriate measurement bases, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.S. GAAP.

All amounts, excluding share data or where otherwise stated, are in millions of U.S. dollars.

While a number of new or amended IFRS and IFRIC standards have been issued there are no standards issued that have had a material impact on the Group.

IFRS 4, Insurance Contracts, issued in March 2004, specifies the financial reporting for insurance contracts by an insurer. The current standard is Phase I in the IASB's insurance contract project and, as noted above, does not specify the recognition or measurement of insurance contracts. This will be addressed in Phase II of the IASB's project and is expected to include a number of significant changes regarding the measurement and disclosure of insurance contracts. The Group will continue to monitor the progress of the project in order to assess the potential impacts the new standard will have on its results and the presentation and disclosure thereof.

IFRS 9, Financial Instruments: Classification and Measurement, has been issued but is not yet effective, and therefore has not yet been adopted by the Group. The Group continues to apply IAS 39, Financial Instruments: Recognition and Measurement and classifies its fixed income and equity securities as AFS or FVTPL. The new standard is effective for annual periods beginning on or after 1 January 2018 and is not expected to have a material impact on the results and disclosures reported in the consolidated financial statements. It will, however, result in a reclassification of fixed income securities from AFS to FVTPL and a reclassification of the net change in unrealised gains and losses on investments from accumulated other comprehensive income to profit or loss.

IFRS 10, Consolidated Financial Statements, issued in May 2011, redefines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's financial statements. IFRS 12, Disclosure of Involvement with Other Entities, was issued concurrently and sets out the disclosure requirements for consolidated financial statements. Both standards were effective from 1 January 2014 and did not have a material impact on the Group's results or disclosure requirements.

The consolidated balance sheet of the Group is presented in order of decreasing liquidity.

USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the reported and disclosed amounts at the balance sheet date and the reported and disclosed amounts of revenues and expenses during the reporting period. Actual results may differ materially from the estimates made.

The most significant estimate made by management is in relation to losses and loss adjustment expenses. This is discussed on page 97 and also in the risk disclosures section from page 108. Estimates in relation to losses and loss adjustment expenses recoverable are discussed on page 97.

Estimates are also made in determining the estimated fair value of certain financial instruments and equity compensation plans. The estimation of the fair value of financial instruments is discussed on pages 97 and 98 and in note 10. Management judgement is applied in determining impairment charges. The estimation of the fair value of equity based compensation awards granted is discussed in note 6.

Intangible assets are recognised on the acquisition of a subsidiary. The fair value of intangible assets arising from the acquisition of a subsidiary is largely based on the estimated expected cash flows of the business acquired and the contractual rights of that business. The Group determines whether indefinite life intangible assets are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGU to which the intangible assets are allocated. The assumptions made by management in performing impairment tests of intangible assets are subject to estimation uncertainty. Details of the key assumptions used in the estimation of the recoverable amounts of the CGU are contained in note 19.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Intercompany balances, profits and transactions are eliminated. The Group participates on the syndicates at Lloyd's, which are managed by the Group's managing agent subsidiary. In view of the several liability of underwriting members at Lloyd's, the Group recognises its proportion of all the transactions undertaken by the syndicates in which it participates within its consolidated statement of comprehensive income. Similarly, the Group's proportion of the syndicates' assets and liabilities has been reflected in its balance sheet. This proportion is calculated by reference to the Group's participation as a percentage of each syndicate's total capacity for each year of account.

Subsidiaries' accounting policies are generally consistent with the Group's accounting policies. Where they differ, adjustments are made on consolidation to bring accounting policies in line.

ASSOCIATES

Investments, in which the Group has significant influence over the operational and financial policies of the investee, are recognised at cost and thereafter accounted for using the equity method. Under this method, the Group records its proportionate share of income and loss from such investments in its statement of comprehensive income for the period. Adjustments are made to associates' accounting policies, where necessary, in order to be consistent with the Group's accounting policies.

FOREIGN CURRENCY TRANSLATION

The functional currency, which is the currency of the primary economic environment in which operations are conducted, for all Group entities is U.S. dollars. Items included in the financial statements of each of the Group's entities are measured using the functional currency. The consolidated financial statements are also presented in U.S. dollars.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in the consolidated statement of comprehensive income. Non-monetary assets and liabilities carried at historical cost denominated in a foreign currency are translated at historic rates. Non-monetary assets and liabilities carried at estimated fair value denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined, with resulting exchange differences recorded in accumulated other comprehensive income in shareholders' equity.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the fair value of consideration transferred at the acquisition date. On acquisition of a business the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. Unpaid loss reserves and loss reserves recoverable assumed through a business combination are initially measured at fair value, using an applicable risk-free discount rate and having regard to the expected settlement dates of the claims. Unearned premiums and unearned premiums ceded acquired through a business combination are initially measured in accordance with the Group's existing accounting policies. The difference between the acquired amount and the fair value of these assets and liabilities is recognised as a separately identifiable intangible asset and recorded as the value of in-force business. Other identifiable assets acquired and liabilities and contingent liabilities assumed, which meet the conditions for recognition under IFRS 3, Business Combinations, are recognised at their fair value at the acquisition date. The excess of the fair value of consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Costs directly related to an acquisition are expensed in the consolidated statement of comprehensive income when incurred.

INTANGIBLE ASSETS

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite depending on the nature of the asset. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment at least annually at the CGU level by comparing the net present value of the future earnings stream of the CGU to the carrying value of the intangible asset and the related net assets. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

GOODWILL

Goodwill is deemed to have an indefinite life and, after initial recognition, is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or when events or changes in circumstance indicate that it might be impaired.

SYNDICATE PARTICIPATION RIGHTS

Syndicate participation rights purchased in a business combination are initially measured at fair value and are subsequently measured at cost less any impairment. Syndicate participation rights are considered to have an indefinite life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The value of the syndicate participation rights is reviewed for impairment at least annually.

VALUE OF IN-FORCE BUSINESS

The value of in-force business acquired in a business combination is initially recognised as the difference between the fair value of the net unearned premiums acquired and the measurement of the net unearned premiums acquired using the Group's existing accounting policies. The value of in-force business has a finite useful life and subsequent to initial recognition it is carried at cost less accumulated amortisation and is amortised over the remaining life of the acquired insurance contracts. The portion of the value of in-force business which replaced the deferred acquisition costs carried on Cathedral's historical balance sheet was amortised in net acquisition costs in the statement of comprehensive income. The remaining amortisation was charged to other operating expenses.

INSURANCE CONTRACTS

CLASSIFICATION

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

PREMIUMS AND ACQUISITION COSTS

Premiums are first recognised as written at the later of a contract's binding or inception date. The Group writes both excess of loss and pro-rata (proportional) contracts. For the majority of excess of loss contracts, premiums written are recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For pro-rata contracts and excess of loss contracts where no deposit is specified in the contract, premiums written are recognised based on estimates of ultimate premiums provided by the insureds or ceding companies. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound if later. Subsequent adjustments, based on reports of actual premium by the insureds or ceding companies, or revisions in estimates, are recorded in the period in which they are determined.

Premiums written are earned rateably over the term of the underlying risk period of the insurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums.

Where contract terms require the reinstatement of coverage after an insured's or ceding company's loss, the estimated mandatory reinstatement premiums are recorded as premiums written when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR which do not relate to a specific loss event.

Inwards premiums receivable from insureds and cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Acquisition costs represent commissions, brokerage, profit commissions and other variable costs that relate directly to the successful securing of new contracts and the renewing of existing contracts. They are generally deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition costs are recognised as an expense when incurred.

OUTWARDS REINSURANCE

Outwards reinsurance premiums comprise the cost of reinsurance contracts entered into. Outwards reinsurance premiums are accounted for in the period in which the contract incepts, or the period in which the contract is bound if later. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles.

Any amounts recoverable from reinsurers are estimated using the same methodology as the underlying losses. The Group monitors the creditworthiness of its reinsurers on an ongoing basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

LOSSES

Losses comprise losses and loss adjustment expenses paid in the period and changes in the provision for outstanding losses, including the provision for IBNR and related expenses. Losses and loss adjustment expenses are charged to income as they are incurred.

A portion of the Group's business is in classes with high attachment points of coverage, including property catastrophe excess of loss. Reserving for losses in such programmes is inherently complicated in that losses in excess of the attachment level of the Group's policies are characterised by high severity and low frequency and other factors which could vary significantly as losses are settled. This limits the volume of industry loss experience available from which to reliably predict ultimate losses following a loss event.

Losses and loss adjustment expenses represent the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, including a provision for IBNR. The Group does not discount its liabilities for unpaid losses. Outstanding losses are initially set on the basis of reports of losses received from third parties. ACRs are determined where the Group's best estimate of the reported loss is greater than that reported. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by insureds or ceding companies, as well as a provision for losses which have occurred but which have not yet been reported by insureds or ceding companies. IBNR reserves are set on a best estimate basis and are estimated by management using various actuarial methods as well as a combination of own loss experience, historical insurance industry loss experience, underwriters' experience, estimates of pricing adequacy trends and management's professional judgement.

The estimation of the ultimate liability arising is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in losses and loss adjustment expenses.

LIABILITY ADEQUACY TESTS

At each balance sheet date, the Group performs a liability adequacy test using current best estimates of future cash outflows generated by its insurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

FINANCIAL INSTRUMENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the consolidated balance sheet at amortised cost and include cash in hand, deposits held on call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

INVESTMENTS

The Group's fixed income and equity securities are quoted investments that are classified as AFS or at FVTPL and are carried at estimated fair value. The classification is determined at the time of initial purchase and depends on the category of investment. Fixed income investments in principal protected equity linked notes are designated as at FVTPL.

The Group's hedge funds are unquoted investments classified at FVTPL and are carried at estimated fair value. Estimated fair values are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager.

Regular way purchases and sales of investments are recognised at estimated fair value including transaction costs on the trade date and are subsequently carried at estimated fair value. The estimated fair values of quoted investments are determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Investments are derecognised when the Group has transferred substantially all of the risks and rewards of ownership. Realised gains and losses are included in income in the period in which they arise. Unrealised gains and losses from changes in estimated fair value of AFS investments are included in accumulated other comprehensive income in shareholders' equity.

On derecognition of an investment, previously recorded unrealised gains and losses are removed from accumulated other comprehensive income in shareholders' equity and included in current period income. Changes in estimated fair value of investments classified as at FVTPL are recognised in current period income.

Amortisation and accretion of premiums and discounts on AFS fixed income securities are calculated using the effective interest rate method and are recognised in current period net investment income. Interest income is recognised on the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity. Dividends on equity securities are recorded as revenue on the date the dividends become payable to the holders of record.

The Group regularly reviews the carrying value of its AFS investments for evidence of impairment. An investment is impaired if its carrying value exceeds the estimated fair value and there is objective evidence of impairment to the asset. Such evidence would include a prolonged decline in estimated fair value below cost or amortised cost, where other factors, such as expected cash flows, do not support a recovery in value. If an impairment is deemed appropriate, the difference between cost or amortised cost and estimated fair value is removed from accumulated other comprehensive income in shareholders' equity and charged to current period income. Impairment losses on fixed income securities may be subsequently reversed through income while impairment losses on equity securities are not subsequently reversed through income.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are recognised at estimated fair value on the date a contract is entered into, the trade date, and are subsequently carried at estimated fair value. Derivative instruments with a positive estimated fair value are recorded as derivative financial assets and those with a negative estimated fair value are recorded as derivative financial liabilities.

Derivative financial instruments include exchange-traded future and option contracts, forward foreign currency contracts, interest rate swaps, credit default swaps and interest rate swaptions. They derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit and market risk. Estimated fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors. Changes in the estimated fair value of instruments that do not qualify for hedge accounting are recognised in current period income. The Group does currently not hold any derivatives classified as hedging instruments. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is an appropriate market rate.

Derivative financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet only to the extent there is a legally enforceable right of offset and there is an intention to settle on a net basis, or to realise the assets and liabilities simultaneously. Derivative financial assets and liabilities are derecognised when the Group has transferred substantially all of the risks and rewards of ownership or the liability is discharged, cancelled or expired.

OTHER INCOME

Managing agent's fees and commissions and underwriting service fees are recognised in line with services provided. Contingent profit commissions are recognised when it is virtually certain that they will be realised.

LONG-TERM DEBT

Long-term debt is recognised initially at fair value, net of transaction costs incurred. Thereafter it is held at amortised cost, with the amortisation calculated using the effective interest rate method. Derecognition occurs when the obligation has been extinguished.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at historical cost, less accumulated depreciation and any impairment in value. Depreciation is calculated to write off the cost over the estimated useful economic life on a straight-line basis as follows:

IT equipment	33% per annum
Office furniture and equipment	20% to 33% per annum
Leasehold improvements	20% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant or equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset, and are included in the consolidated statement of comprehensive income. Costs for repairs and maintenance are charged to income as incurred.

LEASES

Rentals payable under operating leases are charged to income on a straight-line basis over the lease term.

EMPLOYEE BENEFITS

EQUITY COMPENSATION PLANS

The Group currently operates an RSS under which nil-cost options have been granted. The Group has also operated a management warrant plan and an LTIP option plan in the past. The fair value of the equity instruments granted is estimated on the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period of the instrument, adjusted for the impact of any non-market vesting conditions. No adjustment to vesting assumptions is made in respect of market vesting conditions.

At each balance sheet date, the Group revises its estimate of the number of RSS nil-cost options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, and a corresponding adjustment is made to other reserves in shareholders' equity over the remaining vesting period.

On exercise, the differences between the expense charged to the consolidated statement of comprehensive income and the actual cost to the Group, if any, is transferred to contributed surplus. Where new shares are issued, the proceeds received are credited to share capital and share premium.

PENSIONS

The Group operates a defined contribution plan. On payment of contributions to the plan there is no further obligation for the Group. Contributions are recognised as employee benefits in the consolidated statement of comprehensive income in the period to which they relate.

TAX

Income tax represents the sum of the tax currently payable and any deferred tax. The tax payable is calculated based on taxable profit for the period. Taxable profit for the period can differ from that reported in the consolidated statement of comprehensive income due to certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on all temporary differences between the assets and liabilities in the consolidated balance sheet and their tax base, except when the deferred tax liability arises from the initial recognition of goodwill. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Where the current estimated fair value of equity based compensation awards exceeds the estimated fair value at the time of grant, adjusted where applicable for dividends, the related corporation tax and deferred tax charge or credit is recognised directly in other reserves.

OWN SHARES

Own shares include shares repurchased under share repurchase authorisations and held in treasury plus shares repurchased and held in trust for the purposes of employee equity based compensation schemes. Own shares are deducted from shareholders' equity. No gain or loss is recognised on the purchase, sale, cancellation or issue of own shares and any consideration paid or received is recognised directly in equity.

RISK DISCLOSURES: INTRODUCTION

The Group is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Group is insurance risk.

The primary objective of the Group's ERM is to ensure that the capital resources held are matched to the risk profile of the Group and that the balance between risk and reward is considered as part of all key business decisions. The Group has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Group's appetite for risk will vary marginally from time to time to reflect the potential risks and rewards that present themselves. However, protecting the Group's capital and providing investors with a superior risk-adjusted return over the long term are constants. The risk appetite of the Group is central to how the business is run and permeates into the risk appetites that the individual operating entity Boards of Directors have adopted. These risk appetites are expressed through detailed risk tolerances at both a Group and an operating entity level. Risk tolerances represent the maximum amount of capital, generally on a modeled basis, that the Group and its entities are prepared to expose to certain risks.

The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity Boards of Directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective Boards of Directors. The LHL and individual entity Boards of Directors review actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on at least a monthly basis, management reviews the output from BLAST in order to assess modeled potential losses against risk tolerances and ensure that risk levels are managed in accordance with them.

RISK AND RETURN COMMITTEE

The RRC seeks to optimise risk-adjusted return and facilitate the appropriate use of the Internal Model, including considering its effectiveness. It ensures that all key areas of risk are discussed according to a schedule that covers fortnightly, monthly, quarterly, semi-annual and annual reviews. The RRC meets fortnightly and is responsible for coordinating and overseeing ERM activities within the risk profile, appetites and tolerances set by the Group and individual entity Boards of Directors. The RRC includes the Group CEO and members from the finance, actuarial and underwriting functions and includes representation from Cathedral. The CRO attends the meetings and reports on the RRC's activities to the Group and individual entity Boards of Directors and the Risk Committee of Cathedral.

CHIEF RISK OFFICER

The primary role of the CRO is to facilitate the effective operation of ERM throughout the Group at all levels. The role includes but is not limited to the following responsibilities:

- drive ERM culture, ownership and execution on three levels: Board, executive management, and operationally within the business;
- facilitate the identification, assessment and evaluation of existing and emerging risks by management and the Board;
- ensure that these risks are given due consideration and are embedded within management's and the Board's oversight and decision making process;
- be consulted, and opine on, policy in areas such as, but not limited to, underwriting, claims, investments, operations and capital management; and
- provide timely, accurate, reliable, factual, objective and accessible information and analysis to guide, coach and support decision making.

Responsibility for the management of individual risks has been assigned to, and may form part of the performance objectives of, the risk owners within the business. Risk owners ensure that these risks and controls are consistent with their day-to-day processes and the entries made in the Group risk registers, which are a direct input into BLAST. The CRO provides regular reports to the business outlining the status of the Group's ERM activities and strategy, as well as formal reports to the Boards of Directors of the Group and the individual operating entities in this regard including the Risk Committee of Cathedral. The CRO ultimately has the right to report directly to the Group and entity regulators if he feels that management is not appropriately addressing areas of concern.

INTERNAL AUDIT

Internal Audit plays a key role in the Group's ERM by providing an independent opinion regarding the accuracy and completeness of risks, in addition to verification of the effectiveness of controls and the consistency of their operation. Internal Audit's roles and responsibilities are clearly defined through the Internal Audit Charter. The Head of Internal Audit reports directly to the Group Audit Committee. The CRO receives a copy of each Internal Audit report and considers the findings and agreed actions in the context of the risk appetites and tolerances, plus the risk policies and risk management strategy of each area. The integration of Internal Audit and ERM into the business helps facilitate the Group's protection of its assets and reputation.

ECONOMIC CAPITAL MODEL

The foundation of the Lancashire Companies and Kinesis' risk-based capital approach to decision making is its economic capital model, BLAST, which is based on the widely accepted economic capital modeling tool, ReMetrica. Management uses BLAST primarily for monitoring its insurance risks. However, BLAST is also used to monitor other risks including market, credit and operational risks.

BLAST produces data in the form of a stochastic distribution for all classes, including non-elemental classes. The distribution includes the mean outcome and the result at various return periods, including very remote events. BLAST calculates projected financial outcomes for each insurance class, as well as the overall portfolio including diversification credit. Diversification credit arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time. BLAST also measures the Group's aggregate insurance exposures. It therefore helps senior management and the Board of Directors to determine the level of capital required to meet the combined risk from a wide range of categories. Assisted by BLAST, the Group seeks to achieve an improved risk-adjusted return over time.

BLAST is used in strategic underwriting decisions, as part of the Group's annual business planning process and to assist in portfolio optimisation, taking account of inwards business and all major reinsurance purchases. Management also utilises BLAST in assessing the impact of strategic decisions on individual classes of business that the Group writes, or is considering writing, as well as the overall resulting financial impact to the Group. BLAST output, covering all of the risk groups to which the Group is exposed, is reviewed, including the anticipated loss curves, combined ratios and risk-adjusted profitability, to determine profitability and risk tolerance headroom by class.

BLAST covers the risks for LICL, LUK and Kinesis but does not cover Cathedral's risk. Owing to the particular requirements of Lloyd's regulations, Cathedral has its own Internal Model which is vetted by Lloyd's as part of its own capital and solvency regulations. To formulate an overall Group view of risk, exposures from Cathedral are combined with LICL, LUK and Kinesis using Lancashire's proprietary internal models.

The six primary risk categories, insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk, are discussed in detail on pages 102 to 126.

A. INSURANCE RISK

The Group underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Group's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, and broader economic cycle impacts amongst other factors. The Group's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses and desired levels of profitability consistent with the Group's risk-adjusted RoE targets.

The Group considers insurance risk at an individual contract level, at a sector level, a geographic level and at an aggregate portfolio level. This ensures careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The four principle classes of business for the Group, excluding the Lloyd's segment, are Property, Energy, Marine and Aviation. These classes, plus the Group's Lloyd's segment, are deemed to be the Group's five operating segments. The level of insurance risk tolerance per peril is set by the respective Boards of Directors at both the LHL and entity level.

A number of controls are deployed to manage the amount of insurance exposure assumed:

- the Group has a rolling three-year strategic plan that helps establish the over-riding business goals that the Board of Directors aims to achieve;
- a detailed business plan is produced annually which includes expected premiums and combined ratios by class and considers risk-adjusted profitability, capital usage and requirements. The plan is approved by the Board of Directors and is monitored, reviewed and updated on an ongoing basis;
- for Cathedral the Syndicate Budget Forecast and Business Plan are subject to review and approval by Lloyd's;
- BLAST and SHARP are used to measure occurrence risks, aggregate risks and correlations between classes and other non-insurance risks, and the outputs and assumptions are reviewed periodically by the RRC;
- each authorised class has a predetermined normal maximum line structure;
- each underwriter has a clearly defined limit of underwriting authority;
- the Group and individual operating entities have predetermined tolerances on probabilistic and deterministic losses of capital for certain single events;
- risk levels versus tolerances are monitored on a regular basis;
- a daily underwriting call is held for LICL and LUK to peer review insurance proposals, opportunities and emerging risks;
- a daily post-binding review process with exception reporting to management based on underwriting authority operates at Cathedral;
- sophisticated pricing and aggregation models are utilised in certain areas of the underwriting process, and are updated frequently;
- BLAST and other modeling tools are deployed to model catastrophes and resultant losses to the portfolio and the Group; and
- reinsurance may be purchased to mitigate both frequency and severity of losses on a treaty or facultative basis and to improve risk-adjusted RoE as modeled in BLAST.

Some of the Group's business provides coverage for natural catastrophes (e.g. hurricanes, earthquakes and floods) and is subject to potential seasonal variation. A proportion of the Group's business is exposed to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact the Group's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Group also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, tsunamis, droughts, floods and tornadoes, from risk losses throughout the year and from war, terrorism and political risk and other events. The Group's associate bears exposure to catastrophe losses and any significant loss event could potentially result in impairment in the value of the Group's investment in associates.

The Group's exposures to certain peak zone elemental losses, as a percentage of tangible capital, including long-term debt, are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance. The exposure to catastrophe losses that would result in an impairment in the investment in associates is included in the figures below.

As at 31 December 2014		100 year return period estimated net loss $m	100 year return period estimated net loss % of tangible capital	250 year return period estimated net loss $m	250 year return period estimated net loss % of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	**254.2**	**16.6**	**377.2**	**24.7**
Non-Gulf of Mexico – U.S.	Hurricane	**254.0**	**16.6**	**455.8**	**29.8**
California	Earthquake	**154.8**	**10.1**	**247.5**	**16.2**
Pan-European	Windstorm	**133.2**	**8.7**	**205.0**	**13.4**
Japan	Earthquake	**116.0**	**7.6**	**184.8**	**12.1**
Japan	Typhoon	**61.2**	**4.0**	**94.6**	**6.2**
Pacific North West	Earthquake	**39.5**	**2.6**	**123.3**	**8.1**

(1) Landing hurricane from Florida to Texas.

As at 31 December 2013		100 year return period estimated net loss $m	100 year return period estimated net loss % of tangible capital	250 year return period estimated net loss $m	250 year return period estimated net loss % of tangible capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	307.6	19.0	440.2	27.3
Non-Gulf of Mexico – U.S.	Hurricane	227.8	14.1	451.4	28.0
California	Earthquake	130.6	8.1	239.0	14.8
Pan-European	Windstorm	210.7	13.0	319.3	19.8
Japan	Earthquake	154.8	9.6	266.9	16.5
Japan	Typhoon	132.9	8.2	249.0	15.4
Pacific North West	Earthquake	49.4	3.1	176.4	10.9

(1) Landing hurricane from Florida to Texas.

There can be no guarantee that the modeled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodeled loss which exceeds these figures. In addition, any modeled loss scenario could cause a larger loss to capital than the modeled expectation.

Details of annual gross premiums written by geographic area of risks insured are provided below:

	2014 $m	2014 %	2013 $m	2013 %
Worldwide offshore	**287.4**	**31.7**	253.3	37.3
Europe	**221.7**	**24.4**	38.4	5.6
U.S. and Canada	**172.5**	**19.0**	101.5	14.9
Far East	**59.6**	**6.6**	39.9	5.9
Middle East	**42.7**	**4.7**	16.7	2.5
Worldwide, including the U.S. and Canada[1]	**23.2**	**2.6**	151.0	22.2
Worldwide, excluding the U.S. and Canada[2]	**9.5**	**1.0**	19.4	2.9
Rest of world	**91.0**	**10.0**	59.5	8.7
Total	**907.6**	**100.0**	679.7	100.0

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

Details of annual gross premiums written by business segment are provided below:

	2014		2013	
	$m	%	$m	%
Lloyd's	**284.3**	**31.3**	24.5	3.6
Property	**263.0**	**28.9**	333.4	49.0
Energy	**239.4**	**26.4**	209.9	30.9
Marine	**67.7**	**7.5**	63.0	9.3
Aviation	**53.2**	**5.9**	48.9	7.2
Total	**907.6**	**100.0**	679.7	100.0

Further details of the gross premiums written and the risks associated with each of these five principal business segments are described on the following pages.

I. LLOYD'S

Gross premiums written, for the year:

	2014 $m	2013 $m
Property reinsurance	**104.3**	3.4
Property direct and facultative	**80.7**	13.0
Marine cargo	**37.5**	5.0
Aviation and satellite	**27.6**	2.6
Energy	**25.9**	–
Contingency	**4.8**	0.5
Terrorism	**3.5**	–
Total	**284.3**	24.5

Property reinsurance predominantly includes property catastrophe excess of loss, per risk excess of loss and property retrocession lines of business. Property catastrophe excess of loss and per risk excess of loss provide protection for elemental and non-elemental risks and are written on an excess of loss treaty basis within the U.S. and internationally. The U.S. property catastrophe excess of loss book is particularly focused on regional clients. Property retrocession is written on an excess of loss basis through treaty arrangements. It provides coverage for elemental risks when sold on a catastrophe basis and both elemental and non-elemental risks when sold on a per risk retrocession basis. Protection is generally given on a regional basis and may cover specific property risks or all catastrophe perils. It is also generally written on an UNL basis, meaning loss payments are linked to the ceding company's own loss.

Property direct and facultative is a worldwide book of largely commercial property business, written both in the open market and under delegated authorities. The account spans small individual locations to Fortune 500 accounts but with a bias towards small to medium sized risks. Policies are generally provided both for non-elemental and elemental perils, although not all risks include both elemental and non-elemental coverage. Coverage is generally written on a full value, primary or excess of loss basis, although the very largest accounts are currently seldom written at the primary level.

Marine cargo is an international account and is written either on a direct basis or by way of reinsurance. It covers the (re)insurance of commodities or goods in transit. Typically, transit cover is provided on an all-risks basis for marine perils for the full value of the goods concerned, although higher value or capacity business may be written on a layered basis. Static cover is also provided for losses to cargo, from both elemental and non-elemental causes, whilst static at points along its route. In addition, the cargo account can include specie and fine art, vault risks, artwork on exhibition and marine war business relating to cargo in transit.

Aviation and satellite includes aviation reinsurance, aviation war, general aviation and aviation satellite lines of business. Aviation reinsurance provides excess of loss catastrophe cover to the insurers of the world's major airlines and aircraft and aircraft manufacturers. This includes cover for the aircraft themselves as well as losses arising from passenger and third party liability claims against airlines and/or manufacturers. Aviation war covers loss or damage to aviation assets from war, terrorism and similar causes. General aviation covers fixed wing and rotor wing aircraft typically with 50 passenger seats or less and covers both commercial and private clients. A significant part of the aviation satellite account is written through Satec, a specialist underwriting agency, to which underwriting authority is delegated. Satellite insurance is purchased by launch operators, satellite manufacturers and satellite operators to protect against launch or deployment failure or subsequent failure in orbit. Policies are typically written for launch plus one year in orbit. Thereafter orbit cover is normally provided on an annual basis.

Energy risks are written mostly on a direct basis and may be ground-up or for primary or excess layers on either a first loss or full value basis. Worldwide offshore energy policies are typically package policies which may include physical damage, well control, business interruption and third-party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high-value and are therefore mostly written on a subscription basis, meaning that coverage is placed with multiple underwriters. Construction energy contracts generally cover all risks of platforms, FPSO and drilling units under construction at yard and offshore, during towing and installation. Onshore construction contracts are generally not written.

Contingency focuses on the sports, leisure and entertainment industries, with a significant emphasis on the music industry. It provides coverage for non-appearance and event cancellation. Generally business is written on a full value basis.

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical and biological coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a 'blast zone' radius. The term of these contracts may be multi-year reflecting the term of the underlying exposures. Reinsurance may be purchased on a facultative or treaty basis.

II. PROPERTY

Gross premiums written, for the year:

	2014 $m	2013 $m
Property catastrophe excess of loss	**124.2**	97.5
Terrorism	**55.2**	67.8
Property political risk	**44.4**	66.4
Property retrocession	**18.1**	80.8
Property direct and facultative	**1.0**	10.0
Other property	**20.1**	10.9
Total	**263.0**	333.4

Property catastrophe excess of loss covers elemental risks and is written on an excess of loss treaty basis. The property catastrophe excess of loss portfolio is written within the U.S. and also internationally. Cover is offered for specific perils and regions or countries.

Terrorism business can be written either ground-up or for primary or excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical and biological coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a 'blast zone' radius. The term of these contracts is often multi-year reflecting the term of the underlying exposures. Some national pools are also written, which may include nuclear, chemical and biological coverage and may have an element of life coverage.

Property political risk cover is written either ground-up or on an excess of loss basis. Coverage that the Group provides in the political risk book is split between confiscation perils coverage and sovereign/quasi-sovereign obligor coverage. Confiscation perils coverage protects against CEND (Confiscation, Expropriation, Nationalisation, and Deprivation) and may be extended to include other perils. Sovereign/quasi-sovereign obligors coverage protects against the non-payment or non-honouring of an obligation by a sovereign or quasi-sovereign entity. Cover is provided to medium to large commercial and industrial clients as well as bank and commodity trading clients. The term of these contracts is often multi-year reflecting the term of the underlying exposures. The Group does not provide cover against purely private obligor credit risk.

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks. Cover may be on a worldwide or regional basis and may cover specific risks or all catastrophe perils. Coverage may be given on a UNL basis, meaning that loss payments are linked directly to the ceding company's own loss, or on an ILW basis, meaning that loss payments are linked to the overall industry insured loss as measured by independent third-party loss index providers.

A small number of property direct and facultative risks continue to be written with modest lines mostly to support client relationships in other classes of business. Cover is generally provided to medium to large commercial and industrial enterprises with high-value locations for non-elemental perils, including fire and explosion, and elemental (natural catastrophe) perils which can include flood, windstorm, earthquake, brush fire, tsunami and tornado.

The Group is exposed to large natural catastrophe losses, such as windstorm and earthquake loss, primarily from assuming property catastrophe excess of loss and property retrocession portfolio risks. Exposure to such events is controlled and measured by setting limits on aggregate exposures in certain classes per geographic zone and through loss modeling. The accuracy of the latter exposure analysis is limited by the quality of data and the effectiveness of the modeling. It is possible that a catastrophic event significantly exceeds the expected modeled event loss. The Group's appetite and exposure guidelines for large losses are set out on pages 102 and 103.

Reinsurance may be purchased to mitigate exposures to large natural catastrophe losses in the U.S., Canada and worldwide with certain exclusions. Reinsurance may also be purchased to reduce the Group's worldwide exposure to large risk losses. Reinsurance is typically purchased on an excess of loss basis, however ILWs or quota share arrangements may be entered into.

III. ENERGY

Gross premiums written, for the year:

	2014 $m	2013 $m
Worldwide offshore energy	**149.9**	149.2
Gulf of Mexico offshore energy	**69.9**	34.4
Energy liabilities	**8.5**	8.8
Construction energy	**6.5**	12.9
Other energy	**4.6**	4.6
Total	**239.4**	209.9

Energy risks are written mostly on a direct basis and may be ground-up or for primary or excess layers on either a first loss or full value basis. Worldwide offshore energy policies are typically package policies which may include physical damage, business interruption and third-party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high-value and are therefore mostly written on a subscription basis, meaning that coverage is placed with multiple underwriters.

Gulf of Mexico offshore energy programmes cover elemental and non-elemental risks. Most policies have sub-limits on coverage for elemental losses. These programmes are exposed to Gulf of Mexico windstorms. Exposure to such events is controlled and measured through loss modeling. The accuracy of this exposure analysis is limited by the quality of data and the effectiveness of the modeling. It is possible that a catastrophic event significantly exceeds the expected modeled event loss. The Group's appetite and exposure guidelines to large losses are set out on pages 102 and 103.

The Group also writes energy liability business on a stand-alone basis. Unlike the liability contained within the energy packages that Lancashire writes, stand-alone energy liability is written on an excess of loss basis only. Coverage is worldwide and provides coverage for all kinds of damages and loss to third parties. Coverage is generally restricted to offshore assets.

Construction energy contracts generally cover all risks of platform and drilling units under construction at yards and offshore, during towing and installation. Onshore construction contracts are generally not written.

Reinsurance protection may be purchased to protect a portion of loss from elemental and non-elemental energy claims, and from the accumulation of smaller, attritional losses. Reinsurance is typically purchased on an excess of loss basis but, from time to time, quota share arrangements may be entered into. Reinsurance may be purchased on a facultative or treaty basis.

IV. MARINE

Gross premiums written, for the year:

	2014 $m	2013 $m
Marine hull and total loss	**29.6**	24.8
Marine P&I clubs	**12.8**	10.7
Marine builders risk	**12.2**	10.3
Marine hull war	**10.3**	15.0
Other marine	**2.8**	2.2
Total	**67.7**	63.0

With the exception of the marine P&I clubs, where excess layers are written, most policies are written on a ground-up basis. Marine hull and total loss is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. Marine P&I clubs is mostly the reinsurance of the International Group of Protection and Indemnity Clubs and covers marine liabilities. Marine builders risk covers the building of ocean going vessels in specialised yards worldwide and their testing and commissioning. Marine hull war is mostly direct insurance of loss of vessels from war, piracy or terrorist attack, with a very limited amount of facultative reinsurance.

The largest expected exposure in the marine class is from physical loss rather than from elemental loss events, although there is exposure to elemental perils and to the costs for removal of wreck.

Reinsurance may be purchased to reduce the Group's exposure to both large risk losses and an accumulation of smaller, attritional losses. Reinsurance is typically purchased on a treaty excess of loss basis.

V. AVIATION

Gross premiums written, for the year:

	2014 $m	2013 $m
AV52	**25.9**	26.5
Aviation satellite	**24.8**	16.8
Other aviation	**2.5**	5.6
Total	**53.2**	48.9

AV52 is written on a risk attaching excess of loss basis and provides coverage for third-party liability, excluding own passenger liability, resulting from acts of war or hijack of aircraft. Cover excludes countries whose governments provide a backstop coverage, but does, since 2014, include some U.S. commercial airlines.

Aviation satellite cover is written on a full value, primary or excess of loss basis and can provide cover for satellite launch, satellite in-orbit or both satellite launch and in-orbit. Coverage for in-orbit can be provided on an annual or multi-year basis and both launch and in-orbit can cover loss of earnings as well as physical damage.

Reinsurance may be purchased to mitigate exposures to an AV52 event loss. Reinsurance is typically purchased on a treaty excess of loss basis.

REINSURANCE

The Group, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of loss that may arise from events that could cause unfavourable underwriting results, and to improve the modeled risk-adjusted RoE by entering into reinsurance arrangements. Reinsurance does not relieve the Group of its obligations to policyholders. Under the Group's reinsurance security policy, reinsurers are assessed and approved as appropriate security based on their financial strength ratings, amongst other factors. The RRC has defined limits by reinsurer by rating. The RRC considers reinsurers that are not rated or do not fall within the predefined rating categories on a case-by-case basis, and would usually require collateral to be posted to support such obligations. There are specific guidelines for these collateralised contracts. The RRC monitors the creditworthiness of its reinsurers on an ongoing basis and formally reviews the Group's reinsurance arrangements at least quarterly.

Reinsurance protection is typically purchased on an excess of loss basis, however it may also include ILW covers or quota share arrangements. The mix of reinsurance cover is dependent on the specific loss mitigation requirements, market conditions and available capacity. Reinsurance may also be purchased to optimise the risk-adjusted return of the underwriting portfolio. The structure varies between types of peril and sub-class. The Group regularly reviews its catastrophe exposures and may purchase reinsurance in order to reduce the Group's net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. The Group can purchase both facultative and treaty reinsurance. There is no guarantee that reinsurance coverage will be available to meet all potential loss circumstances, as it is possible that the cover purchased is not sufficient to transfer the totality of the Group's exposure. Any loss amount which exceeds the programme would be retained by the Group. Some parts of the reinsurance programme have limited reinstatements, therefore the number of claims which may be recovered from second or subsequent losses in those particular circumstances is limited.

INSURANCE LIABILITIES

For most insurance and reinsurance companies, the most significant judgement made by management is the estimation of loss and loss adjustment expense reserves. The estimation of the ultimate liability arising from claims made under insurance and reinsurance contracts is a critical estimate for the Group particularly given the nature of the business written.

Under generally accepted accounting principles, loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All reserves are reported on an undiscounted basis.

Loss and loss adjustment expense reserves are maintained to cover the Group's estimated liability for both reported and unreported claims. Reserving methodologies that calculate a point estimate for the ultimate losses are utilised, and then a range is developed around these point estimates. The point estimate represents management's best estimate of ultimate loss and loss adjustment expenses. The Group's internal actuaries review the reserving assumptions and methodologies on a quarterly basis with loss estimates being subject to a semi-annual corroborative review by independent actuaries, using U.S. generally accepted actuarial principles. This independent review is presented to the Group's Audit Committee. The Group has also established Reserve Committees at the operating entity level, which have responsibility for the review of large claims and IBNR levels, their development and any changes in reserving methodology and assumptions.

The extent of reliance on management's judgement in the reserving process differs as to whether the business is insurance or reinsurance, whether it is short-tail or long-tail and whether the business is written on an excess of loss or on a pro-rata basis. Over a typical annual period, the Group expects to write the large majority of programmes on a direct excess of loss basis. The Group does not currently write a significant amount of long-tail business.

INSURANCE VERSUS REINSURANCE

Loss reserve calculations for direct insurance business are not precise in that they deal with the inherent uncertainty of assumptions regarding future reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in the legal environment and other factors, such as inflation. These estimates and judgements are based on numerous factors and may be revised as additional experience or other data becomes available or reviewed as new or improved methodologies are developed or as current laws or regulations change.

Furthermore, as a broker market reinsurer, management must rely on loss information, reported to brokers by other insurers and their loss adjusters, who must estimate their own losses at the policy level, often based on incomplete and changing information. The information management receives varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Additionally, reserving practices and the quality of data reporting may vary among ceding companies which adds further uncertainty to the estimation of the ultimate losses.

SHORT-TAIL VERSUS LONG-TAIL

In general, claims relating to short-tail risks, such as the majority of risks underwritten by the Group, are reported more promptly than those relating to long-tail risks, including the majority of casualty risks. However, the timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss, and whether the losses are from policies in force with insureds, primary insurers, reinsurers or vendor binding authorities.

EXCESS OF LOSS VERSUS PROPORTIONAL

For excess of loss contracts, which make up the majority of the Group's business, management are aided by the fact that each policy has a defined limit of liability arising from one event. Once that limit has been reached, there is no further exposure to additional losses from that policy for the same event. For proportional business, an initial estimated loss and loss expense ratio is generally used. This is based upon information provided by the insured or ceding company and/or their broker and management's historical experience of that treaty, if any, and the estimate is adjusted as actual experience becomes known.

TIME LAGS

There is a time lag inherent in reporting from the original claimant to the primary insurer or binding authority holder to the broker and then to the reinsurer. Also, the combination of low claims frequency and high severity makes the available data more volatile and less useful for predicting ultimate losses. In the case of proportional contracts, reliance is placed on an analysis of a contract's historical experience, industry information, and the professional judgement of underwriters in estimating reserves for these contracts. In addition, if available, reliance is placed partially on ultimate loss ratio forecasts as reported by insureds or cedants, which are normally subject to a quarterly or six-month lag.

UNCERTAINTY

As a result of the time lag described above, an estimation must be made of IBNR reserves, which consist of a provision for additional development in excess of the case reserves reported by insureds or ceding companies, as well as a provision for claims which have occurred but which have not yet been reported by insureds or ceding companies. Due to the degree of reliance that is necessarily placed on insureds or ceding companies for claims reporting, the associated time lag, the low frequency/high severity nature of much of the business that the Group underwrites, and the varying reserving practices among ceding companies, reserve estimates are highly dependent on management judgement and are therefore uncertain. During the loss settlement period, which may be years in duration, additional facts regarding individual claims and trends often will become known, and current laws and case law may change as well as regulatory directives, with a consequent impact on reserving. The claims count on the types of insurance and reinsurance that the Group writes, which are low frequency and high severity in nature, is generally low.

For certain catastrophic events there are greater uncertainties underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Complexity resulting from problems such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on claims adjusting (including the allocation of claims to the specific event and the effect of demand surge on the cost of building materials and labour) by, and communications from, insureds or ceding companies, can cause delays to the timing with which the Group is notified of changes to loss estimates.

As at 31 December 2014, management's estimates for IBNR represented 31.6 per cent of total net loss reserves (31 December 2013 – 31.8 per cent). The majority of the estimate relates to potential claims on non-elemental risks where timing delays in insured or cedant reporting may mean losses could have occurred which the Group was not made aware of by the balance sheet date.

B. MARKET RISK

The Group is at risk of loss due to movements in market factors. The main risks include:

i. Insurance risk;
ii. Investment risk;
iii. Debt risk; and
iv. Currency risk.

These risks, and the management thereof, are described below.

I. INSURANCE RISK

The Group is exposed to insurance market risk from several sources, including the following:

- the advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain lines, or across all lines;
- the actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- market events which may cause a limit in the availability of cover, including unusual inflation in rates, causing political intervention or national remedies;
- failure to maintain broker, binding authority and client relationships, leading to a limited or substandard choice of risks inconsistent with the Group's risk appetite; and
- changes in regulation including capital, governance or licensing requirements.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Group manages insurance market risk in numerous ways, including the following:

- reviews and amends underwriting plans and outlook as necessary;
- reduces exposure to market sectors where conditions have reached unattractive levels;
- purchases appropriate, cost-effective reinsurance cover to mitigate exposures;
- closely monitors changes in rates and terms and conditions;
- ensures through continuous capital management that it does not allow surplus capital to drive underwriting appetite;
- holds a daily underwriting meeting for LICL and LUK to discuss, inter alia, market conditions and opportunities;
- reviews all new and renewal business post-underwriting for Cathedral;
- regularly reviews output from BLAST to assess up-to-date profitability of classes and sectors;
- holds a quarterly Underwriting and Underwriting Risk Committee meeting to review underwriting strategy;
- holds a fortnightly RRC meeting to monitor estimated exposures to peak zone elemental losses and RDS; and
- holds regular documented meetings with regulators.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

II. INVESTMENT RISK

Movements in investments resulting from changes in interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Group's investment portfolio. Investment guidelines are established by the Investment Committee of the Board of Directors to manage this risk. Investment guidelines set parameters within which the Group's external investment managers must operate. Important parameters include guidelines on permissible assets, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Compliance with guidelines is monitored on a monthly basis. Any adjustments to the investment guidelines are approved by the IRRC and the Board of Directors.

The Group's fixed income portfolios are managed by four external investment managers. The Group also has a diversified portfolio of multi-strategy low volatility hedge funds, and a small equity portfolio. The performance of the managers is monitored on an ongoing basis.

Within the Group guidelines is a subset of guidelines for the portion of funds required to meet near-term obligations and cash flow needs following an extreme event. The subset of guidelines adds a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objectives for this portion of assets are capital preservation and providing liquidity to meet insurance and other near-term obligations. In addition to cash managed internally, funds held in the investment portfolio to cover this potential liability are designated as the 'core' portfolio and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core portfolio is invested in fixed income securities, fixed income funds and cash and cash equivalents. The core portfolio may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs.

Assets in excess of those required to be held in the core portfolio are typically held in the 'core plus' or the 'surplus' portfolios. The core plus portfolio is invested in fixed income securities and cash and cash equivalents. The surplus portfolio is invested in fixed income securities, principal protected equity linked notes, derivative instruments, cash and cash equivalents, equity securities and hedge funds. The assets in the core plus and surplus portfolios are not matched to specific insurance liabilities. In general, the duration of the surplus portfolio is slightly longer than the core or core plus portfolio, while maintaining a focus on high quality assets.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The investment portfolio is currently structured to perform better in a risk-on environment in order to mitigate the impact of a potential rise in interest rates. The Group endeavours to limit losses in risk-on, risk-off, and interest rate hike scenarios. The Group models various periods of significant stress in order to better understand the investment portfolio's risks and exposures. The scenarios represent what could, and most likely will occur (albeit not in the exact form of the scenarios, which are based on historic periods of volatility). The Group also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The IRRC meets at least quarterly to ensure that the Group's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The IRRC also helps further develop the risk tolerances to be incorporated into the ERM framework.

The investment mix of the fixed income portfolios is as follows:

	Core		Core plus		Surplus		Total	
As at 31 December 2014	**$m**	**%**	**$m**	**%**	**$m**	**%**	**$m**	**%**
– Short-term investments	**0.1**	**–**	**30.3**	**1.7**	**–**	**–**	**30.4**	**1.7**
– Fixed income funds	**15.4**	**0.8**	**–**	**–**	**–**	**–**	**15.4**	**0.8**
– U.S. treasuries	**145.3**	**8.0**	**129.0**	**7.1**	**88.7**	**4.9**	**363.0**	**20.0**
– Other government bonds	**49.5**	**2.7**	**1.7**	**0.1**	**32.8**	**1.8**	**84.0**	**4.6**
– U.S. municipal bonds	**0.9**	**–**	**0.3**	**–**	**27.7**	**1.5**	**28.9**	**1.5**
– U.S. government agency debt	**1.4**	**0.1**	**–**	**–**	**16.1**	**0.9**	**17.5**	**1.0**
– Asset backed securities	**89.1**	**4.9**	**28.8**	**1.6**	**66.2**	**3.6**	**184.1**	**10.1**
– U.S. government agency mortgage backed securities	**40.6**	**2.2**	**41.9**	**2.3**	**85.5**	**4.7**	**168.0**	**9.2**
– Non-agency mortgage backed securities	**9.5**	**0.5**	**4.0**	**0.2**	**7.3**	**0.4**	**20.8**	**1.1**
– Agency commercial mortgage backed securities	**–**	**–**	**0.3**	**–**	**2.1**	**0.1**	**2.4**	**0.1**
– Non-agency commercial mortgage backed securities	**4.6**	**0.3**	**14.3**	**0.8**	**20.7**	**1.1**	**39.6**	**2.2**
– Bank loans	**–**	**–**	**–**	**–**	**127.9**	**7.0**	**127.9**	**7.0**
– Corporate bonds	**307.9**	**17.0**	**153.5**	**8.5**	**243.7**	**13.5**	**705.1**	**39.0**
Total fixed income securities – AFS	**664.3**	**36.5**	**404.1**	**22.3**	**718.7**	**39.5**	**1,787.1**	**98.3**
Fixed income securities – at FVTPL	**–**	**–**	**–**	**–**	**31.2**	**1.7**	**31.2**	**1.7**
Total fixed income securities	**664.3**	**36.5**	**404.1**	**22.3**	**749.9**	**41.2**	**1,818.3**	**100.0**

	Core		Core plus		Surplus		Total	
As at 31 December 2013	$m	%	$m	%	$m	%	$m	%
– Short-term investments	145.4	7.3	75.8	3.8	9.8	0.5	231.0	11.6
– Fixed income funds	26.3	1.3	–	–	–	–	26.3	1.3
– U.S. treasuries	98.7	4.9	53.1	2.7	65.5	3.3	217.3	10.9
– Other government bonds	45.5	2.3	13.6	0.7	48.8	2.4	107.9	5.4
– U.S. municipal bonds	2.3	0.1	3.4	0.2	15.7	0.8	21.4	1.1
– U.S. government agency debt	11.0	0.5	3.5	0.2	83.7	4.2	98.2	4.9
– Asset backed securities	66.6	3.3	30.6	1.5	54.2	2.7	151.4	7.5
– U.S. government agency mortgage backed securities	39.3	2.0	71.3	3.6	141.4	7.0	252.0	12.6
– Non-agency mortgage backed securities	3.8	0.2	1.8	0.1	3.2	0.2	8.8	0.5
– Agency commercial mortgage backed securities	1.6	0.1	0.9	–	1.7	0.1	4.2	0.2
– Non-agency commercial mortgage backed securities	7.1	0.4	11.8	0.6	19.0	0.9	37.9	1.9
– Bank loans	–	–	–	–	107.8	5.4	107.8	5.4
– Corporate bonds	271.7	13.6	173.4	8.7	256.8	12.9	701.9	35.2
Total fixed income securities – AFS	719.3	36.0	439.2	22.1	807.6	40.4	1,966.1	98.5
Fixed income securities – at FVTPL	–	–	–	–	29.6	1.5	29.6	1.5
Total fixed income securities	719.3	36.0	439.2	22.1	837.2	41.9	1,995.7	100.0

Corporate bonds, fixed income securities at FVTPL, bank loans and other government bonds by country are as follows:

As at 31 December 2014	Financials $m	Other industries $m	Total corporate bonds and bank loans $m	Other government bonds $m	Total corporate bonds, bank loans and other government bonds $m
United States	**141.5**	**382.5**	**524.0**	**–**	**524.0**
United Kingdom	**49.8**	**37.4**	**87.2**	**0.4**	**87.6**
Canada	**29.7**	**19.7**	**49.4**	**24.6**	**74.0**
Australia	**34.1**	**7.5**	**41.6**	**9.8**	**51.4**
France	**10.3**	**14.6**	**24.9**	**8.4**	**33.3**
Netherlands	**13.2**	**11.4**	**24.6**	**6.4**	**31.0**
Germany	**2.8**	**15.8**	**18.6**	**9.8**	**28.4**
Norway	**15.5**	**0.8**	**16.3**	**5.0**	**21.3**
Japan	**10.2**	**7.7**	**17.9**	**–**	**17.9**
Switzerland	**15.6**	**0.7**	**16.3**	**–**	**16.3**
Sweden	**13.9**	**–**	**13.9**	**0.2**	**14.1**
Luxembourg	**–**	**7.2**	**7.2**	**–**	**7.2**
Mexico	**–**	**3.0**	**3.0**	**3.6**	**6.6**
Hong Kong	**–**	**4.9**	**4.9**	**–**	**4.9**
United Arab Emirates	**–**	**0.2**	**0.2**	**3.5**	**3.7**
Other	**4.6**	**9.6**	**14.2**	**12.3**	**26.5**
Total	**341.2**	**523.0**	**864.2**	**84.0**	**948.2**

As at 31 December 2013	Financials $m	Other industries $m	Total corporate bonds and bank loans $m	Other government bonds $m	Total corporate bonds, bank loans and other government bonds $m
United States	121.3	331.4	452.7	–	452.7
Canada	53.8	16.0	69.8	26.1	95.9
United Kingdom	41.3	52.2	93.5	0.4	93.9
Australia	22.9	9.7	32.6	10.0	42.6
France	7.4	24.4	31.8	6.6	38.4
Germany	3.8	13.3	17.1	15.3	32.4
Norway	29.0	0.8	29.8	2.0	31.8
Netherlands	14.1	10.9	25.0	5.8	30.8
Sweden	19.8	–	19.8	1.3	21.1
Switzerland	11.7	4.2	15.9	–	15.9
Belgium	–	7.4	7.4	–	7.4
Supranationals	7.2	–	7.2	–	7.2
Japan	2.6	2.6	5.2	–	5.2
Emerging market corporates	4.8	11.3	16.1	–	16.1
Emerging market sovereign	–	–	–	9.9	9.9
Emerging market agency	–	–	–	26.9	26.9
Other	4.0	11.4	15.4	3.6	19.0
Total	343.7	495.6	839.3	107.9	947.2

The sector allocation of the corporate bonds, fixed income securities at FVTPL and bank loans is as follows:

	2014		2013	
As at 31 December	$m	%	$m	%
Industrial	**487.3**	**56.5**	452.8	53.9
Financial	**338.3**	**39.1**	336.5	40.1
Utility	**35.7**	**4.1**	42.8	5.1
Supranationals	**2.9**	**0.3**	7.2	0.9
Total	**864.2**	**100.0**	839.3	100.0

The Group's net asset value is directly impacted by movements in the value of investments held. Values can be impacted by movements in interest rates, credit ratings, exchange rates and economic environment and outlook.

The Group's investment portfolio is mainly comprised of fixed income securities and cash and cash equivalents. The fixed income funds are overseas deposits held by Syndicate 2010 and Syndicate 3010 in trust for the benefit of the policyholders in those overseas jurisdictions. They consist of high quality, short duration fixed income securities. The Group also has a small equity portfolio. The estimated fair value of the Group's fixed income portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group's fixed income securities would tend to rise and vice versa.

The sensitivity of the price of fixed income securities, and certain derivatives, to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Group's fixed income and derivative investment portfolio to interest rate movements is detailed below, assuming linear movements in interest rates:

	2014		2013	
As at 31 December	$m	%	$m	%
Immediate shift in yield (basis points)				
100	**(30.6)**	**(1.7)**	(23.3)	(1.2)
75	**(22.9)**	**(1.3)**	(18.3)	(0.9)
50	**(15.3)**	**(0.8)**	(12.7)	(0.6)
25	**(7.6)**	**(0.4)**	(6.6)	(0.3)
(25)	**7.6**	**0.4**	6.8	0.3
(50)	**15.1**	**0.8**	14.0	0.7
(75)	**22.7**	**1.2**	21.3	1.1
(100)	**30.2**	**1.7**	28.9	1.4

The Group mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The Group may manage duration through the use of interest rate futures and swaptions from time to time. The duration of the core portfolio is matched to the modeled duration of the insurance reserves, within a permitted range. The permitted duration range for the core plus portfolio is between zero and four years and the surplus portfolio is between one and five years.

The durations of the externally managed portfolios are as follows:

As at 31 December	2014 years	2013 years
Core portfolio	**1.7**	1.2
Core plus portfolio	**1.9**	1.2
Surplus portfolio	**1.8**	1.9
Overall portfolio (including duration overlay)	**1.5**	1.1

The overall duration for fixed income, managed cash and cash equivalents and certain derivatives is 1.5 years (2013 – 1.0 year).

In addition to duration management, the Group uses VaR on a monthly basis to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modeling to capture the cash flows and embedded optionality of the portfolio. Securities are valued individually using market standard pricing models. These security valuations serve as the input to many risk analytics, including full valuation risk analyses, as well as parametric methods that rely on option adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. The annual VaR, at the 99th percentile confidence level, measures the minimum amount the assets should be expected to lose over a one year time horizon, under normal conditions, 1 per cent of the time.

The Group's annual VaR calculations are as follows:

	2014		2013	
As at 31 December	$m	% of shareholders' equity	$m	% of shareholders' equity
99th percentile confidence level	**38.1**	**2.8**	32.6	2.2

DERIVATIVE FINANCIAL INSTRUMENTS

The Group's investment guidelines permit the investment managers to utilise exchange-traded futures and options contracts, and OTC instruments including interest rate swaps, credit default swaps, interest rate swaptions and forward foreign currency contracts. Derivatives are used for yield enhancement, duration management, interest rate and foreign currency exposure management or to obtain an exposure to a particular financial market. These positions are monitored regularly. The Group may also use internally managed derivatives to mitigate interest rate risk and foreign currency exposures. The Group principally has exposure to derivatives related to the following types of risks: foreign currency risk, interest rate risk and credit risk.

The Group currently invests in the following derivative financial instruments:

a. Futures;
b. Options;
c. Forward foreign currency contracts;
d. Swaps; and
e. Swaptions;

The net gains or losses on the Group's derivative financial instruments recognised in the consolidated statement of comprehensive income are as follows:

As at 31 December 2014	Net other investment loss $m	Net realised losses $m	Net foreign exchange losses $m	Financing costs $m
Treasury futures	**–**	**(6.0)**	**–**	**–**
Forward foreign currency contracts	**–**	**–**	**(0.7)**	**–**
Interest rate swaps – investments	**(0.1)**	**(0.1)**	**–**	**–**
Interest rate swaps – debt	**–**	**–**	**–**	**(7.4)**
Swaptions	**(2.2)**	**(2.1)**	**–**	**–**
Total	**(2.3)**	**(8.2)**	**(0.7)**	**(7.4)**

As at 31 December 2013	Net other investment income $m	Net realised gains (losses) $m	Net foreign exchange gains $m	Financing gain $m
Eurodollar futures	–	0.3	–	–
Treasury futures	–	4.8	–	–
Forward foreign currency contracts	–	–	12.0	–
Interest rate swaps – investments	(0.1)	(0.3)	–	–
Interest rate swaps – debt	–	–	–	5.2
Credit default swaps	(0.3)	0.2	–	–
Swaptions	2.2	–	–	–
Total	1.8	5.0	12.0	5.2

The estimated fair values of the Group's derivative instruments are as follows:

	2014				2013		
As at 31 December	**Other investments $m**	**Other receivables $m**	**Other payables $m**	**Interest rate swaps $m**	Other investments $m	Other receivables $m	Interest rate swaps $m
Forward foreign currency contracts	**0.7**	**3.8**	**(1.8)**	**–**	–	0.1	–
Interest rate swaps – investments	**–**	**–**	**–**	**–**	(0.1)	–	–
Interest rate swaps – debt	**–**	**–**	**–**	**(4.9)**	–	–	(0.2)
Swaptions	**–**	**–**	**–**	**–**	4.9	–	–
Credit default swaps	**–**	**–**	**–**	**–**	(0.1)	–	–
Total	**0.7**	**3.8**	**(1.8)**	**(4.9)**	4.7	0.1	(0.2)

A. FUTURES

The Group's investment guidelines permit the use of futures which provide the Group with participation in market movements, determined by the underlying instrument on which the futures contract is based, without holding the instrument itself or the individual securities. This approach allows the Group more efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed income and money market securities. Exchange-traded futures contracts may also be used as substitutes for ownership of the physical securities.

All futures contracts are held on a non-leveraged basis. An initial margin is provided, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with unrealised gains and/or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed.

Futures contracts expose the Group to market risk to the extent that adverse changes occur in the estimated fair values of the underlying securities. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met. These include the use of clearing houses (thus reducing counterparty credit risk), the posting of margins and the daily settlement of unrealised gains and losses. The amount of credit risk is therefore considered low. The investment guidelines restrict the maximum notional futures position as a percentage of the investment portfolio's estimated fair value.

As at 31 December, the Group had the following exposure to treasury futures:

	2014			2013		
As at 31 December	**Notional long $m**	**Notional short $m**	**Net notional long (short) $m**	Notional long $m	Notional short $m	Net notional long (short) $m
Treasury futures	**89.1**	**169.9**	**(80.8)**	80.5	86.2	(5.7)
Total	**89.1**	**169.9**	**(80.8)**	80.5	86.2	(5.7)

A Eurodollar futures contract is an exposure to 3 month LIBOR, based on a commitment to a $1.0 million deposit. The estimated fair value is based on expectations of 3 month LIBOR, is determined using exchange-traded prices and was negligible as at 31 December 2014 and 2013. The contracts currently held by the Group will expire in 2015.

The sensitivity of the Group's Eurodollar futures position to interest rate movements is not material as at 31 December 2014 and 2013.

B. OPTIONS

The Group's investment guidelines permit the use of exchange-traded options on U.S. treasury futures and Eurodollar futures, which are used to manage exposure to interest rate risk and also to hedge duration. Exchange-traded options are held on a similar basis to futures and are subject to similar safeguards. Options are contractual arrangements that give the purchaser the right, but not the obligation, to either buy or sell an instrument at a specific set price at a predetermined future date. The Group may enter into option contracts that are secured by holdings in the underlying securities or by other means which permit immediate satisfaction of the Group's obligations. The notional amount of options is not material as at 31 December 2014 and 2013.

The investment guidelines also restrict the maximum notional options exposure as a percentage of the investment portfolio's estimated fair value.

C. FORWARD FOREIGN CURRENCY CONTRACTS

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a defined rate. The Group may utilise forward foreign currency contracts to gain exposure to a certain currency or market rate or manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments, debt and/or insurance related currency exposures.

Forward contracts expose the Group to credit, market and liquidity risks. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Group is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. Liquidity risk represents the possibility that the Group may not be able to rapidly adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. These risks are mitigated by requiring a minimum counterparty credit quality, restricting the maximum notional exposure as a percentage of the investment portfolio's estimated fair value and restricting exposures to foreign currencies, individually and in aggregate, as a percentage of the investment portfolio's estimated fair value.

The notional amount of a derivative contract is the underlying quantity upon which payment obligations are calculated. A long position is equivalent to buying the underlying currency whereas a short position is equivalent to having sold the underlying currency.

The Group has the following open forward foreign currency contracts:

	2014			2013		
As at 31 December	Notional long $m	Notional short $m	Net notional long (short) $m	Notional long $m	Notional short $m	Net notional long (short) $m
Canadian Dollar	**0.4**	**20.7**	**(20.3)**	0.5	–	0.5
Australian Dollar	**10.0**	**26.3**	**(16.3)**	10.5	28.5	(18.0)
British Pound	**–**	**8.1**	**(8.1)**	–	9.4	(9.4)
Brazilian Real	**–**	**–**	**–**	3.9	6.6	(2.7)
Chinese Renminbi	**–**	**–**	**–**	0.3	0.3	–
Malaysian Ringgit	**3.7**	**–**	**3.7**	3.9	–	3.9
Euro	**43.2**	**26.4**	**16.8**	52.6	24.5	28.1
Japanese Yen	**5.1**	**5.1**	**–**	–	–	–
Other[(1)]	**–**	**–**	**–**	0.3	0.3	–
Total	**62.4**	**86.6**	**(24.2)**	72.0	69.6	2.4

(1) Individual currencies included in 'other' have a notional payable and receivable of less than $2.0 million for 2013.

D. SWAPS

The Group's investment guidelines permit the use of interest rate swaps and credit default swaps which are primarily traded OTC. Swaps are recorded at estimated fair value at the end of each period with unrealised gains and losses recorded in the consolidated statement of comprehensive income.

Interest rate swaps are used to manage interest rate exposure, portfolio duration or capitalise on anticipated changes in interest rate volatility without investing directly in the underlying securities. Interest rate swap agreements entail the exchange of commitments to pay or receive interest, such as an exchange of floating rate payments for fixed rate payments, with respect to a notional amount of principal. These agreements involve elements of credit and market risk. Such risks include the possibility that there may not be a liquid market, that the counterparty may default on its obligation to perform, or that there may be unfavourable movements in interest rates. These risks are mitigated through defining a minimum counterparty credit quality and a maximum notional exposure to interest rate swaps as a percentage of the investment portfolio's estimated fair value. The notional amount of interest rate swaps held in the investment portfolio is not material as at 31 December 2014 and 2013. The notional amount of interest rate swaps held internally for the purposes of hedging the interest rate exposure on the Group's subordinated loan notes as at 31 December 2014 is $252.3 million (31 December 2013 – $259.8 million)

The Group uses credit default swaps as a way to add or reduce credit risk to an individual issuer, or a basket of issuers, without investing directly in their securities. As at 31 December 2014, the maximum amount of loss the Group could incur on its open credit default swaps was the notional value of $nil (31 December 2013 – $4.1 million).

E. SWAPTIONS

The Group uses swaptions, options on interest rate swaps, to manage interest rate risk exposure and portfolio and yield curve duration. The Group, as the purchaser of a swaption, is subject to the credit risk of the counterparty but is only subject to market risk to the extent of the premium paid. As a swaption writer, the Group is not subject to credit risk but is subject to market risk, due to its obligation to make payments under the terms of the contract. These risks are mitigated through maximum allowable notional exposures as a percentage of the investment portfolio's estimated fair value. The estimated fair value of these instruments is $nil as at 31 December 2014 (31 December 2013 – $4.9 million).

III. DEBT RISK

The Group has issued long-term debt as described in note 22. The LHL issued subordinated loan notes due in 2035 bear interest at a floating rate that is reset on a quarterly basis, plus a fixed margin of 3.70 per cent. The Group is subject to interest rate risk on the coupon payments of these subordinated loan notes. The Group has mitigated the interest rate risk by entering into interest rate swap contracts as follows:

	Maturity date	Interest hedged
Subordinated loan notes $97.0 million	15 December 2035	100%
Subordinated loan notes €24.0 million	15 June 2035	100%

The interest rate swaps expire on 15 December 2020, therefore the Group currently has no interest rate risk on the LHL issued subordinated loan notes due in 2035.

The senior unsecured notes maturing 1 October 2022 bear interest at a fixed rate of 5.70 per cent and therefore the Group is not exposed to interest rate risk on this long-term debt.

On the acquisition of Cathedral, the Group assumed subordinated loan notes as described in note 22. The Group is subject to interest rate risk on the coupon payment of this long-term debt. An increase of 100 basis points on the EURIBOR and LIBOR three month deposit rates would result in an increase in the interest expense on long term debt for the Group of approximately $0.8 million on an annual basis.

IV. CURRENCY RISK

The Group underwrites from two locations, Bermuda and London, although risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Group is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The Group is also exposed to non-retranslation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. Exchange gains and losses can impact income.

The Group hedges non-U.S. dollar liabilities primarily with non-U.S. dollar assets, but may also use derivatives to mitigate foreign currency exposures. The Group's main foreign currency exposure relates to its insurance obligations, cash holdings, investments, premiums receivable, dividends payable and the euro denominated subordinated loan notes long-term debt liabilities discussed in note 22. These positions may not be hedged depending on the currency outlook. See page 117 for a listing of the Group's open forward foreign currency contracts.

The Group's assets and liabilities, categorised by currency at their translated carrying amount are as follows:

Assets	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	173.4	42.8	27.2	28.6	31.5	303.5
Accrued interest receivable	7.7	–	–	–	–	7.7
Investments	1,885.7	18.8	41.2	–	41.2	1,986.9
Reinsurance assets	119.8	15.3	3.9	–	3.4	142.4
Deferred acquisition costs	81.8	4.8	10.9	0.6	6.5	104.6
Other receivables	10.8	25.1	–	–	0.7	36.6
Inwards premiums receivable from insureds and cedants	263.5	15.9	27.6	0.2	9.0	316.2
Corporation tax receivable	–	4.3	–	–	–	4.3
Investment in associates	52.7	–	–	–	–	52.7
Property, plant and equipment	0.3	8.8	–	–	–	9.1
Intangible assets	153.8	–	–	–	–	153.8
Total assets as at 31 December 2014	**2,749.5**	**135.8**	**110.8**	**29.4**	**92.3**	**3,117.8**

Liabilities	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	550.1	51.9	65.6	43.3	41.7	752.6
Unearned premiums	379.6	20.2	48.4	4.8	26.1	479.1
Insurance contracts – other payables	34.8	1.4	2.2	0.3	2.1	40.8
Amounts payable to reinsurers	30.0	2.4	1.0	–	0.8	34.2
Deferred acquisition costs ceded	0.1	–	–	–	–	0.1
Other payables	46.5	36.8	0.1	–	0.1	83.5
Deferred tax liability	17.4	21.3	–	–	–	38.7
Interest rate swap	1.6	–	3.3	–	–	4.9
Long-term debt	284.4	–	42.2	–	–	326.6
Total liabilities as at 31 December 2014	**1,344.5**	**134.0**	**162.8**	**48.4**	**70.8**	**1,760.5**

Assets	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	227.6	63.8	44.9	39.4	27.3	403.0
Accrued interest receivable	8.7	0.1	0.1	–	–	8.9
Investments	1,897.6	39.8	45.9	–	32.7	2,016.0
Reinsurance assets	170.3	34.6	2.3	0.3	1.2	208.7
Deferred acquisition costs	57.4	2.2	7.1	0.8	6.3	73.8
Other receivables	8.7	10.0	–	–	–	18.7
Inwards premiums receivable from insureds and cedants	232.1	18.0	26.7	0.6	11.0	288.4
Corporation tax receivable	–	5.6	–	–	–	5.6
Investment in associates	64.7	–	–	–	–	64.7
Property, plant and equipment	1.0	1.8	–	–	–	2.8
Intangible assets	177.2	–	–	–	–	177.2
Total assets as at 31 December 2013	2,845.3	175.9	127.0	41.1	78.5	3,267.8

Liabilities	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	569.9	74.1	91.1	77.7	40.6	853.4
Unearned premiums	348.4	22.8	35.3	7.4	28.2	442.1
Insurance contracts – other payables	24.2	0.1	2.6	–	2.0	28.9
Amounts payable to reinsurers	25.3	5.2	0.3	–	0.1	30.9
Deferred acquisition costs ceded	0.1	–	–	0.1	–	0.2
Other payables	47.7	32.9	0.1	–	–	80.7
Deferred tax liability	19.4	17.2	–	–	2.1	38.7
Interest rate swap	(1.4)	–	1.6	–	–	0.2
Long-term debt	284.4	–	47.9	–	–	332.3
Total liabilities as at 31 December 2013	1,318.0	152.3	178.9	85.2	73.0	1,807.4

The impact on net income of a proportional foreign exchange movement of 10.0 per cent up and 10.0 per cent down against the U.S. dollar at the year end spot rates would be an increase or decrease of $3.8 million (2013 – $2.3 million).

The 31 December 2014 losses and loss adjustment expenses include the equivalent of $21.0 million (2013 – $57.2 million) of Japanese Yen denominated insurance liabilities that are contained within the Group's outwards reinsurance programme which limits the Group's net liability to $30.0 million. The Group has therefore not hedged the foreign currency exposure in relation to these losses.

The Group uses forward foreign currency contracts for the purposes of managing currency exposures. See page 117 for details of the Group's open forward foreign currency contracts.

C. LIQUIDITY RISK

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost. The Group's main exposures to liquidity risk are with respect to its insurance and investment activities. The Group is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The Group can be exposed to daily calls on its available investment assets, principally to settle insurance claims.

Exposures in relation to insurance activities are as follows:

- large catastrophic events, or multiple medium-sized events in quick succession, resulting in a requirement to pay a large value of claims within a relatively short time frame;
- failure of insureds or cedants to meet their contractual obligations with respect to the payment of premiums in a timely manner; and
- failure of reinsurers to meet their contractual obligations with respect to the payment of claims in a timely manner.

Exposures in relation to investment activities are as follows:

- adverse market movements and/or a duration mismatch to obligations, resulting in investments being disposed of at a significant realised loss; and
- an inability to liquidate investments due to market conditions.

The maturity dates of the Group's fixed income portfolio are as follows:

As at 31 December 2014	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	**103.7**	**58.9**	**43.6**	**206.2**
Between one and two years	**168.1**	**117.1**	**42.4**	**327.6**
Between two and three years	**200.0**	**80.6**	**75.5**	**356.1**
Between three and four years	**20.9**	**19.6**	**65.3**	**105.8**
Between four and five years	**21.9**	**29.1**	**97.5**	**148.5**
Over five years	**5.9**	**9.5**	**243.8**	**259.2**
Asset backed and mortgage backed securities	**143.8**	**89.3**	**181.8**	**414.9**
Total fixed income securities	**664.3**	**404.1**	**749.9**	**1,818.3**

As at 31 December 2013	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	265.9	153.2	56.7	475.8
Between one and two years	162.2	68.7	101.5	332.4
Between two and three years	123.4	30.2	57.6	211.2
Between three and four years	30.7	34.3	153.5	218.5
Between four and five years	15.1	23.2	54.3	92.6
Over five years	3.6	13.2	194.1	210.9
Asset backed and mortgage backed securities	118.4	116.4	219.5	454.3
Total fixed income securities	719.3	439.2	837.2	1,995.7

The maturity profile of the financial liabilities of the Group is as follows:

As at 31 December 2014	Balance sheet $m	Years until liability becomes due – undiscounted values Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	**752.6**	**299.0**	**270.0**	**102.2**	**81.4**	**752.6**
Insurance contracts – other payables	**40.8**	**30.5**	**9.6**	**0.7**	**–**	**40.8**
Amounts payable to reinsurers	**34.2**	**34.2**	**–**	**–**	**–**	**34.2**
Other payables	**83.5**	**83.5**	**–**	**–**	**–**	**83.5**
Interest rate swap	**4.9**	**2.5**	**2.2**	**0.4**	**(0.2)**	**4.9**
Long-term debt	**326.6**	**13.2**	**35.3**	**38.0**	**546.6**	**633.1**
Total	**1,242.6**	**462.9**	**317.1**	**141.3**	**627.8**	**1,549.1**

As at 31 December 2013	Balance sheet $m	Years until liability becomes due – undiscounted values Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	853.4	381.2	312.4	96.7	63.1	853.4
Insurance contracts – other payables	28.9	26.6	1.5	0.8	–	28.9
Amounts payable to reinsurers	30.9	30.9	–	–	–	30.9
Other payables	80.7	80.7	–	–	–	80.7
Interest rate swap	0.2	2.5	3.5	(1.2)	(4.6)	0.2
Long-term debt	332.3	13.3	34.0	41.8	629.7	718.8
Total	1,326.4	535.2	351.4	138.1	688.2	1,712.9

Actual maturities of the above may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. The prepayment options for the Group's long-term debt are discussed in note 22. While the estimation of the ultimate liability for losses and loss adjustment expenses is complex and incorporates a significant amount of judgement, the timing of payment of losses and loss adjustment expenses is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience and management's judgement have been used to determine a likely settlement pattern.

The Group manages its liquidity risks via its investment strategy to hold high quality, highly liquid securities, sufficient to meet its insurance liabilities and other near-term liquidity requirements. The creation of the core portfolio with its subset of guidelines aims to ensure funds are readily available to meet potential insurance liabilities in an extreme event plus other near-term liquidity requirements. In addition, the Group has established asset allocation and maturity parameters within the investment guidelines such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. The Group monitors market changes and outlooks and reallocates assets as deemed necessary.

D. CREDIT RISK

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Group is exposed to credit risk on its fixed income investment portfolio and derivative instruments, its inwards premiums receivable from insureds and cedants, and on any amounts recoverable from reinsurers.

Credit risk on the fixed income portfolio is mitigated through the Group's policy to invest in instruments of high credit quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating of BBB-/Baa3 may comprise no more than 10.0 per cent of shareholders' equity. In addition, no one issuer, with the exception of U.S. government and agency securities, other G10 government guaranteed securities (excluding Italy) and Australian sovereign debt should exceed 5.0 per cent of shareholders' equity. The Group is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed income securities issued by the U.S. government and government agencies and other highly rated governments.

Credit risk on exchange-traded derivative instruments is mitigated by the use of clearing houses to reduce counterparty credit risk, require the posting of margins and settle unrealised gains and losses daily. Credit risk on OTC derivatives is mitigated by monitoring the creditworthiness of the counterparties and by requiring collateral to be posted for positions which have accrued gains by amounts exceeding predetermined thresholds.

Credit risk on inwards premiums receivable from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Group has established relationships, and by rigorous cash collection procedures. The Group also has a broker approval process in place. Binding authorities are subject to standard market controls including credit control. Credit risk from reinsurance recoverables is primarily managed by the review and approval of reinsurer security by the RRC, as discussed on page 108.

The table below presents an analysis of the Group's major exposures to counterparty credit risk, based on their rating. The table includes amounts due from policyholders and unsettled investment trades. The quality of these receivables is not graded but, based on management's historical experience, there is limited default risk associated with these amounts.

As at 31 December 2014	Other investments $m	Cash and fixed income securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	–	385.9	–	–
AA+, AA, AA-	–	765.8	–	–
A+, A, A-	0.7	642.4	85.0	103.0
BBB+, BBB, BBB-	–	193.1	–	0.1
Other[1]	–	134.6	273.1	9.3
Total	0.7	2,121.8	358.1	112.4

(1) Reinsurance recoveries classified as "other" include $4.2 million of reserves that are fully collateralised.

As at 31 December 2013	Other investments $m	Cash and fixed income securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	–	568.8	–	–
AA+, AA, AA-	–	865.9	–	–
A+, A, A-	4.9	665.8	97.0	148.1
BBB+, BBB, BBB-	(0.2)	186.8	–	0.3
Other[1]	–	111.4	220.9	34.6
Total	4.7	2,398.7	317.9	183.0

(1) Reinsurance recoveries classified as "other" include $33.2 million of reserves that are fully collateralised; $26.8 million of these are with ARL.

The two counterparties to the Group's long-term debt interest rate swaps are currently rated A+ and A- by S&P respectively.

The following table shows inwards premiums receivable that are past due but not impaired:

	2014 $m	2013 $m
Less than 90 days past due	**23.6**	13.5
Between 91 and 180 days past due	**6.7**	2.2
Over 180 days past due	**3.2**	3.6
Total	**33.5**	19.3

Provisions of $1.2 million (2013 – $0.2 million) have been made for impaired or irrecoverable balances and $1.0 million (2013 – $0.3 million) was released from the consolidated statement of comprehensive income in respect of bad debts. No provisions have been made against balances recoverable from reinsurers.

E. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. The Group and its subsidiaries have identified and evaluated their key operational risks and these are incorporated in the risk registers and modeled directly within BLAST. The Group has also established, and monitors compliance with, internal operational risk tolerances. The RRC reviews operational risk on at least an annual basis and operational risk is covered in the CRO's quarterly report to the LHL and Entity Boards and the Cathedral Risk Committee reporting.

In order to manage operational risks, the Group has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. The Group's Internal Audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through substantive testing. All higher risk areas are subject to an annual audit while compliance with tax operating guidelines is audited quarterly. Frequency of audits for all other areas varies from quarterly at the most frequent to a minimum of once every three years, on a rotational basis.

F. STRATEGIC RISK

The Group has identified several strategic risks. These include:

- the risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to adequately reflect the trading environment, resulting in an inability to optimise performance, including reputational risk;
- the risks of the failure to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required; and
- the risks of succession planning, staff retention and key man risks as strategic risks.

The Group has maintained elevated risk scores in the risk register relating to the integration of Cathedral into the Group's financial and actuarial reporting, but these will be reviewed in 2015.

I. BUSINESS PLAN RISKS

The Group addresses the risks associated with the planning and execution of the business plan through a combination of the following:

- an iterative annual forward-looking business planning process with cross departmental involvement, including the Cathedral team;
- evaluation of and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results;
- periodic review and re-forecasting as market conditions change; and
- feedback to senior management via the daily UMCC and fortnightly RRC meetings.

II. CAPITAL MANAGEMENT RISK

The total capital of the Group is as follows:

As at 31 December	2014 $m	2013 $m
Shareholders' equity	**1,356.8**	1,459.7
Long-term debt	**326.6**	332.3
Total capital	**1,683.4**	1,792.0
Intangible assets	**(153.8)**	(177.2)
Total tangible capital	**1,529.6**	1,614.8

Risks associated with the effectiveness of the Group's capital management, are mitigated as follows:

- regular monitoring of current and prospective regulatory and rating agency capital requirements;
- regular discussion with the Cathedral management team regarding Lloyd's capital requirements;
- oversight of capital requirements by the Board of Directors;
- ability to purchase sufficient, cost effective reinsurance;
- maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments; and
- participation in industry groups such as the International Underwriters Association, the Association of Bermuda Insurers and Reinsurers and the Lloyd's Market Association.

The Group reviews the level and composition of capital on an ongoing basis with a view to:

- maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- maximising the risk-adjusted return to shareholders within predetermined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal and regulatory capital requirements.

Capital is increased or returned as appropriate. The retention of earnings generated leads to an increase in capital. Capital raising can include debt or equity and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. Other capital management tools and products available to the Group may also be utilised. All capital actions require approval by the Board of Directors.

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements plus the capital requirements of the combination of a wide range of other risk categories. These approaches are used by management in decision making. The operating entities also conduct capital requirement assessments under internal measures and local regulatory requirements. Refer to note 30 for a discussion of the regulatory capital requirements of the Group's operating entities.

The Group's aim is to provide its shareholders with an RoE of 13.0 per cent in excess of a risk-free rate over the insurance cycle. The return is generated within a broad framework of risk parameters. The return is measured by management in terms of the IRR of the increase in FCBVS in the period adjusted for dividends accrued. This aim is a long-term goal, acknowledging that management expects both higher and lower results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. Management monitors these peaks and troughs – adjusting the Group's portfolio to make the most effective use of available capital and seeking to maximise the risk-adjusted return.

IRR achieved is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2005[1]	(3.2)	n/a	(3.2)
31 December 2006	17.8	14.0	14.0
31 December 2007	31.4	22.4	50.3
31 December 2008	7.8	17.9	63.7
31 December 2009	26.5	19.8	105.8
31 December 2010	23.3	20.3	152.4
31 December 2011	13.4	19.5	191.2
31 December 2012	16.7	19.2	242.7
31 December 2013	18.9	19.2	308.0
31 December 2014	13.9	18.9	375.3

(1) The returns shown are for the period from the date of incorporation, 12 October 2005, to 31 December 2005.

IRR achieved in excess of the three-month treasury yield is as follows:

	Annual return %	Compound annual return %	Inception to date return %
31 December 2005[1]	(3.4)	n/a	(3.4)
31 December 2006	13.0	9.2	9.2
31 December 2007	26.9	17.8	40.8
31 December 2008	6.4	14.3	52.7
31 December 2009	26.4	17.1	94.6
31 December 2010	23.2	18.2	141.1
31 December 2011	13.3	17.7	179.9
31 December 2012	16.6	17.7	231.3
31 December 2013	18.9	17.9	296.6
31 December 2014	13.9	17.7	363.8

(1) The returns shown are for the period from the date of incorporation, 12 October 2005, to 31 December 2005.

III. RETENTION RISKS

Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- the identification of key personnel with appropriate succession plans;
- identification of key team profit generators and function holders with targeted retention packages;
- documented recruitment procedures, position descriptions and employment contracts; and
- resource monitoring and the provision of appropriate compensation, including equity based compensation which vests over a defined time horizon, and training schemes.

1. GENERAL INFORMATION

The Group is a provider of global specialty insurance and reinsurance products with operations in the United Kingdom, Bermuda and Canada. LHL was incorporated under the laws of Bermuda on 12 October 2005. On 16 March 2009, LHL was added to the official list and its common shares were admitted to trading on the main market of the LSE; previously LHL's shares were listed on AIM, a subsidiary market of the LSE. Since 21 May 2007, LHL's shares have had a secondary listing on the BSX. LHL's registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda. LHL's head office is at Level 29, 20 Fenchurch Street, London, EC3M 3BY, United Kingdom.

The consolidated financial statements for the year ended 31 December 2014 include the Group's subsidiary companies, the Group's interest in associates, and the Group's share of syndicate assets and liabilities and income and expenses. A full listing of the Group's related parties can be found in note 27.

2. SEGMENTAL REPORTING

Management and the Board of Directors review the Group's business primarily by its five principal segments: Property, Energy, Marine, Aviation and Lloyd's. These segments are therefore deemed to be the Group's operating segments for the purposes of segment reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section on pages 104 to 107. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties and associates. There are no inter-segmental transactions and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile. Results included in the Lloyd's segment are from the date of completion of the Cathedral acquisition.

2. SEGMENTAL REPORTING CONTINUED

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2014	Property $m	Energy $m	Marine $m	Aviation $m	Lloyd's $m	Total $m
Gross premium written by geographical region						
Worldwide offshore	0.1	220.2	67.0	0.1	–	287.4
Europe	92.3	12.5	–	–	116.9	221.7
U.S. and Canada	33.4	3.7	–	53.1	82.3	172.5
Far East	34.6	0.9	–	–	24.1	59.6
Middle East	33.8	(0.1)	–	–	9.0	42.7
Worldwide, including the U.S. and Canada[1]	14.4	0.4	–	–	8.4	23.2
Worldwide, excluding the U.S. and Canada[2]	8.0	0.5	–	–	1.0	9.5
Rest of world	46.4	1.3	0.7	–	42.6	91.0
Total	263.0	239.4	67.7	53.2	284.3	907.6
Outwards reinsurance premiums	(34.3)	(47.8)	(9.7)	(8.1)	(64.9)	(164.8)
Change in unearned premiums	(9.9)	(22.5)	(0.3)	4.7	(9.0)	(37.0)
Change in unearned premiums ceded	2.7	0.6	–	2.8	3.7	9.8
Net premiums earned	221.5	169.7	57.7	52.6	214.1	715.6
Insurance losses and loss adjustment expenses	(12.0)	(55.2)	(27.6)	(32.9)	(110.2)	(237.9)
Insurance losses and loss adjustment expenses recoverable	(9.6)	13.3	–	–	7.7	11.4
Insurance acquisition expenses	(26.7)	(53.1)	(17.9)	(9.7)	(47.7)	(155.1)
Insurance acquisition expenses ceded	0.5	0.7	0.2	0.1	0.2	1.7
Net underwriting profit	173.7	75.4	12.4	10.1	64.1	335.7
Net unallocated income and expenses						(109.2)
Profit before tax						226.5
Net loss ratio	9.8%	24.7%	47.8%	62.5%	47.9%	31.7%
Net acquisition cost ratio	11.8%	30.9%	30.7%	18.3%	22.2%	21.4%
Expense ratio	–	–	–	–	–	15.6%
Combined ratio	21.6%	55.6%	78.5%	80.8%	70.1%	68.7%

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2013	Property $m	Energy $m	Marine $m	Aviation $m	Lloyd's $m	Total $m
Gross premium written by geographical region						
Worldwide offshore	–	191.9	61.3	0.1	–	253.3
Europe	36.4	0.4	0.1	–	1.5	38.4
U.S. and Canada	84.9	6.5	–	–	10.1	101.5
Far East	39.1	0.3	–	–	0.5	39.9
Middle East	16.5	0.2	–	–	–	16.7
Worldwide, including the U.S. and Canada[1]	85.4	7.2	0.9	48.8	8.7	151.0
Worldwide, excluding the U.S. and Canada[2]	18.7	0.4	–	–	0.3	19.4
Rest of world	52.4	3.0	0.7	–	3.4	59.5
Total	333.4	209.9	63.0	48.9	24.5	679.7
Outwards reinsurance premiums	(66.9)	(38.5)	(11.2)	(3.8)	(1.7)	(122.1)
Change in unearned premiums	(39.9)	27.8	9.9	(0.4)	26.9	24.3
Change in unearned premiums ceded	(7.8)	3.9	–	–	(9.9)	(13.8)
Net premiums earned	218.8	203.1	61.7	44.7	39.8	568.1
Insurance losses and loss adjustment expenses	(47.1)	(63.2)	(99.2)	(20.0)	(20.5)	(250.0)
Insurance losses and loss adjustment expenses recoverable	16.9	9.3	34.2	–	1.5	61.9
Insurance acquisition expenses	(37.8)	(56.9)	(21.7)	(10.1)	(8.6)	(135.1)
Insurance acquisition expenses ceded	8.4	0.7	0.2	–	–	9.3
Net underwriting profit	159.2	93.0	(24.8)	14.6	12.2	254.2
Net unallocated income and expenses						(36.1)
Profit before tax						218.1
Net loss ratio	13.8%	26.5%	105.3%	44.7%	47.7%	33.1%
Net acquisition cost ratio	13.4%	27.7%	34.8%	22.6%	21.6%	22.1%
Expense ratio	–	–	–	–	–	15.0%
Combined ratio	27.2%	54.2%	140.1%	67.3%	69.3%	70.2%

(1) Worldwide, including the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area.

(2) Worldwide, excluding the U.S. and Canada, comprises insurance and reinsurance contracts that insure or reinsure risks in more than one geographic area, but that specifically exclude the U.S. and Canada.

3. INVESTMENT RETURN

The total investment return for the Group is as follows:

For the year ended 31 December 2014	Net investment income and net other investment income $m	Net realised gains (losses) and impairments $m	Net change in unrealised gains /losses $m	Total investment return excluding foreign exchange $m	Foreign exchange gains (losses) $m	Total investment return including foreign exchange $m
Fixed income securities – AFS	**27.7**	**2.7**	**(1.8)**	**28.6**	**(9.5)**	**19.1**
Fixed income securities – at FVTPL	**1.6**	**–**	**–**	**1.6**	**–**	**1.6**
Equity securities – AFS	**0.5**	**(0.4)**	**(0.4)**	**(0.3)**	**–**	**(0.3)**
Hedge funds – at FVTPL	**2.1**	**–**	**–**	**2.1**	**–**	**2.1**
Other investments	**(2.3)**	**(8.2)**	**–**	**(10.5)**	**1.9**	**(8.6)**
Cash and cash equivalents	**0.4**	**–**	**–**	**0.4**	**(0.6)**	**(0.2)**
Total investment return	**30.0**	**(5.9)**	**(2.2)**	**21.9**	**(8.2)**	**13.7**

For the year ended 31 December 2013	Net investment income and net other investment income $m	Net realised gains (losses) and impairments $m	Net change in unrealised gains /losses $m	Total investment return excluding foreign exchange $m	Foreign exchange gains (losses) $m	Total investment return including foreign exchange $m
Fixed income securities – AFS	24.5	7.6	(33.8)	(1.7)	(3.1)	(4.8)
Fixed income securities – at FVTPL	(0.4)	–	–	(0.4)	–	(0.4)
Equity securities – AFS	0.1	–	0.5	0.6	–	0.6
Other investments	1.8	5.0	–	6.8	2.6	9.4
Cash and cash equivalents	0.8	–	–	0.8	(0.1)	0.7
Total investment return	26.8	12.6	(33.3)	6.1	(0.6)	5.5

Net realised gains (losses) and impairments includes impairment losses of $0.1 million (2013 – $nil) recognised on fixed income securities and $0.2 million (2013 – $nil) recognised on equity securities held by the Group.

Refer to page 116 in the risk disclosures section for the estimated fair values of the Group's derivative instruments. Realised gains and losses on futures and options contracts are included in net realised gains (losses) and impairments. The net impact of TBAs is $nil for all reporting periods.

Included in investment income is $5.7 million (2013 – $5.5 million) of investment management, accounting and custodian fees.

4. NET INSURANCE ACQUISITION EXPENSES

	2014 $m	2013 $m
Insurance acquisition expenses	**177.6**	132.4
Amortisation of value of in-force business acquired	**15.0**	8.5
Changes in deferred insurance acquisition expenses	**(30.8)**	(5.8)
Insurance acquisition expenses ceded	**(8.3)**	(8.7)
Changes in deferred insurance acquisition expenses ceded	**(0.1)**	(0.6)
Total net insurance acquisition expenses	**153.4**	125.8

A portion of the amortisation expense relating to the value of in-force business acquired has been allocated to insurance acquisition expenses, in line with the run-off profile of that business.

5. RESULTS OF OPERATING ACTIVITIES

Results of operating activities are stated after charging the following amounts:

	2014 $m	2013 $m
Depreciation on owned assets	**2.1**	1.4
Operating lease charges	**3.8**	2.4
Amortisation of value of in-force business	**8.4**	4.7
Auditors' remuneration		
– Group audit fees	**1.7**	1.3
– Other services	**0.3**	0.3
Total	**16.3**	10.1

During 2014, EY provided non-audit services in relation to taxation services, capital management projects, Cathedral group restructuring and services pursuant to the KCML subscription of shareholders' agreement. All fees paid to the Group's auditors for non-audit services are approved by the Group's Audit Committee.

In addition to the auditors' remuneration above, $0.5 million of fees were paid to the Group's auditors during the year ended 31 December 2013 in relation to their work performed in their role as Reporting Accountant for LHL's share issuance on 7 August 2013. The share issuance is discussed further in note 23. These fees are included in the Group's consolidated balance sheet as a deduction to share premium.

6. EMPLOYEE BENEFITS

	2014 $m	2013 $m
Wages and salaries	**27.4**	19.8
Pension costs	**3.0**	1.8
Bonus and other benefits	**23.7**	21.1
Total cash compensation	**54.1**	42.7
RSS – ordinary	**12.6**	13.9
RSS – bonus deferral	**3.2**	2.8
RSS – Cathedral acquisition grant	**7.5**	–
Total equity based compensation	**23.3**	16.7
Total employee benefits	**77.4**	59.4

EQUITY BASED COMPENSATION

The Group's primary equity based compensation scheme is its RSS. Previously the Group also issued options to employees pursuant to an LTIP, which has been closed to further issues, and also authorised and issued warrants at its formation in 2005 and 2006. Further details of the warrants can be found in note 24.

6. EMPLOYEE BENEFITS CONTINUED

RSS

On 22 December 2010, LHL's shareholders, in a Special General Meeting, voted in favour of the LHL Board's proposal to modify the existing RSS awards programme to a nil-cost options programme. The modification introduced an exercise period of ten years from the grant date for all outstanding and future RSS grants. Previously, all awards were automatically converted to shares on the vesting date.

The fair value of any TSR component of the nil-cost options is estimated using a stochastic model. For all other components the Black-Scholes model is used to estimate the fair value.

The following table lists the assumptions used in the stochastic model for the RSS awards granted during the years ended 31 December 2014 and 2013:

Assumptions	2014	2013
Dividend yield	**0.0%**	0.0%
Expected volatility[1]	**22.0%**	23.2%
Risk-free interest rate[2]	**1.0%**	0.40%
Expected average life of options	**3 years**	3 years
Share price	**$12.16**	$13.79

(1) The expected volatility of LHL and comparator companies' share prices are calculated based on the movement in the share prices over a period prior to the grant date, equal in length to the expected life of the award.

(2) The risk-free interest rate is consistent with 3 year UK government bond yields on the date of grant.

The calculation of the equity based compensation expense assumes forfeitures due to employee turnover of 10.0 per cent per annum prior to vesting, with subsequent adjustments to reflect actual experience.

RSS – ORDINARY

The ordinary RSS options vest after a three-year period and are dependent on certain performance criteria. A maximum of 75.0 per cent of the ordinary RSS options will vest only on the achievement of an LHL RoE in excess of a required amount. A maximum of 25.0 per cent of the ordinary RSS options will vest only on the achievement of an LHL TSR in excess of the 75th percentile of the TSR of a predefined comparator group. For all RSS options issued in 2012 and earlier the performance criteria was split as 50.0 per cent relating to RoE and 50.0 per cent relating to TSR. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

	Number of employee restricted stock	Number of non-employee restricted stock	Total number of restricted stock
Outstanding as at 31 December 2012	4,914,823	561,327	5,476,150
Granted	1,236,971	–	1,236,971
Exercised	(1,443,649)	(150,975)	(1,594,624)
Forfeited	(369,810)	–	(369,810)
Lapsed	(17,574)	(1,525)	(19,099)
Outstanding as at 31 December 2013	4,320,761	408,827	4,729,588
Granted	**1,157,761**	**–**	**1,157,761**
Exercised[1]	**(1,894,668)**	**(186,994)**	**(2,081,662)**
Forfeited	**(166,857)**	**–**	**(166,857)**
Lapsed[1]	**(262,781)**	**–**	**(262,781)**
Outstanding as at 31 December 2014	**3,154,216**	**221,833**	**3,376,049**
Exercisable as at 31 December 2014	**1,316,281**	**221,833**	**1,538,114**

(1) Richard Brindle, the Group's former CEO, retired on 30 April 2014. He was treated as a good leaver and in line with RSS plan rules his outstanding unvested performance awards were tested for performance at cessation. Based on the agreed upon vesting conditions 406,129 awards vested and 262,781 lapsed. Mr Brindle exercised these awards plus an additional 138,086 vested awards and opted to receive payment in cash. These vested awards have been treated as cash-settled under IFRS 2.

	2014			2013		
	Employee restricted stock	**Non-employee restricted stock**	**Total restricted stock**	Employee restricted stock	Non-employee restricted stock	Total restricted stock
Weighted average remaining contractual life	**7.9 years**	**6.8 years**	**7.9 years**	7.9 years	7.5 years	7.9 years
Weighted average fair value at date of grant during the year	**$12.25**	**–**	**$12.25**	$11.80	–	$11.80
Weighted average share price at date of exercise during the year	**$11.35**	**$10.66**	**$11.29**	$12.80	$12.44	$12.76

RSS – BONUS DEFERRAL

The bonus deferral RSS options vesting periods range from one to three years from the date of grant and do not have associated performance criteria for vesting. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

	Number of employee restricted stock	**Number of non-employee restricted stock**	**Total number of restricted stock**
Outstanding as at 31 December 2012	657,343	103,639	760,982
Granted	179,633	7,664	187,297
Exercised	(470,410)	(86,382)	(556,792)
Forfeited	(11,345)	–	(11,345)
Outstanding as at 31 December 2013	355,221	24,921	380,142
Granted	**278,608**	**–**	**278,608**
Exercised[1]	**(266,228)**	**(11,183)**	**(277,411)**
Forfeited	**(3,991)**	**–**	**(3,991)**
Outstanding as at 31 December 2014	**363,610**	**13,738**	**377,348**
Exercisable as at 31 December 2014	**74,079**	**–**	**74,079**

(1) Richard Brindle, the Group's former CEO, retired on 30 April 2014. He was treated as a good leaver and in line with RSS plan rules his 132,643 outstanding bonus deferral awards vested in full at cessation. Mr Brindle exercised these awards plus an additional 40,568 vested awards and opted to receive payment in cash. These vested awards have been treated as cash-settled under IFRS 2.

	2014			2013		
	Employee restricted stock	**Non-employee restricted stock**	**Total restricted stock**	Employee restricted stock	Non-employee restricted stock	Total restricted stock
Weighted average remaining contractual life	**8.4 years**	**7.6 years**	**8.4 years**	8.4 years	8.5 years	8.4 years
Weighted average fair value at date of grant during the year	**$12.14**	**–**	**$12.14**	$13.84	$12.71	$13.85
Weighted average share price at date of exercise during the year	**$11.40**	**$11.08**	**$11.39**	$12.59	$12.48	$12.57

6. EMPLOYEE BENEFITS CONTINUED

RSS – CATHEDRAL ACQUISITION

The Cathedral acquisition RSS options vesting periods range from three to five years and are dependent on certain performance criteria. A maximum of 75.0 per cent of the Cathedral acquisition RSS options will vest only on the achievement of a Cathedral combined ratio below a required amount. A maximum of 25.0 per cent of the Cathedral acquisition RSS options will vest only on the achievement of an LHL RoE in excess of a required amount. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise. The awards are not exercisable as at 31 December 2014.

	Total number of restricted stock
Outstanding as at 31 December 2012	–
Granted	**2,307,157**
Outstanding as at 31 December 2014 and 2013	**2,307,157**

	Total restricted stock
Weighted average remaining contractual life	**8.9 years**
Weighted average fair value at date of grant	**$13.01**

LTIP

The LTIP plan was closed on 4 January 2008. 25.0 per cent of LTIP options vested on each of the first, second, third and fourth anniversary of the grant date. There were no associated performance criteria. All outstanding LTIP options were exercised during 2013.

	Number	Weighted average exercise price
Outstanding as at 31 December 2013 and 2012	133,836	$0.98
Exercised	(133,836)	$0.80
Outstanding and exercisable as at 31 December 2014 and 2013	**–**	**–**

	2014	2013
Weighted average remaining contractual life	**–**	–
Weighted average share price at date of exercise during the year	**–**	$13.23

As approved by the Remuneration Committee on 18 November 2009, all option exercise prices were automatically adjusted on the dividend record date to neutralise the devaluing impact of dividends payments.

MANAGEMENT TEAM ORDINARY WARRANTS

Ordinary warrants were all fully vested by 31 December 2008. All ordinary warrants will expire ten years from the date of issue. The fair value of all ordinary warrants granted was $2.62 per warrant. Ordinary warrants granted and outstanding are:

	Number	Weighted average exercise price
Outstanding as at 31 December 2013 and 2012	6,184,399	$4.64
Exercised	(5,625,217)	$4.63
Outstanding and exercisable as at 31 December 2014	**559,182**	**$4.72**

	2014	2013
Weighted average remaining contractual life	**1.0 year**	2.0 years
Weighted average share price at date of exercise during the year	**$10.55**	–

MANAGEMENT TEAM PERFORMANCE WARRANTS

Performance warrants were all fully vested by 31 December 2009. All performance warrants will expire ten years from the date of issue. Vesting was dependent on achieving certain performance criteria. The fair value of all warrants granted was $2.62 per warrant. The exercise price of warrants was automatically adjusted for dividends declared prior to their vesting dates.

Performance warrants granted and outstanding are:

	Number	Weighted average exercise price
Outstanding as at 31 December 2013 and 2012	859,445	$3.62
Exercised	(741,965)	$3.62
Outstanding and exercisable as at 31 December 2014	**117,480**	**$3.62**

	2014	2013
Weighted average remaining contractual life	**1.0 year**	2.0 years
Weighted average share price at date of exercise during the year	**$11.07**	–

Refer to note 24 for further disclosure on non-management warrants outstanding.

7. FINANCING COSTS

	2014 $m	2013 $m
Interest expense on long-term debt	**15.5**	13.2
Net losses (gains) on interest rate swaps	**7.4**	(5.2)
Other financing costs	**0.9**	0.9
Total	**23.8**	8.9

Refer to note 22 for details of long-term debt and financing arrangements.

8. TAX CHARGE

BERMUDA

LHL, LICL and LUK have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 28 March 2035. At the present time no such taxes are levied in Bermuda.

UNITED KINGDOM

LHL and its UK subsidiaries are subject to normal UK corporation tax on all their taxable profits.

Tax charge	2014 $m	2013 $m
Corporation tax charge (credit) for the period	**0.4**	(2.6)
Adjustments in respect of prior period corporation tax	**0.2**	(1.1)
Deferred tax (credit) charge for the period	**(2.9)**	3.8
Tax rate change adjustment	**(0.8)**	(2.9)
Adjustments in respect of prior period deferred tax	**–**	(1.0)
Total tax credit	**(3.1)**	(3.8)

Tax reconciliation	2014 $m	2013 $m
Profit before tax	**226.5**	218.1
UK corporation tax at 21.5% (2013 – 23.3%)	**48.7**	50.7
Non-taxable income	**(59.8)**	(51.0)
Adjustments in respect of prior period	**0.2**	(2.1)
Differences related to equity based compensation	**(8.5)**	0.1
Other expense permanent differences	**2.2**	1.4
Tax rate change adjustment	**(0.8)**	(2.9)
Unused tax losses not recognised for deferred tax	**14.9**	–
Total tax credit	**(3.1)**	(3.8)

Due to the different taxpaying jurisdictions throughout the Group, the current tax charge as a percentage of the Group's profit before tax is 0.3 per cent (2013 – negative 1.7 per cent).

A corporation tax credit of $nil (2013 – $1.1 million) was recognised in other reserves which relates to tax deductions for equity based compensation award exercises in excess of the cumulative expense at the reporting date. Refer to note 16 for further details of tax credits included in other reserves.

Refer to note 10 for details of the tax expense related to the net change in unrealised gains/losses on investments that is included in accumulated other comprehensive income within shareholders' equity.

The UK corporation tax rate as at 31 December 2014 was 21.0 per cent (effective from 1 April 2014). Until 1 April 2014 the UK corporation tax rate of 23.0 per cent applied. On 17 July 2013 reductions to 21.0 per cent from 1 April 2014 and to 20.0 per cent from 1 April 2015 were enacted. These rates have been reflected in the closing deferred tax position on the balance sheet.

9. CASH AND CASH EQUIVALENTS

	2014 $m	2013 $m
Cash at bank and in hand	**210.6**	297.2
Cash equivalents	**92.9**	105.8
Total cash and cash equivalents	**303.5**	403.0

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Refer to note 22 for the cash and cash equivalent balances on deposit as collateral.

10. INVESTMENTS

As at 31 December 2014	Cost or amortised cost $m	Gross unrealised gain $m	Gross unrealised loss $m	Estimated fair value $m
Fixed income securities – AFS				
– Short-term investments	**30.4**	**–**	**–**	**30.4**
– Fixed income funds	**17.1**	**0.5**	**(2.2)**	**15.4**
– U.S. treasuries	**363.0**	**1.0**	**(1.0)**	**363.0**
– Other government bonds	**88.5**	**0.8**	**(5.3)**	**84.0**
– U.S. municipal bonds	**28.6**	**0.4**	**(0.1)**	**28.9**
– U.S. government agency debt	**17.3**	**0.3**	**(0.1)**	**17.5**
– Asset backed securities	**185.1**	**0.3**	**(1.3)**	**184.1**
– U.S. government agency mortgage backed securities	**165.9**	**2.8**	**(0.7)**	**168.0**
– Non-agency mortgage backed securities	**20.9**	**0.3**	**(0.4)**	**20.8**
– Agency commercial mortgage backed securities	**2.4**	**–**	**–**	**2.4**
– Non-agency commercial mortgage backed securities	**39.0**	**0.6**	**–**	**39.6**
– Bank loans	**131.2**	**0.1**	**(3.4)**	**127.9**
– Corporate bonds	**707.0**	**3.4**	**(5.3)**	**705.1**
Total fixed income securities – AFS	**1,796.4**	**10.5**	**(19.8)**	**1,787.1**
Fixed income securities – at FVTPL	**30.0**	**1.2**	**–**	**31.2**
Equity securities – AFS	**15.8**	**2.0**	**(2.0)**	**15.8**
Hedge funds – at FVTPL	**150.0**	**4.3**	**(2.2)**	**152.1**
Other investments	**–**	**0.7**	**–**	**0.7**
Total investments	**1,992.2**	**18.7**	**(24.0)**	**1,986.9**

10. INVESTMENTS CONTINUED

As at 31 December 2013	Cost or amortised cost $m	Gross unrealised gain $m	Gross unrealised loss $m	Estimated fair value $m
Fixed income securities – AFS				
– Short-term investments	231.0	0.1	(0.1)	231.0
– Fixed income funds	26.4	0.4	(0.5)	26.3
– U.S. treasuries	218.5	0.1	(1.3)	217.3
– Other government bonds	111.1	0.8	(4.0)	107.9
– U.S. municipal bonds	21.3	0.3	(0.2)	21.4
– U.S. government agency debt	99.0	–	(0.8)	98.2
– Asset backed securities	150.4	1.1	(0.1)	151.4
– U.S. government agency mortgage backed securities	252.5	3.5	(4.0)	252.0
– Non-agency mortgage backed securities	8.7	0.1	–	8.8
– Agency commercial mortgage backed securities	4.1	0.1	–	4.2
– Non-agency commercial mortgage backed securities	36.9	1.0	–	37.9
– Bank loans	107.3	0.6	(0.1)	107.8
– Corporate bonds	698.0	6.0	(2.1)	701.9
Total fixed income securities – AFS	1,965.2	14.1	(13.2)	1,966.1
Fixed income securities – at FVTPL	30.0	–	(0.4)	29.6
Equity securities – AFS	15.1	0.8	(0.3)	15.6
Other investments	2.6	3.5	(1.4)	4.7
Total investments	2,012.9	18.4	(15.3)	2,016.0

Accumulated other comprehensive income is in relation to the Group's AFS fixed income and equity securities and is as follows:

	2014 $m	2013 $m
Gross unrealised gains	**12.5**	14.9
Gross unrealised losses	**(21.8)**	(13.5)
Net foreign exchange losses on fixed income – AFS	**10.3**	1.8
Tax provision	**(0.2)**	(0.3)
Accumulated other comprehensive income	**0.8**	2.9

Fixed income maturities are presented in the risk disclosures section on page 121. Refer to note 22 for the investment balances in trusts in favour of ceding companies and on deposit as collateral.

The fair value of securities in the Group's investment portfolio is estimated using the following techniques:

LEVEL (I)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group determines securities classified as level (i) to include highly liquid U.S. treasuries, certain highly liquid short-term investments and quoted equity securities.

LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data. Instruments included in level (ii) are valued via independent external sources using modeled or other valuation methods. Such methods are typically industry accepted standard and include:

- broker-dealer quotes;
- pricing models or matrix pricing;
- present values;
- future cash flows;
- yield curves;
- interest rates;
- prepayment speeds; and
- default rates.

Other similar quoted instruments or market transactions may be used.

The Group determines securities classified as level (ii) to include short-term and fixed maturity investments such as:

- Non-U.S. government bonds;
- U.S. municipal bonds;
- U.S. government agency debt;
- Asset backed securities;
- U.S. government agency mortgage backed securities;
- Non-agency mortgage backed securities;
- Bank loans;
- Corporate bonds; and
- OTC derivatives, including futures, options, forward foreign exchange contracts, interest rate swaps, credit default swaps and swaptions.

10. INVESTMENTS CONTINUED

LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data. The Group classifies hedge funds as Level (iii) assets as the valuation technique incorporates both observable and unobservable inputs.

The estimated fair values of the Group's hedge funds are determined using a combination of the most recent NAVs provided by each fund's independent administrator and the estimated performance provided by each hedge fund manager. Independent administrators provide monthly reported NAVs with up to a one-month delay in valuation. The most recent NAV available for each hedge fund is adjusted for the estimated performance, as provided by the fund manager, between the NAV date and the reporting date. Estimated fair values incorporating these performance estimates have not been significantly different from subsequent NAVs. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, we would not anticipate any material variance between estimated valuations.

The Group determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the Group's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation, and the effectiveness, of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by management. In accordance with their pricing policy, various recognised reputable pricing sources are used including index providers, broker-dealers, and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' and custodian's pricing. The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending 31 December.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period based on the lowest level input that is significant to the fair value measurement as a whole.

The fair value hierarchy of the Group's investment holdings is as follows:

As at 31 December 2014	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed income securities – AFS				
– Short-term investments	**30.3**	**0.1**	**–**	**30.4**
– Fixed income funds	**–**	**15.4**	**–**	**15.4**
– U.S. treasuries	**363.0**	**–**	**–**	**363.0**
– Other government bonds	**–**	**84.0**	**–**	**84.0**
– U.S. municipal bonds	**–**	**28.9**	**–**	**28.9**
– U.S. government agency debt	**–**	**17.5**	**–**	**17.5**
– Asset backed securities	**–**	**184.1**	**–**	**184.1**
– U.S. government agency mortgage backed securities	**–**	**168.0**	**–**	**168.0**
– Non-agency mortgage backed securities	**–**	**20.8**	**–**	**20.8**
– Agency commercial mortgage backed securities	**–**	**2.4**	**–**	**2.4**
– Non-agency commercial mortgage backed securities	**–**	**39.6**	**–**	**39.6**
– Bank loans	**–**	**127.9**	**–**	**127.9**
– Corporate bonds	**–**	**705.1**	**–**	**705.1**
Total fixed income securities – AFS	**393.3**	**1,393.8**	**–**	**1,787.1**
Fixed income securities – at FVTPL	**–**	**31.2**	**–**	**31.2**
Equity securities – AFS	**–**	**15.8**	**–**	**15.8**
Hedge funds – at FVTPL	**–**	**–**	**152.1**	**152.1**
Other investments	**–**	**0.7**	**–**	**0.7**
Total investments	**393.3**	**1,441.5**	**152.1**	**1,986.9**

As at 31 December 2013	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed income securities – AFS				
– Short-term investments	153.5	77.5	–	231.0
– Fixed income funds	–	26.3	–	26.3
– U.S. treasuries	217.3	–	–	217.3
– Other government bonds	–	107.9	–	107.9
– U.S. municipal bonds	–	21.4	–	21.4
– U.S. government agency debt	–	98.2	–	98.2
– Asset backed securities	–	151.4	–	151.4
– U.S. government agency mortgage backed securities	–	252.0	–	252.0
– Non-agency mortgage backed securities	–	8.8	–	8.8
– Agency commercial mortgage backed securities	–	4.2	–	4.2
– Non-agency commercial mortgage backed securities	–	37.9	–	37.9
– Bank loans	–	107.8	–	107.8
– Corporate bonds	–	701.9	–	701.9
Total fixed income securities – AFS	370.8	1,595.3	–	1,966.1
Fixed income securities – at FVTPL	–	29.6	–	29.6
Equity securities – AFS	15.6	–	–	15.6
Other investments	–	4.7	–	4.7
Total investments	386.4	1,629.6	–	2,016.0

There have been no transfers between Levels (i) and (ii), therefore no reconciliations have been presented.

The table below analyses the movements in assets classified as Level (iii) investments during the year ended 31 December 2014:

	2014 $m
As at 31 December 2013	**–**
Purchases	**150.0**
Total net gains recognised in other investment income in profit or loss	**2.1**
As at 31 December 2014	**152.1**

During the year ended 31 December 2014, the Group recognised $4.3 million of unrealised gains in other investment income in profit or loss for Level (iii) investments held at the reporting date. During the year ended 31 December 2013, the Group did not hold any Level (iii) investments.

11. INTERESTS IN STRUCTURED ENTITIES

A. CONSOLIDATED STRUCTURED ENTITIES

The Group's only consolidated structured entity is the EBT. The Group provides capital contributions to the EBT to enable it to meet its obligations to employees under the equity based compensation plans. The Group has a contractual agreement which may require it to provide financial support to the EBT.

B. UNCONSOLIDATED STRUCTURED ENTITIES IN WHICH THE GROUP HAS AN INTEREST

As part of its investment activities, the Group invests in unconsolidated structured entities. As at December 2014, the Group's total interest in unconsolidated structured entities was $619.7 million. The Group does not sponsor any of the unconsolidated structured entities.

11. INTERESTS IN STRUCTURED ENTITIES CONTINUED

As at 31 December 2014, a summary of the Group's interest in unconsolidated structured entities is as follows:

As at 31 December 2014	Investments $m	Interest in associates $m	Total $m
Fixed income securities			
– Asset backed securities	**184.1**	**–**	**184.1**
– U.S. government agency mortgage backed securities	**168.0**	**–**	**168.0**
– Non-agency mortgage backed securities	**20.8**	**–**	**20.8**
– Agency commercial mortgage backed securities	**2.4**	**–**	**2.4**
– Non-agency commercial mortgage backed securities	**39.6**	**–**	**39.6**
Total fixed income securities	**414.9**	**–**	**414.9**
Investment funds			
– Hedge funds	**152.1**	**–**	**152.1**
Total investment funds	**152.1**	**–**	**152.1**
Specialised investment vehicles			
– KHL (see note 17)	**–**	**52.7**	**52.7**
Total	**567.0**	**52.7**	**619.7**

The fixed income securities structured entities are created to meet specific investment needs of borrowers and investors which cannot be met from standardised financial instruments available in the capital markets. As such, they provide liquidity to the borrowers in these markets and provide investors with an opportunity to diversify risk away from standard fixed income securities. Whilst individual securities may differ in structure, the principles of the instruments are broadly the same and it is appropriate to aggregate the investments into the categories detailed above.

The risk that the Group faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the balance sheet in that fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in term structure of interest rates which change investors expectation of the cash flows associated with the instrument and, therefore, its value in the market. Risk management disclosure for these financial instruments and other investments is provided on pages 111 to 123. The total assets of these entities are not considered meaningful for the purpose of understanding the related risks and therefore have not been presented.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that Group holds as at 31 December 2014. Generally, default rates would have to increase substantially from their current level before the Group would suffer a loss and this assessment is made prior to investing and continually through the holding period for the security.

The Group has not provided any other financial or other support in relation to any other to that described above as at the reporting date, and there are no intentions to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

12. REINSURANCE ASSETS AND LIABILITIES

	Unearned premiums ceded $m	Amounts payable to reinsurers $m	Other receivables $m	Total $m
As at 31 December 2012	11.5	(30.6)	4.5	(14.6)
Acquired in the Cathedral acquisition	17.2	(22.0)	13.7	8.9
Net deferral for prior years[1]	(23.3)	–	–	(23.3)
Net deferral for current year	9.5	–	–	9.5
Other	–	21.7	(7.4)	14.3
As at 31 December 2013	14.9	(30.9)	10.8	(5.2)
Net deferral for prior years	**(14.9)**	**–**	**–**	**(14.9)**
Net deferral for current year	**24.7**	**–**	**–**	**24.7**
Other	**–**	**(3.3)**	**(5.5)**	**(8.8)**
As at 31 December 2014	**24.7**	**(34.2)**	**5.3**	**(4.2)**

(1) Includes movement in deferral for reinsurance assets and liabilities acquired in the acquisition of Cathedral.

13. LOSSES AND LOSS ADJUSTMENT EXPENSES

	Losses and loss adjustment expenses $m	Reinsurance recoveries $m	Net losses and loss adjustment expenses $m
As at 31 December 2012	537.4	(73.0)	464.4
Assumed in the Cathedral acquisition	331.5	(107.3)	224.2
Net incurred losses for:			
Prior years	41.9	(57.8)	(15.9)
Current year	208.1	(4.1)	204.0
Exchange adjustments	(13.6)	(0.7)	(14.3)
Incurred losses and loss adjustment expenses	236.4	(62.6)	173.8
Net paid losses for:			
Prior years	200.3	(59.8)	140.5
Current year	51.6	(0.1)	51.5
Paid losses and loss adjustment expenses	251.9	(59.9)	192.0
As at 31 December 2013	853.4	(183.0)	670.4
Net incurred losses for:			
Prior years	**(40.8)**	**6.4**	**(34.4)**
Current year	**278.7**	**(17.8)**	**260.9**
Exchange adjustments	**(11.8)**	**0.8**	**(11.0)**
Incurred losses and loss adjustment expenses	**226.1**	**(10.6)**	**215.5**
Net paid losses for:			
Prior years	**265.8**	**(76.4)**	**189.4**
Current year	**61.1**	**(4.8)**	**56.3**
Paid losses and loss adjustment expenses	**326.9**	**(81.2)**	**245.7**
As at 31 December 2014	**752.6**	**(112.4)**	**640.2**

Further information on the calculation of loss reserves and the risks associated with them is provided in the risk disclosures section from page 108. The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in the Group's loss reserves. The Group believes that the loss reserves established are adequate, however a 20.0 per cent increase in estimated losses would lead to a $150.5 million (2013 – $170.7 million) increase in gross loss reserves. There was no change to the Group's reserving methodology during the year. The split of losses and loss adjustment expenses between notified outstanding losses, additional case reserves assessed by management and IBNR is shown below:

	2014		2013	
As at 31 December	**$m**	**%**	$m	%
Outstanding losses	**369.3**	**49.1**	501.1	58.7
Additional case reserves	**159.7**	**21.2**	115.0	13.5
Losses incurred but not reported	**223.6**	**29.7**	237.3	27.8
Total	**752.6**	**100.0**	853.4	100.0

The Group's reserve for unpaid losses and loss adjustment expenses as at 31 December 2014 and 2013 had an estimated duration of approximately two years.

13. LOSSES AND LOSS ADJUSTMENT EXPENSES CONTINUED

CLAIMS DEVELOPMENT

The development of insurance liabilities is indicative of the Group's ability to estimate the ultimate value of its insurance liabilities. The Group began writing insurance and reinsurance business in December 2005. With the acquisition of Cathedral, the Group has assumed loss reserves relating to 2001 and subsequent years.

Accident year	2006 and prior $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	Total $m
Group gross losses[1]										
Estimate of ultimate liability[2]										
At end of accident year	39.1	154.8	444.6	163.3	297.4	397.0	250.3	280.0	274.8	
One year later	34.7	131.2	417.4	107.8	209.4	371.9	350.4	259.8		
Two years later	32.0	103.5	377.5	73.1	204.2	447.0	338.8			
Three years later	27.6	94.8	345.1	66.0	235.8	450.4				
Four years later	27.2	83.5	340.8	89.1	229.4					
Five years later	24.4	81.0	355.6	81.7						
Six years later	24.0	87.6	350.9							
Seven years later	60.6	87.8								
Eight years later	58.6									
Current estimate of cumulative liability	**58.6**	**87.8**	**350.9**	**81.7**	**229.4**	**450.4**	**338.8**	**259.8**	**274.8**	**2,132.2**
Payments made	**(26.0)**	**(78.9)**	**(337.6)**	**(57.0)**	**(188.6)**	**(262.1)**	**(233.3)**	**(135.0)**	**(61.1)**	**(1,379.6)**
Total Group gross liability	**32.6**	**8.9**	**13.3**	**24.7**	**40.8**	**188.3**	**105.5**	**124.8**	**213.7**	**752.6**

(1) Balances at 31 December 2013 include the addition of losses assumed in the Cathedral acquisition on 7 November 2013.

(2) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2014.

Accident year	2006 and prior $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	Total $m
Reinsurance[1]										
Estimate of ultimate recovery[2]										
At end of accident year	–	3.6	40.7	1.6	33.8	56.2	48.9	9.9	17.8	
One year later	–	6.2	47.1	1.3	23.6	52.6	121.8	8.9		
Two years later	–	4.0	43.1	0.7	24.1	92.4	122.0			
Three years later	–	3.5	40.9	0.7	33.5	88.9				
Four years later	–	3.3	38.1	10.0	34.4					
Five years later	–	3.1	40.7	7.0						
Six years later	–	4.0	39.8							
Seven years later	25.1	4.1								
Eight years later	25.1									
Current estimate of cumulative recovery	**25.1**	**4.1**	**39.8**	**7.0**	**34.4**	**88.9**	**122.0**	**8.9**	**17.8**	**348.0**
Payments made	**(2.3)**	**(3.5)**	**(38.7)**	**(1.9)**	**(28.0)**	**(42.2)**	**(110.6)**	**(3.6)**	**(4.8)**	**(235.6)**
Total Group gross recovery	**22.8**	**0.6**	**1.1**	**5.1**	**6.4**	**46.7**	**11.4**	**5.3**	**13.0**	**112.4**

(1) Balances at 31 December 2013 include the addition of losses assumed in the Cathedral acquisition on 7 November 2013.

(2) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2014.

Accident year	2006 and prior $m	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	Total $m
Net Group losses[1]										
Estimate of ultimate liability[2]										
At end of accident year	39.1	151.2	403.9	161.7	263.6	340.8	201.4	270.1	257.0	
One year later	34.7	125.0	370.3	106.5	185.8	319.3	228.6	250.9		
Two years later	32.0	99.5	334.4	72.4	180.1	354.6	216.8			
Three years later	27.6	91.3	304.2	65.3	202.3	361.5				
Four years later	27.2	80.2	302.7	79.1	195.0					
Five years later	24.4	77.9	314.9	74.7						
Six years later	24.0	83.6	311.1							
Seven years later	35.5	83.7								
Eight years later	33.5									
Current estimate of cumulative liability	**33.5**	**83.7**	**311.1**	**74.7**	**195.0**	**361.5**	**216.8**	**250.9**	**257.0**	**1,784.2**
Payments made	**(23.7)**	**(75.4)**	**(298.9)**	**(55.1)**	**(160.6)**	**(219.9)**	**(122.7)**	**(131.4)**	**(56.3)**	**(1,144.0)**
Total Group net liability	**9.8**	**8.3**	**12.2**	**19.6**	**34.4**	**141.6**	**94.1**	**119.5**	**200.7**	**640.2**

(1) Balances at 31 December 2013 include the addition of losses assumed in the Cathedral acquisition on 7 November 2013.

(2) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2014.

The inherent uncertainty in reserving gives rise to favourable or adverse development on the established reserves. The total favourable development on net losses and loss adjustment expenses, excluding the impact of foreign exchange revaluations, was as follows:

	2014 $m	2013 $m
2006 accident year and prior	**1.8**	(0.7)
2007 accident year	**(0.3)**	(0.9)
2008 accident year	**3.6**	(4.1)
2009 accident year	**4.3**	2.0
2010 accident year	**5.7**	1.4
2011 accident year	**(6.1)**	(4.1)
2012 accident year	**11.1**	22.3
2013 accident year	**14.3**	–
Total favourable development	**34.4**	15.9

The favourable prior year development in 2014 arose primarily from IBNR releases due to lower than expected reported losses and releases on settlement of outstanding losses, offset by adverse development on prior accident year mid-sized marine and energy claims. The favourable prior year development in 2013 arose primarily from IBNR releases due to fewer than expected reported losses, a benefit from the settlement on our North East ILW in relation to Sandy and releases on the settlement of outstanding losses. This favourable development was offset to an extent by unfavourable development of $33.5 million after reinsurance on the Costa Concordia marine loss.

13. LOSSES AND LOSS ADJUSTMENT EXPENSES CONTINUED

During 2012 the Group was impacted by significant losses in relation to the total loss of the Costa Concordia. Management's current best estimate of the ultimate net loss in relation to this event is $100.7 million. The 90th percentile of the loss distribution for this estimate is $103.3 million with the 95th percentile being $104.2 million. Significant uncertainty exists on the eventual ultimate loss in relation to this event.

During 2012 the Group was also impacted by significant losses in relation to Sandy. Management's current best estimate of the ultimate net loss in relation to this event is $24.7 million. The 90th percentile of the loss distribution for this estimate is $48.7 million with the 95th percentile being $50.6 million. Significant uncertainty exists on the eventual ultimate loss.

The Group's estimated ultimate net losses, after reinstatement premiums, for these significant events are as follows:

	Sandy $m	Costa Concordia $m
Net ultimate losses as at 31 December 2012	44.5	59.2
Assumed in the Cathedral acquisition	6.8	–
Change in insurance losses and loss adjustment expenses	3.4	67.7
Change in insurance losses and loss adjustment expenses recoverable	(23.6)	(34.2)
Change in reinstatement premium	(0.4)	4.4
Net ultimate losses as at 31 December 2013	30.7	97.1
Change in insurance losses and loss adjustment expenses	**(6.3)**	**3.9**
Change in insurance losses and loss adjustment expenses recoverable	**–**	**–**
Change in reinstatement premium	**0.3**	**(0.3)**
Net ultimate losses as at 31 December 2014	**24.7**	**100.7**

14. INSURANCE, REINSURANCE AND OTHER RECEIVABLES

All receivables are considered current other than $71.3 million (2013 – $52.1 million) of inwards premiums receivable related to multi-year contracts. The carrying value approximates fair value due to the short-term nature of the receivables. There are no significant concentrations of credit risk within the Group's receivables.

15. DEFERRED ACQUISITION COSTS AND DEFERRED ACQUISITION COSTS CEDED

The reconciliation between opening and closing deferred acquisition costs incurred and ceded is shown below:

	Incurred $m	Ceded $m	Net $m
As at 31 December 2012	68.0	(0.8)	67.2
Net deferral during the year	132.4	(8.7)	123.7
(Expense) income for the year	(126.6)	9.3	(117.3)
As at 31 December 2013	73.8	(0.2)	73.6
Net deferral during the year	**177.6**	**(8.3)**	**169.3**
(Expense) income for the year	**(146.8)**	**8.4**	**(138.4)**
As at 31 December 2014	**104.6**	**(0.1)**	**104.5**

16. PROVISION FOR DEFERRED TAX

	2014 $m	2013 $m
Equity based compensation	**3.2**	8.5
Claims equalisation reserves	**(15.1)**	(16.7)
Syndicate underwriting profits	**(13.3)**	(11.2)
Syndicate participation rights	**(16.0)**	(16.4)
Other temporary differences	**(0.2)**	(5.1)
Tax losses carried forward	**2.7**	2.2
Net deferred tax liability	**(38.7)**	(38.7)

A deferred tax charge of $4.4 million (2013 – $0.5 million credit) was recognised in other reserves which relates to deferred tax credits for unexercised equity based compensation awards where the estimated market value is in excess of the cumulative expense at the reporting date.

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely. It is anticipated that sufficient taxable profits will be available within the Group in 2015 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse.

A deferred tax asset of $18.7 million (2013 – $3.2 million) has not been recognised in relation to unused tax losses carried forward in LHL, as at present the related tax benefit is not expected to be realised through future taxable profits.

All deferred tax assets and liabilities are classified as non-current.

17. INVESTMENT IN ASSOCIATES

KHL

The Group holds a 10.0 per cent interest in the preference shares of each segregated account of KHL, a company incorporated in Bermuda. KHL's operating subsidiary, KRL, is authorised by the BMA as a Special Purpose Insurer. KRL commenced writing insurance business on 1 January 2014. As at 31 December 2014, the carrying value of the Group's investment in KHL was $52.7 million (31 December 2013 – $20.1 million). The Group's share of comprehensive income for KHL for the period was $4.7 million (31 December 2013 – $nil). Key financial information for KHL is as follows:

	2014 $m	2013(1) $m
Assets	**551.2**	201.2
Liabilities	**24.6**	–
Shareholders' equity	**526.6**	201.2
Gross premium earned	**79.8**	–
Comprehensive income	**47.0**	–

(1) From the date of incorporation, 4 June 2013.

The Group has the power to participate in operational and financial policy decisions of KHL and KRL through the provision of essential technical information by KCML and has therefore classified its investment in KHL as an investment in associate.

Refer to Note 27 for details of transactions between the Group, KHL, KRL and KCML.

During the year ended 31 December 2014, AHL, ARL, SHL and SRL were placed in member's voluntary liquidation. As at 31 December 2014, remaining assets and liabilities in AHL, ARL, SHL and SRL were negligible. As at 31 December 2014, the carrying value of the Group's investment in AHL is $nil (31 December 2013 – $32.4 million). As at 31 December 2014, the carrying value of the Group's investment in SHL is $nil (31 December 2013 – $12.2 million). The Group's share of comprehensive income for AHL for the year ended was $1.1 million (31 December 2013 – $6.6 million). The Group's share of comprehensive income for SHL for the year ended was $0.1 million (31 December 2013 – $2.6 million).

Refer to Note 27 for details of transactions between the Group, AHL, ARL, SHL and SRL.

18. PROPERTY, PLANT AND EQUIPMENT

	2014 $m	2013 $m
Cost	**19.3**	14.3
Accumulated depreciation	**(10.2)**	(11.5)
Net book value	**9.1**	2.8

19. INTANGIBLE ASSETS

	Value of in-force business $m	Syndicate participation rights $m	Goodwill $m	Total $m
Net book value at 1 January 2013	–	–	–	–
Acquired in the Cathedral acquisition	36.6	82.6	71.2	190.4
Amortisation charge for the year through insurance acquisition expenses	(8.5)	–	–	(8.5)
Amortisation charge for the year through other operating expenses	(4.7)	–	–	(4.7)
Net book value at 31 December 2013	23.4	82.6	71.2	177.2
Amortisation charge for the year through insurance acquisition expenses	**(15.0)**	**–**	**–**	**(15.0)**
Amortisation charge for the year through other operating expenses	**(8.4)**	**–**	**–**	**(8.4)**
Net book value at 31 December 2014	**–**	**82.6**	**71.2**	**153.8**

Syndicate participation rights and goodwill are deemed to have indefinite life as they are expected to have value in use that does not diminish over the course of time. Consequently, the carrying value is not amortised but tested annually for impairment. The value of in-force business was amortised over the remaining life of the acquired insurance contracts, which was approximately one year.

For the purpose of impairment testing, intangible assets are allocated to the Group's CGUs, in accordance with the manner in which management operates and monitors the business. The syndicate participation rights and goodwill have therefore been allocated to the Lloyd's CGU.

When testing for impairment, the recoverable amount of the Lloyd's CGU is determined based on value in use. Value in use is calculated using projected cash flows based on the financial projections of the CGU. These are approved by management and cover a 3 year period. The most significant assumptions used to derive the projected cash flows include an assessment of business prospects, projected loss ratios, outwards reinsurance expenditure and investment returns. A discount rate of 8.0 per cent has been used to discount the projected post tax cash flows, which reflects a combination of factors including the Group's expected cost of equity and cost of borrowing. The growth rate used to extrapolate the cash flows of the unit beyond the 3 year period is 2.0 per cent based on historical growth rates and management's best estimate of future growth rates.

The results of this exercise indicate that the recoverable amount exceeds the intangible asset's carrying value for both the syndicate participation rights and goodwill and would not be sensitive to any reasonably possible changes in assumptions. Therefore no impairment has been recognised during the year ended 31 December 2014 (2013 – $nil).

20. INSURANCE LIABILITIES

	Unearned premiums $m	Other payables $m	Total $m
As at 31 December 2012	343.3	23.5	366.8
Acquired in the Cathedral acquisition	123.1	6.3	129.4
Net deferral for prior years[1]	(275.9)	–	(275.9)
Net deferral for current year	251.6	–	251.6
Other	–	(0.9)	(0.9)
As at 31 December 2013	442.1	28.9	471.0
Net deferral for prior years	**(330.5)**	**–**	**(330.5)**
Net deferral for current year	**367.5**	**–**	**367.5**
Other	**–**	**11.9**	**11.9**
As at 31 December 2014	**479.1**	**40.8**	**519.9**

(1) Includes movement in deferral for insurance liabilities acquired in the Cathedral acquisition.

21. INSURANCE, REINSURANCE AND OTHER PAYABLES

	2014 $m	2013 $m
Other payables	**81.2**	78.5
Accrued interest payable	**2.3**	2.2
Total other payables	**83.5**	80.7
Insurance contracts – other payables	**40.8**	28.9
Amounts payable to reinsurers	**34.2**	30.9
Total payables	**158.5**	140.5

Other payables include unsettled investment trades, accrued interest and other accruals. Insurance payables relate to amounts due to policyholders for profit commission, return premiums and claims payable. All payables are considered current. The carrying value approximates fair value due to the short-term nature of the payables.

22. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

LONG-TERM DEBT

On 5 October 2012, the Group issued U.S. $130.0 million 5.70 per cent senior unsecured notes due 2022 pursuant to a private offering to U.S. Qualified Institutional Buyers. Interest on the principal is payable semi-annually. The notes were listed and admitted to trading on the LSE on 16 October 2012.

On 15 December 2005, the Group issued $97.0 million and €24.0 million in aggregate principal amount of floating rate subordinated loan notes. The U.S. dollar subordinated loan notes are repayable on 15 December 2035. Interest on the principal is based on a set margin, 3.70 per cent, above the three month LIBOR rate and is payable quarterly. The loan notes were issued via a trust company. The Euro subordinated loan notes are repayable on 15 June 2035. Interest on the principal is based on a set margin, 3.70 per cent, above the EURIBOR rate and is payable quarterly. On 21 October 2011, the Cayman Islands Stock Exchange admitted to the official list the Group's U.S. dollar and Euro subordinated loan notes due 2035.

In 2013, the Group assumed loan notes, issued by CCHL and listed on the ISE, as part of the Cathedral acquisition. The loan notes acquired are set out as follows:

- €12.0 million floating rate subordinated loan note issued on 18 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75 per cent, above three month EURIBOR;
- $10.0 million floating rate subordinated note loan issued on 26 November 2004 and repayable in September 2034, paying interest quarterly based on a set margin, 3.75 per cent, above three month LIBOR;
- $25.0 million floating rate subordinated loan note issued on 13 May 2005 and repayable in June 2035, paying interest quarterly based on a set margin, 3.25 per cent, above three month LIBOR; and
- $25.0 million floating rate subordinated loan note issued on 18 November 2005 and repayable in December 2035, paying interest quarterly based on a set margin, 3.25 per cent, above three month LIBOR.

22. LONG-TERM DEBT AND FINANCING ARRANGEMENTS CONTINUED

The Group has the option to redeem its senior unsecured notes and all of its subordinated loan notes, in whole or in part, prior to the respective maturity dates.

The carrying values of the notes are shown below:

As at 31 December	2014 $m	2013 $m
Long-term debt $130.0 million	**130.0**	130.0
Long-term debt $97.0 million	**97.0**	97.0
Long-term debt €24.0 million	**29.2**	33.0
Long-term debt €12.0 million	**13.0**	14.9
Long-term debt $10.0 million	**10.0**	10.0
Long-term debt $25.0 million	**23.7**	23.7
Long-term debt $25.0 million	**23.7**	23.7
Carrying value	**326.6**	**332.3**

The Group is exposed to cash flow interest rate risk and currency risk on its long-term debt. Further information is provided in the risk disclosures section on page 118.

The fair value of the long-term debt is estimated as $347.2 million (2013 – $341.2 million). The fair value measurement is classified within level (ii) of the fair value hierarchy. The fair value is estimated by reference to similar financial instruments quoted in active markets.

The interest accrued on the long-term debt was $2.3 million (2013 – $2.2 million) at the balance sheet date and is included in other payables.

Refer to note 7 for details of the interest expense for the year included in financing costs.

INTEREST RATE SWAPS

The Group hedges a portion of its floating rate borrowings using interest rate swaps to transfer floating to fixed rate. These instruments are held at estimated fair value. Refer to the risk disclosures section from page 117 for further details. The Group has the right to net settle these instruments.

The net fair value position owed by the Group on the swap agreements is a $4.9 million liability. Further information is provided on pages 115 and 117. The Group has the right to net settle these instruments. Cash settlements are completed on a quarterly basis and the total of the next cash settlement in the first quarter of 2015 on these instruments is $0.7 million. The net impact from cash settlement and changes in estimated fair value is included in financing costs.

The interest rate swaps are held at estimated fair value, priced using observable market inputs, and are therefore classified as Level (ii) securities in the fair value hierarchy.

Refer to note 7 for the net impact from cash settlement and changes in estimated fair value included in financing costs.

LETTERS OF CREDIT

As both LICL and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide LOCs to policyholders as collateral. LHL and LICL have the following facilities in place as at 31 December 2014:

(i) a $350.0 million syndicated collateralised credit facility with a $75.0 million loan sub-limit that has been in place since 5 April 2012 and will expire on 5 April 2017. There was no outstanding debt under this facility as at 31 December 2014 and 2013; and

(ii) a $50.0 million bi-lateral uncommitted LOC facility with Citibank Europe PLC.

The facilities are available for the issue of LOCs to ceding companies. The facilities are also available for LICL to issue LOCs to LUK to collateralise certain insurance balances.

The terms of the $350.0 million LOC facility include standard default and cross-default provisions which require certain covenants to be adhered to. These include the following:

(i) an A.M. Best financial strength rating of at least B++; and

(ii) a maximum debt to capital ratio of 30.0 per cent, where the subordinated loan notes are excluded from this calculation.

As at all reporting dates the Group was in compliance with all covenants under these facilities. The $50.0 million bi-lateral uncommitted LOC facility does not contain default provisions or covenants.

The following LOCs have been issued:

As at 31 December	**2014 $m**	2013 $m
Issued to third parties	**31.8**	20.1

LOCs are required to be fully collateralised.

SYNDICATE BANK FACILITIES

As at 31 December 2014, Syndicate 2010 had in place an $80.0 million catastrophe facility with Barclays Bank plc. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. Up to $50.0 million can be utilised by way of an LOC to assist Syndicate 2010's gross funding requirements.

As at 31 December 2014, Syndicate 3010 had in place a $40.0 million catastrophe facility with Barclays Bank plc. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 3010. Up to $20.0 million can be utilised by way of an LOC to assist gross funding requirements of Syndicate 3010.

There are no balances outstanding under either of the syndicate bank facilities as at 31 December 2014 or 2013. The syndicate bank facilities are not available to the Group other than through its participation on the syndicates it supports.

TRUSTS AND RESTRICTED BALANCES

The Group has several trust arrangements in place in favour of policyholders and ceding companies in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions.

In 2012, LICL entered into an MBRT to collateralise its reinsurance liabilities associated with U.S. domiciled clients. As at 31 December 2014, LICL had been granted authorised or trusteed reinsurer status in all States (31 December 2013 – 45 States). The MBRT is subject to the rules and regulations of the aforementioned States and the respective deed of trust. These rules and regulations include minimum capital funding requirements, investment guidelines, capital distribution restrictions and regulatory reporting requirements.

As at and for the years ended 31 December 2014 and 2013, the Group was in compliance with all covenants under its trust facilities.

22. LONG-TERM DEBT AND FINANCING ARRANGEMENTS CONTINUED

The Group is required to hold a portion of its assets as FAL to support the underwriting capacity of Syndicate 2010 and Syndicate 3010. FAL are restricted in their use and are only drawn down to pay cash calls to syndicates supported by the Group. FAL requirements are formally assessed twice a year and any funds surplus to requirements may be released at that time. See note 30 for more information regarding FAL requirements.

In addition to the FAL, certain cash and investments held by Syndicate 2010 and Syndicate 3010 are only available for paying claims and expenses of the syndicate to their policyholders. See note 30 for more information regarding capital requirements for Syndicate 2010 and Syndicate 3010.

The following cash and cash equivalents and investment balances were held in trust, other collateral accounts in favour of third parties or are otherwise restricted:

	2014			2013		
As at 31 December	Cash and cash equivalents $m	Fixed income securities $m	Equity securities $m	Cash and cash equivalents $m	Fixed income securities $m	Equity securities $m
MBRT accounts	**0.3**	**31.3**	**–**	1.0	20.0	–
In various other trust accounts for policyholders	**0.7**	**22.9**	**–**	3.8	9.7	–
In favour of LOCs	**8.0**	**25.3**	**–**	6.3	20.0	–
In favour of derivative contracts	**1.5**	**1.7**	**–**	0.7	0.8	–
FAL	**6.9**	**167.5**	**15.8**	14.2	152.6	14.9
Syndicate accounts	**6.9**	**89.6**	**–**	16.4	123.9	–
Total	**24.3**	**338.3**	**15.8**	42.4	327.0	14.9

23. SHARE CAPITAL

Authorised ordinary shares of $0.50 each	Number	$m
As at 31 December 2014 and 2013	3,000,000,000	1,500.0

Allocated, called up and fully paid	Number	$m
As at 31 December 2012	168,602,427	84.3
Shares issued	16,843,382	8.4
As at 31 December 2013	185,445,809	92.7
Shares issued	**6,666,789**	**3.4**
As at 31 December 2014	**192,112,598**	**96.1**

Own shares	Number held in treasury	$m	Number held in trust	$m	Total number of own shares	$m
As at 31 December 2012	5,810,583	40.7	1,320,486	16.4	7,131,069	57.1
Shares distributed	(435,120)	(3.0)	(2,276,285)	(30.1)	(2,711,405)	(33.1)
Shares donated to trust	(1,862,138)	(13.1)	1,862,138	25.9	–	12.8
As at 31 December 2013	3,513,325	24.6	906,339	12.2	4,419,664	36.8
Shares distributed	**(666,434)**	**(5.0)**	**(1,643,647)**	**(21.6)**	**(2,310,081)**	**(26.6)**
Shares repurchased	**2,498,433**	**25.0**	**–**	**–**	**2,498,433**	**25.0**
Shares donated to trust	**(2,394,377)**	**(16.8)**	**2,394,377**	**24.9**	**–**	**8.1**
As at 31 December 2014	**2,950,947**	**27.8**	**1,657,069**	**15.5**	**4,608,016**	**43.3**

The number of common shares in issue with voting rights (allocated share capital less shares held in treasury) as at 31 December 2014 was 189,161,651 (31 December 2013 – 181,932,484).

On 7 August 2013, LHL issued 16,843,382 new common shares. As a result of these shares being issued, a total of $203.5 million was raised, $8.4 million of which was included in share capital and $195.1 million of which was included in share premium, net of $5.3 million of offering expenses.

During 2014, the Group issued new common shares to satisfy the cashless exercises of warrants as follows:

Shares issued	Number of shares issued	$m
23 May 2014	**2,077,605**	**1.1**
13 June 2014	**1,759,974**	**0.9**
3 July 2014	**2,829,210**	**1.4**
Total	**6,666,789**	**3.4**

Of the shares issued on 23 May 2014 and 13 June 2014, per the table above 3,837,579 were issued to satisfy Richard Brindle's warrant exercises (refer to note 27 for further information on related party transactions).

SHARE REPURCHASES

At the AGM held on 30 April 2014, the Group's shareholders approved a renewal of the Repurchase Programme authorising the repurchase of a maximum of 18,544,580 shares, with such authority to expire on the conclusion of the 2015 AGM or, if earlier, fifteen months from the date the resolution approving the Repurchase Programme was passed.

Shares have been repurchased by the Group under share repurchase authorisation as follows:

Own shares	Number of shares cancelled	Number of shares transferred to treasury shares	Weighted average share price	$m
As at 31 December 2012	27,541,552	5,810,583	£4.30	244.5
Shares distributed	–	(435,120)	£4.30	(3.0)
Shares donated to trust	–	(1,862,138)	£4.27	(13.1)
As at 31 December 2013	27,541,552	3,513,325	£4.31	228.4
Repurchased	**–**	**2,498,433**	**£6.27**	**25.0**
Shares distributed	**–**	**(666,434)**	**£4.77**	**(5.0)**
Shares donated to trust	**–**	**(2,394,377)**	**£4.61**	**(16.8)**
As at 31 December 2014	**27,541,552**	**2,950,947**	**£4.43**	**231.6**

At the balance sheet date $nil (31 December 2013 – $nil) remained to be settled.

In 2014 the trustees of the EBT acquired nil shares (2013 – nil) in accordance with the terms of the trust and distributed 1,643,647 (2013 – 2,276,285). There were no unsettled balances in relation to EBT purchases at either balance sheet date.

DIVIDENDS

The Board of Directors have authorised the following dividends:

Type	Per share amount	Record date	Payment date	$m
Final	$0.10	22 Mar 2013	17 Apr 2013	19.2
Special	$1.05	22 Mar 2013	17 Apr 2013	201.4
Interim	$0.05	23 Aug 2013	25 Sep 2013	10.5
Special	$0.45	29 Nov 2013	20 Dec 2013	94.5
Final	$0.10	21 Mar 2014	16 Apr 2014	21.1
Special	$0.20	21 Mar 2014	16 Apr 2014	42.1
Interim	$0.05	29 Aug 2014	24 Sep 2014	10.4
Special	$1.20	28 Nov 2014	19 Dec 2014	247.4

24. OTHER RESERVES

Other reserves represent the Group's restricted shares, options and warrants. Changes in the number of restricted shares, options and management warrants held by employees are disclosed in note 6. The changes in the number of warrants held by non-employees are as follows:

	Number of Founder warrants	Number of Lancashire Foundation warrants	Number of ordinary warrants
Outstanding at 31 December 2012	19,803,572	648,143	2,350,000
Exercised	(728,785)	–	–
Outstanding and exercisable as at 31 December 2013	19,074,787	648,143	2,350,000
Exercised	**(4,042,108)**	**–**	**–**
Outstanding and exercisable as at 31 December 2014	**15,032,679**	**648,143**	**2,350,000**
Weighted average exercise price as at 31 December 2014	**$5.00**	**$4.73**	**$5.00**

	2014	2013
Weighted average remaining contractual life	**1.0 year**	2.0 years
Weighted average share price at date of exercise during the year	**$11.25**	$12.17

The fair value of all warrants granted was $2.62 per warrant. The exercise price of the Lancashire Foundation warrants was automatically adjusted for dividends declared prior to the vesting date. Refer to note 6 for further details. This did not apply to the Founder warrants as they were fully vested at the date of grant and exercisable upon issuance.

25. LEASE COMMITMENTS

The Group has payment obligations in respect of operating leases for certain items of office equipment and office space. Operating lease expenses for the year were $3.8 million (2013 – $2.4 million). Future minimum lease payments under non-cancellable operating leases are as follows:

	2014 $m	2013 $m
Due in less than one year	**1.1**	2.9
Due between one and five years	**11.4**	6.9
Due in more than five years	**41.2**	–
Total	**53.7**	**9.8**

During 2014, the Group entered into a new lease agreement for larger office premises in the UK and assigned the leases in relation to the existing office premises in the UK to a third party who assumed responsibility for payments. Under the terms of the lease assignment the Group retains liability for lease payments in the event that the assignee and the assignee's guarantor fail to meet their obligations under the assignment agreements. The new lease agreement contains a break date of April 2029 and is guaranteed by the Group.

26. EARNINGS PER SHARE

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

	2014 $m	2013 $m
Profit for the year attributable to equity shareholders of LHL	**229.3**	222.5

	2014 Number of shares	2013 Number of shares
Basic weighted average number of shares	**185,558,086**	169,270,681
Dilutive effect of RSS	**2,442,255**	3,431,739
Dilutive effect of warrants	**10,112,990**	17,788,368
Diluted weighted average number of shares	**198,113,331**	**190,490,788**

Earnings per share	2014	2013
Basic	**$1.24**	$1.31
Diluted	**$1.16**	$1.17

Equity based compensation awards are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. Unvested restricted shares without performance criteria are therefore included in the number of potentially dilutive shares. Incremental shares from ordinary restricted share options where relevant performance criteria have not been met are not included in the calculation of dilutive shares. In addition, where options are anti-dilutive, they are not included in the number of potentially dilutive shares.

27. RELATED PARTY DISCLOSURES

The consolidated financial statements include LHL and the entities listed below:

Name	Principal Business	Domicile
Subsidiaries[1]		
LICL	General insurance business	Bermuda
SML[2]	Insurance management services	Bermuda
KCML[3]	Insurance management services	Bermuda
Lutine[4]	Non trading	Bermuda
KCMMSL	Support services	United Kingdom
LIHL	Holding company	United Kingdom
LIMSL	Insurance mediation activities	United Kingdom
LISL	Support services	United Kingdom
LUK	General insurance business	United Kingdom
LMSCL	Support services	Canada
CCIL[5]	Holding company	United Kingdom
CCHL	Investment company	United Kingdom
CCL	Holding company	United Kingdom
CCL 1998	Lloyd’s corporate member	United Kingdom
CCL 1999	Non trading	United Kingdom
CCL 2000[5]	Holding company	United Kingdom
CCML[5]	Non trading	United Kingdom
CCSL	Support services	United Kingdom
CUL	Lloyd’s managing agent	United Kingdom
Associates		
AHL[6]	Holding company	Bermuda
AHL II[7]	Holding company	Bermuda
SHL[8]	Holding company	Bermuda
KHL	Holding company	Bermuda
Other controlled entities		
LHFT	Trust	United States
EBT	Trust	Jersey

(1) Unless otherwise stated, the Group owns 100 per cent of the ordinary share capital and voting rights in its subsidiaries listed.

(2) SML was liquidated on 12 August 2014.

(3) 92.68 per cent owned by the Group.

(4) Lutine was dissolved on 29 May 2014.

(5) The entities were formally placed in members’ voluntary liquidation on 11 December 2014.

(6) AHL was liquidated on 15 October 2014.

(7) AHL II was liquidated on 25 November 2014.

(8) SHL was liquidated on 15 October 2014.

27. RELATED PARTY DISCLOSURES CONTINUED

The Group has issued subordinated loan notes via a trust vehicle – LHFT, refer to note 22. The Group effectively has 100.0 per cent of the voting rights in LHFT. These rights are subject to the property trustee's obligations to seek the approval of the holders of LHFT's preferred securities in case of default and other limited circumstances where the property trustee would enforce its rights. While the ability of the Group to influence the actions of LHFT is limited by the trust agreement, LHFT was set up by the Group with the sole purpose of issuing the subordinated loan notes, is in essence controlled by the Group, and is therefore consolidated.

The EBT was established to assist in the administration of the Group's employee equity based compensation schemes. While the Group does not have legal ownership of the EBT and the ability of the Group to influence the actions of the EBT is limited by the trust deed, the EBT was set up by the Group with the sole purpose of assisting in the administration of these schemes, is in essence controlled by the Group, and is therefore consolidated.

The Group has a Loan Facility Agreement (the 'Facility') with RBC Cees Trustee Limited, the trustees of the EBT. The Facility is an interest free revolving credit facility under which the Trustee can request advances on demand, within the terms of the facility, up to a maximum aggregate of $60.0 million. The Facility may only be used by the Trustees for the purpose of achieving the objectives of the EBT. During the year ended 31 December 2014, the Group had made advances of $5.0 million (2013 – $10.7 million) to the EBT under the terms of the Facility.

During the year ended 31 December 2014, the Group donated 2,394,377 (2013 – 1,862,138) treasury shares to the EBT at the prevailing market rate. The total value of the treasury share donation was $24.9 million (2013 – $25.9 million).

LICL holds $346.1 million (2013 – $302.8 million) of cash and cash equivalents and fixed income securities in trust for the benefit of LUK relating to intra-group reinsurance agreements.

In 2013, members of the Group's senior management team contributed 12.57 per cent of the share capital in KCML. During 2014, LHL and the Group's senior management team purchased shares in KCML from Richard Brindle (see other transactions below). The senior management team shareholding now represents a minority interest of 7.32 per cent. This investment represents the non-controlling interest listed in the Group's consolidated balance sheet.

KEY MANAGEMENT COMPENSATION

Remuneration for key management, the Group's Executive and Non-Executive Directors, was as follows:

For the year ended 31 December	2014 $m	2013 $m
Short-term compensation[1]	**3.3**	8.1
Equity based compensation	**7.5**	6.7
Directors' fees and expenses	**2.2**	2.1
Total	**13.0**	**16.9**

(1) Includes a credit of $2.3 million relating to the decrease in the UK National Insurance contribution provision in respect of Richard Brindle's warrants. This is a result of the reduction in the Group's share price prior to the exercise of his warrants during 2014.

The table above includes short-term compensation of $1.8 million and an equity based compensation charge of $3.5 million relating to the retirement of Richard Brindle, the Group's former CEO. His retirement package also included a cash settlement of RSS awards amounting to $8.2 million. Dividend equivalents that have been accrued on the RSS awards amounted to $1.6 million. The settlement of the RSS awards and the dividend equivalent payment are reflected in contributed surplus within shareholders' equity.

The Directors' fees and expenses includes $0.4 million (2013 – $0.4 million) paid to significant founding shareholders. Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses and do not participate in any of the Group's incentive, performance or pension plans. Neil McConachie left the Company as an employee on 30 June 2012, relinquishing his executive responsibilities and became a Non-Executive Director effective 1 July 2012. He subsequently relinquished his role as a Non-Executive Director on 30 April 2014. He is able to exercise previously granted RSS awards when they have vested, subject to the performance conditions being met.

TRANSACTIONS WITH LANCASHIRE FOUNDATION

Cash donations to the Lancashire Foundation have been approved by the Board of Directors as follows:

Date	$m
23 May 2013	1.4
5 November 2013	2.0

TRANSACTIONS WITH ASSOCIATES

In relation to transactions with ARL, the following amounts were included in the consolidated statement of comprehensive income and the consolidated balance sheet:

As at 31 December	2014 $m	2013 $m
Consolidated statement of comprehensive income		
Outwards reinsurance premiums	**0.6**	47.9
Insurance loss and loss adjustment expenses recoverable	**(6.9)**	9.1
Insurance acquisition expenses ceded	**6.8**	7.1
Consolidated balance sheet		
Reinsurance recoveries	**–**	26.8
Amounts payable to reinsurers	**–**	(5.5)

During 2014, AHL returned $33.5 million of capital to the Group and ARL paid a final profit commission to the Group in the amount of $6.7 million following a commutation of the Group's quota share agreement with ARL.

During 2014, SHL returned $12.2 million of capital to the Group and SRL paid a final profit commission to the Group in the amount of $3.0 million and was placed in to run-off and subsequently liquidated.

During 2014, the Group committed an additional $27.8 million of capital to KHL.

In 2013, KCML entered into an underwriting services agreement with KRL and KHL to provide various services relating to underwriting, actuarial, premium payments and relevant deductions, acquisition expenses and receipt of claims. For the year ended 31 December 2014, the Group recognised $6.2 million (31 December 2013 – $nil) of service fees in other income in relation to this agreement. Contingent profit commission may be payable to KCML on the ultimate performance of KRL.

Refer to Note 17 for further details on the Group's investment in associates.

OTHER TRANSACTIONS

On 2 June 2014, Richard Brindle sold his shares in KCML to LHL and certain of the minority shareholders of KCML (being members of the Group's senior management team) for an amount of $1.2 million, of which $1.1 million was received from LHL. The sale was a direct result of the provisions outlined in the Subscription and Shareholders' Agreement of KCML and the valuation was externally determined by a valuation expert.

28. BUSINESS COMBINATIONS

On 7 November 2013, LHL acquired the entire issued share capital of Cathedral together with manager and investor loan notes and preference shares issued by CCIL and CCL respectively. The acquisition has enabled the Group to benefit from direct participation in Lloyd's, the world's leading specialist insurance market.

	Notes	$m
Total consideration paid for the entire issued share capital of Cathedral		**230.4**
Net assets acquired at fair value		**159.2**
Excess of total consideration over net fair value of assets acquired allocated to goodwill	19	**71.2**

Intangible assets recognised on the acquisition of Cathedral relate to syndicate participation rights and the value of in-force business. These are discussed further in note 19. The goodwill recognised arose from the premium paid for strengthening the Group's market position and acquiring a skilled workforce with an existing book of business and long standing business relationships. The goodwill is not deductible for tax purposes.

29. NON-CASH TRANSACTIONS

On 25 June 2014, following shareholder approval on 30 April 2014, LHL transferred $192.2 million from share premium to contributed surplus. During 2014, the Group issued new common shares to satisfy the cashless exercises of warrants in the amount of $3.4 million. Refer to Note 23 for further details.

30. STATUTORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

The primary source of capital used by the Group is equity shareholders' funds and borrowings. As a holding company, LHL relies on dividends from its operating entities to provide the cash flow required for debt service and dividends to shareholders. The operating entities' ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdictions in which they operate.

For LICL and LUK, these regulatory restrictions are based principally on the amount of premiums written and reserves for losses and loss adjustment expenses, subject to overall minimum solvency requirements. LICL and LUK's statutory capital and surplus are different from shareholder's equity due to certain items that are capitalised under IFRS but expensed or have a different valuation basis for regulatory reporting, or are not admitted under insurance regulations.

Annual statutory capital and surplus reported to regulatory authorities by LICL and LUK is as follows:

	2014		2013	
As at 31 December	**LICL $m**	**LUK £m**	LICL $m	LUK £m
Statutory capital and surplus	**1,009.5**	**117.3**	1,210.2	118.9
Minimum required statutory capital and surplus	**233.7**	**23.9**	235.5	23.9

LICL is required to maintain a minimum liquidity ratio, whereby relevant assets, as defined in the regulations, must exceed 75.0 per cent of relevant liabilities. As at 31 December 2014 and 2013 the liquidity ratio was met. LICL is also required to perform various capital calculations under the BMA's regulatory framework. An assessment is made of LICL's capital needs and a target capital amount is determined. The BMA may require a further capital loading on the target capital amount in certain circumstances. The BMA considers that a decrease in capital below the target level represents a regulatory intervention point.

For LUK, various capital calculations are performed and an ICA is presented to the PRA. The PRA then considers the capital calculations and issues an ICG, reflecting the PRA's own view as to the level of capital required. The PRA considers that a decrease in an insurance company's capital below the level of its ICG represents a regulatory intervention point. As the Solvency II regime is adopted by the PRA the capital measures will change, but the principles and restrictions on capital release will remain.

The Group's underwriting capacity as a member of Lloyd's must be supported by providing a deposit in the form of cash, securities or LOCs, which are referred to as FAL. The capital framework at Lloyd's requires each managing agent to calculate the capital requirement for each syndicate they manage, a process known as ICA. Solvency II internal models and the uSCR have been used to determine capital requirements for Syndicate 2010 and Syndicate 3010. 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 member level to uplift the calculated uSCR, including the need to maintain the market's overall security rating. Any uplift by Lloyd's is added to the uSCR to produce the ECA.

Lloyd's then uses each syndicate's ECA as a basis for determining member level ECR. For the 2015 calendar year the Group's initial FAL requirement was set at 53.9 per cent (2014 – 61.0 per cent) of underwriting capacity supported. Further adjustments can be made by Lloyd's to allow for open year profits and losses of the syndicates on which the corporate member participates. The Group has sufficient capital to meet its FAL requirement of £149.3 million as at 31 December 2014 (31 December 2013 – £115.1 million).

As at 31 December 2014 and 2013 the capital requirements of all the regulatory jurisdictions were met.

31. SUBSEQUENT EVENTS

DIVIDEND

On 11 February 2015 the Board of Directors declared the payment of an ordinary dividend of $0.10 per common share and a special dividend of $0.50 per share to shareholders of record on 20 March 2015, with a settlement date of 15 April 2015. The ordinary dividend payable will be approximately $20.6 million and the special dividend payable will be approximately $102.8 million. An amount equivalent to the dividend accrues on all RSS options and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.