CATHEDRAL CAPITAL HOLDINGS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

Registered No. 3372107

CATHEDRAL CAPITAL HOLDINGS LIMITED

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CATHEDRAL CAPITAL HOLDINGS LIMITED

STRATEGIC REPORT

Overview

2013 has once again brought the cyclical nature of our market place to the fore both in terms of claims activity and market conditions. The last 12 months, as did 2012, have given us a relatively benign claims environment in comparison to the two previous years, but in turn we find ourselves in the most competitive market environments seen for the last twenty five years.

Consequently, I am very pleased to report a bottom line profit of £26.0 million after all expenses.

The group produced a combined ratio of 78.7%, our main trading entity Syndicate 2010, produced a combined ratio of 64%. This equates to an ROE of 17.3 %.

I am also delighted to announce that during the course of the year the Cathedral group was acquired by Lancashire Holdings Limited, a transaction that places the Cathedral business into an underwriter driven business with a high quality track record and substantial balance sheet that will enable the Cathedral business to develop to its full potential in tandem with our new colleagues.

Market

2013 was not without notable losses, but nothing that affected wider markets at renewal. Flood seemed to be the theme of the year with widespread flooding issues in Germany and central Europe (US$5bn), Canada (US$1.7bn) and across Mexico as major Atlantic and Pacific storms hit the country within days of each other. In addition there were significant hail losses from storms in France and Germany later in the year (US$3bn).

Far more destructive and costly in human terms was Super Typhoon Haiyan sweeping through the Philippines leaving an estimated 8,000 dead and widespread devastation behind it, widespread flooding through China and India were also a feature. The US also contributed tornado losses from severe storms in Oklahoma in May and some drought related crop losses.

Natural catastrophe losses totalled some US$45bn, significantly down from 2012 and a fraction of those incurred in the extraordinary run during 2010 and 2011.

My last report highlighted more capital coming into our industry making most areas more competitive. Encouraged by a relatively benign 2012 and 2013, the capital markets and displaced traditional markets have turned their focus firmly on securing top line at it seems almost any price. The result has been one of the more tricky renewal seasons probably since the late 1980's.

Post renewals, we have fared well as we add value in the markets in which we trade and have been able to maintain our shares of business notwithstanding reduced pricing. Happily this has been more than offset by reduced cost for superior reinsurance protections that enable us to move into 2014 with an arguably superior net book to the one proposed in our initial plan. This is all well and good, but life will not be as comfortable for those who do not add value and do not have the same leverage with client or broker. Where we go from here is the interesting issue as something has to give going forward.

Syndicates 2010 and 3010

We are closing the 2011 year of account (on a Lloyd's basis) for our managed syndicates that are both showing modest profits. Both Syndicate 2010 (3.4%) and 3010 (0.8%) results though not spectacular in themselves are hugely creditable given the frequency of severe losses through the lines of business in which we trade. On reflection this has been one of the team's best performances given the trading circumstances. Having weathered the storm, 2012 year of account is looking significantly more profitable and 2013 is off to a good start; it is however worth reiterating the credit the whole team deserves to successfully manage the difficult years so that we may benefit from the good without asking capital providers to dip into their pocket.

Financial Review

This Group is required to prepare its financial results under International Financial Reporting Standards ("IFRS") because the Company has issued and listed its four Floating Rate Unsecured Subordinated Loan Notes on the Irish Stock Exchange. However, all the results of the individual subsidiary entities of the Group have continued to be reported under UK GAAP. The Group is required to file its financial statements with the Irish Stock Exchange.

The basis of preparation of this Annual Report, together with the details of the significant accounting policies adopted, is set out in Notes 2 and 3 to the Annual Report.

Consolidated Statement of Comprehensive Income

The consolidated profit on ordinary activities after tax, as reported in the Consolidated Statement of Comprehensive Income, was £26.0 million (2012: £19.2 million) which equates to earnings per equity share of 63.0 pence (2012: 46.6 pence).

	Underwriting £'000	Corporate £'000	Total £'000
Gross Written Premium*	185,011	-	185,011
Net Earned Premium*	143,821	-	143,821
Net Claims incurred	(57,726)	-	(57,726)
Acquisition costs	(33,858)	-	(33,858)
Underwriting results	52,237	-	52,237
Other expenses**	(24,961)	(6,483)	(31,444)
Net investment return	1,181	3,919	5,100
Fees, commission and other income	-	5,757	5,757
Profit before tax	28,457	3,193	31,650
Tax	(5,125)	(520)	(5,645)
Profit after tax	23,332	2,673	26,005
Earnings per equity share	56.5p	6.5p	63.0p
Return on Equity***	15.5%	1.8%	17.3%

* included in net earned premiums is net reinsurance to close premiums received of £18,000 (2012: reinsurance to close premiums received of £4,000).

** includes Profit Related Pay and financing charges which have been allocated to underwriting and corporate according to profitability of the profit centre.

*** Return on equity is based on profit after tax divided by opening shareholders' equity.

The insurance and reinsurance contracts underwritten by the Syndicates supported by the Company's underwriting subsidiary are earned over the life of a policy normally commencing at the inception of a policy. An earnings pattern is established which reflects the underwriting exposure of the business written. Thus net earned premiums during 2013 include premiums on policies incepting during the year together with estimates for premiums and adjustments to premiums on policies incepting in earlier periods.

The aggregate combined ratio, which is based on a function of gross or net earned premiums and excludes the investment return of Syndicates 2010 and 3010 at 100% level, is analysed by class of business below:

Syndicates 2010 and 3010 Combined Ratio Analysis

	31 December 2013		31 December 2012	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Non-marine reinsurance	**27.9**	**32.8**	75.3	65.7
Aviation	**19.1**	**20.0**	3.0	9.0
Satellite	**121.3**	**133.3**	41.5	39.1
Direct & facultative property	**25.5**	**32.9**	35.5	41.7
Contingency	**121.2**	**90.2**	41.4	73.4
Cargo	**74.5**	**71.6**	61.5	55.5
Total claims ratio	**33.1**	**37.8**	52.7	50.5
Expense ratio	**23.7**	**30.9**	21.3	28.5
Combined ratio	**56.8**	**68.7**	74.0	79.0

The aggregate expense ratio is on a UK GAAP basis, as disclosed in the accounts of Syndicates 2010 and 3010, and does not include any exchange gains and losses in the year.

Cathedral's participation on its Syndicates was not the same year on year so that the combined ratio at 100% level for these Syndicates is not the same as Cathedral's share of these Syndicates' result. The overall combined ratio for the Group includes its share of Syndicates and non underwriting corporate expenses net of other fees and income. The Group's combined ratio is analysed as follows:

Group Combined Ratio Analysis

	31 December 2013		31 December 2012	
	Gross %	**Net %**	Gross %	Net %
Claims ratio	**35.6**	**40.1**	53.2	51.1
Expense ratio:				
Syndicates	**24.3**	**31.4**	22.1	29.1
Corporate	**2.1**	**2.8**	(0.2)	(0.2)
Staff profit-related pay	**3.4**	**4.4**	2.6	3.4
Total expense ratio	**29.8**	**38.6**	24.5	32.3
Combined ratio	**65.4**	**78.7**	77.7	83.4

The corporate expense ratio is net of fees, commissions and other non-investment income. The expense ratio does not include any exchange gains or losses from its trading or financing activities. However, these net exchange losses of circa £4.2 million (2012: exchange losses of £6.2 million) have been accounted for through the Consolidated Statement of Comprehensive Income. For the year ended 2013 the gross and net expense ratio includes circa 3.5% relating to one off acquisition costs.

Investment Strategy and Return

The investment policy adopted by the Group's managing agency subsidiary with respect to the Syndicates reflects the underlying exposure and business written by each Syndicate. Premiums are retained in original currency in order that they are available to meet any claims incurred by these Syndicates from insurance and reinsurance policies they have written. The investment strategy for Syndicate funds reflects the low investment risk appetite for these funds which are invested in short-term, high quality fixed income securities or held in cash.

However, the investment strategy with respect to the Group's funds at Lloyd's ("FAL") reflects the differing investment risk appetite that we have with respect to shareholder funds held to support the Group's underwriting activities. We continue to view the Group's funds at Lloyd's to be more akin to permanent capital rather than being held to meet claims and pay expenses on a day-to-day basis. Following the Lancashire acquisition of Cathedral the Group's FAL consists mainly of an equity portfolio with the remainder of the FAL held in short dated fixed income instruments and cash.

The corporate investment return for the year was a profit of £3.8 million (2012: £4.1 million) which equates to a return of 1.9% down from 2.1% a year earlier. An analysis of this return is set out on the table below:

	Average funds £'000	**Actual return %**	**Actual return £'000**
Funds at Lloyd's:			
Equities	7,415	18.3	1,360
Fixed interest	154,069	0.7	1,056
Alternative investments	1,794	(8.2)	(148)
Cash	10,579	1.4	147
Total	173,857	1.4	2,415
ESOP Funds	2,861	41.8	1,195
Free Funds:			
Cash	27,246	0.6	176
Total	203,964	1.9	3,786

Financing of borrowings

The Group has issued a series of four Unsecured Floating Rate Subordinated Notes due in 2034 and 2035. These Notes comprise US$60 million and €12 million and the net cost was £1.8 million (2012: £1.9 million) on these borrowings by the Group during the course of the year.

More detail on these borrowings can be found in Note 22 to the Annual Report.

Taxation

The Group tax expense for the year is £5.6 million (2012: £5.2 million expense) which gives an effective tax rate of 17.8% (2012: 21.2%). This year, we have claimed £2.1 million of tax relating to claims equalisation reserves (2012: £2.3 million), although we expect this to eventually be repaid. The impact is therefore on the split of current and deferred tax. A detailed analysis of the composition of the Group charge figure is set out on Note 13 to the Annual Report.

Earnings per share

The earnings per ordinary share equate to 63.0 pence (2012: 46.6 pence) per share.

Dividend

The Company paid two interim dividends totalling £114,063,000 in the year equating to £2.76 per share (2012: £10,000,000 in the year, equating to 24.23 pence per share). The Company does not intend to declare a final dividend for the year.

During 2012, the Company paid £5.5 million as consideration for group relief from its parent company in excess of the standard rate of tax, which was reflected within equity as a transaction with owners. No such amount in excess of the standard rate of tax was paid in 2013.

Statement of Financial Position

The Consolidated Statement of Financial Position includes the Group's share of Syndicate assets and liabilities together with other directly held corporate assets.

The Consolidated Statement of Financial Position is analysed below and includes the Group's interest in the Syndicates at 31 December 2013 as a single line item:

	31 December 2013 £'000	31 December 2012 £'000
Intangible assets	**7,674**	7,069
Tangible fixed assets	**276**	340
Group assets used as funds at Lloyd's	**20,067**	170,068
Other investments and cash balances	**26,917**	26,917
Unsecured subordinated loan notes	**(45,172)**	(42,974)
Interest in Syndicates	**33,201**	3,923
Net other assets / (liabilities)	**19,013**	(15,309)
Equity shareholder's funds	**61,976**	150,034

The valuation of the intangible assets consists of the cost of underwriting capacity for Syndicate 2010 and goodwill. Both of these intangible assets continue to be the subject of annual impairment tests rather than straight line amortisation as was the case under UK GAAP. We have concluded that there was no impairment of these assets at the year end.

The Group did not issue any new tranches of Unsecured Floating Rate Subordinated Loan Notes during the year. All four Unsecured Floating Rate Notes continue to be listed on the Irish Stock Exchange. Further information on the terms of all of the Floating Rate Notes is set out in Note 22.

The Group had no bank borrowing facilities at December 2013.

An analysis of the Group's interest in the Syndicates is set out below:

	31 December 2013 £'000	31 December 2012 £'000
Cash and investments	**174,375**	162,193
Debtors – insurance and reinsurance	**54,986**	62,187
Net technical provisions	**(192,717)**	(209,682)
Creditors – insurance and reinsurance	**(14,581)**	(20,005)
Other net assets	**11,138**	9,230
Group's interest	**33,201**	3,923

As I mentioned earlier in my report, premiums are earned over the life of the policy, commencing at inception, in accordance with the underlying exposure of the policy. Therefore, at the year end there is a proportion of these premiums unearned. The unearned premium reserve at 31 December 2013 was £56.8 million (2012: £57.2 million) which, subject to normal claims activity on that business, should contribute to the profitability of the Group during future years.

Included within net other assets / (liabilities) are current and deferred taxation liabilities of £17.4 million (2012: £11.9 million). A detailed analysis of the deferred taxation liability is set out in Note 25 to this Annual Report.

Principal risks and uncertainties

The Group is exposed to various risks and uncertainties, details of which are disclosed in Note 4. This includes risks associated with the Group's financial instruments.

Use of Estimates

The nature of the Group's business means it places significant relevance on the use of estimations. The use of estimations impacts both the assets and liabilities of the business and the risk factors disclosed in Note 4 should also be noted.

Underwriting Capital

The capital framework at Lloyd's requires each managing agent in the market to calculate the capital requirement for each syndicate they manage, a process known as Individual Capital Assessment ("ICA"). Despite the continuing uncertainty over the start date of Solvency II, the PRA indicated that it would allow firms to use Solvency II models under an enhanced ICA regime known as ICA+. Solvency II internal models and the ultimate Solvency Capital Requirement ("uSCR") have been used since 2013 to determine capital. This approach is similar to but not the same as the old ICA calculation. 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 Economic Capital Assessment ("ECA").

Lloyd's then uses each syndicate's ECA as a basis for determining member level Economic Capital Requirement ("ECR"). For the 2014 calendar year the Group's Funds at Lloyd's initial requirement was set at 61% of underwriting capacity supported. This compares with an initial Funds at Lloyd's requirement of 59% for 2013.

Strategy

Being part of the Lancashire group makes us part of a structure that is genuinely apposite for the market in which we trade. Our underwriters are hugely experienced in trading in market conditions such as we find ourselves and we are excited about the opportunity our new home presents. The Cathedral brand will continue to trade as we are going forward and the service to our clients and broker will continue seamlessly.

Our first business is to focus in on building out Syndicate 3010 to include more Specialty lines. As usual we will be only looking to trade in areas in which we are expert and are hoping to move forward in due course with a mixture of new high quality underwriters and some business following the leads of our new colleagues in areas where they are market leaders.

This is a project that we have had on the back burner for some time but now have the resource and impetus to go forward in building out a larger Cathedral model within the Lancashire Group since we can offer proven quality underwriters an environment that they can act as our existing underwriters do, effectively sole traders within the Cathedral framework, but have the added advantage of immediate access to further capital when the market presents an opportunity.

Peter Scales

Chief Executive Officer

20 March 2014

DIRECTORS AND ADVISORS

Non Executive Chairman	E E Patrick
Directors	J A Lynch P D Scales
Company Secretary	J A Lynch
Auditors	Ernst & Young LLP 1 More London Place London SE1 2AF
Bankers	Barclays Bank PLC 1 Churchill Place London E14 5HP
Company Number	3372107
Registered Office	5th Floor Fitzwilliam House 10 St Mary Axe London EC3A 8BF
Registrars	Capita IRG Plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Listing Agent	NCB Stockbrokers Limited 3 George's Dock International Financial Services Centre Dublin 1 Ireland

DIRECTORS OF THE COMPANY

Elvin Patrick

After gaining a Masters in Business Administration from Cranfield, Elvin Patrick joined Edward Bates, merchant bankers in 1973 where he specialised in mergers and acquisitions, Stock Exchange Practice and Balance Sheet Reorganisations, before joining the Lloyd's market in 1974. In 1981, he joined Stenhouse (becoming Limit/Bankside) as Underwriter of marine syndicate 566 (until 1997). From 1989-1999 he was Chairman of Bankside Underwriting Agencies Limited and latterly, 1998/99, Chief Executive Officer of Limit PLC. He has held numerous positions at Lloyd's including Deputy Chairman in 1998, a member of the Lloyd's Regulatory Review Board in 1997 and a member of the Lloyd's Rowland Task Force in 1991. He was Active Underwriter of syndicate 2010 until 30 November 2001. He is Non-Executive Chairman of Cathedral Capital Holdings Limited, was appointed as Non-Executive Chairman of Cathedral Capital (Investments) Limited and Cathedral Capital Limited on 12 December 2006.

Peter Scales

After gaining a degree in Economics and Geography at University College, London, Peter Scales joined Bankside Underwriting Agencies Limited in 1986. In 1991, he joined Wren Underwriting Agencies Limited as an analyst. He was appointed a director of Wren Underwriting Agencies Limited in 1993 and Managing Director of Wren Lloyd's Advisers Limited in 1994. He was involved in the original placement of one of Lloyd's first listed corporate capital vehicles, subsequently to become Wren Limited, of which he was an Executive Director. Following the acquisition of Wren Limited by BRIT Insurance Holdings PLC, he was Director of Capital Management. He is Chief Executive Officer of Cathedral Capital Holdings Limited, was appointed as a director of Cathedral Capital (Investments) Limited and Chief Executive Officer of Cathedral Capital Limited on 12 December 2006.

John Lynch

After gaining a degree in commerce from University College Cork, Ireland in 1988, John Lynch joined Robson Rhodes and qualified as a chartered accountant in 1992. After spending two years in industry he joined Finsbury Asset Management Limited and became head of accounting and administration for institutional investment clients. Since 1994 he has also been involved in the structuring of capital entities in Lloyd's. He joined Wren Limited as Company Secretary and head of finance in January 1999. Following the acquisition of Wren Limited by BRIT Insurance Holdings PLC, he was Company Secretary and Group Financial Controller from September 1999 until October 2000. He is Chief Financial Officer and Company Secretary of Cathedral Capital Holdings Limited, was appointed as a director of Cathedral Capital (Investments) Limited and Chief Financial Officer of Cathedral Capital Limited on 12 December 2006.

REPORT OF THE DIRECTORS

The Directors present the annual report and the audited accounts for the year ended 31 December 2013.

Registered Office and Company Number

The registered office and principal place of business of the Company is 5th Floor, Fitzwilliam House, 10 St Mary Axe, London EC3A 8BF. The accounting and statutory records of the Company are also held at this address. The Company registration number is 3372107.

Principal Activity and Review of the Business

Cathedral Capital Holdings Limited was originally set up in 1997 as a Names' Conversion vehicle which enabled names at Lloyd's with unlimited liability to convert to limited liability. One of its two main trading subsidiary companies, Cathedral Capital (1998) Limited, underwrites at Lloyd's as a corporate member. This company underwrote approximately £232.3 million (2012: £232.3 million) of capacity for the 2013 year of account, all of which supported Cathedral Syndicates 2010 and 3010. For the 2014 year of account, the Group will underwrite £232.3 million of capacity across Cathedral Syndicates 2010 and 3010.

Cathedral Capital Holdings Limited's other main trading subsidiary is Cathedral Underwriting Limited, a Lloyd's managing agency which is subject to the dual regulation of the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA") as well as Lloyd's. This company has the rights to manage Cathedral Syndicate 2010 and Syndicate 3010. Syndicate 2010 currently specialises in non-marine and aviation reinsurance, direct and facultative property and contingency business, with premium capacity of around £350 million for the 2013 year of account. This remains unchanged for the 2014 year of account. Cathedral Syndicate 2010 has just closed its eleventh underwriting year, the 2011 year of account, with a profit.

Cathedral Underwriting Limited set up Syndicate 3010 during 2007, with an initial capacity of £20 million, which commenced underwriting on 1 July 2007. The syndicate currently specialises in marine cargo including specie, fine art and war. The capacity of the Syndicate was increased to £30 million for the 2008 year of account and has been maintained at that level since then. The Syndicate's sole capital provider is the Group's corporate member. Cathedral Syndicate 3010 has just closed its fifth underwriting year, the 2011 year of account, with a profit.

The Cathedral Syndicates 2010 and 3010 reported an aggregate 2013 calendar year profit of £68.6 million (2012: profit of £50.9 million) which equates to an aggregate net combined ratio for the Syndicates of 68.8% (2012: 79.0%), this excludes the currency translation loss of £5.0 million (2012: loss of £0.9 million). Cathedral Underwriting Limited intends to expand and develop its insurance operations as opportunities and market conditions allow. The Company has been approved by the FCA and Lloyd's as a controller of Cathedral Underwriting Limited.

A more detailed review of the activities and operating results of the Group are included in the Chief Executive Officer's Strategic Report on pages 2 to 8.

Share Capital

On 16 December 2013 the A Ordinary Shares and the C Ordinary Shares of the Company were redesignated as Ordinary Shares of 25 pence each. These shares rank Pari Passu in all respects.

On the same date the Company bought back (for an aggregate consideration of £1) 32,360,093 deferred shares of £0.000001 that were in issue.

The sole shareholder of the Company passed a written resolution on 16 December 2013 to reduce to nil the share premium account of £44,159,717.17 and also to reduce the capital redemption reserve by £282.83. This increased the distributable reserves of the Company by £44.16 million.

The detailed rights of the Ordinary Shares is set out in Note 27 to this annual report.

Directors

The Directors who held office during the period are set out on page 10.

Related Parties

Details of related parties and any related party transactions can be found in Note 32.

Going Concern

The financial statements of Cathedral Capital Holdings Limited have been prepared on a going concern basis.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Report on pages 2 to 8. The level of investments and cash and cash equivalents in the Group are set out in Notes 18 and 21 although some of these are restricted. Note 4 sets out the various risks to the Group, such as underwriting risk, credit risk, liquidity risk and market risk. Having taken these factors into account and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Auditors

During the year Ernst & Young LLP replaced Mazars LLP as the independent auditors to the Company. Ernst & Young LLP has expressed a willingness to continue in office for the coming year.

Disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Employee Involvement

Details of employees and their remuneration are included in Note 12.

Cathedral is an equal opportunity employer with all existing and prospective employees being treated equally and without discrimination on the grounds of gender, race, religion, age, sexual orientation or disability. Where existing employees become disabled it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotions to disabled employees wherever applicable.

The Group's employment practices and procedures are designed to attract and retain high caliber ambitious individuals. The work environment and culture is designed to enable motivated individuals to hone their skills in order to achieve their career goals and the appropriate training, both internal and external, is provided in an effort to ensure that this occurs in a timely manner. All employees receive the same opportunity for training, development and promotion.

Cathedral is committed to involving all employees in the performance and development of both the Company and the Group and employees are encouraged to discuss matters of interest and subjects affecting day-to-day operations. Employees are also regularly updated on the financial performance of the Group by the Executive Directors.

Donations

During the year the Group made no charitable or political donations (2012: £nil).

Corporate Governance

The Board of Cathedral Capital Holdings Limited is responsible for corporate governance of the Company.

On a day to day basis, however, the management of the Group's affairs and businesses are dealt with by the executive management of the Group who include the Executive Directors of the Company and selected other senior management and underwriters. This group has delegated authority from the Board to make such decisions and authorise such acts as are decided by the management to be necessary to manage and control the Group's affairs. The executive management report back to the Board at its meetings.

The Group Audit and Remuneration Committees are established as Committees of the Cathedral Capital Limited Board.

Group Audit Committee ("Audit Committee")

The Audit Committee concentrates mainly on the financial reporting, compliance, internal control and risk management framework of the Group. It is also responsible for vetting the appointment, independence and fees of the external auditors and makes recommendations to all subsidiary company Boards on these matters.

Membership of the Audit Committee comprises all the non-Executive Directors of Cathedral Capital Limited. The Non-Executive Chairman of Cathedral Capital Limited is Chairman of the Committee. The quorum for Audit Committee meetings is two and it meets at least annually.

The main activities of the Audit Committee include a detailed review of accounting policies and the financial statements; reviewing the report of the Group's risk management committee; an evaluation of the effectiveness of internal control, compliance and risk management systems of the Group; monitoring compliance with statutory and regulatory reporting requirements.

The Committee meets with the Group's external auditors and receives a report from them at least once a year. The Committee also agrees any appointment of the external auditors to provide any non audit services. The cost of all the services provided by the external auditors is set out in Note 11.

The Group has a risk management committee, which sits as a committee within the Group's managing agency subsidiary. This committee comprises the Executive Directors of the Company together with the directors, senior managers and underwriters of the managing agency. This committee, though primarily determining and monitoring risks and controls within the regulated business of the managing agency, also evaluates risks and controls throughout the rest of the Group's operations. A report on the work of the risk management committee is made to the Audit Committee at least annually.

Group Remuneration Committee ("Remuneration Committee")

The Remuneration Committee's main focus is on ensuring that salary, benefit and incentive levels throughout the Group are sufficiently competitive to attract and retain staff, particularly those holding key positions of responsibility.

The Cathedral Capital Limited Board of directors approves the membership of the Remuneration Committee, which currently comprises all non-Executive Directors of that Company together with the Chief Executive Officer of the Company or his alternate. The Non-Executive Chairman of Cathedral Capital Limited is Chairman of the Remuneration Committee and the quorum for meetings is two.

The Remuneration Committee is responsible for agreeing the remuneration of the Group Chief Executive Officer and the Executive Directors of Cathedral Capital Limited, together with that of senior executives having basic salaries of £125,000 and above.

Directors' Remuneration

Details of the Directors' Remuneration is set out in Note 32 of this Annual Report.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Due to the Floating Rate Subordinated Loan Notes issued by the Group being listed on the Irish Stock Exchange, the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the potential impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein. Financial statements are published on the Group's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

Directors' and Officers' Insurance

Lancashire Holdings Limited, a Bermudian registered company, has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and all of its subsidiary companies. Up to 7th November 2013 Cathedral Capital Limited purchased and maintained D&O liability insurance in respect of itself and all its subsidiary companies. All Directors and Officers of this Group are covered by this insurance. Since 7th November 2013, this Company has been included under the Lancashire Holdings Limited's Policy.

By order of the Board

John Lynch

Company Secretary

20 March 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CATHEDRAL CAPITAL HOLDINGS LIMITED

We have audited the group financial statements of Cathedral Capital Holdings Limited for the year ended 31 December 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's member in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Cathedral Capital Holdings Limited for the year ended 31 December 2013.

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 March 2014

Cathedral Capital Holdings Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2013

	Notes	**Year ended 31 December 2013 £'000**	Year ended 31 December 2012 £'000
Income			
Gross premiums written	5	**185,029**	193,266
Less premiums ceded to reinsurers		**(42,202)**	(45,961)
Net premiums written		**142,827**	147,305
Gross amount of change in provision for unearned premiums		**830**	(2,201)
Reinsurers' share of change in provision for unearned premiums		**182**	(33)
Earned premiums, net of reinsurance		**143,839**	145,071
Fees and commission income	6	**5,713**	1,774
Investment return	7	**5,100**	6,344
Other income		**44**	43
Total income		**154,696**	153,232
Expenses			
Claims paid:			
Gross amount		**(108,183)**	(119,991)
Reinsurers' share		**35,418**	38,705
Net claims paid		**(72,765)**	(81,286)
Net change in the provision for claims:			
Gross amount		**41,974**	18,332
Reinsurers' share		**(26,953)**	(11,212)
Net change in the provision for claims		**15,021**	7,120
Claims incurred, net of reinsurance:	5	**(57,744)**	(74,166)
Acquisition costs		**(33,858)**	(33,021)
Other operating expenses	8	**(22,621)**	(14,353)
Net foreign exchange (losses)	9	**(4,192)**	(6,172)
Total expenses excluding finance costs		**(118,415)**	(127,712)
Operating profits		**36,281**	25,520
Finance costs	10	**(4,631)**	(1,114)
Profit on ordinary activities before tax		**31,650**	24,406
Income tax (expense)	13	**(5,645)**	(5,182)
Profit on ordinary activities after tax		**26,005**	19,224
Profit attributable to the equity shareholder of the parent company		**26,005**	19,224
Other comprehensive income		**-**	-
Total comprehensive income for the year		**26,005**	19,224
Basic and diluted earnings per share	15	**63.0p**	46.6p

All activities were in respect of continuing operations.

The Company paid two interim dividends totalling £114 million in the year (2012: £10 million) as set out in note 14. The Company does not intend to declare a final dividend for the year. In 2012, the Company paid £5,467,000 as consideration for group relief from its parent company in excess of the standard rate of tax, reflected within equity as a transaction with owners. No such consideration was paid in 2013.

The Notes on pages 22 to 69 form an integral part of these consolidated financial statements.

Cathedral Capital Holdings Limited
Consolidated Statement of Financial Position
As at 31 December 2013

	Notes	**31 December 2013 £'000**	31 December 2012 £'000
Assets			
Property, plant and equipment	16	**276**	340
Intangible assets	17	**7,674**	7,069
Reinsurance assets	23	**66,024**	93,112
Financial investments	18	**140,357**	261,169
Deferred acquisition costs	23	**12,556**	12,391
Deferred tax assets	25	**1,363**	1,311
Prepayments and accrued income	19	**5,554**	2,282
Trade and other receivables	20	**94,318**	71,273
Cash and cash equivalents	21	**80,558**	95,785
Total assets		**408,680**	544,732
Equity			
Called up share capital	27	**10,316**	10,316
Share premium account		**-**	44,160
Other reserves		**3,160**	3,160
Retained earnings		**48,500**	92,398
Total shareholder's equity		**61,976**	150,034
Liabilities			
Borrowings	22	**45,172**	42,974
Insurance liabilities	23	**258,740**	302,793
Provision for other liabilities	24	**6,267**	4,907
Deferred tax liabilities	25	**17,422**	11,347
Trade and other payables	26	**18,011**	31,197
Current tax liabilities		**-**	582
Accruals and deferred income		**1,092**	898
Total liabilities		**346,704**	394,698
Total equity and liabilities		**408,680**	544,732

The financial statements on pages 18 to 69 were approved by the Board of Directors and authorised for issue on 20 March 2014.

Peter Scales
Chief Executive Officer

John Lynch
Chief Financial Officer

The Notes on pages 22 to 69 form an integral part of these consolidated financial statements.

Cathedral Capital Holdings Limited
Consolidated Statement of Changes in Equity
For the year ended 31 December 2013

Year ended 31 December 2013

	Balance at 1 January 2013 £'000	**Total Comprehensive Income for the year £'000**	**Transactions with owners: Dividends paid £'000**	**Share capital reduction £'000**	**Total attributable to shareholders £'000**
Called up share capital	**10,316**	**-**	**-**	**-**	**10,316**
Share premium account	**44,160**	**-**	**-**	**(44,160)**	**-**
Capital redemption reserve	**1,713**	**-**	**-**	**-**	**1,713**
Merger reserve	**1,447**	**-**	**-**	**-**	**1,447**
Retained earnings	**92,398**	**26,005**	**(114,063)**	**44,160**	**48,500**
Total shareholder's equity	**150,034**	**26,005**	**(114,063)**	**-**	**61,976**

Year ended 31 December 2012

	Balance at 1 January 2012 £'000	Total Comprehensive Income for the year £'000	Transactions with owners: Dividends paid £'000	Transactions with owners: Group relief £'000	Total attributable to shareholders £'000
Called up share capital	10,316	-	-	-	10,316
Share premium account	44,160	-	-	-	44,160
Capital redemption reserve	1,713	-	-	-	1,713
Merger reserve	1,447	-	-	-	1,447
Retained earnings	88,641	19,224	(10,000)	(5,467)	92,398
Total shareholder's equity	146,277	19,224	(10,000)	(5,467)	150,034

Nature and purpose of each reserve
The called up share capital is the nominal value of each share in issue and is not distributable.

The share premium account represents the difference between the proceeds and the nominal value of each share issued and is not distributable, although expenses relating to the issue of shares can be offset against the premium arising on the related shares issued. During the year, the Directors of the Company authorised a reduction in the share premium reserve which resulted in an increase in the retained earnings.

The capital redemption reserve is in respect of shares cancelled by the Company and is not distributable.

The merger reserve is in respect of an acquisition of a subsidiary where the consideration includes the issue of shares and where merger relief is available on the issue of shares. The reserve is not distributable.

Retained earnings are in respect of the cumulative comprehensive income retained by the Group after dividends, considerations for group relief from a subsidiary company in excess of the standard rate of tax, and tax.

The Notes on pages 22 to 69 form an integral part of these consolidated financial statements.

Cathedral Capital Holdings Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2013

	Notes	**Year ended 31 December 2013 £'000**	Year ended 31 December 2012 £'000
Cash generated from operations	31	**36,699**	(157)
Interest received		**5,765**	5,859
Dividends received		**339**	332
Income taxes paid		**(1,763)**	(4,958)
Contribution towards loss from parent company payable by way of group relief		**-**	(5,467)
Contribution to other group companies in lieu of tax		**(1,325)**	(1,875)
Net cash from / (used in) operating activities		**39,715**	(6,266)
Investing activities			
Purchase of software under construction		**(605)**	-
Purchase of property, plant and equipment		**(107)**	(311)
Net cash (used in) investing activities		**(712)**	(311)
Financing activities			
Purchase of investments by ESOP		**-**	(100)
Consideration for investments sold by ESOP		**3,783**	-
Distribution of ESOP		**(3,982)**	-
Interest paid on loan notes		**(1,849)**	(2,039)
Dividends paid		**(51,317)**	(10,000)
Net cash (used in) financing activities		**(53,365)**	(12,139)
Net (decrease) / increase in cash and cash equivalents		**(14,362)**	(18,716)
Cash and cash equivalents at beginning of year		**95,785**	115,225
Effect of exchange rate fluctuations on cash and cash equivalents		**(865)**	(724)
Cash and cash equivalents at end of year	21	**80,558**	95,785

The Notes on pages 22 to 69 form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Cathedral Capital Holdings Limited ("the Company") is a limited company registered and domiciled in England and Wales. The addresses of its registered office and principal place of business are disclosed in the Report of the Directors on page 11. The principal activities of the Company and its subsidiaries ("the Group") are described in the Report of the Directors on page 11.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

a) Basis of preparation

The Group issued a series of Floating Rate Subordinated Loan Notes due in 2034 and 2035, all of which have been listed on the Irish Stock Exchange. Accordingly, the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Commission ("EC"). The financial statements of the Group have therefore been prepared under the historical cost accounting rules, modified by the revaluation of certain financial instruments as described below and in accordance with IFRS as adopted by the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The accounts have been prepared on a going concern basis, as discussed in the Report of the Directors on page 12.

b) Basis of consolidation

The financial statements of the Group include the accounts of the Company and its subsidiaries, together with the Group's share of the assets, liabilities, revenues and expenses of the Lloyd's syndicates supported by the Group's corporate member subsidiary for the year ended 31 December 2013. Subsidiaries are those entities in which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. The Group's employee share ownership plan ("ESOP") is also included within the financial statements of the Group as the Group is deemed to have de facto control of the assets and liabilities of the ESOP. The financial statements of subsidiaries are prepared for the same reporting year as the Company. Adjustments are made to convert the accounts of the Company and its subsidiaries prepared under UK GAAP into IFRS so as to remove any dissimilar accounting policies that may exist. All inter-company balances, profit and transactions are eliminated on consolidation.

c) Adoption of new and revised standards

IFRS 13 ("Fair Value Measurement") became effective during 2013. The impact of this standard was only in respect of disclosures. There was no impact on the profits of the Group or the assets and liabilities of the Group. All other new standards and interpretations released by the International Accounting Standards Board ("IASB") during the year have been considered and are deemed to not be relevant to these financial statements.

d) Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations issued by the International Accounting Standards Board (IASB) and which are relevant to the Group are in issue but not yet effective:

(i) IFRS 9 ("Financial Instruments"); and
(ii) IFRS 12 ("Disclosure of involvement with other entities").

The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the consolidated financial statements of the Group, except for changes to disclosures.

3 SIGNIFICANT ACCOUNTING POLICIES

a) Recognition of insurance transactions and sources of data

The Group participates on syndicates at Lloyd's. These consist of Syndicates 2010 and 3010 ("the syndicates") which are managed by the Group's managing agent subsidiary.

The Group recognises its share of all the transactions undertaken by the syndicates in which it participates within the Group's Consolidated Statement of Comprehensive Income. Similarly, the Group's share of the syndicates' assets and liabilities has been reflected in its Consolidated Statement of Financial Position. This share is calculated by reference to the Group's participation as a percentage of each syndicate's total capacity for each year of account.

Syndicate assets are held subject to the terms of the trust deeds for the benefit of the Group's insurance policyholders.

In accordance with IFRS 4, "Insurance Contracts", the Group continues to apply existing accounting policies to its insurance contracts but has the option to make improvements to its policies if the changes make the financial statements more relevant to decision making needs of the users. Insurance contracts entered into by way of the Group's participation on the syndicates are accounted for under the annual accounting basis (which is used by most insurance entities in the United Kingdom).

b) Use of estimates

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

c) Insurance contracts

Insurance contracts entered into by way of the Group's participation on the syndicates are accounted for as follows:

(i) Premiums

Gross written premiums represent contracts on business incepting during the financial year, together with adjustments made in the year to premiums written in previous accounting periods. All premiums are gross of commission payable to intermediaries, and include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured by the syndicates. This includes both the Group's share of outwards reinsurance premiums written by the syndicates and also premiums paid by the Group's subsidiaries for reinsurance protection.

The movement in the provision for unearned premium is taken to the Consolidated Statement of Comprehensive Income in order that revenue is recognised over the period of the risk.

(ii) Provision for unearned premiums

Written premium is earned according to the risk profile of the policy commencing from the date of inception of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate. Estimates are based on managing agent's estimates of the exposures of the underlying business written.

(iii) Claims incurred

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

(iv) Outstanding claims provisions

The outstanding claims comprise amounts set aside for claims notified by the balance sheet date and IBNR and includes amounts in respect of internal and external claims handling costs.

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

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

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

(v) Reinsurance

The reinsurers' share of provision for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Where reliance has been placed on the security rating by rating agencies, it has been assumed that they provide a reliable estimate of the likelihood of the reinsurer in question being able to meet its obligations when called upon to do so.

If a reinsurance asset is impaired, the Group reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the Consolidated Statement of Comprehensive Income. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the asset, that the Group may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(vi) Deferred acquisition costs

Acquisition costs represent commission and other expenses arising from the conclusion of insurance contracts. They are deferred over the period in which the related premiums are earned.

(vii) Liability adequacy tests

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

(viii) Reinsurance to close

To the extent that the Group participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the Group has offset its share of the reinsurance to close received against its share of the reinsurance to close paid. This is accounted for in the accounting period when the reinsurance to close contract is completed (usually the year after the year of account is deemed to have closed).

Where the Group has increased or decreased its syndicate participation from one year of account to the next, the difference between the reinsurance to close received and the reinsurance to close paid is shown in the Consolidated Statement of Comprehensive Income as either gross premiums written or reinsurance premiums payable as appropriate.

d) Revenue recognition

(i) Fees and commission income

Fees and commission income consists mainly of managing agent’s fees and profit commission charged to Names (underwriting at Lloyd’s) in respect of the syndicates. This excludes any fees or profit commission charged to the Group’s corporate member subsidiary. The fees are recognised in the accounting period in which the service is rendered by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided. Profit commission is only recognised on open years where it can be measured reliably.

(ii) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses. The investment return comprises both the Group’s share of the syndicates’ investment return and the Group’s investment return on its corporate assets. Interest income is recognised on an accruals basis. Dividend income is recognised when the shareholders’ right to receive the payment is established.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price. Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the Consolidated Statement of Comprehensive Income in the same accounting period.

e) Other operating expenses

Operating expenses include the Group’s share of the syndicates’ operating expenses and the Group’s corporate expenses. The Group’s share of the syndicates’ operating expenses includes the direct costs of membership of Lloyd’s (“personal expenses”). Expenses are accounted for on an accruals basis. Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost or proceeds of the investment.

f) Foreign currency translation

The consolidated financial statements are presented in sterling which is the Group’s presentational currency. Items included in the financial statements of each of the Group’s entities are measured using the functional currency which is the primary economic environment in which each entity of the Group operates.

Foreign currency transactions are translated into 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. Non-monetary assets and liabilities that are measured at historical cost denominated in a foreign currency are translated using the historical exchange rate. The resulting exchange differences on translation are recorded in the Consolidated Statement of Comprehensive Income.

g) Intangible assets - Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Goodwill is annually tested for impairment. Goodwill is impaired when the net present value of the forecast future cashflows are insufficient to support its carrying value or when the fair value is lower than cost. An impairment loss recognised for goodwill is not reversed in a subsequent accounting period.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

h) Other Intangible assets

- **Syndicate participation rights**

The cost of syndicate participation rights ("participation rights") is capitalised at cost in the Consolidated Statement of Financial Position. It has an indefinite useful life and is carried at cost less accumulated impairment. It is annually tested for impairment and provision is made for any impairment. The participation rights are impaired when the net present value of the forecast future cashflows are insufficient to support its carrying value or the fair value is less than cost.

- **Software under construction**

The intangible assets under construction relate to costs directly attributable to computer software and are deemed to have a definite useful economic life of three years. The assets are reviewed for impairment loss at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Amortisation is calculated on a straight line basis based on the estimated useful economic life of the assets, following completion of testing and integration of the software into business as usual processes,

i) Investments

The Group classifies its financial assets held for investment purposes as designated at fair value through profit and loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management. The fair values of quoted financial investments are based on bid prices at the balance sheet date. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques, such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

For the Group, unlisted investments are stated at fair value.

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

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

The Group's share of the syndicates' investments are treated as sold and purchased at each 31 December in recognition of the annual venture nature of participations on a syndicate. Their cost is therefore their market value, based on bid values, at that date.

j) Trade and other receivables

Inwards premium receivable are recorded net of commissions and brokerage. These balances are reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost over their estimated useful economic lives using the straight line method. The estimated useful economic lives are as follows:

- Lease 5 years
- Computer and other equipment 3 years
- Furniture, fixtures and fittings 5 years

An item of property, plant and equipment is derecognised upon 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 included in the Consolidated Statement of Comprehensive Income in the same accounting period. Costs for repairs and maintenance are expensed as incurred.

l) Cash and cash equivalents

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

m) Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other accounting periods and it further excludes items that are never taxable or deductible. The Group's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit or the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated using tax rates (and laws) that are expected to apply when the liability is settled or the asset realised. Deferred tax is charged or credited to the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in Consolidated Statement of Changes in Equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are not discounted.

The Group is taxed on its share of the underwriting results on a declarations basis. The underwriting result for tax purposes will be adjusted to reflect discounting of reserves, if any.

HM Revenue and Customs determines the taxable results of individual syndicates on the basis of computations submitted by the managing agent. At the date of approval of these financial statements, some of the taxable results of syndicates supported by the Group have not been agreed. Any adjustments that may be necessary to the tax provisions established by the Group as a result of HM Revenue and Customs agreement of individual syndicate taxable results will be reflected in the financial statements of subsequent accounting periods.

Group relief

Contribution for group relief is charged between subsidiaries. Where the contribution is at the standard rate of tax, this is included within the Consolidated Statement of Comprehensive Income as a corresponding credit or increase to the tax charge. Where a contribution paid is in excess of the standard rate of tax, the excess amount is recognised within the Consolidated Statement of Changes in Equity as a contribution to owners. Where a contribution received is in excess of the standard rate of tax, the excess amount is recognised within

the Consolidated Statement of Comprehensive Income as a contribution towards loss from a subsidiary payable by way of group relief.

n) Employee Share Ownership Plan ("ESOP")

The Group operates an ESOP. Until December 2013, the Group had de facto control of the shares held by the ESOP and bore their benefits and risk. It also records certain assets and liabilities of the ESOP as its own. Finance costs and administrative expenses are charged as they accrue. As the shares held by the ESOP were not those of the Group, the shares were recorded as investments and accounted as such in accordance with note i) above.

o) Leased assets

Rentals in respect of assets held under operating leases are charged to the Consolidated Statement of Comprehensive Income in the accounting period they are incurred.

p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Costs arising on the issue of loan notes are charged to the Consolidated Statement of Comprehensive Income over the period of the loan notes. The loan notes payable are shown on the Consolidated Statement of Financial Position, net of any unamortised cost. Borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the accounting period in which they are incurred.

q) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense in the accounting period they fall due.

r) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

s) Equity share capital

The Group classifies its ordinary shares as equity instruments. An equity instrument is any contract which evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognised as the proceeds of issue, net of any direct issue costs.

4 Risk disclosure

The Group is exposed to a variety of risks when undertaking its activities. The Board has policies in place to identify and manage the key risks in accordance with its risk appetite. Together with general operational risks, these risks can be split into the following categories:

- Insurance risk
- Credit risk
- Liquidity risk
- Market risk

The Group only underwrites on the syndicates ("the syndicates") managed by its managing agency subsidiary.

The sections below outline the Group's risk appetite and explain how it defines and manages each category of risk.

4.1 Insurance risk

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

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

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

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

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

4.1.1 Diversification across classes of business

The Group's underwriting covers various classes of business which, to some extent, have different exposure profiles and therefore provides an element of diversification to the Group. An analysis of gross written premiums by class of business is as follows:

	2013	**2013**	2012	2012
	£'000	**%**	£'000	%
Non-marine	**74,561**	**40.3%**	80,901	41.9%
Direct property	**64,290**	**34.7%**	62,493	32.4%
Aviation	**14,428**	**7.8%**	16,609	8.6%
Cargo	**27,130**	**14.7%**	28,297	14.6%
Contingency	**2,972**	**1.6%**	3,358	1.7%
Satellite	**1,639**	**0.9%**	1,625	0.8%
FTC	**(9)**	**0.0%**	(21)	0.0%
	185,011	**100.0%**	193,262	100.0%
RITC adjustment*	**18**		4	
	185,029		193,266	

* The RITC adjustment relates to the receipt of premiums in respect of additional liabilities accepted when the Group increases its underwriting capacity on a syndicate.

The Group's managing agency subsidiary monitors the type of business underwritten by its syndicates at a whole account level and, where appropriate, adjusts either the business mix or the level of reinsurance protection in place to try to reduce the extent of overly concentrated exposures.

4.1.2 Frequency and severity of claims

The frequency and severity of claims in respect of the syndicates can be affected by several factors and these can impact the Group.

The syndicates currently specialise in property and aviation treaty reinsurance, direct and facultative property insurance, satellite, contingency business and marine cargo. These accounts are predominantly short-tail in nature, and some of them have a high degree of catastrophe exposure (for example the property accounts could be affected by hurricane losses or earthquakes).

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

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

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

4.1.3 Underwriting risk

The syndicates have a defined event risk appetite. Best efforts are made to restrict the maximum gross and net loss that the syndicates may retain / lose for any single major catastrophe event (taken to be a Lloyd’s RDS) to be not materially more than circa 20% of capacity net or circa 70% of capacity gross. This is when applying rates of exchange used for planning purposes. The syndicates model various loss scenarios and also prepare prescribed RDS which seek to analyse and quantify their exposures to certain specified events, and the syndicates endeavour to ensure that their potential loss exposures remain within Franchise Board guidelines. During 2012, Lloyd’s amended these guidelines to measure maximum RDS exposures as a percentage of both Gross Net Premium (GNP) and ECA, however, internally the syndicates continue to manage RDS exposure against capacity.

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

a) Accumulative loss including unknown / unexpected accumulations
The business written by the syndicates is short tail in nature and, whilst the US Terror Attacks in 2001 showed that short tail classes are not immune from unknown / unexpected accumulations, the threat of this occurring is probably more pronounced in the liability fields. By and large the insurances and reinsurances provided by the syndicates are of a well tested nature. More crucially, the approach taken to risk management is heavily exposure driven. The syndicates continually seek to model their portfolio of accounts in order to identify accumulations and to monitor the exposures of the syndicates, and the whole process is supported by sophisticated internal and external modelling systems. Finally, to ensure the maximum depth of reinsurance coverage, all accounts other than FTC have purchased separate reinsurance programmes.

b) Risk of extreme losses
Even ignoring apocalyptic type losses (e.g. massive meteorite strike), crippling losses of circa US$ 50 billion could have a major destabilising effect on the insurance industry as a whole. Whilst the reinsurance writings for the syndicates (unlike direct insurance) provide policyholders with defined cover by way of both limits and number of reinstatements, the development of the direct and facultative account and marine cargo account gives rise to very large assured values which are vulnerable to failures in PML assumptions. Also, the syndicates could be vulnerable to significant failure amongst their own reinsurers.

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

c) Frequency of major loss
The syndicates are vulnerable to a high frequency of major loss.

The major defences the syndicates have to a high frequency of major loss on the reinsurance accounts are both the level at which cover is given and the limited number of reinstatements which they will typically provide. Additionally, the syndicates seek to purchase a depth of cover at the lower levels particularly to protect against a frequency of mid-sized claims. The direct and facultative account and the marine cargo account are also more vulnerable to loss frequency, although this is mitigated by modulating line size by attachment point, geographical spread of risks and a separate reinsurance programme.

d) Wording issues

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

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

e) Unsustainable pricing

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

The business planning process seeks to ensure the underwriting capacity is applied to those areas of business that offer sound prospects for profitable underwriting.

The major controls applied on a day-to-day basis include the peer review processes within the syndicates which ensure that all risks are seen by at least two underwriters and the syndicates' rate monitoring processes. The managing agency's syndicates' board reviews loss ratio statistics to identify adverse developments (which may be due to pricing issues) so that appropriate remedial action can be taken. It also reviews the rate monitoring index to identify pricing trends.

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

Other controls

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

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

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

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

4.1.4 Reinsurance risk

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

a) Inappropriate reinsurance programme / gaps

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

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

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

b) Collapse of the retrocession market

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

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

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

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

4.1.5 Reserving risk
Reserves include both claims liabilities and provisions for unearned premiums.

Reserves for claims liabilities do not represent an exact calculation of liability. Rather, reserves are estimates of what the Group expects the ultimate settlement and administration of claims will cost. The reserving risk to the Group is that reserves established by the Group are insufficient to meet actual claims liabilities, or that reinsurance bad debt provisions or allowances for future expenses are inadequate.

When estimating claims liabilities, significant reserving judgements are required to be made, particularly in respect of the ultimate cost of major catastrophes, contentious or complex claims, reinsurance recoverables and liability awards.

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

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

a) Claims outstanding

(i) Process used to decide on assumptions

The projection of claims outstanding (and reinsurance recoveries thereon) is subjective in nature as it relates to claims which have happened but for which there is limited information available at the year-end, or which relates to claims which can be complex (for example, subject to potential litigation or disputes over specific terms and conditions of the policies written).

For the syndicates, the Group uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The syndicates underwrite relatively short-tail accounts, which can often mean that after a short period of time (e.g. typically two years), a large proportion of the underwriting losses have already been notified to them and, more importantly, catastrophe losses are known soon after an event occurs. Therefore, projections are able to be undertaken using underwriter judgement, market share analysis and comparison to the rest of the market.

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

(ii) Changes in assumptions and sensitivity analysis

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

(iii) Sensitivity analysis - sensitivity of claims liabilities

When reviewing the claims liability projections in respect of the syndicates, the Group considers the factors and assumptions which could have a large impact on those projections. The main areas of sensitivity relate to:

• those claims which are of a complex nature, particularly where information is not forthcoming or have the potential to develop further in the light of litigation or legal dispute; and

• future advices / notifications with respect to significant losses occurring close to the year end. By their nature, these claims are large at a gross level and, given the limited time between their event and the year-end, notifications by year-end would not be expected to be complete. Any projections of these losses at this early stage will be subjective. Nonetheless, the Group has sought to consider all potential losses and reviews / follows up such losses on a regular basis.

If the provision for net outstanding claims changed by 1%, the impact would equate to a pre tax movement on net assets / profits of £1,359,000 (2012: £1,525,000).

The loss development table that follows provides information about the historical claims development for syndicates. It shows how the Group's estimates of the claims ratio for the past nine underwriting years have changed at successive year-ends. In effect, the table highlights the Group's ability to provide a robust estimate of the claims costs. An underwriting year basis is considered to be the most appropriate basis for business written by the Group.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current claims liabilities. The Group believes that the estimate of total claims liabilities as at 31 December 2013 are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Syndicates loss ratio development table (whole account)

	Underwriting Year									
Gross	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
1 year	89%	156%	28%	40%	74%	40%	64%	81%	55%	47%
2 years	76%	121%	36%	46%	70%	52%	92%	76%	46%	
3 years	76%	116%	36%	47%	70%	49%	93%	72%		
4 years	73%	117%	36%	46%	67%	47%	92%			
5 years	73%	117%	35%	45%	66%	46%				
6 years	73%	117%	35%	45%	65%					
7 years	73%	117%	34%	45%						
8 years	73%	116%	34%							
9 years	72%	115%								
10 years	72%									

	Underwriting Year									
Net	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
1 year	70%	87%	39%	58%	66%	53%	76%	86%	63%	62%
2 years	55%	72%	45%	57%	60%	58%	80%	77%	50%	
3 years	56%	66%	46%	57%	60%	52%	77%	72%		
4 years	53%	66%	44%	55%	56%	49%	75%			
5 years	53%	66%	44%	54%	55%	48%				
6 years	52%	66%	43%	53%	52%					
7 years	52%	65%	42%	53%						
8 years	52%	63%	41%							
9 years	51%	63%								
10 years	51%									

The loss ratios above are in respect of the pure year of account and are the cumulative annually accounted loss ratios at each stage. For the 2012 and prior underwriting years, these generally decreased during the 2013 calendar year in light of favourable claims experience.

b) Provision for unearned premiums

(i) Process used to decide on assumptions

The provision for unearned premiums is determined at an individual policy level and is either based on a straightforward time basis or, where appropriate, weighted towards where the exposure is believed to fall. For example, insurance policies protecting windstorms in the Florida region of the USA will tend to be earned later in the calendar year as that is when the hurricane season will occur.

(ii) Changes in assumptions and sensitivity analysis

There have been no changes in assumptions or sensitivity analyses for determining the provision for unearned premiums in respect of the syndicates.

(iii) Sensitivity analysis - sensitivity of provision for unearned premiums

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

If a change in the proportion of total business written of one percentage point was to become unearned this would equate to an adjustment of £1,850,000 to the unearned premium provision (2012: £1,933,000).

4.2 Credit risk

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

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

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

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

At the year-end, the Group has quantified the credit risk to the syndicates and reduced the amounts due from reinsurers and reinsurers' share of insurance liabilities for this. Where the syndicates have any legal right of off-set, this is assumed in the calculation of credit risk.

The Group also has exposure to credit risk on its investments and cash holdings, whereby an issuer default results in the Group losing all or part of the value of a financial instrument.

With respect to the syndicates, all funds are held in either cash or short-dated fixed interest securities (either government or high-quality investment grade corporate bonds). Fixed interest managers are employed and their asset allocation is regularly monitored by the managing agency subsidiary's syndicate investment committee.

With respect to the Group's corporate investments, the Group applies an asset allocation strategy aimed at preserving capital. A limit is applied to the proportion of investments which can be invested in riskier asset classes such as equities or capital protected securities. The short-dated fixed interest securities can be invested in either government or high-quality corporate bonds.

With respect to the syndicates' investments and Group's corporate investments, detailed requirements regarding asset diversification and concentration limits are set out in the investment mandates given to the external investment managers.

The following tables analyse the Group's concentration of credit risk, using ratings from external rating agencies. This analysis is in respect of the corporate group and the Group's share of syndicates only.

At 31 December 2013	**A++ to A-**	**B++ to B-**	**F**	**Unrated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments	**125,775**	**4,750**	**-**	**9,832**	**140,357**
Insurance receivables	**50,938**	**22**	**-**	**4,026**	**54,986**
Reinsurance assets	**54,483**	**201**	**-**	**11,340**	**66,024**
Cash and cash equivalents	**80,519**	**-**	**-**	**39**	**80,558**
	311,715	**4,973**	**-**	**25,237**	**341,925**

At 31 December 2012	A++ to A-	B++ to B-	F	Unrated	Total
	£'000	£'000	£'000	£'000	£'000
Financial investments	245,805	3,894	-	11,470	261,169
Insurance receivables	51,238	171	-	10,778	62,187
Reinsurance assets	75,414	1,432	-	16,266	93,112
Cash and cash equivalents	95,526	-	-	259	95,785
	467,983	5,497	-	38,773	512,253

Credit ratings for financial investments are based on ratings available from Standard and Poor's but, in the event that they do not rate a specific investment, then either Moody's or Fitch are used instead, depending on which agency/agencies rated the investment.

Of the £11.3 million unrated reinsurance assets at 31 December 2013, circa £3.9 million (2012 circa £10.0 million) are fully collateralised in trust funds; circa £1.9 million are in respect of attritional IBNR that have yet to be allocated to any specific loss; and the remaining circa £5.5 million relate to a handful of specific unsettled recoveries from reinsurers that have subsequently merged or been taken over by another reinsurer and therefore the original counterparty is no longer rated. However no recovery issues are currently anticipated with respect to these specific counterparties.

The ageing analysis of debtors arising out of direct insurance operations and reinsurance operations past due but not impaired is as follows:

	Group 31 December 2013 £'000	Group 31 December 2012 £'000
3 to 6 months past due	**732**	335
6 to 9 months past due	**629**	493
Greater than 9 months past due	**985**	1,129
	2,346	1,957

4.3 Liquidity risk

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

Claims arising from insurance contracts are settled by the syndicates using their own funds. Where insufficient liquid funds exist, the syndicates can cash call the Names supporting them and can ultimately draw down from the Names' funds at Lloyd's. With respect to the syndicates, the funds are held in cash or in short-term, liquid stocks which are able to be converted to cash within a few days. Furthermore, the syndicates have banking catastrophe facilities available to them.

A portion of the corporate Group's assets are held as funds at Lloyd's which are restricted in terms of their use, although they can be drawn down to pay any cash calls to syndicates supported by the Group. However, at 31 December 2013, the Group had £24.2 million of cash available for use (2012: £17.2 million).

The following tables group the debt securities, cash and cash equivalents, borrowings, gross provisions for outstanding claims, and claims outstanding recoverable from reinsurers into maturity date periods. The gross provisions for outstanding claims, and claims outstanding recoverable from reinsurers reflect the estimated, undiscounted cash flows. Note that the maturity date used below for the long term debt is on the same basis as its valuation, as set out in Note 22.

At 31 December 2013	**Balance sheet**	**< 1 year**	**1 - 3 years**	**4 - 5 years**	**> 5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Debt securities*	**128,273**	**33,239**	**75,906**	**12,659**	**6,469**	**128,273**
Cash and cash equivalents	**80,558**	**80,558**	**-**	**-**	**-**	**80,558**
Borrowings	**(45,172)**	**(1,767)**	**(4,220)**	**(5,981)**	**(105,252)**	**(117,220)**
Gross provision for claims outstanding	**(197,331)**	**(96,806)**	**(75,751)**	**(17,160)**	**(7,614)**	**(197,331)**
Claims outstanding recoverable from reinsurers	**61,456**	**32,670**	**20,401**	**5,021**	**3,364**	**61,456**
	27,784	**47,894**	**16,336**	**(5,461)**	**(103,033)**	**(44,264)**

At 31 December 2012	Balance sheet	< 1 year	1 - 3 years	4 - 5 years	> 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities*	240,228	81,539	140,946	11,264	8,532	242,281
Cash and cash equivalents	95,785	95,785	-	-	-	95,785
Borrowings	(42,974)	(1,933)	(3,865)	(50,437)	-	(56,235)
Gross provision for claims outstanding	(241,221)	(98,514)	(107,396)	(27,409)	(7,902)	(241,221)
Claims outstanding recoverable from reinsurers	88,752	30,238	39,586	15,768	3,160	88,752
	140,570	107,115	69,271	(50,814)	3,790	129,362

* Including debt securities held by ESOP.

4.4 Market risks

4.4.1 Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the Group. This can arise where the Group holds investments (either directly or through its participation on syndicates) with a fixed return, and market interest rates change which in turn change the market value of the investments.

The fixed interest securities held by the corporate entities of the Group and the syndicates have a short duration and so foreseeable changes in market interest rates would not be expected to have a significant impact on their value.

All borrowings are at variable rates which are re-priced quarterly. The rates are as set out in Note 22. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. However, this exposure is to some extent mitigated as any changes in LIBOR could be expected to impact both the interest earned on the cash and investments held by the Group as well as on the loans themselves. The Group has not entered into any interest rate swap products.

The effective interest rate of the Group's financial instruments exposed to interest rate risk at the balance sheet date is as follows:

	31 December 2013	31 December 2012
Debt securities	**0.6%**	0.9%
Cash and cash equivalents	**0.4%**	0.5%
Borrowings	**3.7%**	5.7%

A change in market interest rates of one percentage point would equate to a pre tax movement on net assets / profits of £1,761,000 (2012: £4,025,000). This has been calculated by revaluing the assets and liabilities that would be affected by a movement in market interest rates.

4.4.2 Equity price risk
The Group holds some equity investments on its Consolidated Statement of Financial Position to give it a broader exposure to different investment asset classes with a view to enhancing its investment returns over the longer term. However, by doing so, the Group is exposed to a degree of equity price risk. The exposure to equities is only to the corporate assets of the Group as syndicates on which the Group participates did not hold equity investments, other than overnight money market instruments.

The Group manages its equity price risk by placing a limit on the amounts that can be invested in equities. The performance of the investment managers is continuously monitored and the Group's asset allocation committee formally receives a report from the investment managers each quarter.

Based on the year end value of equities and alternative investments, a change in the FTSE All Share Index of 10 percentage points would equate to a pre tax movement on net assets / profits of £983,000 (2012: £883,000).

4.4.3 Currency risk
The Group holds assets and liabilities in three main currencies - sterling, euros and US dollars. The syndicates themselves also hold their assets and liabilities in Canadian dollars.

Syndicates for the most part aim to ensure that their assets and liabilities match by currency as closely as possible, which mitigates the degree of currency risk somewhat.

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

The tables below show the currency split of the group's assets and liabilities.

As at 31 December 2013	**STG**	**EUR in cnv £'000**	**USD in cnv £'000**	**CAD in cnv £'000**	**Total in cnv £'000**
Assets					
Property, plant and equipment	**276**	**-**	**-**	**-**	**276**
Intangible assets	**7,674**	**-**	**-**	**-**	**7,674**
Reinsurers' share of technical provisions	**15,672**	**1,224**	**48,564**	**564**	**66,024**
Financial investments	**12,589**	**13,428**	**103,755**	**10,585**	**140,357**
Deferred acquisition costs	**2,305**	**407**	**8,879**	**965**	**12,556**
Deferred tax asset	**1,363**	**-**	**-**	**-**	**1,363**
Prepayments and accrued income	**5,517**	**-**	**26**	**11**	**5,554**
Trade and other receivables	**15,963**	**13,555**	**62,801**	**1,999**	**94,318**
Cash and cash equivalents	**38,640**	**4,493**	**31,194**	**6,231**	**80,558**
Total assets	**99,999**	**33,107**	**255,219**	**20,355**	**408,680**
Liabilities					
Borrowings	**-**	**9,768**	**35,404**	**-**	**45,172**
Insurance contracts	**50,979**	**21,558**	**171,547**	**14,656**	**258,740**
Provision for other liabilities and charges	**6,267**	**-**	**-**	**-**	**6,267**
Deferred tax liabilities	**17,421**	**-**	**-**	**-**	**17,421**
Trade and other payables	**7,444**	**328**	**10,068**	**171**	**18,011**
Current tax liabilities	**-**	**-**	**-**	**-**	**-**
Accruals and deferred income	**995**	**44**	**54**	**-**	**1,093**
Total liabilities	**83,106**	**31,698**	**217,073**	**14,827**	**346,704**
Net assets	**16,893**	**1,409**	**38,146**	**5,528**	**61,976**
Impact of 10% currency movement*	**-**	**141**	**3,815**	**553**	**4,509**

As at 31 December 2012	STG	EUR in cnv £'000	USD in cnv £'000	CAD in cnv £'000	Total in cnv £'000
Assets					
Property, plant and equipment	340	-	-	-	340
Intangible assets	7,069	-	-	-	7,069
Reinsurers' share of technical provisions	31,371	2,122	59,054	565	93,112
Financial investments	51,784	19,524	177,566	12,295	261,169
Deferred acquisition costs	2,383	435	8,432	1,141	12,391
Deferred tax asset	1,311	-	-	-	1,311
Prepayments and accrued income	1,520	182	580	-	2,282
Trade and other receivables	24,697	4,177	41,000	1,399	71,273
Cash and cash equivalents	50,367	5,317	33,672	6,429	95,785
Total assets	170,842	31,757	320,304	21,829	544,732
Liabilities					
Borrowings	-	8,963	34,011	-	42,974
Insurance contracts	76,621	19,286	194,277	12,609	302,793
Provision for other liabilities and charges	4,907	-	-	-	4,907
Deferred tax liabilities	11,347	-	-	-	11,347
Trade and other payables	16,782	509	13,776	130	31,197
Current tax liabilities	582	-	-	-	582
Accruals and deferred income	803	43	52	-	898
Total liabilities	111,042	28,801	242,116	12,739	394,698
Net assets	59,800	2,956	78,188	9,090	150,034
Impact of 10% currency movement*	-	296	7,819	909	9,024

* This is the pre tax impact on net assets (i.e. total assets less total liabilities) / profits of a movement in the US dollar, Canadian dollar, euro against sterling by 10%, with all other variables constant. This is based on the above currency split.

5 Segmental information

Analysis of Group's Reportable Segments

There are three main reportable segments to the Group. These are as follows:

- Syndicates, being those managed by the Cathedral Group - specifically, Syndicate 2010 and Syndicate 3010;
- Corporate Funds consisting of funds at Lloyd's and free funds for the corporate group; and
- Corporate Other, being other areas of the group such as fees, profit commission and expenses.

The Group is managed at this level and results are reported to the Chief Operating Decision Maker at this level too.
The Boards of Cathedral Capital Holdings Limited and Cathedral Capital Limited have delegated certain day-to-day responsibilities to the executive officers of the Company. The role of Chief Operating Decision Maker has been delegated to the Group Chief Executive Officer, Peter Scales.

	For the year ended 31 December 2013				
	Syndicates £'000	**Corporate Funds £'000**	**Corporate Other £'000**	**Elimination £'000**	**Total £'000**
Gross premiums written	**185,011**	**-**	**-**	**-**	**185,011**
Underwriting:					
Net earned premiums	**143,821**	**-**	**-**	**-**	**143,821**
Net claims incurred	**(57,726)**	**-**	**-**	**-**	**(57,726)**
Underwriting expenses	**(33,858)**	**-**	**-**	**-**	**(33,858)**
Underwriting result	**52,237**	**-**	**-**	**-**	**52,237**
Other income and expenses:					
Fees and commission income	**-**	**-**	**7,328**	**(1,615)**	**5,713**
Investment return	**1,181**	**3,919**	**-**	**-**	**5,100**
Other income	**-**	**-**	**44**	**-**	**44**
Operating expenses	**(16,704)**	**(493)**	**(7,039)**	**1,615**	**(22,621)**
Exchange (losses) / gains	**(4,208)**	**-**	**16**	**-**	**(4,192)**
Finance costs	**(4,053)**	**(421)**	**(157)**	**-**	**(4,631)**
Profit / (loss) before tax	**28,453**	**3,005**	**192**	**-**	**31,650**
Income tax (expense) / credit	**(5,126)**	**(544)**	**25**	**-**	**(5,645)**
Profit / (loss) after tax	**23,327**	**2,461**	**217**	**-**	**26,005**
Combined ratio	**75.3%**	**N/A**	**N/A**	**N/A**	**78.7%**
Total assets	**-**	**46,540**	**86,607**	**-**	**133,147**
Total liabilities	**-**	**-**	**(71,171)**	**-**	**(71,171)**
Net assets / (liabilities)	**-**	**46,540**	**15,436**	**-**	**61,976**
					-
Capital expenditure	**-**	**-**	**107**	**-**	**107**

The combined ratio is net of fees and commission income.

5 Segmental information *continued*

Analysis of Group's Reportable Segments

	For the year ended 31 December 2012				
	Syndicates £'000	Corporate Funds £'000	Corporate Other £'000	Elimination £'000	Total £'000
Gross premiums written	193,262	-	-	-	193,262
Underwriting:					
Net earned premiums	145,067	-	-	-	145,067
Net claims incurred	(74,162)	-	-	-	(74,162)
Underwriting expenses	(33,021)	-	-	-	(33,021)
Underwriting result	37,884	-	-	-	37,884
Other income and expenses:					
Fees and commission income	-	-	3,389	(1,615)	1,774
Investment return	2,140	4,204	-	-	6,344
Other income	-	-	43	-	43
Operating expenses	(12,746)	(471)	(2,751)	1,615	(14,353)
Exchange (losses)	(2,623)	-	(3,549)	-	(6,172)
Finance costs	(1,028)	(154)	68	-	(1,114)
Profit / (loss) before tax	23,627	3,579	(2,800)	-	24,406
Income tax (expense) / credit	(5,052)	(767)	637	-	(5,182)
Profit / (loss) after tax	18,575	2,812	(2,163)	-	19,224
Combined ratio	82.7%	N/A	N/A	N/A	83.3%
Total assets	-	194,760	23,096	-	217,856
Total liabilities	-	-	(67,822)	-	(67,822)
Net assets / (liabilities)	-	194,760	(44,726)	-	150,034
					-
Capital expenditure	-	-	311	-	311

All revenues for each reportable segment are from external customers, with the exception of £1,615,000 (2012: £1,615,000) of sales received by Corporate Other which are from Syndicates.

Corporate Other also includes depreciation and amortisation of £171,000 (2012: £122,000) and impairment of £nil (2012: £210,000).

The only transactions between reportable segments to date relate to managing agency fees which are paid by the syndicates to the Group's managing agent. These are therefore reported as an expense by the syndicates and income by Corporate Other.

Reconciliation of reportable segments to Financial Statements

	For the year ended 31 December 2013				
	Per Total Reportable Segments £'000	**Adjustment for RITC premiums £'000**	**Syndicate Assets and Liabilities £'000**	**Gross up adjustments £'000**	**Per Total Group Accounts £'000**
Gross premiums written	**185,011**	**18**	**-**	**-**	**185,029**
Underwriting:					
Net earned premiums	**143,821**	**18**	**-**	**-**	**143,839**
Net claims incurred	**(57,726)**	**(18)**	**-**	**-**	**(57,744)**
Underwriting expenses	**(33,858)**	**-**	**-**	**-**	**(33,858)**
Underwriting result	**52,237**	**-**	**-**	**-**	**52,237**
Other income and expenses:					
Fees and commission income	**5,713**	**-**	**-**	**-**	**5,713**
Investment return	**5,100**	**-**	**-**	**-**	**5,100**
Other income	**44**	**-**	**-**	**-**	**44**
Operating expenses	**(22,621)**	**-**	**-**	**-**	**(22,621)**
Exchange (losses)	**(4,192)**	**-**	**-**	**-**	**(4,192)**
Finance costs	**(4,631)**	**-**	**-**	**-**	**(4,631)**
Profit before tax	**31,650**	**-**	**-**	**-**	**31,650**
Income tax (expense)	**(5,645)**	**-**	**-**	**-**	**(5,645)**
Profit after tax	**26,005**	**-**	**-**	**-**	**26,005**
Total assets	**133,147**	**-**	**272,837**	**2,696**	**408,680**
Total liabilities	**(71,171)**	**-**	**(272,837)**	**(2,696)**	**(346,704)**
Net assets	**61,976**	**-**	**-**	**-**	**61,976**

	For the year ended 31 December 2012				
	Per Total Reportable Segments £'000	Adjustment for RITC premiums £'000	Syndicate Assets and Liabilities £'000	Gross up adjustments £'000	Per Total Group Accounts £'000
Gross premiums written	193,262	4	-	-	193,266
Underwriting:					
Net earned premiums	145,067	4	-	-	145,071
Net claims incurred	(74,162)	(4)	-	-	(74,166)
Underwriting expenses	(33,021)	-	-	-	(33,021)
Underwriting result	37,884	-	-	-	37,884
Other income and expenses:					
Fees and commission income	1,774	-	-	-	1,774
Investment return	6,344	-	-	-	6,344
Other income	43	-	-	-	43
Operating expenses	(14,353)	-	-	-	(14,353)
Exchange (losses)	(6,172)	-	-	-	(6,172)
Finance costs	(1,114)	-	-	-	(1,114)
Profit before tax	24,406	-	-	-	24,406
Income tax credit	(5,182)	-	-	-	(5,182)
Profit after tax	19,224	-	-	-	19,224
Total assets	217,856	-	324,073	2,803	544,732
Total liabilities	(67,822)	-	(324,073)	(2,803)	(394,698)
Net assets	150,034	-	-	-	150,034

Explanations of the reconciling items

For internal reporting purposes, the premiums and claims for each segment relate purely to the business written by each of the syndicates on which the Group participates. However, for statutory reporting purposes, the premiums and claims are required to be grossed up for RITC premiums (where the Group's participation on a syndicate changes from one year of account to the next and the Group technically receives premiums for taking on the liabilities of a previous Name).

For internal reporting purposes, syndicate assets and liabilities are not considered separately but instead are monitored at a net level. However, for statutory reporting purposes, the syndicate assets and liabilities are required to be separately analysed.

For internal reporting purposes, deferred tax is reported as a netted down balance, whereas deferred tax assets and liabilities are required to be grossed up for statutory reporting purposes. Likewise, for internal reporting purposes, the loan from the group to the syndicate is reported as an asset at corporate level whereas for statutory reporting purposes, the group's asset is offset against the liability in the syndicate as a consolidation adjustment.

Geographical information

The Group is domiciled in the UK. All insurance contracts are written through Lloyd's of London, and so it is deemed that the geographical location of its customers is the UK.

A geographical analysis of the Group's non-current assets has not been presented as this information is not readily available and the cost to develop it is considered to be excessive.

Information about major customers

No revenues from transactions with a single external customer amounted to 10 per cent or more of the Group's revenues for the previous year ended 31 December 2013 or the year ended 31 December 2012.

6 Fees and commission income

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Managing agency fees	**960**	957
Profit commission	**4,753**	817
	5,713	1,774

7 Investment return

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Syndicate investments		
Investment income - interest	**2,349**	2,599
Realised investment (losses)	**(1,035)**	(349)
Net investment return on syndicate investments	**1,314**	2,250
Funds at Lloyd's		
Investment income - interest	**2,393**	2,588
Investment income - dividends	**329**	244
Realised investment (losses)	**(583)**	(416)
Net fair value gains on assets at fair value through the Consolidated Statement of Comprehensive Income	**276**	1,047
Net investment return on Funds at Lloyd's investments	**2,415**	3,463
Cash and other investments		
Investment income - interest	**208**	411
Investment income - dividends	**11**	44
Realised gains	**2,825**	-
Net fair value (losses) / gains on assets at fair value through the Consolidated Statement of Comprehensive Income	**(1,673)**	176
Net investment return on cash and other investments	**1,371**	631
Net investment return	**5,100**	6,344

The realised gain and net fair value gains on assets at fair value through the Statement of Comprehensive Income for cash and other investments is in respect of investments held by the ESOP.

8 Other operating expenses

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Syndicate operating expenses	**8,224**	6,184
Names' personal expenses on Lloyd's syndicates	**1,654**	1,521
Corporate expenses	**12,743**	6,648
	22,621	14,353

9 Net foreign exchange losses / (gains)

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Retranslation of underwriting balances	**2,967**	541
Exchange loss to maintain non-monetary assets and liabilities at historical rates of exchange	**1,241**	2,082
Exchange (gain) on long-term loan notes	**(581)**	(2,000)
Retranslation of other corporate balances	**565**	5,549
	4,192	6,172

10 Finance costs

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Interest expense on:		
Unsecured Floating Rate Subordinated Notes	**1,807**	1,897
Other interest	**45**	34
Effective interest rate method adjustment	**2,779**	(817)
	4,631	1,114

Unsecured Floating Rate Subordinated Notes are measured at amortised cost. Other interest mainly relates to interest payable to the Group's parent company.

The effective interest rate method adjustment results from revisions of the Company's estimates of payments relating to the floating rate notes.

11 Profit on ordinary activies before taxation

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
The profit on ordinary activities before taxation is stated after charging:		
Operating lease charges - rent	**45**	43
Operating lease charges - other	**2**	3
Depreciation of tangible fixed assets	**171**	122
Impairment of tangible fixed assets	**-**	210
Fees payable to the current auditor for:		
Audit of the Company's annual accounts	**27**	-
Audit of the Company's subsidiaries' annual accounts	**68**	-
Fees payable to the previous auditor for:		
Audit of the Company's annual accounts	**-**	24
Audit of the Company's subsidiaries' annual accounts	**-**	58
Technical and actuarial support	**19**	2
Taxation services	**33**	19
Employee services	**-**	3
Internal review	**-**	10

12 Employees

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
The aggregate payroll costs borne by the Corporate Group were as follows:		
Salaries	**6,646**	4,955
Social security costs	**921**	686
Pension costs under defined contribution plans	**113**	111
	7,680	5,752

The average number of people (excluding non-executive directors) employed by the Group during the year was 62 (2012: 60). Of this, 35 were dedicated underwriting and claims (2012: 34) with the remainder of employees involved in operations, administration, actuarial and finance.

The Group does not operate a pension fund. Instead, it makes contributions to employees' individual pension funds.

Refer to Note 32 for details of compensation of key management personnel.

13 Income tax expense

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
(a) Analysis of expense / (credit) in the year		
Current tax		
Corporation tax at 23.25% (2012: 24.5%)	**-**	4,099
Carried back losses	**(1,764)**	-
Adjustments in respect of previous years	**(623)**	(563)
Contribution for group tax relief paid to other group companies for prior years	**94**	101
Contribution for group tax relief payable to other group companies for current year	**1,231**	1,774
Overseas tax	**633**	313
Withholding tax	**-**	24
Other tax	**51**	246
Total current tax (credit) / expense	**(378)**	5,994
Deferred taxation		
Syndicate underwriting profits / (losses)	**6,807**	(2,322)
Investment gains	**238**	71
Temporary differences on decelerated capital allowances	**18**	(42)
Unutilised tax losses carried forward	**(777)**	-
Adjustments in respect of previous years	**-**	141
Changes in tax rates	**(2,364)**	(913)
Change in claims equalisation reserve	**2,097**	2,255
Other temporary differences	**4**	(2)
Total deferred tax expense / (credit)	**6,023**	(812)
Tax expense	**5,645**	5,182

(b) Factors affecting the tax expense for the period		
Profit on ordinary activities before tax	**31,650**	24,406
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	**7,359**	5,979
Expenses not deductible for tax purposes	**939**	-
Carried back loss - difference in tax rates	**(90)**	-
Changes in tax rates	**(2,364)**	(913)
Investment income received net of tax	**(76)**	(60)
Investment income not taxable	**(278)**	(86)
Overseas tax	**633**	313
Withholding tax	**-**	24
Other tax	**51**	246
Prior period adjustments	**(529)**	(321)
Total tax expense	**5,645**	5,182

The taxation payable for the year has been reduced by £1,231,000 (2012: £1,774,000) because of group relief received from fellow subsidiaries. A payment of £1,231,000 (2012: £7,241,000) has been made in respect of this, with £nil (2012: £5,467,000) in excess of the standard rate of tax reflected within equity as a transaction with its parent company as set out in the Consolidated Statement of Changes in Equity.

The UK corporation tax rate as at 31 December 2013 was 23.0 per cent (effective 1 April 2013). Until 1 April 2013, the UK corporation tax rate of 24.0 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.

14 Dividends paid

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Interim dividend paid in October 2012 of 24.23p per share	**-**	10,000
Interim dividend paid in November 2013 of 124.36p per share	**51,317**	**-**
Interim dividend paid in December 2013 of 152.05p per share	**62,746**	-
Interim divided paid in year of 276.41p per share (2012: 24.23p per share)	**114,063**	10,000

The deferred shares of 0.0001 pence each which existed until December 2013 were not entitled to any dividends, as set out in Note 27.

15 Earnings per share

	Year ended 31 December 2013	Year ended 31 December 2012
The basic earnings per share is calculated as follows:		
Profit for the year (£'000)	**26,005**	19,224
Basic weighted average number of shares (no.)	**41,265,776**	41,265,776
Basic earnings per share (p)	**63.0**	46.6

Deferred shares have not been included in the calculation for the reasons set out in Note 27. All other classes of shares during the year ranked pari passu with respect to profits arising in the Group. Consequently, no separate earnings per share has been calculated for each class of share.

The diluted earnings per share is the same as the basic earnings per share as there are no potential dilutive shares in issue.

16 Property, plant and equipment

	Lease £'000	**Computers & other equipment £'000**	**Furniture, fixtures & fittings £'000**	**Total 2013 £'000**	Total 2012 £'000
Cost					
At 1 January	**29**	**1,462**	**572**	**2,063**	1,751
Additions	**-**	**107**	**-**	**107**	311
At 31 December	**29**	**1,569**	**572**	**2,170**	2,062
Depreciation and impairment					
At 1 January	**29**	**1,137**	**557**	**1,723**	1,390
Charge for the year	**-**	**165**	**6**	**171**	122
Impairment	**-**	**-**	**-**	**-**	210
At 31 December	**29**	**1,302**	**563**	**1,894**	1,722
Net book value					
At 31 December	**-**	**267**	**9**	**276**	340
At 1 January	-	325	15	340	361

The depreciation charge for the year is included in other operating expenses in the Consolidated Statement of Comprehensive Income.

17 Intangible assets

As at 31 December 2013	**Assets under construction £'000**	**Syndicate participations £'000**	**Goodwill £'000**	**Total £'000**
Cost at 1 January	**-**	**4,841**	**2,228**	**7,069**
Additions during the year	**605**	**-**	**-**	**605**
Impaired during the year	**-**	**-**	**-**	**-**
Cost at 31 December	**605**	**4,841**	**2,228**	**7,674**

As at 31 December 2012	Assets under construction £'000	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 January	-	4,841	2,228	7,069
Additions during the year	-	-	-	-
Impaired during the year	-	-	-	-
Cost at 31 December	-	4,841	2,228	7,069

Assets under construction relate to the purchase of new software to replace the current underwriting system. Amortisation will begin following completion of testing and integration of this software into business as usual processes, at which point the useful life of the asset is anticipated to be 3 years.

The cost of syndicate participations relates to the Group's underwriting subsidiary's right to participate on a syndicate for future underwriting years. The value of such a right is dependent on the expected underwriting results generated by each syndicate, plus any residual value in the syndicate capacity auctions.

Goodwill relates mainly to the acquisition of Cathedral Capital Services Limited in 2000, which is one of the two joint employing companies of the Group.

The useful lives of the syndicate participations and goodwill are deemed to be indefinite. Consequently they are not annually amortised but the Group annually tests these assets for impairment. Up until 7 November 2013, the Group's goodwill was splint into two Group's cash generating units (being Managed Syndicate and Syndicate Management). Following the acquisition by Lancashire Holdings Limited, the Group's goodwill is considered as one cash generating unit.

As at 31 December 2013	**Total £'000**
Goodwill	**2,228**
Syndicate capacity	**4,841**

As at 31 December 2012	Managed Syndicate £'000	Syndicate Management £'000	Total £'000
Goodwill	1,504	724	2,228
Syndicate capacity	4,841	-	4,841

When testing for impairment, the recoverable amounts of a cash generating unit are determined based on value in use. Value in use is calculated using risk adjusted projected cash flows for six years and a discount rate of 8% (2012: 8%). These cashflow projections are the latest ones approved by the Board. The Board has used cashflows for more than five years as the Group does not receive its underwriting profits until the fourth year after the year of account has commenced. A 1% increase in the discount rate used would not result in any impairment to the intangible assets.

18 Financial Investments

	31 December 2013 Fair value £'000	**31 December 2013 Cost £'000**	31 December 2012 Fair value £'000	31 December 2012 Cost £'000
Corporate				
Shares and other variable yield securities	**8,288**	**6,290**	6,886	6,110
Alternative investments	**1,544**	**1,293**	1,942	1,296
Debt and other fixed income securities	**7,856**	**7,916**	141,991	141,501
Investments held by ESOP	**-**	**-**	2,641	968
Deposits held with credit institutions	**2,252**	**2,252**	9,472	9,472
Total investments - Corporate	**19,940**	**17,751**	162,932	159,347
Syndicate participations				
Debt securities and other fixed interest securities	**120,417**	**120,817**	98,237	98,193
Total investments - Syndicate participations	**120,417**	**120,817**	98,237	111,390
Group financial investments	**140,357**	**138,568**	261,169	270,737

The Group's financial investments are all categorised as investments at fair value through profit or loss. All shares and other variable yield securities are classed as level 1 of the fair value hierarchy. All other investments are classified as level 2 of the fair value hierarchy except for equities within the ESOP of £nil (2012: £588,000) which are classified as level 3 of the fair value hierarchy.

Previously, all investments except for equities within the ESOP were classified as level 1 of the fair value hierarchy. The change from level 1 to level 2 reflects management's reassessment of the fair value hierarchy levels during the year.

Of the Group's investments above, £17,688,000 (2012: £150,819,000) are held as funds at Lloyd's and therefore their use is restricted. All investments held by syndicates are only available for investment and for paying of claims by the syndicates to their policyholders and expenses.

Corporate investments of £17,688,000 (2012: £150,819,000) are listed on recognised stock exchanges.

19 Prepayments and accrued income

	Group 31 December 2013 £'000	Group 31 December 2012 £'000
Accrued income - investments	**83**	897
Accrued income - underwriting	**4,753**	817
Prepayments	**718**	568
	5,554	2,282

Accrued income - underwriting is in respect of profit commission receivable from Syndicate 2010 by the Group's managing agency subsidiary.

20 Trade and other receivables

	Group 31 December 2013 £'000	Group 31 December 2012 £'000
Arising out of direct insurance operations	**11,786**	10,491
Arising out of reinsurance operations	**43,200**	51,696
Investment sales	**-**	4,864
Tax recoverable	**3,447**	563
Amounts owed by parent companies	**35,090**	-
Amounts owed by syndicates	**108**	2,660
Other receivables	**687**	999
	94,318	71,273

Amounts owed by parent companies are repayable on demand.

Of the amounts due from syndicates, £nil (2012: £nil) is due in more than one year.

The carrying amount disclosed reasonably approximates to fair values at year end.

21 Cash and cash equivalents

	Group 31 December 2013 £'000	Group 31 December 2012 £'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	**49,543**	66,054
Short term investments	**31,015**	29,731
	80,558	95,785
Cash and cash equivalents consist of:		
Cash and cash equivalents held by syndicates	**53,958**	63,957
Cash and cash equivalents held within funds at Lloyd's	**2,379**	14,384
Cash and cash equivalents held by ESOP	**34**	255
Cash and cash equivalents available for use by the Group	**24,187**	17,189
	80,558	95,785

Cash and cash equivalents held by syndicates and within funds at Lloyd's are restricted and are not freely available for use by the Group. Cash and cash equivalents held by the ESOP are also restricted.

The effective interest rate for cash and cash equivalents is set out in Note 4.4.1.

22 Borrowings

	Carrying value 31 December 2013 £'000	Carrying value 31 December 2012 £'000
Unsecured Floating Rate Subordinated Notes	**45,172**	42,974

The carrying amount disclosed above reasonably approximates to fair values at year end.

The Unsecured Floating Rate Subordinated Notes are all classed as non-current and are deemed to be Level 2 of the fair value hierarchy.

Unsecured Floating Rate Subordinated Notes
During 2004, two Unsecured Floating Rate Subordinated Notes Due 2034 were issued by the Company. Both Notes were listed on the Irish Stock Exchange effective from 12 January 2005.

(i) Eur 12,000,000 Floating Rate Subordinated Notes were issued on 18 November 2004 and pay interest at a variable interest rate equal to the rate for three month deposits in euro plus a margin of 3.75% per annum. The Company can redeem the Notes in whole or in part, from time to time, on any interest payment date.

(ii) US$ 10,000,000 Floating Rate Subordinated Notes were issued on 26 November 2004 and pay interest at a variable interest rate equal to the rate for three months deposits in US Dollars plus a margin of 3.75% per annum. The Company can redeem these Notes in whole or in part, from time to time, on any interest payment date.

During 2005, a further two Unsecured Floating Rate Subordinated Notes Due 2035 were issued by the Company. These Notes were listed on the Irish Stock Exchange effective from 1 July 2005 and 1 March 2006.

(i) US$ 25,000,000 Floating Rate Subordinated Notes were issued on 13 May 2005 and pay interest at a variable interest rate equal to the rate for three months deposits in US Dollars plus a margin of 3.25% per annum. The Company can redeem these Notes in whole or in part, from time to time, on any interest payment date.

(ii) US$ 25,000,000 Floating Rate Subordinated Notes were issued on 18 November 2005 and pay interest at a variable interest rate equal to the rate for three months deposits in US Dollars plus a margin of 3.25% per annum. The Company can redeem these Notes in whole or in part, from time to time, on any interest payment date.

The amount of interest charged during 2013 in respect of the Unsecured Floating Rate Subordinated Notes is set out in Note 10.

Although the Unsecured Floating Rate Subordinated Notes are listed, they are thinly traded as they are sold into CDO pools after which there is no readily available quoted market price for these Unsecured Floating Rate Subordinated Notes. The fair values of the borrowings are therefore based on a discounted cash flow model based on a yield curve appropriate for the remaining expected term to maturity. The discount rate used in the valuation technique is based on the borrowing rate of the respective loans.

Facilities
The corporate Group had no bank borrowing facilities. The syndicates have credit facilities in place to assist them, where necessary, in meeting their policyholder liabilities; however, these are not available to the Group other than through their participation on the syndicates it supports.

23 Insurance liabilities and reinsurance assets

	31 December 2013 £'000	31 December 2012 £'000
Gross		
Provision for claims outstanding	**197,331**	241,221
Provision for unearned premiums	**61,409**	61,572
	258,740	302,793
Recoverable from reinsurers		
Provision for claims outstanding	**61,456**	88,752
Provision for unearned premiums	**4,568**	4,360
	66,024	93,112
Net	**192,716**	209,681

Provision for claims outstanding

The provision for claims outstanding relates to underwriting losses which have been incurred by the Group but which have not yet been settled and includes an element of claims handling costs. The payment of these provisions is dependent on a large number of factors including the time for the legal aspects of a claim to be resolved, the time at which a full assessment of a claim can be completed and the processing of information through the broker. An element of the claims provision will be reimbursed by the Group's reinsurers and these are shown as an asset on the Consolidated Statement of Financial Position. The level of reimbursement depends on the extent to which the Group's reinsurance programmes are engaged and the ability of that reinsurer to pay its losses.

Provision for unearned premiums
This provision is in respect of premiums written by the Group but which have been deferred to a future year. This is to match the premium to the level of exposure of the policies underwritten by the Group. Although for insurance entities this is classed as a provision, it is actually deferred income.

23.1 Reconciliation of changes in insurance liabilities and reinsurance assets

	Claims outstanding £'000	**Provision for unearned premiums £'000**	**Total 2013 £'000**	Total 2012 £'000
Gross insurance liabilities				
Provision at 1 January	**241,221**	**61,572**	**302,793**	326,577
Additional provisions made in the year	**66,723**	**55,959**	**122,682**	157,541
Amounts used in the year	**(97,021)**	**(56,964)**	**(153,985)**	(163,044)
Unused amount reversed during the year	**(12,097)**	**-**	**(12,097)**	(10,297)
Exchange differences	**(1,495)**	**842**	**(653)**	(7,984)
Provision at 31 December	**197,331**	**61,409**	**258,740**	302,793

	Claims outstanding £'000	**Provision for unearned premiums £'000**	**Total 2013 £'000**	Total 2012 £'000
Reinsurance assets				
Provision at 1 January	**88,752**	**4,360**	**93,112**	107,161
Additional provisions made in the year	**7,225**	**4,471**	**11,696**	30,562
Amounts used in the year	**(34,564)**	**(4,464)**	**(39,028)**	(41,469)
Exchange differences	**43**	**201**	**244**	(3,142)
Provision at 31 December	**61,456**	**4,568**	**66,024**	93,112
Net	**135,875**	**56,841**	**192,716**	209,681

23.2 Movement in deferred acquisition costs

	2013 £'000	2012 £'000
Provision at 1 January	**12,391**	11,444
Additional provisions made in the year	**11,185**	11,154
Amounts used in the year	**(11,020)**	(10,207)
Provision at 31 December	**12,556**	12,391

24 Provisions for other liabilities

Provision in respect of profit-sharing scheme	**31 December 2013 £'000**	31 December 2012 £'000
Provision at 1 January	**4,907**	588
Charge for the year	**6,267**	4,907
Utilised in the year	**(4,907)**	(588)
Provision at 31 December	**6,267**	4,907

The Cathedral Capital Limited Group operates a profit sharing scheme from which all executive directors and full time employees of the Group can benefit. The size of this profit related pool created under this scheme is determined annually and is equal to 15% of the consolidated Cathedral Capital Limited Group profit before tax and amortisation (including any impairment charges) and before the interest charge on Manager and Investor Loan Notes issued by Cathedral Capital (Investments) Limited and dividends on the Preference shares issued by Cathedral Capital Limited. All distributions to individuals from this scheme are entirely at the discretion of the board of Cathedral Capital Limited, following recommendations made by that Group's Remuneration Committee. The provision includes an estimate of employers' National Insurance (at 13.8%) which would be payable.

Any distributions made to the Directors of the Company have been included in the Directors emolument table on page 65. Since the year end, the Group Remuneration Committee has not recommended to the board of Cathedral Capital Limited any such distribution, though it may recommend that some of the provision should be distributed to Group employees later in 2014.

25 Provision for deferred tax

The provision for deferred tax for the Group is represented by:

	31 December 2013 £'000	31 December 2012 £'000
(Profits) of closed underwriting year	**(1,908)**	(1,998)
Underwriting (profits) / losses not yet recognised for tax	**(4,898)**	1,076
Unrealised investment gains	**(483)**	(330)
Decelerated capital allowances	**54**	78
Tax losses carried forward	**820**	155
Claims equalisation reserve	**(8,488)**	(7,771)
Temporary differences relating to Syndicate participations	**(1,043)**	(1,126)
Other temporary differences	**(113)**	(120)
Provision for deferred tax	**(16,059)**	(10,036)
Reflected in the balance sheet as follows:		
Defered tax assets	**1,363**	1,311
Deferred tax liabilities	**(17,422)**	(11,347)
Deferred tax net	**(16,059)**	(10,036)
Provision for deferred tax at start of year	**(10,036)**	(10,848)
Deferred tax credit in Consolidated Statement of Comprehensive Income for year (note 13)	**(6,023)**	812
Provision for deferred tax at end of year	**(16,059)**	(10,036)

Unprovided deferred tax assets amounted to £nil at 31 December 2013 (31 December 2012: £nil).

All deferred tax assets as at December 2013 are considered to be recoverable.

26 Trade and other payables

	31 December 2013 £'000	31 December 2012 £'000
Amounts due within one year:		
Arising out of direct insurance operations	**1,181**	1,107
Arising out of reinsurance operations	**13,400**	18,898
Other taxes and social security costs	**2,606**	214
Owed to parent company	**483**	8,093
Trade creditors	**341**	2,885
	18,011	31,197

27 Share capital
Authorised share capital

	31 December 2013	31 December 2012	**31 December 2013**	31 December 2012
	Authorised	Authorised	**Allotted issued and fully paid**	Allotted issued and fully paid
	Number	Number	**Number**	Number
Number:				
Ordinary shares of 25p each	**400,000,000**		**41,265,776**	
A ordinary shares of 25p each	**-**	391,929,924	**-**	33,902,268
B ordinary shares of 25p each	**-**	20,000	**-**	-
C ordinary shares of 25p each	**-**	8,050,076	**-**	7,363,508
Deferred shares of 0.0001 p each	**-**	5,000,000,000	**-**	32,360,093

	£'000	£'000
Nominal value		
Ordinary shares of 25p each	**10,316**	
A ordinary shares of 25p each	**-**	8,475
B ordinary shares of 25p each	**-**	-
C ordinary shares of 25p each	**-**	1,841
Deferred shares of 0.0001 p each	**-**	-
	10,316	10,316

During 2013, the share capital was re-organised such that the A ordinary shares, B ordinary shares and C ordinary shares were converted into Ordinary shares of 25p each. The Deferred shares of 0.0001 p each were redeemed for £1. Following the share reorganisation in 2013, the Ordinary Shares of 25p each all have the right to vote at general meetings of the Company and the right to recieve dividends. Each share is entiteld Pari Passu to participate in a distribution arising from winding up of the company.

Details of the movements in each class of shares are set out below:

Authorised, allotted, issued and fully paid:	**31 December 2013 Number**	31 December 2012 Number
A ordinary shares of 25p each		
At the beginning of the year	**33,902,268**	33,902,268
Converted to Ordinary shares of 25p each	**(33,902,268)**	-
At the end of the year	**-**	33,902,268
C ordinary shares of 25p each		
At the beginning of the year	**7,363,508**	7,363,508
Converted to Ordinary shares of 25p each	**(7,363,508)**	-
At the end of the year	**-**	7,363,508
Ordinary shares of 25p each		
At the beginning of the year	**-**	-
Converted from A ordinary shares of 25p each	**33,902,268**	-
Converted from C ordinary shares of 25p each	**7,363,508**	-
At the end of the year	**41,265,776**	-
Deferred shares of 0.0001p each		
At the beginning of the year	**32,360,093**	32,360,093
Cancelled deferred shares of 0.0001p each	**(32,360,093)**	-
At the end of the year	**-**	32,360,093

28 Employee Share Ownership Plan

The Employee Share Ownership Plan ("ESOP") is set up for the benefit of the full time employees of the Group and holds the following investments:

	31 December 2013 Number	31 December 2012 Number
9.2% Manager Loan Notes in Cathedral Capital (Investments) Limited	**-**	1,304,524
9.2% Investor Loan Notes in Cathedral Capital (Investments) Limited	**-**	64,469
6.44% Preference shares of £1 each in Cathedral Capital Limited	**-**	684,374
A ordinary shares in Cathedral Capital Limited	**-**	751
B ordinary shares in Cathedral Capital Limited	**-**	12,212

Cathedral Capital (Investments) Limited is the immediate parent company of Cathedral Capital Holdings Limited and therefore a related party. Cathedral Capital Limited was the ultimate parent company of Cathedral Capital Holdings Limited until it was acquired by Lancashire Holdings Limited on 7 November 2013 and so is also a related party.

Although the Group only has de facto control of the ESOP, it is required under Standing Interpretations Committee pronouncement 12 to account for the assets of the ESOP as if they belong to the Group. Consequently, the assets and liabilities, income and expenses of the ESOP appear in the Group financial statements.

During 2013, the ESOP holdings of A Ordinary shares, B Ordinary shares and Preferences shares of Cathedral Capital Limited and Investor Loan Notes and Manager Loan Notes of Cathedral Capital (Investments) Limited were purchased by Lancashire Holdings Limited. The ESOP then distributed its surplus to the employees of the Cathedral Group.

The investments are held on the Consolidated Statement of Financial Position of the Group within financial investments. The shares are valued at fair value, in accordance with International Financial Reporting Standards. Details of these are set out in Note 18.

The income and expenses, assets and liabilities of the ESOP (as included within the Company financial statements) are as follows:

	31 December 2013 £'000	31 December 2012 £'000
Consolidated Statement of Comprehensive Income		
Profit on sale / redemption of shares and Loan Notes	**2,826**	-
Investment income on shares	**42**	170
Other interest	**-**	4
Sundry Expenses	**(47)**	(26)
Distribution of assets	**(3,982)**	-
Net fair value (losses) / gains on assets at fair value through the Consolidated Statement of Comprehensive Income	**(1,673)**	176
Tax on investment income	**(51)**	(270)
Total (loss) / profit	**(2,885)**	54
Consolidated Statement of Financial Position		
Investments (valued at fair value)	**-**	2,641
Cash	**34**	255
Less liabilities	**(34)**	(11)
Net assets	**-**	2,885
ESOP funds	**-**	2,885
Reconciliation of ESOP funds		
ESOP funds at 1 January	**2,885**	2,831
(Loss) / profit arising in ESOP during the year	**(2,885)**	54
ESOP funds at 31 December	**-**	2,885

29 Capital commitments

The Group had no capital commitments at 31 December 2013 (2012: £nil).

30 Operating leases

	31 December 2013 £'000	31 December 2012 £'000
Future minimum lease payments under non-cancellable operating leases		
Land & buildings:		
Within one year	**396**	396
In the second to fifth years inclusive	**594**	990
Other:		
Within one year	**9**	14
In the second to fifth years inclusive	**17**	1
	1,016	1,401

Commitments under operating leases for land & buildings relate to rent payable. The Group entered into a 10 year rental contract commencing on 8 June 2006. Either party could give at least nine months notice to cancel the contract on 8 June 2011. However, no such notice was given. The contract included an initial 11 months rent free period which was credited over the first five years of the rental contract. There is a further four months rent free period from 8 June 2011 to 8 October 2011 which is credited over the remaining five years of the rental contract.

Other commitments relate to operating leases for IT equipment.

31 Reconciliation of profit to cash generated from operations

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Profit before taxation	**31,650**	24,406
Adjustments for:		
Depreciation	**171**	122
Impairment of fixed assets	**-**	210
(Profit) arising on disposal of ESOP investments	**(2,815)**	-
Distribution of ESOP	**3,982**	-
Purchase of investments	**(200,043)**	(262,921)
Proceeds from disposal of investments	**217,993**	240,290
Decrease in debtors & accrued income	**9,839**	2,901
Change in underwriting balances	**(17,130)**	(10,682)
Unrealised investment losses/ (gains)	**2,432**	(874)
Exchange revaluation	**2,914**	9,111
(Decrease) / increase in creditors	**(11,635)**	2,053
Interest expense	**4,631**	1,113
Interest receivable	**(4,950)**	(5,598)
Dividends receivable	**(340)**	(288)
Cash generated from operations	**36,699**	(157)

32 Related party transactions

(i) Directors' interest in Transactions

Up until 7 November 2013, each of the Directors owned shares in Cathedral Capital Limited and Manager Loan Notes in Cathedral Capital (Investments) Limited (the ultimate and immediate parents of the Company respectively). The Preference shares paid a dividend of 6.44% and the Manager Loan Notes pay interest of 9.2%. Each of the Directors therefore earned dividends and interest in respect of their holdings.

The interests of the Directors and their families in the Preference shares issued by Cathedral Capital Limited and the Manager Loan Notes issued by Cathedral Capital (Investments) Limited at 31 December 2013 and 31 December 2012 (according to the register of Directors' interests) are set out below:

	31 December 2013		31 December 2012	
	Preference shares Number	**Manager Loan Notes £**	Preference shares Number	Manager Loan Notes £
E E Patrick	**-**	**-**	357,211	714,533
J A Lynch	**-**	**-**	822,639	1,645,531
P D Scales	**-**	**-**	822,639	1,645,531

The Cathedral Group has an Employee Share Ownership Plan ("ESOP") in which all full time employees are potential beneficiaries. As such, all Directors who are full time employees of Cathedral Group have a potential interest in the shares (and other assets) held by the ESOP. Details of the Preference shares, Manager Loan Notes, Investor Loan Notes, A ordinary shares and B ordinary shares held by the ESOP are set out in Note 28. During 2013, the ESOP sold all of it's Preference shares, Manager Loan Notes, Investor Loan Notes, A ordinary shares and B ordinary shares to Lancashire Holdings Limited and distributed most of it's assets to the employees of the Cathedral Group. Details of amounts received by the Directors is set out in Note 32 (v) below.

(ii) Other

The immediate parent company is Cathedral Capital (Investments) Limited, which is the sole shareholder of the Company. Cathedral Capital Limited is the sole shareholder of Cathedral Capital (Investments) Limited. Up until 7 November 2013, Cathedral Capital Limited was 63 % owned by Alchemy Partners Nominee Limited ("Alchemy"). On 7 November 2013, the ownership changed such that Cathedral Capital Limited was owned 100% by Lancashire Holdings Limited. Accordingly, Lancashire Holdings Limited is now the ultimate parent company of the Company and has been approved as a controller of the Group's managing agency subsidiary by both Lloyd's and the PRA. Lanacshire Holdings Limited has also been approved as a controller of the Company's active underwriting subsidiary.

(iii) Incentive Plan

Cathedral Capital Employee Share Ownership Plan
This ESOP has been set up for the benefit of all full time employees in the Group. The objective of the ESOP is to help and encourage the holding of shares by beneficiaries or for their benefit. The ESOP is established as an employees' share scheme within Section 1116 of the Companies Act 2006.

During 2013, the ESOP holdings of A Ordinary shares, B Ordinary shares and Preferences shares of Cathedral Capital Limited and Investor Loan Notes and Manager Loan Notes of Cathedral Capital (Investments) Limited were purchased by Lancashire Holdings Limited. The ESOP then distributed its surplus to the employees of the Cathedral Group, including to the Directors of Cathedral Capital Holdings Limited.

The interests of the ESOP at 31 December 2013 and 31 December 2012 are:

	Year ended 31 December 2013	Year ended 31 December 2012
	number	number
Cathedral Capital Limited		
"A" Ordinary shares	**-**	751
"B" Ordinary shares	**-**	12,212
Preference £1 shares	**-**	684,374
	£	£
Cathedral Capital (Investments) Limited		
Investor Loan Notes	**-**	64,469
Manager Loan Notes	**-**	1,304,524

Further details of the ESOP are set out in Note 28.

(iv) Balances and transactions with related parties

The Cathedral Capital Holdings Limited Group had the following intercompany balances with its parent companies:

	31 December 2013 £'000	31 December 2012 £'000
Owed by / (to) Cathedral Capital (Investments) Limited	**684**	8,093
Owed by / (to) Cathedral Capital Limited	**(483)**	-
Owed by / (to) Lancashire Holdings Limited	**34,406**	-
	34,607	8,093

The following transactions took place with the parent companies of the Cathedral Capital Holdings Limited group:

Dividends paid to the parent company are set out in the Statement of Changes in Equity.

In December 2013, £96.8 milion of the funds at Lloyd's investments were transferred to Cathedral Capital (Investments) Limited as consideration for a dividend of £62.7 million and through the intercompany account of £34.1 million. Cathedral Capital (Investments) Limited subsequently made an intercompany loan of £34.1 million to Lancashire Holdings Limited. On 20th December 2013, Lancashire Holdings Limited assigned this intercompany loan to Cathedral Capital Holdings Limited.

Expenses were also recharged between the Cathedral Capital Holdings Limited group and it's parent companies as follows:

During 2013, the Cathedral Capital Holdings Limited group entered into a quota share reinsurance with Lancashire Insurance Company Limited, a fellow Lancashire group subsidiary based in Bermuda. Under this arrangement, premiums are payable to Lancashire Insurance Company Limited which are equal to 85% of the underwriting results from the Group's participation on Syndicates 2010 and 3010. This covers the 2014 and prior years of account as they are earned from 1 January 2014. Premiums will be settled on distribution of the relevant year of account from Lloyd's. The quota share reinsurance includes reinsurance commission of 15% payable to the Cathedral Capital Holdings Limited Group. The arrangements were made on normal commercial terms.

(v) Directors' Remuneration

All executive directors have employment contracts, with 12 months notice periods, with the Group which set out their employment terms and conditions. The non-executive Director has an appointment letters. The remuneration of the Directors is set out below:

	Fees & Salaries £'000	Benefits in Kind £'000	Pensions £'000	ESOP Distribution £'000	31 December 2013 Total £'000	31 December 2012 Total £'000
E E Patrick	**60**	**4**	**-**	**13**	**77**	64
J A Lynch	**485**	**3**	**28**	**91**	**607**	203
P D Scales	**485**	**3**	**28**	**91**	**607**	206
	1,030	**10**	**56**	**195**	**1,291**	473

All pension contributions are made to the directors' own personal pension schemes.

The Group operates a discretionary profit sharing scheme from which all executive directors and full time employees of the Group can benefit. The size of the profit related pool created under this scheme is determined annually and is equal to 15 per cent of the consolidated Group profit before tax and amortisation (including any impairment charges) and before the interest charge on Manager and Investor Loan Notes of Cathedral Capital (Investments) Limited and dividends on the preference shares issued by Cathedral Capital Limited. Any proposals by executives for distributions to staff, including those to executive directors, from the profit sharing scheme, are discussed by the Group's Chief Executive Officer and the Remuneration Committee. The aggregate amount and timing of any payments are agreed by the Remuneration Committee. The rationale for any distributions to executive directors and senior executives having basic salaries of £125,000 and above are explained to and agreed by the Remuneration Committee.

For this year, the Remuneration Committee has not agreed any proposed distributions to the executive directors from the profit sharing scheme and therefore have not been included within the Fees and Salaries disclosed above. The distributions relating to the 2012 profit sharing scheme which was distributed in 2013 have been included in the Fees & Salaries above. The amount of the profit sharing scheme is set out in details in Note 24.

As mentioned above, the Group also operates its ESOP as an incentive scheme and during 2013 all the investments were sold to Lancashire Holdings Limited. The surplus assets were distributed to the employees and this included the Directors of the Company. These amounts are disclosed above.

(vi) Key Management Compensation

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

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

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Key management compensation		
Salaries and other short-term employee benefits	**3,709**	908
Post-employment benefits	**107**	108
	3,816	1,016

Loans advanced to directors and key management of the Company (and their families) are solely in relation to the timing of payment of personal items. No interest is charged on these small loans. At 31 December 2013 these items were de minimis (2012: de minimis).

33 Contingent liabilities

Lloyd's of London

(i) As explained in Note 1 the Group participates on insurance business written by Lloyd's Syndicates. As a result of this participation, the Group is exposed to claims arising on insurance business written by those syndicates.

If the corporate member subsidiary fails to meet any of its Lloyd's obligations, after having called on the Group under its guarantees, then Lloyd's will be entitled to require the subsidiary to cease or reduce its underwriting.

(ii) The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims.

34 Capital

The Group's capital structure consists of equity attributable to equity holders of the parent company (which in turn comprises issued capital, reserves and retained earnings) and Unsecured Floating Rate Subordinated Notes. Details of the equity attributable to equity holders of the Company are set out in the Consolidated Statement of Changes in Equity and details of the loan capital are set out in Note 22, and there has been no change in the group's policies in managing capital since the prior year.

A significant proportion of the Group's capital is used to support its Lloyd's underwriting commitments.

The Group's corporate member, which underwrites on syndicates at Lloyd's, is required to hold regulatory capital in compliance with the rules issued by the Prudential Regulation Authority ("PRA"). Furthermore it is also subject to Lloyd's capital requirements.

The regulatory reporting requirements established under Solvency I and the FSA Handbook will continue to apply up until the implementation of Solvency II. Consequently, solvency is calculated under the current regime, based inter alia on Lloyd's Valuation of Liabilities rules and members' Minimum Capital Resources Requirement. Solvency needs to be demonstrated on a continuous basis.

The capital framework at Lloyd's requires each managing agent in the market to calculate the capital requirement for each syndicate they manage. Despite the uncertainty over the start date of Solvency II (a proposed EU-wide solvency II and risk management regime that is intended to apply to all EU insurers) the FSA indicated that it would allow firms to use Solvency II models under an enhanced ICA regime known as ICA+. Solvency II internal models and the ultimate Solvency Capital Requirement ("uSCR") were used at Lloyd's during 2012 to determine capital for the 2013 year of account. This approach is similar to but not the same as the old ICA calculation and also applied in 2013 for the 2014 year of account.

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) and achieves this currently by applying a market-wide loading of 35% to each uSCR to produce a Syndicate Economic Capital Assessment ("ECA").

Each uSCR is reviewed by Lloyd's annually and by the PRA on a sample basis. Management are required to carry out regular assessments of the amount of capital that is adequate for the size and nature of each syndicate. Funds at Lloyd's requirements are formally assessed twice a year and must be met for the Group to continue underwriting at Lloyd's. In addition, adjustments are made by Lloyd's to allow for open year profits and losses of the syndicates on which the corporate member participates. There is an obligation on members to remain solvent on a continuous basis.

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

At 31 December 2013, the Group's funds at Lloyd's amounted to £20.1 million which, in conjunction with the funds at Lloyd's held by Lancashire Insurance Company Limited of £95.6 million, was in excess of its capital requirements of £141.7 million after taking into account a solvency credit of £57.1 million. These funds were invested in a mixture of equities, fixed interest instruments and cash.

35 Categories of financial assets and liabilities

The financial assets and liabilities of the Group are categorised as follows:

As at 31 December 2013 *£'000*	**Financial assets**	**Loans and receivables**	**Assets at fair value through profit or loss**	**Insurance contracts**	**Non-financial assets**	**Total**
Assets						
Property, plant and equipment	**-**	**-**	**-**	**-**	**276**	**276**
Intangible assets	**-**	**-**	**-**	**-**	**7,674**	**7,674**
Reinsurers' share of technical provisions	**-**	**-**	**-**	**66,024**	**-**	**66,024**
Financial investments	**-**	**-**	**140,357**	**-**	**-**	**140,357**
Deferred acquisition costs	**-**	**-**	**-**	**12,556**	**-**	**12,556**
Deferred tax assets	**-**	**-**	**-**	**-**	**1,363**	**1,363**
Prepayments and accrued income	**83**	**-**	**-**	**-**	**5,471**	**5,554**
Trade and other receivables	**-**	**94,318**	**-**	**-**	**-**	**94,318**
Cash and cash equivalents	**-**	**80,558**	**-**	**-**	**-**	**80,558**
Total assets	**83**	**174,876**	**140,357**	**78,580**	**14,784**	**408,680**

£'000	**Amortised cost**	**Financial liabilities**	**Insurance contracts**	**Non-financial liabilities**	**Total**
Liabilities					
Borrowings	**45,172**	**-**	**-**	**-**	**45,172**
Insurance contracts	**-**	**-**	**258,740**	**-**	**258,740**
Provision for other liabilities and charges	**-**	**-**	**-**	**6,267**	**6,267**
Deferred tax liabilities	**-**	**-**	**-**	**17,422**	**17,422**
Trade and other payables	**-**	**-**	**-**	**18,011**	**18,011**
Current tax liabilities	**-**	**-**	**-**	**-**	**-**
Accruals and deferred income	**-**	**98**	**-**	**994**	**1,092**
Total liabilities	**45,172**	**98**	**258,740**	**42,694**	**346,704**

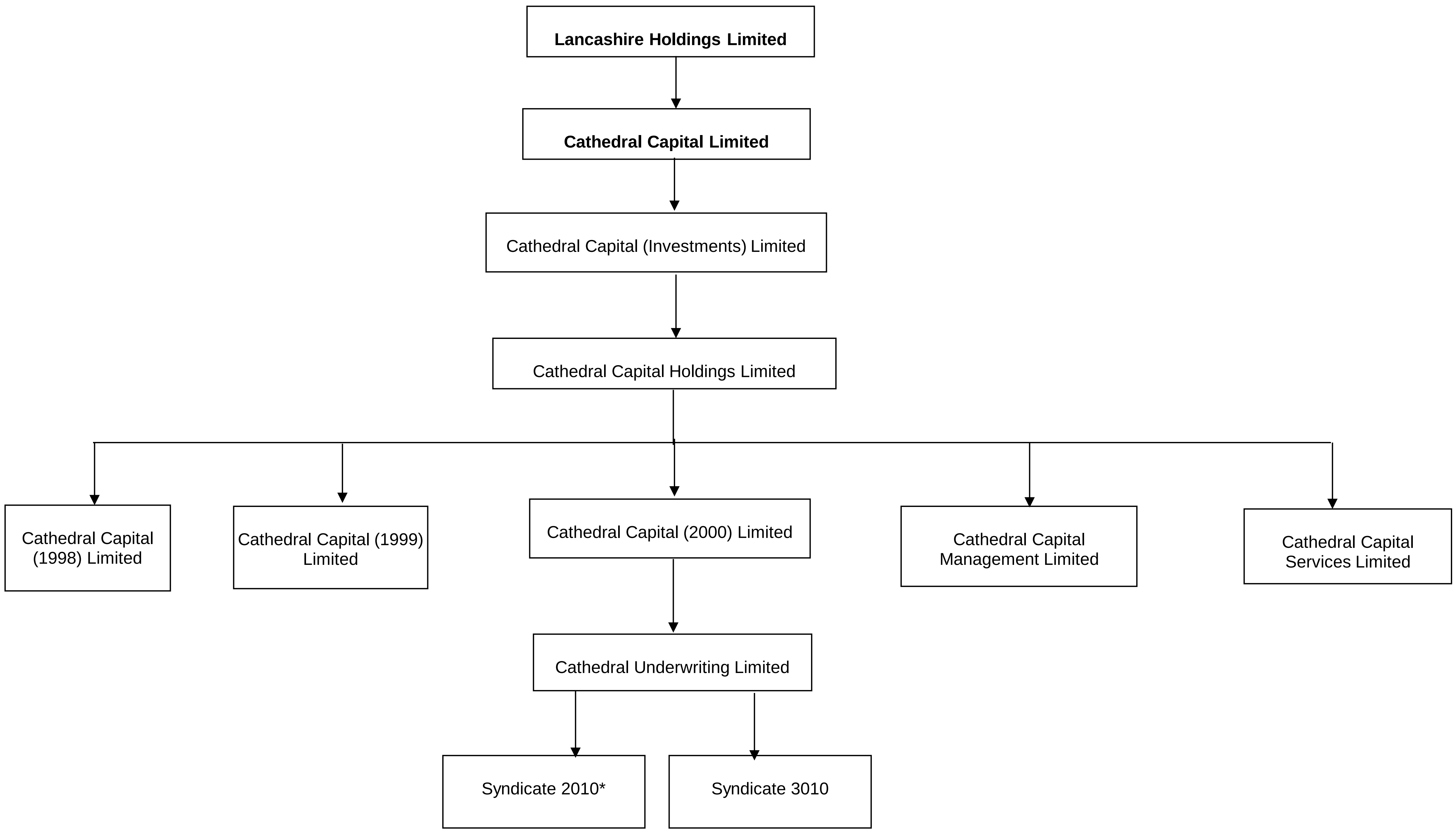
As at 31 December 2012 *£'000*	Financial assets	Loans and receivables	Assets at fair value through profit or loss	Insurance contracts	Non-financial assets	Total
Assets						
Property, plant and equipment	-	-	-	-	340	340
Intangible assets	-	-	-	-	7,069	7,069
Reinsurers' share of technical provisions	-	-	-	93,112	-	93,112
Financial investments	-	-	261,169	-	-	261,169
Deferred acquisition costs	-	-	-	12,391	-	12,391
Other assets	-	-	-	-	1,311	1,311
Prepayments and accrued income	897	-	-	-	1,385	2,282
Trade and other receivables	-	71,273	-	-	-	71,273
Cash and cash equivalents	-	95,785	-	-	-	95,785
Total assets	897	167,058	261,169	105,503	10,105	544,732

£'000	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
Liabilities					
Borrowings	42,974	-	-	-	42,974
Insurance contracts	-	-	302,793	-	302,793
Provision for other liabilities and charges	-	-	-	4,907	4,907
Deferred tax liabilities	-	-	-	11,347	11,347
Trade and other payables	-	-	-	31,197	31,197
Current tax liabilities	-	-	-	582	582
Accruals and deferred income	-	95	-	803	898
Total liabilities	42,974	95	302,793	48,836	394,698

36 Immediate and ultimate parent companies

The immediate parent company is Cathedral Capital (Investments) Limited and the ultimate parent company is Lancashire Holdings Limited. Lancashire Holdings Limited is the largest group for which consolidated financial statements are prepared. Cathedral Capital (Investments) Limited is registered in England & Wales. Lancashire Holdings Limited is registered in Bermuda.

Cathedral Capital Holdings Limited
Group Structure



* The Group provides capital to support 57.8% of the stamp.

CATHEDRAL CAPITAL HOLDINGS LIMITED

PARENT COMPANY FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company financial statements under UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

John Lynch

Company Secretary

20 March 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CATHEDRAL CAPITAL HOLDINGS LIMITED

We have audited the parent company financial statements of Cathedral Capital Holdings Limited for the year ended 31 December 2013 which comprise the Company Balance Sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statements set out on page 72, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Other matter

We have reported separately on the group financial statements of Cathedral Capital Holdings Limited for the year ended 31 December 2013.

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 March 2014

Cathedral Capital Holdings Limited
Parent Company Balance Sheet
As at 31 December 2013

	Notes	**31 December 2013** **£'000**	31 December 2012 £'000
Assets			
Financial investments	6	**17,688**	164,585
Investments in subsidiary undertakings	7	**2,014**	2,014
		19,702	166,599
Trade and other receivables	8	**64,457**	27,218
Prepayments and accrued income	9	**68**	890
Cash and cash equivalents	10	**2,510**	1,935
		67,035	30,043
Total assets		**86,737**	196,642
Equity			
Called-up share capital	11	**10,316**	10,316
Share premium	13	**-**	44,160
Capital redemption reserve	13	**1,713**	1,713
Profit and loss reserve	13	**15,743**	73,601
Total shareholder's equity	14	**27,772**	129,790
Liabilities			
Borrowings	15	**45,172**	42,974
Current tax liabilities		**-**	1,015
Deferred tax liabilities	16	**424**	222
Trade and other payables	17	**13,098**	22,454
Accruals and deferred income		**271**	187
Total liabilities		**58,965**	66,852
Total equity and liabilities		**86,737**	196,642

The financial statements on pages 75 to 86 were approved by the Board of Directors and authorised for issue on 20 March 2014 and signed on its behalf by:

Peter Scales
Chief Executive Officer

John Lynch
Chief Financial Officer

The Company Balance sheet is prepared under UK GAAP.
The Notes on pages 76 to 86 form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Cathedral Capital Holdings Limited ("the Company") is a limited company registered and domiciled in England and Wales. The addresses of its registered office and principal place of business are disclosed in the Report of the Directors on page 11.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Basis of preparation

The financial statements of the Company continue to be prepared under UK GAAP. The financial statements of the Company have been prepared under the historical cost accounting rules, modified by the revaluation of certain financial instruments as described below and in accordance with Regulation 3(1) of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. The accounts have been prepared on a going concern basis.

No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006. The result of the Company is set out in Note 5.

3 SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses. Interest income is recognised on an accruals basis. Dividend income is recognised when the shareholders' right to receive the payment is established.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price. Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the same accounting period.

b) Expenses

Expenses are accounted for on an accruals basis. Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost or proceeds of the investment.

c) Investments

The Company classifies its financial assets held for investment purposes as designated at fair value through profit and loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management. The fair values of quoted financial investments are based on bid prices at the balance sheet date. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques, such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

Unlisted investments and the subsidiary undertakings are stated at the lower of cost or fair value.

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

d) Cash at bank and in hand.

The cash at bank and in hand consists of cash at bank and in hand and includes deposits repayable on demand if they can be withdrawn at any time without notice or penalty.

e) Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax
The income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Profit and Loss Account because it excludes items of income or expense that are taxable or deductible in other accounting periods and it further excludes items that are never taxable or deductible. The liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax
Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities are not discounted.

Group relief
Contribution for group relief made at the standard rate of tax is included within the Profit and Loss Account, where it is equal to one hundred percent of the taxable loss it is recognised within Equity.

f) Employee Share Ownership Plan ("ESOP")
The Company operates an ESOP. Until December 2013, the Company had de facto control of the shares held by the ESOP and bore their benefits and risk. It also records certain assets and liabilities of the ESOP as its own. Finance costs and administrative expenses are charged as they accrue. As the shares held by the ESOP were not those of the Company, the shares were recorded as investments and accounted as such in accordance with note c) above.

g) Leased assets
Rentals in respect of assets held under operating leases are charged to the Profit and Loss Account in the accounting period they are incurred.

h) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Profit and Loss Account over the period of the borrowings using the effective interest method.

Costs arising on the issue of loan notes are charged to the Profit and Loss Account over the period of the loan notes. The loan notes payable are shown on the Balance Sheet, net of any unamortised cost. Borrowing costs are recognised in the Profit and Loss Account in the accounting period in which they are incurred.

(i) Cashflow Statement

The Company is exempt from preparing a cashflow statement under FRS1. Lancashire Holdings Limited (its ultimate parent company) prepares a consolidated cashflow statement.

(j) Related Party Transactions

The Company's ultimate parent undertaking prepares consolidated financial statements that are publicly available. Accordingly, the Company has taken advantage of an exemption in Financial Reporting Standard 8 and does not disclose transactions with other entities in the Lancashire Holdings Limited group.

4 Dividends paid

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Interim dividend paid in October 2012 of 24.23p per share	**-**	10,000
Interim dividend paid in November 2013 of 124.36p per share	**51,317**	**-**
Interim dividend paid in December 2013 of 152.05p per share	**62,746**	-
Interim divided paid in year of 276.41p per share (2012: 24.23p per share)	**114,063**	10,000

5 Profit attributable to members of the parent company

The profit dealt with in the accounts of the Company (as prepared under UK GAAP) was £12,045,000 (2012: £45,996,000). As permitted by Section 408 of the Companies Act 2006 no separate profit and loss account for the Company has been included in these financial statements.

6 Financial Investments

	31 December 2013 Fair value £'000	**31 December 2013 Cost £'000**	31 December 2012 Fair value £'000	31 December 2012 Cost £'000
Corporate				
Shares and other variable yield securities	**8,288**	**6,290**	6,886	6,110
Alternative investments	**1,544**	**1,293**	1,942	1,296
Debt and other fixed income securities	**7,856**	**7,916**	154,789	154,299
Investments held by ESOP	**-**	**-**	968	968
Total investments	**17,688**	**15,499**	164,585	162,673

All shares and other variable yield securities are classified as level 1 of the fair value hierarchy. All other corporate investments are listed on recognised stock exchanges and classified as level 2 of the fair value hierarchy except for equities within the ESOP of £nil (2012: £588,000) which are classified as level 3 of the fair value hierarchy.

Of the Corporate investments above, £17,688,000 (2012: £163,617,000) are held as funds at Lloyd's and therefore their use is restricted.

Alternative investments are investments which are characterised by a significant degree of capital protection, though for the most part they do have a degree of equity exposure.

Investments held by the ESOP at December 2012 related to the Manager Loan Notes and Investor Loan Notes of Cathedral Capital (Investments) Limited and A ordinary shares, B ordinary shares and preference shares of Cathedral Capital Limited, which were held by the ESOP. Cathedral Capital (Investments) Limited is the immediate parent company of Cathedral Capital Holdings Limited and Cathedral Capital Limited is the immediate parent company of Cathedral Capital (Investments) Limited and so both are therefore related parties. Although the Company only had de facto control of the ESOP, the Company is required under Urgent Issues Task Abstract 38 to account for the assets as if they belong to the Company. Consequently the assets and liabilities, income and expenses of the ESOP appear in the Company financial statements. The shares are valued at the lower of cost and market value, in accordance with UK GAAP. Their use is also restricted.

7 Investments in subsidiary undertakings

	31 December 2013 £'000	31 December 2012 £'000
Investments in subsidiary undertakings	**2,014**	2,014

Details of the Company's subsidiaries are as follows:

Name of company	Nature of business	Proportion of ordinary shares held by the Company	Proportion of ordinary shares held by a subsidiary
Cathedral Capital (1998) Limited	Lloyd's corporate member	100%	-
Cathedral Capital (1999) Limited	Non trading	100%	-
Cathedral Capital Management Limited	Non trading	100%	-
Cathedral Capital Services Limited	Employment company	100%	-
Cathedral Capital (2000) Limited	Intermediate holding company	100%	-
Cathedral Underwriting Limited	Lloyd's managing agent	-	100%

All companies are registered and operate in England.

8 Trade and other receivables

	31 December 2013 £'000	31 December 2012 £'000
Tax recoverable	**798**	564
Amounts owed by subsidiary companies	**28,569**	21,790
Amounts owed by parent companies	**35,090**	-
Investment sales	**-**	4,864
	64,457	27,218

Amounts owed by parent companies are repayable on demand.
The carrying amount disclosed reasonably approximates to fair values at year end.
All trade and other receivables are classified as loans and receivables.

9 Prepayments and accrued income

	31 December 2013 £'000	31 December 2012 £'000
Accrued income - investments	**59**	871
Prepayments	**9**	19
	68	890

10 Cash at bank and in hand

	31 December 2013 £'000	31 December 2012 £'000
Cash and cash equivalents held within funds at Lloyd's	**2,380**	1,586
Cash and cash equivalents held by ESOP	**34**	255
Cash and cash equivalents available for use by the Company	**96**	94
	2,510	1,935

Cash held within funds at Lloyd's is restricted and is not freely available for use by the Company. Cash held by the ESOP is also restricted.

11 Share capital

	31 December 2013 Authorised No.	31 December 2012 Authorised No.	**31 December 2013 Allotted issued and fully paid No.**	31 December 2012 Allotted issued and fully paid No.
Number:				
Ordinary shares of 25p each	**400,000,000**	-	**41,265,776**	-
A ordinary shares of 25p each	**-**	391,929,924	**-**	33,902,268
B ordinary shares of 25p each	**-**	20,000	**-**	-
C ordinary shares of 25p each	**-**	8,050,076	**-**	7,363,508
Deferred shares of 0.0001 p each	**-**	5,000,000,000	**-**	32,360,093

	£'000	£'000
Nominal value		
Ordinary shares of 25p each	**10,316**	-
A ordinary shares of 25p each	**-**	8,475
C ordinary shares of 25p each	**-**	1,841
Deferred shares of 0.0001 p each	**-**	-
	10,316	10,316

Up to December 2013, the A ordinary shares of 25p each, the B ordinary of 25 pence each and the C ordinary shares of 25p each all had the right to vote at general meetings of the Company and the right to receive dividends. Both the class of A ordinary shares of 25p each and the class of C ordinary shares of 25p each ranked pari passu in all respects. The Deferred shares of 0.0001 pence each did not have any right to receive notice of or vote at a general meeting of the Company or the right to receive a dividend.

From December 2013, the share capital was re-organised such that the A ordinary shares, B ordinary shares and C ordinary shares were converted into Ordinary shares of 25p each. The Deferred shares of 0.0001 p each were redeemed for £1. Following the share reorganisation in 2013, the Ordinary Shares of 25p each equate to 100.0% of the total votes.

Authorised, allotted, issued and fully paid:	**31 December 2013 Number**	31 December 2012 Number
A ordinary shares of 25p each		
At the beginning of the year	**33,902,268**	33,902,268
Converted to Ordinary shares of 25p each	**(33,902,268)**	-
At the end of the year	**-**	33,902,268
C ordinary shares of 25p each		
At the beginning of the year	**7,363,508**	7,363,508
Converted to Ordinary shares of 25p each	**(7,363,508)**	-
At the end of the year	**-**	7,363,508
Ordinary shares of 25p each		
At the beginning of the year	**-**	-
Converted from A ordinary shares of 25p each	**33,902,268**	-
Converted from C ordinary shares of 25p each	**7,363,508**	-
At the end of the year	**41,265,776**	-
Deferred shares of 0.0001p each		
At the beginning of the year	**32,360,093**	32,360,093
Redeemed deferred shares of 0.0001p each	**(32,360,093)**	-
At the end of the year	**-**	32,360,093

12 Operating leases

	31 December 2013 £'000	31 December 2012 £'000
Annual commitment under operating leases which expire:		
Land & buildings		
In the second to fifth years inclusive	**396**	396

Commitments under operating leases for land & buildings relate to rent payable. The Company entered into a 10 year rental contract commencing on 8 June 2006. Either party could give at least nine months notice to cancel the contract on 8 June 2011. However, no such notice was given. The contract includes an initial 11 months rent free period which was credited over the first five years of the rental contract. There is a further four months rent free period from 8 June 2011 to 8 October 2011 which is credited over the remaining five years of the rental contract.

13 Reserves

Movement in reserves for year ending 31 December 2013

	Balance at 1 January 2013 £'000	**Profit for the year £'000**	**Transactions with owners: Dividends paid £'000**	**Restructuring £'000**	**Total attributable to shareholders £'000**
Called-up share capital	**10,316**	**-**	**-**	**-**	**10,316**
Share premium	**44,160**	**-**	**-**	**(44,160)**	**-**
Capital redemption reserve	**1,713**	**-**	**-**	**-**	**1,713**
Profit and loss reserve	**73,601**	**12,045**	**(114,063)**	**44,160**	**15,743**
Equity shareholders' funds	**129,790**	**12,045**	**(114,063)**	**-**	**27,772**

Movement in reserves for year ending 31 December 2012

	Balance at 1 January 2012 £'000	Profit for the year £'000	Transactions with owners: Dividends paid £'000	Transactions with owners: Group relief £'000	Total attributable to shareholders £'000
Called-up share capital	10,316	-	-	-	10,316
Share premium	44,160	-	-	-	44,160
Capital redemption reserve	1,713	-	-	-	1,713
Profit and loss reserve	43,072	45,996	(10,000)	(5,467)	73,601
Equity shareholders' funds	99,261	45,996	(10,000)	(5,467)	129,790

Nature and purpose of each reserve

The called up share capital is the nominal value of each share in issue and is not distributable.

The share premium account represents the difference between the proceeds and the nominal value of each share issued and is not distributable, although expenses relating to the issue of shares can be offset against this reserve. During 2013, the Directors of the Company authorised a reduction in the share premium reserve.

The capital redemption reserve is in respect of shares cancelled by the Company and is not distributable.
During the year, the Company paid £nil (2012: £5,467,000) as consideration for group relief from its parent company in excess of the standard rate of tax, reflected within equity as a transaction with owners.
Of the profit and loss reserve of £15,743,000 at 31 December 2013 (2012: £73,601,000), £15,743,000 is distributable (2012: £72,622,000 is distributable).

14 Reconciliation of shareholder's equity

	31 December 2013 £'000	31 December 2012 £'000
Total recognised gains for the year	**12,045**	45,996
Dividend payment	**(114,063)**	(10,000)
Contribution for group relief in excess of standard rate of tax	**-**	(5,467)
Total movements during the year	**(102,018)**	30,529
Opening shareholder's equity	**129,790**	99,261
Closing shareholder's equity	**27,772**	129,790

15 Borrowings

	Carrying value 31 December 2013 £'000	Carrying value 31 December 2012 £'000
Unsecured Floating Rate Subordinated Notes	**45,172**	42,974

The carrying amount disclosed above reasonably approximates to fair values at year end.

The Unsecured Floating Rate Subordinated Notes are all classed as non-current and categorised as financial liabilities at amortised cost.

Unsecured Floating Rate Subordinated Notes
During 2004, two Unsecured Floating Rate Subordinated Notes Due 2034 were issued by the Company. Both Notes were listed on the Irish Stock Exchange effective from 12 January 2005.

(i) Eur 12,000,000 Floating Rate Subordinated Notes were issued on 18 November 2004 and pay interest at a variable interest rate equal to the rate for three month deposits in euro plus a margin of 3.75% per annum. The Company can redeem the Notes in whole or in part, from time to time, on any interest payment date.

(ii) US$ 10,000,000 Floating Rate Subordinated Notes were issued on 26 November 2004 and pay interest at a variable interest rate equal to the rate for three months deposits in US Dollars plus a margin of 3.75% per annum. The Company can redeem these Notes in whole or in part, from time to time, on any interest payment date.

During 2005, a further two Unsecured Floating Rate Subordinated Notes Due 2035 were issued by the Company. These Notes were listed on the Irish Stock Exchange effective from 1 July 2005 and 1 March 2006.

(i) US$ 25,000,000 Floating Rate Subordinated Notes were issued on 13 May 2005 and pay interest at a variable interest rate equal to the rate for three months deposits in US Dollars plus a margin of 3.25% per annum. The Company can redeem these Notes in whole or in part, from time to time, on any interest payment date.

(ii) US$ 25,000,000 Floating Rate Subordinated Notes were issued on 18 November 2005 and pay interest at a variable interest rate equal to the rate for three months deposits in US Dollars plus a margin of 3.25% per annum. The Company can redeem these Notes in whole or in part, from time to time, on any interest payment date.

Although the Unsecured Floating Rate Subordinated Notes are listed, they are thinly traded as they are sold into CDO pools after which there is no readily available quoted market price for these Unsecured Floating Rate Subordinated Notes. The fair values of the borrowings are therefore based on a discounted cash flow model based on a yield curve appropriate for the remaining expected term to maturity. The discount rate used in the valuation technique is based on the borrowing rate of the respective loans.

Facilities
The Company had no bank borrowing facilities.

16 Provision for deferred tax

The Company had a deferred tax liability at 31 December 2013 of £424,000 in respect of unrealised gains on investments and tax losses carried forward (31 December 2012: liability of £222,000 in respect of unrealised gains on investments and tax losses carried forward). The Company had no unprovided deferred tax assets or liabilities at 31 December 2013 (31 December 2012: Unprovided deferred tax asset or liability of £nil).

17 Trade and other payables

	31 December 2013 £'000	31 December 2012 £'000
Amounts due within one year:		
Owed to subsidiary companies	**12,598**	14,229
Owed to parent companies	**483**	8,093
Trade creditors	**17**	132
	13,098	22,454

The carrying amount disclosed reasonably approximates to fair values at year end. All trade and other payables are classified as non-financial liabilities.

18 Directors' emoluments

The remuneration of the directors charged to the Company was as follows:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Emoluments	**60**	68
Pension costs	**10**	11
Directors fees	**6**	6
ESOP contribution	**195**	-
Total directors' emoluments	**271**	85

The remuneration of the highest paid director charged to the Company was as follows:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Emoluments	**44**	53
Pension costs	**7**	8
ESOP contribution	**91**	-
Total directors' emoluments	**142**	61

19 Parent Company Risk Disclosures

The business of the Company is managing the Group's financial investments held in the funds at Lloyd's, and managing its investments in subsidiaries. Its risks are considered to be the same as those in the operations of the Group itself and full details of the risk management policies are given in Note 4 of the Group accounts.

Financial assets other than investments in subsidiaries and financial investments largely consist of amounts due from subsidiaries, and investment sales debtors. As at the balance sheet date, these receivable amounts were neither past due nor impaired. Financial liabilities owed by the Company are largely in respect of long-term borrowings (details of which are provided in Note 15 of the Parent Company accounts) and amounts due to subsidiaries. Amounts due to subsidiaries were within agreed credit terms as at the balance sheet date.

The Company faces exposure to foreign currency risk through its borrowings, amounts held with other group companies, and financial investment balances. At 31 December 2013, the Company held net liabilities of US$12.2m (2012: US$18.0m), and net assets of €2.6m (2012: €3.7m). A 10% movement in closing exchange rates, with all other variables constant, would result in a pre tax impact on net assets of £0.5m (2012: £0.8m).

The Company's financial instruments are exposed to equity price movements and interest rate movements as discussed in detail in Note 4.4 of the Group accounts. Based on the year end value of equities and alternative investments, a change in the FTSE All Share Index of 10 percentage points would equate to a pre tax movement on net assets / profits of £983,000 (2012: £833,000). A change in market interest rates of one percentage point would equate to a pre tax movement on net assets / profits of £84,000 (2012: £2,699,000).

The following table analyses the Company's concentration of credit risk.

At 31 December 2013	**A++ to A- £'000**	**B++ to B- £'000**	**Unrated £'000**	**Total £'000**
Financial Investments	**7,856**	**-**	**9,832**	**17,688**
Investments in subsidiary undertakings	**-**	**-**	**2,014**	**2,014**
Cash and cash equivalents	**2,147**	**-**	**363**	**2,510**
	10,003	**0**	**12,209**	**22,212**

At 31 December 2012	A++ to A- £'000	B++ to B- £'000	Unrated £'000	Total £'000
Financial Investments	150,895	3,894	9,796	164,585
Investments in subsidiary undertakings	-	-	2,014	2,014
Cash and cash equivalents	1,712	-	223	1,935
	152,607	3,894	12,033	168,534

The following tables group the debt securities, cash and cash equivalents, and borrowings, into maturity date periods. Note that the maturity date used below for the long term debt is on the same basis as its valuation, as set out in Note 15.

At 31 December 2013	**Balance sheet £'000**	**< 1 year £'000**	**1 - 3 years £'000**	**4 - 5 years £'000**	**> 5 years £'000**	**Total £'000**
Debt securities*	**7,856**	**3,755**	**3,767**	**-**	**334**	**7,856**
Cash and cash equivalents	**2,510**	**2,510**	**-**	**-**	**-**	**2,510**
Borrowings	**(45,172)**	**(1,767)**	**(4,220)**	**(5,981)**	**(105,252)**	**(117,220)**
	(34,806)	**4,498**	**(453)**	**(5,981)**	**(104,918)**	**(106,854)**

At 31 December 2012	**Balance sheet £'000**	< 1 year £'000	1 - 3 years £'000	4 - 5 years £'000	> 5 years £'000	Total £'000
Debt securities*	155,757	73,022	72,816	6,883	3,036	155,757
Cash and cash equivalents	1,935	1,935	-	-	-	1,935
Borrowings	(42,974)	(1,933)	(3,865)	(50,437)	-	(56,235)
	114,718	73,024	68,951	(43,554)	3,036	101,457

* Including debt securities held by ESOP.