

**CATHEDRAL CAPITAL HOLDINGS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

Registered No. 3372107

CATHEDRAL CAPITAL HOLDINGS LIMITED

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CATHEDRAL CAPITAL HOLDINGS LIMITED

STRATEGIC REPORT

Overview

The Cathedral business continues to trade in the same manner as when an independent business with the support of the wider Lancashire group. The company owns the main trading subsidiaries of Cathedral Underwriting Limited, managing Syndicates 2010 and 3010, and Cathedral Capital (1998) Limited, the corporate Member of Lloyd's

2014 is Cathedral's first full year within the Lancashire group and I am pleased that it has made a good contribution to the group with a bottom line profit of £10.6 million after all expenses and the quota share arrangements with Lancashire Insurance Company Limited.

The group produced a combined ratio of 81.5%. Our main trading entity, Syndicate 2010, produced a combined ratio of 76.4% and Syndicate 3010 produced a combined ratio of 93.9% respectively. This equates to an Return On Equity of 17.1%

In the context of the market and in terms of new business lines included within the Syndicate 3010 performance, I regard this as a very satisfactory outcome.

Market

In my last report, I highlighted that 2014 was shaping up to be a very difficult market place with the main feature being new capacity largely driven by low cost capital markets targeting big ticket, easily commoditised business. This in turn has displaced established balance sheet carriers who are increasingly diversifying and becoming more competitive in order to maintain their own positions.

2014 suffered a number of notable losses in the Aviation market and a number of smaller 'catastrophe' events, the largest that affects us being a huge convective storm that touched 48% of properties in Nebraska during the summer. However, in the wider property market place, 2014 was viewed as a clean year, which has done nothing to discourage the flow of capital into the market place and embolden those already there.

The 2015 renewals have been tough with downward pricing pressure and a scramble to obtain and maintain shares of business. Besides the obvious price issues, a major differentiating factor between the winners and losers has been client relationships and the ability of market leaders to add some value that clients wish to retain, in some case in preference to absolute price.

The two plus points are that our leading position in all lines that we write has meant that our shares of the business we subscribe for have been well protected compared to most and that we have been able to lower our retentions and buy a greater depth of cover while achieving savings on our outward reinsurance that mitigates our overall trading position. This gives us enhanced protection for when the inevitable major losses arrive.

As per the report last year, trading conditions are highly unlikely to improve during the year absent significant loss or an external circumstance, but our business model and underwriting teams are better equipped to deal with it and start from a better position than most.

Syndicates 2010 and 3010

We are closing the 2012 years of account of Syndicate 2010 and 3010 with two good profits of 17.6% and 9.1% respectively for a Member of the Syndicates after our fees and profit commissions. Both exceed our initial estimates and show a return to meaningful profit

after successfully navigating the frequency of market losses of the two previous years. The 2013 year of account is still on risk in some areas but is developing well though on a smaller income base. The 2014 year of account remains heavily on risk and has sustained some losses on a smaller income but is well protected and looks to be trading profitably at this stage.

During 2014 we were delighted to bring on board four new lines of business into Syndicate 3010 which follows our plans outlined in last year's report. In April we received permission from Lloyd's for the Lancashire Energy and Terror teams to underwrite on our behalf and over the summer we were joined by market-leading direct Aviation and Aviation War teams. All are now trading on behalf of 3010 and picking their way through testing trading conditions to slowly build a foot print which can be rapidly expanded when conditions allow.

As always, tremendous credit is due to our underwriting and support teams for being able to produce these results in a genuinely difficult and deteriorating market, while mainly retaining decent humour throughout.

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 £10.6 million (2013: £26.0 million) which equates to earnings per equity share of 25.7 pence (2013: 63.0 pence).

	Underwriting £'000	Corporate £'000	Total £'000
Gross Written Premium*	172,068	-	172,068
Net Earned Premium*	129,719	(27,600)	102,119
Net Claims incurred	(62,203)	-	(62,203)
Acquisition costs	(30,022)	-	(30,022)
Underwriting results	37,494	(27,600)	9,894
Other expenses**	(23,672)	7,662	(16,010)
Net investment return	1,323	802	2,125
Fees, commission and other income	-	17,428	17,428
Profit before tax	15,145	(1,708)	13,437
Tax	(3,180)	369	(2,811)
Profit after tax	11,965	(1,339)	10,626
Earnings per equity share	29.0p	(3.3p)	25.7p
Return on Equity***	19.3%	(2.2%)	17.1%

* included in net earned premiums is net reinsurance to close premiums received of £34,000 (2013: reinsurance to close premiums received of £18,000).

** 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 2014 include premiums on policies incepting during the year together with estimates for premiums and adjustments to premiums on policies incepting in earlier periods.

The Cathedral group entered into a reinsurance quota share agreement with Lancashire Insurance Company Limited (a fellow subsidiary). Reinsurance premiums payable under this quota share agreement are recognised in line with the terms of the contract and are deducted from net earned premiums.

The aggregate combined ratio, which is based on a function of gross or net earned premiums (excluding the reinsurance premium payable under the quota share agreement with Lancashire) 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 2014		31 December 2013	
	Gross %	Net %	Gross %	Net %
Claims ratio:				
Non-marine reinsurance	43.6	51.7	27.9	32.8
Aviation	67.4	70.5	19.1	20.0
Satellite	32.4	(15.9)	121.3	133.3
Direct & facultative property	30.0	34.3	25.5	32.9
Contingency	69.4	126.4	121.2	90.2
Cargo	33.7	46.2	74.5	71.6
Energy	49.2	78.4	-	-
Terrorism	8.4	25.6	-	-
3010 Aviation	28.0	32.5	-	-
Total claims ratio	40.5	47.6	33.1	37.8
Expense ratio	24.0	31.1	23.7	30.9
Combined ratio	64.5	78.7	56.8	68.7

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 2014		31 December 2013	
	Gross %	Net %	Gross %	Net %
Claims ratio	40.1	48.0	35.6	40.1
Expense ratio:				
Syndicates	25.0	32.1	24.3	31.4
Corporate	(3.0)	(4.0)	2.1	2.8
Staff profit-related pay	4.2	5.4	3.4	4.4
Total expense ratio	26.2	33.5	29.8	38.6
Combined ratio	66.3	81.5	65.4	78.7

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 gains of circa £8.4 million (2013: exchange losses of £4.2 million) have been accounted for through the Consolidated Statement of Comprehensive Income. For the year ended 2014 the gross and net expense ratio includes circa nil% (2013: 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.

Some of the free funds available in the group were managed by Goldman Sachs towards the end of the year. These funds are invested in short-term, high quality fixed income securities or held in cash.

The corporate investment return for the year was a profit of £0.7 million (2013: £3.8 million) which equates to a return of 1.3% down from 1.9% 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	8,321	5.4	446
Fixed interest	8,812	0.5	42
Alternative investments	1,635	6.5	107
Cash	1,514	0.3	4
Total	20,282	3.0	599
ESOP Funds	3	0.0	-
Free Funds:			
Fixed interest	6,400	(0.5)	(31)
Cash	22,218	0.4	85
Total	48,903	1.3	653

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 £1.7 million (2013: £1.8 million) on these borrowings by the Group during the course of the year.

More detail on these borrowings can be found in Note 23 to the Annual Report.

Taxation

The Group tax expense for the year is £2.8 million (2013: £5.6 million expense) which gives an effective tax rate of 20.9% (2013: 17.8%). This year, we have claimed no tax relating to claims equalisation reserves (2013: £2.1 million). We expect the tax claimed on claims equalisation reserves to be eventually 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 14 to the Annual Report.

Earnings per share

The earnings per ordinary share equate to 25.7 pence (2013: 63.0 pence) per share.

Dividend

The Company paid an interim dividend of £36,000,000 in the year equating to 87 pence per share (2013: £114,063,000 in the year, equating to 276 pence per share). The Company does not intend to declare a final dividend for the year.

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 as follows and includes the Group's interest in the Syndicates at 31 December 2014 as a single line item:

	31 December 2014 £'000	31 December 2013 £'000
Intangible assets	7,824	7,674
Tangible fixed assets	53	276
Group assets used as funds at Lloyd's	20,800	20,067
Other investments and cash balances	19,203	26,917
Unsecured subordinated loan notes	(47,122)	(45,172)
Interest in Syndicates	59,329	33,201
Net other (liabilities) / assets	(23,485)	19,013
Equity shareholder's funds	36,602	61,976

The valuation of the intangible assets consists of the cost of underwriting capacity for Syndicate 2010, goodwill and assets under construction. All 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 23.

The Cathedral Group had no bank borrowing facilities at December 2014.

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

	31 December 2014 £'000	31 December 2013 £'000
Cash and investments	197,432	174,375
Debtors – insurance and reinsurance	60,641	54,986
Net technical provisions	(192,114)	(192,717)
Creditors – insurance and reinsurance	(16,656)	(14,581)
Other net assets	10,026	11,138
Group's interest	59,329	33,201

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 2014 was £57.0 million (2013: £56.8 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 (liabilities) / assets are current and deferred taxation liabilities of £18.7 million (2013: £17.4 million). A detailed analysis of the deferred taxation liability is set out in Note 26 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 to calculate the capital requirement for each syndicate it manages. Since 2013 Solvency II internal models have been used to determine this requirement. Lloyd's requires the submission of an ultimate SCR ("uSCR"); the uSCR takes account of one year of new business in full, attaching to the next underwriting year, and the risks over the lifetime of the liabilities ("to ultimate") assessed at 1:200 confidence level. The uSCR continues to be used in the member capital setting process, as, together with the Solvency II balance sheet, it provides equivalent policyholder protection to the mandatory ICAS regime. The uSCR of each syndicate at Lloyd's is regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's has the discretion to take into account other factors at Syndicate level to uplift the calculated uSCR (including the need to maintain the market's overall security rating). 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 2015 calendar year the Group's Funds at Lloyd's initial requirement was set at 54% of underwriting capacity supported. This compares with an initial Funds at Lloyd's requirement of 61% for 2014.

Strategy

Our strategy remains to continue the work we started successfully last year. We will look to bring in market leading underwriters in specialist short tail lines who want to trade in the Cathedral environment. Although not ideal timing in this market, the best people in their market are a finite and scarce resource and our aim is to build out a hub of short tail leading expertise at Lloyd's backed by the larger Lancashire resource when required.

Peter Scales

Chief Executive Officer

16 February 2015

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 29th Floor
20 Fenchurch Street
London EC3M 3BY

Registrars Capita IRG Plc
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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 2014.

Registered Office and Company Number

In September 2014 the Registered Office of the Company was changed to 29th Floor, 20 Fenchurch Street, London, EC3M 3BY. 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 £262.3 million (2013: £232.3 million) of capacity for the 2014 year of account, all of which supported Cathedral Syndicates 2010 and 3010. For the 2015 year of account, the Group will underwrite £277.0 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 specialises in non-marine and aviation reinsurance, direct and facultative property and contingency business, with premium capacity of around £350 million for the 2014 year of account. The capacity of the Syndicate has reduced to £306 million for the 2015 year of account. Cathedral Syndicate 2010 has just closed its 2012 year of account, with a profit of circa £70 million.

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 specialises in marine cargo (including specie, fine art and war), with aviation war, direct aviation, energy and terrorism joining the account during 2014. The capacity of the Syndicate was increased from £30 million to £60 million during the 2014 year of account to accommodate the new lines of business. The capacity has been increased to £100 million for the 2015 year of account. The Syndicate's sole capital provider is the Group's corporate member. Cathedral Syndicate 3010 has just closed its 2012 year of account, with a profit of circa £2.7 million.

The Cathedral Syndicates 2010 and 3010 reported an aggregate 2014 calendar year profit of £47.3 million (2013: profit of £68.6 million) which equates to an aggregate net combined ratio for the Syndicates of 78.7% (2013: 68.8%), this excludes the currency translation gain of £5.9 million (2013: loss of £5.0 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 PRA, 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

There were no changes to the share capital during 2014.

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 28 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 33.

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 19 and 22 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

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 13.

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 £nil charitable or political donations (2013: £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 12.

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 33 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

Peter Scales

Director

16 February 2015

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 2014 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 37. 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 member those matters we are required to state to it 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 2014 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 2014.

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 February 2015

Cathedral Capital Holdings Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2014

		Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
	Notes		
Income			
Gross premiums written	5	172,068	185,029
Less premiums ceded to reinsurers		(66,958)	(42,202)
Net premiums written		105,110	142,827
Gross amount of change in provision for unearned premiums		(5,225)	830
Reinsurers' share of change in provision for unearned premiums		2,234	182
Earned premiums, net of reinsurance		102,119	143,839
Fees and commission income	6	13,341	5,713
Investment return	7	2,125	5,100
Other income	8	4,087	44
Total income		121,672	154,696
Expenses			
Claims paid:			
Gross amount		(88,161)	(108,183)
Reinsurers' share		20,644	35,418
Net claims paid		(67,517)	(72,765)
Net change in the provision for claims:			
Gross amount		21,209	41,974
Reinsurers' share		(15,895)	(26,953)
Net change in the provision for claims		5,314	15,021
Claims incurred, net of reinsurance:			
Acquisition costs	5	(62,203)	(57,744)
Other operating expenses	9	(22,639)	(22,621)
Net foreign exchange gains / (losses)	10	8,406	(4,192)
Total expenses excluding finance costs		(106,458)	(118,415)
Operating profits		15,214	36,281
Finance costs	11	(1,777)	(4,631)
Profit on ordinary activities before tax		13,437	31,650
Income tax expense	14	(2,811)	(5,645)
Profit on ordinary activities after tax		10,626	26,005
Profit attributable to the equity shareholder of the parent company		10,626	26,005
Other comprehensive income		-	-
Total comprehensive income for the year		10,626	26,005
Basic and diluted earnings per share	16	25.7p	63.0p

All activities were in respect of continuing operations.

The Company paid one interim dividend totalling £36 million in the year (2013: £144 million) as set out in note 15. The Company does not intend to declare a final dividend for the year.

The Notes on pages 22 to 70 form an integral part of these consolidated financial statements.

Cathedral Capital Holdings Limited
Consolidated Statement of Financial Position
As at 31 December 2014

		31 December	31 December
		2014	2013
	Notes	£'000	£'000
Assets			
Property, plant and equipment	17	53	276
Intangible assets	18	7,824	7,674
Reinsurance assets	24	54,569	66,024
Financial investments	19	173,403	140,357
Deferred acquisition costs	24	13,017	12,556
Deferred tax assets	26	3,504	1,363
Prepayments and accrued income	20	15,375	5,554
Trade and other receivables	21	105,848	94,318
Cash and cash equivalents	22	64,032	80,558
Total assets		437,625	408,680
Equity			
Called up share capital	28	10,316	10,316
Share premium account		-	-
Other reserves		3,160	3,160
Retained earnings		23,126	48,500
Total shareholder's equity		36,602	61,976
Liabilities			
Borrowings	23	47,122	45,172
Insurance liabilities	24	246,683	258,740
Provision for other liabilities	25	7,104	6,267
Deferred tax liabilities	26	18,656	17,422
Trade and other payables	27	79,939	18,011
Current tax liabilities		-	-
Accruals and deferred income		1,519	1,092
Total liabilities		401,023	346,704
Total equity and liabilities		437,625	408,680

The financial statements on pages 18 to 70 were approved by the Board of Directors and authorised for issue on 16 February 2015

Peter Scales
Chief Executive Officer

The Notes on pages 22 to 70 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 2014

Year ended 31 December 2014

	Balance at 1 January 2014 £'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	-	-	-	-	-
Capital redemption reserve	1,713	-	-	-	1,713
Merger reserve	1,447	-	-	-	1,447
Retained earnings	48,500	10,626	(36,000)	-	23,126
Total shareholder's equity	61,976	10,626	(36,000)	-	36,602

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

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 2013, 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 and tax.

The Notes on pages 22 to 70 form an integral part of these consolidated financial statements.

Cathedral Capital Holdings Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2014

		Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
	Notes		
Cash generated from operations	32	(9,724)	36,699
Interest received		2,342	5,765
Dividends received		346	339
Income taxes received / (paid)		449	(1,763)
Contribution to other group companies in lieu of tax		-	(1,325)
Net cash (used in) / from operating activities		(6,587)	39,715
Investing activities			
Purchase of software under construction		(150)	(605)
Purchase of property, plant and equipment		(6)	(107)
Net cash (used in) investing activities		(156)	(712)
Financing activities			
Consideration for investments sold by ESOP		-	3,783
Distribution of ESOP		34	(3,982)
Interest paid on loan notes		(1,706)	(1,849)
Dividends paid		(10,000)	(51,317)
Net cash (used in) financing activities		(11,672)	(53,365)
Net (decrease) in cash and cash equivalents		(18,415)	(14,362)
Cash and cash equivalents at beginning of year		80,558	95,785
Effect of exchange rate fluctuations on cash and cash equivalents		1,889	(865)
Cash and cash equivalents at end of year	22	64,032	80,558

The Notes on pages 22 to 70 form an integral part of these consolidated financial statements.

**CATHEDRAL CAPITAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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 consolidated 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 consolidated 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 2014. IFRS 10 (“Consolidated Financial Statements”) redefines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity’s financial statements. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In 2013, the Group’s employee share ownership plan (“ESOP”) was also included within the consolidated financial statements of the Group as the Group was 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 10 (“Consolidated Financial Statements”) and IFRS 12 (“Disclosure of involvement with other entities”) became effective during 2014. The impact of these standards 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 15 (“Review from Contracts with Customers”).

The Directors anticipate that the adoption of IFRS 9 will have no material impact on the consolidated financial statements of the Group, except for changes to disclosures. The Directors are in the process of evaluating the impact of IFRS 15 on the consolidated financial statements of the Group.

**CATHEDRAL CAPITAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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 consolidated 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.

b) Use of estimates

The consolidated 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. Reinsurance premium payable to Lancashire Insurance Company Limited (a related group company) under a reinsurance quota share agreement is recognised in line with the annual accounting underwriting result, gross of reinsurance profit commissions receivable. It is also grossed up for Lloyd's expenses (managing agency fees and managing agency profit commission) which have been effectively passed on to Lancashire Insurance Company by way of the reinsurance quota share contract.

(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.

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.

CATHEDRAL CAPITAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

(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.

CATHEDRAL CAPITAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

(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 although it does include those fees and commissions charged to the Group's corporate member subsidiary but effectively passed on to Lancashire Insurance Company Limited by way of the quota share reinsurance agreement.

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.

CATHEDRAL CAPITAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 cash flows 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.

CATHEDRAL CAPITAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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 consolidated 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.

CATHEDRAL CAPITAL HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 consolidated 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.

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 recorded certain assets and liabilities of the ESOP as its own. Finance costs and administrative expenses were charged as they accrued. 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 direct issue costs.

t) Share Based Payments

Lancashire Holdings Limited (the ultimate parent company) has issued restricted shares to certain employees and members of senior management and the Group is recharged for the costs relating to its employees. They are recognised as an expense pro-rata over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards estimated at the grant date, excluding the impact of any non-market vesting conditions.

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.

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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:

	2014	2014	2013	2013
	£'000	%	£'000	%
Non-marine	62,953	36.6%	74,561	40.3%
Direct property	48,855	28.4%	64,290	34.7%
Aviation	15,632	9.1%	14,428	7.8%
Cargo	22,742	13.2%	27,130	14.7%
Contingency	2,930	1.7%	2,972	1.6%
Satellite	1,126	0.7%	1,639	0.9%
FTC	(6)	0.0%	(9)	0.0%
Terrorism	2,126	1.2%	-	-
Energy	15,676	9.1%	-	-
	172,034	100.0%	185,011	100.0%
RITC adjustment*	34		18	
	172,068		185,029	

* 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 the classes of business stated above. 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, 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 endeavour to ensure that their potential loss exposures remain within Franchise Board guidelines. The Lloyd's guidelines 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.

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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) typically provide policyholders with defined cover by way of both limits and number of reinstatements, the direct and facultative account and marine cargo account gives rise to very large assured values which are potentially more 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 accounts are also vulnerable to loss frequency, although this is mitigated by modulating line size by attachment point, geographical spread of risks and separate reinsurance programmes.

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 is 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 £1,351,000 (2013: £1,359,000).

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.

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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 2014 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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1 year	156%	28%	40%	74%	40%	64%	81%	55%	47%	58%
2 years	121%	36%	46%	70%	52%	92%	76%	46%	46%	
3 years	116%	36%	47%	70%	49%	93%	72%	41%		
4 years	117%	36%	46%	67%	47%	92%	67%			
5 years	117%	35%	45%	66%	46%	91%				
6 years	117%	35%	45%	65%	44%					
7 years	117%	34%	45%	65%						
8 years	116%	34%	45%							
9 years	115%	33%								
10 years	116%									

	Underwriting Year									
Net	2005	2006	2007	2008	2009	2010	2011	2012	2013	2,014
1 year	87%	39%	58%	66%	53%	76%	86%	63%	62%	71%
2 years	72%	45%	57%	60%	58%	80%	77%	50%	56%	
3 years	66%	46%	57%	60%	52%	77%	72%	44%		
4 years	66%	44%	55%	56%	49%	75%	68%			
5 years	66%	44%	54%	55%	48%	75%				
6 years	66%	43%	53%	52%	46%					
7 years	65%	42%	53%	52%						
8 years	63%	41%	52%							
9 years	63%	41%								
10 years	63%									

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 2013 and prior underwriting years, these generally decreased during the 2014 calendar year in light of favourable claims experience.

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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 £1,720,000 to the unearned premium provision (2013: £1,850,000).

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.
- amounts due from parent company

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.

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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 2014	A++ to A- £'000	B++ to B- £'000	F £'000	Unrated £'000	Total £'000
Financial investments	154,527	7,477	-	11,399	173,403
Insurance receivables	52,643	17	-	7,981	60,641
Reinsurance assets	44,266	55	-	10,248	54,569
Cash and cash equivalents	64,024	-	-	8	64,032
	315,460	7,549	-	29,636	352,645

At 31 December 2013	A++ to A- £'000	B++ to B- £'000	F £'000	Unrated £'000	Total £'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

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 £10.2 million unrated reinsurance assets at 31 December 2014, circa £2.8 million (2013 circa £3.9 million) are fully collateralised in trust funds; circa £2.7 million are in respect of attritional IBNR that have yet to be allocated to any specific loss and therefore any specific reinsurer; and the remaining circa £4.7 million relate to a handful of specific unsettled recoverables 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 2014 £'000	Group 31 December 2013 £'000
3 to 6 months past due	2,655	732
6 to 9 months past due	660	629
Greater than 9 months past due	1,267	985
	4,582	2,346

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. At 31 December 2014, the Group had £6.3 million of cash available for use (2013: £24.2 million) and a further £12.9 million of short term investments available for use.

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 23.

At 31 December 2014	Balance sheet £'000	< 1 year £'000	1 - 3 years £'000	4 - 5 years £'000	> 5 years £'000	Total £'000
Debt securities	163,330	30,362	104,192	20,382	8,394	163,330
Cash and cash equivalents	64,032	64,032	-	-	-	64,032
Borrowings	(47,122)	(1,870)	(4,770)	(5,440)	(92,501)	(104,581)
Gross provision for claims outstanding	(183,223)	(72,408)	(67,150)	(23,759)	(19,906)	(183,223)
Claims outstanding recoverable from reinsurers	48,112	19,920	20,947	5,141	2,103	48,111
	45,129	40,036	53,219	(3,676)	(101,910)	(12,331)

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	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)

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.

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All borrowings are at variable rates which are re-priced quarterly. The rates are as set out in Note 23. 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 2014	31 December 2013
Debt securities	0.8%	0.6%
Cash and cash equivalents	0.1%	0.4%
Borrowings	3.6%	3.7%

A change in market interest rates of one percentage point would equate to a pre tax movement on net assets / profits of £2,686,000 (2013: £1,761,000). 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 £1,007,000 (2013: £983,000).

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.

Cathedral Capital Holdings Limited
Notes to the Financial Statements
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The tables below show the currency split of the group's assets and liabilities.

As at 31 December 2014	STG	EUR	USD	CAD	Total
	£'000 in cnv	£'000 in cnv	£'000 in cnv	£'000 in cnv	£'000 in cnv
Assets					
Property, plant and equipment	53	-	-	-	53
Intangible assets	7,824	-	-	-	7,824
Reinsurers' share of technical provisions	6,062	1,287	45,199	2,021	54,569
Financial investments	10,861	12,676	137,658	12,208	173,403
Deferred acquisition costs	2,405	470	9,367	775	13,017
Deferred tax asset	3,504	-	-	-	3,504
Prepayments and accrued income	15,305	-	55	15	15,375
Trade and other receivables	20,079	13,662	70,495	1,612	105,848
Cash and cash equivalents	17,893	4,466	35,137	6,536	64,032
Total assets	83,986	32,561	297,911	23,167	437,625
Liabilities					
Borrowings	-	9,168	37,954	-	47,122
Insurance contracts	39,411	17,094	176,481	13,697	246,683
Provision for other liabilities and charges	7,104	-	-	-	7,104
Deferred tax liabilities	18,656	-	-	-	18,656
Trade and other payables	65,591	469	13,219	660	79,939
Current tax liabilities	-	-	-	-	-
Accruals and deferred income	1,421	44	54	-	1,519
Total liabilities	132,183	26,775	227,708	14,357	401,023
Net assets	(48,197)	5,786	70,203	8,810	36,602
Impact of 10% currency movement*	-	579	7,020	881	8,480

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As at 31 December 2013

	STG £'000	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

* 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.

Cathedral Capital Holdings Limited
Notes to the Financial Statements
For the year ended 31 December 2014
continued

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 2014				
	Syndicates £'000	Corporate Funds £'000	Corporate Other £'000	Q/Share & Elimination £'000	Total £'000
Gross premiums written	172,034	-	-	-	172,034
<i>Underwriting:</i>					
Net earned premiums	129,685	-	-	-	129,685
Quota share premium to Lancashire	-	-	-	(16,458)	(16,458)
Net claims incurred	(62,169)	-	-	-	(62,169)
Underwriting expenses	(30,022)	-	-	-	(30,022)
Underwriting result	37,494	-	-	(16,458)	21,036
<i>Other income and expenses:</i>					
Fees and commission income	-	-	21,408	(15,159)	6,249
Investment return	1,323	802	-	-	2,125
Other income	-	-	37	-	37
Operating expenses	(30,215)	(189)	(7,427)	15,192	(22,639)
Exchange gains	7,821	-	585	-	8,406
Finance costs	(1,278)	(48)	(451)	-	(1,777)
Profit / (loss) before tax	15,145	565	14,152	(16,425)	13,437
Income tax (expense) / credit	(3,180)	(119)	(2,985)	3,473	(2,811)
Profit / (loss) after tax	11,965	446	11,167	(12,952)	10,626
Combined ratio	94.4%	N/A	N/A	N/A	81.5%
Total assets	-	40,003	74,665	-	114,668
Total liabilities	-	-	(78,066)	-	(78,066)
Net assets / (liabilities)	-	40,003	(3,401)	-	36,602
Capital expenditure	-	-	6	-	6

The combined ratio is net of fees and commission income and is adjusted for the quota share reinsurance premium payable to Lancashire Insurance Company Limited and certain Restricted Share Scheme costs charged by Lancashire Holdings Limited.

Cathedral Capital Holdings Limited
Notes to the Financial Statements
For the year ended 31 December 2014
continued

5 Segmental information *continued*
Analysis of Group's Reportable Segments

	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
<i>Underwriting:</i>					
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
<i>Other income and expenses:</i>					
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 before tax	28,453	3,005	192	-	31,650
Income tax (expense) / credit	(5,126)	(544)	25	-	(5,645)
Profit 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	-	46,540	15,436	-	61,976
Capital expenditure	-	-	107	-	107

All revenues for each reportable segment are from external customers, with the exception of £15,192,000 (2013: £1,615,000) of sales received by Corporate Other which are from Syndicates.

Corporate Other also includes depreciation and amortisation of £154,000 (2013: £171,000) and impairment of £nil (2013: £nil).

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 and profit commission which is paid by the Group's corporate member to the Group's managing agent. These are therefore reported as an expense by the syndicates and income by Corporate Other.

Cathedral Capital Holdings Limited
Notes to the Financial Statements
For the year ended 31 December 2014
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Reconciliation of reportable segments to Financial Statements

	For the year ended 31 December 2014				
	Per Total	Adjustment	Syndicate	Gross up	Per Total
	Reportable	for RITC	Assets and	adjustments	Group
	Segments	premiums	Liabilities		Accounts
	£'000	£'000	£'000	£'000	£'000
Gross premiums written	172,034	34	-	-	172,068
<i>Underwriting:</i>					
Net earned premiums	129,685	34	-	(27,600)	102,119
Quota share premium to Lancashire	(16,458)			16,458	-
Net claims incurred	(62,169)	(34)	-	-	(62,203)
Underwriting expenses	(30,022)	-	-	-	(30,022)
Underwriting result	21,036	-	-	(11,142)	9,894
<i>Other income and expenses:</i>					
Fees and commission income	6,248	-	-	7,092	13,340
Investment return	2,125	-	-	-	2,125
Other income	37	-	-	4,050	4,087
Operating expenses	(22,639)	-	-	-	(22,639)
Exchange gains	8,406	-	-	-	8,406
Finance costs	(1,777)	-	-	-	(1,777)
Profit before tax	13,436	-	-	-	13,436
Income tax expense	(2,811)	-	-	-	(2,811)
Profit after tax	10,625	-	-	-	10,625
Total assets	114,668	-	270,595	52,362	437,625
Total liabilities	(78,066)	-	(270,595)	(52,362)	(401,023)
Net assets	36,602	-	-	-	36,602

	For the year ended 31 December 2013				
	Per Total	Adjustment	Syndicate	Gross up	Per Total
	Reportable	for RITC	Assets and	adjustments	Group
	Segments	premiums	Liabilities		Accounts
	£'000	£'000	£'000	£'000	£'000
Gross premiums written	185,011	18	-	-	185,029
<i>Underwriting:</i>					
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
<i>Other income and expenses:</i>					
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

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, the reinsurance premium payable to Lancashire Insurance Company Limited under the quota share agreement is monitored by the Chief Operating Decision Maker at a net level but is required to be grossed up for profit commission and managing agency fees for statutory reporting purposes. It is also considered separately from the underlying net earned premiums of the business.

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 2014.

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Notes to the Financial Statements
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6 Fees and commission income

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Managing agency fees	2,208	960
Profit commission	11,133	4,753
	13,341	5,713

Managing agency fees and profit commission include £7,091,000 (2013: £nil) earned from Lancashire Insurance Company Limited, a fellow Lancashire group company.

7 Investment return

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Syndicate investments		
Investment income - interest	2,080	2,349
Realised investment losses	(608)	(1,035)
Net investment return on syndicate investments	1,472	1,314
Funds at Lloyd's		
Investment income - interest	144	2,393
Investment income - dividends	344	329
Realised investment (losses)	(18)	(583)
Net fair value gains on assets at fair value through the Consolidated Statement of Comprehensive Income	129	276
Net investment return on Funds at Lloyd's investments	599	2,415
Cash and other investments		
Investment income - interest	114	208
Investment income - dividends	-	11
Realised (losses) / gains	(29)	2,825
Net fair value losses on assets at fair value through the Consolidated Statement of Comprehensive Income	(31)	(1,673)
Net investment return on cash and other investments	54	1,371
Net investment return	2,125	5,100

The realised gains and net fair value losses on assets at fair value through the Consolidated Statement of Comprehensive Income for cash and other investments in 2013 was in respect of investments held by the ESOP.

Cathedral Capital Holdings Limited
Notes to the Financial Statements
For the year ended 31 December 2014
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8 Other income

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Reinsurance profit commission on quota share reinsurance agreement	4,050	-
Other income	37	44
	4,087	44

9 Other operating expenses

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Syndicate operating expenses	8,662	8,224
Names' personal expenses on Lloyd's syndicates	1,303	1,654
Corporate expenses	12,674	12,743
	22,639	22,621

10 Net foreign exchange (gains) / losses

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Retranslation of underwriting balances	(3,448)	2,967
Exchange (gain) / loss to maintain non-monetary assets and liabilities at historical rates of exchange	(4,373)	1,241
Exchange loss / (gain) on long-term loan notes	1,893	(581)
Retranslation of other corporate balances	(2,478)	565
	(8,406)	4,192

11 Finance costs

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Interest expense on:		
Unsecured Floating Rate Subordinated Notes	1,721	1,807
Other interest	-	45
Effective interest rate method adjustment	56	2,779
	1,777	4,631

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.

12 Profit on ordinary activities before taxation

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
The profit on ordinary activities before taxation is stated after charging:		
Operating lease charges - rent	72	45
Operating lease charges - other	2	2
Depreciation of tangible fixed assets	154	171
Loss on disposal of tangible fixed assets	8	-
Fees payable to the current auditor for:		
Audit of the Company's annual accounts	41	27
Audit of the Company's subsidiaries' annual accounts	52	68
Taxation services	53	-
Other	42	-
Fees payable to the previous auditor for:		
Technical and actuarial support	-	19
Taxation services	-	33

13 Employees

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
The aggregate payroll costs borne by the Corporate Group were as follows:		
Salaries	6,532	6,646
Social security costs	838	921
Pension costs under defined contribution plans	447	113
	7,817	7,680

The average number of people (excluding non-executive directors) employed by the Group during the year was 67 (2013: 62). Of this, 39 were dedicated underwriting and claims (2013: 35) 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 33 for details of compensation of key management personnel.

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14 Income tax expense

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
(a) Analysis of expense / (credit) in the year		
Current tax		
Corporation tax at 21.5% (2013: 23.25%)	-	-
Carried back losses	-	(1,764)
Adjustments in respect of previous years	-	(623)
Contribution for group tax relief paid to other group companies for prior years	93	94
Contribution for group tax relief payable to other group companies for current year	3,452	1,231
Overseas tax	204	633
Other tax	(31)	51
Total current tax expense / (credit)	3,718	(378)
Deferred taxation		
Syndicate underwriting (losses) / profits	(785)	6,807
Investment gains	45	238
Temporary differences on decelerated capital allowances	1	18
Movement in tax losses	899	(777)
Adjustments in respect of previous years	(201)	-
Changes in tax rates	(89)	(2,364)
Change in claims equalisation reserve	-	2,097
Other temporary differences	(777)	4
Total deferred tax (credit) / expense	(907)	6,023
Tax expense	2,811	5,645
(b) Factors affecting the tax expense for the period		
Profit on ordinary activities before tax	13,437	31,650
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	2,889	7,359
Expenses not deductible for tax purposes	20	939
Changes in tax rates	(89)	(2,454)
Investment income received net of tax	(74)	(76)
Investment income not taxable	-	(278)
Overseas tax	204	633
Other tax	(31)	51
Prior period adjustments	(108)	(529)
Total tax expense	2,811	5,645

The UK corporation tax rate as at 31 December 2014 was 21 per cent (effective 1 April 2014). Until 1 April 2014, the UK corporation tax rate of 23 per cent applied. On 17 July 2013 reductions to 20 per cent from 1 April 2015 were enacted. These rates have been reflected in the closing deferred tax position on the balance sheet.

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15 Dividends paid

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'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 dividend paid in December 2014 of 87.24p per share	36,000	-
Interim dividend paid in year of 87.24p per share (2013: 276.41p per share)	36,000	114,063

The deferred shares of 0.0001 pence each which existed until December 2013 were not entitled to any dividends, as set out in Note 28.

16 Earnings per share

	Year ended 31 December 2014	Year ended 31 December 2013
The basic earnings per share is calculated as follows:		
Profit for the year (£'000)	10,626	26,005
Basic weighted average number of shares (no.)	41,265,776	41,265,776
Basic earnings per share (p)	25.7	63.0

Deferred shares have not been included in the calculation for the reasons set out in Note 28. 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.

17 Property, plant and equipment

	Lease £'000	Computers & other equipment £'000	Furniture, fixtures & fittings £'000	Total 2014 £'000	Total 2013 £'000
Cost					
At 1 January	29	1,569	572	2,170	2,063
Additions	-	6	-	6	107
Disposals	(29)	(821)	(507)	(1,357)	-
At 31 December	-	754	65	819	2,170
Depreciation and impairment					
At 1 January	29	1,302	563	1,894	1,723
Charge for the year	-	150	4	154	171
Disposals	(29)	(749)	(504)	(1,282)	-
At 31 December	-	703	63	766	1,894
Net book value					
At 31 December	-	51	2	53	276
At 1 January	-	267	9	276	340

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

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Notes to the Financial Statements
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continued

18 Intangible assets

As at 31 December 2014	Software under construction £'000	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 January	605	4,841	2,228	7,674
Additions during the year	150	-	-	150
Impaired during the year	-	-	-	-
Cost at 31 December	755	4,841	2,228	7,824

As at 31 December 2013	Software 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

Software 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 split 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 2014	Total £'000
Goodwill	2,228
Syndicate capacity	4,841

As at 31 December 2013	Total £'000
Goodwill	2,228
Syndicate capacity	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% (2013: 8%) and a growth rate of 2% (2013: 2%). 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.

19 Financial Investments

	31 December 2014 Fair value £'000	31 December 2014 Cost £'000	31 December 2013 Fair value £'000	31 December 2013 Cost £'000
Corporate				
Shares and other variable yield securities	8,407	6,394	8,288	6,290
Alternative investments	1,666	1,316	1,544	1,293
Debt and other fixed income securities	21,530	21,609	7,856	7,916
Deposits held with credit institutions	-	-	2,252	2,252
Total investments - Corporate	31,603	29,319	19,940	17,751
Syndicate participations				
Shares and other variable yield securities	-	-	-	-
Debt securities and other fixed interest securities	141,800	141,842	120,417	120,817
Deposits with ceding undertakings	-	-	-	-
Other loans and investments	-	-	-	-
Total investments - Syndicate participations	141,800	141,842	120,417	120,817
Group financial investments	173,403	171,161	140,357	138,568

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 classified as level 1 of the fair value hierarchy. Level 1 investments are securities with quoted prices in active markets, where the quoted prices represent actual and regularly occurring market transactions on an arm's length basis. All other investments are classified as level 2 of the fair value hierarchy, which are securities with quoted prices in active markets for similar assets of liabilities or other valuation techniques for which all significant inputs are based on observable market date. These investments are valued via independent external sources using modelled or other valuation methods.

Of the Group's investments above, £18,691,000 (2013: £17,688,000) 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 £31,603,000 (2013: £17,688,000) are listed on recognised stock exchanges.

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 31 December 2014, the Group's total interest in unconsolidated structured entities was £28.6 million. The Group does not sponsor any of the unconsolidated structured entities.

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

	31 December 2014 £'000
Debt and other fixed income securities - Corporate	2,370
Debt and other fixed income securities - Syndicate participations	26,202
Total investments in unstructured entities	28,572

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

19 Financial investments *continued*

The risks that the Group faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the balance sheet in that fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in term structure of interest rates which change investors expectation of cash flows associated with the instruments and, therefore, its value in the market. Risk management disclosure for these financial instruments and other

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

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

20 Prepayments and accrued income

	31 December 2014 £'000	31 December 2013 £'000
Accrued income - investments	77	83
Accrued income - underwriting	14,629	4,753
Prepayments	669	718
	15,375	5,554

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

21 Trade and other receivables

	31 December 2014 £'000	31 December 2013 £'000
Arising out of direct insurance operations	19,594	11,786
Arising out of reinsurance operations	41,047	43,200
Tax recoverable	2,825	3,447
Amounts owed by parent companies	41,129	35,090
Amounts owed by syndicates	700	108
Other receivables	553	687
	105,848	94,318

Amounts owed by parent companies are repayable on demand and have no fixed term of repayment.

Of the amounts due from syndicates, £nil (2013: £nil) is due in more than one year.

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

22 Cash and cash equivalents

	31 December 2014 £'000	31 December 2013 £'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	28,594	49,543
Short term investments	35,438	31,015
	64,032	80,558
Cash and cash equivalents consist of:		
Cash and cash equivalents held by syndicates	55,632	53,958
Cash and cash equivalents held within funds at Lloyd's	2,109	2,379
Cash and cash equivalents held by ESOP	-	34
Cash and cash equivalents available for use by the Group	6,291	24,187
	64,032	80,558

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.

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23 Borrowings

	Carrying value 31 December 2014 £'000	Carrying value 31 December 2013 £'000
Unsecured Floating Rate Subordinated Notes	47,122	45,172

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 2014 in respect of the Unsecured Floating Rate Subordinated Notes is set out in Note 11.

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.

24 Insurance liabilities and reinsurance assets

	31 December 2014 £'000	31 December 2013 £'000
Gross		
Provision for claims outstanding	183,223	197,331
Provision for unearned premiums	63,460	61,409
	246,683	258,740
Recoverable from reinsurers		
Provision for claims outstanding	48,112	61,456
Provision for unearned premiums	6,457	4,568
	54,569	66,024
Net	192,114	192,716

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.

24.1 Reconciliation of changes in insurance liabilities and reinsurance assets

	Claims outstanding £'000	Provision for unearned premiums £'000	Total 2014 £'000	Total 2013 £'000
Gross insurance liabilities				
Provision at 1 January	197,331	61,409	258,740	302,793
Additional provisions made in the year	69,814	58,425	128,239	122,682
Amounts used in the year	(70,477)	(53,238)	(123,715)	(153,985)
Unused amount reversed during the year	(20,679)	-	(20,679)	(12,097)
Exchange differences	7,234	(3,136)	4,098	(653)
Provision at 31 December	183,223	63,460	246,683	258,740

	Claims outstanding £'000	Provision for unearned premiums £'000	Total 2014 £'000	Total 2013 £'000
Reinsurance assets				
Provision at 1 January	61,456	4,568	66,024	93,112
Additional provisions made in the year	7,360	6,392	13,752	11,696
Amounts used in the year	(18,033)	(4,196)	(22,229)	(39,028)
Unused amount reversed during the year	(5,286)	-	(5,286)	-
Exchange differences	2,615	(307)	2,308	244
Provision at 31 December	48,112	6,457	54,569	66,024
Net	135,111	57,003	192,114	192,716

24.2 Movement in deferred acquisition costs

	2014 £'000	2013 £'000
Provision at 1 January	12,556	12,391
Additional provisions made in the year	11,597	11,185
Amounts used in the year	(11,136)	(11,020)
Provision at 31 December	13,017	12,556

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25 Provisions for other liabilities

<i>Provision in respect of profit-sharing scheme</i>	31 December 2014 £'000	31 December 2013 £'000
Provision at 1 January	6,267	4,907
Charge for the year	7,031	6,267
Utilised in the year	(6,194)	(4,907)
Provision at 31 December	7,104	6,267

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. It also before reinsurance premiums payable by Cathedral Capital (1998) Limited to Lancashire Insurance Company Limited under the quota share agreement and certain Restricted Share Scheme costs charged to the group by Lancashire Holdings 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 66. 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.

26 Provision for deferred tax

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

	31 December 2014 £'000	31 December 2013 £'000
(Profits) of closed underwriting year	(9,576)	(1,908)
Underwriting losses/ (profits) not yet recognised for tax	280	(4,898)
Unrealised investment losses	(478)	(483)
Decelerated capital allowances	10	54
Tax losses carried forward	92	820
Claims equalisation reserve	(8,489)	(8,488)
Reinsurance premium payable under quota share agreement	3,323	-
Temporary differences relating to Syndicate participations	(970)	(1,043)
Other temporary differences	656	(113)
Provision for deferred tax	(15,152)	(16,059)

Reflected in the balance sheet as follows:

Deferred tax assets	3,504	1,363
Deferred tax liabilities	(18,656)	(17,422)
Deferred tax net	(15,152)	(16,059)

Provision for deferred tax at start of year	(16,059)	(10,036)
Deferred tax credit / (charge) in Consolidated Statement of Comprehensive Income for year (note 14)	907	(6,023)
Provision for deferred tax at end of year	(15,152)	(16,059)

Unprovided deferred tax assets amounted to £nil at 31 December 2014 (31 December 2013: £nil). All deferred tax assets as at December 2014 are considered to be recoverable.

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27 Trade and other payables

	31 December	31 December
	2014	2013
	£'000	£'000
<i>Amounts due within one year:</i>		
Arising out of direct insurance operations	1,283	1,181
Arising out of reinsurance operations	20,900	13,400
Other taxes and social security costs	714	2,606
Owed to parent company	40,408	483
Reinsurance quota share premium payable	16,458	-
Trade creditors	176	341
<i>Amounts due after one year:</i>		
Trade creditors	-	-
	79,939	18,011

Reinsurance quota share premium payable is due to Lancashire Insurance Company Limited (a fellow group company).

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28 Share capital
Authorised share capital

	31 December 2014	31 December 2013	31 December 2014	31 December 2013
	Authorised Number	Authorised Number	Allotted issued and fully paid Number	Allotted issued and fully paid Number
Number:				
Ordinary shares of 25p each	400,000,000	400,000,000	41,265,776	41,265,776
A ordinary shares of 25p each	-	-	-	-
B ordinary shares of 25p each	-	-	-	-
C ordinary shares of 25p each	-	-	-	-
Deferred shares of 0.0001 p each	-	-	-	-

	£'000	£'000
Nominal value		
Ordinary shares of 25p each	10,316	10,316
A ordinary shares of 25p each	-	-
B ordinary shares of 25p each	-	-
C ordinary shares of 25p each	-	-
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 receive dividends. Each share is entitled *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:

	31 December 2014	31 December 2013
Authorised, allotted, issued and fully paid:	Number	Number
<i>A ordinary shares of 25p each</i>		
At the beginning of the year	-	33,902,268
Converted to Ordinary shares of 25p each	-	(33,902,268)
At the end of the year	-	-
<i>C ordinary shares of 25p each</i>		
At the beginning of the year	-	7,363,508
Converted to Ordinary shares of 25p each	-	(7,363,508)
At the end of the year	-	-
<i>Ordinary shares of 25p each</i>		
At the beginning of the year	41,265,776	-
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	41,265,776
<i>Deferred shares of 0.0001p each</i>		
At the beginning of the year	-	32,360,093
Cancelled deferred shares of 0.0001p each	-	(32,360,093)
At the end of the year	-	-

29 Employee Share Ownership Plan

The Employee Share Ownership Plan ("ESOP") was set up for the benefit of the full time employees of the Group. 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. During 2014, the ESOP was closed down and the final cash was distributed to Cathedral Capital Holdings Limited to be distributed to the employees.

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.

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

	31 December 2014 £'000	31 December 2013 £'000
Consolidated Statement of Comprehensive Income		
Profit on sale / redemption of shares and Loan Notes	-	2,826
Investment income on shares	-	42
Sundry Expenses	-	(47)
Distribution of assets	-	(3,982)
Net fair value (losses) on assets at fair value through the Consolidated Statement of Comprehensive Income	-	(1,673)
Tax on investment income	-	(51)
Total (loss)	-	(2,885)
Consolidated Statement of Financial Position		
Cash	-	34
Less liabilities	-	(34)
Net assets	-	-
 ESOP funds		 -
Reconciliation of ESOP funds		
ESOP funds at 1 January	-	2,885
(Loss) arising in ESOP during the year	-	(2,885)
ESOP funds at 31 December	-	-

30 Capital commitments

The Group had £nil capital commitments at 31 December 2014 (2013: £nil).

31 Operating leases

	31 December	31 December
	2014	2013
	£'000	£'000
Future minimum lease payments under non-cancellable operating leases		
<i>Land & buildings:</i>		
Within one year	-	396
In the second to fifth years inclusive	-	594
<i>Other:</i>		
Within one year	8	9
In the second to fifth years inclusive	9	17
	17	1,016

Commitments under operating leases for land & buildings at December 2013 related 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 was then a further four months rent free period from 8 June 2011 to 8 October 2011 which was credited over the remaining five years of the rental contract. During 2014, the contract was surrendered, after the payment of dilapidation costs, and there are no further commitments in respect of land & buildings.

Other commitments relate to operating leases for IT equipment.

32 Reconciliation of profit to cash generated from operations

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Profit before taxation	13,437	31,650
Adjustments for:		
Depreciation	154	171
Loss on sale of fixed assets	75	-
(Profit) arising on disposal of ESOP investments	-	(2,815)
Distribution of ESOP	(34)	3,982
Purchase of investments	(109,681)	(200,043)
Proceeds from disposal of investments	82,831	217,993
(Increase) / Decrease in debtors & accrued income	(25,524)	9,839
Change in underwriting balances	(1,063)	(17,130)
Unrealised investment losses	510	2,432
Exchange revaluation	(6,702)	2,914
Increase / (Decrease) in creditors	37,177	(11,635)
Interest expense	1,778	4,631
Interest receivable	(2,338)	(4,950)
Dividends receivable	(344)	(340)
Cash generated from operations	(9,724)	36,699

33 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 Cathedral Group had an Employee Share Ownership Plan ("ESOP") in which all full time employees were potential beneficiaries. As such, all Directors who were full time employees of Cathedral Group had a potential interest in the shares (and other assets) held by the ESOP. During 2013, the ESOP sold all of its Preference shares, Manager Loan Notes, Investor Loan Notes, A ordinary shares and B ordinary shares to Lancashire Holdings Limited and distributed most of its assets to the employees of the Cathedral Group. Details of amounts received by the Directors are set out in Note 33 (v) below.

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(ii) Other

Up until 11 December 2014, the immediate parent company was Cathedral Capital (Investments) Limited, which was the sole shareholder of the Company. Following a group restructuring, Cathedral Capital (Investments) Limited sold Cathedral Capital Holdings Limited to its parent company, Cathedral Capital 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 Lloyd's, the PRA and FCA. Lancashire 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 was set up for the benefit of all full time employees in the Group. The objective of the ESOP was to help and encourage the holding of shares by beneficiaries or for their benefit. The ESOP was 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.

Further details of the ESOP are set out in Note 29.

(iv) Balances and transactions with related parties

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

	31 December 2014 £'000	31 December 2013 £'000
Owed (to) / by Cathedral Capital (Investments) Limited	(40,408)	684
Owed by / (to) Cathedral Capital Limited	39,640	(483)
Owed by Lancashire Holdings Limited	1,489	34,406
	721	34,607

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.

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In December 2014 £36.0m of dividends was paid to Cathedral Capital (Investments) Limited. This was paid by way of transferring £10.0 million of cash and the rest by way of settling the intercompany balance.

In December 2013, £96.8 million 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.

Restricted Share Scheme costs of £3.8 million (2013: £nil) and £0.8 million of other expenses (2013: £nil) were charged from the Lancashire Group and retained by the Cathedral Capital Holdings Limited Group during the year.

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 / claims are payable to / recoverable from Lancashire Insurance Company Limited which are equal to 85% of the underwriting profit / losses 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.

During 2014 the Cathedral Capital Holdings Limited group renewed the quota share arrangement with Lancashire Insurance Company Limited.

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(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:

	31 December			31 December	
	Fees & Salaries	Benefits in Kind	Pensions	2014	2013
	£'000	£'000	£'000	Total	Total
				£'000	£'000
E E Patrick	60	11	-	71	77
J A Lynch	525	4	28	557	607
P D Scales	525	4	28	557	607
	1,110	19	56	1,185	1,291

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 as set out in note 25. 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 2013 profit sharing scheme which were distributed in 2014 have been included in the Fees & Salaries above. The amount of the profit sharing scheme is set out in details in Note 25.

As mentioned above, the Group also operated 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	Year ended
	31 December	31 December
	2014	2013
	£'000	£'000
<i>Key management compensation</i>		
Salaries and other short-term employee benefits	3,381	3,709
Post-employment benefits	73	107
	3,454	3,816

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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 2014 these items were £nil (2013: de minimis).

34 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.

35 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 23, 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 to calculate the capital requirement for each syndicate it manages. Since 2013 Solvency II internal models have been used to determine this requirement. Lloyd's requires the submission of an ultimate SCR ("uSCR"); the uSCR takes account of one year of new business in full, attaching to the next underwriting year, and the risks over the lifetime of the liabilities ("to ultimate") assessed at 1:200 confidence level. The uSCR continues to be used in the member capital setting process, as, together with the Solvency II balance sheet, it provides equivalent policyholder protection to the mandatory ICAS regime.

The uSCR of each syndicate at Lloyd's is regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's has the discretion to take into account other factors at 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 2014, the Group's funds at Lloyd's amounted to £20.7 million which, in conjunction with the funds at Lloyd's held by Lancashire Insurance Company Limited of £100.9 million, was in excess of its capital requirements of £149.3 million after taking into account a solvency credit of £61.8 million. These funds were invested in a mixture of equities, fixed interest instruments and cash.

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36 Categories of financial assets and liabilities

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

As at 31 December 2014			Assets at fair		Non-	
<i>£'000</i>	Financial	Loans and	value through	Insurance	financial	Total
	assets	receivables	profit or loss	contracts	assets	
Assets						
Property, plant and equipment	-	-	-	-	53	53
Intangible assets	-	-	-	-	7,824	7,824
Reinsurers' share of technical provisions	-	-	-	54,569	-	54,569
Financial investments	-	-	173,403	-	-	173,403
Deferred acquisition costs	-	-	-	13,017	-	13,017
Deferred tax assets	-	-	-	-	3,504	3,504
Prepayments and accrued income	77	-	-	-	15,298	15,375
Trade and other receivables	-	105,848	-	-	-	105,848
Cash and cash equivalents	-	64,032	-	-	-	64,032
Total assets	77	169,880	173,403	67,586	26,679	437,625

	Amortised	Financial	Insurance	Non-	
<i>£'000</i>	cost	liabilities	contracts	financial	Total
				liabilities	
Liabilities					
Borrowings	47,122	-	-	-	47,122
Insurance contracts	-	-	246,683	-	246,683
Provision for other liabilities and charges	-	-	-	7,104	7,104
Deferred tax liabilities	-	-	-	18,656	18,656
Trade and other payables	-	-	-	79,939	79,939
Accruals and deferred income	-	113	-	1,406	1,519
Total liabilities	47,122	113	246,683	107,105	401,023

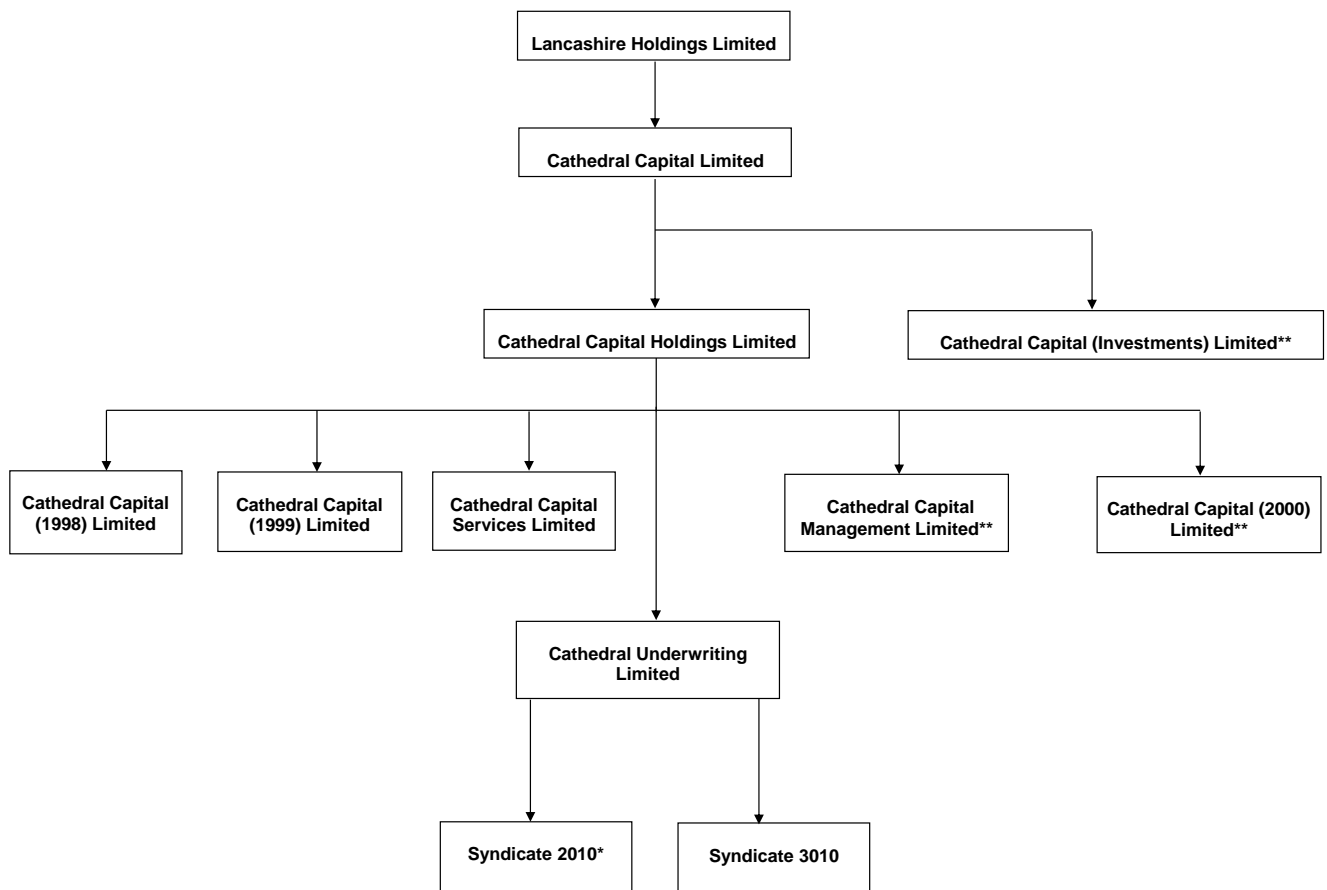
Cathedral Capital Holdings Limited
Notes to the Financial Statements
For the year ended 31 December 2014
continued

As at 31 December 2013	Financial assets	Loans and receivables	Assets at fair value through profit or loss	Insurance contracts	Non-financial assets	Total
£'000						
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

	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
£'000					
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

37 Immediate and ultimate parent companies

Up until 11 December 2014, the immediate parent company was Cathedral Capital (Investments) Limited. Since this date, the immediate parent company was Cathedral Capital Limited. 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.



* The Group provides capital to support 57.8% of the stamp.
** Subsidiaries in voluntary liquidation

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

Peter Scales

Company Secretary

16 February 2015

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 2014 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 73, 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 2014;
- ▶ 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 2014.

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 February 2015

Cathedral Capital Holdings Limited
Parent Company Balance Sheet
As at 31 December 2014

		31 December	31 December
	Notes	2014	2013
		£'000	£'000
Assets			
Financial investments	6	31,603	17,688
Investments in subsidiary undertakings	7	2,988	2,014
		34,591	19,702
Trade and other receivables	8	72,232	64,457
Prepayments and accrued income	9	80	68
Cash and cash equivalents	10	2,364	2,510
		74,676	67,035
Total assets		109,267	86,737
Equity			
Called-up share capital	11	10,316	10,316
Capital redemption reserve	13	1,713	1,713
Profit and loss reserve	13	1,323	15,743
Total shareholder's equity	14	13,352	27,772
Liabilities			
Borrowings	15	47,122	45,172
Deferred tax liabilities	16	426	424
Trade and other payables	17	48,174	13,098
Accruals and deferred income		193	271
Total liabilities		95,915	58,965
Total equity and liabilities		109,267	86,737

The financial statements on pages 76 to 86 were approved by the Board of Directors and authorised for issue on 16 February 2015 and signed on its behalf by:

Peter Scales
Chief Executive Officer

The Company Balance sheet is prepared under UK GAAP.
The Notes on pages 77 to 86 form an integral part of these consolidated financial statements.

**CATHEDRAL CAPITAL HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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.

CATHEDRAL CAPITAL HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 operated 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 recorded certain assets and liabilities of the ESOP as its own. Finance costs and administrative expenses were charged as they accrued. 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.

Cathedral Capital Holdings Limited
Notes to the Financial Statements
For the year ended 31 December 2014
continued

4 Dividends paid

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'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 dividend paid in December 2014 of 87.24p per share	36,000	-
Interim dividend paid in year of 87.24p per share (2013: 276.41p per share)	36,000	114,063

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 £21,580,000 (2013: £12,045,000). 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 2014 Fair value £'000	31 December 2014 Cost £'000	31 December 2013 Fair value £'000	31 December 2013 Cost £'000
Corporate				
Shares and other variable yield securities	8,407	6,394	8,288	6,290
Alternative investments	1,666	1,316	1,544	1,293
Debt and other fixed income securities	21,530	21,609	7,856	7,916
Total investments	31,603	29,319	17,688	15,499

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.

Of the Corporate investments above, £18,691,000 (2013: £17,688,000) 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.

7 Investments in subsidiary undertakings

	31 December	31 December
	2014	2013
	£'000	£'000
Investments in subsidiary undertakings	2,988	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	In voluntary liquidation*	100%	-
Cathedral Capital Services Limited	Employment company	100%	-
Cathedral Capital (2000) Limited	In voluntary liquidation*	100%	-
Cathedral Underwriting Limited	Lloyd's managing agent	100%	-

All companies are registered and operate in England.

* On 11 December 2014, it was resolved that Cathedral Capital (2000) Limited and Cathedral Capital Management Limited (being subsidiary undertakings of the Company) be placed into members' voluntary liquidation pursuant to the Insolvency Act 1986. Kerry Lynne Trigg and Samantha Jane Keen of Ernst & Young LLP were appointed to act as joint liquidators for each of these three companies."

8 Trade and other receivables

	31 December	31 December
	2014	2013
	£'000	£'000
Tax recoverable	174	798
Amounts owed by subsidiary companies	30,929	28,569
Amounts owed by parent companies	41,129	35,090
	72,232	64,457

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	31 December
	2014	2013
	£'000	£'000
Accrued income - investments	75	59
Prepayments	5	9
	80	68

Cathedral Capital Holdings Limited
Notes to the Financial Statements
For the year ended 31 December 2014

continued

10 Cash at bank and in hand

	31 December 2014 £'000	31 December 2013 £'000
Cash and cash equivalents held within funds at Lloyd's	2,109	2,380
Cash and cash equivalents held by ESOP	-	34
Cash and cash equivalents available for use by the Company	255	96
	2,364	2,510

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 2014	31 December 2013	31 December 2014	31 December 2013
	Authorised No.	Authorised No.	Allotted issued and fully paid No.	Allotted issued and fully paid No.
Number:				
Ordinary shares of 25p each	400,000,000	400,000,000	41,265,776	41,265,776
A ordinary shares of 25p each	-	-	-	-
B ordinary shares of 25p each	-	-	-	-
C ordinary shares of 25p each	-	-	-	-
Deferred shares of 0.0001 p each	-	-	-	-
			£'000	£'000
Nominal value				
Ordinary shares of 25p each			10,316	10,316
A ordinary shares of 25p each			-	-
C ordinary shares of 25p each			-	-
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.

11 Share capital *continued*

	31 December 2014 Number	31 December 2013 Number
Authorised, allotted, issued and fully paid:		
<i>A ordinary shares of 25p each</i>		
At the beginning of the year	-	33,902,268
Converted to Ordinary shares of 25p each	-	(33,902,268)
At the end of the year	-	-
<i>C ordinary shares of 25p each</i>		
At the beginning of the year	-	7,363,508
Converted to Ordinary shares of 25p each	-	(7,363,508)
At the end of the year	-	-
<i>Ordinary shares of 25p each</i>		
At the beginning of the year	41,265,776	-
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	41,265,776
<i>Deferred shares of 0.0001p each</i>		
At the beginning of the year	-	32,360,093
Redeemed deferred shares of 0.0001p each	-	(32,360,093)
At the end of the year	-	-

12 Operating leases

	31 December 2014 £'000	31 December 2013 £'000
Annual commitment under operating leases which expire:		
<i>Land & buildings</i>		
In the second to fifth years inclusive	-	396

Commitments under operating leases for land & buildings at December 2013 related 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 included an initial 11 months rent free period which was credited over the first five years of the rental contract. There was then a further four months rent free period from 8 June 2011 to 8 October 2011 which was credited over the remaining five years of the rental contract. During 2014, the contract was surrendered, after the payment of dilapidation costs, and there are no further commitments in respect of land & buildings.

Cathedral Capital Holdings Limited
Notes to the Financial Statements
For the year ended 31 December 2014

continued

13 Reserves

Movement in reserves for year ending 31 December 2014

	Balance at 1 January 2014 £'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	-	-	-	-	-
Capital redemption reserve	1,713	-	-	-	1,713
Profit and loss reserve	15,743	21,580	(36,000)	-	1,323
Equity shareholders' funds	27,772	21,580	(36,000)	-	13,352

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

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.

Of the profit and loss reserve of £1,323,000 at 31 December 2014 (2013: £15,743,000), £1,323,000 is distributable (2013: £15,743,000 is distributable).

14 Reconciliation of shareholder's equity

	31 December 2014 £'000	31 December 2013 £'000
Total recognised gains for the year	21,580	12,045
Dividend payment	(36,000)	(114,063)
Total movements during the year	(14,420)	(102,018)
Opening shareholder's equity	27,772	129,790
Closing shareholder's equity	13,352	27,772

15 Borrowings

	Carrying value 31 December 2014 £'000	Carrying value 31 December 2013 £'000
Unsecured Floating Rate Subordinated Notes	47,122	45,172

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 2014 of £426,000 in respect of unrealised gains on investments and tax losses carried forward (31 December 2013: liability of £424,000 in respect of unrealised gains on investments and tax losses carried forward). The Company had £nil unprovided deferred tax assets or liabilities at 31 December 2014 (31 December 2013: Unprovided deferred tax asset or liability of £nil).

17 Trade and other payables

	31 December	31 December
	2014	2013
	£'000	£'000
<i>Amounts due within one year:</i>		
Owed to subsidiary companies	7,731	12,598
Owed to parent companies	40,408	483
Trade creditors	35	17
	48,174	13,098

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

18 Directors' emoluments

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

	Year ended	Year ended
	31 December	31 December
	2014	2013
	£'000	£'000
Emoluments	39	60
Pension costs	6	10
Directors fees	6	6
ESOP contribution	-	195
Total directors' emoluments	51	271

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

	Year ended	Year ended
	31 December	31 December
	2014	2013
	£'000	£'000
Emoluments	26	44
Pension costs	4	7
ESOP contribution	-	91
Total directors' emoluments	30	142

19 Parent Company Risk Disclosures

The business of the Company is managing the Group's financial investments held in the funds at Lloyd's, managing freely available funds, 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 2014, the Company held net liabilities of US\$61.4 million (2013: US\$12.2million), and net liabilities of €4.3million (2013: net assets of €2.6million). A 10% movement in closing exchange rates, with all other variables constant, would result in a pre tax impact on net liabilities of £4.3m (2013: £0.5m).

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 £1,007,000 (2013: £983,000). A change in market interest rates of one percentage point would equate to a pre tax movement on net assets / profits of £395,000 (2013: £84,000).

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

At 31 December 2014	A++ to A- £'000	B++ to B- £'000	Unrated £'000	Total £'000
Financial Investments	18,691	1,512	11,399	31,602
Investments in subsidiary undertakings	-	-	2,988	2,988
Cash and cash equivalents	2,364	-	-	2,364
	21,055	1,512	14,387	36,954

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	-	12,209	22,212

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 2014	Balance sheet £'000	< 1 year £'000	1 - 3 years £'000	4 - 5 years £'000	> 5 years £'000	Total £'000
Debt securities	21,530	7,313	10,186	1,977	2,054	21,530
Cash and cash equivalents	2,364	2,364	-	-	-	2,364
Borrowings	(47,122)	(1,870)	(4,770)	(5,440)	(92,501)	(104,581)
	(23,228)	7,807	5,416	(3,463)	(90,447)	(80,687)

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)