CATHEDRAL CAPITAL HOLDINGS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Registered No. 3372107

CATHEDRAL CAPITAL HOLDINGS LIMITED

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CATHEDRAL CAPITAL HOLDINGS LIMITED

STRATEGIC REPORT

Overview

Cathedral continues to trade as an independent brand within the Lancashire group.

During 2016, it has also been refining its reporting structures to integrate further into the wider Lancashire business.

These statements reflect the activities of the trading companies solely within the Cathedral Group (the Group), principally Cathedral Underwriting Limited, managing agent for Syndicates 2010 and 3010 and Cathedral Capital (1998) Ltd, the Group's corporate member of Lloyd's.

2016

Despite difficult trading conditions, Cathedral has produced a highly creditable profit of $15.7m after all expenses and the quota share arrangements with Lancashire Insurance Company Limited.

The Group produced a combined ratio of 79.5 %, Syndicate 2010 produced a combined ratio of 71.2% and Syndicate 3010 a combined ratio of 96.5%. This equates to a Return on Equity of 28.9%

Market

2016 continued much along the same lines as recent years with continued pressure on rates across all classes and sectors and worldwide overcapacity squeezing the London market share of global risks. With low interest rates likely to be the new normal, this trend looks to continue into 2017. Although pricing stabilisation remains a challenge, one of the consequences has been that the business has generally managed to achieve improved terms and pricing for outwards reinsurance.

There have been a number of changes to the underwriting cohort during 2016 in the property treaty and D&F teams. The feeling now is that the business has a dynamic and forward looking team of experienced underwriters and a promising batch of assistant underwriters to support them across all classes. During the period, the teams managed to successfully defend the existing books of business and it is anticipated that this will continue into 2017.

2016 saw an increase in the number of facility arrangements put together by brokers to enable them to retain business to London and for ease of placement. Whilst in general, the business does not encourage this method of placement, commercial decisions are made when these are offered as to the desirability of the business being placed under the facility, the level of underwriting and claims control offered and the long term relationship with the broker. Unfortunately, these are a 'sign of the times' and look likely to continue across all classes. There is now a Delegated Underwriting Manager in place for both managed syndicates who will amongst other things, ensure that such delegated facilities are managed compliantly and that reliable MI is captured.

In 2016 the D&F and Property Treaty accounts have been affected by hurricanes Matthew and Nicole, the Canadian wildfires in Fort McMurray and an earthquake in Kaikoura, New Zealand. The aviation accounts have experienced a number of attritional losses that have impacted net profits across the market. Notwithstanding this, pressure on rates remains and no major players have left the market. However, the continuing spate of mergers and acquisitions and more focus on expenses has resulted in a number of underwriters and support staff no longer being required at some managing agencies.

In the absence of a major catastrophe, the same market conditions and problems look to remain for 2017.

Syndicates 2010 and 3010

We are closing the 2014 years of account with profits of 14.2% and 2.3% for a standard Names' £10,000 share on Syndicates 2010 and 3010 respectively. They produced combined ratios of 71.2% and 96.5% respectively on 2016 calendar year basis.

For 2017 we have again been able to secure outwards reinsurance on all of our accounts that is better in coverage or economics than that which we had in previous years. Consequently we have been able to trade keeping our gross exposures in check and having enough net income to deal with a realistic claims scenario.

The teams have been working extremely hard to move further forward and build on the existing book of business.

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. 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.

The consolidated profit on ordinary activities after tax, as reported in the Consolidated Statement of Comprehensive Income, was $15.7 million (2015: $5.7 million) which equates to earnings per equity share of 38.0 cents (2015: 13.9 cents).

	Underwriting $'000	Corporate $'000	Total $'000
Gross Written Premium	215,028	-	215,028
Net Earned Premium*	173,185	-	173,185
Quota share premium to Lancashire		(27,162)	(27,162)
Net Claims incurred	(73,760)	-	(73,760)
Acquisition costs	(43,530)	-	(43,530)
Underwriting results	55,895	(27,162)	28,733
Other expenses	(21,388)	(3,327)	(24,715)
Net investment return	2,554	2,562	5,116
Fees, commission and other income		9,876	9,876
Profit before tax	37,061	(18,051)	19,010
Tax	(7,031)	3,718	(3,313)
Profit after tax	30,030	(14,333)	15,697
Earnings per equity share	72.7¢	(34.7)¢	38.0¢
Return on Equity**	57.2%	(27.3%)	29.9%

* included in net earned premiums is net reinsurance to close premiums paid of $55,000 (2015: reinsurance to close premiums received of $23,000).

** 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 its inception. An earnings pattern is established which reflects the underwriting exposure of the business written. Thus net earned premiums during 2016 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 within the Lancashire Group). 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 on the next page.

Syndicates 2010 and 3010 Combined Ratio Analysis

	31 December 2016		31 December 2015	
	Gross %	**Net %**	Gross %	Net %
Claims Ratio:				
Non-marine reinsurance	**45.4**	**44.3**	20.9	27.2
Aviation	**-19.0**	**-30.6**	-30.0	7.3
Satellite	**14.7**	**11.2**	45.3	53.4
Direct & facultative property	**34.2**	**44.0**	27.3	32.5
Contingency	**39.2**	**71.9**	74.7	83.6
Cargo	**45.6**	**46.6**	31.1	39.0
Energy	**74.2**	**62.4**	54.3	66.0
Terrorism	**3.6**	**4.8**	10.5	14.6
3010 Aviation	**42.2**	**46.9**	40.7	39.9
Total Claims ratio	**39.0**	**41.7**	24.4	32.0
Expense ratio	**24.8**	**32.7**	27.2	34.7
Combined Ratio	**63.9**	**74.4**	51.6	66.7

The aggregate expense ratio is as will be 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 Syndicate 2010 varies slightly from year to year, although it remains largely consistent at around 57.8%. Cathedral's participation on Syndicate 3010 is 100%. Given the fact that Cathedral does not participate at 100% on Syndicate 2010, the combined ratio at 100% for both Syndicates is not the same as Cathedral's share of these Syndicates' result. The Group's combined ratio is analysed as follows:

Group Combined Ratio Analysis

	31 December 2016		31 December 2015	
	Gross %	**Net %**	Gross %	Net %
Claims ratio	**40.5**	**42.6**	25.9	33.4
Expense ratio:				
Syndicates	**31.2**	**41.1**	32.0	40.5
Corporate	**(7.1)**	**(9.4)**	(6.3)	(8.0)
Staff profit-related pay	**3.9**	**5.2**	4.5	5.7
Total expense ratio	**28.0**	**36.9**	30.2	38.2
Combined ratio	**68.5**	**79.5**	56.1	71.6

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 $6.7 million (2015: exchange losses of $6.0 million) have been accounted for through the Consolidated Statement of Comprehensive Income.

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 short dated fixed income instruments and cash. The Equity portfolio was sold during the year.

Some of the free funds available in the Group have been managed by Goldman Sachs since the end of 2014. 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 $2.4 million (2015: $1.3 million) which equates to a return of 1.8% up from 1% a year earlier. An analysis of this return is set out on the table on the next page.

	Average funds $'000	Actual return %	Actual return $'000
Funds at Lloyd's:			
Equities	11,024	11.0	1,213
Fixed interest	26,346	2.6	686
Alternative investments	1,765	2.9	51
Cash	6,410	0.2	16
Total	45,545	4.3	1,966
Free Funds:			
Fixed interest	72,731	0.5	400
Cash	17,606	0.1	26
Total	135,882	1.8	2,392

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 interest cost was $3.0 million (2015: $2.7 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 of the financial statements.

Taxation

The Group tax expense for the year is $3.3 million (2015: $0.8 million expense) which gives an effective tax rate of 17.4% (2015: 12.9%). This year, we have claimed no tax relating to claims equalisation reserves (2015: $nil). We have paid tax on 1/6th of the claims equalisation reserves in 2016. 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 38.0 cents (2015: 13.9 cents) per share.

Dividend

The Company did not pay a dividend in 2016. (2015: $10,000,000 in the year, equating to 24 cents 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 2016 as a single line item:

	31 December 2016 $'000	31 December 2015 $'000
Intangible assets	**12,075**	12,104
Tangible fixed assets	**3**	2
Group assets used as funds at Lloyd's	**39,834**	46,090
Other investments and cash balances	**44,998**	44,615
Unsecured subordinated loan notes	**(71,293)**	(71,691)
Interest in Syndicates	**58,272**	70,013
Net other (liabilities) / assets	**(15,715)**	(48,656)
Equity shareholder's funds	**68,174**	52,477

The intangible assets consist 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.

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.

Syndicate Bank Facilities

As at 31 December 2016 and 2015, Syndicate 2010 had in place an $80.0 million catastrophe facility with Barclays Bank plc. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. Up to $40.0 million can be utilised by way of an LOC and up to $40.0 million by way of an RCF to assist Syndicate 2010's gross funding requirements.

As at 31 December 2016 and 2015, Syndicate 3010 had in place a $40.0 million catastrophe facility with Barclays Bank plc. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 3010. Up to $20.0 million can be utilised by way of an LOC and up to $20.0 million by way of an RCF to assist Syndicate 3010's gross funding requirements. This facility was not renewed for the 2017 year.

The total combined maximum borrowings available to Syndicate 2010 and Syndicate 3010 under these facilities are $100.0 million and the total combined maximum that can be utilised by way of an LOC is $50.0 million and by way of an RCF is $50.0 million to assist in both Syndicates' gross funding requirements.

There are no balances outstanding under either of the syndicate bank facilities as at 31 December 2016 or 2015. The syndicate bank facilities are not available to the Group other than through its participation on the Syndicates it supports.

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

	31 December 2016 $'000	31 December 2015 $'000
Cash and investments	**235,833**	256,875
Debtors – insurance and reinsurance	**83,682**	89,743
Net technical provisions	**(237,488)**	(266,825)
Creditors – insurance and reinsurance	**(25,326)**	(22,873)
Other net assets	**1,571**	13,093
Group's interest	**58,272**	70,013

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 net unearned premium reserve at 31 December 2016 was $74 million (2015: $89.2 million) which, subject to normal claims activity on that business, should contribute to the profitability of the Group during future years.

Included within net other (liabilities) / assets are current and deferred taxation liabilities of $10.0 million (2015: $13.4 million). A detailed analysis of the deferred taxation liability is set out in Note 26 to the financial statements.

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 reliance on the use of estimates. The use of estimates 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. Solvency II internal models are 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 2016 calendar year the Group's Funds at Lloyd's initial requirement was set at 76% of underwriting capacity supported. This compares with initial Funds at Lloyd's requirement of 57% for 2016.

Strategy

Our strategy remains to continue to service and protect our core book of business and seek to retain and reward all those people who are key to the success of our operations. The coming year will be about continuing to implement a core defensive strategy, ensuring we are ready for the day when the market hardens.

A.T. Maloney

Chief Executive Officer

21 February 2017

DIRECTORS AND ADVISORS

Non Executive Chairman	J W Cadman	(appointed 17 Feb 2016)
Directors	J A Lynch	(resigned 17 Feb 2016)
	E E Patrick	(resigned 17 Feb 2016)
	P D Scales	(resigned 17 Feb 2016)
	A T Maloney	(appointed 17 Feb 2016)
	H R M Verzin	(appointed 12 July 2016)
Company Secretary	L J Townsend	(appointed 17 February 2016)
	J A Lynch	(resigned 17 February 2016)

Auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY
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 The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Listing Agent	NCB Stockbrokers Limited 3 George's Dock International Financial Services Centre Dublin 1 Ireland

REPORT OF THE DIRECTORS

The Directors present the annual report and the audited accounts for the year ended 31 December 2016.

Company Number

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 £277.0 million of capacity for the 2016 year of account (2015: £277.0 million of capacity for the 2015 year of account), all of which supported Cathedral Syndicates 2010 and 3010. For the 2017 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 business, with premium capacity of around £177 million for the 2016 year of account. The capacity of the Syndicate remains unchanged for the 2017 year of account. Cathedral Syndicate 2010 has just closed its 2014 year of account, with a profit of $59.3 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), aviation war, direct aviation, energy and terrorism. The capacity was £100 million for the 2015 and 2016 years of account and remains unchanged for the 2017 year of account. The Syndicate's sole capital provider is the Group's corporate member. Cathedral Syndicate 3010 has just closed its 2014 year of account, with a profit of circa $1.7 million.

The Cathedral Syndicates 2010 and 3010 reported an whole account aggregate 2016 calendar year profit of $59.4 million (2015: profit of $85.8 million) which equates to an aggregate net combined ratio for the Syndicates of 75.8% (2015: 78.7%), this excludes the currency translation gain of $10.3 million (2015: gain of $nil). 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 9.

Share Capital

There were no changes to the share capital during 2016.

Directors

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

Related Parties

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

Going Concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 9. 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

During 2016 Lancashire Holdings Limited (LHL), the Company's ultimate holding company, completed an audit tender process and, as a result, the LHL Board decided to recommend to LHL shareholders that KPMG be appointed as the Group's auditors at the 2017 annual general meeting.

Resolutions will be proposed at the Company's 2017 annual general meeting to appoint KPMG as the Company's auditors and to authorise the Directors to set the auditors' remuneration.

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 calibre, 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 (2015: $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.

Directors' Remuneration

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

Statement of Directors' Responsibilities

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

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

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

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

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

Directors' and Officers' Insurance

Lancashire Holdings Limited, a Bermudian registered company, has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and all of its subsidiary companies, including this Company and all of its subsidiaries has been included under the Lancashire Holdings Limited's Policy.

By order of the Board

H R M Verzin

Chief Financial Officer

21 February 2017

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 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's member in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's 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 13, 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 Report and Financial Statements 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 2016 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:

- based on the work undertaken in the course of the audit
- the information given in the Strategic Report and the Report of the Directors' for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Report of the Directors' have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Report of the Directors'.

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 2016.

Ernst & Young LLP

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 February 2017

Cathedral Capital Holdings Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Income			
Gross premiums written	5	**214,974**	247,620
Less premiums ceded to reinsurers		**(97,255)**	(106,237)
Net premiums written		**117,719**	141,383
Gross amount of change in provision for unearned premiums		**12,659**	3,395
Reinsurers' share of change in provision for unearned premiums		**510**	(1,578)
Earned premiums, net of reinsurance		**130,888**	143,200
Fees and commission income	6	**20,193**	18,409
Investment return	7	**5,116**	3,324
Other income	8	**4,763**	5,985
Total income		**160,960**	170,918
Expenses			
Claims paid:			
Gross amount		**(92,235)**	(107,455)
Reinsurers' share		**10,823**	14,782
Net claims paid		**(81,412)**	(92,673)
Net change in the provision for claims:			
Gross amount		**22**	42,509
Reinsurers' share		**7,685**	(16,037)
Net change in the provision for claims		**7,707**	26,472
Claims incurred, net of reinsurance:	5	**(73,705)**	(66,201)
Acquisition costs		**(43,530)**	(49,128)
Other operating expenses	9	**(28,509)**	(40,310)
Net foreign exchange gains / (losses)	10	**6,784**	(5,971)
Total expenses excluding finance costs		**(138,960)**	(161,610)
Operating profits		**22,000**	9,308
Finance costs	11	**(2,990)**	(2,717)
Profit on ordinary activities before tax		**19,010**	6,591
Income tax expense	14	**(3,313)**	(849)
Profit on ordinary activities after tax		**15,697**	5,742
Profit attributable to the equity shareholder of the parent company		**15,697**	5,742
Other comprehensive income		**-**	-
Total comprehensive income for the year		**15,697**	5,742
Basic and diluted earnings per share	16	**38.0¢**	13.9¢

All activities were in respect of continuing operations.

The Company did not pay an interim dividend in the year (2015: $10.0 million) as set out in note 15. The Company does not intend to declare a final dividend for the year.

The Notes on pages 21 to 64 form an integral part of these consolidated financial statements.

Cathedral Capital Holdings Limited
Consolidated Statement of Financial Position
As at 31 December 2016

	Notes	31 December 2016 $'000	31 December 2015 $'000
Assets			
Property, plant and equipment	17	**3**	2
Intangible assets	18	**12,075**	12,104
Reinsurance assets	24	**73,794**	66,886
Financial investments	19	**197,414**	244,400
Deferred acquisition costs	24	**17,864**	20,883
Deferred tax assets	26	**10,671**	11,628
Prepayments and accrued income	20	**26,182**	23,367
Trade and other receivables	21	**114,526**	107,954
Cash and cash equivalents	22	**123,251**	103,180
Total assets		**575,780**	590,404
Equity			
Called up share capital	28	**16,815**	16,815
Other reserves		**5,246**	5,246
Translation reserve		**(6,849)**	(6,849)
Retained earnings		**52,962**	37,265
Total shareholder's equity		**68,174**	52,477
Liabilities			
Borrowings	23	**71,293**	71,691
Insurance liabilities	24	**311,282**	333,711
Provision for other liabilities	25	**9,026**	11,347
Deferred tax liabilities	26	**20,150**	25,039
Trade and other payables	27	**88,784**	88,627
Current tax liabilities		**4,738**	1,947
Accruals and deferred income		**2,333**	5,565
Total liabilities		**507,606**	537,927
Total equity and liabilities		**575,780**	590,404

The financial statements on pages 17 to 64 were approved by the Board of Directors and authorised for issue on 21 February 2017

A T Maloney
Chief Executive Officer

H R M Verzin
Chief Financial Officer

The Notes on pages 21 to 64 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 2016

Year ended 31 December 2016

	Balance at 1 January 2016 $'000	Total Comprehensive Income for the year $'000	Transactions with owners: Dividends paid $'000	Total attributable to shareholders $'000
Called up share capital	16,815	-	-	16,815
Capital redemption reserve	2,844	-	-	2,844
Merger reserve	2,402	-	-	2,402
Translation reserve	(6,849)	-	-	(6,849)
Retained earnings	37,265	15,697	-	52,962
Total shareholder's equity	52,477	15,697	-	68,174

Year ended 31 December 2015

	Balance at 1 January 2015 $'000	Total Comprehensive Income for the year $'000	Transactions with owners: Dividends paid $'000	Total attributable to shareholders $'000
Called up share capital	16,815	-	-	16,815
Capital redemption reserve	2,844	-	-	2,844
Merger reserve	2,402	-	-	2,402
Translation reserve	(6,849)	-	-	(6,849)
Retained earnings	41,522	5,743	(10,000)	37,265
Total shareholder's equity	56,734	5,743	(10,000)	52,477

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 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.

Translation reserve is in respect of the change in presentational currency, effective 1 January 2015, recognised in the Statement of Other Comprehensive Income.

Retained earnings are in respect of the cumulative total comprehensive income retained by the Group after dividends and tax.

The Notes on pages 21 to 64 form an integral part of these consolidated financial statements.

Cathedral Capital Holdings Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Cash generated from operations	31	(22,619)	(7,410)
Income taxes (paid)/ received		(1,470)	3,453
Net cash from operating activities		(24,089)	(3,957)
Investing activities			
Purchase of investments		(162,305)	(200,393)
Proceeds from disposal of investments		207,394	217,376
Purchase of property, plant and equipment		(2)	(7)
Interest received		3,518	3,467
Dividends received		450	516
Net cash (used in) investing activities		49,055	20,959
Financing activities			
Interest paid on loan notes		(2,916)	(2,673)
Dividends paid		-	(10,000)
Net cash (used in) financing activities		(2,916)	(12,673)
Net increase in cash and cash equivalents		22,050	4,329
Cash and cash equivalents at beginning of year		103,180	99,253
Effect of exchange rate fluctuations on cash and cash equivalents		(1,979)	(402)
Cash and cash equivalents at end of year	22	123,251	103,180

The Notes on pages 21 to 64 form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Cathedral Capital Holdings Limited ("the Company") is a limited company registered and domiciled in England and Wales. The addresses of its registered office and principal place of business are disclosed on page 10. 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

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

Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles.

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

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.

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

IFRS 4, Insurance Contracts, issued in March 2004, specifies the financial reporting for insurance contracts by an insurer. The current standard is Phase I in the IASB's insurance contract project and, as noted above, does not specify the recognition or measurement of insurance contracts. This will be addressed in IFRS 17 (previously referred to as IFRS 4 Phase II) which will include a number of significant changes regarding the measurement and disclosure of insurance contracts in both liability measurement and profit recognition.

IFRS 17 is expected to be issued in the first half of 2017 with an effective date of 1 January 2021. The Company will continue to monitor the progress of the project in order to assess the potential impacts the new standard will have on its results and the presentation and disclosure thereof.

IFRS 9, Financial Instruments: Classification and Measurement, has been issued but is not yet effective, and therefore has not yet been adopted by the Group. The new standard is effective for annual periods beginning on or after 1 January 2018, although it has been deferred for insurers to 1 January 2021 to align with the implementation date of IFRS 17. IFRS 9 is not expected to have a material impact on the results and disclosures reported in the consolidated financial statements.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidation principles and significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

a) Use of estimates

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

The most significant estimate made by management is in relation to losses and loss adjustment expenses. This is discussed in the risk disclosures section in Note 4. Estimates in relation to losses and loss adjustment expenses recoverable are discussed below on pages 31 and 32.

The Group determines whether indefinite life intangible assets are impaired at least on an annual basis. This requires an estimation of the recoverable amount of a cash generating unit (CGU) to which the intangible assets are allocated. The assumptions made by management in performing impairment tests of intangible assets are subject to estimation uncertainty. Details of the key assumptions used in the estimation of the recoverable amounts of a CGU are contained in note 18.

b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Intercompany balances, profits and transactions are eliminated. The Group participates on two Syndicates at Lloyd's, which are managed by the Group's managing agent subsidiary. In view of the several liability of underwriting members at Lloyd's, the Group recognises its proportion of all the transactions undertaken by the Syndicates in which it participates within its consolidated statement of comprehensive income. Similarly, the Group's proportion of the Syndicates' assets and liabilities has been reflected in its consolidated balance sheet. This proportion is calculated by reference to the Group's participation as a percentage of each Syndicate's total capacity for each year of account.

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

c) Foreign currency translation

The functional currency, which is the currency of the primary economic environment in which operations are conducted, for all Group entities is U.S. dollars. Items included in the financial statements of each of the Group's entities are measured using the functional currency. The consolidated financial statements are also presented in U.S. dollars. Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in the consolidated statement of comprehensive income. Non-monetary assets and liabilities carried at historical cost and denominated in a foreign currency are translated at historic rates. Non-monetary assets and liabilities carried at estimated fair value and denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined, with resulting exchange differences recorded in accumulated other comprehensive income in shareholders' equity.

d) Intangible assets

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

i) Goodwill

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

ii) Syndicate participation rights
Syndicate participation rights purchased in a business combination are initially measured at fair value and are subsequently measured at cost less any accumulated impairment losses. Syndicate participation rights are considered to have an indefinite life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The value of the syndicate participation rights is reviewed for impairment at least annually, or when events or changes in circumstances indicate that it might be impaired.

iii) 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.

e) Insurance Contracts

i) Classification

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

ii) 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 Lancashire 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 Limited by way of the reinsurance quota share contract.

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.

iv) 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.

v) 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.

vi) Outstanding claims provision

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.

vii) 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.

viii) 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.

ix) Liability adequacy tests

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

x) 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.

f) Financial Instruments

i) Cash and Cash Equivalents

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

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

ii) 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.

g) Other Income

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

h) 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.

i) Long Term Debt

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

j) Property, plant and equipment

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

Computer & other equipment 33% per annum

Furniture, fixtures and fittings 20% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant or equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

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

k) Leases

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

l) Employee Benefits

i) Equity Compensation Plans

Lancashire Holdings Limited has issued restricted shares to certain employees and members of senior management and the Company 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 of the fair value of the awards estimated at the grant date, excluding the impact of any non-market vesting conditions.

ii) Pensions

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

m) Tax

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

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

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

n) 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.

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 managed by its managing agency subsidiary.

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

4.1 Insurance risk

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

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

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

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

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

4.1.1 Diversification across classes of business

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

	2016 $'000	2016 %	2015 $'000	2015 %
Non-marine	**88,714**	**41.3%**	92,862	37.5%
Direct property	**55,979**	**26.0%**	66,245	26.8%
Aviation	**23,072**	**10.7%**	27,886	11.3%
Cargo	**21,185**	**9.9%**	29,543	11.9%
Contingency	**3,579**	**1.7%**	4,384	1.8%
Satellite	**1,303**	**0.6%**	644	0.3%
FTC	**6**	**0.0%**	4	0.0%
Terrorism	**6,326**	**2.9%**	6,011	2.4%
Energy	**14,864**	**6.0%**	20,064	8.0%
	215,028	**100.0%**	247,643	100.0%
RITC adjustment*	**(54)**		(23)	
	214,974		247,620	

* 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.

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 (Probable Maximum Loss) 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 $1,635,000 (2015: $1,776,000).

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 ten underwriting years have changed at successive year-ends. In effect, the table highlights the Group's ability to provide a robust estimate of the claims costs. An underwriting year basis is considered to be the most appropriate basis for business written by the Group.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current claims liabilities. The Group believes that the estimate of total claims liabilities as at 31 December 2016 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	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1 year	40%	74%	40%	64%	81%	55%	47%	58%	38%	50%
2 years	46%	70%	52%	92%	76%	46%	46%	48%	41%	
3 years	47%	70%	49%	93%	72%	41%	44%	43%		
4 years	46%	67%	47%	92%	67%	40%	43%			
5 years	45%	66%	46%	91%	65%	40%				
6 years	45%	65%	44%	89%	63%					
7 years	45%	65%	43%	84%						
8 years	45%	64%	42%							
9 years	44%	64%								
10 years	43%									

	Underwriting Year									
Net	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1 year	58%	66%	53%	76%	86%	63%	62%	71%	50%	43%
2 years	57%	60%	58%	80%	77%	50%	56%	57%	45%	
3 years	57%	60%	52%	77%	72%	44%	52%	51%		
4 years	55%	56%	49%	75%	68%	42%	51%			
5 years	54%	55%	48%	75%	65%	43%				
6 years	53%	52%	46%	74%	63%					
7 years	53%	52%	45%	68%						
8 years	52%	51%	45%							
9 years	51%	50%								
10 years	50%									

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 2015 and prior underwriting years, these generally decreased during the 2016 calendar year in light of favourable claims experience.

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

(ii) Changes in assumptions and sensitivity analysis
There have been no changes in assumptions or sensitivity analyses for determining the provision for unearned premiums in respect of the syndicates.

(iii) Sensitivity analysis - sensitivity of provision for unearned premiums
The Group believes that the only significant sensitivity relates to the estimate of underwriters as to the underlying exposure of the book of business and how this is applied to the figures. This is not believed to be significant to the account.

If a change in the proportion of total business written of 1% was to become unearned this would equate to an adjustment of $834,000 to the unearned premium provision (2015 Restated: $983,000).

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;
- 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.

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 2016	**A++ to A- $'000**	**B++ to B- $'000**	**Unrated $'000**	**Total $'000**
Financial investments	**183,246**	**12,828**	**1,340**	**197,414**
Insurance receivables	**70,686**	**3**	**12,993**	**83,682**
Reinsurance assets	**61,033**	**12**	**12,749**	**73,794**
Cash and cash equivalents	**123,235**	**-**	**16**	**123,251**
	438,200	**12,843**	**27,098**	**478,141**

At 31 December 2015	A++ to A- $'000	B++ to B- $'000	Unrated $'000	Total $'000
Financial investments	214,837	13,006	16,557	244,400
Insurance receivables	80,204	7	9,532	89,743
Reinsurance assets	55,075	26	11,785	66,886
Cash and cash equivalents	103,168	-	12	103,180
	453,284	13,039	37,886	504,209

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 $12.7 million unrated reinsurance assets at 31 December 2016 (2015 circa $11.8m), circa $5.6 million (2015 circa $1.5 million) are fully collateralised in trust funds; circa $1.7 million (2015 circa $4.5m) 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 $5.4 million (2015 circa $5.8m)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 2016 $'000	Group 31 December 2015 $'000
3 to 6 months past due	**1,530**	775
6 to 9 months past due	**1,545**	587
Greater than 9 months past due	**923**	1,320
	3,998	2,682

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 2016, the Group had $6.7 million of cash available for use (2015: $11.4 million).

The following tables group the debt securities, cash and cash equivalents, borrowings, gross provisions for outstanding claims, and claims outstanding recoverable from reinsurers into maturity date periods. The gross provisions for outstanding claims, and claims outstanding recoverable from reinsurers reflect the estimated, undiscounted cash flows. Note that the maturity date used below for the long term debt is on the same basis as its valuation, as set out in Note 23.

At 31 December 2016	**Balance sheet**	**< 1 year**	**1 - 3 years**	**4 - 5 years**	**> 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Debt securities	196,074	23,088	146,985	9,427	16,574	196,074
Cash and cash equivalents	123,251	123,251	-	-	-	123,251
Borrowings	(71,293)	(3,167)	(7,157)	(7,982)	(130,932)	(149,238)
Gross provision for claims outstanding	(227,873)	(106,067)	(86,606)	(23,763)	(11,437)	(227,873)
Claims outstanding recoverable from reinsurers	64,407	23,504	31,097	7,458	2,348	64,407
	84,566	60,609	84,319	(14,859)	(123,447)	6,621

At 31 December 2015	Balance sheet	< 1 year	1 - 3 years	4 - 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Debt securities	229,061	53,695	151,062	7,557	16,747	229,061
Cash and cash equivalents	103,180	103,180	-	-	-	103,180
Borrowings	(71,691)	(3,174)	(6,825)	(7,909)	(139,946)	(157,854)
Gross provision for claims outstanding	(235,428)	(107,713)	(90,637)	(24,987)	(12,091)	(235,428)
Claims outstanding recoverable from reinsurers	57,826	22,278	28,135	6,209	1,204	57,826
	82,948	68,266	81,735	(19,130)	(134,086)	(3,215)

4.4 Market risks

4.4.1 Interest rate risk

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

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

All borrowings are at variable rates which are re-priced quarterly. The rates are as set out in Note 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 2016	31 December 2015
Debt securities	0.3%	0.7%
Cash and cash equivalents	0.0%	0.1%
Borrowings	4.1%	3.6%

A change in market interest rates of 1% would equate to a pre tax movement on net assets / profits of $3,371,000 (2015: $3,535,000). 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 $134,000 (2015: $1,534,000).

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 and sterling rate. This is further compounded by the fact that any underwriting profits are normally only paid out once a year into members reserves at the distribution date although any release of funds is subject to Lloyd's distribution tests. The Group does not currently enter into any currency deals to mitigate this currency risk.

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

As at 31 December 2016	STG $'000	EUR $'000	USD $'000	CAD $'000	Total $'000
Assets					
Property, plant and equipment	3	-	-	-	3
Intangible assets	12,075	-	-	-	12,075
Reinsurers' share of technical provisions	3,908	1,939	67,214	733	73,794
Financial investments	14,313	13,344	157,605	12,152	197,414
Deferred acquisition costs	3,429	749	12,668	1,018	17,864
Deferred tax asset	10,671	-	-	-	10,671
income	544	156	25,442	40	26,182
Trade and other receivables	38,504	4,969	68,925	2,128	114,526
Cash and cash equivalents	18,633	5,594	69,818	29,206	123,251
Total assets	102,080	26,751	401,672	45,277	575,780
Liabilities					
Borrowings	-	12,350	58,943	-	71,293
Insurance contracts	37,648	18,420	235,978	19,236	311,282
Provision for other liabilities and charges	9,026	-	-	-	9,026
Deferred tax liabilities	20,150	-	-	-	20,150
Trade and other payables	68,910	1,133	18,613	128	88,784
Current tax liabilities	4,738	-	-	-	4,738
Accruals and deferred income	2,180	48	105	-	2,333
Total liabilities	142,652	31,951	313,639	19,364	507,606
Net assets	(40,572)	(5,200)	88,033	25,913	68,174
Impact of 10% currency movement*	(4,057)	(520)	-	2,591	(1,986)

As at 31 December 2015	STG $'000	EUR $'000	USD $'000	CAD $'000	Total $'000
Assets					
Property, plant and equipment	2	-	-	-	2
Intangible assets	12,104	-	-	-	12,104
Reinsurers' share of	-	-	-	-	
technical provisions	6,159	1,695	58,213	819	66,886
Financial investments	16,557	17,345	197,017	13,481	244,400
Deferred acquisition costs	4,215	780	14,833	1,055	20,883
Deferred tax asset	11,628	-	-	-	11,628
Prepayments and accrued	-	-	-	-	-
income	639	252	22,424	52	23,367
Trade and other receivables	30,489	6,238	69,348	1,879	107,954
Cash and cash equivalents	23,798	5,921	59,693	13,768	103,180
Total assets	105,591	32,231	421,528	31,054	590,404
Liabilities					
Borrowings	-	12,806	58,885	-	71,691
Insurance contracts	50,932	19,922	250,973	11,884	333,711
Provision for other liabilities	-	-	-	-	-
and charges	11,347	-	-	-	11,347
Deferred tax liabilities	25,039	-	-	-	25,039
Trade and other payables	70,354	1,223	16,484	566	88,627
Current tax liabilities	1,947	-	-	-	1,947
Accruals and deferred income	5,412	55	98	-	5,565
Total liabilities	165,031	34,006	326,440	12,450	537,927
Net assets	(59,440)	(1,775)	95,088	18,604	52,477
Impact of 10% currency movement*	(5,944)	(178)	-	1,860	(4,262)

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

5 Segmental information

Analysis of Group's Reportable Segments

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

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

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

	For the year ended 31 December 2016				
	Syndicates $'000	Corporate Funds $'000	Corporate Other $'000	Q/Share & Elimination $'000	Total* $'000
Gross premiums written	215,028	-	-	-	215,028
Underwriting:					
Net earned premiums	173,185	-	-	-	173,185
Quota share premium to Lancashire	-	-	-	(27,162)	(27,162)
Net claims incurred	(73,760)	-	-	-	(73,760)
Underwriting expenses	(43,530)	-	-	-	(43,530)
Underwriting result	55,895	-	-	(27,162)	28,733
Other income and expenses:					
Fees and commission income	-	-	22,236	(12,413)	9,823
Investment return	2,554	2,562	-	-	5,116
Other income	-	-	53	-	53
Operating expenses	(27,747)	-	(13,475)	12,713	(28,509)
Exchange gains	6,359	-	425	-	6,784
Finance costs	-	-	(2,990)	-	(2,990)
Profit / (loss) before tax	37,061	2,562	6,249	(26,862)	19,010
Income tax (expense) / credit	(7,031)	(486)	(1,221)	5,425	(3,313)
Profit / (loss) after tax	30,030	2,076	5,028	(21,437)	15,697
Combined ratio	83.7%	N/A	N/A	N/A	95.8%
Total assets	-	84,832	128,199	-	213,031
Total liabilities	-	-	(144,857)	-	(144,857)
Net assets / (liabilities)	-	84,832	(16,658)	-	68,174
Capital expenditure	-	-	2	-	2

*Excludes Reinsurance to Close.

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.

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

	For the year ended 31 December 2015				
	Syndicates $'000	Corporate Funds $'000	Corporate Other $'000	Q/Share & Elimination $'000	Total* $'000
Gross premiums written	247,643	-	-	-	247,643
Underwriting:					
Net earned premiums	198,157	-	-	-	198,157
Quota share premium to Lancashire	-	-	-	(37,554)	(37,554)
Net claims incurred	(66,224)	-	-	-	(66,224)
Underwriting expenses	(49,128)	-	-	-	(49,128)
Underwriting result	82,805	-	-	(37,554)	45,251
Other income and expenses:					
Fees and commission income	-	-	17,435	(10,709)	6,726
Investment return	1,863	1,461	-	-	3,324
Other income	-	-	288	-	288
Operating expenses	(31,384)	-	(22,847)	13,921	(40,310)
Exchange (losses) / gains	(2,372)	-	(3,599)	-	(5,971)
Finance costs	(3,169)	(91)	543	-	(2,717)
Profit before tax	47,743	1,370	(8,180)	(34,342)	6,591
Income tax (expense) / credit	(7,013)	(201)	1,202	5,163	(849)
Profit after tax	40,730	1,169	(6,978)	(29,179)	5,742
Combined ratio	74.1%	N/A	N/A	N/A	71.6%
Total assets	-	90,705	117,493	-	208,198
Total liabilities	-	-	(155,721)	-	(155,721)
Net assets	-	90,705	(38,228)	-	52,477
Capital expenditure	-	-	7	-	7

*Excludes Reinsurance to Close.

All revenues for each reportable segment are from external customers, with the exception of $12,713,000 (2015: $13,921,000) of sales received by Corporate Other which are from Syndicates.

Corporate Other also includes depreciation and amortisation of $1,000 (2015: $88,000) and impairment of $29,000 (2015: $23,000).

The only transactions between reportable segments to date relate to managing agency fees which are paid by the syndicates to the Group's managing agent 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.

Reconciliation of reportable segments to Financial Statements

	For the year ended 31 December 2016				
	Per Total Reportable Segments $'000	**Adjustment for RITC premiums $'000**	**Syndicate Assets and Liabilities $'000**	**Gross up adjustments $'000**	**Per Total Group Accounts $'000**
Gross premiums written	**215,028**	**(54)**	-	-	**214,974**
Underwriting:					
Net earned premiums	**173,185**	**(55)**	-	**(42,242)**	**130,888**
Quota share premium to Lancashire	**(27,162)**			**27,162**	-
Net claims incurred	**(73,760)**	**55**	-	-	**(73,705)**
Underwriting expenses	**(43,530)**	-	-	-	**(43,530)**
Underwriting result	**28,733**	-	-	**(15,080)**	**13,653**
Other income and expenses:					
Fees and commission income	**9,823**	-	-	**10,370**	**20,193**
Investment return	**5,116**	-	-	-	**5,116**
Other income	**53**	-	-	**4,710**	**4,763**
Operating expenses	**(28,509)**	-	-	-	**(28,509)**
Exchange gains	**6,784**	-	-	-	**6,784**
Finance costs	**(2,990)**	-	-	-	**(2,990)**
Profit before tax	**19,010**	-	-	-	**19,010**
Income tax expense	**(3,313)**	-	-	-	**(3,313)**
Profit after tax	**15,697**	-	-	-	**15,697**
Total assets	**213,031**	-	**362,749**	-	**575,780**
Total liabilities	**(144,857)**	-	**(362,749)**	-	**(507,606)**
Net assets	**68,174**	-	-	-	**68,174**

	For the year ended 31 December 2015				
	Per Total Reportable Segments $'000	Adjustment for RITC premiums $'000	Syndicate Assets and Liabilities $'000	Gross up adjustments $'000	Per Total Group Accounts $'000
Gross premiums written	247,643	(23)	-	-	247,620
Underwriting:					
Net earned premiums	198,157	(23)	-	(54,934)	143,200
Quota share premium to Lancashire	(37,554)	-	-	37,554	-
Net claims incurred	(66,224)	23	-	-	(66,201)
Underwriting expenses	(49,128)	-	-	-	(49,128)
Underwriting result	45,251	-	-	(17,380)	27,871
Other income and expenses:					
Fees and commission income	6,726	-	-	11,683	18,409
Investment return	3,324	-	-	-	3,324
Other income	288	-	-	5,697	5,985
Operating expenses	(40,310)	-	-	-	(40,310)
Exchange (losses)	(5,971)	-	-	-	(5,971)
Finance costs	(2,716)	-	-	-	(2,716)
Profit before tax	6,592	-	-	-	6,592
Income tax expense	(849)	-	-	-	(849)
Profit after tax	5,743	-	-	-	5,743
Total assets	208,198	-	382,206	-	590,404
Total liabilities	(155,721)	-	(382,206)	-	(537,927)
Net assets	52,477	-	-	-	52,477

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 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 2015 or the year ended 31 December 2016.

6 Fees and commission income

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Managing agency fees	3,659	4,028
Profit commission	14,966	14,157
Consortium fees	1,568	224
	20,193	18,409

Managing agency fees and profit commission include $10,400,000 (2015: $11,700,000) earned from Lancashire Insurance Company Limited, a fellow Lancashire group company.

7 Investment return

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Syndicate investments		
Investment income - interest	2,734	2,710
Net realised investment (losses)	(407)	(229)
Net unrealised investment Income gain / (losses)	397	(402)
Net investment return on syndicate investments	2,724	2,079
Funds at Lloyd's		
Investment income - interest	439	439
Investment income - dividends	416	518
Net realised investment gains	3,402	109
Net unrealised investment (losses)	(2,291)	(112)
Net investment return on Funds at Lloyd's investments	1,966	954
Cash and other investments		
Investment income - interest	502	433
Net realised investment (losses)	(39)	(23)
Net unrealised investment (losses)	(37)	(119)
Net investment return on cash and other investments	426	291
Net investment return	5,116	3,324

8 Other income

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Reinsurance profit commission on quota share reinsurance agreement	**4,711**	5,698
Other income	**52**	287
	4,763	5,985

9 Other operating expenses

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Syndicate operating expenses	**14,128**	15,426
Names' personal expenses on Lloyd's syndicates	**906**	2,037
Corporate expenses	**13,475**	22,847
	28,509	40,310

10 Net foreign exchange (gains) / losses

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Retranslation of underwriting balances	**(6,359)**	2,372
Exchange (loss) / gain to maintain non-monetary assets and liabilities at historical rates of exchange	**231**	4,284
Exchange (loss) on long-term loan notes	**471**	(1,526)
Retranslation of other corporate balances	**(1,127)**	841
	(6,784)	5,971

11 Finance costs

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Interest expense on:		
Unsecured Floating Rate Subordinated Notes	**2,918**	2,645
Effective interest rate method adjustment	**72**	72
	2,990	2,717

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 activies before taxation

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
The profit on ordinary activities before taxation	19,010	6,591
The profit on ordinary activities before taxation is stated after charging:		
Operating lease charges - rent	73	73
Depreciation of tangible fixed assets	1	88
(Profit) / Loss on disposal of tangible fixed assets	0	(3)
Impairment of intangible assets	29	23
Fees payable to the current auditor for:		
Audit of the Company's annual accounts	69	68
Audit of the Company's subsidiaries' annual accounts	69	92
Taxation services	22	11
Other	28	76

13 Employees

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
The aggregate payroll costs borne by the Corporate Group were as follows:		
Salaries	9,267	11,233
Costs of RSS awards	373	7,911
Social security costs	1,979	2,320
Pension costs under defined contribution plans	84	116
	11,703	21,580

The average number of people (excluding non-executive directors) employed by the Group during the year was 75 (2015: 76). Of this, 46 were dedicated underwriting and claims (2015: 45) with the remainder of employees involved in operations, administration, actuarial and finance.

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

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

14 Income tax expense

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
(a) Analysis of expense / (credit) in the year		
Current tax		
Corporation tax at 20.00% (2015: 21.25%)	6,084	1,947
Adjustments in respect of previous years	(1,833)	-
Contribution for group tax relief paid to other group companies for prior years	471	50
Contribution for group tax relief payable to other group companies for current year	-	7,946
Overseas tax	10	3
Total current tax expense	4,732	9,946
Deferred taxation		
Investment gains	(423)	55
Temporary differences on decelerated capital allowances	35	26
Adjustments in respect of previous years	557	(614)
Changes in tax rates and unwinding of equalisation reserve	1,132	(883)
Other temporary differences	(2,720)	(7,681)
Total deferred tax (credit)	(1,419)	(9,097)
Tax expense	3,313	849

The other temporary differences in 2016 mainly relate to syndicate underwriting results ($1.2m) and CER ($1.0m).

(b) Factors affecting the tax expense for the period		
Profit on ordinary activities before tax	19,010	6,591
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	3,802	1,334
Expenses not deductible for tax purposes	(120)	518
Foreign exchange adjustments	(800)	541
Changes in tax rates and unwinding of equalisation reserve	1,132	(883)
Investment income received net of tax	-	(105)
Investment income not taxable	(83)	-
Timing differences	177	-
Overseas tax	10	3
Other tax	-	-
Prior period adjustments	(805)	(559)
Total tax expense	3,313	849

The UK corporation tax rate as at 31 December 2016 was 20 per cent (effective 1 April 2015). Until 1 April 2015 the UK corporation tax rate of 21.0 per cent applied. The UK government has passed legislation to reduce the rate of corporation tax to 19.0 per cent with effect from 1 April 2017 and to 17.0 per cent with effect from 1 April 2020. These rates have been reflected in the closing deferred tax position on the balance sheet.

15 Dividends paid

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Interim dividend paid in November 2015 of 24.23¢ per share	-	10,000
No dividend paid in the year (2015: 24.23¢ per share)	-	10,000

16 Earnings per share

	Year ended 31 December 2016	Year ended 31 December 2015
The basic earnings per share is calculated as follows:		
Profit for the year ($'000)	15,697	5,742
Basic weighted average number of shares (no.)	41,265,775	41,265,775
Basic earnings per share (¢)	38.0	13.9

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

	Computers & other equipment $'000	Furniture, fixtures & fittings $'000	Total 2016 $'000	Total 2015 $'000
Cost				
At 1 January	1,175	102	1,277	1,270
Additions	2	-	2	7
At 31 December	1,177	102	1,279	1,277
Depreciation and impairment				
At 1 January	1,175	100	1,275	1,188
Charge for the year	-	1	1	88
Disposals	-	-	-	(1)
At 31 December	1,175	101	1,276	1,275
Net book value				
At 31 December	2	1	3	2
At 1 January	-	2	2	82

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

18 Intangible assets

As at 31 December 2016	**Software under construction $'000**	**Syndicate participations $'000**	**Goodwill $'000**	**Total $'000**
Cost at 1 January	**1,147**	**7,504**	**3,453**	**12,104**
Impaired during the year	**(29)**	**-**	**-**	**(29)**
Cost at 31 December	**1,118**	**7,504**	**3,453**	**12,075**

As at 31 December 2015 Restated	Software under construction $'000	Syndicate participations $'000	Goodwill $'000	Total $'000
Cost at 1 January	1,170	7,504	3,453	12,127
Impaired during the year	(23)	-	-	(23)
Cost at 31 December	1,147	7,504	3,453	12,104

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. The Group's goodwill relates to one cash generating unit, the syndicates.

When testing impairment, the recoverable amount of the Syndicate CGU is determined based on value in use. Value in use is calculated using projected cash flows based on the financial projections of the CGU. These are approved by management and cover a three year period. The most significant assumption used to derive the projected cash flows include an assessment of business prospects, projected loss ratios, outward reinsurance expenditure and investment returns. A pre-tax discount rate of 6.9 per cent (31 December 2015 – 6.8 per cent) has been used to discount the projected cash flows, which reflect a combination of factors including the Group's expected cost of equity and cost of borrowing. The growth rate used to extrapolate the cash flows of the unit beyond the three year period is 3.0 per cent (2015- 2.0 per cent) based on historical growth rates and management's best estimate of future growth rates'

The result of the exercise indicate that the recoverable amount exceeds the intangible assets' carrying value and would not be sensitive to any reasonably possible changes in assumptions. Therefore, no impairment to be recognised during the years ended 31 December 2016 and 2015.

19 Financial Investments

	31 December 2016 $'000 Fair Value	31 December 2015 $'000 Fair Value
Corporate		
Shares and other variable yield securities	**1,336**	13,233
Alternative investments	**4**	2,106
Debt and other fixed income securities	**75,065**	59,103
Total investments - Corporate	**76,405**	74,442
Syndicate participations		
Debt securities and other fixed interest securities	**121,009**	169,958
Total investments - Syndicate participations	**121,009**	169,958
Group financial investments	**197,414**	244,400

	Cost	Cost
Corporate		
Shares and other variable yield securities	**123**	10,060
Alternative investments	**8**	1,656
Debt and other fixed income securities	**75,280**	59,490
Total investments - Corporate	**75,411**	71,206
Syndicate participations		
Debt securities and other fixed interest securities	**121,587**	171,152
Total investments - Syndicate participations	**121,587**	171,152
Group financial investments	**196,998**	242,358

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 corporate investments above, $38,057,000 (2015: $41,211,000) 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.

19 Financial investments *continued*

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 31 December 2016, the Group's total interest in unconsolidated structured entities was $13.0 million (2015: $17.3 million). The Group does not sponsor any of the unconsolidated structured entities.

As at 31 December 2016, a summary of the Group's interest in unconsolidated structured entities is as fc

	31 December 2016 $'000	31 December 2015 $'000
Debt and other fixed income securities - Corporate	**2,712**	4,258
Debt and other fixed income securities - Syndicate participations	**10,263**	13,028
Total investments in unstructured entities	**12,975**	17,286

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.

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 investments is provided on note 4. The total assets of these entities are not considered meaningful for the purpose of understanding the related risks and therefore have not been presented.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that the Group held as at the year end. 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 2016 $'000	31 December 2015 $'000
Accrued income - investments	**1,746**	1,901
Accrued income - underwriting	**24,381**	21,448
Prepayments	**55**	18
	26,182	23,367

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 2016 $'000	31 December 2015 $'000
Arising out of direct insurance operations	29,098	30,615
Arising out of reinsurance operations	54,584	59,128
Amounts owed by parent companies	24,505	16,872
Amounts owed by syndicates	5,034	313
Amounts owed by Group undertakings	(2)	-
Other receivables	1,307	1,026
	114,526	107,954

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

Of the amounts due from syndicates, $nil (2015: $nil) is due in more than one year.

All amounts owed were non-interest bearing.

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

22 Cash and cash equivalents

	31 December 2016 $'000	31 December 2015 $'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	36,273	39,228
Short term investments	86,978	63,952
	123,251	103,180
Cash and cash equivalents consist of:		
Cash and cash equivalents held by syndicates	114,824	86,917
Cash and cash equivalents held within funds at Lloyd's	1,777	4,879
Cash and cash equivalents available for use by the Group	6,650	11,384
	123,251	103,180

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.

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

23 Borrowings

	Carrying value 31 December 2016 $'000	Carrying value 31 December 2015 $'000
Unsecured Floating Rate Subordinated Notes	71,293	71,691

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 the year 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.

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 2016 $'000	31 December 2015 $'000
Gross		
Provision for claims outstanding	227,873	235,428
Provision for unearned premiums	83,409	98,283
	311,282	333,711
Recoverable from reinsurers		
Provision for claims outstanding	64,407	57,826
Provision for unearned premiums	9,387	9,060
	73,794	66,886
Net	237,488	266,825

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 2016 $'000	Total 2015 $'000
Gross insurance liabilities				
Provision at 1 January	235,428	98,283	333,711	382,359
Additional provisions made in the year	67,311	71,980	139,291	142,003
Additional provisions - prior years	46,874	-	46,874	32,766
Amounts used in the year	(92,255)	(86,854)	(179,109)	(193,096)
Unused amount reversed during the year	(21,850)	-	(21,850)	(24,328)
Exchange differences	(7,635)	-	(7,635)	(5,993)
Provision at 31 December	227,873	83,409	311,282	333,711

	Claims outstanding $'000	Provision for unearned premiums $'000	Total 2016 $'000	Total 2015 $'000
Reinsurance assets				
Provision at 1 January	57,826	9,060	66,886	84,582
Additional provisions made in the year	8,058	8,815	16,873	13,186
Additional provisions - prior years	13,022	-	13,022	-
Amounts used in the year	(10,847)	(8,488)	(19,335)	(24,399)
Unused amount reversed during the year	(2,540)	-	(2,540)	(5,816)
Exchange differences	(1,112)	-	(1,112)	(667)
Provision at 31 December	64,407	9,387	73,794	66,886
Net	163,466	74,022	237,488	266,825

24.2 Movement in deferred acquisition costs

	2016 $'000	2015 $'000
Provision at 1 January	20,883	20,176
Additional provisions made in the year	13,704	16,180
Amounts used in the year	(16,723)	(15,473)
Provision at 31 December	17,864	20,883

25 Provisions for other liabilities

Provision in respect of profit-sharing scheme	31 December 2016 $'000	31 December 2015 $'000
Provision at 1 January	11,347	11,011
Charge for the year	8,991	11,218
Utilised in the year	(10,989)	(10,586)
Exchange differences	(323)	(296)
Provision at 31 December	9,026	11,347

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). It is 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 60. Since the year end, the Group Remuneration Committee has recommended to the board of Cathedral Capital Limited a distribution, of $6,579,000 which will be distributed to employees later in 2017.

26 Provision for deferred tax

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

	31 December 2016 $'000	31 December 2015 $'000
(Profits) of closed underwriting year	(6,998)	(7,546)
Underwriting losses/ (profits) not yet recognised for tax	(3,761)	(4,112)
Unrealised investment (gains)	(233)	(725)
Decelerated capital allowances	-	(14)
Tax losses carried forward	-	687
Claims equalisation reserve	(8,374)	(11,830)
Reinsurance premium payable under quota share agreement	8,185	8,596
Other temporary differences	1,702	1,533
Provision for deferred tax	(9,479)	(13,411)
Reflected in the balance sheet as follows:		
Deferred tax assets	10,671	11,628
Deferred tax liabilities	(20,150)	(25,039)
Deferred tax net	(9,479)	(13,411)
Provision for deferred tax at start of year	(13,411)	(23,486)
Exchange differences	2,513	978
Deferred tax credit in Consolidated Statement of Comprehensive Income for year (note 14)	1,419	9,097
Provision for deferred tax at end of year	(9,479)	(13,411)

Unprovided deferred tax assets amounted to £nil at 31 December 2016 (31 December 2015: $nil). All deferred tax assets as at 31 December 2016 are considered to be recoverable.

27 Trade and other payables

	31 December 2016 $'000	31 December 2015 $'000
Amounts due within one year:		
Arising out of direct insurance operations	6,643	5,394
Arising out of reinsurance operations	32,519	29,587
Other taxes and social security costs	2,262	1,842
Owed to parent company	944	-
Group relief payable to related group companies	-	7,946
Reinsurance quota share premium payable	42,719	43,625
Trade creditors	3,698	233
	88,784	88,627

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

28 Share capital
Authorised share capital

	31 December 2016 No.	31 December 2015 No.
Number		
Authorised Ordinary shares of 25p each	400,000,000	400,000,000
Allotted issued and fully paid Ordinary shares of 25p each	41,265,775	41,265,775
	$'000	$'000
Nominal value		
Ordinary shares of 25p each	16,815	16,815

There are no rights or restriction regarding dividends and repayment of capital.

29 Capital commitments

The Group had $nil capital commitments at 31 December 2016 (2015: $nil).

30 Operating leases

	31 December 2016 $'000	31 December 2015 $'000
Future minimum lease payments under non-cancellable operating leases		
Other:		
Within one year	1	12
In the second to fifth years inclusive	-	1
	1	13

Other commitments relate to operating leases for IT equipment.

31 Reconciliation of profit to cash generated from operations

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Profit before taxation	**19,010**	6,591
Adjustments for:		
Depreciation	**1**	88
Loss on sale of fixed assets	**-**	(1)
(Increase) / decrease in debtors & accrued income	**(1,598)**	68,264
Change in underwriting balances	**(26,318)**	(31,661)
Realised investment (gains) / losses	**(2,956)**	229
Unrealised investment losses	**1,931**	633
Exchange revaluation	**1,884**	2,868
Decrease in creditors	**(13,501)**	(53,062)
Interest expense	**2,990**	2,718
Interest receivable	**(3,675)**	(3,582)
Dividends receivable	**(416)**	(518)
Impairment of intangible assets	**29**	23
Cash generated from operations	**(22,619)**	(7,410)

32 Related party transactions

(i) Directors' interest in transactions

Mr Maloney and his spouse acquired 100% of the shares in Nameco 801 on 7th November 2016. Nameco 801 provides capacity to a number of Lloyd's Syndicates including Syndicate 2010 which is managed by Cathedral Underwriting Limited. Nameco 801 has provided $0.2million of capacity to Syndicate 2010 for the 2017 year of account. Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation. No other Directors had an interest in transactions other than in the normal course of business or disclosed in note 32(v) below.

(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.

Lancashire Holdings Limited is 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) Balances and transactions with related parties

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

	31 December 2016 $'000	31 December 2015 $'000
Owed by / (to) Cathedral Capital Limited	**(944)**	(1,138)
Owed by Lancashire Holdings Limited	**24,505**	18,010
	23,561	16,872

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.

Restricted Share Scheme costs of -$1.0 million (2015: $7.9 million) and $1.9 million of other expenses (2015: $1.5 million) were charged from the Lancashire Group and retained by the Cathedral Capital Holdings Limited Group during the year. In addition, group relief was paid from Cathedral Capital Limited to Lancashire Holdings Limited as set out in note 14.

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.

The Cathedral Capital Holdings Limited group renewed the quota share arrangement with Lancashire Insurance Company Limited during 2015 and 2016. The amounts recognised in the income statement in respect of the quota share reinsurance are: reinsurance premiums payable $42.2m (2015: $54.9m), fees and commission income $10.3m (2015: $11.7m) and other income of $4.7m (2015: $5.7m).

The Cathedral Capital Holdings Limited Group have group relief with Lancashire Holdings Limited.

(iv) Directors' Remuneration

All executive Directors have been, or are employed and remunerated by Cathedral Services Limited, a Group company. The former non-executive Director had an appointment letter. The remuneration of the Directors is set out below:

	Fees & Salaries $'000	Benefits in Kind $'000	Pensions $'000	31 December 2016 Total $'000	31 December 2015 Total $'000
E E Patrick	36	6	-	42	110
J A Lynch	619	1	10	630	935
HRM Verzin	185	2	10	197	-
P D Scales	629	2	-	631	935
	1,469	11	20	1,500	1,980

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

The remuneration of Mr. Maloney is dislosed in Lancashire Group's Annual Report and Accounts. An allocation of Mr. Cadman's remuneration costs is charged to the Company as a service fee and is included in other operating expenses.

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 recommended by the Group's management team. The aggregate amount and timing of any payments are agreed by Lancashire Group's 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 Lancashire Group's Remuneration Committee.

For this year, the Remuneration Committee has agreed a proposed distribution to the executive directors from the profit sharing scheme which is payable during 2017. The distributions relating to the 2015 profit sharing scheme which were distributed in 2016 have been included in the Fees & Salaries above. The amount of the profit sharing scheme is set out in details in Note 25.

In addition to the above remuneration, during 2015 Messrs Lynch and Scales entered into agreements with the Cathedral Capital Group to cease employment on 31 March 2016. As part of this agreement, they were entitled to $4,001,000 in aggregate after this date. This cost and associated NI was recognised as a liability to the Cathedral Capital Group as at 31 December 2015, of which $2,817,000 and the associated NI was recharged to the Lancashire Holdings Group.

(v) Key Management Compensation

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

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

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Key management compensation (excluding settlement agreement)		
Salaries and other short-term employee benefits	**4,175**	5,781
Post-employment benefits	**24**	85
	4,199	5,866

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 2016 these items were $nil (2015: $nil).

33 Contingent liabilities

Lloyd's of London

(i) As explained in Note 2 the Group participates on insurance business written by Lloyd's Syndicates. As a result of this participation, the Group is exposed to claims arising on insurance business written by those syndicates.

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

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

34 Capital

The Group's capital structure consists of equity attributable to equity holders of the parent company (which in turn comprises issued capital, reserves and retained earnings) and Unsecured Floating Rate Subordinated Notes. Details of the equity attributable to equity holders of the Company are set out in the Consolidated Statement of Changes in Equity and details of the loan capital are set out in Note 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 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.

Solvency II has been implemented from 1 January 2016, in line with EU legislation.

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 2016, the Group's funds at Lloyd's amounted to $39.8 million which, in conjunction with the funds at Lloyd's held by Lancashire Insurance Company Limited of $182.9 million, was in excess of its capital requirements of $245.3 million after taking into account a solvency credit of $12.3 million. These funds were invested in a mixture of equities, fixed interest instruments and cash.

35 Categories of financial assets and liabilities

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

As at 31 December 2016 *$'000*	Loans and receivables	Assets at fair value through profit or loss	Insurance contracts	Non-Categorised assets	Total
Assets					
Property, plant and equipment	-	-	-	3	3
Intangible assets	-	-	-	12,075	12,075
Reinsurers' share of technical provisions	-	-	73,794	-	73,794
Financial investments	-	197,414	-	-	197,414
Deferred acquisition costs	-	-	17,864	-	17,864
Deferred tax assets	-	-	-	10,671	10,671
Prepayments and accrued income	-	-	-	26,182	26,182
Trade and other receivables	114,526	-	-	-	114,526
Cash and cash equivalents	-	-	-	123,251	123,251
Total assets	114,526	197,414	91,658	172,182	575,780

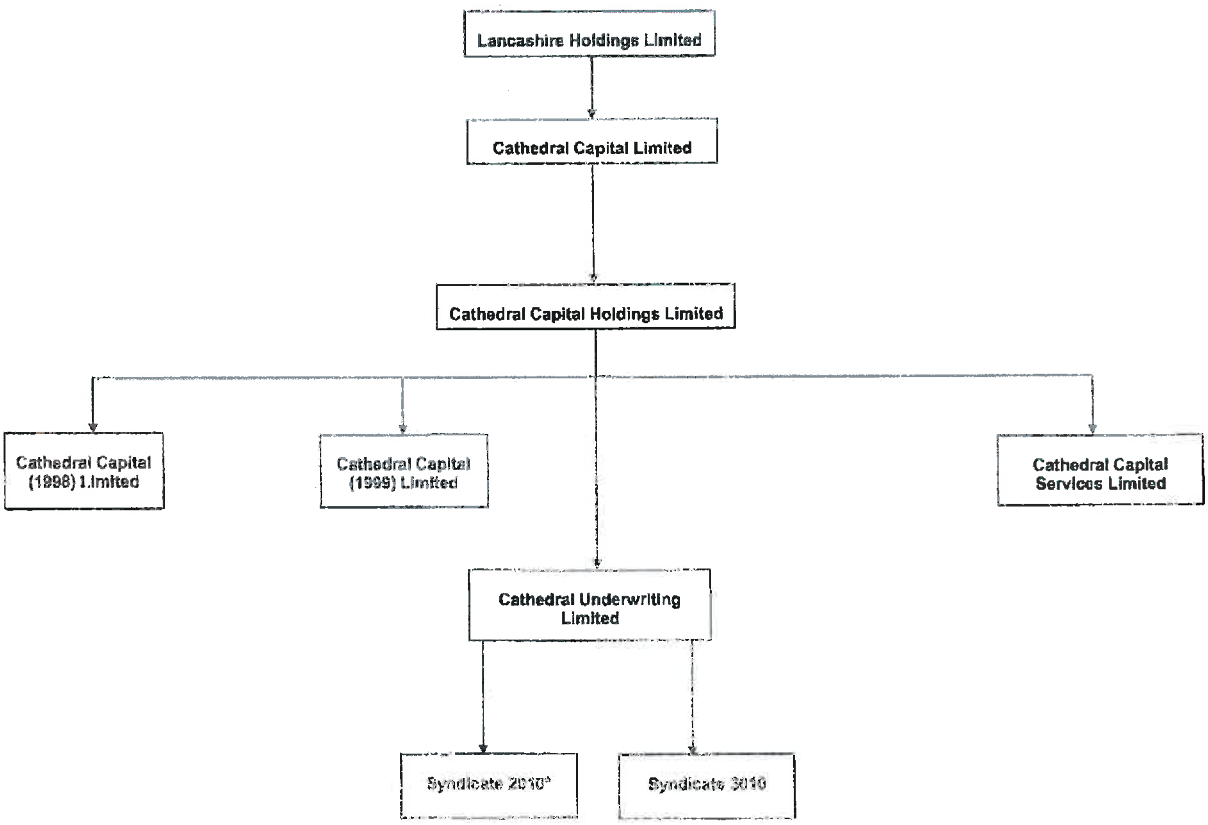
$'000	Amortised cost	Financial liabilities	Insurance contracts	Non-Categorised liabilities	Total
Liabilities					
Borrowings	71,293	-	-	-	71,293
Insurance contracts	-	-	311,282	-	311,282
Provision for other liabilities and charges	-	-	-	9,026	9,026
Deferred tax liabilities	-	-	-	20,150	20,150
Trade and other payables	-	88,784	-	-	88,784
Current tax liabilities	-	4,738	-	-	4,738
Accruals and deferred income	-	2,333	-		2,333
Total liabilities	71,293	95,855	311,282	29,176	507,606

As at 31 December 2015 *$'000*	Loans and receivables	Assets at fair value through profit or loss	Insurance contracts	Non-Categorised assets	Total
Assets					
Property, plant and equipment	-	-	-	2	2
Intangible assets	-	-	-	12,104	12,104
technical provisions	-	-	66,886	-	66,886
Financial investments	-	244,400	-	-	244,400
Deferred acquisition costs	-	-	20,883	-	20,883
Deferred tax assets	-	-	-	11,628	11,628
income	-	-	-	23,367	23,367
Trade and other receivables	107,954	-	-	-	107,954
Cash and cash equivalents	-	-	-	103,180	103,180
Total assets	107,954	244,400	87,769	150,281	590,404

$'000	Amortised cost	Financial liabilities	Insurance contracts	Non-Categorised liabilities	Total
Liabilities					
Borrowings	71,691	-	-	-	71,691
Insurance contracts	-	-	333,711	-	333,711
and charges	-	-	-	11,347	11,347
Deferred tax liabilities	-	-	-	25,039	25,039
Trade and other payables	-	88,627	-	-	88,627
Current tax liabilities	-	1,947	-	-	1,947
Accruals and deferred income	-	5,565	-	-	5,565
Total liabilities	71,691	96,139	333,711	36,386	537,927

36 Immediate and ultimate parent companies

The immediate parent company is 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 Limited is registered in England & Wales. Lancashire Holdings Limited is registered in Bermuda.



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

CATHEDRAL CAPITAL HOLDINGS LIMITED

PARENT COMPANY FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company financial statements under International Financial Reporting Standards. 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:

- properly select and apply them consistently;
- 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 Company'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 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

HMVerzin

H R M Verzin

Chief Financial Officer

21 February 2017

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

We have audited the financial statements of Cathedral Capital Holdings Limited for the year ended 31 December 2016 which comprise the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 17. 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 them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 67, the directors are responsible for the preparation of the 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 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 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 the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2016;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors' for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Report of the Directors' have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or the Report of the Directors'.

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 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 2016.

Ernst & Young LLP

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 February 2017

Cathedral Capital Holdings Limited
Parent Company Statement of Financial Position
As at 31 December 2016

	Notes	31 December 2016 $'000	31 December 2015 $'000
Fixed Assets			
Financial investments	6	**76,405**	74,442
Investments in subsidiary undertakings	7	**4,566**	4,566
		80,971	79,008
Current Assets			
Trade and other receivables	8	**24,505**	36,763
Current tax asset		**143**	-
Prepayments and accrued income	9	**369**	238
Cash and cash equivalents	10	**2,794**	5,798
		27,811	42,799
Total assets		**108,782**	121,807
Equity			
Called-up share capital	11	**16,815**	16,815
Capital redemption reserve		**2,844**	2,844
Translation Reserve		**(4,903)**	(4,903)
Profit and loss reserve		**8,172**	7,175
Total shareholder's equity		**22,928**	21,931
Liabilities			
Borrowings	12	**71,293**	71,691
Current tax liabilities		**-**	78
Deferred tax liabilities	13	**233**	648
Trade and other payables	14	**14,071**	27,101
Accruals and deferred income		**257**	358
Total liabilities		**85,854**	99,876
Total equity and liabilities		**108,782**	121,807

Retained profit for the year amounted to $997,000 (2015:$1,235,000)

The financial statements on pages 70 to 83 were approved by the Board of Directors and authorised for issue on 21 February 2017 and signed on its behalf by:

A T Maloney
Chief Executive Officer

H R M Verzin
Chief Financial Officer

The Company Balance sheet is prepared under IFRS.
The Notes on pages 72 to 83 form an integral part of these consolidated financial statements.

Cathedral Capital Holdings Limited
Statement of Changes in Equity
For the year ended 31 December 2016

Year ended 31 December 2016	**Balance at 1 January 2016 $'000**	**Total Comprehensive Income for the year $'000**	**Transactions with owners: Dividends paid $'000**	**Total attributable to shareholders $'000**
Called-up share capital	**16,815**	**-**	**-**	**16,815**
Capital redemption reserve	**2,844**	**-**	**-**	**2,844**
Translation reserve	**(4,903)**	**-**	**-**	**(4,903)**
Retained Earnings	**7,175**	**997**	**-**	**8,172**
Equity shareholders' funds	**21,931**	**997**	**-**	**22,928**

Year ended 31 December 2015	Balance at 1 January 2015 $'000	Total Comprehensive Income for the year $'000	Transactions with owners: Dividends paid $'000	Total attributable to shareholders $'000
Called-up share capital	16,815	-	-	16,815
Capital redemption reserve	2,844	-	-	2,844
Translation reserve	(4,903)	-	-	(4,903)
Retained Earnings	5,940	11,235	(10,000)	7,175
Equity shareholders' funds	20,696	11,235	(10,000)	21,931

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

Translation reserve is in respect of the change in presentational currency as at 1 January 2015 recognised in the Statement of Other Comprehensive Income.

All of the profit and loss reserves are distributable.

The Notes on pages 73 to 83 form an integral part of these financial statements.

Cathedral Capital Holdings Limited
Statement of Cash Flows
For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Cash generated from operations	17	5,750	39,502
Income taxes (paid) / received		(83)	465
Net cash from / (used in) operating activities		5,667	39,967
Investing activities			
Purchase of investments		(87,053)	(91,126)
Proceeds from disposal of investments		80,738	64,864
Interest received		941	756
Dividends received		56	516
Net cash (used in) investing activities		(5,318)	(24,990)
Financing activities			
Interest paid on loan notes		(2,916)	(2,686)
Dividends paid		-	(10,000)
Net cash (used in) financing activities		(2,916)	(12,686)
Net increase / (decrease) in cash and cash equivalents		(2,567)	2,291
Cash and cash equivalents at beginning of year		5,798	3,664
Effect of exchange rate fluctuations on cash and cash equivalents		(437)	(157)
Cash and cash equivalents at end of year	10	2,794	5,798

The Notes on pages 73 to 83 form an integral part of these financial statements.

1 GENERAL INFORMATION

Cathedral Capital Holdings Limited ("the Company") is a limited company registered and domiciled in England and Wales. The addresses of its registered office and principal place of business are disclosed on page 10.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles.

While a number of new or amended IFRS and IFRIC standards have been issued in 2016 there are no standards issued that have had a material impact on the Company.

IFRS 4, Insurance Contracts, issued in March 2004, specifies the financial reporting for insurance contracts by an insurer. The current standard is Phase I in the IASB's insurance contract project and, as noted above, does not specify the recognition or measurement of insurance contracts. This will be addressed in IFRS 17 (previously referred to as IFRS 4 Phase II) which will include a number of significant changes regarding the measurement and disclosure of insurance contracts in both liability measurement and profit recognition. IFRS 17 is expected to be issued in the first half of 2017 with an effective date of 1 January 2021. The Company will continue to monitor the progress of the project in order to assess the potential impacts the new standard will have on its results and the presentation and disclosure thereof.

IFRS 9, Financial Instruments: Classification and Measurement, has been issued but is not yet effective, and therefore has not yet been adopted by the Company. The Company continues to apply IAS 39, Financial Instruments: Recognition and Measurement and classifies its fixed income securities as available for sale. The new standard is effective for annual periods beginning on or after 1 January 2018, although it is has been deferred for insurers to 1 January 2021 to align with the implementation date of IFRS 17. IFRS 9 is not expected to have a material impact on the results and disclosures reported in the financial statements.

The statement of financial position of the Company is presented in order of decreasing liquidity.

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

3 SIGNIFICANT ACCOUNTING POLICIES

a) Expenses

Expenses are accounted for on an accruals basis.

b) Financial Instruments

i) 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.

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.

Subsidiary undertakings are stated at cost less impairment.

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.

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

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

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

c) Taxation

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

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

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

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

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

f) Foreign Currency

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

4 Dividends paid

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Interim dividend paid in December 2015 of 24.23¢ per share	-	10,000
No dividend paid in year (2015: 24.23¢ per share)	-	10,000

5 Profit attributable to members of the parent company

The profit dealt within in the accounts of the Company was $997,000 (2015: $11,235,000). 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 2016 $'000	31 December 2015 $'000
Fair value		
Shares and other variable yield securities	1,336	13,233
Alternative investments	4	2,106
Debt and other fixed income securities	75,065	59,103
Total investments	76,405	74,442
Cost		
Shares and other variable yield securities	123	10,060
Alternative investments	8	1,656
Debt and other fixed income securities	75,280	59,490
Total investments	75,411	71,206

The Company'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 Company's investments above, $38,057,000 (2015: $41,211,000) are held as funds at Lloyd's and therefore their use is restricted

As part of its investment activities, the Company invests in unconsolidated structured entities. As at 31 December 2016, the Company's total interest in unconsolidated structured entities was $2.7 million (2015: $4.3 million). The Company does not sponsor any of the unconsolidated structured entities.

As at 31 December 2016, a summary of the Company's interest in unconsolidated structured entities is as follows:

	31 December 2016 $'000	31 December 2015 $'000
Debt and other fixed income securities - Corporate	2,712	4,258

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.

7 Investments in subsidiary undertakings

	31 December 2016 $'000	31 December 2015 $'000
Investments in subsidiary undertakings	**4,566**	4,566

Reconciliation		
At the beginning of the year	**4,566**	4,631
Disposal of Cathedral Capital Management Limited and Cathedral Capital (2000) Limited	-	(65)
At the end of the year	**4,566**	4,566

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 Services Limited	Employment company	100%	-
Cathedral Underwriting Limited	Lloyd's managing agent	100%	-

All companies are registered and operate in England.

8 Trade and other receivables

	31 December 2016	31 December 2015
	$'000	$'000
Amounts owed by subsidiary companies	-	18,754
Amounts owed by parent companies	24,505	18,009
	24,505	36,763

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 2016	31 December 2015
	$'000	$'000
Accrued income - investments	360	235
Prepayments	9	3
	369	238

10 Cash at bank and in hand

	31 December 2016 $'000	31 December 2015 $'000
Cash and cash equivalents held within funds at Lloyd's	**1,777**	4,879
Cash and cash equivalents available for use by the Company	**1,017**	919
	2,794	5,798

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

11 Share capital

	31 December 2016	31 December 2015
	No.	No.
Number		
Authorised Ordinary shares of 25p each	**400,000,000**	400,000,000
Allotted issued and fully paid Ordinary shares of 25p each	**41,265,775**	41,265,775
	$'000	$'000
Nominal value		
Ordinary shares of 25p each	**16,815**	16,815

12 Borrowings

	Carrying value 31 December 2016 $'000	Carrying value 31 December 2015 $'000
Unsecured Floating Rate Subordinated Notes	71,293	71,691

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.

Facilities
The Company had no bank borrowing facilities.

13 Provision for deferred tax

The Company had a deferred tax liability at 31 December 2016 of $233,000 in respect of unrealised gains on investments and tax losses carried forward (31 December 2015: liability of $648,000 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 2016 (31 December 2015: Unprovided deferred tax asset or liability of $nil).

14 Trade and other payables

	31 December 2016 $'000	31 December 2015 $'000
Amounts due within one year:		
Owed to subsidiary companies	**13,066**	25,876
Owed to parent companies	**944**	1,138
Trade creditors	**61**	87
	14,071	27,101

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

15 Directors' emoluments

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

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Emoluments	26	64
Pension costs	1	5
Directors fees	4	9
Total directors' emoluments	31	78

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

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Emoluments	12	45
Pension costs	-	2
Total directors' emoluments	12	47

16 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 12 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 2016, an analysis of the balance sheet by currency shows that the Company held net liabilities of €5.2million (2015: net liabilities of €4.8million). A 10% movement in closing exchange rates, with all other variables constant, would result in a pre tax impact on net liabilities of €0.5m (2015: net liabilities €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 $134,000 (2015: $1,534,000). A change in market interest rates of one percentage point would equate to a pre tax movement on net assets / profits of $1,446,000 (2015: $1,039,000).

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

At 31 December 2016	**A++ to A-**	**B++ to B-**	**Unrated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Financial Investments	**67,153**	**7,912**	**1,340**	**76,405**
Cash and cash equivalents	**2,794**	**-**	**-**	**2,794**
	69,947	**7,912**	**1,340**	**79,199**

At 31 December 2015	A++ to A-	B++ to B-	Unrated	Total
	$'000	$'000	$'000	$'000
Financial Investments	49,898	7,987	16,557	74,442
Cash and cash equivalents	5,798	-	-	5,798
	55,696	7,987	16,557	80,240

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 12.

At 31 December 2016	**Balance sheet**	**< 1 year**	**1 - 3 years**	**4 - 5 years**	**> 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Debt securities	**75,065**	**8,416**	**49,734**	**6,341**	**10,574**	**75,065**
Cash and cash equivalents	**2,794**	**2,794**	**-**	**-**	**-**	**2,794**
Borrowings	**(71,293)**	**(3,167)**	**(7,157)**	**(7,982)**	**(130,932)**	**(149,238)**
	6,566	**8,043**	**42,577**	**(1,641)**	**(120,358)**	**(71,379)**

At 31 December 2015 restated	Balance sheet	< 1 year	1 - 3 years	4 - 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Debt securities	59,103	16,994	30,031	1,767	10,311	59,103
Cash and cash equivalents	5,798	5,798	-	-	-	5,798
Borrowings	(71,691)	(3,174)	(6,825)	(7,909)	(139,946)	(157,854)
	(6,790)	19,618	23,206	(6,142)	(129,635)	(92,953)

17 Reconciliation of profit to cash generated from operations

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Profit before taxation	568	11,172
Adjustments for:		
Decrease in debtors & accrued income	11,883	74,696
Realised investment gains	(132)	(87)
Unrealised investment losses	2,327	231
Exchange revaluation	2,603	(432)
(Decrease) in creditors	(13,132)	(47,472)
Interest expense	2,990	2,719
Interest receivable	(941)	(872)
Dividends receivable	(416)	(518)
Impairment of intangible assets	-	65
Cash generated from operations	5,750	39,502