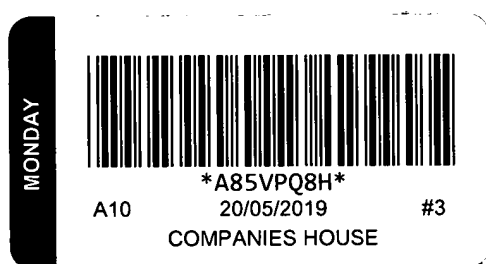


CATHEDRAL CAPITAL HOLDINGS LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2018



Registered in England and Wales Number 3372107

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Directors and Officers

DIRECTORS

J W Cadman
A T Maloney
C J Whittle
W A McKee

resigned 31 January 2019

COMPANY SECRETARY

M E Lynn
E L Woolley

appointed 28 February 2018
resigned 28 February 2018

AUDITORS

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

BANKERS

Barclays Bank Plc
1 Churchill Place
London E14 5HP

REGISTERED OFFICE

Level 29
20 Fenchurch Street
London EC3M 3BY

Registered Number

3372107 (England and Wales)

Business Review

The Directors present their Strategic Report for Cathedral Capital Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018.

Results and Performance

The results attributable to the shareholder for the year are shown on page 11.

For the year ended 31 December 2018, the Group made a profit after tax of \$0.3m (2017: \$6.2m). The difficult market conditions experienced in 2017 continued into 2018. The combined 2018 calendar year result has been adversely affected by a number of large catastrophic events, which have been slightly offset by favourable run-off of prior year reserves.

The Group writes a diversified book of business through Syndicate 2010 and Syndicate 3010 in non-marine, direct and facultative property, aviation, cargo, satellite, energy, marine hull, power and terrorism.

Gross premiums written increased by \$45.4m from \$209.4m in 2017 to \$254.8m in 2018.

Insurance losses and loss adjustment expenses decreased by \$70.3m from \$232.8m in 2017 to \$162.5m in 2018. Although insurance losses and loss adjustment expenses were lower than 2017, the Group incurred significant major losses on a number of natural catastrophes including hurricanes Florence and Michael, typhoons Jebi and Trami and the Californian wildfires. This compares to 2017 where the Group incurred significant major losses from a number of natural catastrophes including hurricanes Harvey, Irma and Maria, two Mexico earthquakes and Californian wildfires. Net insurance losses decreased by \$27.9m from \$139.3m in 2017 to \$111.4m in 2018 due to the natural catastrophe events in previous year. This has resulted in a net loss ratio of 64.9% in 2018 compared to 73.4% in 2017.

The net acquisition cost ratio is 25.9% in 2018 (2017: 20.5%). The operating expenses ratio has increased in 2018 to 15.9% (2017: 9.7%).

The Group's total return from its investment portfolio is \$3.8m in 2018 (2017: \$2.5m). This includes investment income, realised and unrealised losses, and excludes foreign exchange. In line with the improved global growth outlook, bond yields rose modestly across all regions in which the portfolio invests (U.S., Europe, U.K., and Canada). The slightly higher level of bond coupons (compared to recent years) combined with narrowing credit spreads absorbed the negative impact of rising sovereign bond yields and enabled the portfolio to generate a decent return in the year.

The Group's tax credit for the year is \$1.2m (2017: \$(0.6)m expense). A detailed analysis of the composition of the Group's tax balance is set out in Note 12 to the consolidated financial statements.

No dividend was paid during the year (2017: \$29.0m).

Strategy

Our strategy remains to service and protect our core book of business and to motivate, retain and reward all those people who are key to our ongoing success. In 2019 we will seek to take advantage of an improved market by identifying opportunities to cautiously expand our portfolio.

Principal Risks to the Business

A detailed description of the principal risks to the business is set out in Note 4.

Risks relating to Brexit

On 29 March 2019 the United Kingdom ceases to be a member of the European Union and as a consequence Lloyd's members will no longer be authorised to underwrite insurance business in the EEA. In order to maintain access to this business, a new Lloyd's subsidiary, Lloyd's Insurance Company S.A. ("Lloyd's Brussels"), has been established and commenced underwriting on 1 January 2019.

Cathedral Underwriting Limited ("CUL"), a subsidiary of the Company, has entered into an Outsourcing Agreement with Lloyd's Brussels, by which it is authorised to underwrite business on behalf of Lloyd's Brussels or to appoint a coverholder for the same purpose. This business is then reinsured on a 100% basis to syndicates managed by CUL, so that the members of those syndicates will continue to benefit from it.

As a result of entering into the Outsourcing Agreement, CUL has assumed duties and obligations to Lloyd's Brussels in respect of the services it provides to it. These duties could potentially give rise to a conflict of interest with CUL's duties to the members of its managed syndicates. Accordingly, the Outsourcing Agreement required that CUL informs the members of the syndicates of its duties under the Agreement and obtain their consent to the provision of services to Lloyd's Brussels by CUL. For the purposes of assessing the likelihood that a conflict of interest would arise, it should be noted that all business underwritten on behalf of Lloyd's Brussels is reinsured on a 100% basis to the relevant syndicates managed by CUL. As such, the interests of the CUL's principals are aligned and accordingly it is considered that the risk of a conflict of interest arising (which cannot be mitigated or resolved) is low.



C J Whittle
Chief Finance Officer
12 February 2019

Directors' Report

The Directors present their annual report and the audited consolidated financial statements of Cathedral Capital Holdings Limited (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018.

Principal Activity and Review of the Business

The Company 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. The Group underwrote £277.0m of capacity for the 2018 year of account (2017: £277.0m of capacity for the 2017 year of account), all of which supported Cathedral Syndicates 2010 and 3010. For the 2019 year of account, the Group will also underwrite £277.0m 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 and direct and facultative property insurance business, with premium capacity of £177.0m for the 2018 year of account. The capacity of the Syndicate remains unchanged for the 2019 year of account. Cathedral Syndicate 2010 has closed its 2016 year of account, with a profit of \$26.5m.

Cathedral Underwriting Limited set up Syndicate 3010 during 2007, with an initial capacity of £20.0m and commenced underwriting on 1 July 2007. The Syndicate specialises in marine cargo including specie, aviation, terrorism and energy insurance with power and marine hull lines joining in 2018. The capacity was £100.0m for the 2018 year of account and remains unchanged for the 2019 year of account. The Syndicate's sole capital provider is the Group's corporate member. Cathedral Syndicate 3010 has closed its 2016 year of account, with a profit of \$2.3m.

Cathedral Underwriting Limited intends to expand and develop its insurance operations as opportunities and market conditions allow.

Dividends

No dividend was paid to Cathedral Capital Limited during the year (2017: \$29.0m). The Directors do not recommend the payment of a final dividend.

Share Capital

There were no changes to the share capital during 2018.

Directors

The Directors who held office during the period are set out on page 2.

Information on Directors' interests in transactions is shown in Note 26 on page 44.

Lancashire Holdings Limited, a Bermudian registered company and the Company's ultimate parent 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.

Related Parties

Details of related parties and any related party transactions are set out in Note 26.

Going Concern

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

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period.

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 page 3.

The level of financial investments and cash and cash equivalents of the Group are set out in Notes 14 and 15 although some of these are restricted. Note 4 sets out the various risks to the Group, such as insurance risk, credit risk, liquidity risk, market risk, operational risk and capital management 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 consolidated financial statements.

Financial Instruments

The Group's principal financial instruments are financial investments, reinsurance assets, receivables, and cash and cash equivalents. Please see Note 4 for details on the risks in relation to these consolidated financial instruments.

Donations

The Company made no political donations or incurred any political expenditure during the year (2017: \$nil).

Employee Involvement

Details of employees and their remuneration are included in Note 9.

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.

Directors' Remuneration

Details of the Directors' Remuneration is set out in Note 9 of the consolidated financial statements.

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.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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 they are obliged to take as a Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' Report

Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Consolidated Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the consolidated 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



C.J. Whittle
Chief Financial Officer
12 February 2019

Company Registered Number: 3372107

1 Our opinion is unmodified

We have audited the financial statements of Cathedral Capital Holdings Limited (the "Company") for the year ended 31 December 2018 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, and the related notes, including the accounting policies in Note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to those charged with governance.

We were first appointed as auditor by the Directors on 11 May 2017. The period of total uninterrupted engagement is for the two financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. We have also noted valuation of parent's company financial investments as a new-recurring risk in the current year for the parent company financial statements. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of insurance contract liabilities for losses and loss adjustment expenses on a gross basis and net of outwards reinsurance (\$339.5m gross, \$206.1m net of outwards reinsurance, of which incurred but not reported represented \$166.8m gross, \$90.8m net of outwards reinsurance; 2017: \$337.2m gross, \$201.8m net of outwards reinsurance, of which incurred but not reported represented \$156.9m gross, \$86.0m net of outwards reinsurance) Refer to page 19 (accounting policy) and page 41 (financial disclosures) Risk vs 2017: ◀▶	
Risk	Response
<p>The Group maintains reserves to cover the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, regardless of whether those losses have been reported to the Group.</p> <p>Subjective valuation</p> <p>Insurance liabilities represent the single largest liability for the Group. Valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as expected loss ratios, estimates of ultimate premium and of the frequency and severity of claims and, where appropriate, the discount rate for longer tail classes of business by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex.</p>	<p>We have used our own actuarial specialists to assist us in performing our procedures in this area.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • Control operation - Testing the design and implementation of key controls around review and approval of reserves as well as completeness and accuracy of the data used in the reserving process. • Methodology assessment - Assessing and challenging the reserving methodology (on a gross basis and net of outwards reinsurance) based on our knowledge and understanding of the reserving policy within the Group. This also involved comparing the Group's reserving methodology with industry practice and understanding the rationale for key differences. • Historical experience - Challenging the quality of the Group's historical reserving estimates by monitoring the development of losses against initial estimates.

<p>These judgemental and complex calculations for insurance liabilities are also used to derive the valuation of the related reinsurance assets. A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks identified in assessment of the best estimate. The appropriate margin to recognise is a subjective judgement and estimate taken by the Directors, based on the perceived uncertainty and potential for volatility in the underlying claims.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that valuation of gross and net insurance contract liabilities for losses and loss adjustment expenses has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (page 25) discloses the sensitivity estimated by the Group.</p> <p>Completeness and accuracy of data:</p> <p>The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating the insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.</p>	<ul style="list-style-type: none"> • Independent re-performance - Applying our own assumptions, across all classes of business, to perform re-projections on the insurance contract liabilities for loss and loss adjustment expenses on both a gross and net basis and comparing these to the Group's projected results. Where there were significant variances in the results, we have challenged the Group's assumptions. Our independent re-projections focused on classes of business where losses tend to relate to low frequency high severity events. • Benchmarking on large losses - Assessing and challenging the reserving assumptions by comparing the Group's loss experience to peers in the market, on a gross and net basis, including on a contract by contract basis for large loss and catastrophe events. • Data reconciliations - Checking the completeness and accuracy of the data used within the reserving process by reconciling the actuarial source data to the Group's financial systems. <p>Our results</p> <p>We found the Group's valuation of gross and net insurance contract liabilities for losses and loss adjustment expenses and the completeness and accuracy of data to be acceptable.</p>
<p>Valuation of premiums which are estimated, included in gross premiums written (2018: \$254.8m, 2017: \$209.4m) Refer to page 18 (accounting policy) and pages 32 to 33 (financial disclosures) Risk vs 2017: ◀▶</p>	
<p>Risk</p> <p>Subjective valuation:</p> <p>Pricing for certain contracts is based on a best estimate of ultimate premiums as a result of premiums being based upon the latest information received from third parties at the balance sheet date. Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received. As updated information is received over the life of the contract, adjustments are made to the premium recognised.</p> <p>It should however be noted that it is only a portion of the total gross premiums written figures noted above that are subject to this valuation risk.</p>	<p>Response</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • Control operation - Testing the design and implementation of key controls over the periodic review of premium estimates booked. • Tests of detail - Performing procedures to understand the development of estimated premium income by comparing the Group's estimated premium income to actual premium income once received and checking actual premium income back to source documentation for a sample of policies. <p>Our results</p> <p>We found the Group's valuation of premiums which are estimated to be acceptable.</p>
<p>We continue to perform procedures over policies that are still earning on non-standard earning profiles although the unearned premium reserve balance relating to any such policies as at 31 December 2018 is not material. However, as the Group's syndicates are now materially earning all 2018 inception business on straight line earning profiles, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.</p>	
<p>Valuation of parent's company financial investments (2018: \$92.4m, 2017: \$87.8m) Refer to page 23 (accounting policy) and pages 44 to 45 (financial disclosures) New recurring risk Risk vs 2017: ▲</p>	
<p>Risk</p> <p>Low risk, high value:</p> <p>Financial investments represents 82% (2017: 91%) of the company's total assets. Their valuation does not have a high risk of significant misstatement or are subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.</p>	<p>Response</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> • Tests of detail - Performing independent repricing of the investment portfolio using our in-house specialist team. • Assessing transparency - We have also considered the adequacy of the parent company's disclosures about the fair value hierarchy. <p>Our results</p> <p>We found the parent company's valuation of financial investments to be acceptable.</p>
<p>We continue to perform procedures over recoverability of parent company's investment in subsidiary undertakings. However, looking at the composition of the parent company balance sheet we assessed the valuation of financial investments to be more appropriate as the balance for investment in subsidiary has reduced from 5% in 2017 to 1.5% in 2018.</p>	

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at \$2.1m (2017: \$2.1m), determined with reference to a benchmark of gross premiums written of \$254.8m (2017: \$209.4m) of which it represents 1 per cent (2017: 1 per cent). We consider gross premiums written to be the most appropriate benchmark as it provides a stable measure year on year.

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding \$0.1m (2017: \$0.1m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 4 (2017: 4) reporting components, including the parent company we subjected 3 (2017: 4) to full scope audits for group purposes. The remaining component is a dormant entity and therefore no work has been performed on that component. Including the audit of the consolidation adjustments our scope covered 100 per cent of gross premiums written, profit before tax and total assets. The work on all of the components was performed by the Group audit team.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model, including the impact of Brexit and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report and Consolidated Financial Statements

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities - ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the Directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

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



Timothy Butchart (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
13 February 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Gross premiums written	5	254,775	209,377
Outward reinsurance premiums	5	(62,666)	(24,908)
Net premiums written		192,109	184,469
Change in unearned premiums	5	(26,009)	4,871
Change in unearned premiums ceded	5	5,577	396
Net premiums earned		171,677	189,736
Net investment income	6	5,083	4,248
Net unrealised losses on investments	6	(552)	(1,033)
Net realised (losses)/gains on investments	6	(682)	93
Net foreign exchange (losses)/gains	7	(1,707)	1,624
Other income	8	13,348	11,974
Total net revenue		187,167	206,642
Insurance losses and loss adjustment expenses	5	(162,456)	(232,778)
Insurance losses and loss adjustment expenses recoverable	5	51,042	93,457
Net insurance losses		(111,414)	(139,321)
Insurance acquisition expenses	5	(44,681)	(39,421)
Insurance acquisition expenses ceded	5	239	586
Other operating expenses	9	(27,262)	(18,409)
Total expenses		(183,118)	(196,565)
Operating profit		4,049	10,077
Finance costs	10	(3,926)	(3,290)
Loss on sale of subsidiary's business	18	(1,051)	—
(Loss)/Profit before tax		(928)	6,787
Tax credit/(expense)	12	1,233	(550)
Profit for the year		305	6,237

There are no other comprehensive gains or losses in the year.

All activities were in respect of continuing operations.

The notes on pages 17 to 45 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
As at 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Assets			
Cash and cash equivalents	14	74,161	71,710
Financial investments	15	198,318	217,745
Trade and other receivables	16	175,199	131,621
Reinsurance assets	21	148,803	145,276
Deferred acquisition costs		21,965	16,996
Prepayments and accrued income	17	23,302	18,774
Intangible assets	19	7,504	10,957
Deferred tax assets	24	—	19,760
Total Assets		649,252	632,839
Liabilities			
Trade and other payables	20	66,583	57,297
Current tax liabilities		10,893	10,341
Insurance liabilities	21	444,659	415,768
Accruals and deferred income		8,185	3,570
Provision for other liabilities	22	63	1,213
Borrowings	23	72,496	73,130
Deferred tax liabilities - net	24	3,077	26,127
Total Liabilities		605,956	587,446
Equity			
Share capital	25	16,815	16,815
Other reserves		2,844	5,246
Retained earnings		23,637	23,332
Total Equity		43,296	45,393
Total Liabilities and Equity		649,252	632,839

The notes on pages 17 to 45 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 11 to 45 were approved by the Board of Directors and authorised for issue on 12 February 2019.



CJ Whittle
Chief Financial Officer

Company Statement of Financial Position

For the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Assets			
Cash and cash equivalents	14	3,341	3,426
Financial investments	15	92,436	87,799
Trade and other receivables	16	14,574	—
Prepayments and accrued income	17	580	476
Current tax asset		624	179
Deferred tax assets		—	1
Investment in subsidiary undertakings	18	1,511	4,566
Total Assets		113,066	96,447
Liabilities			
Trade and other payables	20	23,430	2,208
Borrowings	23	72,496	73,130
Accruals and deferred income		160	174
Total Liabilities		96,086	75,512
Equity			
Share capital	25	16,815	16,815
Other reserves		2,844	2,844
Retained earnings		(2,679)	1,276
Total Equity		16,980	20,935
Total Liabilities and Equity		113,066	96,447

The notes on pages 17 to 45 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 12 February 2019 and signed on its behalf by:



CJ Whittle
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Notes	Share capital \$'000	Other reserves \$'000	Retained earnings \$'000	Total equity \$'000
As at 1 January 2018		16,815	5,246	23,332	45,393
Profit for the year				305	305
Merger reserve written off	18	—	(2,402)		(2,402)
As at 31 December 2018		16,815	2,844	23,637	43,296

	Notes	Share capital \$'000	Other reserves \$'000	Retained earnings \$'000	Total equity \$'000
As at 1 January 2017		16,815	5,246	46,113	68,174
Profit for the year				6,237	6,237
Dividends	13			(29,018)	(29,018)
As at 31 December 2017		16,815	5,246	23,332	45,393

The notes on pages 17 to 45 are an integral part of these consolidated financial statements.

The foreign exchange loss of \$6.8m resulting from the change of functional and presentation currency from GBP to USD in 2015, previously recognised as Translation Reserve within Equity, is now included within Retained Earnings in the Statement of Financial Position to be in line with the consolidated financial statements of Lancashire Holdings Limited. This is explained further on page 18.

Company Statement of Changes in Equity

For the year ended 31 December 2018

	Notes	Share capital \$'000	Other reserves \$'000	Retained earnings \$'000	Total equity \$'000
As at 1 January 2018		16,815	2,844	1,276	20,935
Loss for the year	18			(3,955)	(3,955)
As at 31 December 2018		16,815	2,844	(2,679)	16,980

	Notes	Share capital \$'000	Other reserves \$'000	Retained earnings \$'000	Total equity \$'000
As at 1 January 2017		16,815	2,844	3,269	22,928
Profit for the year				27,025	27,025
Dividends	13			(29,018)	(29,018)
As at 31 December 2017		16,815	2,844	1,276	20,935

The notes on pages 17 to 45 are an integral part of these financial statements.

The foreign exchange loss of \$4.9m resulting from the change of functional and presentation currency from GBP to USD in 2015, previously recognised as Translation Reserve within Equity, is now included within Retained Earnings in the Statement of Financial Position to be in line with the consolidated financial statements of Lancashire Holdings Limited. This is explained further on page 18.

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Cash flows used in operating activities			
(Loss)/Profit before tax		(928)	6,787
Adjustment for:			
Depreciation		—	3
Net investment income	6	(5,083)	(4,248)
Net unrealised losses on investments	6	552	1,033
Net realised losses/(gains) on investments	6	682	(88)
Net foreign exchange losses	7	1,707	56
Finance costs	10	3,926	3,290
Impairment of intangible assets		—	1,118
Loss on sale of CSL's business to LISL	18	1,051	—
Changes in:			
Receivables and prepayments		(50,723)	(34,773)
Insurance and reinsurance balances		21,193	33,872
Payables and accruals		12,364	(39,230)
Net cash flows used in operating activities		(15,259)	(32,180)
Cash flows from/(used in) investing activities			
Investment income received	6	5,083	4,136
Proceeds from sale of investments		165,357	118,504
Purchases of investments		(149,208)	(136,302)
Net cash provided from/(used in) investing activities		21,232	(13,662)
Cash flows used in financing activities			
Dividends paid		—	(2,165)
Interest paid on loan notes	10	(3,853)	(3,218)
Net cash flows used in financing activities		(3,853)	(5,383)
Net increase/(decrease) in cash and cash equivalents		2,120	(51,225)
Cash and cash equivalents at 1 January	14	71,710	123,251
Effect of exchange rate fluctuations on cash and cash equivalents		331	(316)
Cash and cash equivalents at 31 December	14	74,161	71,710

The notes on pages 17 to 45 are 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 address of its registered office is disclosed on page 2. The principal activities of the Company and its subsidiaries (together referred to as the "Group") are described in the Directors' Report on page 4.

These consolidated financial statements comprise the Company and the Group.

2. Basis of Preparation of the Financial Statements

The Group's consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006.

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. In such instances, the Group determines appropriate measurement basis, to provide the most useful information to users of the consolidated financial statements, using their judgement and considering U.K. GAAP. In the course of preparing the consolidated financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations as noted in the 'Use of Estimates' section below, that have had a significant effect on amounts recognised in the consolidated financial statements.

All amounts, excluding share data or where otherwise stated, are in thousands of U.S. Dollars ("USD").

As permitted by Section 408(3) of the Companies Act 2006, the Statement of Profit or Loss and Other Comprehensive Income of the Company is not presented.

The Consolidated Statement of Financial Position of the Group is presented in order of decreasing liquidity.

The Group participates on syndicates at Lloyd's. These consist of Syndicates 2010 and 3010 ("the Syndicates") which are managed by the managing agent which is a subsidiary of the Group. 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 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts by an insurer. The new standard is currently effective for annual periods beginning on or after 1 January 2021. At its Board meeting, the IASB tentatively decided to propose an amendment of the IFRS 17 effective date to reporting periods on or after 1 January 2022. The standard includes a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition. The Group will continue to assess the impact that the new standard will have on its results and the presentation and disclosure requirements. IFRS 17 has not yet been endorsed by the EU.

IFRS 9, Financial Instruments: Classification and Measurement, is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4 Insurance Contracts, issued in 2016, provides a temporary exemption from applying IFRS 9. The Company qualifies for, and has elected to apply, the temporary exemption available to companies whose predominant activity is to issue insurance contracts. The exemption lasts until accounting periods beginning on or after 1 January 2022 and addresses the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17 Insurance Contracts. IFRS 9 introduces new classification and measurement requirements for financial instruments, an expected credit loss impairment model that replaces the IAS 39 incurred loss model and new hedge accounting requirements. IFRS 9 has no material impact on the financial statements of the Company as there will be no change in the carrying value of the Company's financial instruments.

IFRS 15, Revenue from Contracts with Customers, was effective on 1 January 2018. The adoption of IFRS 15, using the cumulative effect approach, has not had a material impact on the results and disclosures reported in the consolidated financial statements for the year ended 31 December 2018 and is consistent with the Group's previous treatment of other income. While a number of other amended IFRS and IFRIC standards have recently been issued, none of these standards have had a material impact on the Group.

3. Significant Accounting Policies

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

a) Use of estimates

The preparation of the consolidated 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 insurance claims and loss adjustment expenses, both gross and net of outwards reinsurance recoverable. This is discussed in the risk disclosures section in Note 4. Estimates in relation to insurance claims and loss adjustment expenses recoverable are discussed below.

Less significant estimates are made in determining the estimated fair value of certain financial instruments and management judgement is applied in determining impairment charges. The estimation of the fair value of financial instruments is discussed in Note 15.

The Group determines whether intangible assets are impaired on an annual basis. The fair value of intangible assets recognised on the acquisition of a subsidiary is largely based on the estimated expected cash flows of the business acquired and the contractual rights of that business. The assumptions made by management in performing annual impairment tests of intangible assets are subject to estimation uncertainty. Details of the key assumptions used in the estimation of the recoverable amounts of the CGU are explained in Note 19.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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 2018.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intercompany balances 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 Profit or Loss and Other Comprehensive Income. Similarly, the Group's proportion of the Syndicates' assets and liabilities has been reflected in its Consolidated Statement of Financial Position. 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 USD. Items included in the financial statements of each of the Group's entities are measured using the functional currency. The consolidated financial statements of the Company and the Group are 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 into the functional currency at the spot exchange rate at the reporting date. The resulting foreign currency exchange differences on translation are recognised in profit or loss.

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 on translation recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The functional and presentation currency for the Group and the Company was changed from GBP to USD in 2015, and the foreign exchange differences of \$6.8m loss for the Group and \$4.9m loss for the Company are included within the balance of Retained Earnings in the Statement of Financial Position.

d) 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) Premium

Gross written premium represent contracts on business incepting during the financial year, together with adjustments made in the year to premium written in previous accounting periods. All premium are gross of commission payable to intermediaries. From 2018, all premiums written are earned on a straight-line basis.

Outwards reinsurance premium are accounted for in the same accounting period as the premium for the related direct or inwards business being reinsured by the syndicates. This includes both the Group's share of outwards reinsurance premium written by the syndicates and also premium paid by the Group's subsidiaries for reinsurance protection. Reinsurance premium payable to Lancashire Insurance Company Limited ("LICL"), 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 LICL 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.

iii) Provision for unearned premium

Written premium is earned according to the risk profile of the policy commencing from the date of inception. Unearned premium represent the proportion of premium 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 Profit or Loss and Other Comprehensive Income in order that revenue is recognised over the period of the risk.

iv) 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.

v) 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.

vi) 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 Profit or Loss and Other 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.

vii) 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 premium are earned.

viii) 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.

ix) 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 Profit or Loss and Other Comprehensive Income as either gross premium written or reinsurance premium payable as appropriate.

e) Other income

Other income is measured based on the consideration specified in a contract and excludes amounts collected on behalf of this parties.

Other incomes includes profit commission, managing agency fees, consortium fees and profit commission, reinsurance profit commission on a quota share reinsurance agreement with LICL, and other income.

Profit commission is recognised on open years of account where its measurement is reasonably certain and that the amount of commission will be realised. The Group recognises profit commission on open years of account when measurement is virtually certain. Profit commissions are received once the year of account closes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Consortium profit commission is recognised when the year of account closes. The Group recognises profit commission in line with the underlying performance of covered contracts once the year of account closes, which is also when the profit commissions are received.

Managing agency fees and consortium fees are recognised in line with the activity to which the fees relate. The Group recognises managing agency fees in line with services provided for each year of account. Managing agency fees are received quarterly.

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 LICL by way of the quota share reinsurance agreement.

f) 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.

g) 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 Profit or Loss and Other Comprehensive Income in the period to which they relate.

h) 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 Profit or Loss and Other 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 Statement of Financial Position 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.

i) Financial instruments

i) Cash and cash equivalents

Cash and cash equivalents are carried in the Consolidated Statement of Financial Position 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) Financial 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 Profit or Loss and Other Comprehensive Income. All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the marketplace. The Group's share of the syndicates' investments are treated as sold and purchased at each 31 December in recognition of the annual venture nature of participations on a syndicate. Their cost is therefore their market value, based on bid values, at that date.

j) Investment in subsidiary undertakings

Investment in subsidiary undertakings are carried at cost less impairment.

The Company assesses whether there are any indications of impairment annually. When indications of impairment exist, an impairment test is carried out by comparing the carrying value of the investment in subsidiary undertakings with the estimate of the recoverable amount of the subsidiary. Any impairments are recognised as an income or an expense through the Statement of Profit or Loss in the period in which they occur.

k) 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.

l) Provision for other liabilities

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.

m) Borrowings

Borrowings are 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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. These risks can be split into the following categories:

- Insurance risk
- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Capital management 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 has 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 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.

This risk is managed through portfolio diversification of insurance contracts as it 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 elevate insurance risk include lack of risk diversification in terms of type and number of risks, 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:

	2018	2018	2017	2017
	\$'000	%	\$'000	%
Property	161,980	64	148,863	71
Energy	18,981	7	11,079	5
Cargo	29,929	12	22,360	11
Aviation	41,993	16	27,043	13
Marine	2,013	1	—	0
Other	(121)	0	32	0
Total	254,775	100	209,377	100

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

4.1.2 Frequency and severity of claims

The frequency and severity of claims in respect of the syndicates can be affected by several factors and these can impact the Group. The syndicates currently specialise in property reinsurance, aviation reinsurance, direct and facultative property insurance, satellite, contingency, marine cargo, marine hull, power and utility, direct aviation, aviation war, aviation deductible, energy and terrorism. 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 (premium) risk

The syndicates have defined appetites and tolerances for catastrophe and non-catastrophe (premium) risks, as set out in the Risk Appetite Statements. This is reviewed and approved annually in advance of the business planning process but may be revised at the discretion of the Board.

For Syndicate 2010, whole account modelled natural catastrophe exposures net of reinsurance should only exceed 15% of Economic Capital Assessment ("ECA") once every 10 years, 25% of ECA once every 30 years or 35% of ECA once every 100 years for single events. For multiple (aggregate) events, net exposures should only exceed 25% of ECA once every 10 years, 35% of ECA once every 30 years or 45% of ECA once every 100 years.

For Syndicate 3010, whole account modelled natural catastrophe exposures net of reinsurance should only exceed 10% of ECA once every 10 years, 20% of ECA once every 30 years or 30% of ECA once every 100 years for single events. For multiple (aggregate) events, net exposures should only exceed 15% of ECA once every 10 years, 25% of ECA once every 30 years or 35% of ECA once every 100 years.

The Risk Appetite Statement also states that exposures for classes and perils not modelled in a probabilistic manner should not exceed more than 5% of the current underwriting year Ultimate Loss Ratio ("ULR"), and that cyber attack scenarios should not exceed more than 10% of the ECA. Key underwriting risks include: accumulative loss involving unknown/unexpected accumulations (aggregation modelling risk); the risk of extreme losses (aggregation management risk); the frequency of major loss (risk selection risk); policy wording risk and unsustainable technical pricing risk. These are discussed in detail below:

a) Aggregation Modelling (Accumulative loss including unknown/unexpected accumulations)

There is a risk that failing to effectively analyse and communicate exposures could result in unknown and unexpected risk aggregations and losses. The business written by the syndicates is short tail in nature and, whilst the U.S. 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 external modelling systems and bespoke, internally-developed aggregation systems. Quarterly Exposure Management reporting is undertaken for all classes of business and whole account Exceedance Probability modelled losses are monitored against agreed tolerances at a range of return periods as specified in the Risk Appetite Statements. All key classes of business have separate core reinsurance programmes supported by ancillary group or umbrella covers as appropriate.

b) Aggregation Management (Risk of extreme losses)

A failure to appropriately manage aggregation could result in risk accumulations in excess of risk appetite, and extreme losses to natural or man-made events. The occurrence of extreme catastrophe events could have a major destabilising effect on the insurance industry as a whole. Whilst the reinsurance writings for the syndicates (unlike direct insurance) provide policyholders with defined cover by way of both limits and number of reinstatements, the development of the direct and facultative property account and the marine cargo account gives rise to very large assured values which are vulnerable to failures in Probable Maximum Loss ("PML") assumptions. The syndicates could be vulnerable to significant failure amongst their own reinsurers.

The key controls rest on the strict recording of aggregate exposures by underwriting staff and the comprehensive catastrophe loss modelling and aggregate monitoring undertaken by the Exposure Management Function, with the aid of various proprietary and bespoke modelling systems and approaches. The syndicates also purchase reinsurance programmes that are structured so as to limit the exposure to any single reinsurer.

c) Risk selection and frequency of major loss

The syndicates are vulnerable to a high frequency of major loss. There is a risk that inappropriate risk selection practices could result in a poorly diversified underwriting portfolio, excessive attritional accumulations and/or higher claims frequency than expected. 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 property account and the marine cargo account are also more vulnerable to loss frequency, although this is mitigated by modulating line size by attachment point, geographical spread of risks and a separate reinsurance programme.

The CUL Board approves Underwriting Line authorities for all underwriters. Automated exception reporting identifies any breaches of key metrics (line sizes, risk codes, territories, etc.). Catastrophe modelling analysis is undertaken for all catastrophe-exposed lines of business, with outputs monitored against agreed tolerances for a range of return periods, as set out in the Risk Appetite Statements at Syndicate level. The Weekly Underwriting Forum and the Monthly Underwriting Committee are both key controls in both the detection and prevention of risk selection issues, in addition to the independent peer review process.

d) Policy wording

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 are fairly standard. While coverage may change depending on clients' needs, the coverage offered by the Syndicates is typically based upon widely used standard London market clauses within the respective contracts. Slip checking has always been part of the underwriting process. Senior Underwriters, with specialisms in their respective classes of business and familiarity with market wordings, check all policy wordings prior to binding. Furthermore, the independent review process mandates that a sample of total risks underwritten are reviewed each quarter, and as part of this process the reviewer looks at wordings to identify any inconsistencies between slips and wordings. Contract certainty and pre-bind checks further mitigate this risk.

e) Technical 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. There is a risk of systemic under or over-pricing for a class of business. The inaccurate assessment of technical price relative to underlying exposure could lead to the syndicate being adversely selected against. Whilst the primary impact relates to the technical premium received not mirroring liabilities to which the Group is exposed, there is the additional risk of loss of business due to overpricing.

For catastrophe exposed lines of business, catastrophe models and aggregation tools are utilised to forecast likely future exposures and loss potential. Pre-bind analysis is undertaken on the majority of US and International property reinsurance risks, in addition to selected accounts from other classes of business at the underwriter's discretion. Benchmark pricing and rating indices have been developed and act as key controls in the pricing of all other (non-catastrophe) premium risks and specialty classes of business. Risk adjusted rate change (RARC) reporting is reviewed and discussed on a monthly basis at the Underwriting Committee, thereby forming a key pricing control internally as well as a Lloyd's reporting requirement. The internal underwriting peer review process, in the form of the Weekly Underwriting Forum, exists alongside quarterly independent underwriting reviews.

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 quarterly updates of key trends in the market at risk level, as well as benchmarking the syndicates' own performance.

f) 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 agent 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 syndicates' board monthly and these are monitored against those that had been expected per the syndicate's business plans. Aggregation systems are also used for the other accounts to monitor exposures.

Other underwriting (premium) risks consider delegated authority business:

- Distribution channels: Inappropriate distribution channels resulting in mis-selling of products to insureds and or incomplete or inappropriate advice contributing to unfair outcomes for insureds.
- Coverholder monitoring: Failure of Coverholder to adhere to the terms of the Binding Authority Agreement and/or inaccurately price business resulting in financial loss and/or reputational damage.

4.1.4 Reinsurance risk

Reinsurance risk is the risk of inadequate reinsurance coverage in terms of vertical or horizontal limits purchased leading to larger than anticipated net losses, or the risk of disputes arising with reinsurers as to terms and conditions. The two key risks for the syndicates are an inappropriate reinsurance programme (or a reinsurance programme with gaps), and the inability or unwillingness of a reinsurer to pay. These are discussed in detail below:

a) Reinsurance adequacy

The syndicates knowingly run exposures that 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 recognised and are consistent with the 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 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 syndicate's exposure to large losses increases accordingly, though this may be mitigated somewhat by a reduction in the aggregate exposures taken on by them.

The controls applied include full review of the purchased reinsurance programme by external third party experts, in addition to reinsurance optimisation analysis undertaken by the capital modelling team and the resultant actuarial function report is utilised by the underwriters to inform and assist with purchasing decisions for outwards reinsurance. There are known exclusions in our outwards cover, (e.g. terrorism, spiral and pollution) and the inwards book is written to take account of these factors.

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.

b) Reinsurance security

There is a risk that reinsurance recoveries are less than planned, due to the inability or unwillingness to pay on the part of a reinsurer. The controls in place to mitigate this risk rest with the Reinsurance Security Committee which sets the exposure limits and reviews the exposure to each reinsurer and reviews the reinsurers' credit ratings.

4.1.5 Reserving risk

There is a risk that loss reserving levels may be inappropriate, adversely affecting the Syndicate's balance sheet or solvency position, and potentially damaging the ability for the Syndicate to meet its obligations or to continue to underwrite. The risk involving the calculation of Technical Provisions (TP's) includes 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.

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). Although catastrophic losses are known soon after an event occurs, 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 judgement, statistical projections and market data.

(ii) 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 occurrence 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 \$1.6m (2017: \$2.0m).

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Claims Development

The development of insurance liabilities is indicative of the Group's ability to estimate the ultimate value of its insurance liabilities.

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 the balance sheet date 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.

Underwriting Year of Account (\$'000)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
GROSS											
At end of year of account	66,869	102,277	137,904	96,063	78,310	89,922	55,061	66,435	189,413	122,123	
One year later	141,552	228,571	208,371	129,476	123,595	121,568	100,494	121,331	246,321		
Two years later	136,221	233,524	201,018	119,368	121,231	110,469	97,660	116,930			
Three years later	129,849	229,287	187,991	115,315	117,741	105,824	94,187				
Four years later	127,460	230,465	182,688	115,040	114,744	105,458					
Five years later	122,333	228,896	181,857	114,943	113,503						
Six years later	118,644	228,976	181,899	112,825							
Seven years later	116,664	229,828	181,436								
Eight years later	116,070	230,176									
Nine years later	115,333										
Gross ultimate claims	115,333	230,176	181,436	112,825	113,503	105,458	94,187	116,930	246,321	122,123	1,438,292
Less: Cumulative gross paid claims	(112,495)	(221,549)	(178,375)	(106,973)	(99,563)	(95,047)	(75,323)	(85,160)	(130,296)	(21,374)	(1,126,155)
Gross claims reserves from 2009 to 2018	2,838	8,627	9,061	5,852	13,940	10,411	18,864	31,770	116,025	100,749	312,137
Gross claims reserves on 2008 and prior											27,951
Gross claims reserves											339,488

Underwriting Year of Account (\$'000)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
REINSURANCE											
At end of year of account	10,209	23,515	42,168	23,963	10,935	13,735	4,540	7,970	82,356	33,866	
One year later	26,217	86,700	53,531	23,689	13,462	12,561	17,587	20,455	98,216		
Two years later	28,205	92,788	51,929	24,277	14,400	9,668	19,504	22,689			
Three years later	28,556	93,195	45,382	23,547	14,324	8,894	19,014				
Four years later	28,086	94,221	45,346	23,584	13,477	8,983					
Five years later	26,042	94,230	45,158	23,583	13,591						
Six years later	24,643	96,040	45,328	23,406							
Seven years later	24,105	97,932	45,384								
Eight years later	23,828	98,414									
Nine years later	23,902										
RI ultimate claims	23,902	98,414	45,384	23,406	13,591	8,983	19,014	22,689	98,216	33,866	387,465
Less: Cumulative RI paid claims	(23,984)	(95,659)	(43,929)	(20,519)	(10,216)	(7,945)	(13,600)	(11,786)	(42,965)	(874)	(271,477)
RI claims reserves from 2009 to 2018	(82)	2,755	1,455	2,887	3,375	1,038	5,414	10,903	55,251	32,992	115,988
RI claims reserves on 2008 and prior											17,422
RI claims reserves											133,410

The amount of gross provision for claims outstanding and recoverable from reinsurers are shown in Note 21 of these consolidated financial statements.

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Underwriting Year of Account (\$'000)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
NET											
At end of year of account	56,660	78,762	95,736	72,100	67,375	76,187	50,521	58,465	107,057	88,257	
One year later	115,335	141,871	154,840	105,787	110,133	109,007	82,907	100,876	148,105		
Two years later	108,016	140,736	149,089	95,091	106,831	100,801	78,156	94,241			
Three years later	101,293	136,092	142,609	91,768	103,417	96,930	75,173				
Four years later	99,374	136,244	137,342	91,456	101,267	96,475					
Five years later	96,291	134,666	136,699	91,360	99,912						
Six years later	94,001	132,936	136,571	89,419							
Seven years later	92,559	131,896	136,052								
Eight years later	92,242	131,762									
Nine years later	91,431										
Net ultimate claims	91,431	131,762	136,052	89,419	99,912	96,475	75,173	94,241	148,105	88,257	1,050,827
Less: Cumulative net paid claims	(88,511)	(125,890)	(134,446)	(86,454)	(89,347)	(87,102)	(61,723)	(73,374)	(87,331)	(20,500)	(854,678)
Net claims reserves from 2009 to 2018	2,920	5,872	1,606	2,965	10,565	9,373	13,450	20,867	60,774	67,757	196,149
Net claims reserves on 2008 and prior											9,929
Net claims reserves											206,078

Other reserving risks to the Group include:

- Claims procedures; inadequate claims management process resulting in delayed or incorrect payments, bad faith claims, poor case estimations and/or reputational damage.
- Complaints handling; ineffective claims and complaints handling resulting in unfair outcomes to customers, regulatory intervention and censure and reputational damage.

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 earned on a straight line basis.

(ii) Changes in assumptions and sensitivity analysis

From 2018, written premiums are being earned on a straight-line basis according to the risk profile of the policy from the inception of the policy.

(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 \$1.0m to the unearned premium provision (2017: \$0.8m).

4.2 Credit risk

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of paid claims;
- amounts due from insurance contract holders and coverholders;
- amounts due from brokers and insurance intermediaries; and
- services due to be provided by external third party providers.

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 the Group's fellow managing agency subsidiary by reviewing credit grades provided by rating agencies and other publicly available financial information.

A specialist analytical research company focussed on providing independent and confidential opinions on reinsurers' financial strength is also employed by the Group's fellow managing agency subsidiary to assist in assessing and evaluating reinsurers.

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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 2018	A++ to A- \$'000	B++ to B- \$'000	Unrated \$'000	Total \$'000
Financial investments	165,515	32,803	—	198,318
Insurance receivables	88,823	—	21,908	110,731
Reinsurance assets	102,366	—	46,437	148,803
Cash and cash equivalents	74,161	—	—	74,161
Total	430,865	32,803	68,345	532,013

At 31 December 2017	A++ to A- \$'000	B++ to B- \$'000	Unrated \$'000	Total \$'000
Financial investments	196,117	21,625	3	217,745
Insurance receivables	58,957	—	34,644	93,601
Reinsurance assets	101,959	—	43,317	145,276
Cash and cash equivalents	71,700	—	10	71,710
Total	428,733	21,625	77,974	528,332

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 \$46.4m (2017: \$43.3m) unrated reinsurance assets at 31 December 2018, \$26.1m (2017: \$26.5m) are fully collateralised in trust funds; \$14.0m (2017: \$11.6m) are in respect of attritional IBNR that have yet to be allocated to any specific loss and the remaining \$6.3m (2017: \$5.2m) relate to a handful of specific unsettled recoveries from reinsurers that have subsequently merged or been taken over by another reinsurer and therefore the original counterparty is no longer rated, however no recovery issues are currently anticipated with respect to these specific counterparties.

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

	2018 \$'000	2017 \$'000
3 to 6 months past due	360	469
6 to 9 months past due	1,943	1,030
Greater than 9 months past due	4,677	3,046
Total	6,980	4,545

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 place a cash call on 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, Syndicate 2010 has banking catastrophe facility available to it.

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The key controls operated by the Finance function include the monitoring of overdue premiums, cash flows and financials, settlement dates and currency exchange rate movements.

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 2018, the Group had \$9.4m of cash available for use (2017: \$12.8m).

The following tables group the debt securities, 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 2018	Balance \$'000	< 1 year \$'000	1 - 3 years \$'000	3 - 5 years \$'000	> 5 years \$'000	Total \$'000
Debt securities	198,318	59,220	128,925	8,567	1,606	198,318
Borrowings	(72,496)	(4,076)	(8,172)	(8,210)	(52,038)	(72,496)
Gross provision for claims outstanding	(339,488)	(247,415)	(67,149)	(19,534)	(5,390)	(339,488)
Claims outstanding recoverable from reinsurers	133,410	104,912	21,355	6,146	997	133,410
Total	(80,256)	(87,359)	74,959	(13,031)	(54,825)	(80,256)

At 31 December 2017	Balance \$'000	< 1 year \$'000	1 - 3 years \$'000	3 - 5 years \$'000	> 5 years \$'000	Total \$'000
Debt securities	217,742	54,605	138,891	6,146	18,100	217,742
Borrowings	(73,130)	(3,614)	(7,856)	(8,200)	(128,913)	(148,583)
Gross provision for claims outstanding	(337,227)	(243,727)	(67,684)	(20,292)	(5,524)	(337,227)
Claims outstanding recoverable from reinsurers	135,453	105,641	22,353	6,402	1,057	135,453
Total	(57,162)	(87,095)	85,704	(15,944)	(115,280)	(132,615)

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.

A change in market interest rates of 1% would equate to a pre tax movement on net assets/profits of \$2.0m (2017: \$3.6m). 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 \$nil (2017: \$nil).

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.

Notes to the Consolidated Financial Statements
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The tables below show the currency split of the group's assets and liabilities.

As at 31 December 2018	STG \$'000	EUR \$'000	USD \$'000	CAD \$'000	Total \$'000
Assets					
Cash and cash equivalents	12,445	7,372	42,969	11,375	74,161
Financial investments	14,519	1	168,365	15,433	198,318
Trade and other receivables	18,552	5,652	148,812	1,978	174,994
Reinsurance assets	11,334	3,460	133,202	807	148,803
Deferred acquisition costs	4,322	948	15,027	1,668	21,965
Prepayments and accrued income	3,200	—	20,060	42	23,302
Deferred tax asset	—	—	—	—	—
Intangible assets	7,504	—	—	—	7,504
Total Assets	71,876	17,433	528,435	31,303	649,047
Liabilities					
Trade and other payables	6,001	3,430	56,365	582	66,378
Current tax liabilities	10,893	—	—	—	10,893
Insurance liabilities	67,426	21,603	337,670	17,960	444,659
Accruals and deferred income	7,976	58	151	—	8,185
Provision for other liabilities	63	—	—	—	63
Borrowings	—	13,439	59,057	—	72,496
Deferred tax liabilities	3,077	—	—	—	3,077
Total Liabilities	95,436	38,530	453,243	18,542	605,751
Total Equity	(23,560)	(21,097)	75,192	12,761	43,296
Impact of 10% currency movement*	(2,356)	(2,110)	7,519	1,276	4,330

As at 31 December 2017	STG \$'000	EUR \$'000	USD \$'000	CAD \$'000	Total \$'000
Assets					
Cash and cash equivalents	17,870	3,466	34,368	16,006	71,710
Financial investments	16,550	15,647	172,535	13,013	217,745
Trade and other receivables	14,033	4,961	107,119	2,281	128,394
Reinsurance assets	3,940	2,841	137,608	887	145,276
Deferred acquisition costs	3,814	663	11,082	1,437	16,996
Prepayments and accrued income	592	63	18,068	51	18,774
Deferred tax asset	19,760	—	—	—	19,760
Intangible assets	10,957	—	—	—	10,957
Total Assets	87,516	27,641	480,780	33,675	629,612
Liabilities					
Trade and other payables	22,641	1,856	29,138	435	54,070
Current tax liabilities	10,341	—	—	—	10,341
Insurance liabilities	43,971	19,417	332,880	19,499	415,767
Accruals and deferred income	3,391	64	116	—	3,571
Provision for other liabilities	1,213	—	—	—	1,213
Borrowings	—	14,130	59,000	—	73,130
Deferred tax liabilities	26,127	—	—	—	26,127
Total Liabilities	107,684	35,467	421,135	19,934	584,220
Total Equity	(20,168)	(7,826)	59,645	13,741	45,392
Impact of 10% currency movement*	(2,017)	(783)	—	1,374	(1,426)

* This is the pre tax increase/ (decrease) 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.

4.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. The Group has identified and evaluated its key operational risks and these are listed below:

- Staff Resourcing;
- IT Availability;
- IT Integrity;
- Intra-Group Services;
- Business Continuity;
- Breaches in Compliance;
- Corporate Governance failure;
- Financial Crime and Sanctions;
- Financial Reporting;
- Undue Lancashire Group Influence; and
- Execution of Business plan.

The Group has also established, and monitors compliance with, internal operational risk tolerances. The Risk and Compliance Committee ("RCC") reviews operational risk on at least an annual basis and operational risk is covered in the CRO's quarterly ORSA reporting to the Board of Directors.

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

4.6 Capital management risk

The total capital of Cathedral Capital Holdings Limited is detailed in Note 27. The Group's capital requirements vary with the level of its underwriting and the insurance cycle.

There are 2 key strategic risks on the Risk Register which focus around business strategy and capital management:

- Regulatory approval process
- Insurance cycle management

Capital adequacy risks associated with the effectiveness of the Group's capital management are mitigated as follows:

- Business plans are ratified by the Board of Directors and approved by the Regulator (Lloyd's);
- Regular monitoring of current regulatory and rating agency capital requirements;
- Oversight of capital requirements by the Board of Directors;
- Ability to adapt to the prevailing insurance cycle;
- Ability to purchase sufficient, cost effective reinsurance;
- Maintaining contact with the regulator in order to stay abreast of upcoming developments;
- Regular monitoring of premium income, rates and performance against approved business plans;
- Regular monitoring of risk, capital and solvency against approved risk appetite; and
- Bi-annual 'Coming into line' process at Lloyd's.

Lloyd's of London

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.

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5. Segmental Information

Management and the Board of Directors review the Group's business primarily its five principal classes as set out below.

All amounts reported are transactions with external parties with the exception of the outwards reinsurance amounts which include related party transactions as detailed in Note 26.

Revenue and expenses by operating segment - for the year ended 31 December 2018

	\$'000 Property	\$'000 Energy	\$'000 Cargo	\$'000 Aviation	\$'000 Marine	\$'000 Other ⁽³⁾	\$'000 Total
Gross premiums written							
<i>(Analysed by geographical region)</i>							
U.S. and Canada	90,771	7,033	5,791	4,153	—	(1,254)	106,494
Worldwide, including the U.S and Canada ⁽¹⁾	16,718	5,517	19,881	16,280	1,343	1,330	61,069
Worldwide, excluding the U.S and Canada ⁽²⁾	4,280	(17)	—	1,055	10	(1,098)	4,230
Europe	13,267	1,060	841	5,915	661	1,131	22,875
Far East	6,641	328	165	4,951	—	(63)	12,022
Middle East	72	(103)	149	1,246	—	—	1,364
Rest of the world	30,231	5,162	3,102	8,393	—	(167)	46,721
Total	161,980	18,980	29,929	41,993	2,014	(121)	254,775
Outward reinsurance premiums	(50,961)	(431)	(1,851)	(8,897)	(522)	(4)	(62,666)
Change in unearned premiums	(8,866)	(2,840)	(2,551)	(10,767)	(989)	4	(26,009)
Change in unearned premiums ceded	120	(381)	60	5,778	—	—	5,577
Net premiums earned	102,273	15,328	25,587	28,107	503	(121)	171,677
Insurance losses and loss adjustment expenses	(132,705)	(3,227)	(16,134)	(10,119)	(343)	72	(162,456)
Insurance losses and loss adjustment recoverable	47,574	2,317	489	609	3	50	51,042
Insurance acquisition expenses	(28,069)	(2,437)	(8,381)	(5,431)	(352)	(11)	(44,681)
Insurance acquisition expenses ceded	150	13	45	29	2	—	239
Net underwriting (loss) profit	(10,777)	11,994	1,606	13,195	(187)	(10)	15,821
Net unallocated income and expenses	—	—	—	—	—	—	(16,749)
Loss before tax							(928)
Net loss ratio	83.2%	5.9%	61.1%	33.8%	67.6%	100.8%	64.9%
Net acquisition cost ratio	27.3%	15.8%	32.6%	19.2%	69.6%	(9.1)%	25.9%
Other operating expenses ratio	—	—	—	—	—	—	15.9%
Combined ratio	110.5%	21.8%	93.7%	53.1%	137.2%	91.7%	106.7%

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

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

⁽³⁾ The Other segment contains one class being Contingency.

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Revenue and expenses by operating segment - for the year ended 31 December 2017

	\$'000 Property	\$'000 Energy	\$'000 Cargo	\$'000 Aviation	\$'000 Other (3)	\$'000 Total
Gross premiums written (Analysed by geographical region)						
U.S. and Canada	84,629	3,752	3,879	3,027	220	95,507
Worldwide, including the U.S and Canada (1)	16,364	4,998	15,287	10,860	(175)	47,334
Worldwide, excluding the U.S and Canada (2)	4,307	(28)	—	585	4	4,868
Europe	12,636	433	805	2,609	(47)	16,436
Far East	6,590	836	524	3,562	12	11,524
Middle East	588	38	74	1,006	—	1,706
Rest of the world	23,749	1,050	1,791	5,394	18	32,002
Total	148,863	11,079	22,360	27,043	32	209,377
Outwards reinsurance premiums	8,269	(10,938)	(7,316)	(14,834)	(89)	(24,908)
Change in unearned premium	2,710	3,362	(438)	(993)	230	4,871
Change in premium ceded	(85)	(171)	(110)	875	(113)	396
Net premiums earned	159,757	3,332	14,496	12,091	60	189,736
Insurance losses and loss adjustment expenses	(207,681)	(6,073)	(9,990)	(9,104)	70	(232,778)
Insurance losses and loss adjustment expenses recoverable	88,334	2,899	1,148	699	377	93,457
Insurance acquisition expenses	(25,495)	(1,736)	(6,997)	(5,045)	(148)	(39,421)
Insurance acquisition expenses ceded	431	49	23	82	2	586
Net underwriting profit/(loss)	15,346	(1,529)	(1,321)	(1,277)	360	11,580
Net unallocated income and expenses	—	—	—	—	—	(4,793)
Profit before tax						6,787
Net loss ratio	74.7%	95.3%	61.0%	69.5%	(745.0)%	73.4%
Net acquisition cost ratio	15.7%	50.6%	48.1%	41.0%	244.3%	20.5%
Other operating expenses ratio	—	—	—	—	—	9.7%
Combined ratio	90.4%	145.9%	109.1%	110.5%	(500.7)%	103.6%

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

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

(3) The Other segment contains one class being Contingency.

6. Investment Return

For the year ended 31 December 2018 (\$'000)	Net investment income	Net unrealised losses on investments	Net realised losses on investments	Total
Debt securities and other fixed interest securities	4,717	(341)	(566)	3,810
Cash and cash equivalents	366	(211)	(116)	39
Total	5,083	(552)	(682)	3,849

For the year ended 31 December 2017 (\$'000)	Net investment income	Net unrealised losses on investments	Net realised gains on investments	Total
Debt securities and other fixed interest securities	3,445	(1,093)	163	2,515
Equity securities	4	—	—	4
Cash and cash equivalents	799	60	(70)	789
Total	4,248	(1,033)	93	3,308

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7. Net Foreign Exchange (Losses)/Gains

	2018 \$'000	2017 \$'000
Retranslation of underwriting balances	(934)	217
DAC and UPR at historical rates of exchange	(1,585)	1,876
Exchange (losses)/gain on long-term loan notes	(707)	1,765
Retranslation of other corporate balances	1,519	(2,234)
Total	(1,707)	1,624

8. Other Income

	2018 \$'000	2017 \$'000
Reinsurance profit commission on quota share reinsurance agreement	1,894	1,402
Managing agency fees	3,235	3,411
Profit commission	5,887	5,416
Consortium fees	1,939	1,554
Other income	393	191
Total	13,348	11,974

9. Other Operating Expenses

	2018 \$'000	2017 \$'000
Syndicate operating expenses	5,487	6,436
Names' personal expenses on Lloyd's syndicates	1,678	1,458
Corporate expenses	3,969	5,519
Salaries	11,423	6,375
Costs of Restricted Share Scheme (RSS) awards	2,093	(2,546)
Social security costs	1,860	548
Pension costs under defined contribution plans	752	619
Total	27,262	18,409

The average number of employees employed by the Group during the year was 80 (2017: 76). Of this, 60 were dedicated to underwriting and claims (2017: 49) with other 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. The remuneration of Mr. Maloney is disclosed in Lancashire Group's Annual Report and Accounts. An allocation of Mr. Cadman's remuneration costs is charged to the Company and included above.

Highest-paid Director

The above amounts for the remuneration include the following in respect of the highest paid Director:

	2018 \$'000	2017 \$'000
Directors' remuneration	524	876
Company contributions to money purchase pension plans	95	26
Total	619	902

The highest paid Director did not exercise any share options and did not receive shares under a long term incentive scheme.

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:

	2018 \$'000	2017 \$'000
Salaries and other short-term employee benefits	2,934	4,000
Post-employment benefits	288	124
Total	3,222	4,124

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

10. Finance Costs

	2018 \$'000	2017 \$'000
Interest expense on Unsecured Floating Rate Subordinated Notes	3,853	3,218
Effective interest rate method adjustment	73	72
Total	3,926	3,290

Unsecured Floating Rate Subordinated Notes are explained in detail in Note 23. The effective interest rate method adjustment results from revisions of the Company's estimates of payments relating to the floating rate notes.

11. (Loss)/Profit Before Tax

	2018 \$'000	2017 \$'000
The profit on ordinary activities before taxation is stated after charging:		
Operating lease charges - rent	110	103
Depreciation of tangible fixed assets	52	81
Write-off/impairment of intangible fixed assets (see Note 19)	3,453	1,118
Auditor's remuneration		
Audit of these consolidated financial statements	31	31
Audit of financial statements of subsidiaries of the Company	47	45
Audit-related assurance services	—	2

The operating lease charges and depreciation of tangible fixed assets in respect of the Company's use of the related assets were recharged to the Company by its fellow group undertaking.

12. Taxation

	2018 \$'000	2017 \$'000
(a) Analysis of charge in year		
Current tax:		
Corporation tax at 19.00% (2017: 19.25%)	4,026	4,896
Adjustments in respect of previous years	(229)	(226)
Contribution for group tax relief paid to other group companies for prior years	(1,370)	(305)
Overseas tax	37	58
Total current tax charge	2,464	4,423
Deferred tax (see Note 24):		
Investment gains	—	(258)
Temporary differences on decelerated capital allowances	—	(38)
Adjustments in respect of previous years	—	58
Changes in tax rates and unwinding of claims equalisation reserve	213	(167)
Other temporary differences	(3,910)	(3,468)
Total deferred tax	(3,697)	(3,873)
Tax (credit)/charge on (loss)/profit before tax	(1,233)	550

The other temporary differences in 2018 mainly relate to syndicate underwriting results \$2.1m (2017: \$2.8m) and claims equalisation reserve \$1.7m (2017: \$1.8m).

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	2018 \$'000	2017 \$'000
(b) Factors affecting tax credit for the year		
(Loss)/Profit before tax	(928)	6,787
UK corporation tax at 19.00% (2017: 19.25%)	(176)	1,306
Expenses not deductible for tax purposes	51	(261)
Changes in tax rates and unwinding of equalisation reserve	213	(167)
Investment income not taxable	—	(1)
Timing differences	241	88
Overseas tax	37	58
Prior period adjustments	(1,599)	(473)
Tax (credit)/charge on (loss)/profit before tax	(1,233)	550

The UK corporation tax rate as at 31 December 2018 was 19.0% (effective 1 April 2017). Until 1 April 2017 the UK corporation tax rate of 20.0% applied. The UK government has passed legislation to reduce the rate of corporation tax to 17.0% with effect from 1 April 2020. These rates have been reflected in the closing deferred tax position on the Consolidated Statement of Financial Position.

13. Dividends

	2018 \$'000	2017 \$'000
Dividends for the year ended 31 December 2018 of \$nil per share (2017: \$70.32 per share)	—	29,018

14. Cash and Cash Equivalents

	2018 \$'000	2017 \$'000
Cash at bank and in hand	33,495	42,402
Short term investments	40,666	29,308
Total	74,161	71,710
Cash and cash equivalents consist of:		
Balances held by syndicates	63,266	58,801
Balances held within funds at Lloyd's	1,540	153
Balances available for use by the Company	1,801	3,272
Balances available for use by the Group	7,554	9,484
Total	74,161	71,710

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

Cash and cash equivalents relating to the Company, as reflected in the Company Statement of Financial Position on page 13, includes balances available for use by the Company and balances held within funds at Lloyd's as shown above.

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

15. Financial Investments

	2018 \$'000	2017 \$'000
	Fair Value	Fair Value
CCHL Corporate		
Alternative investments	—	3
Debt and other fixed maturity securities	101,581	87,796
Total investments - Corporate	101,581	87,799
Syndicate Participations		
Debt and other fixed maturity securities	96,737	129,946
Total investments - Syndicate participations	96,737	129,946
Total group financial investments	198,318	217,745
	Cost	Cost
CCHL Corporate		
Alternative investments	4	6
Debt and other fixed maturity securities	102,517	88,223
Total investments - Corporate	102,521	88,229
Syndicate Participations		
Debt and other fixed maturity securities	96,724	130,760
Total investments - Syndicate participations	96,724	130,760
Total group financial investments	199,245	218,989

Of the total Group's financial investments, the Company's investment in debt and other fixed maturity securities has fair value and cost of \$92.4m and \$93.4m, respectively (2017: fair value of \$87.8m and cost of \$88.2m).

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

The fixed maturity securities could include the following securities below. The fair value of securities in the Company's investment portfolio is estimated using the following techniques:

Level 1

Level 1 includes securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Company determines securities classified as level 1 to include highly liquid U.S. treasuries and certain highly liquid short-term investments.

Level 2

Level 2 investments include securities with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data. Instruments included in level 2 are valued via independent external sources using modelled or other valuation methods. Such methods are typically industry accepted standard and include:

- Broker-dealer quotes;
- Pricing models or matrix pricing;
- Present values;
- Future cash flows;
- Yield curves;
- Interest rates;
- Prepayment speeds; and
- Default rates.

Other similar quoted instruments or market transactions may be used.

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The Company determines securities classified as level 2 to include short-term and fixed maturity investments such as:

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

Level 3

Level 3 includes securities for which valuation techniques are not based on observable market data. During the years ended 31 December 2018 and 2017, the Company did not hold any level 3 investments. The estimated fair value hierarchy of the Company's investment holdings is as follows:

As at 31 December 2018	Carrying amount \$'000	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Debt and other fixed maturity securities - Group	198,318	198,318	43,818	154,500	—	198,318
Debt and other fixed maturity securities - Company	92,436	92,436	23,931	68,505	—	92,436

As at 31 December 2017	Carrying amount \$'000	Fair value \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Debt and other fixed maturity securities - Group	217,743	217,743	46,433	171,310	—	217,743
Debt and other fixed maturity securities - Company	87,799	87,799	24,436	63,363	—	87,799

There were no level 3 investments as at 31 December 2018 or 2017 therefore a reconciliation of movements within that level has not been presented. There have been no transfers between levels 1 and 2. The Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period based on the lowest level input that is significant to the fair value measurement as a whole.

Of the Group's corporate investments above, \$44.8m (2017: \$41.9m) 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.

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 31 December 2018, the Group's total interest in unconsolidated structured entities was \$6.8m (2017: \$11.2m). The Group does not sponsor any of the unconsolidated structured entities. As at 31 December 2018, a summary of the Group's interest in unconsolidated structured entities is as follows:

	2018 \$'000	2017 \$'000
Fixed maturity securities - Company	5,046	3,005
Fixed maturity securities - Syndicate participations	1,732	8,213
Total	6,778	11,218

The fixed maturity 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 maturity 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 Consolidated Statement of Financial Position 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

16. Trade and Other Receivables

Group	2018 \$'000	2017 \$'000
Arising out of direct insurance operations	37,244	29,193
Arising out of reinsurance operations	73,487	64,408
Reinsurance quota share premium receivable	63,422	32,423
Amounts owed by parent companies	—	—
Amounts owed by syndicates	620	4,429
Other receivables	426	1,168
Total	175,199	131,621

Reinsurance quota share premium receivable is due from Lancashire Insurance Company Limited (see Note 26).

Company	2018 \$'000	2017 \$'000
Amounts due to group undertakings	14,559	—
Other receivables	15	—
Total	14,574	—

The Company's amounts due to group undertakings relate to intercompany balance with Cathedral Underwriting Limited.

17. Prepayments and Accrued Income

Group	2018 \$'000	2017 \$'000
Accrued income - investments	908	2,321
Accrued income - underwriting	22,107	16,415
Prepayments	287	38
Total	23,302	18,774

Company	2018 \$'000	2017 \$'000
Accrued income - investments	575	471
Prepayments	5	5
Total	580	476

Accrued income - underwriting relates to profit commission and consortium fee receivable from external Names by the Group's managing agency subsidiary.

18. Investment in Subsidiary Undertakings

	2018 \$'000	2017 \$'000
As at 1 January	4,566	4,566
Sale of CSL's business to LISL	(3,055)	—
As at 31 December	1,511	4,566

Details of the Company's subsidiaries are set out below. All companies are registered and operate in England.

Name of company	Nature of business	Proportion of ordinary shares held by the Company	Proportion of ordinary shares held by the Subsidiary
Cathedral Capital (1998) Limited	Lloyd's corporate member	100%	—
Cathedral Capital (1999) Limited	Non trading	100%	—
Cathedral Capital Services Limited	Non trading	100%	—
Cathedral Underwriting Limited	Lloyd's managing agent	100%	—

During the year, the business of Cathedral Capital Services Limited ("CSL") was sold to Lancashire Insurance Services Limited ("LISL"), another member of Lancashire Group. Since CSL has ceased trading, the Group believes that the amount of Merger Reserve and Goodwill, included within the Consolidated Statement of Financial Position, that were previously recognised following acquisition of CSL are deemed to have no value and were therefore written off through Statement of Profit or Loss and Other Comprehensive Income. A net loss on sale of CSL's business of \$1.1m was recognised in the year.

The Company has recognised a net loss on sale of CSL's business of \$2.7m, which is reflected in the Company Statement of Changes in Equity on page 15. The Company continues to hold 2 ordinary shares of CSL, until the completion of the strike off process of CSL.

Notes to the Consolidated Financial Statements

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19. Intangible Assets

As at 31 December 2018	Software under construction \$'000	Syndicate participations \$'000	Goodwill \$'000	Total \$'000
As at 1 January	—	7,504	3,453	10,957
Goodwill written off arising from the sale of CSL	—	—	(3,453)	(3,453)
As at 31 December	—	7,504	—	7,504

As at 31 December 2017	Software under construction \$'000	Syndicate participations \$'000	Goodwill \$'000	Total \$'000
As at 1 January	1,118	7,504	3,453	12,075
Impaired during the year	(1,118)	—	—	(1,118)
As at 31 December	—	7,504	3,453	10,957

Software under construction relates to the purchase of new software to replace the current underwriting system. During 2017, an impairment review was conducted on the software under construction and it was deemed to have a carrying value of \$nil.

Goodwill relates to the acquisition of Cathedral Capital Services Limited ("CSL") in 2000. The business of CSL was sold to LISL, another member of Lancashire Group. The Group believes that it is appropriate to write off the full amount of goodwill as CSL has already ceased trading following business transfer to LISL. See Note 18 for details of the Company's sale of CSL's business to LISL.

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. The useful lives of the syndicate participations are deemed to be indefinite. The amount of intangible assets relating to syndicate participation are not annually amortised but the Group annually tests these assets for impairment. The Group's intangible assets relate to one cash generating unit, being the combined 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 6.4% (2017: 6.2%) 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% (2017 - 3.0%) 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 year in relation to the amount of syndicate participations.

20. Trade and Other Payables

Group	2018 \$'000	2017 \$'000
Arising out of direct insurance operations	7,015	6,826
Arising out of reinsurance operations	43,609	39,006
Other taxes and social security costs	—	937
Amounts due to group undertakings (see Note 26)	9,893	7,082
Trade creditors	5,620	3,276
Other creditors	446	170
Total	66,583	57,297

Company	2018 \$'000	2017 \$'000
Amounts due to group undertakings	23,171	1,205
Trade creditors	74	833
Other creditors	185	170
Total	23,430	2,208

Amounts due to group undertakings relate to the balances due to Lancashire Holdings Limited which are repayable on demand and have no fixed term of repayment.

21. Insurance Liabilities and Reinsurance Assets

	2018 \$'000	2017 \$'000
Gross		
Provision for claims outstanding	339,488	337,227
Provision for unearned premiums	105,171	78,541
	444,659	415,768
Recoverable from reinsurers		
Provision for claims outstanding	133,410	135,453
Provision for unearned premiums	15,393	9,823
	148,803	145,276
Net	295,856	270,492

Provision for claims outstanding includes net claims incurred but not reported of \$90.8m (\$166.8m gross, \$76.0m reinsurance) (2017: net incurred but not report of \$86.0m (\$156.9m gross, \$70.9m reinsurance)).

Provision for claims outstanding

This relates to incurred underwriting losses but which have not yet been settled and includes an 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.

21.1 Claims Development by Underwriting Year

The claims development by underwriting year including gross, reinsurance and net is set out in Note 4.1.5 within the reserving risk section of Note 4 of these consolidated financial statements. This includes improvements and deteriorations in previous accident year losses, as well as any earnings during the current year.

21.2 Reconciliation of Changes in Insurance Liabilities and Reinsurance Assets

	Claims Outstanding \$'000	Provision for Unearned Premiums \$'000	Total 2018 \$'000	Total 2017 \$'000
Gross insurance liabilities				
As at 1 January	337,227	78,541	415,768	311,282
Additional provisions - current year	124,124	96,925	221,049	275,400
Additional provisions - prior years	57,606	—	57,606	55,113
Amounts used in the year	(155,936)	(70,295)	(226,231)	(219,982)
Unused amount reversed during the year	(19,274)	—	(19,274)	(12,466)
Exchange differences	(4,259)	—	(4,259)	6,421
As at 31 December	339,488	105,171	444,659	415,768

	Claims Outstanding \$'000	Provision for Unearned Premiums \$'000	Total 2018 \$'000	Total 2017 \$'000
Reinsurance assets				
As at 1 January	135,453	9,823	145,276	73,794
Additional provisions - current year	(34,010)	14,588	(19,422)	100,822
Additional provisions - prior years	(17,319)	—	(17,319)	12,301
Amounts used in the year	52,531	(9,018)	43,513	(42,512)
Unused amount reversed during the year	287	—	287	131
Exchange differences	(3,532)	—	(3,532)	740
As at 31 December	133,410	15,393	148,803	145,276
Net	206,078	89,778	295,856	270,492

Notes to the Consolidated Financial Statements

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22. Provision for Other Liabilities

	2018 \$'000	2017 \$'000
As at 1 January	1,213	9,026
Releases for the year	(1,190)	(1,473)
Utilised in the year	—	(6,553)
Exchange differences	40	213
As at 31 December	63	1,213

Provision for other liabilities relates to provision in respect of profit sharing scheme. Prior to 2018, the Cathedral Group operated a profit sharing scheme from which all its executive Directors and full time employees could benefit. The size of the profit related pool created under this scheme was determined annually and was equal to 15% of the consolidated Cathedral Group profit before tax and amortisation (including any impairment charges), as well as certain Restricted Share Scheme costs. It was also before any cessions by Cathedral Capital (1998) Limited to Lancashire Insurance Company Limited under the quota share agreement. All distributions from this scheme were recommended by management of Cathedral Capital Limited to the Lancashire Group's Remuneration Committee.

In 2018, the Cathedral Group moved to a performance based remuneration scheme on the same basis as the Lancashire Group. Provision for this performance based pay is now included within accruals and deferred income.

23. Borrowings

	2018 \$'000	2017 \$'000
Unsecured Floating Rate Subordinated Notes	72,496	73,130

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

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 10 of the consolidated financial statements. 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, through CUL, 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. Deferred Tax

	2018 \$'000	2017 \$'000
Profit of closed underwriting year	(4,019)	(8,646)
Underwriting losses not yet recognised for tax	18,009	13,499
Unrealised investment losses	1	1
Claims equalisation reserve	(4,885)	(6,924)
Reinsurance premium payable under quota share agreement	(12,160)	(5,168)
Other temporary differences	(23)	871
Net deferred tax	(3,077)	(6,367)
Net deferred tax includes the following split:		
Deferred tax assets	20,375	19,760
Deferred tax liabilities	(23,451)	(26,127)
Total net deferred tax	(3,076)	(6,367)
Net deferred tax as at 1 January	(6,367)	(9,479)
Exchange differences	(407)	(760)
Deferred tax credit for the year (Note 12)	3,697	3,872
Net deferred tax as at 31 December	(3,077)	(6,367)

All deferred tax assets as at 31 December 2018 are considered to be recoverable.

25. Share Capital

	2018	2017
Authorised issued and fully paid ordinary shares:	Number	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

	2018 \$'000	2017 \$'000
Nominal value:		
Ordinary shares of 25p each	16,815	16,815

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

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26. Related Party Transactions

(i) Directors' interest in transactions

Mr Maloney and his spouse acquired 100% of the shares in Nameco 801 on 7 November 2016. Nameco 801 provides capacity to a number of Lloyd's Syndicates including Syndicate 2010 which is managed by the Company. Nameco 801 has provided \$0.2m of capacity to Syndicate 2010 for each of the 2017, 2018 and 2019 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. Nameco has, on advice from its members' agent, increased its participation on Syndicate 2010 for the 2019 underwriting year of account by £18,750 to £150,000.

No other Directors had an interest in transactions other than in the normal course of business or disclosed in Note 26(iv) below.

(ii) Other

Cathedral Capital Limited ("CCL"), registered in England & Wales, is the Company's immediate parent company. Lancashire Holdings Limited ("LHL"), registered in Bermuda, is the Company's ultimate parent company. LHL is the largest group for which consolidated financial statements are prepared.

LHL has been approved as a controller of the Group's managing agency subsidiary by Lloyd's, the PRA and FCA.

(iii) Balances and transactions with related parties

The Group had the following intercompany balances with its parent companies:

	2018 \$'000	2017 \$'000
Amounts due to Lancashire Holdings Limited	9,893	2,561
Total	9,893	2,561

The amounts due to Lancashire Holdings Limited ("LHL") is included in Note 20 within amounts due to group undertakings. This balance mainly includes intercompany recharges from LHL relating to the costs of Restricted Share Scheme awards and other operating expenses.

The following transactions took place with the parent companies of the Group:

- Dividends paid to the immediate parent company, CCL, are set out in the Consolidated Statement of Changes in Equity. In 2018, no dividends were paid to CCL (2017: \$29.0m). A dividend of \$681,252 was paid by Cathedral Capital Services Limited to the Company during the year (2017: \$nil).
- The costs relating to Restricted Share Scheme in the year charged from the Lancashire Group is \$2.0m (2017: \$3.4m income). In addition, group relief was paid from Cathedral Capital Limited to Lancashire Holdings Limited as set out in Note 12.
- During 2013, the 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 net 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 Group renewed the quota share arrangement with Lancashire Insurance Company Limited ("LICL") during 2017 and 2018. The amounts recognised through profit or loss in respect of the quota share reinsurance are: quota share reinsurance premiums \$13.5m (2017: \$47.7m) and profit commission included within other income of \$1.9m (2017: \$1.4m).

As at 31 December 2018, the total amount of reinsurance quota share premium receivable from LICL is \$63.4m (2017: 32.4m), which is disclosed in Note 16 of the consolidated financial statements.

(iv) Key management compensation

Details of key management compensation is disclosed in Note 9.

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 2018 these items were \$nil (2017: \$nil). All pension contributions are made to the Directors' own personal pension schemes.

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For the year ended 31 December 2018

27. Capital

The Group's capital structure consists of equity balances attributable to equity holders of the Company (which comprises issued share capital, other reserves and retained earnings) and Unsecured Floating Rate Subordinated Notes. Details of the equity balances attributable to equity holders of the Company are set out in the Consolidated Statement of Changes in Equity on page 14 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 Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Market Act 2000, effective from 1 January 2016 Lloyd's is subject to the Solvency II, a regulatory regime for (re) insurance in the European Economic Area, introducing a new basis for assessing capital. Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, license and ratings objectives.

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 2017, 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.

As at 31 December 2018, the Group's funds at Lloyd's provided by both Cathedral Capital Holdings Limited and Lancashire Insurance Company Limited are \$46.4m (2017: \$42.0m) and \$258.3m (2017: \$238.9m), respectively. These balances were invested in a mixture of equities, fixed interest instruments and cash. After taking into account a solvency deficit of \$62.4m (2017: \$37.8m), the total capital requirement was \$242.3m (2017: \$243.1m).

28. Ultimate Parent Undertaking

Cathedral Capital Limited ("CCL"), registered in England and Wales, is the immediate parent company of the Company. Lancashire Holdings Limited ("LHL"), incorporated in Bermuda, is the ultimate parent company of the Company.

LHL is the largest company which includes the Company and for which the consolidated financial statements are prepared. Copies of the financial statements for LHL can be obtained from 29th Floor, 20 Fenchurch Street, London, EC3M 3BY.