THIS DOCUMENT AND ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice as soon as possible from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

If you sell or transfer or have sold or otherwise transferred all of your Common Shares, please send this document together with the accompanying Form of Proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you sell or transfer or have sold or otherwise transferred only part of your holding of Common Shares, please consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

LANCASHIRE HOLDINGS LIMITED

(Incorporated and registered in Bermuda with registered number EC37415)

Proposed acquisition of Cathedral Capital Limited and Notice of Special General Meeting

This document should be read as a whole. Your attention is drawn to the letter from the Chairman of Lancashire which is set out in Part I of this document. The letter contains the unanimous recommendation of the Board to vote in favour of the Resolution. Your attention is also drawn to the letter from the Chief Executive Officer of Lancashire which is set out in Part II of this document. Please read the whole of this document.

Your attention is also drawn to the section headed "Risk Factors" set out in Part III of this document indicating the various factors that should be considered by Shareholders when considering what action to take in connection with the Special General Meeting.

This document is not a prospectus, but a shareholder circular, and it does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to sell, dispose of, issue, purchase, acquire or subscribe for, any security.

A summary of the action to be taken by Shareholders is set out on page 16 of this document and in the accompanying Notice of Special General Meeting.

Notice of the Special General Meeting of Lancashire, to be held at Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD commencing at 11.00 a.m. on 5 September 2013, is set out at the end of this document. Shareholders should vote on the Resolution by completing the Form of Proxy and returning it by post or by appointing a proxy electronically or through CREST or by attending the Special General Meeting in person or by proxy.

The Form of Proxy for use in relation to the Special General Meeting accompanies this document. In order to appoint a proxy by post, Shareholders should complete and return the enclosed Form of Proxy so that it is received by Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom as soon as possible and in any event by no later than 11.00 a.m. on 3 September 2013. Whether or not Shareholders intend to attend the Special General Meeting in person, they should complete and sign the enclosed Form of Proxy in accordance with the instructions printed on it and return it to Capita Registrars at the address above, as soon as possible and, in any event, by no later than 11.00 a.m. on 3 September 2013. Forms of Proxy received after this time will be invalid.

A Shareholder who is a corporate or individual member of CREST may appoint a proxy through CREST in accordance with the procedures set out in the CREST Manual. Votes must be received by no later than 11.00 a.m. on 2 September 2013.

Holders of depositary interests in the Common Shares will find a Form of Direction accompanying this document by which they can instruct Capita IRG Trustees Limited to vote in respect of their interest.

Completion and posting of the Form of Proxy or completing and transmitting a CREST Proxy Instruction or appointing a proxy electronically will not prevent Shareholders from attending and voting in person at the Special General Meeting, if they wish to do so.

J.P. Morgan Cazenove, which is authorised and regulated in the UK by the FCA, is acting exclusively for the Company in connection with the Acquisition and not for any other person in connection with the matters described in this document and is not, and will not be, responsible to any person other than Lancashire for providing the protections afforded to its clients, or for providing advice in relation to the Acquisition, the contents of this document and the accompanying documents or any arrangements referred to herein or therein.

Apart from the responsibilities and liabilities, if any, which may be imposed on J.P. Morgan Cazenove by FSMA or the regulatory regime established thereunder, J.P. Morgan Cazenove accepts no responsibility whatsoever for the contents of this document and makes no representation or warranty, express or implied, for the contents of this document including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Acquisition of the Company and nothing in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Accordingly, to the fullest extent permissible, J.P. Morgan Cazenove disclaims all and any liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this document or any such statement.

This document has been approved by the FCA.

This document is dated 8 August 2013.

FORWARD LOOKING STATEMENTS

Certain statements and indicative projections (which may include modelled loss scenarios) made in this document or otherwise that are not based on current or historical facts are forward-looking in nature including, without limitation, statements containing the words “believes”, “anticipates”, “plans”, “projects”, “forecasts”, “guidance”, “intends”, “expects”, “estimates”, “predicts”, “may”, “can”, “will”, “seeks”, “should”, or, in each case, their negative or comparable terminology. All such statements other than statements of historical facts including, without limitation, the Group’s or the Enlarged Group’s financial position, results of operations, (including the expected accretion to earnings), prospects, growth, capital management plans and efficiencies, ability to create value, acquisition financing mix, dividend policy, operational flexibility, composition of management, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Group’s or the Enlarged Group’s insurance business) are forward looking statements. Such forward-looking statements may involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Group or the Enlarged Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

These factors include, but are not limited to: those risk factors set forth in Part III of this document, as well as the conditions to the acquisition being satisfied, the Enlarged Group’s ability to integrate their businesses and personnel, the successful retention and motivation of the Enlarged Group’s key management, the increased regulatory burden facing the Enlarged Group, the number and type of insurance and reinsurance contracts that the Group writes or the Enlarged Group may write; the premium rates which may be available at the time of such renewals within its targeted business lines; the possible low frequency of large events; potentially unusual loss frequency; the impact that its future operating results, capital position and rating agency and other considerations may have on the execution of any capital management initiatives or dividends; the possibility of greater frequency or severity of claims and loss activity than its underwriting, reserving or investment practices have anticipated; the reliability of, and changes in assumptions to, catastrophe pricing, accumulation and estimated loss models; the effectiveness of its loss limitation methods; the potential loss of key personnel; a decline in its operating subsidiaries’ rating with A.M. Best, Standard & Poor’s, Moody’s or other rating agencies; increased competition on the basis of pricing, capacity, coverage terms or other factors; cyclical downturns of the industry; the impact of a deteriorating credit environment for issuers of fixed income investments; the impact of swings and in market interest rates and securities prices; a rating downgrade of, or a market decline in, securities in its investment portfolio; changes in governmental regulations or tax laws in jurisdictions where the Group or the Enlarged Group conducts business.

All forward-looking statements in this document speak only as at the date of publication. Lancashire expressly disclaims any obligation or undertaking (save as required to comply with any legal or regulatory obligations including the rules of the London Stock Exchange) to disseminate any updates or revisions to any forward-looking statements to reflect any changes in the Group’s or the Enlarged Group’s expectations or circumstances on which any such statement is based.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of the Acquisition	7 August 2013
Publication of this document, the Notice of Special General Meeting, Form of Proxy and Form of Direction	8 August 2013
Latest time and date for receipt of Forms of Direction for the Special General Meeting	11 a.m. on 2 September 2013
Latest time and date for receipt of Forms of Proxy for the Special General Meeting	11 a.m. on 3 September 2013
Special General Meeting	11 a.m. on 5 September 2013
Expected date of Completion	expected by end of December 2013

Notes:

Future times and dates in the table above are indicative only and are subject to change, in which event details of the new times and dates will be notified to the Financial Conduct Authority and Shareholders.

References to times in this document are to London times unless otherwise stated.

IMPORTANT INFORMATION

Presentation of financial information

Unless otherwise stated:

(a) financial information relating to the Group has been extracted without material adjustment from the consolidated financial statements of Lancashire incorporated by reference in Part V of this document;

(b) financial information relating to the Cathedral Group has been extracted without material adjustment from the financial information set out in Part VII of this document; and

(c) all prices quoted for Common Shares are closing prices as at 7 August 2013 in Sterling as provided by the London Stock Exchange.

Certain information in this document has, where indicated, been sourced from third parties. The Company confirms that this information has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by the applicable third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Unless otherwise stated, such information has not been audited.

The financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the 2006 Act. Ernst & Young LLP of 1 More London Place, London SE1 2AF, United Kingdom audited the statutory accounts of the companies comprising the Group for the years ended 31 December 2010, 31 December 2011 and 31 December 2012. Mazars LLP of Tower Bridge House, St. Katharine's Way, London E1W 1DD, United Kingdom audited the statutory accounts of the companies comprising the Cathedral Group for the years ended 31 December 2010, 31 December 2011 and 31 December 2012.

The Company publishes its financial statements in US dollars. The abbreviation "**$m**" represents millions of dollars ("**US dollars**", "**USD**" or "**US$**"). References to "**£**", "**GBP**" or "**sterling**" are to British Sterling. The abbreviation "**£m**" represents millions of pounds Sterling, and references to "**pence**" and "**p**" represent pence.

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal place. Therefore, the sum of the numbers in a table may not conform exactly to the total figure given for that table. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

International Financial Reporting Standards

As required by the 2006 Act and Article 4 of the European Union IAS Regulation, the consolidated financial statements of the Group are prepared in accordance with IFRS issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union.

No incorporation of website information

The Company's website is www.lancashiregroup.com and this document is also available on that website. The information on that website (other than this document itself), any other website mentioned in this document or any website directly or indirectly linked to these websites has not been verified and does not form part of this document and you should not rely on it.

General notice

Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

Defined terms

Certain terms used in this document, including all capitalised terms and other terms, are defined and explained in Part XI of this document.

DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Martin Thomas (Non-Executive Chairman) Richard Brindle (Chief Executive Officer and Executive Director) Alex Maloney (Chief Underwriting Officer and Executive Director) Elaine Whelan (Chief Financial Officer and Executive Director) John Bishop (Non-Executive Director) Emma Duncan (Non-Executive Director) Samantha Hoe-Richardson (Non-Executive Director) Neil McConachie (Non-Executive Director) Ralph Oelssner (Non-Executive Director) Robert Spass (Non-Executive Director) William Spiegel (Non-Executive Director)
Company secretary	Christopher Head
Registered office	Power House 7 Par-la-Ville Road Hamilton HM11 Bermuda
Head office	Level 11 Vitro 60 Fenchurch Street London EC3M 4AD United Kingdom
Financial adviser and sponsor	J.P. Morgan Limited 25 Bank Street Canary Wharf London E14 5JP
English legal advisers to the Company	Willkie Farr & Gallagher (UK) LLP CityPoint 1 Ropemaker Street London EC2Y 9HT
English legal advisers to the financial adviser and sponsor	Linklaters LLP One Silk Street London EC2Y 8HQ
Reporting accountants and auditors to the Company	Ernst & Young LLP 1 More London Place London SE1 2AF
Reporting accountants and auditors to Cathedral	Mazars LLP Tower Bridge House St. Katharine's Way London E1W 1DD
Depositary	Capita IRG Trustees Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Registrar	Capita Registrars (Jersey) Limited PO Box 532 St Helier Jersey JE4 5UW Channel Islands

PART I

LETTER FROM THE CHAIRMAN OF LANCASHIRE HOLDINGS LIMITED

(Incorporated in Bermuda with registered number EC37415)

Directors:	Registered Office:
Martin Thomas, *Non-Executive Chairman*	Power House
Richard Brindle, *Chief Executive Officer and Executive Director*	7 Par-la-Ville Road
Alex Maloney, *Chief Underwriting Officer and Executive Director*	Hamilton HM 11
Elaine Whelan, *Chief Financial Officer and Executive Director*	Bermuda
John Bishop, *Non-Executive Director*	
Emma Duncan, *Non-Executive Director*	Head Office:
Samantha Hoe-Richardson, *Non-Executive Director*	Level 11
Neil McConachie, *Non-Executive Director*	Vitro
Ralf Oelssner, *Non-Executive Director*	60 Fenchurch Street
Robert Spass, *Non-Executive Director*	London EC3M 4AD
William Spiegel, *Non-Executive Director*	United Kingdom

To all Shareholders

8 August 2013

Dear Shareholder

PROPOSED ACQUISITION OF CATHEDRAL AND NOTICE OF SPECIAL GENERAL MEETING

1. Introduction

On 7 August 2013, the Board announced that Lancashire Holdings Limited has entered into three conditional agreements, the first with Alchemy and certain members of the management team of Cathedral Capital Limited ("Cathedral") and the second and third with other minority shareholders of Cathedral, for the acquisition of the entire issued and to be issued share capital of Cathedral, together with loan notes issued by Cathedral and its subsidiary, Cathedral Capital (Investments) Limited ("**CCIL**"), for a total consideration of £266 million, representing a multiple of 1.6x Net Tangible Assets (including shareholders' equity together with total preference shares and loans outstanding) of Cathedral as at 31 March 2013. The Acquisition will be financed through a mix of internally available resources and the net proceeds from the Placing announced on or around the date of this document and expected to complete by the end of December 2013.

Completion is subject to the satisfaction of a number of conditions, including regulatory approval of the Acquisition and approval of Shareholders, which is required as a result of the size of Cathedral relative to that of Lancashire. Your approval will be sought at a Special General Meeting to be held on 5 September 2013. The Notice of the Special General Meeting is set out at the end of this document.

This document constitutes a Class 1 circular for the purposes of chapter 10 of the Listing Rules in connection with the Acquisition. Its purpose is to provide you with details of the Acquisition, to explain why the Board believes that the Acquisition is in the best interests of the Company and its Shareholders, and why the Board unanimously recommends that you vote in favour of the Resolution at the Special General Meeting.

2. Background to and reasons for the Acquisition

The Board believes that Lancashire and Cathedral's existing businesses are a strong complementary fit and expects the Acquisition to bring material benefits to the Enlarged Group. The Enlarged Group will have access to an enhanced insurance and reinsurance platform and will benefit from direct participation in Lloyd's, the world's leading specialist insurance market, through Cathedral's established footprint at Lloyd's.

The Acquisition represents a rare opportunity to acquire a high-quality Lloyd's business with short-tail focus, strong business model fit and robust underwriting performance. The Acquisition provides Lancashire with flexibility to respond to the changing industry and market environment which increasingly requires multiple distribution capability.

The Acquisition will create value for Lancashire's shareholders at a time of change in the market. It strengthens and diversifies Lancashire's core underwriting business and is highly complementary to Lancashire's existing book.

The addition of a Lloyd's presence through Cathedral will significantly enhance Lancashire's reach and distribution and it will benefit from the capital efficiencies resulting from a presence at Lloyd's. For further information, please see paragraph 3 on capital efficiencies below.

The Cathedral business represents an acquisition opportunity that is uniquely aligned to Lancashire's goals, albeit that Lancashire remains committed to its core strategic objectives. The Acquisition provides Lancashire with scale in existing lines of business and opportunities for organic growth. Cathedral is an underwriter-led and highly streamlined business. Cathedral's approach to business and track-record is well aligned to Lancashire's strategic priority of "underwriting comes first" and to Lancashire's nimble operating approach. Maximising long-term risk-adjusted return remains Lancashire's key focus. The Acquisition is expected to enhance Lancashire's growth in fully-converted book value per share, and Lancashire remains committed to its current capital management philosophy and dividend policy.

The Acquisition provides Lancashire with a more sustainable business model in a prolonged soft market together with the ability to leverage an additional operating platform in a hard market.

In particular, the Board believes that the Acquisition will provide the following benefits:

It is expected to offer Shareholders value, accretive growth and an enhanced return profile

The Acquisition is expected to be earnings accretive to Lancashire in 2013 and beyond. This statement does not constitute a profit forecast and should not be interpreted to mean that the earnings per Common Share in the first full financial year following the Acquisition, or in any subsequent period, would necessarily be greater than those in the preceding financial year(s). Had the Acquisition taken place on the first day of the last full financial year, it would have had an accretive effect on Lancashire's earnings. Moreover, the Acquisition is expected to enhance Lancashire's long-term return on equity, combined group growth in fully-converted book value per share and risk-adjusted return. In addition, the pro-forma book value for the Enlarged Group will increase to U.S.$1,454.5 million and the pro-forma tangible book value will increase to U.S.$1,297.6 million. The Acquisition is also expected to enhance Lancashire's competitive positioning and ability to win new business from clients and brokers, as well as bringing enhanced capital management and efficiency to Cathedral. Lancashire also expects to be able to take advantage of capital and operational efficiencies from writing new business through the Lloyd's platform.

Through the Acquisition, Lancashire will gain a platform at Lloyd's, the world's leading specialist insurance market

The Acquisition will provide Lancashire with a platform at Lloyd's, which is expected to increase Lancashire's access to new specialty business opportunities. As a result of the Acquisition, the Enlarged Group would have a presence at Lloyd's with access to the high quality broker-originated business attracted by the Lloyd's brand and the Lloyd's capital security proposition.

The Acquisition will expand Lancashire's global footprint

Lloyd's offers access to a global distribution platform and has over 80 operating licences with access to more than 200 markets worldwide. This would provide the benefit of the Lloyd's brand name and international reputation in markets where Lancashire does not have an established presence and would provide Lancashire with the opportunity to expand into new markets through Lloyd's international reach. While international expansion has not been, and is not, part of Lancashire's central strategy, there are markets of interest in certain areas of the world where regulatory bureaucracy has prevented successful entry. A Lloyd's platform would allow Lancashire to access those markets without it needing to seek regulatory approvals in the jurisdictions concerned.

As a result, Lancashire's core underwriting competencies will be strengthened and diversified

Through its ownership of the Cathedral Group, Lancashire's exposure to specialty lines with attractive market dynamics would be broadened and scale would be added to Lancashire's existing aviation and property reinsurance business. Cathedral will also bring with it a direct and facultative property book of business. Shareholders may be aware that this is a line of business that Lancashire decided to exit in 2012. However, it is worth noting that the Cathedral direct and facultative book is written on a different basis to that previously written by Lancashire and uses a different model involving smaller line sizes and a different geographic spread.

Cathedral's underwriting expertise would be complementary to Lancashire as the Cathedral Group has a strong underwriting track record across core business lines. The size of Cathedral relative to that of Lancashire would mean that the Acquisition is not expected to present substantive integration challenges or result in any changes to Lancashire's existing strategy. Cathedral has a strong reputation for underwriting and the addition of Cathedral's underwriting talent will enhance Lancashire's competitive positioning in certain specialty lines with minimal overlap.

The Acquisition will enhance Lancashire's operational flexibility

The Directors believe that Lancashire's ability to realign exposures to attractively priced business lines when rates harden would be improved and it would have access to Lloyd's market infrastructure and underwriting support services. The Cathedral Group would provide Lancashire with capital benefits resulting from Lloyd's strong financial rating.

Lancashire's strong track-record of financial flexibility and efficient capital management will be further enhanced

Since its founding, Lancashire has been committed to ensuring that its capital management is both efficient and flexible. In that connection, it has established over the years various facilities to provide flexible platforms to align third party investors with reinsurance opportunities. The Enlarged Group would also be able to leverage third party capital for business opportunities by retaining Lloyd's Names participation in Syndicate 2010.

3. Information on the Lloyd's insurance market

Lloyd's is the world's leading specialist insurance market. It has a long-standing history of over 325 years and over this time has expanded its network to operate licences in over 200 countries and territories world-wide. The Lloyd's market offers a unique proposition, whereby Lloyd's Names and corporate members join together as syndicates to insure risks from all over the world.

The Lloyd's insurance market consists of over 50 managing agents and over 80 syndicates. The majority of business written at Lloyd's is placed through brokers who facilitate the risk-transfer process between clients (policyholders) and underwriters. Much of Lloyd's business works on a subscription basis, where more than one syndicate takes a share of the same risk. Specialist underwriters for each syndicate price, underwrite and handle any subsequent claims in relation to the risk.

The Lloyd's market offers certain unique advantages to its members:

- ***Global distribution access***

Lloyd's has a global footprint which provides extensive access to market participants. Lloyd's has over 80 licences and accepts business from over 200 countries and territories worldwide. It also includes operational hubs in key international markets such as Brazil, Singapore, China and Japan.

- ***Financial backing and ratings support***

Lloyd's financial security and strong ratings enable the market to attract diverse and specialist insurance business on a global basis. The financial strength of the Lloyd's market is underpinned by the Central Fund which is a mutual fund available (at Lloyd's sole discretion) to meet any valid policyholder claim that cannot be met by a Lloyd's member. Members pay annual contributions to the Central Fund of 0.5% of premiums written and all Lloyd's policies are ultimately backed by this common security. Lloyd's syndicates are therefore able to underwrite on the back of the strong Lloyd's financial rating: A rating from A.M. Best and A+ ratings from both Fitch and S&P.

- ***Capital efficiencies***

The mutuality principle behind the Central Fund enables a capital efficient framework for market participants and offers significant advantages relative to other insurers, including attractive relative capital ratios, as a result of Lloyd's financial security and ratings as mentioned above. There is also greater flexibility in funding capital requirements. This provides a return uplift as individual capital requirements for syndicates are lower than those required by equivalent stand-alone 'A' rated insurers.

Lloyd's market capital efficiencies are further enhanced by the ability of Lloyd's members to use letters of credit or bank guarantees to support their underwriting capacity.

- ***Financial flexibility***

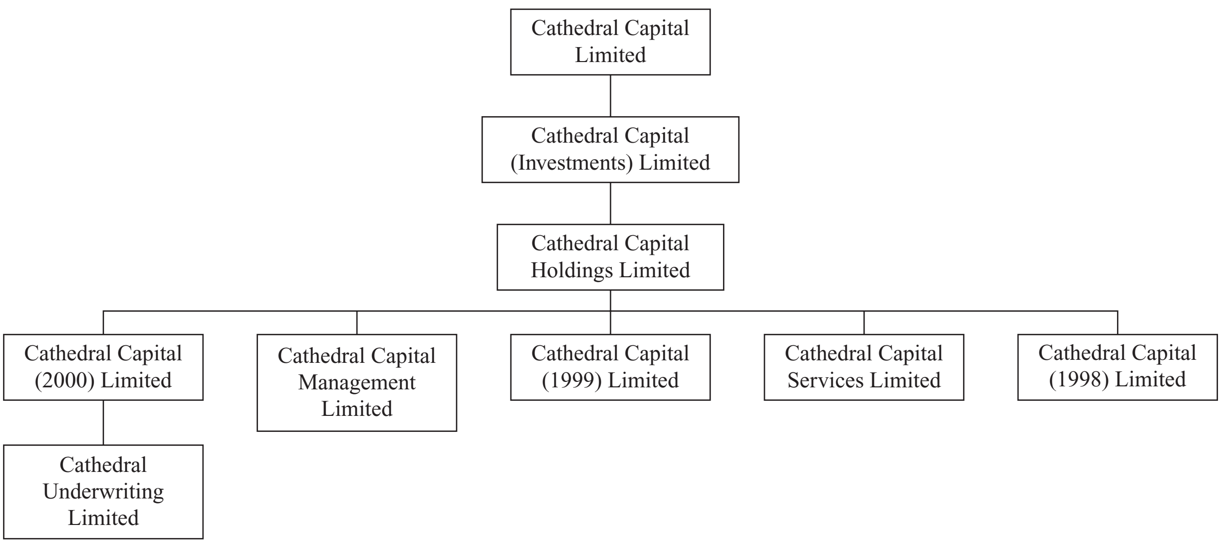
The Lloyd's market provides members with access to third party capital on an annual basis. Members of Lloyd's provide the capital to support the syndicates' underwriting, which is handled on behalf of the syndicates by managing agents. Members of Lloyd's who are unrelated to the managing agent, such as Names, are known as 'unaligned' members. Syndicate capacity for the following year is auctioned in September and November each year based on one year forward business plans and Names are able to buy syndicate capacity plans on this basis.

- ***Infrastructure and service support***

Lloyd's provides numerous cost-efficient central processes including the infrastructure supporting the subscription market, and tax and regulatory reporting services. The market also provides a "Solvency II ready" environment backed by Lloyd's regulatory oversight and support.

4. Information on Cathedral

An overview of the Cathedral Group organisational structure is presented below:



Cathedral is an established specialty (re)insurance provider that operates exclusively in the Lloyd's insurance market and writes insurance and reinsurance business in property, direct and facultative property, aviation, satellite, marine cargo and contingency classes. Operating within the Lloyd's framework, Cathedral benefits from Lloyd's recognised status as the world's leading specialist insurance market, its security rating, worldwide licences and attractive capital regime.

Cathedral operates as an ILV and comprises the Managing Agent and two syndicates, Syndicate 2010 and Syndicate 3010. For the 2013 underwriting year, Cathedral owns 57.8% of the capacity of Syndicate 2010 and 100% of Syndicate 3010. The remaining capacity in Syndicate 2010 (42.2%) is owned by Lloyd's Names, from which Cathedral receives ancillary income in the form of annual fees and profit commissions for the underwriting services it provides. Cathedral is based in London and employs 64 staff of which 14 are underwriters. The business was established in 1997 and is currently owned as to 37% by employees and management and 63% by Alchemy.

For the year 2012, Syndicate 2010 and Syndicate 3010 had underwriting capacity of £350 million and £30 million respectively.

In 2012, the Syndicates had, in aggregate, £193 million of GWP (on a Group share basis). Property reinsurance, direct and facultative property and aviation reinsurance represented over 80% of Cathedral's portfolio.

Cathedral believes it has long standing relationships with its clients and brokers which allows it to write a diversified portfolio across its core business lines. The business has experienced consistent growth in book value through the cycle (13% per annum since 2008), despite significant international property catastrophe market loss experience in 2010 and 2011.

Outlined below is an overview of each of the Cathedral Group's main business lines. In each case, the figures are on a Group share basis.

- ***Property Reinsurance*** (£80.9 million / 41.9% GWP 2012)

The account mainly comprises catastrophe and risk excess business, is short-tailed in nature, and includes property treaty only and not casualty business. The account is international in scope, with a focus on North America. It is a well diversified portfolio with a core book of small regional clients, backed by relationships with Cathedral underwriters that, in many cases, extend back over 25 years. 60% of the US property reinsurance cedents have been clients for over 20 years, underpinning the "stickiness" of the book. The majority of the US account represents mutual, limited zonal aggregates, and 33% of the clients have premiums under U.S.$20 million. The international book is more geographically diverse than Lancashire's existing book, with small average exposures of U.S.$3 million per annum. In 2012 Cathedral employed four lead underwriters in this business line, each with over 20 years' experience in the market. It has had an average net loss ratio of 65% in the last five years of account.

- ***Direct and Facultative Property*** (£62.5 million / 32.3% GWP 2012)

The account comprises worldwide property business with a US bias, ranging from small single locations to 'Fortune 500' companies and is short-tailed in nature. The account is focussed on smaller and mid-sized business such as offices, condominiums, hospitalities and municipalities which make up the majority of the portfolio. Over the past few years the portfolio has had an emphasis towards the US but 2012 saw a slight shift in favour of other international business, with Cathedral pursuing more favourable international pricing. The business has a substantial binder account (c.43% of income) which is "sticky" in nature. In 2012 Cathedral employed three underwriters in this business line with an average of 22 years' experience in the market. It has had an average net loss ratio of 60% in the last five years of account. The Cathedral portfolio is very different to the direct and facultative property book written by Lancashire in the past, which was US-centric and characterised by high excess layers on a small portfolio with high retention levels. In contrast, Cathedral writes small lines on buffer excess layers on a broad range of accounts with low retention. The Cathedral book benefits from well-tailored reinsurance protection at both sides (excess of U.S.$1.5 million risk and catastrophe cover up to U.S.$142.5 million) and contains a strong portfolio of small commercial binder business with "sticky" relationships and more stable pricing.

- ***Aviation / Satellite*** (£18.2 million / 9.4% GWP 2012)

The account consists of a number of sub-classes of short tail aviation business. The core of the portfolio is airline excess of loss (aviation generals) which is complemented by retrocessional excess of loss, airline quota share, general aviation business (both proportional and non-proportional), hull / war, war third party legal liability (both proportional and non-proportional) and satellite. The account is unique in its nature in that it is exclusively focused on reinsurance and limiting exposures to the top 10 insurers. The account has limited exposure to US airlines and major products that have greater litigation risk and would need a very high loss event before the book incurs losses. The satellite book is written primarily through SATEC SRL which is a relationship held by Cathedral for over 15 years. Lancashire has good experience with this underwriting class and is already writing business in this line. In 2012 Cathedral employed two underwriters in this business line with an average of 22 years' experience in the market. It has had an average net loss ratio of 53% (aviation) / 52% (satellite) in the last five years of account.

- ***Contingency*** (£3.4 million / 1.7% GWP 2012)

Cathedral's worldwide short-tail contingent lines business has a significant bias towards the music industry including non-appearance, event cancellation, prize indemnity and contractual bonus. Generally, business is written on a primary full value basis, but where the limit is high or the risk otherwise unattractive, layering may be utilised. The book is increasing its focus on smaller clients away from the highly competitive music tours and festivals. The two areas with the greatest exposure are the US and Europe. In 2012 Cathedral employed three underwriters in this business line with strong sector experience and Lancashire's underwriters also have significant experience with this class. It has had an average net loss ratio of 49% in the last five years of account.

- ***Cargo*** (£28.3 million / 14.6% GWP 2012)

The cargo account comprises over 90% of Syndicate 3010's business and consists of cargo (82%), specie (11%), fine art (5%) and war (2%) and is all short-tail business. The overall cargo account is worldwide and may be written direct, or as reinsurance. The vast majority of cargo business relates to the insurance of commodities or goods in transit. The nature of this type of business gives rise to large numbers of individual assureds, each with individual coverage needs and risk profiles. A large volume of business is placed via open covers and broker's covers / line slips in order to make the placement cost effective for all parties. The book has had robust loss experience during the Sandy and Thailand events. In 2012 Cathedral employed two senior underwriters in this business line with over 20 years' experience. It has had an average net loss ratio of 59% in the last five years of account.

Cathedral's business is entirely sourced through Lloyd's registered brokers.

Cathedral buys specific reinsurance programmes for each separate account, as opposed to on a whole-account basis. This provides the ability to tailor programmes on a more granular basis, and access a wider panel of specialist reinsurers offering better security and more attractive coverage terms with generally lower attachment points. Cathedral has demonstrated strong consistency in underwriting track-record, backed by its conservative operating model. Cathedral has a robust underwriting performance, with an average combined ratio of 91.4% over the last 5 years, despite elevated international property catastrophe loss activity in 2010 and 2011. Cathedral operates under a prudent reserving strategy, with consistent reserve releases through the cycle. Cathedral has a conservative investment strategy with a broadly similar asset allocation strategy to Lancashire's existing business – high quality, short duration, highly liquid. The Cathedral Group operates with a low leverage ratio and has historically placed no reliance on letters of credit to support FAL requirements. Cathedral is well capitalised as at 31 December 2012 with excess FAL identified during Cathedral's latest coming into line exercise in November 2012. Cathedral operates with a comfortable margin to its existing solvency and regulatory capital requirements and has greenlight status from Lloyd's for Solvency II preparedness with their latest ORSA submitted in March 2013.

In 2012, Cathedral reported £11.6 million of profit after tax on an IFRS basis and wrote £193.3 million of GWP. The overall combined ratio for the Cathedral Group for 2012 was 83.4% (103.1% in 2011) and includes its share of the Syndicates and non-underwriting corporate expenses net of other fees and income. The corporate investment return for the year was a profit of £3.7 million (£2.2 million in 2011) which equates to a return of 1.9% from 1.3% a year earlier. As at 31 December 2012, Cathedral had equity shareholders' funds of £54.7 million and reported return on equity of 26.9%.

Summary financial information for the Cathedral Group

£ million	***2011***	***2012***
Gross written premiums	185.9	193.3
Net earned premiums	138.5	145.1
Operating profit	5.7	24.9
Net income	(3.9)	11.6
Equity shareholders' funds	43.1	54.7
Combined ratio (net)	103.1%	83.4%
Return on equity	(8.3)%	26.9%

As at 31 December 2012, Cathedral's gross assets were £558.3 million. The profits attributable to the equity shareholders of Cathedral were £11.6 million.

The key individuals in the Cathedral Group are the following seven partners, who are expected to remain with the Enlarged Group after Completion:

Name	Title	Biography
Peter Scales	Chief executive officer of Cathedral	After gaining a degree in Economics and Geography at University College, London, Mr. Scales joined Bankside Underwriting Agencies Limited in 1986. In 1991, he joined Wren Underwriting Agencies Limited as an analyst. He was appointed a director of Wren Underwriting Agencies Limited in 1993 and managing director of Wren Lloyd's Advisers Limited in 1994. He was involved in the original placement of one of Lloyd's first listed corporate capital vehicles, subsequently to become Wren plc, of which he was an executive director. Following the acquisition of Wren Limited by BRIT plc, he was director of capital management and the senior executive officer of Wren Capital Management Limited. Mr. Scales is one of the founders of Cathedral and has been chief executive officer of the group since 2000. Mr. Scales has 26 years' of experience in the sector.
John Lynch	Chief financial officer and secretary of Cathedral	After gaining a degree in commerce from University College Cork, Ireland in 1988, Mr. Lynch joined Robson Rhodes and qualified as a chartered accountant in 1992. After spending two years in industry he joined Finsbury Asset Management Limited and became head of accounting and administration for institutional investment clients. Since 1994, he has also been involved in the structuring of capital entities in Lloyd's. Mr. Lynch joined Wren Limited as company secretary and head of finance in January 1999. He was finance director of both Wren Underwriting Agencies Limited and Wren Capital. Mr. Lynch has 18 years' experience in the sector.
John Hamblin	Active underwriter of the Syndicates	Educated at Lancing College, Mr. Hamblin started in Lloyd's in August 1975, joined Bankside Syndicates 566/561 in 1984 as Deputy Underwriter with responsibility for aviation reinsurance and North American regional property reinsurance. He was appointed as active underwriter of Syndicate 566 for the 1998 account. Mr. Hamblin was appointed director of Patrick Underwriting Agency in 1986, remaining on the board when Patrick Underwriting Agency became part of Bankside Syndicates Limited 1988, and then Limit Underwriting Agency in 1998. Mr. Hamblin was a member of the Equitas Reserving Group in 1996 and sat on the Lloyd's Aviation Underwriters Committee from 1997 to 2004. He also served on the board of the Lloyd's Market Association in 2006. Mr. Hamblin was one of the founding partners of Syndicate 2010 in January 2001 and has been the active underwriter since January 2002. In 2007, he was appointed as active underwriter of Syndicate 3010. Mr. Hamblin is also a director of the Managing Agent. Mr. Hamblin has 37 years' experience in the sector.
Lawrence Holder	Managing director of the Managing Agent	After gaining a law degree at Manchester University in 1981 and being called to the bar in 1982, Mr. Holder joined the Corporation of Lloyd's in 1983, subsequently joining Bankside Underwriting Agencies Limited in 1985. He was the managing director of the Bankside Group's Lloyd's Managing Agency, Bankside Syndicates Limited, from 1990 to 1999 and was also group company secretary from 1986 to 1999. He was deputy managing director of Limit Underwriting Limited from 1999 until joining Cathedral. Mr. Holder is one of the founding partners of Cathedral and has been managing director of the Managing Agent since 2000. He was elected to the board of the Lloyd's Market Association in 2008 and was reappointed unopposed in 2011. He was elected a working member of the Council of Lloyd's in February 2012. He is a trustee of the Lloyd's Charities Trust. Mr. Holder has 30 years' experience in the sector.

Name	Title	Biography
Simon King	Responsible for the direct and facultative account	Mr. King has thirty years' experience in the insurance industry. He was employed as a broker for the first thirteen years of his career, placing North American property business. He reached the position of Divisional Director at Thompson Heath and Bond (a Lloyd's broker) heading up the direct property team before being approached by DP Mann Syndicate in 1995. During his eight years at DP Mann/Faraday, Mr. King worked as a direct property underwriter leading and supporting a wide range of business. He experienced the syndicate's transition from a mid to large sized independent (DP Mann) through to being owned by General Re. For his last two years at Faraday, Mr. King was the underwriting director of the commercial lines team, which wrote approximately U.S.$200 million of income in 2002 and was one of the largest of its kind in the Lloyd's market. He reported directly to the chief underwriting officer of Faraday and the chief executive officer of General Re on a quarterly basis. Mr. King was approached by Cathedral in January 2003 to establish a direct and facultative underwriting unit and started on 22 September 2003. Mr. King has 30 years' experience in the sector.
Richard Williams	Responsible for all aviation and satellite business written	Educated at Eltham College in London, Mr. Williams started his career at Lloyd's as a claims broker in 1988 for Jardine Thomson and Graham. After a period of travelling he went to Munich to work for Frankona Re at the end of 1990 where he started in the claims department, being involved in both inwards and outwards claims. He soon moved over to the underwriting side and whilst predominantly focussed on aviation reinsurance, he was also actively involved in other specialty accounts including marine and property treaty business. After Frankona Re was purchased by Employers Re and subsequently by General Electric, Mr. Williams returned to London in 1998 to take over the aviation reinsurance account at Bankside. Two years later Mr. Williams left Bankside to become one of the founding partners of Syndicate 2010 and is responsible for all of the aviation and satellite business written. He also writes a portfolio of property terrorism and energy reinsurance. Mr. Williams, having served since 2004, is currently the second longest serving member of the Lloyd's Market Association Aviation Committee and is also a member of the Lloyd's Exposure Management Steering Group. Mr. Williams has 24 years' experience in the sector.
Mark Wilson	Responsible for all outward reinsurance and the non-marine treaty account	Mr. Wilson started work in the Lloyd's insurance market in 1987 after studying for a Business Diploma. His first job was with the Bankside I Limit Group working in the claims and outwards reinsurance departments. He was promoted to the reinsurance underwriting team in 1992 where he wrote marine, aviation and latterly specialised in non-marine property and retrocession. Mr. Wilson joined Cathedral in 2000 to set up Syndicate 2010 and is a founding partner. As well as underwriting non-marine reinsurance and retrocession, he is also responsible for the outward reinsurance on the non-marine treaty account. Mr. Wilson has 25 years experience in the sector.

5. Information on Lancashire

The Group, through its London and Bermuda-incorporated insurance subsidiaries, is a global provider of specialty insurance and reinsurance. The Group is a short-tail insurance and reinsurance provider with a conservative investment portfolio, and writes a diversified book of business, mostly on a direct basis, in four principal lines: property, energy, marine and aviation. The Group's operations afford it the ability to access business while maintaining underwriting control and a low cost operating structure.

The Group has six wholly-owned material subsidiaries operating in two jurisdictions, Bermuda and the United Kingdom, which, together with the Company, constitute the Group. LICL and LUK are currently the Group's principal operating subsidiaries based in Bermuda and London, respectively, being the centres of the world's most important insurance and reinsurance specialty markets.

The Group writes predominantly direct risks, although it does also write a selection of reinsurance risks (33% and 23% respectively of premiums written for the year ended 31 December 2012 and the year ended 31 December 2011 related to reinsurance risks). For the year ended 31 December 2012 and the year ended 31 December 2011, gross premiums written for risks exposed to natural catastrophe represented 40% and 33% respectively of total gross premiums written. The Group, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of loss that may arise from events that could cause unfavourable underwriting results by entering into reinsurance arrangements with third-party reinsurers.

The primary sources of liquidity within the Group are from premiums received under insurance and reinsurance contracts and from investments and investment income derived from the assets held by LICL and LUK. As the Company is a holding company whose principal assets are its investments in its subsidiaries, it is dependent on dividends, returns of capital and interest income from, in particular, LICL and LUK, to meet ongoing cash requirements, including servicing debt payments and other expenses.

In 2012, almost all of the Group's total gross premiums written and general insurance business and all of its reinsurance business originated from the distribution of its products through brokers. The Group does not commit in advance to accept any business that is submitted to it by brokers. All new and renewal business is subject to acceptance by the Group. The Group very rarely delegates binding authority to any broker or other third party. Where it does participate on brokers' lineslips, the Group is almost always a leader or agreement party and so agrees to the terms of each risk before binding, or delegates the authority to bind the Group to another leader whom the Group believes is competent to protect its interests. The Group's relationships with its brokers are an important factor in achieving effective distribution of its products.

The Group's strategy is centred on the goal of generating an attractive risk-adjusted return over the long-term, with success in achieving the Group's goals measured against risk and return targets. The Group believes that its strength is excellence in the underwriting risk selection process. The Group also aims to maintain a strong balance sheet at all times. An adequate level of capital must be maintained to support the Group's underwriting, including future opportunities, and the mix of capital must be sufficiently conservative in order to preserve that capital.

The Group remains committed to its stated strategic objectives following the Acquisition.

For further information on Lancashire's business lines and financial information, see Part V of this document.

6. Current trading and prospects

Lancashire

On 25 July 2013, Lancashire released its trading update for the period 1 January 2013 to 30 June 2013. See Part V of this document for further details. Since the update on 25 July 2013, there has been no significant change in the Group's trading and prospects.

Cathedral

Cathedral's underwriting portfolio has performed well in the year to date and profitability was running ahead of target at the half year point of 30 June 2013. Cathedral's older underwriting years continue to mature well. Whilst general trading conditions remain competitive, Cathedral has the benefit of a good spread of long standing business in highly focussed underwriting areas. Given the nature of exposures within the reinsurance lines it writes, the result for the full year to 31 December 2013 will depend on second half loss activity.

7. Management of the Enlarged Group

Cathedral has a strong underwriter-led management team with an excellent track-record and sector expertise. The majority of the team joined in 2000 as founding partners. Lancashire's management believes that there is a good cultural fit with the Cathedral team with the underlying philosophy and focus on underwriting that drives Lancashire's business model. Following Completion, Cathedral is expected to continue to be run by its existing senior management team, the members of which have substantial combined experience of both Lloyd's and Cathedral specifically. The Cathedral management team has played a key role in the Cathedral Group in recent years and in the development and implementation of its strategy.

The Board recognises the importance of the skills and experience of the existing management and employees of Cathedral and believes that they will be an important factor for continuing the success of Cathedral's business under Lancashire ownership.

Lancashire recognises the importance of retaining and incentivising key Cathedral staff and will accordingly put in place appropriate retention and performance-based incentivisation arrangements to ensure a smooth transition and appropriate recognition. The agreed lock-up period for key Cathedral management is three to five years.

Lancashire plans do not involve any changes to the terms and conditions of employment of the Cathedral employees, nor are there any plans to change the location of Cathedral's business. The transaction will bring on board 14 underwriters with significant sector knowledge and experience. Lancashire plans to integrate Cathedral underwriting controls and Cathedral management will be represented at Lancashire's ongoing fortnightly Risk and Reward Committee.

8. Key terms of the Acquisition

On 7 August 2013, Lancashire entered into the Share Purchase Agreements with the shareholders in Cathedral. The Share Purchase Agreements provide that:

(a) Lancashire will acquire the shares in Cathedral held by Alchemy and the Warrantors, together with their loan notes in Cathedral pursuant to the Primary Share Purchase Agreement, and will acquire the Remaining Shareholders' shares in Cathedral and their loan notes in Cathedral and CCIL pursuant to the Secondary Share Purchase Agreement and the Tertiary Share Purchase Agreement;

(b) the consideration payable to the Sellers, pursuant to the Share Purchase Agreements for Cathedral's entire issued and to be issued share capital and for the loan notes in Cathedral and CCIL will be £266 million, amounting to a multiple of 1.6x the net tangible assets of Cathedral as at 31 March 2013;

(c) Completion is conditional upon, inter alia:

  (i) the passing of the Resolution at the Special General Meeting; and

  (ii) regulatory approval to the change in control of the regulated Cathedral Group entities being obtained from the PRA, the FCA and Lloyd's;

(d) if the conditions contained in the Primary Share Purchase Agreement are not fulfilled or waived by 5.00 p.m. on 10 January 2014 (or such later date as the Warrantors, Alchemy and Lancashire may agree in writing), either the Warrantors, Alchemy or Lancashire may terminate the Primary Share Purchase Agreement;

(e) if the conditions contained in the Primary Share Purchase Agreement are not fulfilled or waived by 5.00 p.m. on 10 January 2014 (or such later date as the Remaining Shareholders and Lancashire may agree in writing), or the Primary Share Purchase Agreement is terminated for any other reason, the Secondary Share Purchase Agreement and the Tertiary Share Purchase Agreement automatically terminate; and

(f) pursuant to the Primary Share Purchase Agreement, the Warrantors provide customary warranties in favour of Lancashire and the Warrantors' liability is subject to customary limitations and qualifications. The warranties are provided by reference to matters such as the Warrantors' capacity, ownership and ability to sell their respective shares in Cathedral; Cathedral's constitution and structure, compliance with legal requirements, accounts, indebtedness and guarantees, regulatory compliance, conduct of underwriting business, contracts, property, employees, pensions, insurance, intellectual property rights, information technology, data protection, litigation, insolvency and taxation. Alchemy provides customary warranties in relation to its title to its shares in Cathedral and loan notes in CCIL, as well as in relation to its capacity to enter into the Primary Share Purchase Agreement. Pursuant to the Secondary Share Purchase Agreement and the Tertiary Share Purchase Agreement (as the case may be), the Remaining Shareholders give similar warranties to those given by Alchemy in relation to their respective title to their shares and loan notes in CCIL, and in respect of their capacity to enter into the Secondary Share Purchase Agreement or the Tertiary Share Purchase Agreement.

Further details of the Share Purchase Agreements are set out in Part IV of this document.

9. Financing of the Acquisition

The Acquisition is being funded through a combination of internally available resources and the net proceeds of the Placing.

The Company entered into the Placing Agreement with J.P. Morgan Securities and Numis on 7 August 2013 pursuant to which J.P. Morgan Securities and Numis agreed to procure institutional places for the Placing Shares or failing which, to subscribe themselves for the Placing Shares, at the Placing Price. The Placing, which has been underwritten by J.P. Morgan Securities and Numis, is expected to raise gross proceeds of approximately £131 million. Subject to the terms of the Placing Agreement, the Placing is expected to complete on 12 August 2013.

Further details of the principal terms of the Placing Agreement are set out in Part X of this document.

10. Financial impact of the Acquisition and the Placing

An unaudited pro-forma statement of net assets illustrating the effect of the Acquisition and the Placing on the Group's net assets as at 30 June 2013, as if they had been undertaken at that date, is set out in Part VIII of this document. This information is unaudited and has been prepared for illustrative purposes only. It shows that the impact of the Acquisition and the Placing would have led to a pro forma movement in net assets from U.S.$1,266.3 million to U.S.$1,454.5 million as at 30 June 2013.

It is expected that the Acquisition will be accretive and earnings enhancing. However, no statement in this document is a profit forecast and nor is any such statement intended to be interpreted to mean that the future earnings per share of the Enlarged Group will necessarily match or exceed the historical published earnings per share of Lancashire.

Lancashire's pro forma gearing following Completion is maintained within appetite limits, with pro-forma long-term debt of U.S.$317.6 million and a leverage ratio of 19.7%, calculated as long-term debt divided by the sum of shareholders equity less intangibles plus long-term debt as stated in the pro forma statement of net assets in Part VIII of this document.

In light of the scale and size of the proposed Acquisition, the Directors believe that Lancashire has taken a prudent approach to financing the Acquisition and associated expenses.

Information on the expected impact of the Acquisition on the assets, liabilities and earnings of the Enlarged Group is set out in Part VIII of this document. If the Acquisition completes, Cathedral will become a subsidiary undertaking of Lancashire as a result of which the assets and liabilities of Cathedral will be consolidated into the financial statements of Lancashire.

11. Dividends and dividend policy

In line with stated strategy, Lancashire intends to maintain a strong balance sheet at all times, while generating an attractive risk-adjusted total return for Shareholders. Capital management includes the payment of a small, sustainable annual dividend, supplemented by special dividends from time to time. The Group does not have a progressive dividend policy. Dividends (to the extent paid) are linked to past performance and future prospects, expected cash flows and working capital needs. Under most scenarios, the annual dividend is not expected to reduce from one year to the next to allow for flexibility. Special dividends are expected to vary substantially in size and in timing.

Lancashire remains committed to maintaining its current dividend policy following Completion. It is expected that the Acquisition will deliver enhanced earnings stream and dividend capacity in the future.

12. The Placing and the Placing Shares

Applications have been made to the UK Listing Authority and to the London Stock Exchange for the Placing Shares to be admitted to the premium segment of the Official List and to trading on the London Stock Exchange. It is expected that Admission will become effective, and dealings for normal settlement in the Placing Shares will commence on the London Stock Exchange's main market for listed securities, at 8.00 a.m. on 12 August 2013.

The Placing is expected to raise gross proceeds of approximately £131 million.

The Placing Shares will represent approximately 9.99% of the Company's share capital in issue on 7 August 2013, and will represent approximately 9.0826% of the Company's enlarged issued share capital following the Placing.

13. Special General Meeting

Due to its size, the Acquisition constitutes a Class 1 transaction for Lancashire under the Listing Rules and therefore requires the approval of Shareholders. Accordingly, the Special General Meeting has been convened for the purposes of considering and, if thought fit, passing the Resolution to approve the Acquisition. The Resolution to be proposed at the Special General Meeting is an ordinary resolution.

Completion of the Acquisition is subject to the passing of the Resolution at the Special General Meeting. The Acquisition is conditional on, and will not proceed if, the Resolution is not passed at the Special General Meeting.

The Notice convening the Special General Meeting to be held at Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD, at 11.00 a.m. on 5 September 2013, is set out at the end of this document.

14. Action to be taken

Shareholders should vote on the Resolution by completing the Form of Proxy and returning it by post or by appointing a proxy electronically or through CREST or by attending the Special General Meeting in person or by proxy.

The Form of Proxy for use in relation to the Special General Meeting accompanies this document. In order to appoint a proxy by post, Shareholders should complete and return the enclosed Form of Proxy so that it is received by PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom as soon as possible and in any event by no later than 11.00 a.m. on 3 September 2013. Whether or not Shareholders intend to attend the Special General Meeting in person, they should complete and sign the enclosed Form of Proxy in accordance with the instructions printed on it and return it to Capita Registrars at the address above, as soon as possible and, in any event, by no later than 11.00 a.m. on 3 September 2013. Forms of Proxy received after this time will be invalid.

A Shareholder who is a corporate or individual member of CREST may appoint a proxy through CREST in accordance with the procedures set out in the CREST Manual. Votes must be received by no later than 11.00 a.m. on 2 September 2013.

Completion and posting of the Form of Proxy or completing and transmitting a CREST Proxy Instruction or appointing a proxy electronically will not prevent Shareholders from attending and voting in person at the Special General Meeting, if they wish to do so.

15. Further information

Your attention is drawn to the further information set out in Parts III to X of this document. In particular, Shareholders should consider fully and carefully the risk factors associated with the Acquisition, the Group and the Enlarged Group set out in Part III. You are advised to read the whole of this document and not to rely solely on the information contained in this letter.

16. Recommendation

The Board has received financial advice from J.P. Morgan Cazenove in relation to the Acquisition. In providing their financial advice to the Board, J.P. Morgan Cazenove has relied upon the Board's commercial assessment of the Acquisition.

The Board considers that the Resolution to be proposed at the Special General Meeting is in the best interests of the Company and the Shareholders as a whole and, accordingly, unanimously recommend that Shareholders vote in favour of the Resolution, as the Directors intend to do in respect of their own beneficial holdings of 1,230,419 Common Shares representing, in aggregate, approximately 0.73%. of the issued share capital of Lancashire as at 7 August 2013 (being the latest business day prior to the publication of this document).

Yours sincerely

Martin Thomas
Chairman

PART II

LETTER FROM THE CHIEF EXECUTIVE OFFICER OF LANCASHIRE HOLDINGS LIMITED

(Incorporated in Bermuda with registered number EC37415)

Directors:
Martin Thomas, *Non-Executive Chairman*
Richard Brindle, *Chief Executive Officer and Executive Director*
Alex Maloney, *Chief Underwriting Officer and Executive Director*
Elaine Whelan, *Chief Financial Officer and Executive Director*
John Bishop, *Non-Executive Director*
Emma Duncan, *Non-Executive Director*
Samantha Hoe-Richardson, *Non-Executive Director*
Neil McConachie, *Non-Executive Director*
Ralf Oelssner, *Non-Executive Director*
Robert Spass, *Non-Executive Director*
William Spiegel, *Non-Executive Director*

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Head Office:
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60 Fenchurch Street
London EC3M 4AD
United Kingdom

To all Shareholders

8 August 2013

Dear Shareholder

PROPOSED ACQUISITION OF CATHEDRAL

I am delighted that Lancashire is able to announce the Acquisition as mentioned in the letter from our Chairman contained in Part I of this document

The Acquisition would represent an exciting and welcome addition to the Lancashire Group at a time of change in the market. The Board believes that the time is right for Lancashire to expand its current business in complementary underwriting areas and considers that a coherent and logical part of Lancashire's development and long term strategy is to enter the Lloyd's market. In this regard, Cathedral is an ideal partner for Lancashire being, as it is, a well-respected and well-run business within the Lloyd's market.

Lancashire's philosophy of "underwriting comes first" and its nimble approach to conducting its business accords with the business views of the Cathedral management team and I believe that there are substantial strategic benefits to the Enlarged Group as a result of the Acquisition. I am very much looking forward to working with the Cathedral management team to drive the Enlarged Group's business and performance for the long term. The Board believes that the Acquisition would bring to the Enlarged Group experienced underwriters with a proven track record in specialty lines, which would enhance and complement Lancashire's existing underwriting base.

Accordingly, I am extremely pleased to add my recommendation to that of the rest of the Board and to add to the Chairman's comments in relation to the business case for the Acquisition.

Yours sincerely

Richard Brindle
Chief Executive Officer

PART III

RISK FACTORS

The following risk factors should be considered carefully when deciding whether or not to vote in favour of the Resolution at the Special General Meeting. The risk factors should be read in conjunction with all other information relating to the Acquisition and the Enlarged Group contained in this document.

The risks and uncertainties set out below are those which the Directors believe are material risks relating to the Acquisition and to the Enlarged Group, material new risk factors for the Group as a result of the Acquisition and existing material risks for the Group which will be impacted by the Acquisition.

The occurrence of one or more risks may have a material adverse effect on the business, prospects, financial condition or results of operations of the Group. In such case, the market price of the Common Shares may decline and investors may lose all or part of their investment.

The risks and uncertainties described below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Directors, or which they deem immaterial, may also have an adverse effect on the Group's operating results, financial condition and prospects.

A. Risks relating to the Acquisition

The Acquisition is conditional and the Conditions may not be satisfied

The Acquisition is conditional upon *inter alia*: (i) the passing of the Resolution at the Special General Meeting and (ii) obtaining the regulatory approvals of the PRA, the FCA and Lloyd's to the change in control of regulated entities in the Cathedral Group.

Although Lancashire has agreed to use reasonable endeavours to satisfy the conditions in (i) and (ii) above, there can be no assurance that the Conditions will be fulfilled (or waived, where capable of being waived) or that the Acquisition will be completed.

If Completion does not occur, the Group will experience a delay in the achievement of some of its strategic objectives and will incur the fees and costs of its advisers engaged in connection with the Acquisition.

Lancashire will rely on certain key management to manage Cathedral

The future success of the Enlarged Group may, in part, be dependent upon the successful retention and motivation of key members of Cathedral's existing management and personnel. Failure to retain certain individuals may affect Lancashire's ability to successfully optimise the performance of Cathedral within the Enlarged Group. This may have a detrimental impact on the future performance of the Enlarged Group.

There are limitations on the warranties in the Share Purchase Agreements and certain Sellers have provided limited warranties

The Primary Share Purchase Agreement contains warranties on the part of the Warrantors which, as is usual in such a transaction, are subject to specific negotiated limitations. Furthermore, Alchemy and the Remaining Shareholders have given warranties only in relation to their title to their shares in Cathedral and their loan notes in Cathedral or CCIL (as the case may be) and their capacity to enter into the Primary Share Purchase Agreement, the Secondary Share Purchase Agreement and the Tertiary Share Purchase Agreement (as the case may be). As a result, the principal commercial warranties have been given by a small group of the Sellers only. Accordingly, the right of Lancashire to recover damages or compensation in the event of an undisclosed liability of Cathedral coming to light after Completion is restricted.

B. Risks relating to Lancashire, Cathedral and the Enlarged Group

General volatility, economic and market cycles and the global economic downturn could adversely affect the future prospects, financial condition and results of operations of Lancashire, Cathedral and, following Completion, the Enlarged Group

The global economic downturn and recessionary conditions in certain of the markets in which Lancashire operates have had and could continue to have an adverse effect on the Group's businesses. Factors such as inflation, investor sentiment, the availability and cost of credit and the liquidity of the global financial markets could significantly affect the businesses of Lancashire, Cathedral and, following Completion, the Enlarged Group. A deterioration of these economic and financial conditions could have a material adverse effect on the financial performance and/or financial condition of Lancashire, Cathedral and, following Completion, the Enlarged Group. The businesses may experience reductions in trading activity, asset impairments and lower profitability. A global recession or deeper recessionary conditions could result in a significant reduction in (re)insurance expenditure which could have a material adverse effect on the business, results of operations and overall financial condition of Lancashire and, following Completion, the Enlarged Group.

If actual claims exceed the Enlarged Group's claim reserves, the financial condition and results of operations of the Enlarged Group could be significantly adversely affected

The Enlarged Group's financial condition and results of operations will be affected by the accurate assessment of the potential losses associated with the risks that it has insured and reinsured, the reliability of the models and the quality of the data that it uses to assist in the decision-making. To the extent actual claims exceed the Enlarged Group's expectations, the Enlarged Group will be required to recognise promptly the less favourable development in loss exposure. This could cause a material increase in the Enlarged Group's liabilities and a reduction in its profitability.

The insurance subsidiaries of the Enlarged Group are required under regulatory and accounting principles to maintain reserves to cover the estimated ultimate liability for claims (including claims handling expenses) with respect to reported and unreported claims incurred at the end of each accounting period (net of estimated related salvage and subrogation claims and reinsurance recoverables). The inherent uncertainties of estimating claim reserves are exacerbated in respect of reinsurance by the significant periods of time that often elapse between the occurrence of an insured loss, the reporting of the loss to the primary insurer and, ultimately, to the reinsurer, and the primary insurer's payment of that loss and subsequent indemnification by the reinsurer. Establishing an appropriate level of claim reserves is an inherently uncertain process. Accordingly, actual claims and claim expenses paid will likely deviate, perhaps substantially, from the reserve estimates reflected in the Enlarged Group's consolidated financial statements. It is possible that claims in respect of events that have occurred or will occur could exceed the Enlarged Group's claim reserves and have a material adverse effect on the Enlarged Group's business, prospects, financial condition or results of operations.

Acquisitions could expose the Enlarged Group to further risks

Lancashire has not relied on acquisitions in the past to pursue its strategy and business. Acquisitions and the integration of an acquired business, personnel and underwriting platforms could result in a substantial diversion of management resources and could involve numerous additional risks such as potential losses from unanticipated litigation, a higher level of claims than is reflected in reserves and an inability to generate sufficient revenue. The failure by the Enlarged Group to implement and integrate the Acquisition could have a material adverse effect on its business, prospects, financial condition or results of operations.

Lancashire may not be able to effectively and fully realise the benefits of the Acquisition

The Enlarged Group may not realise the expected benefits from the Acquisition (including enhancements of returns, capital benefits and response to the changing environment) or may encounter difficulties in achieving these anticipated benefits. This could have a negative impact on the business, operating profit or overall financial condition of the Enlarged Group.

C. Risks related to Lloyd's matters

The Enlarged Group may be subject to greater regulatory risk than that to which the Group is currently exposed

In each of the jurisdictions in which the Group operates and in which the Enlarged Group will operate, Lancashire has to comply with laws and regulations applicable to regulated (re)insurers. Each aspect of the regulatory environment in which the Group operates and in which the Enlarged Group will operate is subject to change, which may be retrospective. This risk will be increased following Completion, as the Cathedral Group is subject to regulation by Lloyd's in addition to the PRA and the FCA and is, therefore, subject to further laws, regulations standards and Lloyd's bye-laws in addition to those to which the Group is currently subject. In addition, the Group is subject to regulation by the BMA. Complying, or failing to comply, with existing and new regulations could result in additional costs for the Enlarged Group which could have an adverse effect on the financial condition or results of operations of the Enlarged Group.

The Managing Agent is subject to Lloyd's franchise obligations and the business plans of the Syndicates

The Managing Agent, like all Lloyd's managing agencies, is required to comply with Lloyd's franchise principles and have its syndicate business plans approved by the Lloyd's Franchise Board. The Lloyd's Franchise Board may require changes to any business plan presented to it for approval, which could lead to a change in business strategy which may have an adverse effect on the Enlarged Group's financial condition and operating results.

There can be no guarantee of future third party Names capacity

There is no guarantee that third party Names will provide capacity to Syndicate 2010 for the 2014 and future years of account. Third party Names may resign their membership of Lloyd's or decide no longer to participate or reduce their participation on a syndicate and they may not be replaced by continuing or new members. The capacity on the Syndicate 2010 for the 2014 and following years of account could therefore be reduced with a consequential adverse effect on the financial condition or results of operations of the Enlarged Group.

There is no guarantee that premium income capacity may be increased

There are certain generally applicable regulatory constraints imposed upon a syndicate increasing its premium income capacity from one year of account to the next. If a syndicate wishes to increase its capacity by more than 7.5%, then the increase must be approved by members of that syndicate (such members having capacity of not less than 75% of those who notify the relevant managing agent of their approval or objection). Furthermore, the consent of the Council of Lloyd's is required where the proposed increase exceeds 7.5%.

If the Managing Agent wished to increase the premium income capacity of either of the Syndicates it manages above these thresholds, there is no guarantee that it will obtain the necessary consents, which may affect its ability to grow the Cathedral business, and this in turn may have an adverse effect on the Enlarged Group's financial performance.

The Cathedral Group is subject to Lloyd's risk based capital standards and solvency tests

The amounts of capital required by Lloyd's to be maintained in the form of FAL to support the activities of underwriters is determined by a combination of the assessment of capital requirements of the Syndicates, which are additionally uplifted by a margin specified by Lloyd's, and a Lloyd's standard benchmarking exercise using a risk based capital assessment based on market averages. Lloyd's managing agents are also required to comply with the requirements of the PRA and the FCA, which propose, inter alia, an enhanced capital requirement and a requirement for managing agents to assess the financial resources needed to support the risks of the insurance business that they manage, taking account of the underlying risks, the effectiveness of controls that mitigate those risks and related stress and scenario tests. This ICA requirement aims to achieve an informed assessment of the capital needed to support each syndicate, based on modelling individual syndicate robustness against the risk environment in which it operates. Lloyd's managing agents are required to submit to Lloyd's an ICA for each of their managed syndicates. Lloyd's may or may not approve the level of ICA as submitted and has the authority to require the assessment to be increased. Such approved or amended ICA may then be uplifted by an economic capital margin to produce an amount of syndicate capital known as the ECA. The level of the ECA is set to ensure that Lloyd's overall aggregate capital is maintained at a level necessary to retain its desired rating. Any failure by the Cathedral Group to comply with these requirements may affect the amount of business which the Cathedral Group may underwrite and/or could result in sanctions being imposed by Lloyd's and/or the PRA. The process and the method by which the required capital is calculated may alter from year to year and may affect the level of participation of members (including the Corporate Member) in a particular syndicate.

The Managing Agent and the Corporate Member are subject to Lloyd's charges

Lloyd's imposes a number of charges on businesses operating in the Lloyd's market, including, for example, annual subscriptions and central fund levies for members and policy signing charges. The bases and amounts of these charges may be varied by Lloyd's and, if materially changed, could adversely affect the Enlarged Group's financial and operating results.

The Cathedral Group depends on Lloyd's trading licences and credit rating

The Cathedral Group's underwriting is carried out under Lloyd's trading licences. Lloyd's worldwide insurance and reinsurance business is subject to local regulation. Changes in such regulation (such as requirements for increased deposits to support underwriting) and/or the loss of any of these licences may have an adverse effect on the Enlarged Group.

In addition, the ability of Lloyd's syndicates to trade in certain classes of business at current levels is dependent on the maintenance of a satisfactory credit rating issued by an accredited rating agency. The financial security of the Lloyd's market is regularly assessed by three independent rating agencies, A.M. Best, Standard & Poor's and Fitch Ratings. The Syndicates benefit from Lloyd's current ratings and would be adversely affected if the current ratings were downgraded from their present levels.

PART IV

SUMMARY OF PRINCIPAL TERMS OF THE ACQUISITION

1. Introduction

On 7 August 2013, Lancashire, Alchemy and the Warrantors entered into the Primary Share Purchase Agreement in relation to the sale and purchase of the shares held by Alchemy and the Warrantors in Cathedral as well as their loan notes in Cathedral or CCIL (as the case may be). On the same date, Lancashire and certain of the Remaining Shareholders entered into the Secondary Share Purchase Agreement in relation to the shares in Cathedral held by the Remaining Shareholders and their loan notes in Cathedral or CCIL (as the case may be), whilst other Remaining Shareholders entered into the Tertiary Share Purchase Agreement in relation to their respective shares in Cathedral and their loan notes in Cathedral or CCIL (as the case may be).

On the terms and subject to the conditions of the Share Purchase Agreements, as described in more detail below, Lancashire has agreed to acquire the entire issued and to be issued share capital of Cathedral, together with all of the equity loan notes issued by Cathedral and CCIL.

2. The Share Purchase Agreements

2.1 *Consideration*

The Share Purchase Agreements provide that:

(a) Cathedral will be acquired by Lancashire; and

(b) the aggregate consideration payable to the Sellers for Cathedral's entire issued and to be issued share capital and for the equity-holder loan notes and preference shares will be £266 million amounting to a multiple of 1.6x the net tangible assets of Cathedral as at 31 March 2013.

2.2 *Warranties*

Pursuant to the Primary Share Purchase Agreement, the Warrantors provide customary warranties in favour of Lancashire, which are provided by reference to matters such as the Warrantors' capacity, ownership and ability to sell Cathedral, the Cathedral Group's constitution and structure, compliance with legal requirements, accounts, indebtedness and guarantees, regulatory compliance, conduct of underwriting business, contracts, properties, employees, pensions, insurance, intellectual property rights, information technology, data protection, litigation, insolvency and taxation. Alchemy will only provide warranties in relation to its title to its shares and loan notes in Cathedral, and in relation to its capacity to enter into the Primary Share Purchase Agreement. The Remaining Shareholders provide similar warranties in relation to their title to their respective shares and loan notes, as well as in relation to their respective capacity to enter into the Secondary Share Purchase Agreement or the Tertiary Share Purchase Agreement (as the case may be).

The Warrantors' liability in relation to the warranties is subject to limitations and qualifications that may restrict Lancashire's ability to bring a successful claim. For instance, each Warrantor's liability under the warranties is restricted to his pro rata portion of 5% of the purchase price payable by Lancashire. In addition, a Warrantor will only be liable for his pro rata portion of 20% of the purchase price in respect of a claim for breach of the restrictive covenants. Furthermore, any claim under the Primary Share Purchase Agreement will also be subject to a de minimis threshold of 0.125% of the aggregate purchase price per individual claim and an aggregate claims threshold of 2% of the aggregate purchase price. The effect of these caps and thresholds, together with temporal limitations that are also included in the Primary Share Purchase Agreement, mean that Lancashire may not be able to successfully claim in the event of a breach of a warranty or for any other breach of the Primary Share Purchase Agreement. Alchemy and the Remaining Shareholders' liability in respect of their respective warranties in relation to their title to their shares in Cathedral and their loan notes in Cathedral or CCIL (as the case may be), as well as in relation to their capacity to enter into (in the case of Alchemy) the Primary Share Purchase Agreement, and (in the case of the Remaining Shareholders) the Secondary Share Purchase Agreement or the Tertiary Share Purchase Agreement (as the case may be), will be limited to the portion of the purchase price received by them on an individual basis.

2.3 *Conditions*

(a) Completion is conditional upon, inter alia:

(i) the regulatory approvals of the PRA, the FCA and Lloyd's to the change in control of the regulated entities in the Cathedral Group; and

(ii) the passing of the Resolution at the Special General Meeting.

2.4 *Termination*

The Primary Share Purchase Agreement may, at or prior to Completion, be terminated by either Lancashire, Alchemy or the Warrantors on or after 10 January 2014 if the conditions contained in the Primary Share Purchase Agreement have not been satisfied or waived by that date or such later date as may be agreed between the respective parties to the Primary Share Purchase Agreement. If such conditions are not so fulfilled, the Secondary Share Purchase Agreement and the Tertiary Share Purchase Agreement terminate automatically.

In addition, Alchemy and/or the Warrantors shall be entitled to terminate the Primary Share Purchase Agreement if the Board of Directors of Lancashire withdraws its recommendation to the Shareholders to vote in favour of the resolution or in the event that the Resolution has not been passed by the requisite majority by 30 September 2013, in which case Lancashire will be obliged to pay the Sellers a break fee of £1.8 million.

2.5 ***Covenants***

The Primary Share Purchase Agreement contains covenants requiring the Warrantors to carry on the business of Cathedral in the ordinary course between the date of the Primary Share Purchase Agreement and Completion and not to take certain specified actions except as agreed with Lancashire or as required by the Primary Share Purchase Agreement. Further, each party to the Primary Share Purchase Agreement agrees to co-operate with each other in respect of any steps required to be taken as part of its obligations, including in respect of causing the conditions contained in the Primary Share Purchase Agreement to be satisfied. The parties also agree to assist each other and keep each other informed with respect to progress in applying for and receiving the regulatory approvals of the PRA, the FCA and Lloyd's to the change in control of the regulated entities in the Cathedral Group.

2.6 ***Restrictive covenants***

Under the Primary Share Purchase Agreement, the Warrantors have agreed, subject to certain exceptions, that they will not work for another Lloyd's entity or solicit any employees of the Cathedral Group for a period of two years following Completion.

2.7 ***Indemnity***

Each of the shareholders in Cathedral severally agrees to indemnify Lancashire for any leakage received by it:

(a) during the period from 31 March 2013 to and including the date of the Share Purchase Agreements; and

(b) during the period between the date of the Share Purchase Agreements and Completion.

2.8 ***Governing law***

The Share Purchase Agreements are governed by the laws of England and Wales.

PART V

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be incorporated by reference in, and form part of, this document:

(i) the Consolidated Audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2012 set out at pages 71 to 130 of the Annual Report and Accounts 2012;

(ii) the Consolidated Audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2011 set out at pages 65 to 131 of the Annual Report and Accounts 2011;

(iii) the Consolidated Audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2010 set out at pages 65 to 125 of the Annual Report and Accounts 2010 and the respective auditor's reports thereon;

(iv) the Unaudited Condensed Interim Consolidated Financial Statements of the Company and its subsidiaries for the six months ended 30 June 2013; and

(v) the Second Quarter 2013 Press Release as supplemented by the Second Quarter 2013 Financial Supplement (together with the Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2013, the "**Second Quarter 2013 Financial Information**").

Audited Consolidated Financial Statements as of 31 December 2012	**Annual Report 2012 page reference**
Auditors' Report	Page 70
Consolidated Statement of Comprehensive Income	Page 71
Consolidated Balance Sheet	Page 72
Consolidated Statement of Changes in Shareholders' Equity	Page 73
Consolidated Cash Flow Statement	Page 74
Accounting Policies	Pages 75-79
Risk Disclosure	Pages 80-103
Notes to the Audited Consolidated Financial Statements	Pages 104-130

Audited Consolidated Financial Statements as of 31 December 2011	**Annual Report 2011 page reference**
Auditors' Report	Page 65
Consolidated Statement of Comprehensive Income	Page 66
Consolidated Balance Sheet	Page 67
Consolidated Statement of Changes in Shareholders' Equity	Page 68
Consolidated Cash Flow Statement	Page 69
Accounting Policies	Pages 70-76
Risk Disclosure	Pages 77-102
Notes to the Audited Consolidated Financial Statements	Pages 103-131

Audited Consolidated Financial Statements as of 31 December 2010	Annual Report 2010 page reference
Auditors’ Report	Page 65
Consolidated Statement of Comprehensive Income	Page 66
Consolidated Balance Sheet	Page 67
Consolidated Statement of Changes in Shareholders’ Equity	Page 68
Consolidated Cash Flow Statement	Page 69
Accounting Policies	Pages 70-75
Risk Disclosure	Pages 76-98
Notes to the Audited Consolidated Financial Statements	Pages 99-125

The Audited Consolidated Financial Statements are filed with the London Stock Exchange and available from the NSM which can be accessed via http://www.hemscott.com/nsm.do and are also available on the Company’s website at www.lancashiregroup.com. The Second Quarter 2013 Financial Supplement is available on the Company’s website at www.lancashiregroup.com. The Audited Consolidated Financial Statements and related notes, and the Second Quarter 2013 Financial Information are incorporated by references into this document. The information contained in this document should only be read in conjunction with the Audited Consolidated Financial Statements and the Second Quarter 2013 Financial Information.

The documents referred to above shall be incorporated in, and form part of, this document save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this document to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this document. Any documents incorporated by reference in the Audited Consolidated Financial Statements and the Second Quarter 2013 Financial Information shall not form part of this document. Information contained in the Annual Report and Accounts 2012, 2011 and 2010 and the Second Quarter 2013 Financial Information which is not itself incorporated by reference, is either not relevant for Shareholders, has been superseded or else is covered elsewhere in this document.

Copies of documents incorporated by reference in this document can be obtained from the registered office of the Company.

Information contained in the documents incorporated by reference which is not itself incorporated by reference, is either not relevant for Shareholders or is covered elsewhere in this document. Any documents themselves incorporated by reference in the documents incorporated by reference in this document shall not form part of this document. Other than as specifically contained or incorporated by reference in this document, information on the Company’s website is not part of this document.

The financial information relating to Lancashire contained in this document has been presented in a form that is consistent with the accounting policies adopted in its Audited Consolidated Financial Statements.

PART VI

CATHEDRAL'S ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION

The Board of Directors
Lancashire Holdings Limited
Power House
7 Par-la-Ville Road
Hamilton HM11
Bermuda

8 August 2013

Dear Sirs

Cathedral Capital Limited

We report on the financial information set out in Part VII for the years ended 31 December 2010, 2011 and 2012. This financial information has been prepared for inclusion in the class 1 circular relating to the acquisition of Cathedral Capital Limited dated 8 August 2013 (the "**Circular**") by Lancashire Holdings Limited on the basis of the accounting policies set out in note 2 of Part VII. This report is required by Listing Rule 13.5.2R and is given for the purpose of complying with that rule and for no other purpose.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will no accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Circular.

Responsibilities

The directors of Lancashire Holdings Limited are responsible for preparing the financial information on the basis of preparation set out in note 3 to the financial information and in a form that is consistent with the accounting policies adopted in Lancashire Holdings Limited's latest annual accounts.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted out work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting polices are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Circular, a true and fair view of the state of affairs of Cathedral Capital Limited as at the dates stated, of its results and cashflows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union and has been prepared in a form that is consistent with the accounting policies adopted in Lancashire Holdings Limited's latest annual accounts.

Yours faithfully

Mazars LLP

PART VII

HISTORICAL FINANCIAL INFORMATION RELATING TO CATHEDRAL

Consolidated Statement of Comprehensive Income
For the years ended 31 December

	Notes	2012 £'000	2011 £'000	2010 £'000
Income				
Gross premiums written	5	**193,266**	185,937	182,784
Less premiums ceded to reinsurers		**(45,961)**	(49,688)	(47,673)
Net premiums written		**147,305**	136,249	135,111
Gross amount of change in provision for unearned premiums		**(2,201)**	2,921	5,280
Reinsurers' share of change in provision for unearned premiums		**(33)**	(654)	1,140
Earned premiums, net of reinsurance		**145,071**	138,516	141,531
Fees and commission income	6	**1,774**	3,765	5,061
Investment return	7	**5,998**	4,674	6,009
Other income		**43**	44	16
Total income		**152,886**	146,999	152,617
Expenses				
Claims paid;				
Gross amount		**(119,991)**	(111,067)	(84,313)
Reinsurers' share		**38,705**	25,866	20,386
Net claims paid		**(81,286)**	(85,201)	(63,927)
Net change in the provision for claims				
Gross amount		**18,332**	(62,843)	(38,513)
Reinsurers' share		**(11,212)**	46,145	8,019
Net change in the provision for claims		**7,120**	(16,698)	(30,494)
Claims incurred, net of reinsurance	5	**(74,166)**	(101,899)	(94,421)
Acquisition costs		**(33,021)**	(31,368)	(30,998)
Other operating expenses	8	**(14,608)**	(10,367)	(10,663)
Net foreign exchange (losses)/gains	9	**(6,172)**	2,331	1,520
Total expenses, excluding finance costs		**(127,967)**	(141,303)	(134,562)
Operating profits		**24,919**	5,696	18,055
Finance costs	10	**(10,388)**	(12,281)	(12,112)
Profit/(loss) on ordinary activities before tax	11	**14,531**	(6,585)	5,943
Income tax (expense)/credit	13	**(2,944)**	2,701	(1,948)
Profit/(loss) on ordinary activities after tax		**11,587**	(3,884)	3,995
Profit/(loss) attributable to equity shareholders of the parent company		**11,587**	(3,884)	3,995
Other comprehensive income		**-**	-	-
Total comprehensive income for the year		**11,587**	(3,884)	3,995
Basic & diluted earnings/(loss) per share	14	**£10.55**	(£3.16)	£3.23

All activities were in respect of continuing operations.

Consolidated Statement of Financial Position
As at 31 December

	Notes	2012 £'000	2011 £'000	2010 £'000
Assets				
Property, plant and equipment	15	**340**	361	504
Intangible assets	16	**23,234**	23,234	23,234
Reinsurance assets	22	**93,112**	107,161	62,215
Financial investments	17	**258,528**	245,585	250,938
Deferred acquisition costs	22	**12,391**	11,444	12,687
Deferred tax assets	24	**1,309**	6,253	-
Other assets		**-**	-	645
Prepayments and accrued income	18	**2,282**	6,539	7,189
Trade and other receivables	19	**71,273**	70,160	66,387
Cash and cash equivalents	20	**95,786**	115,228	99,378
Total assets		**558,255**	585,965	523,177
Equity				
Called up share capital	26	**5**	5	6
Share premium account		**1,237**	1,237	1,237
Capital redemption reserve		**1,021**	1,021	1,020
Own shares		**(9)**	(6)	(13)
Retained earnings		**52,426**	40,839	44,723
Total shareholders' equity		**54,680**	43,096	46,973
Liabilities				
Borrowings	21	**155,368**	158,282	157,023
Insurance liabilities	22	**302,793**	326,577	274,684
Provision for other liabilities	23	**4,907**	588	3,337
Deferred tax liabilities	24	**15,550**	21,669	21,375
Trade and other payables	25	**23,440**	33,005	18,075
Current tax liabilities		**582**	1,522	552
Accruals and deferred income		**935**	1,226	1,158
Total liabilities		**503,575**	542,869	476,204
Total equity and liabilities		**558,255**	585,965	523,177

Nature and purpose of each reserve

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

The share premium account represents the difference between the proceeds and the nominal value of each share issued and is not distributable, although expenses relating to the issue of shares can be offset against the premium arising on the related shares issued.

The capital redemption reserve relates to A ordinary shares (including preference shares) cancelled by Cathedral and is not distributable.

The own shares reserve relates to A ordinary shares and B ordinary shares in Cathedral which are held by the Cathedral Group's ESOP. Details of the ESOP are set out in Note 27.

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

Consolidated Statement of Changes in Equity
For the years ended 31 December

Year ended 31 December 2012	**Balance at 1 January 2012 £'000**	**Total Comprehensive Income for the year £'000**	**Purchase of Own Shares £'000**	**Total attributable to equity holders £'000**
Called up share capital	**5**	**-**	**-**	**5**
Share premium account	**1,237**	**-**	**-**	**1,237**
Capital redemption reserve	**1,021**	**-**	**-**	**1,021**
Own shares	**(6)**	**-**	**(3)**	**(9)**
Retained earnings	**40,839**	**11,587**	**-**	**52,426**
Total shareholders' equity	**43,096**	**11,587**	**(3)**	**54,680**

Year ended 31 December 2011	**Balance at 1 January 2011 £'000**	**Total Comprehensive Income for the year £'000**	**Share reorganisation £'000**	**Total attributable to equity holders £'000**
Called up share capital	6	-	(1)	5
Share premium account	1,237	-	-	1,237
Capital redemption reserve	1,020	-	1	1,021
Own shares	(13)	-	7	(6)
Retained earnings	44,723	(3,884)	-	40,839
Total shareholders' equity	46,973	(3,884)	7	43,096

Year ended 31 December 2010	**Balance at 1 January 2010 £'000**	**Total Comprehensive Income for the year £'000**	**Share reorganisation £'000**	**Total attributable to equity holders £'000**
Called up share capital	13	-	(7)	6
Share premium account	1,237	-	-	1,237
Capital redemption reserve	1,013	-	7	1,020
Own shares	(13)	-	-	(13)
Retained earnings	40,728	3,995	-	44,723
Total shareholders' equity	42,978	3,995	-	46,973

Consolidated Statement of Cash Flows
For the years ended 31 December

	Notes	2012 £'000	2011 £'000	2010 £'000
Cash generated from/(used in) operations	30	**1,300**	10,148	(34,856)
Interest received		**5,613**	6,209	5,135
Dividends received		**245**	249	278
Income taxes (paid)/received		**(4,958)**	980	(7,351)
Net cash from operating activities		**2,200**	17,586	(36,794)
Investing activities:				
Purchase of property, plant and equipment		**(311)**	(57)	(186)
Net cash (used in) investing activities		**(311)**	(57)	(186)
Financing activities:				
Interest paid on loan notes		**(15,684)**	(1,945)	(8,839)
Preference share dividends paid		**(4,824)**	(4)	(2,415)
Purchase of own shares by ESOP		**(99)**	(4)	-
Net cash (used in) financing activities		**(20,607)**	(1,953)	(11,254)
Net (decrease)/increase in cash and cash equivalents		**(18,718)**	15,576	(48,234)
Cash and cash equivalents at beginning of the year		**115,228**	99,378	146,875
Effect of exchange rate fluctuations on cash and cash equivalents		**(724)**	274	737
Cash and cash equivalents at end of the year	20	**95,786**	115,228	99,378

1. General Information

Cathedral is a limited company incorporated and domiciled in England and Wales. The principal activities of Cathedral and its subsidiaries ("the Cathedral Group") are described in section 4 of part 1 of this circular.

2. Basis of preparation of financial information

(a) *Basis of preparation*

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

(b) *Basis of consolidation*

The financial information of the Cathedral Group includes the accounts of Cathedral and its subsidiaries, together with the Cathedral Group's share of the assets, liabilities, revenues and expenses of the Lloyd's syndicates supported by the Cathedral Group's corporate member subsidiary for the years ended 31 December 2010, 31 December 2011, and 31 December 2012. Subsidiaries are those entities in which the Cathedral Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. The Cathedral Group's Employee Share Ownership Plan ("ESOP") is also included within the financial information of the Cathedral Group as the Cathedral Group is deemed to have de facto control of the assets and liabilities of the ESOP. Adjustments are made to convert the accounts of Cathedral and its subsidiaries prepared under UK GAAP into IFRS so as to remove any dissimilar accounting policies that may exist. All inter-company balances, profit and transactions are eliminated on consolidation.

(c) *Adoption of new and revised Standards*

All new standards and interpretations released by the International Accounting Standards Board ("IASB") have been considered and adopted where relevant in the preparation of this financial information.

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

The following Standards and Interpretations issued by the International Accounting Standards Board (IASB) and which are relevant to the Cathedral Group are in issue but not yet effective:

(i) Amendments to IFRS 7 ("Financial Instruments Disclosures");

(ii) IFRS 9 ("Financial Instruments");

(iii) IFRS 10 ("Consolidated Financial Statements");

(iv) IFRS 12 ("Disclosure of involvement with other entities");

(v) IFRS 13 ("Fair Value Measurement"); and

(vi) Amendments to IFRS 32 ("Financial Instruments Presentation") – effective 1 January 2013

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

3. Significant Accounting Policies

(a) *Recognition of insurance transactions and sources of data*

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

The Cathedral Group recognizes its proportion of all the transactions undertaken by the syndicates in which it participates within the Cathedral Group's Consolidated Statement of Comprehensive Income. Similarly, the Cathedral 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 Cathedral Group's participation as a percentage of each syndicate's total capacity for each year of account. For 2010, it included syndicates managed by managing agents outside of the Cathedral Group.

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

The financial information on these transactions, assets and liabilities of the syndicates is based on returns prepared by the Cathedral Group's managing agent subsidiary and submitted to Lloyd's, with any adjustments in respect of IFRS determined by the Cathedral Group. However, for other Syndicates in which the Cathedral Group participated, such information was provided by managing agents outside the Cathedral Group.

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

(b) *Use of estimates*

The financial information has been prepared using critical estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual outcomes may ultimately differ from those estimates, possibly significantly. Note 4 details the key risk factors impacting management estimates.

(c) *Insurance contracts*

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

(i) *Premiums*

Gross written premiums represent contracts on business incepting during the financial year, together with adjustments made in the year to premiums written in previous accounting periods. All premiums are gross of commission payable to intermediaries.

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

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

(ii) *Provision for unearned premiums*

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

(iii) *Claims incurred*

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

(iv) *Outstanding claims provisions*

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

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

The amount included in respect of IBNR is based on a detailed review of losses and loss development by the management of the Cathedral Group's managing agent subsidiary. This provision is reviewed by external consulting actuaries. IBNR for major catastrophe losses is individually assessed by the underwriting and non underwriting management of the Cathedral 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 Cathedral 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.

For the year ended 31 December 2010, with respect to the Cathedral Group's share of externally managed syndicates, the amount included in respect of IBNR is based on estimates by the managing agents of those Syndicates.

(v) *Reinsurance*

The reinsurers' share of provision for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

If a reinsurance asset is impaired, the Cathedral Group reduces its carrying amount accordingly, and will immediately recognize the impairment loss in the Consolidated Statement of Comprehensive Income. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the asset, that the Cathedral 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 Cathedral Group will receive from the reinsurer. For the year ended 31 December 2010, it should be noted that the amount of impairment, if any, for those syndicates managed by external managing agents is based on estimates from those agents and not by the Cathedral Group.

(vi) *Deferred acquisition costs*

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

(vii) *Liability adequacy tests*

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

(viii) *Reinsurance to close*

To the extent that the Cathedral Group participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the Cathedral 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 Cathedral Group has increased or decreased its syndicate participation from one year of account to the next, the difference between the reinsurance to close received and the reinsurance to close paid is shown in the Consolidated Statement of Comprehensive Income as either gross premiums written or reinsurance premiums payable as appropriate.

(d) *Revenue recognition*

(i) *Fees and commission income*

Fees and commission income consists mainly of managing agents fees and profit commission charged to Names in respect of the syndicates. This excludes any fees charged to the Cathedral Group's corporate member subsidiary. The fees are recognised in the accounting period in which the service is rendered by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided. Profit commission is recognised on open years where its measurement is reasonably certain.

(ii) *Investment return*

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

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

(iii) *Profit on sale of Syndicate capacity*

Where syndicate capacity is disposed during the period, any proceeds less the carrying value of the capacity disposed are recognized in the Consolidated Statement of Comprehensive Income in the same accounting period.

(e) *Other operating expenses*

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

(f) *Foreign currency translation*

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

Foreign currency transactions are translated into the functional currency for each entity using the exchange rates prevailing at the dates of the transactions or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. Non-monetary assets and liabilities that are measured at historical cost denominated in a foreign currency are translated using the historical exchange rate. The resulting exchange differences on translation are recorded in the Consolidated Statement of Comprehensive Income.

(g) *Goodwill*

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

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

(h) *Syndicate participation rights*

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

If a syndicate participation is sold, any related costs are offset against the disposal proceeds and any gain/loss is taken to the Consolidated Statement of Comprehensive Income in the same accounting period

(i) *Investments*

The Cathedral Group has classified 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 current bid prices at the balance sheet date. If the market for a financial investment is not active, the Cathedral 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. Unlisted investments are stated at fair value.

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

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Cathedral 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 Cathedral 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) *Property, plant and equipment*

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset and included in the Consolidated Statement of Comprehensive Income. Costs for repairs and maintenance are expensed as incurred.

(k) *Cash and cash equivalents*

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

(l) *Taxation*

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

Current income tax

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

Deferred income tax

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

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

Deferred income tax is calculated using tax rates (and laws) that are expected to apply when the liability is settled or the asset realised.

Deferred tax is charged or credited to the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in Consolidated Statement of Changes in Equity.

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

Deferred tax assets and liabilities are not discounted.

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

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

(m) *Employee Share Ownership Plan ("ESOP")*

The Cathedral Group's subsidiary, Cathedral Capital Holdings Limited, operates an ESOP which owns Investor Loan Notes and Manager Loan Notes in Cathedral Capital (Investments) Limited and A ordinary shares, B ordinary shares and Preference shares in Cathedral Capital Limited. The Cathedral Group has de facto control of these investments held by the ESOP and bears their benefits and risk, and records certain assets and liabilities of the ESOP as its own. Finance costs and administrative expenses are charged as they accrue. As the investments held by the ESOP are those of the Cathedral Group, the cost of the Investor Loan Notes and Manager Loan Notes and Preference shares are deducted from the Cathedral Group's borrowings, and the A ordinary shares and B ordinary shares held by the ESOP are presented as a reserve and deducted against equity shareholders' funds. Any profits arising on the sale of such shares by the ESOP are credited to this reserve.

(n) *Leased assets*

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

(o) *Borrowings*

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Where the interest rate changes during the period, the borrowing is revalued to the fair value at the date of the interest rate change and any change in value is recognised in the Consolidated Statement of Comprehensive Income during the accounting period.

Preference shares are included within borrowings as there is a specified repayment date.

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

(p) *Retirement benefit costs*

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

(q) *Provisions*

Provisions are recognised when the Cathedral Group has a present obligation as a result of a past event, and it is probable that the Cathedral 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.

(r) *Equity share capital*

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

4. Risk disclosure

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

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

During the years ended 31 December 2012 and 31 December 2011, the Cathedral Group only underwrote on the syndicates ("the syndicates") managed by its managing agency subsidiary.

However, for the 2010 calendar year, the Cathedral Group also underwrote on third party syndicates managed by external managing agents. Many of the operational controls applied to risks relating to the underwriting by those syndicates were dealt with by those managing agents and the Cathedral Group had only limited influence as to how those risks were managed. Such risks included insurance risk, liquidity risk, market risk and credit risk, as well as the managing agents' own group and operational risk.

Since December 2010, the Cathedral Group no longer wrote on syndicates managed by external managing agents and so the Cathedral Group has no risks remaining with respect to these syndicates.

The sections below outline the Cathedral Group's risk appetite and explain how it defines and manages each category of risk. This is in respect of its managed syndicates only.

4.1 *Insurance risk*

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

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

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Cathedral Group has developed its insurance underwriting strategy 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 Cathedral Group is accumulative by nature.

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

4.1.1 *Diversification across classes of business*

The Cathedral 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 Cathedral Group. An analysis of gross written premiums by class of business is as follows:

	2012		2011		2010	
	£'000	**%**	£'000	%	£'000	%
Non-marine	**80,901**	**41.9**	85,622	46.0	77,482	42.6
Direct property	**62,493**	**32.4**	54,583	29.4	53,048	29.2
Aviation	**16,609**	**8.6**	16,907	9.1	22,904	12.6
Cargo	**28,297**	**14.6**	24,118	13.0	21,631	11.9
Contingency	**3,358**	**1.7**	3,809	2.0	3,415	1.9
Satellite	**1,625**	**0.8**	815	0.4	2,858	1.5
FTC	**(21)**	**-**	97	0.1	492	0.3
Marine	**-**	**-**	(14)	-	-	-
Externally managed syndicates:					(37)	
	193,262	100.0	185,937	100.0	181,793	100.0
RITC adjustment*	4		-		991	
	193,266		**185,937**		**182,784**	

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

The Cathedral 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 Cathedral Group.

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

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

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

4.1.3 *Underwriting*

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

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

(a) *Accumulative loss including unknown / unexpected accumulations*

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

(b) *Risk of extreme losses*

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

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

(c) *Frequency of major loss*

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

The major defences the syndicates have to a high frequency of major loss on the reinsurance accounts are both the level at which cover is given and the limited number of reinstatements which they will typically provide. Additionally, the syndicates seek to purchase a depth of cover at the lower levels particularly to protect against a frequency of mid-sized claims. The direct and facultative 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.

(d) *Wording issues*

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

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

(e) *Unsustainable pricing*

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

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

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

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

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 Cathedral Group's managing agency subsidiary also reviews a sample of all risks underwritten by the syndicates.

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

4.1.4 *Reinsurance risk*

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

(a) *Inappropriate reinsurance programme / unplanned gaps*

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

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

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

(b) *Collapse of the retrocession market*

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

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

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

(c) *Lack of availability of reinsurance cover on acceptable terms*

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

4.1.5 *Reserving risk*

Reserves include both claims liabilities and also provisions for unearned premiums.

Reserves for claims liabilities do not represent an exact calculation of liability. Rather, reserves are estimates of what the Cathedral Group expects the ultimate settlement and administration of claims will cost. The reserving risk to the Cathedral Group is that reserves established by the Cathedral 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 below and on the following pages.

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

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

(ii) *Changes in assumptions and sensitivity analysis*

The assumptions used in respect of the syndicates were broadly consistent throughout all periods presented in the historical financial information.

(iii) *Sensitivity analysis - sensitivity of claims liabilities*

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

- those claims which are of a complex nature, particularly where information is not forthcoming or have the potential to develop further in the light of litigation or legal dispute; and
- future advices / notifications with respect to significant losses occurring close to the year end. By their nature, these claims are large at a gross level and, given the limited time between their event and the year-end, notifications by year-end would not be expected to be complete. Any projections of these losses at this early stage will be subjective. Nonetheless, the Cathedral 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 deteriorated by 1%, the impact would equate to pre-tax decrease on net assets of £1,525,000 in 2012 (2011: £1,648,000; 2010: £1,542,000).

The loss development table that follows provides information about historical claims development for the syndicates. It shows how the Cathedral 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 Cathedral 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 Cathedral Group.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of this financial information are cautioned against extrapolating redundancies or deficiencies of the past on current claims liabilities. The Cathedral Group believes that the estimate of total claims liabilities as at 31 December 2012 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.

Managed Syndicates loss ratio development table (whole account)

		Underwriting Year								
Gross	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
1 year	50%	89%	156%	28%	40%	74%	40%	64%	81%	55%
2 years	29%	76%	121%	36%	46%	70%	52%	92%	76%	
3 years	27%	76%	116%	36%	47%	70%	49%	93%		
4 years	26%	73%	117%	36%	46%	67%	47%			
5 years	26%	73%	117%	35%	45%	66%				
6 years	25%	73%	117%	35%	45%					
7 years	25%	73%	117%	34%						
8 years	25%	73%	116%							
9 years	25%	72%								
10 years	25%									

		Underwriting Year								
Net	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
1 year	52%	70%	87%	39%	58%	66%	53%	76%	86%	63%
2 years	33%	55%	72%	45%	57%	60%	58%	80%	77%	
3 years	29%	56%	66%	46%	57%	60%	52%	77%		
4 years	29%	53%	66%	44%	55%	56%	49%			
5 years	28%	53%	66%	44%	54%	55%				
6 years	28%	52%	66%	43%	53%					
7 years	28%	52%	65%	42%						
8 years	28%	52%	63%							
9 years	27%	51%								
10 years	27%									

The loss ratios above are in respect of the pure year of account and are the cumulative annually accounted loss ratios at each stage.

(b) *Provision for unearned premiums*

(i) *Process used to decide on assumptions*

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

(ii) *Changes in assumptions and sensitivity analysis*

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

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

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

If a change in the proportion of total business written of one percentage point was to become unearned this would equate to an adjustment of £1,933,000 in 2012 to the unearned premium provision (2011: £1,859,000; 2010: £1,828,000).

4.2 ***Credit risk***

The Cathedral 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 Cathedral Group is exposed to credit risk are:

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

The Cathedral 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 Cathedral Group's liability to its assureds. If a reinsurer fails to pay a claim for any reason, the Cathedral Group remains liable for payment to the policyholder. The creditworthiness of reinsurers is considered on a continuous basis by reviewing credit grades provided by rating agencies and other publicly available financial information. An external consultant is also contracted by the Cathedral Group's managing agency subsidiary to assist in assessing and evaluating reinsurers.

At the year-end, the Cathedral 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 Cathedral Group also has exposure to credit risk on its investments and cash holdings, whereby an issuer default results in the Cathedral 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 Cathedral Group's corporate investments, the Cathedral 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 Cathedral Group's concentration of credit risk, using ratings from external rating agencies. This analysis is in respect of the corporate group and the Cathedral Group's share of syndicates only.

At 31 December 2012	**A++ to A-**	**B++ to B-**	**F**	**Unrated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments	245,805	3,894	-	8,829	258,528
Insurance receivables	51,238	171	-	10,778	62,187
Reinsurance assets	75,414	1,432	-	16,266	93,112
Cash and cash equivalents	95,527	-	-	259	95,786
	467,984	5,497	-	36,132	509,613

At 31 December 2011	**A++ to A-**	**B++ to B-**	**F**	**Unrated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments (reclassified)	236,388	1,958	-	7,239	245,585
Insurance receivables	56,461	290	2,531	6,707	65,989
Reinsurance assets	89,393	56	2	17,710	107,161
Cash and cash equivalents	114,896	-	-	332	115,228
	497,138	2,304	2,533	31,988	533,963

At 31 December 2010	**A++ to A-**	**B++ to B-**	**F**	**Unrated**	**External Syndicates***	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments (reclassified)	240,006	-	-	8,671	2,261	250,938
Insurance receivables	43,538	432	2,354	12,994	537	59,855
Reinsurance assets	51,328	40	33	9,427	1,387	62,215
Cash and cash equivalents	95,838	-	-	334	3,206	99,378
	430,710	472	2,387	31,426	7,391	472,386

* Credit rating split of externally managed syndicates is unavailable to the Group.

Historically, credit ratings for financial investments have been based on ratings available from Standard and Poor's. During 2012, the approach was updated to include ratings from Standard & Poor's but in the event that they did not rate a specific investment, then either Moody's or Fitch were used instead depending on which agency/agencies rated the investment.

Some of the unrated reinsurance assets are fully collateralised in trust funds circa £10.0 million (2011: circa £8.0 million) (2010: circa 0.3 million). Also, a large element of the reinsurance assets relating to the Cathedral Group's share of syndicates are in respect of attritional IBNR losses and have not been allocated to any specific reinsurer.

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

	2012	2011	2010
	£'000	£'000	£'000
3 to 6 months past due	335	476	680
6 to 9 months past due	493	(281)	260
Greater than 9 months past due	1,129	847	322

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 Cathedral Group is exposed to call on its available cash resources as follows:

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

A portion of the corporate Group's assets are held as funds at Lloyd's which are restricted in terms of their use, although they can be drawn down to pay any cash calls to syndicates supported by the Cathedral Group. However, at 31 December 2012, the Cathedral Group had £17.2 million of cash available for use (2011: £24.4 million, 2010: £28.8 million).

The following tables group the debt securities, cash and cash equivalents, borrowings, gross provisions for outstanding claims, and claims outstanding recoverable from reinsurers into maturity date periods. The gross provisions for outstanding claims, and claims outstanding recoverable from reinsurers reflect the estimated, undiscounted cash flows. Note that the maturity date used below for the long term debt is on the same basis as its valuation, as set out in Note 21.

At 31 December 2012	< 1 year	1-3 years	4-5 years	> 5 years		Total
	£'000	£'000	£'000	£'000		£'000
Debt securities	**81,539**	**138,893**	**11,264**	**8,532**		**240,228**
Cash and cash equivalents	**95,786**	**-**	**-**	**-**		**95,786**
Borrowings	**-**	**(112,394)**	**(46,566)**	**-**		**(158,960)**
Gross provision for claims outstanding	**(98,514)**	**(107,396)**	**(27,409)**	**(7,902)**		**(241,221)**
Claims outstanding recoverable from reinsurers	**30,238**	**39,586**	**15,768**	**3,160**		**88,752**
	109,049	**(41,311)**	**(46,943)**	**3,790**		**24,585**

At 31 December 2011	< 1 year	1-3 years	4-5 years	> 5 years		Total
	£'000	£'000	£'000	£'000		£'000
Debt securities	118,550	105,238	3,772	1,196		228,756
Cash and cash equivalents	115,228	-	-	-		115,228
Borrowings	-	(112,490)	(48,710)	-		(161,200)
Gross provision for claims outstanding	(100,291)	(106,679)	(27,851)	(32,892)		(267,713)
Claims outstanding recoverable from reinsurers	36,448	36,872	11,141	18,415		102,876
	169,935	(77,059)	(61,648)	(13,281)		17,947

At 31 December 2010	< 1 year	1-3 years	4-5 years	> 5 years	External Syndicates*	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	143,602	95,566	1,505	115	2,261	243,049
Cash and cash equivalents	96,172	-	-	-	3,206	99,378
Borrowings	-	-	(160,974)	-	-	(160,974)
Gross provision for claims outstanding	(87,884)	(72,627)	(20,416)	(22,127)	(8,275)	(211,329)
Claims outstanding recoverable from reinsurers	24,067	16,994	5,767	8,897	1,387	57,112
	175,957	39,933	(174,118)	(13,115)	(1,421)	27,236

* Maturity period information in respect of the externally managed syndicates is not available to the Group.

4.4 *Market risks*

4.4.1 *Interest rate risk*

Interest rate risk is the risk that changes in interest rates will impact the Cathedral Group. This can arise where the Cathedral 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 Cathedral 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.

Except for the Preference shares, and Manager and Investor Loan Notes, all borrowings are at variable rates which are re-priced quarterly.

The rates are as set out in Note 21. Borrowings issued at variable rates expose the Cathedral 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 Cathedral Group as well as on the loans themselves. The Cathedral Group has not entered into any interest rate swap products.

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

	31 December 2012	**31 December 2011**	**31 December 2010**
Debt Securities	0.9%	1.2%	0.8%
Cash and cash equivalents	0.5%	0.9%	0.7%
Borrowings	7.5%	7.6%	6.0%

A change in market interest rates of one percentage point would equate to a pre tax movement on net assets/profits of £4,025,000 in 2012 (2011: £3,591,000; 2010: £3,927,000). This has been calculated by revaluing the assets and liabilities that would be affected by a movement in market interest rates.

4.4.2 *Equity price risk*

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

The Cathedral 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 Cathedral 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 £883,000 (2011: £724,000; 2010: £789,000).

4.4.3 *Currency risk*

The Cathedral 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 reduces 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 Cathedral Group is affected to some degree by movements in the US dollar. This is further compounded by the fact that any underwriting profits are currently only paid out once a year into members reserves at the distribution date although any release of funds at Lloyd's is subject to Lloyd's distribution tests. The Cathedral Group does not currently enter into any currency deals to mitigate this currency risk.

The table below shows the currency split of the Cathedral Group's assets and liabilities.

As at 31 December 2012	**STG**	**EUR**	**USD**	**CAD**	**Total**
	£'000	**in conv. £'000**	**in conv. £'000**	**in conv. £'000**	**in conv. £'000**
Assets					
Property, plant and equipment	**340**	**-**	**-**	**-**	**340**
Intangible assets	**23,234**	**-**	**-**	**-**	**23,234**
Reinsurers' share of technical provisions	**31,371**	**2,122**	**59,054**	**565**	**93,112**
Financial investments	**49,143**	**19,524**	**177,566**	**12,295**	**258,528**
Deferred acquisition costs	**2,383**	**435**	**8,432**	**1,141**	**12,391**
Deferred tax asset	**1,309**	**-**	**-**	**-**	**1,309**
Prepayments and accrued income	**1,520**	**182**	**580**	**-**	**2,282**
Trade and other receivables	**24,697**	**4,177**	**41,000**	**1,399**	**71,273**
Cash and cash equivalents	**50,368**	**5,317**	**33,672**	**6,429**	**95,786**
Total assets	**184,365**	**31,757**	**320,304**	**21,829**	**558,255**
Liabilities					
Borrowings	**112,394**	**8,963**	**34,011**	**-**	**155,368**
Insurance contracts	**76,621**	**19,286**	**194,277**	**12,609**	**302,793**
Provision for other liabilities and charges	**4,907**	**-**	**-**	**-**	**4,907**
Deferred tax liabilities	**15,550**	**-**	**-**	**-**	**15,550**
Trade and other payables	**9,025**	**509**	**13,776**	**130**	**23,440**
Current tax liabilities	**582**	**-**	**-**	**-**	**582**
Accruals and deferred income	**840**	**43**	**52**	**-**	**935**
Total liabilities	**219,919**	**28,801**	**242,116**	**12,739**	**503,575**
Net (liabilities)/assets	**(35,554)**	**2,956**	**78,188**	**9,090**	**54,680**
Impact of 10% currency movement:*	**-**	**296**	**7,819**	**909**	**9,024**

As at 31 December 2011	**STG**	**EUR**	**USD**	**CAD**	**Total**
	£'000	**in conv. £'000**	**in conv. £'000**	**in conv. £'000**	**in conv. £'000**
Assets					
Property, plant and equipment	361	-	-	-	361
Intangible assets	23,234	-	-	-	23,234
Reinsurers' share of technical provisions	42,186	942	63,377	656	107,161
Financial investments	57,683	19,642	157,253	11,007	245,585
Deferred acquisition costs	1,793	429	8,232	990	11,444
Deferred tax asset	6,253	-	-	-	6,253
Prepayments and accrued income	5,841	205	493	-	6,539
Trade and other receivables	18,700	4,693	45,287	1,480	70,160
Cash and cash equivalents	63,210	6,852	40,076	5,090	115,228
Total assets	219,261	32,763	314,718	19,223	585,965
Liabilities					
Borrowings	112,490	9,579	36,213	-	158,282
Insurance contracts	99,931	15,943	198,662	12,041	326,577
Provision for other liabilities and charges	588	-	-	-	588
Deferred tax liabilities	21,669	-	-	-	21,669
Trade and other payables	19,567	309	12,863	266	33,005
Current tax liabilities	1,522	-	-	-	1,522
Accruals and deferred income	1,111	52	63	-	1,226
Total liabilities	256,878	25,883	247,801	12,307	542,869
Net (liabilities)/assets	(37,617)	6,880	66,917	6,916	43,096
Impact of 10% currency movement:*	-	688	6,692	692	8,072

As at 31 December 2010	STG	EUR	USD	CAD	External Syndicates	Total
	£'000	in conv. £'000	in cov. £'000	in cov. £'000	in cov. £'000	in cov. £'000
Assets						
Property, plant and equipment	504	-	-	-	-	504
Intangible assets	23,234	-	-	-	-	23,234
Reinsurers' share of technical provisions	11,810	698	47,659	661	1,387	62,215
Financial investments	58,241	21,558	159,421	9,457	2,261	250,938
Deferred acquisition costs	1,708	553	9,333	1,093	-	12,687
Deferred tax asset	-	-	364	281	-	645
Prepayments and accrued income	6,487	210	492	-	-	7,189
Trade and other receivables	12,766	4,970	46,824	1,272	555	66,387
Cash and cash equivalents	53,516	7,946	28,435	6,275	3,206	99,378
Total assets	**168,266**	**35,935**	**292,528**	**19,039**	**7,409**	**523,177**
Liabilities						
Borrowings	112,501	9,610	34,912	-	-	157,023
Insurance contracts	43,402	16,478	194,028	12,720	8,056	274,684
Provision for other liabilities and charges	3,337	-	-	-	-	3,337
Deferred tax liabilities	21,375	-	-	-	-	21,375
Trade and other payables	5,323	315	11,923	383	131	18,075
Current tax liabilities	552	-	-	-	-	552
Accruals and deferred income	1,027	53	62	-	16	1,158
Total liabilities	**187,517**	**26,456**	**240,925**	**13,103**	**8,203**	**476,204**
Net (liabilities)/assets	**(19,251)**	**9,479**	**51,603**	**5,936**	**(794)**	**46,973**
Impact of 10% currency movement:*	-	948	5,160	594	-	6,702

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

5. Segmental Reporting

Analysis of Group's Reportable Segments

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

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

The Cathedral Group is managed at this level and results are reported to the Chief Operating Decision Maker at this level too.

The Boards of Cathedral Capital Holdings Limited and Cathedral Capital Limited (the ultimate parent company) have delegated certain day-to-day responsibilities to the executive officers of Cathedral. The role of Chief Operating Decision Maker has been delegated to the Cathedral Group Chief Executive Officer, Peter Scales.

			For the year ended 31 December 2012		
	Syndicates	**Corporate Funds**	**Corporate Other**	**Elimination**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Gross premiums written	**193,262**	**-**	**-**	**-**	**193,262**
Underwriting:					
Net earned premiums	**145,067**	**-**	**-**	**-**	**145,067**
Net claims incurred	**(74,162)**	**-**	**-**	**-**	**(74,162)**
Underwriting expenses	**(33,021)**	**-**	**-**	**-**	**(33,021)**
Underwriting result	**37,884**	**-**	**-**	**-**	**37,884**
Other income and expenses:					
Fees and commission income	**-**	**-**	**3,389**	**(1,615)**	**1,774**
Investment return	**2,140**	**3,858**	**-**	**-**	**5,998**
Other income	**-**	**-**	**43**	**-**	**43**
Operating expenses	**(12,746)**	**(471)**	**(3,006)**	**1,615**	**(14,608)**
Exchange gains/(losses)	**(2,623)**	**-**	**(3,549)**	**-**	**(6,172)**
Finance costs	**(14,508)**	**(1,993)**	**6,113**	**-**	**(10,388)**
Profit before tax	**10,147**	**1,394**	**2,990**	**-**	**14,531**
Income tax (expense)	**(2,054)**	**(283)**	**(607)**	**-**	**(2,944)**
Profit after tax	**8,093**	**1,111**	**2,383**	**-**	**11,587**
Combined ratio	**82.7%**	**N/A**	**N/A**	**N/A**	**83.5%**
Total assets	**-**	**192,121**	**39,262**	**-**	**231,383**
Total liabilities	**-**	**-**	**(176,703)**	**-**	**(176,703)**
Net assets/(liabilities)	**-**	**192,121**	**(137,441)**	**-**	**54,680**
Capital expenditure	**-**	**-**	**311**	**-**	**311**

The combined ratio is net of fees and commission income and excludes finance costs relating to Preference share dividends and Investor and Manager Loan Notes interest as detailed in Note 10.

			For the year ended 31 December 2011		
	Syndicates	**Corporate Funds**	**Corporate Other**	**Elimination**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Gross premiums written	185,937	-	-	-	185,937
Underwriting:					
Net earned premiums	138,542	-	-	-	138,542
Net claims incurred	(101,925)	-	-	-	(101,925)
Underwriting expenses	(31,368)	-	-	-	(31,368)
Underwriting result	5,249	-	-	-	5,249
Other income and expenses:					
Fees and commission income	-	-	5,357	(1,592)	3,765
Investment return	2,349	2,325	-	-	4,674
Other income	-	-	44	-	44
Operating expenses	(9,659)	(209)	(2,112)	1,613	(10,367)
Exchange gains	1,932	-	399	-	2,331
Finance costs	279	(4,564)	(7,951)	(45)	(12,281)
Profit/(loss) before tax	150	(2,448)	(4,263)	(24)	(6,585)
Income tax (expense)/credit	(61)	1,003	1,749	10	2,701
Profit/(loss) after tax	89	(1,445)	(2,514)	(14)	(3,884)
Combined ratio	103.2%	N/A	N/A	N/A	103.1%
Total assets	-	181,269	48,102	-	229,371
Total liabilities	-	-	(186,275)	-	(186,275)
Net assets/(liabilities)	-	181,269	(138,173)	-	43,096
Capital expenditure	-	-	57	-	57

				For the year ended 31 December 2010		
	Managed Syndicates	**External Syndicates**	**Corporate Funds**	**Corporate Other**	**Elimination**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross premiums written	181,830	(37)	-	-	-	181,793
Underwriting:		-				
Net earned premiums	140,485	55	-	-	-	140,540
Net claims incurred	(94,693)	1,263	-	-	-	(93,430)
Underwriting expenses	(30,938)	(60)	-	-	-	(30,998)
Underwriting result	14,854	1,258	-	-	-	16,112
Other income and expenses:						
Fees and commission income	-	-	-	6,638	(1,577)	5,061
Investment return	2,541	82	3,386	-	-	6,009
Other income	-	-	-	16	-	16
Operating expenses	(9,355)	(50)	(497)	(2,370)	1,609	(10,663)
Exchange gains	1,097	(14)	-	437	-	1,520
Finance costs	(6,130)	(857)	(1,938)	(3,166)	(21)	(12,112)
Profit before tax	3,007	419	951	1,555	11	5,943
Income tax expense	(986)	(137)	(312)	(510)	(3)	(1,948)
Profit after tax	2,021	282	639	1,045	8	3,995
Combined ratio	97.1%	(1736.4%)	N/A	N/A	N/A	94.5%
Total assets	-	-	156,965	73,571	-	230,536
Total liabilities	-	-	-	(183,563)	-	(183,563)
Net assets	-	-	156,965	(109,992)	-	46,973
Capital expenditure	-	-	-	186	-	186

All revenues for each reportable segment are from external customers, with the exception of £1,615,000 (2011: £1,592,000; 2010: £1,577,000) of sales received by Corporate Other which are from syndicates.

Corporate Other also includes depreciation and amortisation of £122,000 (2011: £200,000; 2010: £244,000) and impairment of £210,000 (2011: £nil; 2010: £nil).

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

Reconciliation of reportable segments to the Financial Information

			For the year ended 31 December 2012		
	Per total Reportable Segments	**Adjustment for RITC premiums**	**Syndicate assets and liabilities**	**Gross up adjustments**	**Per total Group Accounts**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Gross premiums written	**193,262**	**4**	**-**	**-**	**193,266**
Underwriting:					
Net earned premiums	**145,067**	**4**	**-**	**-**	**145,071**
Net claims incurred	**(74,162)**	**(4)**	**-**	**-**	**(74,166)**
Underwriting expenses	**(33,021)**	**-**	**-**	**-**	**(33,021)**
Underwriting result	**37,884**	**-**	**-**	**-**	**37,884**
Other income and expenses:					
Fees and commission income	**1,774**	**-**	**-**	**-**	**1,774**
Investment return	**5,998**	**-**	**-**	**-**	**5,998**
Other income	**43**	**-**	**-**	**-**	**43**
Operating expenses	**(14,608)**	**-**	**-**	**-**	**(14,608)**
Exchange gains	**(6,172)**	**-**	**-**	**-**	**(6,172)**
Finance costs	**(10,388)**	**-**	**-**	**-**	**(10,388)**
Profit before tax	**14,531**	**-**	**-**	**-**	**14,531**
Income tax (expense)	**(2,944)**	**-**	**-**	**-**	**(2,944)**
Profit after tax	**11,587**	**-**	**-**	**-**	**11,587**
Total assets	**231,383**	**-**	**324,073**	**2,799**	**558,255**
Total liabilities	**(176,703)**	**-**	**(324,073)**	**(2,799)**	**(503,575)**
Net assets	**54,680**	**-**	**-**	**-**	**54,680**

			For the year ended 31 December 2011		
	Per total Reportable Segments	**Adjustment for RITC premiums**	**Syndicate assets and liabilities**	**Gross up adjustments**	**Per total Group Accounts**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Gross premiums written	185,937	-	-	-	185,937
Underwriting:					
Net earned premiums	138,542	(26)	-	-	138,516
Net claims incurred	(101,925)	26	-	-	(101,899)
Underwriting expenses	(31,368)	-	-	-	(31,368)
Underwriting result	5,249	-	-	-	5,249
Other income and expenses:					
Fees and commission income	3,765	-	-	-	3,765
Investment return	4,674	-	-	-	4,674
Other income	44	-	-	-	44
Operating expenses	(10,367)	-	-	-	(10,367)
Exchange gains	2,331	-	-	-	2,331
Finance costs	(12,281)	-	-	-	(12,281)
(Loss) before tax	(6,585)	-	-	-	(6,585)
Income tax credit	2,701	-	-	-	2,701
(Loss) after tax	(3,884)	-	-	-	(3,884)
Total assets	229,371	-	351,790	4,804	585,965
Total liabilities	(186,275)	-	(351,790)	(4,804)	(542,869)
Net assets	43,096	-	-	-	43,096

			For the year ended 31 December 2010		
	Per total Reportable Segments	**Adjustment for RITC premiums**	**Syndicate assets and liabilities**	**Gross up adjustments**	**Per total Group Accounts**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Gross premiums written	181,793	991	-	-	182,784
Underwriting:					
Net earned premiums	140,540	991	-	-	141,531
Net claims incurred	(93,430)	(991)	-	-	(94,421)
Underwriting expenses	(30,998)	-	-	-	(30,998)
Underwriting result	16,112	-	-	-	16,112
Other income and expenses:					
Fees and commission income	5,061	-	-	-	5,061
Investment return	6,009	-	-	-	6,009
Other income	16	-	-	-	16
Operating expenses	(10,663)	-	-	-	(10,663)
Exchange gains	1,520	-	-	-	1,520
Finance costs	(12,112)	-	-	-	(12,112)
Profit before tax	5,943	-	-	-	5,943
Income tax expense	(1,948)	-	-	-	(1,948)
Profit after tax	3,995	-	-	-	3,995
Total assets	230,536	-	292,641	-	523,177
Total liabilities	(183,563)	-	(292,641)	-	(476,204)
Net assets	46,973	-	-	-	46,973

Explanations of the reconciling items

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

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

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

Geographical information

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

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

Information about major customers

No revenues from transactions with a single external customer amounted to 10 per cent or more of the Cathedral Group's revenues for the years ended 31 December 2012, 31 December 2011, or 31 December 2010.

6. Fees and commission income

	2012 £'000	2011 £'000	2010 £'000
Managing agency fees	**957**	940	932
Profit commission	**817**	2,825	4,129
	1,774	3,765	5,061

7. Investment return

	2012 £'000	2011 £'000	2010 £'000
Syndicate investments			
Investment income – interest	**2,599**	3,354	3,488
Realised investment (losses)	**(349)**	(884)	(865)
Net investment return on syndicate investments	**2,250**	2,470	2,623
Funds at Lloyd's			
Investment income – interest	**2,588**	2,498	2,048
Investment income – dividends	**244**	258	283
Realised investment (losses)	**(416)**	(306)	(105)
Net fair value gains/(losses) on assets at fair value through the Consolidated Statement of Comprehensive Income	**1,047**	(538)	859
Net investment return on funds at Lloyd's investments	**3,463**	1,912	3,085
Cash and other investments			
Net investment return on cash and other investments	**285**	292	301
Net investment return	**5,998**	4,674	6,009

8. Other operating expenses

	2012 £'000	2011 £'000	2010 £'000
Syndicate operating expenses	**6,184**	6,274	4,166
Names' personal expenses on Lloyd's syndicates	**1,521**	1,783	1,831
Corporate expenses	**6,903**	2,310	4,666
	14,608	10,367	10,663

9. Net foreign exchange losses/(gains)

	2012 £'000	2011 £'000	2010 £'000
Retranslation of underwriting balances	**541**	(489)	(603)
Exchange loss/(gain) to maintain non-monetary assets and liabilities at historical rates of exchange	**2,082**	(1,443)	(480)
Exchange (gain)/loss on long-term loan notes	**(2,000)**	228	519
Retranslation of other corporate balances	**5,549**	(627)	(956)
	6,172	(2,331)	(1,520)

10. Finance costs

	2012 £'000	2011 £'000	2010 £'000
Interest expense on:			
- Unsecured Floating Rate Subordinated Notes	**1,897**	1,924	1,946
- Investor and Manager Loan Notes	**6,894**	6,900	6,900
- Other	**1**	—	—
Effective interest rate method adjustment	**(817)**	1,042	851
Dividends on Preference shares	**2,413**	2,415	2,415
	10,388	12,281	12,112

11. Profit/(loss) on ordinary activities before taxation

	2012 £'000	2011 £'000	2010 £'000
The profit/(loss) on ordinary activities before taxation is stated after charging:			
Operating lease charges – rent	**44**	37	27
Operating lease charges – other	**3**	3	1
Depreciation of tangible fixed assets	**122**	200	244
Impairment of tangible fixed assets	**210**	-	-
Fees payable to the auditor for:			
Audit of Cathedral's annual accounts	**12**	12	10
Audit of Cathedral's subsidiaries' annual accounts	**90**	88	72
Technical and actuarial support	**2**	4	5
Taxation services	**32**	27	25
Employee services	**3**	3	1
Internal review	**10**	4	—

12. Employees

	2012 £'000	2011 £'000	2010 £'000
The aggregate payroll costs borne by the Corporate Group were as follows:			
Salaries	**4,970**	1,087	3,306
Social security costs	**688**	156	435
Pension costs under defined contribution plans	**113**	100	95
	5,771	1,343	3,836

The average monthly number of people (excluding non-executive directors) employed by the Cathedral Group during the year ended 31 December 2012 was 60 (2011: 56; 2010: 52). Of this, 34 were dedicated underwriting and claims (2011: 32; 2010: 31) with the remainder of employees involved in operations, administration, actuarial and finance.

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

Refer to Note 31 for details of compensation of key management personnel.

13. Income tax expense/(credit)

	2012 £'000	2011 £'000	2010 £'000
(a) Analysis of expense/(credit) in the year			
Current tax			
Corporation tax at 24.5% (2011: 26.5%; 2010: 28%)	**4,099**	3,429	2,999
Adjustments in respect of previous years	**(563)**	(664)	(3,373)
Overseas tax	**313**	469	174
Withholding tax	**24**	24	24
Other tax	**246**	—	—
Total current tax expense	**4,119**	3,258	(176)
Deferred taxation			
Underwriting profits	**(2,322)**	(5,721)	(3,047)
Investment losses	**71**	(15)	318
Temporary differences on accelerated capital allowances	**(42)**	(19)	(19)
Adjustments in respect of previous years	**141**	(38)	3,477
Change in tax rates	**(1,276)**	(924)	(456)
Change in claims equalisation reserve	**2,255**	1,263	-
Other temporary differences	**(2)**	(505)	1,851
Total deferred tax (credit)/charge	**(1,175)**	(5,959)	2,124
Tax expense/(credit)	**2,944**	(2,701)	1,948
(b) Factors affecting the tax charge for the year			
Profit/(loss) on ordinary activities before tax	**14,531**	(6,585)	5,943
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%; 2010: 28%)	**3,560**	(1,745)	1,664
Expenses not deductible for tax purposes	**591**	641	683
Temporary differences	**—**	—	2
Change in tax rates	**(1,276)**	(1,286)	(592)
Investment income received net of tax	**(60)**	(68)	(79)
Investment income not taxable	**(32)**	(33)	(32)
Overseas tax	**313**	469	174
Withholding tax	**24**	24	24
Prior period adjustments	**(176)**	(703)	104
Total tax expense/(credit)	**2,944**	(2,701)	1,948

14. Earnings/(loss) per share

	2012	2011	2010
The basic earnings/(loss) per share is calculated as follows:			
Profit/(loss) for the year (£'000)	**11,587**	(3,884)	3,995
Basic and diluted weighted average number of shares (no.)*	**1,098,425**	1,229,507	1,236,277
Basic and diluted earnings/(loss) per share (£)	**10.55**	(3.16)	3.23

* Note that the weighted average number of shares excludes the shares held by the ESOP.

The A ordinary, B ordinary, B1 ordinary and Ordinary shares all rank pari passu with respect to profits arising in the Cathedral Group. Consequently, no separate earnings per share has been calculated for each class of share.

15. Property, plant and equipment

	Lease £'000	**Computers & other equipment £'000**	**Furniture, fixtures & fittings £'000**	**Assets under construction £'000**	**Total 2012 £'000**
Cost					
At 1 January 2012	**29**	**943**	**569**	**210**	**1,751**
Additions	**—**	**309**	**2**	**—**	**311**
Disposals	**—**	**—**	**—**	**—**	**—**
At 31 December 2012	**29**	**1,252**	**571**	**210**	**2,062**
Depreciation and impairment					
At 1 January 2012	**29**	**810**	**551**	**—**	**1,390**
Charge for the year	**—**	**116**	**6**	**—**	**122**
Disposals	**—**	**—**	**—**	**—**	**—**
Impairment	**—**	**—**	**—**	**210**	**210**
At 31 December 2012	**29**	**926**	**557**	**210**	**1,722**
Net book value					
At 31 December 2012	**—**	**326**	**14**	**—**	**340**
At 1 January 2012	**—**	**133**	**18**	**210**	**361**

	Lease £'000	**Computers & other equipment £'000**	**Furniture, fixtures & fittings £'000**	**Assets under construction £'000**	**Total 2011 £'000**
Cost					
At 1 January 2011	**29**	**901**	**565**	**210**	**1,705**
Additions	**—**	**53**	**4**	**—**	**57**
Disposals	**—**	**(11)**	**—**	**—**	**(11)**
At 31 December 2011	**29**	**943**	**569**	**210**	**1,751**
Depreciation					
At 1 January 2011	**25**	**696**	**480**	**—**	**1,201**
Charge for the year	**4**	**125**	**71**	**—**	**200**
Disposals	**—**	**(11)**	**—**	**—**	**(11)**
At 31 December 2011	**29**	**810**	**551**	**—**	**1,390**
Net book value					
At 31 December 2011	**—**	**133**	**18**	**210**	**361**
At 1 January 2011	**4**	**205**	**85**	**210**	**504**

	Lease £'000	**Computers & other equipment £'000**	**Furniture, fixtures & fittings £'000**	**Assets under construction £'000**	**Total 2010 £'000**
Cost					
At 1 January 2010	**29**	**815**	**552**	**210**	**1,606**
Additions	**—**	**173**	**13**	**—**	**186**
Disposals	**—**	**(87)**	**—**	**—**	**(87)**
At 31 December 2010	**29**	**901**	**565**	**210**	**1,705**
Depreciation					
At 1 January 2010	**20**	**647**	**377**	**—**	**1,044**
Charge for the year	**5**	**136**	**103**	**—**	**244**
Disposals	**—**	**(87)**	**—**	**—**	**(87)**
At 31 December 2010	**25**	**696**	**480**	**—**	**1,201**
Net book value					
At 31 December 2010	**4**	**205**	**85**	**210**	**504**
At 1 January 2010	**9**	**168**	**175**	**210**	**562**

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

16. Intangible assets

As at 31 December 2012	**Syndicate participations £'000**	**Goodwill £'000**	**Total £'000**
Cost at 1 January	**22,934**	**300**	**23,234**
Disposals in the year	**—**	**—**	**—**
Cost at 31 December	**22,934**	**300**	**23,234**

As at 31 December 2011	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 January	22,934	300	23,234
Disposals in the year	—	—	—
Cost at 31 December	22,934	300	23,234

As at 31 December 2010	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 January	22,934	300	23,234
Disposals in the year	—	—	—
Cost at 31 December	22,934	300	23,234

The cost of syndicate participations relates to the Cathedral Group's underwriting subsidiary's right to participate on a syndicate for future underwriting years. The carrying value of these rights consists of the value of the syndicate participation rights when the Cathedral Capital Holdings Limited group was acquired on 6 December 2006, with subsequent additions at cost. The value ascribed on 6 December 2006 was based on expected future underwriting results generated by each syndicate, plus any residual value in the auctions. This was then discounted for the time value of money and uncertainty.

Goodwill relates to the difference between the consideration paid for the Cathedral Capital Holdings Limited group and the fair value of the assets acquired in December 2006. The useful life of the goodwill is deemed to be indefinite.

Having considered the future prospects of the Lloyd's insurance market, the Board believe that the Cathedral Group's ownership of the syndicate participation rights and the goodwill will provide economic benefits over an indefinite period. Consequently they are not annually amortised but the Cathedral Group annually tests these assets for impairment. They are allocated to the Cathedral Group's cash generating units as follows:

As at 31 December 2010, 2011 and 2012	**Managed Syndicate £'000**	**Syndicate Management £'000**	**Total £'000**
Goodwill	**—**	**300**	**300**
Syndicate capacity	**22,934**	**—**	**22,934**

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

Value in use for Goodwill is based on only those employees who spend some or all of their time working on the corporate part of the Cathedral Group who held employment contracts with the Cathedral Capital Holdings Limited group at the date of acquisition and who are still employed by the Cathedral Group.

17. Financial investments

The Cathedral Group's financial investments consist of:

	31 December					
	2012	**2012**	2011	2011	2010	2010
	Market value £'000	**Cost £'000**	Market value £'000	Cost £'000	Market Value £'000	Cost £'000
Corporate						
Shares and other variable yield securities	**6,886**	**6,110**	5,265	4,779	5,100	4,315
Alternative investments	**1,942**	**1,296**	1,973	1,415	2,789	2,329
Debt and other fixed income securities	**141,991**	**141,501**	117,602	117,783	109,730	109,573
Deposits held with credit institutions	**9,472**	**9,472**	9,591	9,591	–	–
Total investments - Corporate	**160,291**	**158,379**	134,431	133,568	117,619	116,217
Syndicate participations						
Debt securities and other fixed interest securities	**98,237**	**111,390**	111,154	111,390	133,319	126,035
Total investments - Syndicate participations	**98,237**	**111,390**	111,154	111,390	133,319	126,035
Group financial investments	**258,528**	**269,769**	245,585	244,958	250,938	242,252

The Cathedral Group's financial investments are all categorised as investments at fair value through profit or loss. All investments are classified as level 1 of the fair value hierarchy.

Of the Cathedral Group's investments above, £150,819,000 (2011: £124,840,000; 2010: £117,619,000) are held as funds at Lloyd's and therefore their use is restricted. All investments held by syndicates are only available for investment and for paying of claims and expenses by the syndicates to their policyholders. Corporate investments of £150,819,000 (2011: £124,840,000; 2010: £117,619,000) are listed on recognised stock exchanges.

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

18. Prepayments and accrued income

	2012 £'000	2011 £'000	2010 £'000
Accrued income – investments	**897**	1,039	1,095
Accrued income – underwriting	**817**	5,087	5,620
Prepayments	**568**	413	474

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

19. Trade and other receivables

	2012 £'000	2011 £'000	2010 £'000
Arising out of direct insurance operations	**10,491**	10,196	13,159
Arising out of reinsurance operations	**51,696**	55,793	46,696
Trade receivables	**4,864**	-	-
Tax recoverable	**563**	664	3,932
Amounts owed by syndicates	**2,660**	2,362	2,252
Other receivables	**999**	1,145	348
	71,273	70,160	66,387

Of the amounts due from managed syndicates, £nil (2011: £nil; 2010: £nil) is due in more than one year.

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

20. Cash and cash equivalents

	2012 £'000	2011 £'000	2010 £'000
Cash and cash equivalents consist of:			
Cash at bank and in hand	**66,055**	78,659	70,858
Short term investments	**29,731**	36,569	28,520
	95,786	115,228	99,378
Cash and cash equivalents consist of:			
Cash and cash equivalents held by syndicates	**63,957**	68,390	60,032
Cash and cash equivalents held within funds at Lloyd's	**14,384**	22,142	10,234
Cash and cash equivalents held by ESOP	**255**	327	328
Cash and cash equivalents available for use by the Cathedral Group	**17,190**	24,369	28,784
	95,786	115,228	99,378

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

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

21. Borrowings

The Cathedral Group's borrowings (at carrying value) consist of:

	2012 £'000	2011 £'000	2010 £'000
Unsecured Floating Rate Subordinated Notes	**42,974**	45,792	44,522
Preference shares	**37,461**	37,493	37,496
Loan Notes	**74,933**	74,997	75,005
	155,368	158,282	157,023

The carrying amount disclosed above reasonably approximates to fair values at year end. These borrowings exclude Preference Shares and Loan Notes held by the ESOP.

The Unsecured Floating Rate Subordinated Notes are all classed as non-current.

Unsecured Floating Rate Subordinated Notes

During 2004, two Unsecured Floating Rate Subordinated Notes Due 2034 were issued by Cathedral Capital Holdings Limited. 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. Cathedral 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. Cathedral 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 Cathedral Capital Holdings Limited. 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. Cathedral 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. Cathedral can redeem these Notes in whole or in part, from time to time, on any interest payment date.

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

Loan Notes

On 12 December 2006 the Cathedral Group's subsidiary, Cathedral Capital (Investments) Limited, created two separate instruments the first being £25,163,353 Fixed Rate Unsecured Manager Loan Notes 2014 ("MLN") and the second £61,913,428 Fixed Rate Unsecured Investor Loan Notes 2014 and payment in kind notes ("ILN"). The ILN were issued to the financial investors for cash and the MLN were issued to certain shareholders of Cathedral Capital Holdings Limited as consideration for the acquisition of their shares in that company. These notes pay a coupon of 9.2% per annum.

On 12 December 2006 £8,748,731 of the MLN were transferred to Cathedral Capital Limited by the holders of these MLN as consideration for B ordinary 1 pence shares, Ordinary 1 pence shares and Preference £1 shares in that company. On the same date these MLN were repaid at par by Cathedral Capital (Investments) Limited.

On 31 December 2008, £424,650 of the MLN and £1,601,700 of the ILN were redeemed in Cathedral Capital (Investments) Limited.

The amount of interest charged to the Cathedral Group in respect of the loan notes for the year ended 31 December 2012 was £6,894,000 (2011: £6,900,000; 2010: £6,900,000).

Preference shares

On 12 December 2006, Cathedral issued 39,158,156 Preference £1 shares dated 2014 and paying a fixed rate of 6.44%. These shares were allotted and issued to the holders of the MLN (as set out above) and to new financial investors of Cathedral. These shares are valued at par and recorded on the balance sheet as a liability as there is a fixed repayment date. The amount recorded on the Consolidated Balance Sheet is after deducting those Preference shares held by the ESOP. Further details of the ESOP are set out in Note 27.

On 31 December 2008, £1,013,194 of the Preference Shares were redeemed in Cathedral Capital Limited.

The amount of dividends charged to the Cathedral Group in respect of the Preference shares for the year ended 31 December 2012 was £2,413,000 (2011: £2,415,000; 2010: £2,415,000).

Facilities

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

22. Insurance liabilities and reinsurance assets

	2012 £'000	2011 £'000	2010 £'000
Gross			
Claims outstanding	**241,221**	267,713	211,329
Provision for unearned premiums	**61,572**	58,864	63,355
	302,793	326,577	274,684
Recoverable from reinsurers			
Claims outstanding	**88,752**	102,876	57,112
Provision for unearned premiums	**4,360**	4,285	5,103
	93,112	107,161	62,215
Net	**209,681**	219,416	212,469

Provision for claims outstanding

The provision for claims outstanding relates to underwriting losses which have been incurred by the Cathedral Group but which have not yet been settled and includes an element of claims handling costs. The payment of these provisions is dependent on a large number of factors including the time for the legal aspects of a claim to be resolved, the time at which a full assessment of a claim can be completed and the processing of information through the broker. An element of the claims provision will be reimbursed by the Cathedral 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 Cathedral 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 Cathedral 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 Cathedral Group. Although for insurance entities this is classed as a provision, it is actually deferred income.

22.1 Reconciliation of changes in insurance liabilities and reinsurance assets

	Claims outstanding £'000	**Provision for unearned premiums £'000**	**Total 2012 £'000**
Gross insurance liabilities			
Provision at 1 January	**267,713**	**58,864**	**326,577**
Additional provisions made in the year	**100,917**	**56,624**	**157,541**
Amounts used in the year	**(108,550)**	**(54,494)**	**(163,044)**
Unused amount reversed during the year	**(10,297)**	**—**	**(10,297)**
Exchange differences	**(8,562)**	**578**	**(7,984)**
Provision at 31 December	**241,221**	**61,572**	**302,793**

	Claims outstanding £'000	**Provision for unearned premiums £'000**	**Total 2012 £'000**
Reinsurance assets			
Provision at 1 January	**102,876**	**4,285**	**107,161**
Additional provisions made in the year	**26,179**	**4,383**	**30,562**
Amounts used in the year	**(36,982)**	**(4,487)**	**(41,469)**
Unused amount reversed during the year	**—**	**—**	**—**
Exchange differences	**(3,321)**	**179**	**(3,142)**
Provision at 31 December	**88,752**	**4,360**	**93,112**
Net	**152,469**	**57,212**	**209,681**

	Claims outstanding £'000	Provision for unearned premiums £'000	Total 2011 £'000
Gross insurance liabilities			
Provision at 1 January	**211,329**	**63,355**	**274,684**
Additional provisions made in the year	**166,017**	**54,580**	**220,597**
Amounts used in the year	**(89,473)**	**(57,493)**	**(146,966)**
Unused amount reversed during the year	**(13,604)**	**—**	**(13,604)**
Exchange differences	**(6,556)**	**(1,578)**	**(8,134)**
Provision at 31 December	**267,713**	**58,864**	**326,577**

	Claims outstanding £'000	Provision for unearned premiums £'000	Total 2011 £'000
Reinsurance assets			
Provision at 1 January	**57,112**	**5,103**	**62,215**
Additional provisions made in the year	**68,936**	**4,455**	**73,391**
Amounts used in the year	**(22,504)**	**(5,101)**	**(27,605)**
Unused amount reversed during the year	**(462)**	**—**	**(462)**
Exchange differences	**(206)**	**(172)**	**(378)**
Provision at 31 December	**102,876**	**4,285**	**107,161**
Net	**164,837**	**54,579**	**219,416**

	Claims outstanding-gross £'000	Provision for unearned premiums £'000	Other provisions £'000	Total 2010 £'000
Gross insurance liabilities				
Provision at 1 January	**168,840**	**67,658**	**341**	**236,839**
Additional provisions made in the year	**110,837**	**58,545**	**—**	**169,382**
Amounts used in the year	**(71,044)**	**(63,825)**	**—**	**(134,869)**
Unused amount reserved during the year	**(942)**	**—**	**(341)**	**(1,283)**
Exchange differences	**3,638**	**977**	**—**	**4,615**
Provision at 31 December	**211,329**	**63,355**	**—**	**274,684**

	Claims outstanding-gross £'000	Provision for unearned premiums £'000	Other provisions £'000	Total 2010 £'000
Reinsurance assets				
Provision at 1 January	**47,828**	**3,863**	**—**	**51,691**
Additional provisions made in the year	**25,110**	**5,015**	**—**	**30,125**
Amounts used in the year	**(17,091)**	**(3,875)**	**—**	**(20,966)**
Unused amount reserved during the year	**—**	**—**	**—**	**—**
Exchange differences	**1,265**	**100**	**—**	**1,365**
Provision at 31 December	**57,112**	**5,103**	**—**	**62,215**
Net	**154,217**	**58,252**	**—**	**212,469**

22.2 Movement in deferred acquisition costs

	2012 £'000	2011 £'000	2010 £'000
Provision at 1 January	**11,444**	12,687	13,090
Additional provisions made in the year	**11,154**	10,240	11,597
Amounts used in the year	**(10,207)**	(11,483)	(12,000)
Provision at 31 December	**12,391**	11,444	12,687

23. Provisions for other liabilities

	2012 £'000	2011 £'000	2010 £'000
Provision in respect of profit sharing scheme			
Provision at 1 January	**588**	3,337	4,972
Charge for the year	**4,907**	562	3,109
Utilised in the year	**(588)**	(3,311)	(4,744)
Provision at 31 December	**4,907**	588	3,337

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

24. Provision for deferred tax

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

	2012 £'000	2011 £'000	2010 £'000
Declared underwriting (profits)	**(1,998)**	(9,515)	(5,884)
Annually accounted losses	**1,076**	6,071	(3,650)
Unrealised investment gains	**(330)**	(264)	(339)
Accelerated capital allowances	**78**	39	24
Tax losses carried forward	**155**	143	154
Claims equalisation reserve	**(7,771)**	(6,116)	(5,301)
Other temporary differences	**(5,451)**	(5,774)	(6,379)
Provision for deferred tax	**(14,241)**	(15,416)	(21,375)
Reflected in the balance sheet as follows:			
Deferred tax assets	**1,309**	6,253	-
Deferred tax liabilities	**(15,550)**	(21,669)	-
	(14,241)	(15,416)	-
Provision for deferred tax at start of year	**(15,416)**	(21,375)	19,251
Deferred tax credit in Consolidated Statement of Comprehensive Income for year	**1,175**	5,959	2,124
Provision for deferred tax at end of year	**(14,241)**	(15,416)	21,375

Unprovided deferred tax assets for the Cathedral Group were £nil at 31 December 2012 (31 December 2011: £nil; 31 December 2010; £nil).

All deferred tax assets are considered to be recoverable.

25. Trade and other payables

	2012 £'000	2011 £'000	2010 £'000
Amounts due within one year:			
Arising out of direct insurance operations	**1,107**	1,614	1,377
Arising out of reinsurance operations	**18,898**	19,400	13,879
Other taxes and social security costs	**214**	209	487
Trade creditors	**3,220**	2,506	2,331
Interest payable - loan notes	**-**	6,864	-
Dividends payable - preference shares	**-**	2,411	-
Other creditors	**1**	1	1
	23,440	33,005	18,075

Other creditors includes £1,400 payable to the shareholders of Cathedral Capital Holdings Limited who had not accepted the offer to purchase their shares by the end of the year (2011: £1,400; 2010; £1,400). This amount is held in a specific bank account for those shareholders.

26. Share capital

	2012 Authorised allotted issued and fully paid	2011 Authorised allotted issued and fully paid	2010 Authorised allotted issued and fully paid
	Number	Number	Number
Number:			
A ordinary shares of 0.1p each	**702,290**	702,290	702,290
B ordinary shares of 1p each	**58,343**	58,343	65,695
B1 ordinary shares of 1p each	**128,342**	128,342	144,515
Ordinary shares of 1p each	**222,243**	222,243	337,500
	£'000	£'000	£'000
Nominal value			
A ordinary shares of 0.1p each	**1**	1	1
B ordinary shares of 1p each	**1**	1	1
B1 ordinary shares of 1p each	**1**	1	1
Ordinary shares of 1p each	**2**	2	3
	5	5	6

Following the share reorganisation in 2011, the voting rights of the shares are such that the A Ordinary Shares of 0.1p each equate to 51.3% of the total votes, the B Ordinary Shares of 1p each equate to 5.25% of the total votes, the B1 Ordinary Shares of 1p each equate to 23.45% of the total votes and the Ordinary Shares of 1p each equate to 20.0% of the total votes.

The A Ordinary Shares of 0.1p each, the Ordinary Shares of 1p each, the B Ordinary Shares of 1p each and the B1 Ordinary Shares of 1p each all continue to rank pari-passu as regards to economic rights.

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

Authorised, allotted, issued and fully paid:	**2012 Number**	2011 Number	2010 Number
A ordinary shares of 0.1p each			
At the beginning of the year	**-**	-	702,290
Converted to A ordinary shares of 0.1p each	**-**	-	(70,229)
Converted to Deferred A shares of 0.9p each	**-**	-	(632,061)
At the end of the year	**-**	-	-
Deferred A shares of 0.9p each			
At the beginning of the year	**-**	-	-
Converted from A ordinary shares of 1p each	**-**	-	702,290
Cancelled Deferred A shares of 0.9p each	**-**	-	(702,290)
At the end of the year	**-**	-	-
A ordinary shares of 0.1p each			
At the beginning of the year	**702,290**	702,290	-
Movement in year	**-**	-	702,290
At the end of the year	**702,290**	702,290	702,290
B ordinary shares of 1p each			
At the beginning of the year	**58,343**	65,695	210,210
Converted to Deferred B shares of 1p each	**-**	(7,352)	(144,515)
At the end of the year	**58,343**	58,343	65,695
B1 ordinary shares of 1p each			
At the beginning of the year	**128,342**	144,515	-
Converted to Deferred B1 shares of 1p each	**-**	(16,173)	144,515
At the end of the year	**128,342**	128,342)	144,515
Ordinary shares of 1p each			
At the beginning of the year	**222,243**	337,500	-
Converted to Deferred shares of 1p each	**-**	(115,257)	-
At the end of the year	**222,243**	222,243	-

Authorised, allotted, issued and fully paid:	**2012 Number**	2011 Number	2010 Number
Deferred shares of 1p each			
At the beginning of the year	**-**	-	-
Converted from Ordinary shares of 1p each	**-**	115,257	-
Converted from B shares of 1p each	**-**	7,352	-
Converted from B1 ordinary shares of 1p each	**-**	16,173	-
Cancelled Deferred shares of 1p each	**-**	(138,782)	-
At the end of the year	**-**	-	-

27. Employee Share Ownership Plan

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

	2012 Number	2011 Number	2010 Number
9.2% Manager Loan Notes in Cathedral Capital (Investments) Limited	**1,304,524**	1,304,524	1,302,367
9.2% Investor Loan Notes in Cathedral Capital (Investments) Limited	**64,469**	-	-
6.44% Preference shares of £1 each in Cathedral Capital Limited	**684,374**	652,162	651,084
A ordinary shares in Cathedral Capital Limited	**751**	-	-
B ordinary shares in Cathedral Capital Limited	**12,212**	12,212	13,723

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

The income and expenses and the assets and liabilities of the ESOP (as included within the Cathedral Group financial information before elimination) are as follows:

	2012 £'000	2011 £'000	2010 £'000
Consolidated Statement of Comprehensive Income			
Investment income on shares	**170**	162	162
Other interest	**4**	3	1
Sundry Expenses	**(26)**	(1)	-
Tax on investment income	**(270)**	(24)	(24)
Total (loss)/profit	**(122)**	140	139
Consolidated Statement of Financial Position			
Investments *	**2,063**	1,963	1,960
Accrued interest & deferred income	**-**	162	328
Cash	**255**	327	-
Less liabilities	**(12)**	(24)	-
Net assets	**2,306**	2,428	2,288
ESOP funds	**2,306**	2,428	2,288
Reconciliation of ESOP funds			
ESOP funds at 1 January	**2,428**	2,288	2,149
(Loss)/profit arising in ESOP during year	**(122)**	140	139
ESOP funds at 31 December	**2,306**	2,428	2,288

* Valued at cost to the Cathedral Group.

28. Capital commitments

The Cathedral Group had no capital commitments at 31 December 2012 (2011: £nil); (2010: £nil).

29. Operating leases

	2012 £'000	2011 £'000	2010 £'000
Future minimum lease payments under non-cancellable operating leases:			
Land & buildings:			
Within one year	**396**	439	244
In the second to fifth years inclusive	**990**	1,538	1,464
More than five years	**-**	-	153
Other:			
Within one year	**14**	17	13
In the second to fifth years inclusive	**1**	15	23
	1,401	2,009	1,897

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

Other commitments relate to operating leases for IT equipment.

30. Reconciliation of profit/(loss) to cash generated from operations

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit/(loss) before taxation	**14,531**	(6,585)	5,943
Adjustments for:			
Depreciation	**122**	200	244
Impairment	**210**	-	-
Decrease/(increase) in debtors & accrued income	**2,901**	(5,802)	(1,676)
Change in underwriting balances	**(10,682)**	8,190	27,724
Purchase of investments	**(262,921)**	(218,018)	(211,565)
Proceeds from disposal of investments	**240,290**	223,658	143,659
Unrealised investment (gains)/losses	**(699)**	1,422	(125)
Exchange revaluation	**9,111**	(1,755)	(3,064)
(Decrease)/increase in creditors	**3,766**	2,959	(1,997)
Interest expense	**10,387**	12,281	12,112
Interest receivable	**(5,472)**	(6,144)	(5,828)
Dividends receivable	**(244)**	(258)	(283)
Cash generated from/(used in) operations	**1,300**	10,148	(34,856)

31. Related party transactions

(i) Directors' interest in Transactions

Each of the Directors of Cathedral Capital Limited and their families owned shares in Cathedral Capital Limited and Loan Notes in Cathedral Capital (Investments) Limited. Mr Slade also has an indirect beneficial interest in Alchemy Partners (Guernsey) Limited which, as set out below, owned shares in Cathedral and Loan Notes in Cathedral Capital (Investments) Limited. The Preference Shares pay a dividend of 6.44% and the Loan Notes pay interest of 9.2%. Each of the Directors therefore earned dividends and interest in respect of their holdings.

The interests of the Directors of Cathedral Capital Limited and their families in the Preference shares issued by Cathedral Capital Limited and the Loan Notes issued by Cathedral Capital (Investments) Limited at 31 December 2012, 31 December 2011 and 31 December 2010 (according to the register of Directors' interests) are set out below:

	31 December 2012			31 December 2011		
	Preference £1 Shares	**Investor Loan Notes £1**	**Manager Loan Notes £1**	Preference £1 Shares	Investor Loan Notes £1	Manager Loan Notes £1
E E Patrick	**357,211**	**-**	**714,533**	357,211	-	714,533
J A Lynch	**822,639**	**-**	**1,645,531**	822,639	-	1,645,531
P D Scales	**822,639**	**-**	**1,645,531**	822,639	-	1,645,531
D J H Slade	**41,084**	**82,181**	**-**	36,530	73,071	-

	31 December 2010		
	Preference £1 shares	Investor Loan Notes £1	Manager Loan Notes £1
E E Patrick	357,211	-	714,533
J A Lynch	822,639	-	1,645,531
P D Scales	822,639	-	1,645,531
D J H Slade	36,530	73,071	-

The Cathedral Group has an ESOP in which all full time employees are potential beneficiaries. As such, all Directors who are full time employees of Cathedral Group have a potential interest in the shares (and other assets) held by the ESOP. Details of the Preference Shares, Manager Loan Notes, Investor Loan Notes, A Ordinary Shares and B Ordinary Shares held by the ESOP are set out in Note 27.

(ii) Other

Alchemy Partners Nominee Limited

Alchemy Partners Nominee Limited ("Alchemy") is a 63% shareholder in Cathedral (31 December 2011: 63%, 31 December 2010: 56%, shareholder in Cathedral) and has been approved as a controller of the Cathedral Group's managing agency subsidiary by both Lloyd's and the FSA. Alchemy has also been approved as a controller of Cathedral's managing agency subsidiary by Lloyd's.

(iii) Incentive Plans

Cathedral Capital Employee Share Ownership Plan

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

The interests of the ESOP at 31 December 2012, 31 December 2011 and 31 December 2010 are:

	Year ended 31 December 2012 Number	Year ended 31 December 2011 Number	Year ended 31 December 2010 Number
Cathedral Capital Limited			
A Ordinary shares	**751**	-	-
B Ordinary shares	**12,212**	12,212	13,723
Preference £1 shares	**684,374**	652,162	651,084
	£	£	£
Cathedral Capital (Investments) Limited			
Investor Loan Notes	**64,469**	-	-
Manager Loan Notes	**1,304,524**	1,304,524	1,302,367

Further details of the ESOP are set out in Note 27.

(iv) Directors' Remuneration

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

	Fees & Salaries £'000	**Benefits in Kind £'000**	**Pensions £'000**	**31 December 2012 Total £'000**	31 December 2011 Total £'000	31 December 2010 Total £'000
E E Patrick	**60**	**4**	**-**	**64**	63	62
J A Lynch	**175**	**1**	**27**	**203**	199	424
P D Scales	**175**	**3**	**28**	**206**	204	425
	410	**8**	**55**	**473**	466	911

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

Alchemy Partners (Guernsey) Limited received a fee of £71,000 (2011: £68,000; 2010: £65,000) in respect of Mr Slade's directorship.

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

For this year, the Remuneration Committee has not agreed any proposed distributions to the executive directors from the profit sharing scheme and therefore have not been included within the Fees and Salaries disclosed above. The amount of the profit sharing scheme is set out in detail in Note 23.

As mentioned above, the Cathedral Group also operates its ESOP as an incentive scheme. Shares have not been granted from the ESOP to any executive director of Cathedral. The non-executive directors of Cathedral had, and have, no interest in this incentive scheme.

(v) Key Management Compensation

Key management personnel includes all persons having authority and responsibility for planning, directing and controlling the activities of the Cathedral Group. These people include both the executive and non-executive directors of Cathedral together with certain other members of the executive management team who are not themselves directors of Cathedral. Details of the cost of key management compensation charged to the Cathedral Group are as follows:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Key management compensation			
Salaries and other short-term employee benefits	**993**	986	2,536
Post-employment benefits	**110**	107	118
	1,103	1,093	2,654

Loans advanced to Directors and key management of Cathedral (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 2012, these items were de minimis (2011 and 2010:de minimis outstanding).

32. Contingent liabilities

Lloyd's of London

(i) As explained in Note 2 the Cathedral Group participates on insurance business written by Lloyd's syndicates. As a result of this participation, the Cathedral 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 Cathedral Group under its guarantees, then Lloyd's will be entitled to require the subsidiary to cease or reduce its underwriting.

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

33. Capital

The Cathedral Group's capital structure consists of equity attributable to equity holders of Cathedral (which in turn comprises issued capital, reserves and retained earnings), Preference shares, Manager and Investor Loan Notes and Unsecured Floating Rate Subordinated Loan Notes. Details of the equity attributable to equity holders of Cathedral are set out in the Consolidated Statement of Changes in Equity and details of the loan capital are set out in Note 21, and there has been no change in the Cathedral Group's policies in managing capital since the prior year.

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

The Cathedral Group's corporate member, which now only underwrites on syndicates at Lloyd's that are managed by the Cathedral Group's managing agency subsidiary, is required to hold regulatory capital in compliance with the rules issued by the Financial Services Authority ("FSA"). Furthermore, it is also subject to Lloyd's capital requirements.

Under FSA regulations, the Lloyd's market must at all times hold sufficient capital to meet the Minimum Capital Requirement ("MCR"), being the capital requirement set out in the EU directives.

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

The uSCR of each syndicate at Lloyd's is regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's has the discretion to take into account other factors at member level to uplift the calculated uSCR (including the need to maintain the market's overall security rating). This produces a Syndicate ECA. To achieve this Lloyd's applied until 2012, a market-wide loading of 35% to arrive at the ECA. For the 2013 year Lloyd's loading was based on the final uplift applied to the 2012 mid-year Coming-into-Line exercise.

Each uSCR is reviewed by Lloyd's annually and by the FSA 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 Cathedral 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. Members must remain solvent on a continuous basis.

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

At 31 December 2012, the Cathedral Group's funds at Lloyd's amounted to £170.1 million (2011: £147.0m 2010: £127.9m), which was in excess of its capital requirements of £137.8 million. These funds were invested in a mixture of equities, fixed interest instruments and cash.

34. Categories of financial assets and liabilities

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

As at 31 December 2012

£'000	**Financial assets**	**Loans and receivables**	**Assets at fair value through profit or loss**	**Insurance contracts**	**Non-financial assets**	**Total**
Assets						
Property, plant and equipment	-	-	-	-	340	340
Intangible assets	-	-	-	-	23,234	23,234
Reinsurers' share of technical provisions	-	-	-	93,112	-	93,112
Financial investments	-	-	258,528	-	-	258,528
Deferred acquisition costs	-	-	-	12,391	-	12,391
Deferred tax assets	-	-	-	-	1,309	1,309
Prepayments and accrued income	897	-	-	-	1,385	2,282
Trade and other receivables	-	71,273	-	-	-	71,273
Cash and cash equivalents	-	95,786	-	-	-	95,786
Total assets	**897**	**167,059**	**258,528**	**105,503**	**26,268**	**558,255**

£'000	**Amortised cost**	**Financial liabilities**	**Insurance contracts**	**Non-financial liabilities**	**Total**
Liabilities					
Borrowings	42,974	112,394	-	-	155,368
Insurance contracts	-	-	302,793	-	302,793
Provision for other liabilities and charges	-	-	-	4,907	4,907
Deferred tax liabilities	-	-	-	15,550	15,550
Trade and other payables	-	-	-	23,440	23,440
Current tax liabilities	-	-	-	582	582
Accruals and deferred income	-	2	-	933	935
Total liabilities	**42,974**	**112,396**	**302,793**	**45,412**	**503,575**

As at 31 December 2011

£'000	Financial assets	Loans and receivables	Assets at fair value through profit or loss	Insurance contracts	Non-financial assets	Total
Assets						
Property, plant and equipment	-	-	-	-	361	361
Intangible assets	-	-	-	-	23,234	23,234
Reinsurers' share of technical provisions	-	-	-	107,161	-	107,161
Financial investments	-	-	245,585	-	-	245,585
Deferred acquisition costs	-	-	-	11,444	-	11,444
Deferred tax assets	-	-	-	-	6,253	6,253
Prepayments and accrued income	1,039	-	-	-	5,500	6,539
Trade and other receivables	-	70,160	-	-	-	70,160
Cash and cash equivalents	-	115,228	-	-	-	115,228
Total assets	1,039	185,388	245,585	118,605	35,348	585,965

£'000	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
Liabilities					
Borrowings	45,792	112,490	-	-	158,282
Insurance contracts	-	-	326,577	-	326,577
Provision for other liabilities and charges	-	-	-	588	588
Deferred tax liabilities	-	-	-	21,669	21,669
Trade and other payables	-	-	-	33,005	33,005
Current tax liabilities	-	-	-	1,522	1,522
Accruals and deferred income	-	2	-	1,224	1,226
Total liabilities	45,792	112,492	326,577	58,008	542,869

As at 31 December 2010

£'000	Financial assets	Loans and receivables	Assets at fair value through profit or loss	Insurance contracts	Non-financial assets	Total
Assets						
Property, plant and equipment	-	-	-	-	504	504
Intangible assets	-	-	-	-	23,234	23,234
Reinsurers' share of technical provisions	-	-	-	62,215	-	62,215
Financial investments	-	-	250,938	-	-	250,938
Deferred acquisition costs	-	-	-	12,687	-	12,687
Other assets	-	-	-	-	645	645
Prepayments and accrued income	1,095	-	-	-	6,094	7,189
Trade and other receivables	-	66,387	-	-	-	66,387
Cash and cash equivalents	-	99,378	-	-	-	99,378
Total assets	1,095	165,765	250,938	74,902	30,477	523,177

£'000	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
Liabilities					
Borrowings	44,522	112,501	-	-	157,023
Insurance contracts	-	-	274,684	-	274,684
Provision for other liabilities and charges	-	-	-	3,337	3,337
Deferred tax liabilities	-	-	-	21,375	21,375
Trade and other payables	-	-	-	18,075	18,075
Current tax liabilities	-	-	-	552	552
Accruals and deferred income	-	115	-	1,043	1,158
Total liabilities	44,522	112,616	274,684	44,382	476,204

PART VIII

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the impact on the net assets of the Company as at 30 June 2013, as if the Acquisition by Lancashire of the entire issued and to be issued share capital of Cathedral pursuant to the Share Purchase Agreements together with all of the equity loan notes issued by Cathedral and CCIL, and the placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement had occurred at that date.

The unaudited pro forma statement of net assets has been prepared for illustrative purposes only, and because of its nature addresses a hypothetical situation and, therefore, does not represent the Enlarged Group's actual financial position or results. As a result, it should not be relied upon and the entire document should be read in conjunction with the audited information contained in Part VII and incorporated by reference in Part V.

The unaudited pro forma statement of net assets has been prepared on the basis set out in the notes below, in a manner that is consistent with the accounting policies adopted by the Company.

	Adjustments			
	Lancashire ($m) Note 1	**Cathedral ($m) Note 2**	**Acquisition adjustments ($m) Note 3**	**Pro Forma Total ($m)**
Assets:				
Cash and cash equivalents	413.6	154.9	(211.5)	357.0
Accrued interest receivable	7.5	1.5	-	9.0
Total Investments	1,623.0	417.9	-	2,040.9
Reinsurance assets	149.1	150.5	-	299.6
Deferred acquisition costs	81.2	20.0	-	101.2
Inwards premiums receivable from insureds and cedants	276.6	100.6	-	377.2
Investment in associates	53.6	-	-	53.6
Goodwill and other intangible assets	-	37.5	119.4	156.9
Other assets	12.0	19.7	-	31.7
Total assets	**2,616.6**	**902.6**	**(92.1)**	**3,427.1**
Liabilities:				
Insurance liabilities	978.7	491.3	-	1,470.0
Amounts payable to reinsurers	43.7	30.6	-	74.3
Other liabilities	69.6	41.1	-	110.7
Long-term debt	258.3	251.3	(192.0)	317.6
Total liabilities	**1,350.3**	**814.3**	**(192.0)**	**1,972.6**
Shareholders' Equity:	**1,266.3**	**88.3**	**99.9**	**1,454.5**

Note 1 The consolidated net assets of Lancashire as at 30 June 2013, have been extracted, without material adjustment, from the Lancashire unaudited Interim Financial Statements at 30 June 2013.

Note 2 The net assets of Cathedral have been extracted, without material adjustment, from the audited consolidated financial statements as at 31 December 2012, which are set out in Part VII of this document, translated at a GBP/U.S.$ exchange rate of 1.6168, the GBP/U.S.$ rate of exchange on 31 December 2012 published on www.oanda.com.

Note 3 Acquisition adjustments:

a) The Acquisition will be accounted for using the acquisition method of accounting. The excess of consideration over the value of the net assets acquired has been reflected as goodwill and other intangible assets. Under the acquisition method of accounting, the purchase price is allocated to the underlying Cathedral tangible and intangible assets acquired and liabilities assumed based on their respective fair market values with any excess purchase price allocated to goodwill. With the exception of the adjustment to floating rate subordinated loan notes reflected in Note 3b, no other adjustments have been made to state Cathedral's assets and liabilities as of 31 December 2012 at fair value, including the tangible and intangible assets, because such purchase price adjustments cannot be accurately and reliably calculated at this point in time. Accordingly, the entire excess preliminary purchase price over the net book value of Cathedral's net assets has been allocated to goodwill and intangibles as described below.

As discussed more fully in Part IV, the Share Purchase Agreements provide that the consideration payable to the Sellers for Cathedral's entire issued and to be issued share capital and for the loan notes, shares and ESOP holdings will be £266.0 million, which equates to U.S.$403.3 translated at a GBP/U.S.$ exchange rate of 1,5160. Lancashire is also expected to pay U.S.$5.2 million of transaction fees. Allocation of purchase price (in U.S.$ millions):

Total consideration	403.3	
Transaction costs	5.2	
	408.5	
Financed by:		
Cash	211.5	
Net proceeds of the Placing	197.0	
Total proceeds	408.5	
Proceeds used for:		
Redemption of equity-holder loan notes	(121.2)	Note 3b
Redemption of preference shares	(60.6)	Note 3b
Transaction costs	(5.2)	
Redemption of ESOP holdings	(3.6)	
Consideration for Cathedral's entire issued and to be issued share capital	217.9	
Cathedral net assets acquired	88.3	
Fair value adjustment to floating rate subordinated loan notes	10.2	Note 3b
Adjusted net assets acquired	98.5	
Goodwill and intangible assets adjustment	119.4	

b) On Completion U.S.$ 181.8 million of preference shares and manager loan notes will be extinguished and the floating rate subordinated loan notes of Cathedral have been fair valued as at 30 June 2013, resulting in a U.S.$10.2 million decrease to the liability for a total adjustment of U.S.$192.0 million.

Redemption of equity-holder loan notes	121.2
Redemption of preference shares	60.6
Fair value adjustment to floating rate subordinated loan notes	10.2
Adjustment to long term debt	192.0

c) Save for the adjustments set out above, no adjustment has been made to reflect any trading or other transactions undertaken by Lancashire since 30 June 2013, or by Cathedral since 31 December 2012.

PART IX

LANCASHIRE'S ACCOUNTANT'S REPORT ON THE PRO FORMA FINANCIAL INFORMATION

The Board of Directors
Lancashire Holdings Limited
Power House
7 Par-la-Ville Road
Hamilton HM11
Bermuda

8 August 2013

Dear Sirs

We report on the pro forma financial information (the "**Pro Forma Financial Information**") set out in Part VIII of the circular dated 8 August 2013 (the "**Circular**"), which has been prepared on the basis described therein, for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented on the basis of the accounting policies adopted by Lancashire Holdings Limited in preparing the unaudited interim financial statements for the period ended 30 June 2013. This report is required by Listing Rule 13.3.3R and is given for the purpose of complying with that rule and for no other purpose.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to Shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Circular.

Responsibilities

It is the responsibility of the directors of Lancashire Holdings Limited to prepare the Pro Forma Financial Information in accordance with Listing Rule 13.3.3R.

It is our responsibility to form an opinion, as required by Listing Rule 13.3.3R as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of Lancashire Holdings Limited.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Lancashire Holdings Limited.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Lancashire Holdings Limited.

Yours faithfully

Ernst & Young LLP

PART X

ADDITIONAL INFORMATION

1. Responsibility

The Company and its Directors (whose names appear on page 6 of this document) accept responsibility for the information contained in this document. To the best of the knowledge and belief of Lancashire and its Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Share capital

Lancashire was incorporated on 12 October 2005 with an authorised share capital of U.S.$120,000 divided into 1,200,000 Common Shares of U.S.$0.10 of which 120,000 Common Shares were subscribed for by Pembroke Company Limited and were issued nil paid.

There have been no changes to the authorised share capital of Lancashire since 9 December 2005. There have been no changes to the issued share capital of Lancashire since 10 June 2013.

As of 7 August 2013 (being the latest practicable date prior to the publication of this document), Lancashire's issued share capital consisted of 168,602,427 Common Shares of U.S.$0.50 each, of which 3,847,684 Common Shares are held in treasury. The total number of Common Shares in issue with voting rights (excluding shares held in treasury) is 164,754,743. Following the completion of the Placing, the total number of Common Shares in issue with voting rights (excluding shares held in treasury) is expected to be 181,598,125.

3. Directors

3.1 *Directors' service contracts and letters of appointment and remuneration*

Executive Directors' service contracts

The following are particulars of the Executive Directors' service contracts with Lancashire:

The Executive Directors of Lancashire are Richard Brindle, Alex Maloney and Elaine Whelan. Richard Brindle was appointed as Chief Executive Officer of Lancashire under an original service contract dated 10 December 2005. Alex Maloney was first appointed as an employee of the Group under an original service contract dated 31 December 2005 and became Chief Underwriting Officer on 14 May 2009. Elaine Whelan was first appointed as an employee of the Group under an original service contract dated 3 March 2006 and became Chief Financial Officer on 1 January 2011.

The original service contracts with Lancashire for Richard Brindle, Alex Maloney and Elaine Whelan were replaced with new service contracts entered into with effect from 10 December 2008 for Richard Brindle, 1 January 2009 for Alex Maloney and 1 January 2013 for Elaine Whelan. As of 1 January 2012, Richard Brindle's service contract with Lancashire was amended to be governed by English law following Lancashire's redomiciliation of its head office from Bermuda to London.

Lancashire's remuneration policy is geared towards providing a level of remuneration which attracts, retains and motivates Executive Directors and senior management of the highest calibre to further Lancashire's interests and to optimise long-term shareholder value creation, within appropriate risk parameters. The remuneration policy also seeks to ensure that Executive Directors and senior management are provided with appropriate incentives to drive individual performance and to reward them fairly for their contribution to the successful performance of Lancashire.

The Executive Directors' remuneration is made up of the following elements: (i) base salary, (ii) annual bonus, (iii) long-term equity-based incentives (subject to share ownership guidelines for Executive Directors and senior employees); (iv) pension benefits; and (v) other benefits, comprising medical, dental, vision, life insurance coverage and gym membership, as well as a housing allowance for expatriates.

Base Salary

Lancashire's remuneration committee has adopted the principle that basic salary should be set broadly in line with the median of peer companies for executives in a role of comparable standing and that the Executive Directors should be able to achieve total remuneration at the upper quartile level (compared to peer companies generating similar returns) when justified by superior performance. The remuneration committee also takes into account levels of pay elsewhere in the Group, when determining the pay levels for the Executive Directors and senior management.

Salaries for the Executive Directors are determined by the remuneration committee before the start of each year and where an individual changes responsibility or position.

In determining appropriate levels of salary increases the remuneration committee considers the level of salary increases in the workforce generally.

Annual Bonus

Lancashire operates a bonus plan based on annual performance of Lancashire and the individual Executive Directors. Bonuses, earned in respect of 2013, and payable in 2014, will be based on a clear split between Lancashire's financial performance and personal performance on a 75:25 basis for the Chief Executive Officer and Chief Underwriting Officer and on a 70:30 basis for the Chief Financial Officer.

Financial performance targets for 2013 will have two components:

(i) absolute financial performance against the Board's approved 2013 target. This component will be measured by the achievement of a target growth in book value per share, adjusted for dividend payments. Growth in book value per share continues to be the most appropriate operational metric to measure the growth in value that the Shareholders have received over the course of the financial year; and

(ii) relative financial performance against a well defined peer group. This component will be measured by comparing Lancashire's growth in book value per share against a peer group.

Personal performance will be based upon individual achievement of clearly articulated goals created at the beginning of each fiscal year.

The level of bonus for 2013 will be capped at 400%, 350% and 300% of base salary for the Executive Directors – the Chief Executive Officer, Chief Underwriting Officer and Chief Financial Officer respectively. This cap is unchanged from prior years and is considered to be broadly competitive with the market in which Lancashire operates for executive talent. The target level of bonus has been set at 12% RoE for 100% of target, with a minimum of 9% RoE for 25% of target, and a maximum of 19% RoE for 200% of target payout. Bonus payments are made when all the peer group have reported their results and bonuses can be finalised.

A portion of each of the Executive Director's bonus may be paid in shares. Similar to the 2012 bonus, for the 2013 bonus 25% of the bonus earned will be paid in RSS awards of which 33% vests annually over three years.

In February 2012 the Board approved a policy to enable the claw back of bonus payments made in the event of the discovery of a material misstatement in Lancashire's financial statements, an error in the calculation of any performance conditions or if the Executive Director ceased to be a director or employee of Lancashire due to gross misconduct.

Pensions

Richard Brindle, Alex Maloney and Elaine Whelan all receive pension contributions from Lancashire under defined contribution pension plans. The Chief Executive Officer and the Chief Underwriting Officer receive a 10% base salary contribution to a U.K. defined contribution pension plan in respect of their salary and employment with Lancashire's UK operations. The Chief Financial Officer receives a contribution of 10% of base salary, 90% of which comes from LICL and 10% of which comes from Lancashire.

Executive Director Emoluments

The aggregate remuneration (including benefits-in-kind) paid to the Executive Directors for the financial year ended 31 December 2012 was U.S.$6,327,220. The Executive Directors' salaries and their emoluments for the year ended 31 December 2012 are as follows:

Director	**Base salary in U.S.$**	**Benefits in U.S.$**	**Pension in U.S.$**	**Annual bonus in U.S.$**	**Total 2012 emoluments in U.S.$**	**Total 2011 emoluments in U.S.$**
Richard Brindle	1,080,845	18,891	108,085	3,156,948	4,364,769	4,391,452
Alex Maloney	353,651	9,073	96,005	1,029,368	1,488,097	1,418,802
Neil McConachie	186,816	56,949	18,682	434,679	697,126	2,032,885

Elaine Whelan, Chief Financial Officer, was appointed as an Executive Director with effect from 1 January 2013 which explains her omission from the table above.

Pension, Retirement and Similar Benefits

In relation to the year ended 31 December 2012 the total amount set aside by the Group to provide pension, retirement and similar benefits to the Directors was U.S.$222,772.

Non-Executive Directors' letters of appointment

The Chairman and each of the other Non-Executive Directors have letters of appointment with Lancashire on the following terms:

Non-Executive Director	*Position*	*Date of Letter of Appointment*	*Annual Director Fee*
John Bishop	Non-Executive Director, chairman of the audit committee	19 March 2008	U.S.$175,000
Emma Duncan	Non-Executive Director	17 September 2010	U.S.$175,000
Samantha Hoe-Richardson	Non-Executive Director	20 February 2013	U.S.$175,000
Neil McConachie	Non-Executive Director	5 July 2012	U.S.$175,000
Ralf Oelssner	Non-Executive Director, Senior Independent Director	31 July 2007	U.S.$175,000
Robert Spass	Non-Executive Director	9 December 2005	U.S.$175,000
William Spiegel	Non-Executive Director, chairman of the remuneration committee	9 December 2005	U.S.$175,000
Martin Thomas	Non-Executive Chairman, chairman of the nomination and corporate governance committee	16 April 2007	U.S.$325,000

Non-Executive Directors are paid a flat fee per annum, payable quarterly in arrears, which is subject to an annual review by the Board of Directors which takes into account performance evaluation and any other factors considered relevant by the Board of Directors. The table above lists the fees currently payable to each of the Non-Executive Directors. In addition, Lancashire reimburses Non-Executive Directors for all reasonable and properly documented expenses, including business class travel, incurred in performing the duties of their office. Some Non-Executive Directors receive further fees for services provided as directors of subsidiary companies within the Group.

Unless otherwise terminated earlier pursuant to the Bye-Laws, each Non-Executive Director appointment continues at the discretion of either party upon six months' written notice. Continuation of appointment is contingent on satisfactory performance and re-election at the forthcoming annual general meeting. Non-Executive Directors are typically expected to serve for six years each, although the Board may invite Non-Executive Directors to serve for an additional period.

Appointment will terminate immediately without notice (or a payment in lieu of notice) if the Non-Executive Director is not reappointed by Lancashire at an annual general meeting, if the Non-Executive Director is removed as a Director by Lancashire in an annual general meeting, or if the Non-Executive Director resigns from the directorship or otherwise ceases to be a Director in accordance with the provisions of the Bye-Laws.

Non-Executive Directors are required to devote such time to their duties as the Board reasonably considers necessary to fulfil their role as a Non-Executive Director of a public listed company, including attendance at meetings of the Board, the annual general meeting and one annual Board "away-day". Non-Executive Directors are required to attend any meetings of the Non-Executive Directors and also any meetings of committees of the Board to which they are appointed. In addition, they are expected to devote appropriate preparation time ahead of each meeting. In addition, they are obliged, when requested by major shareholders or by Lancashire, to attend meetings with such shareholders.

By accepting their appointment, each Non-Executive Director has confirmed that they are able to allocate sufficient time to meet the expectations of their role. The agreement of the Chairman should be sought before accepting additional commitments that might affect the time they are able to devote to their role as a Non-Executive Director of Lancashire.

4. Directors' and other significant interests

4.1 As at 7 August 2013 (being the latest business day prior to publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors (as well as their immediate families) in the share capital of Lancashire or (so far as is known or could with reasonable due diligence be ascertained by the relevant Director) interests of a person connected (within the meaning of section 252 of the 2006 Act) with a Director and the existence of which was known to or could, with reasonable diligence, be ascertained by the Directors:

Director	**Number of Common Shares**	**Percentage of existing issued share capital**
Martin Thomas	6,950	0.004
Richard Brindle	858,022	0.521
Alex Maloney	191,415	0.116
Elaine Whelan	94,225	0.057
John Bishop	4,807	0.003
Neil McConachie	75,000	0.046

4.2 Save as disclosed in this paragraph 4, none of the Directors has any interest (beneficial or non-beneficial) in the share capital of Lancashire or any of its subsidiaries.

4.3 Details of the time-vesting warrants and performance-vesting warrants held by the Executive Directors as at 31 December 2012 were as follows:

	Name of Executive Director	No. of warrants as at 31 December 2012	Date of award	Price paid	Exercise price	Expiry date
Time vesting warrants	Richard Brindle	3,718,912	16/12/05	Nil	U.S.$5.00	16/12/15
		1,906,305	16/12/05	Nil	U.S.$3.90	16/12/15
		5,625,217				
Performance vesting warrants	Richard Brindle	288,843	16/12/05	Nil	U.S.$5.00	16/12/15
		47,155	16/12/05	Nil	U.S.$3.90	16/12/15
		405,967	16/12/05	Nil	U.S.$2.60	16/12/15
		741,965				

4.4 (a) The following restricted share scheme awards are currently held by the Executive Directors:

Name of Executive Director	Type of Award	No. of Awards as at 7 August 2013	Date Awarded
Richard Brindle	2011 performance award	312,741	24/02/11
	2011 deferred bonus	43,414	05/03/12
	2012 performance award	240,263	28/02/12
	2012 deferred bonus	56,584	05/03/13
	2013 performance award	220,709	28/02/13
		873,711	
Alex Maloney	2011 performance award	236,198	24/02/11
	2011 deferred bonus	8,969	05/03/12
	2012 performance award	187,165	28/02/12
	2012 deferred bonus	17,543	05/03/13
	2013 performance award	131,969	28/02/13
		581,844	
Elaine Whelan	2010 performance award	45,581	25/03/10
	2010 deferred bonus	3,005	24/02/11
	2011 performance award	81,313	24/02/11
	2011 deferred bonus	12,897	05/03/12
	2012 performance award	73,586	28/02/12 and 04/05/2012
	2012 deferred bonus	15,120	05/03/13
	2013 performance award	116,087	28/02/13
		347,589	

4.4 (b) The following restricted share scheme awards are currently held by Neil McConachie, who was formerly an Executive Director, but who since 1 July 2012 serves as a Non-Executive Director:

Name of Director	Type of Award	No. of Awards as of 7 August 2013	Date Awarded
Neil McConachie	2010 performance award	150,975	25/03/10
	2010 deferred bonus	77,753	04/03/11
	2011 performance award	261,994	24/02/11
	2011 deferred bonus	25,886	05/03/12
	2012 performance award	146,833	28/02/12
	2012 deferred bonus	7,664	05/03/13
		671,105	

4.5 In addition to the information on Director's interests provided above, warrants over Lancashire's shares were awarded to Lancashire's founders prior to the admission of Lancashire's shares to trading on the Alternative Investment Market in December 2005. Richard Brindle (Executive Director and Chief Executive Officer) holds 46,260 and Robert Spass (Non-Executive Director) holds 809,135 such warrants.

4.6 As at 7 August 2013 (being the latest business day prior to publication of this document) and so far as is known to Lancashire by virtue of the notifications made pursuant to the 2006 Act and/or Chapter 5 of the Disclosure and Transparency Rules, the name of each person (other than a Director) who, directly or indirectly, is interested in 3% or more of the voting rights in Lancashire, and the amount of such person's interest, is as follows:

***Name**	**Number of Common Shares as at 7 August 2013**	**% of Common Shares in issue as at 7 August 2013**
Standard Life Investments Ltd	13,230,605	8.03%
Legal & General Group Plc	9,285,144	5.64%
HSBC Holdings plc	8,247,063	5.01%
Invesco Limited	8,096,000	4.91%
William Blair & Company, LLC	7,989,826	4.85%
BlackRock, Inc.	7,166,888	4.35%
Alken Luxembourg Sàrl	5,377,707	3.26%
Norges Bank	4,997,302	3.03%

*None of the persons listed above has or will have, in relation to their Common Shares, special voting rights.

4.7 Lancashire is not aware of any person who either as at the date of this document exercises, or could exercise, directly or indirectly, jointly or severally, control over Lancashire nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change of control of Lancashire.

4.8 None of the major Shareholders set out above has different voting rights from any other holder of Common Shares in respect of any Common Shares held by them.

5. Material contracts

5.1 ***Lancashire***

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Lancashire or a member of the Group in the two years immediately preceding the date of this document and are, or may be, (a) material or (b) contain provisions under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

5.1.1 *Placing Agreement*

Lancashire, J.P. Morgan Securities and Numis entered into the Placing Agreement dated 7 August 2013 pursuant to which J.P. Morgan Securities and Numis agreed, subject to certain conditions, to use their reasonable endeavours to procure subscribers for the Placing Shares, failing which J.P. Morgan Securities and Numis agreed to subscribe for such shares at the Placing Price.

Lancashire agreed to pay to J.P. Morgan Securities and Numis for their services in connection with the Placing a commission of 2% of the aggregate value of the Placing Shares at the Placing Price and to reimburse certain fees and expenses incurred by J.P. Morgan Securities and Numis in connection with the Placing.

In addition to the payment of fees and commissions, Lancashire agreed to pay all other costs, charges, fees and expenses of, or incidental to, the Placing, the allotment and issue of the Placing Shares, and Admission. These include (but are not limited to) the fees of the FCA and the London Stock Exchange, printing and advertising costs, postage, registrars' charges, its own and J.P. Morgan Securities' and Numis' legal counsel and other out-of-pocket expenses, all stamp duty and stamp duty reserve tax and other duties and value added tax on the fees, commissions, costs and expenses payable in connection with the Placing.

The obligations of J.P. Morgan Securities and Numis under the Placing Agreement are conditional on, inter alia:

(a) subject to prior satisfaction or waiver of the other conditions prescribed in the Placing Agreement, Admission occurring not later than 8.00 a.m. on 12 August 2013, or such later time and/or date as J.P. Morgan Securities and Numis may agree with Lancashire in writing; and

(b) none of the warranties on the part of Lancashire contained in the Placing Agreement being or becoming untrue, inaccurate or misleading in any respect on and as of the date of the Placing Agreement and immediately before Admission.

The Placing Agreement conferred on J.P. Morgan Securities and Numis the right to terminate the Placing Agreement prior to Admission upon the occurrence of certain events, including:

(a) any matter or circumstance arising prior to Admission as a result of which it is reasonable to expect that any of the conditions in the Placing Agreement will not be satisfied by the required time(s) (if any) and continue not to be satisfied at Admission; and/or

(b) other events occurring prior to Admission, including certain material adverse changes relating to the Lancashire Group and certain events relating to material disruption in settlement, payment or clearance services or economic or political events.

The Placing Agreement also contains certain customary representations and warranties by Lancashire as to the accuracy of the information contained in this document and certain other documents prepared in connection with the Placing, and in relation to other matters relating to the Lancashire Group and its business, and an indemnity from Lancashire in favour of J.P. Morgan Securities and Numis and their respective related persons.

5.1.2 *Share Purchase Agreements*

Details of the Share Purchase Agreements are set out in Part IV of this document.

5.1.3 *Credit Facilities*

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

(i) A U.S.$350 million syndicated collateralised five year credit facility with a U.S.$75.0 million loan sublimit that has been in place since 5 April 2012 and will expire on 5 April 2017. There was no outstanding debt under this facility as at 31 December 2012. The terms of the U.S.$350 million facility include standard default and cross default provisions which require certain covenants to be adhered to. These include the following: (a) an A.M. Best financial strength rating of at least B++; and (b) a maximum debt to capital ratio of 30%, where the subordinated loan notes due in 2035 are excluded from this calculation.

(ii) A U.S.$400 million bi-lateral uncommitted facility with Citibank Europe plc.

As at all reporting dates the Group was in compliance with all covenants under these facilities. The U.S.$400 million bi-lateral uncommitted facility with Citibank Europe plc does not contain default provisions or covenants.

5.1.4 *Indenture*

Lancashire entered into an indenture dated 11 October 2012 with Citibank, N.A., as trustee, in connection with the issuance of U.S.$130 million aggregate principal amount of 5.70% senior unsecured notes due 2022. The senior unsecured notes will bear interest payable semi annually in arrears on 1 April and 1 October of each year, commencing in April 2013. The senior unsecured notes mature on 1 October 2022 with an early redemption option available at any time at a certain make-whole redemption price, or at 100% of the principal amount of the senior unsecured notes, plus accrued and unpaid interest, for certain tax reasons. In line with the Group's credit facilities, the terms of the senior unsecured notes contain a financial covenant which limits the Group's ability to incur debt that would permit the ratio of total consolidated debt to total consolidated capital of Lancashire to exceed 30%.

5.2 ***Cathedral***

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Cathedral or a member of the Cathedral Group in the two years immediately preceding the date of this document and are, or may be, (a) material or (b) contain provisions under which any member of the Cathedral Group has any obligation or entitlement which is material to the Cathedral Group as at the date of this document:

Barclays facility letters and letters of credit

Both of the Syndicates have in place a facility letter and associated letter of credit with Barclays Bank PLC under which Barclays Bank PLC provides the Syndicates with a facility for the purpose of meeting payment obligations resulting from insurance claims pending receipt of reinsurance receivables and premium. Both facilities were entered into on 19 December 2012. Syndicate 2010's facility is for an amount up to U.S.$80 million whilst Syndicate 3010's is for U.S.$20 million. Both facilities can be used as a US dollar currency revolving credit facility or as a letter of credit facility. Both facilities will expire on 31 December 2013, unless extended by Barclays Bank PLC on or around 30 November 2013. Both of these facilities are undrawn at present. Both facilities provide that the Managing Agent may not enter into any amalgamation, demerger, merger or corporate reconstruction.

6. Litigation

Lancashire

6.1 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Lancashire is aware) which may have, or have had during the 12 months prior to the date of this document, a significant effect on Lancashire and/or the financial position or profitability of the Group.

Cathedral

6.2 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Lancashire is aware) which may have, or have had during the 12 months prior to the date of this document, a significant effect on Cathedral and/or the financial position or profitability of Cathedral.

7. Working capital

Lancashire is of the opinion that the Enlarged Group, taking into account Lancashire's available bank facilities, has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

8. No significant change

Lancashire

8.1 There has been no significant change in the financial or trading position of the Group since 30 June 2013, being the date of Lancashire's latest published financial information.

Cathedral

8.2 There has been no significant change in the financial or trading position of Cathedral since 31 December 2012, being the date to which Cathedral's latest audited financial information set out in Part VII was prepared.

9. Related party transactions

9.1 Save as set out in the unaudited consolidated financial statements of the Group for the six months ended 30 June 2013, and in the audited consolidated financial statements of the Group for the financial years ended 31 December 2010, 2011 and 2012, there have been no related party transactions during the six months ended 30 June 2013 or in the financial years ended 31 December 2010, 2011 and 2012.

9.2 Save for the above, Lancashire confirms that there have been no related party transactions entered into by the Group in the period between 30 June 2013 and 7 August 2013 (being the latest business day prior to publication of this document).

10. Miscellaneous

10.1 J.P. Morgan Cazenove has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of references to its name in the form and context in which they appear.

10.2 Ernst & Young has given and has not withdrawn its written consent to the inclusion of its report included in Part IX of this document in the form and context in which it appears.

10.3 Mazars has given and has not withdrawn its written consent to the inclusion of its report included in Part VI of this document in the form and context in which it appears.

11. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at Lancashire's registered office until Completion and will also be available for inspection at the Special General Meeting for at least 15 minutes prior to and during the meeting:

(a) the Bye-Laws;

(b) the Directors' service contracts and letters of appointment referred to in paragraph 3 above;

(c) the letters of consent referred to in paragraphs 10.1, 10.2 and 10.3 above;

(d) this document;

(e) the documents referred to in Part V of this document which are incorporated by reference into this document; and

(f) the Share Purchase Agreements.

Dated: 8 August 2013

PART XI

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

"2006 Act"	the Companies Act 2006, as amended and for the time being in force;
"Accountant's Report"	Cathedral's accountant's report on Cathedral set out in Part VII of this document;
"Acquisition"	the proposed acquisition by Lancashire of the entire issued and to be issued share capital of Cathedral pursuant to the Share Purchase Agreements together with all of the equity loan notes issued by Cathedral and CCIL;
"Admission"	the admission of the Placing Shares to the Official List becoming effective in accordance with the Listing Rules and the admission of such shares to trading on the main market of the London Stock Exchange for listed securities becoming effective in accordance with the Admission and Disclosure Standards;
"Admission and Disclosure Standards"	the Admission and Disclosure Standards of the London Stock Exchange containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the main market of the London Stock Exchange for listed securities;
"Alchemy"	Alchemy Partners Nominees Limited;
"BMA"	Bermuda Monetary Authority;
"Board"	the board of directors of the Company;
"business day"	any day (other than a Saturday or Sunday or public holiday in England and Wales) on which banks are generally open in London for the transaction of normal banking business;
"Bye-Laws"	the bye-laws of the Company;
"Capita" or **"Registrar"**	Capita Registrars (Jersey) Limited;
"Cathedral"	Cathedral Capital Limited;
"Cathedral Group"	Cathedral and its subsidiaries;
"CCIL"	Cathedral Capital (Investments) Limited;
"Chairman"	Martin Thomas;
"Chief Executive Officer"	Richard Brindle;
"Chief Financial Officer"	Elaine Whelan;
"Chief Underwriting Officer"	Alex Maloney;
"Common Shares"	common shares of U.S.$0.50 each in the capital of the Company;
"Company" or **"Lancashire"**	Lancashire Holdings Limited;
"Completion"	completion of the Acquisition in accordance with the terms of the Share Purchase Agreements;
"Corporate Member"	Cathedral Capital 1998 Limited;
"CREST"	the relevant system, as defined in the CREST Regulations, for paperless settlement of share transfers and the holding of shares in uncertificated form (in respect of which Euroclear UK is the operator as defined in the CREST Regulations);
"CREST Manual"	the rules governing the operation of CREST consisting of the CREST Reference Manual, the CREST International Manual, the CREST Central Counterparty Service Manual, the CREST Rules, the Registrars Service Standards, the Settlement Discipline Rules, the CCSS Operations Manual, the Daily Timetable, the CREST Application Procedure and the CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by Euroclear UK on 15 July 1996 and as amended since);

"CREST member"	a person who has been admitted to Euroclear UK as a system member (as defined in the CREST Regulations);
"CREST participant"	a person who is, in relation to CREST, a system participant (as defined in the CREST Regulations);
"CREST Proxy Instruction"	means a properly authenticated CREST message appointing and instructing a proxy to attend and vote in place of a Shareholder at the Special General Meeting and containing the information requested to be contained in the CREST Manual;
"CREST Regulations" or **"Regulations"**	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended;
"CREST sponsor"	a CREST participant admitted to CREST as a CREST sponsor;
"CREST sponsored member"	a CREST member admitted to CREST as a sponsored member;
"Directors"	the current directors of the Company whose names are set out on page 6 of this document;
"Disclosure and Transparency Rules" or **"DTR"**	the Disclosure Rules and Transparency Rules made under Part V of FSMA, as amended from time to time;
"ECA"	Economic Capital Assessment;
"Enlarged Group"	the post-Acquisition new enlarged group of Lancashire including for the avoidance of doubt, the Cathedral Group;
"Ernst & Young"	Ernst & Young LLP;
"ESOP"	Cathedral's employee share option plan;
"EU" or **"European Union"**	the European Union first established by the treaty made at Maastricht on 7 February 1992;
"Euroclear UK"	Euroclear UK & Ireland Limited (formerly CRESTCO Limited), the operator of CREST;
"Executive Directors"	Richard Brindle, Alex Maloney and Elaine Whelan;
"FAL"	funds at Lloyd's;
"FCA" or **"Financial Conduct Authority"**	the United Kingdom Financial Conduct Authority;
"Form of Proxy"	the form of proxy accompanying this document for use by Shareholders in relation to the Special General Meeting;
"FSMA"	the Financial Services and Markets Act 2000, as amended from time to time;
"Group" or **"Lancashire Group"**	the Company and each of its subsidiaries and subsidiary undertakings from time to time;
"GWP"	gross written premium;
"IAS"	International Accounting Standards;
"IASB"	the International Accounting Standards Board;
"ICA"	Individual Capital Assessment;
"IFRS"	International Financial Reporting Standards as issued by the IASB;
"ILV"	integrated Lloyd's vehicle;
"J.P. Morgan Cazenove"	J.P. Morgan Limited, which conducts its UK investment banking business as J.P. Morgan Cazenove;
"J.P. Morgan Securities"	J.P. Morgan Securities plc;
"LICL"	Lancashire Insurance Company Limited;
"Listing Rules"	the listing rules made by the FCA under Part VI of FSMA (as amended from time to time);

"Lloyd's"	the society incorporated by the Lloyd's Act 1871 with the name Lloyd's;
"London Stock Exchange"	the London Stock Exchange plc;
"LUK"	Lancashire Insurance Company (UK) Limited;
"Managing Agent"	Cathedral Underwriting Limited;
"Mazars"	Mazars LLP;
"Names"	third party persons who provide capacity to syndicates at Lloyd's;
"Non-Executive Directors"	Martin Thomas, John Bishop, Emma Duncan, Samantha Hoe-Richardson, Neil McConachie, Ralf Oelssner, Robert Spass and William Spiegel;
"Notice of Special General Meeting" or **"Notice"**	the notice of the Special General Meeting which is set out at the end of this document;
"NSM"	National Storage Mechanism of the London Stock Exchange;
"Numis"	Numis Securities Limited;
"Official List"	the official list of the UK Listing Authority;
"ORSA"	own risk solvency assessment;
"participant ID"	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant;
"Placing"	the placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement;
"Placing Agreement"	the placing agreement entered into on 7 August 2013 between Lancashire, J.P. Morgan Securities and Numis;
"Placing Price"	the higher of (i) the price per Placing Share as may be agreed between Lancashire, J.P. Morgan Securities and Numis; and (ii) the floor price per Placing Share pursuant to the Placing Agreement;
"Placing Shares"	the 16,843,382 new Common Shares to be issued pursuant to the Placing at the Placing Price;
"PRA" or **"Prudential Regulation Authority"**	the United Kingdom Prudential Regulation Authority;
"Primary Share Purchase Agreement"	the share purchase agreement dated 7 August 2013 between Lancashire and the Warrantors regarding the sale and purchase of Cathedral;
"Remaining Shareholders"	First Names Corporate Services Limited, H.M. Amor, L. Aspinal, S.Batchelor, A.C. Beardon, S. Beardon, J. Burns, A. Butler, L. Crossman, M. de le Mare, S.L. Dean, S. Dean, N.J. Destro, J. Destro, P.J. Dixon, R. Dixon, D.A. Frake, R. Frake, S.J. Gentili, D.C. Grainger, N. Grainger, H. Holder, M. King, C.M. Lawrence, D. Lawrence, G.L. McMillan, A. Mitchell, C. Nicholes, E.E. Patrick, V. Singh, A.E. Towler, D.A. Warburg, C. Warburg, G.O. Williams, R.J. Wood and S. Wood, being Shareholders of Cathedral;
"Resolution"	the ordinary resolution to be proposed at the Special General Meeting and set out in the Notice of the Special General Meeting;
"RoE"	return on equity;
"RSS"	restricted share scheme;
"Secondary Share Purchase Agreement"	the share purchase agreement dated 7 August 2013 between Lancashire and certain of the Remaining Shareholders regarding the sale and purchase of Cathedral;
"Sellers"	Alchemy, the Warrantors and the Remaining Shareholders;
"Shareholders"	holders of Common Shares;

"Share Purchase Agreements"	the Primary Share Purchase Agreement, the Secondary Share Purchase Agreement and the Tertiary Share Purchase Agreement;
"Special General Meeting"	the Special General Meeting of Lancashire to be held at Level 11, Vitro, London EC3M 4AD on 5 September 2013 at 11.00 a.m., notice of which is set out at the end of this document;
"Sterling" or **"£"** or **"pence"**	the lawful currency of the UK;
"subsidiary"	a subsidiary, as that term is defined in section 1159 of the 2006 Act;
"subsidiary undertaking"	a subsidiary undertaking, as that term is defined in section 1162 of the 2006 Act;
"Syndicate 2010"	syndicate 2010 at Lloyd's;
"Syndicate 3010"	syndicate 3010 at Lloyd's;
"Syndicates"	Syndicate 2010 and Syndicate 3010;
"syndicates"	syndicates at Lloyd's;
"Tertiary Share Purchase Agreement"	the share purchase agreement dated 7 August 2013 between Lancashire and certain of the Remaining Shareholders regarding the sale and purchase of Cathedral;
"UK Listing Authority"	the FCA in its capacity as the competent authority for the purposes of Part VI of FSMA and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of FSMA;
"uncertificated" or **"in uncertificated form"**	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
"United Kingdom" or **"UK"**	the United Kingdom of Great Britain and Northern Ireland;
"United States" or **"US"**	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
"U.S.$"** or **"$" or **"cents"**	the lawful currency of the US; and
"Warrantors"	Peter Scales, John Lynch, John Hamblin, Lawrence Holder, Simon King, Richard Williams and Mark Wilson, being Shareholders of Cathedral.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

NOTICE OF SPECIAL GENERAL MEETING

LANCASHIRE HOLDINGS LIMITED

(Incorporated in Bermuda with registered number EC37415)

NOTICE OF SPECIAL GENERAL MEETING

Notice is hereby given that a SPECIAL GENERAL MEETING of Lancashire Holdings Limited (the "Company") will be held at Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD on 5 September 2013 at 11.00 a.m. UK time to consider and, if thought fit, pass the following resolution as an ordinary resolution.

Capitalised terms used in this Notice of Special General Meeting which are not defined herein shall have the meaning ascribed to them in the circular to Shareholders dated 8 August 2013 of which this Notice of Special General Meeting forms part.

Resolution

THAT the proposed acquisition (the "**Acquisition**") of Cathedral Capital Limited ("**Cathedral**") by the Company, on the terms and subject to the conditions of the Share Purchase Agreements (as defined and summarised in the circular to Shareholders dated 8 August 2013 of which this notice forms part (the "**document**")), be and hereby is approved, subject to such amendment, variation or waiver (provided such amendments, variations or waivers are not of a material nature) of the terms and conditions thereof as the Directors (or a committee consisting of one or more Directors which is duly constituted under the Company's Bye-Laws (**"Committee"**)), shall, in their absolute discretion, think fit and subject to the foregoing, that the Directors (or the Committee as applicable) be and are hereby authorised to take all necessary steps and to execute all documents and deeds as they may consider to be necessary, desirable or expedient to conclude, implement and give effect to the Acquisition or in connection therewith.

By order of the Board:

Christopher Head
Secretary

8 August 2013

Registered office: Power House, 7 Par-la-Ville Road, Hamilton HM11, Bermuda.

Notes:

1. Only those Shareholders entered on the register of members of the Company at 5.00 p.m. UK time on 2 August 2013 shall be entitled to attend and vote at the meeting in respect of the number of Common Shares registered in their name at that time. Changes to entries on the register of members after 5.00 p.m. on 2 August 2013 shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting.

2. A Shareholder entitled to attend and vote at the meeting convened by this notice or any adjournment thereof is entitled to appoint one or more proxies to attend, speak and vote instead of him. A proxy need not be a member of the Company.

3. To be valid, the enclosed Form of Proxy must be lodged with Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time appointed for the meeting or any adjournment thereof, together, if appropriate, with the power of attorney or other written authority, if any, under which it is signed (or a duly certified copy of such power) or, where the Form of Proxy has been signed by an officer on behalf of a corporation, a duly certified copy of an authority under which it is signed. Completion and return of a Form of Proxy (or submission of proxy instructions electronically) will not preclude a Shareholder from attending the meeting and voting in person.

4. CREST members who wish to vote using the CREST electronic proxy voting service may do so for the Special General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual (available at www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Capita Registrars Limited (CREST participant ID: **RA10**), no later than 72 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee by other means.

CREST members and, where applicable, their CREST sponsor or voting service provider should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsor or voting service provider are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of he Uncertificated Securities Regulations 2001.

5. Any holders of depositary interests in the Company who do not lodge their voting instructions via CREST Electronic Proxy Appointment Service may submit the enclosed Form of Direction together with the power of attorney or other authority (if any) under which it is signed, or a notarially or otherwise certified copy of such power or authority, to PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 72 hours before the time appointed for the holding of the Special General Meeting.

6. As at 7 August 2013, being the latest practicable business day prior to the publication of this notice, the Company's issued share capital consists of 168,602,427 Common Shares of US$ 0.50 each of which 3,847,684 Common Shares are held in Treasury. Therefore, the total exercisable voting rights in the Company as at 7 August 2013 are 164,754,743. Following the completion of the Placing, the total number of Common Shares in issue with voting rights (excluding shares held in treasury) is expected to be 181,598,125.

7. Copies of the document, the Bye-Laws, the Directors' service contracts and letters of appointment, the letters of consent of J.P. Morgan Limited and Ernst & Young LLP and Mazars LLP, the documents incorporated by reference in this document and the Share Purchase Agreements are available for inspection during normal business hours at the Company's registered office and at the Company's head office, Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD, being the place of the Special General Meeting for 15 minutes prior to the meeting and during the meeting.

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