LANCASHIRE SYNDICATES LIMITED

(PREVIOUSLY CATHEDRAL UNDERWRITING LIMITED)

Annual Report and Financial Statements

For the year ended 31 December 2019

Registered in England and Wales Number 292093

Contents

Directors and Officers

CHAIRMAN

N P Davenport *

DIRECTORS

E L Woolley	
C J Whittle	
S W Fraser *	
L J Gibbins *	
P Martin *	
A C Beardon	
J M Barnes	
J D Spence	
P T Dawe	appointed 19 August 2019
R D Milner	appointed 28 October 2019
A T Maloney *	resigned 13 February 2019
S Keshani	resigned 10 June 2019
W A McKee	resigned 31 January 2019

* Non Executive

COMPANY SECRETARY

M E Lynn

AUDITOR

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

BANKERS

Barclays Bank Plc
1 Churchill Place
London E14 5HP

REGISTERED OFFICE

Level 29
20 Fenchurch Street
London EC3M 3BY

Registered Number 292093 (England and Wales)

Review of the Business and Future Developments

The principal activity of Lancashire Syndicates Limited (the "Company"), previously Cathedral Underwriting Limited, is that of a Managing Agent at Lloyd's. The Company has changed its name on 23 December 2019. The Company is authorised and regulated by the Prudential Regulatory Authority (PRA), the Financial Conduct Authority (FCA) and Lloyd's.

The Company manages Lancashire Syndicate 2010, which specialises in non-marine reinsurance, aviation reinsurance, direct and facultative property insurance. Mr J M Barnes is the Active Underwriter of Syndicate 2010. The syndicate had a premium capacity of £306.3m for the 2019 year of account and this remains unchanged for the 2020 year of account.

The Company also manages Lancashire Syndicate 3010, which specialises in marine cargo, energy, aviation all risks and war and terrorism insurance, and power and marine hull. The Syndicate had a premium capacity of £100.0m for the 2019 year of account and this has increased to £150.0m for the 2020 year of account. Mr J D Spence is the Active Underwriter of Syndicate 3010.

The Company also acts as manager on three Lloyd's aviation consortia led by Syndicate 3010.

On a year of account (YoA) basis, the aggregate capacity of the syndicates is as follows:

Managed Syndicates	2020 YoA	2019 YoA	2018 YoA	2017 YoA
Capacity	£456m	£406m	£406m	£406m
Result (% of capacity)				
- Syndicate 2010	n/a	n/a	-7.5% to -12.5%	-20.0%
- Syndicate 3010	n/a	n/a	+5% to 0%	1.1%

The 2017 year of account result is the actual reported result to capital providers on the closure of that year of account. The 2018 year of account result is the current public forecast. No public forecast has yet been released for either the 2019 or 2020 years of account at the date these accounting statements are published.

The key performance indicators of the Company are as follows for each calendar year:

	2019 \$'000	2018 \$'000	2017 \$'000
Revenue	8,641	17,062	16,140
(Loss)/profit before tax	(7,725)	7,240	12,073
(Loss)/profit before tax/Revenue	(89.4)%	42.4%	74.8%
Net Equity	18,909	25,209	19,459

The results attributable to the shareholder of the Company are set out in the statement of comprehensive (loss) income on page 9.

Total revenue has decreased due to lower profit commission receivable during the year as a result of the catastrophe losses incurred in 2017.

From 1 January 2014, the Company charges profit commission to all Names on the managed syndicates, including Cathedral Capital (1998) Limited, a fellow subsidiary.

Principal Risks

Since 1 April 2014, the Company is subject to the dual regulation of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), and also continues to be regulated by Lloyd's. Accordingly, the principal risk to the business is the loss of its regulatory approval, which would prohibit it from carrying on its business.

The risk is mitigated by ensuring that the internal controls, management and governance structures are sufficiently robust to manage a business of the size and complexity run by the Company.

The Company also has insurance risk linked to the ability of its managed syndicates to operate in the Lloyd's market. This includes, but is not limited to, declines in premium rates, exposure to large catastrophe events, failure to maintain key broker and client relationships, changes in regulation and changes in the geopolitical environment. This risk is mitigated in several ways including, operating strict underwriting standards within the syndicates, ensuring that the syndicates purchase appropriate and cost-effective reinsurance cover, ensuring that the syndicates operate within a strict compliance framework and holding regular meetings with the regulators.

The Company is also required to ensure that it remains solvent in accordance with Lloyd's regulations and must ensure it meets its solvency requirements on an ongoing basis. The assets of the Company are managed with the prime objective of ensuring that the Company remains solvent.

The financial instruments are subject to liquidity risk and credit risk. Liquidity risk is the risk that cash may not be available to pay obligations when due on a timely basis, and credit risk is the risk that a counterparty will be unable to pay amounts in full when due. To mitigate the exposure to liquidity and credit risk, cash deposits are held with a number of banks, each of which has a long term credit rating of at least A-. Receivables are predominately the profit commission owing by the members of the Syndicates which are managed by the Company. For the closed year, this amount has been finalised and is expected to be received in April 2020.

In addition, the Company holds some of its funds in currencies other than US Dollars. This exposes the Company to a degree of market risk as a result of any movement in those currency exchange rates in comparison to US Dollars. The Company does not currently enter into any currency deals to mitigate this currency risk, but the currency position of the Statement of Financial Position is regularly reviewed.

Risks relating to Brexit

On 31 January 2020 the United Kingdom ceased to be a member of the European Union and as a consequence, in the absence of a financial services agreement, Lloyd's members will no longer be authorised to underwrite insurance business in the EEA. In order to maintain access to this business, a new Lloyd's subsidiary, Lloyd's Insurance Company S.A. has been established and commenced underwriting on 1 January 2019.

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

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

By order of the Board

C.Whittle

CJ Whittle

19 February 2020

The Directors present their annual report and the audited financial statements of Lancashire Syndicates Limited (the "Company") for the year ended 31 December 2019.

Directors

The Directors who served during the year are shown on page 1.

Information on Directors' interests in transactions is set out in Note 18 on page 18.

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

Going Concern

The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Financial Instruments

The Company's principal financial instruments are intercompany debt and cash. The risk disclosures in relation to the financial instruments are set out within the Strategic Report on page 2.

Dividends

There are no dividends paid in the year (2018: $nil).

Political Contributions

The Company made no political donations or incurred any political expenditure during the year (2018: $nil).

Auditor

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

Disclosure of Information to the Auditor

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

Statement by the directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006 (the "Act")

The Board of Directors of Lancashire Syndicates Limited consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its sole member (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2019.

In line with its annually approved business plan, and in accordance with its approved strategy, the Company seeks to effectively manage the insurance cycle by underwriting profitable business in the specialty insurance lines in which it operates. Our strategic priorities are that we do not seek top line growth for the sake of it in markets where we do not believe the right opportunities exist, we seek to underwrite our core portfolio profitably through the insurance cycle and look to seize opportunities when they present themselves. We focus on disciplined underwriting with a strong focus on profitability and risk selection. By reducing our risk levels in markets where we consider premiums do not justify the risks presented and, seeking to expand our portfolio where the risk/ return metric improves, the Company seeks to create a sustainable business operation for the long term.

We recognise that our responsibility is not only to our parent company and our clients and we strive to be a good employer, a good corporate citizen and a responsible preserver of resources.

Our employees are the lifeblood of the Company and we strive to attract and retain excellent staff. The Company actively seeks to engage with its staff, and to afford them a stable and open workplace. Our staff work on a cross-departmental basis, are provided with regular training and development and management encourages engagement across all areas of the business. The Company promotes the Lancashire Holdings Limited group ("the Group") values(1) set out below, and during 2019 employees participated in a group-wide staff engagement survey, the feedback for which was positive. The Company recognises that promoting a positive and inclusive culture is an important factor in its continued ability to attract and retain the best talent and continues to explore how it can promote flexible working options and career development opportunities. All permanent staff are eligible to share in the Company's and Group's success through the granting of nil restricted share scheme cost awards and participation in the Company's bonus arrangements. To ensure alignment with the Company's values and to effectively monitor individual performance, certain senior managers' remuneration is overseen by the Company's Remuneration Committee.

It is crucial to the Company's long term success that it positively engages with its key stakeholders such as clients, brokers, outwards reinsurers and service providers to provide suitable (re)insurance products; the Company's underwriters, claims team, senior management, and the Company's directors will meet regularly with stakeholders both in the UK and internationally to receive their feedback and insight. Our policies are important to our clients in seeking to protect them and their business from risk events, and when losses do occur we are responsive in order to provide our policyholders with ongoing support and we seek to pay their claims as expeditiously as possible.

The Company also recognises the importance of an open and constructive relationship with government agencies and regulators both in the UK and internationally when it underwrites certain overseas (re)insurance contracts, and to this end the Company has developed a range of internal procedures and processes to establish a robust operating platform to ensure compliance with legal requirements and regulatory rules and standards; and seeks to be proactive in its provision of accurate information to such agencies and regulators

The Company is active in supporting the promotion of the interests of the wider London insurance market, and as an example of that the CEO of the Company sits on the board of the LMA.

Through the Lancashire Foundation, the Lancashire Holdings Limited group ("the Group") makes financial contributions and provide human support to a number of good causes in the places we operate around the world. This is a Group-wide initiative, and further information can be found on pages 45 to 47 in the 2019 Annual Report for Lancashire Holdings Limited (our ultimate parent company) . The Company also seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days and mentoring opportunities.

We are a wholly owned subsidiary of a Group that is committed to managing the environmental impacts of all its businesses, including the Company's, as well as reporting against the UNEP FI Principles for Sustainable Insurance. Further information can be found in Lancashire Holdings Limited's Annual Report on pages 40 to 47 and 52 to 54.

(1)
Leadership, exhibiting passion and commitment in all aspects of Lancashire life and inspiring others to do the same, we are
Aspirational, aspiring to deliver a superior service for our clients, ourselves and our business partners, we are
Nimble in our decisions, actions and business processes, we are
Collaborative, valuing teamwork and a diversity of skills and experience and sharing in our success, and we are
Straightforward in conducting our business in an accountable, open, honest and sustainable way.

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

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with international Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

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

By order of the Board

C J Whittle

Director

19 February 2020

Company Registered Number: 292093

Opinion

We have audited the financial statements of Lancashire Syndicates Limited (the "Company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive (Loss) Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and related notes, including the accounting policies in Note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its results for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and Directors' report

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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

Rees Aronson

Rees Aronson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

19 February 2020

Statement of Comprehensive (Loss) Income
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Revenue	4	**8,641**	17,062
Administrative expenses		**(15,907)**	(8,882)
Foreign exchange loss		**(324)**	(874)
Operating (loss)/profit	5	**(7,590)**	7,306
Investment income and similar income	6	**1,115**	44
Finance costs and similar charges	7	**(1,250)**	(110)
(Loss)/profit before tax		**(7,725)**	7,240
Income tax expense	10	**1,425**	(1,490)
(Loss)/profit for the year		**(6,300)**	5,750

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

All activities are derived from continuing operations.

The notes on pages 13 to 18 are an integral part of these financial statements.

Balance Sheet
As at 31 December 2019

	Notes	2019 $'000	2018 $'000
Assets			
Deferred tax asset	11	—	42
Total non-current assets		—	42
Cash and cash equivalents	12	9,451	2,507
Trade and other receivables	13	73,257	47,582
Total current assets		82,708	50,089
Total Assets		82,708	50,131
Liabilities			
Trade and other payables	14	62,197	21,815
Current tax liabilities		1,602	3,044
Total current liabilities		63,799	24,859
Provision for liabilities	15	—	63
Total non-current liabilities		—	63
Total Liabilities		63,799	24,922
Equity			
Share capital	16	1,594	1,594
Share premium account		1,411	1,411
Retained earnings		15,904	22,204
Total Equity		18,909	25,209
Total Liabilities and Equity		82,708	50,131

The notes on pages 13 to 18 are an integral part of these financial statements.

The financial statements on pages 9 to 18 were approved and authorised for issue by the Board of Directors on 14 February 2020 and signed on their behalf on 19 February 2020 by:

C. Whittle

C J Whittle

Director

Statement of Changes in Equity
For the year ended 31 December 2019

	Share capital	Share premium account	Retained earnings	Total Equity
	$'000	$'000	$'000	$'000
At 1 January 2018	1,594	1,411	16,454	19,459
Profit for the year	—	—	5,750	5,750
At 31 December 2018	**1,594**	**1,411**	**22,204**	**25,209**
Loss for the year	—	—	**(6,300)**	**(6,300)**
At 31 December 2019	**1,594**	**1,411**	**15,904**	**18,909**

The notes on pages 13 to 18 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Cash flows from/(used in) operating activities			
(Loss)/profit before tax		(7,725)	7,240
Fixed assets depreciation		42	36
Foreign exchange loss		324	874
Interest receivable		(81)	(44)
Decrease in provision for liabilities		(65)	(1,191)
Increase in trade and other receivables		(25,684)	(27,627)
Increase in trade and other payables		40,202	13,757
Net cash from/(used in) operating activities		**7,013**	(6,955)
Cash flows from investing activities			
Interest received		81	44
Net cash from investing activities		**81**	44
Net increase/(decrease) in cash and cash equivalents		**7,094**	(6,911)
Cash and cash equivalents at 1 January		2,507	9,446
Effect of exchange rate fluctuations on cash and cash equivalents		(150)	(28)
Cash and cash equivalents at 31 December	12	**9,451**	2,507

The notes on pages 13 to 18 form an integral part of these financial statements.

1. General Information

Lancashire Syndicates Limited (the "Company") is a limited company registered and domiciled in England and Wales. The address of its registered office and principal place of business is disclosed on page 1. The principal activities of the Company are described in the Strategic Report on page 2.

2. Basis of Preparation of the Financial Statements

a) Basis of Preparation

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

The principal accounting policies are set out below, and have been applied consistently.

(b) New Accounting Standard

While a number of other amended IFRS and IFRIC standards have become effective this year, none of these standards have had a material impact on the Company.

3. Significant Accounting Policies

a) Revenue

Revenue comprises of managing agent fees, consortium fees, profit commission, management fees and other income. Managing agent fees and consortium fees are recognised in line with the activity to which the fees relate. Managing agent profit commission is recognised on open years where its measurement is reasonably certain. Consortium profit commission is recognised when the year of account closes.

b) Administrative Expenses

Administrative expenses are accounted for on an accrual basis.

c) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive (loss) income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by IAS 12, Income Taxes.

d) Foreign Currency

The financial statements are presented in US Dollars which is the Company's functional and presentational currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions, or 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 shown in the statement of comprehensive (loss) income.

The sterling exchange rate used in conversion is 1.31 as at 31 December 2019 and 1.27 as at 31 December 2018. As mentioned above, profit and loss items are translated at the exchange rate on the date of the transaction.

e) 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.

f) Financial Instruments

The key financial instruments used by the Company are short term receivables and payables, and cash. The carrying amount disclosed reasonably approximates to fair values at year end. Amounts owed by parent companies are repayable on demand and have no fixed term of repayment. Short term receivables and payables are measured at amortised cost.

g) Provision for Liabilities

Provisions for liabilities within the balance sheet relate to the profit related pay provision, a detailed note on this provision is set out in Note 15.

h) Use of Estimates

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

4. Revenue

	2019 $'000	2018 $'000
Managing agent fees	3,411	3,613
Managing agent profit commission	372	7,184
Consortium fees	825	811
Consortium profit commission	1,207	2,224
Management fees	2,826	3,227
Other income	—	3
Total	**8,641**	17,062

The Company charges fees and profit commission to the members of the consortium agreements it manages. Consortium profit commission is due to the Company in respect of the 2017 closed year agreements.

Managing agent profit commission and consortium profit commission is charged to all Names, including Cathedral Capital (1998) Limited, a fellow group subsidiary. Profit commission from Cathedral Capital (1998) Limited during the year was $918k (2018: $5,744k).

During the prior year, the management fees include total recharges in respect of the Restricted Share Scheme (RSS), charged by Lancashire Holdings Limited, to other companies and syndicates. This is not being recharged by its fellow group undertaking during the year.

5. Operating (Loss)/Profit

Results of operating activities are stated after charging the following amounts:

	2019 $'000	2018 $'000
Operating (loss)/profit	(7,590)	7,306
Operating profit is after charging:		
Foreign exchange loss	324	874
Depreciation of tangible fixed assets	42	36
Fees to the auditor:		
Audit of the financial statements	13	13
Other fees in respect of the regulatory return	19	12

The depreciation of tangible fixed assets was recharged to the Company by its fellow group undertaking, in respect of the Company's use of the related assets.

6. Investment Income and Similar Income

	2019 $'000	2018 $'000
Interest receivable from related group companies	1,034	—
Bank interest income	81	44
Total	**1,115**	44

The interest receivable from related group companies relates to the interest on intercompany loan obtained by the Company's managed syndicate, Syndicate 2010, from Cathedral Capital Holdings Limited and Cathedal Capital (1998) Limited through the Company (see Note 14).

7. Finance Costs and Similar Charges

	2019 $'000	2018 $'000
Interest payable to related group companies (see Note 6)	(1,034)	(111)
Other charges	(195)	—
Bank charges	(21)	1
Total	(1,250)	(110)

8. Employees

In prior year, the Lancashire and Cathedral group have consolidated the employment and payroll services within Lancashire Insurance Services Limited ("LISL"), a fellow group company. LISL pays all salaries to the employees and recharges a proportion to the Company. All staff are employed by LISL.

The average number of employees employed by LISL but working for the Company during the year by category, is as follows:

	2019 Number	2018 Number
Underwriting staff	2	3
Administrative staff	5	5
Total	7	8

The following amounts were recharged by LISL to the Company in respect of salary costs:

	2019 $'000	2018 $'000
Salaries and wages	901	912
Social security costs	118	167
Other pension costs	89	85
Profit related pay (including Employer's NI)	7,044	2,992
Total	8,152	4,156

9. Directors' Remuneration

	2019 $'000	2018 $'000
Directors' remuneration	2,598	2,634
Company contributions to money purchase pension plans	219	284
Directors' fees *	359	363
Compensation for loss of office	697	—
Total	3,873	3,281

* This relates to directors' remuneration paid to the non-executive directors, net of employer national insurance.

There has been a change in presentation in respect of the above note from the prior year to include the remuneration allocated to the Company and managed syndicates, where as 2018 only includes the amount allocated to the Company. The comparatives were amended to include the amount of directors' remuneration allocated to both LSL and its managed syndicates.

Highest paid director

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

	2019 $'000	2018 $'000
Directors' remuneration	617	512
Company contributions to money purchase pension plans	44	90
Total	661	602

10. Taxation

	2019 $'000	2018 $'000
Current tax:		
UK corporation tax for the year	(1,468)	1,376
Adjustment in respect of previous years	3	114
Total current tax	(1,465)	1,490
Deferred tax:		
Deferred tax written off	40	—
Total deferred tax	40	—
Total	(1,425)	1,490
Factors affecting the tax charge for the year		
(Loss)/profit before tax	(7,725)	7,240
Current tax at 19.00% (2018: 19.00%)	(1,468)	1,376
Expenses not deductible for tax purposes	—	—
Deferred tax written off	40	—
Adjustment in respect of previous years	3	114
Total	(1,425)	1,490

The UK corporation tax rate as at 31 December 2019 was 19.0% (effective from 1 April 2017). The UK government has passed legislation to reduce the rate of corporation tax to 17.0% with effect from 1 April 2020. These rates have been reflected in the closing deferred tax position on the balance sheet.

11. Deferred Tax Asset

	2019 $'000	2018 $'000
Timing differences arising on:		
Capital losses	—	42
Total	—	42

Reconciliation of deferred tax:

	2019 $'000	2018 $'000
As at 1 January	42	45
Deferred tax charge in the year (see Note 10)	(40)	—
Exchange differences	(2)	(3)
As at 31 December	—	42

12. Cash and Cash Equivalents

	2019 $'000	2018 $'000
Cash at bank and in hand	9,451	2,507

All of the funds shown above are available for use by the Company.

13. Trade and Other Receivables

	2019 $'000	2018 $'000
Prepayments and accrued income	24,049	24,533
Amounts due from managed syndicates (see Note 14 and Note 18)	49,031	22,751
Other receivables	—	264
VAT recoverable	177	34
Total	73,257	47,582

14. Trade and Other Payables

	2019 $'000	2018 $'000
Amounts falling due within one year:		
Amounts owed to related group companies	50,691	14,560
Other payables	10,429	5,738
Accruals and deferred income	1,077	1,517
Total	62,197	21,815

During the year, the Company has obtained an intercompany loan of $20.0m from Cathedral Capital Holdings Limited and $20.0m from Cathedral Capital (1998) Limited, on behalf of its managed syndicate, Syndicate 2010, to assist the syndicate in meeting its payment obligations resulting from significant claims incurred on 2017 year of account. The amount of loan is subject to 3% interest per annum and payable on a quarterly basis.

15. Provision for Liabilities

Group profit-sharing scheme	2019 $'000	2018 $'000
As at 1 January	63	1,215
Release for the year	(65)	(1,190)
Exchange differences	2	38
As at 31 December	—	63

16. Share Capital

	2019 Authorised Allotted issued and fully paid Number	2018 Authorised Allotted issued and fully paid Number
Number:		
Ordinary shares of £1	960,036	960,036

	2019 $'000	2018 $'000
Nominal Value:		
Ordinary shares of £1	1,594	1,594

On 10 February 2017, the Company reorganised its share capital as follows:

- 960,001 'A' Ordinary shares of £1 were converted to Ordinary shares of £1
- 3,500 'B' shares of 1p were consolidated and divided into 35 Ordinary shares of £1

Following the reorganisation, no 'A' Ordinary or 'B' shares remain outstanding and 960,036 Ordinary shares of £1 each were issued and fully paid up.

17. Capital Commitments

There are no known capital commitments (2018: $nil).

18. Related Party Transactions

(i) Transactions with parent and other group companies

The Company had the following intercompany balances with Cathedral and Lancashire group companies:

	2019 $'000	2018 $'000
Amounts due to Cathedral Capital Holdings Limited	7,766	14,560
Amounts due to Cathedral Capital (1998) Limited	20,342	—
Amounts due to Lancashire Group	33,005	5,635
Total	61,113	20,195

The above intercompany balances are included within Note 14 of the financial statements. All transactions with other group companies are incurred in the normal course of business. These include recharges of expenses from other group companies and intercompany loan and interest balances with other group companies.

The Company has obtained intercompany loans from Cathedral Capital Holdings Limited and Cathedral Capital (1998) Limited on behalf of its managed syndicate, Syndicate 2010, which is subject to 3% interest per annum. The intercompany loans and interest balances are recoverable from Syndicate 2010 as disclosed in Note 13 and Note 14 of the financial statements. The Company's other transactions with its parent company are incurred in the normal course of business.

The Company also paid dividends of $nil in the year (2018: $nil) to Cathedral Capital Holdings Limited.

The amounts due to Lancashire Holdings Limited and other Lancashire group companies mainly includes intercompany recharges relating to the costs of Restricted Share Scheme awards and other operating expenses. The intercompany balances with Lancashire Group were transferred from Cathedral Capital Holdings Limited to the Company. The amount of expenses recharged to the Company are also being recharged to its managed syndicates.

(ii) Directors' interest in transactions

Mr Maloney and his spouse acquired 100% of the shares in Nameco 801 on 7 November 2016. Nameco 801 provides capacity to a number of Lloyd's Syndicates including Syndicate 2010 which is managed by the Company.

Nameco 801 has provided $0.2m of capacity to Syndicate 2010 for each of the 2018, 2019 and 2020 years of account. Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation.

No other Directors had an interest in transactions other than in the normal course of business.

(iii) Key management personnel compensation

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

Details of the cost of the key management personnel compensation charged is as follows:

	2019 $'000	2018 $'000
Salaries and other short term employee benefits	2,957	2,997
Post-employment benefits	219	284
Total	3,176	3,281

There has been a change in presentation in respect of the above note from the prior year to include the remuneration allocated to the Company and managed syndicates excluding compensation for loss of office, where as 2018 only includes the amount allocated to the Company. The comparatives were amended to include the amount of directors' remuneration allocated to both LSL and its managed syndicates.

19. Capital

The capital structure consists of equity attributable to the shareholder, comprising of share capital, share premium and retained earnings, details of which are set out in the statement of changes in equity on page 11.

The Company's policy and process for managing capital is to continuously review the solvency requirements of the Company and ensure there is sufficient capital in place to meet its requirements. The Company submits quarterly financial returns to Lloyds to show that it has sufficient capital to operate within the Lloyd's market.

20. Ultimate Parent Undertaking

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

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