CATHEDRAL
CAPITAL LIMITED

Annual Report

31 December 2006

CATHEDRAL CAPITAL LIMITED

Annual Report
For the period from 5 October to 31 December 2006

Contents

Chairman's Statement

This is the first report of the Company whose principal activity is the ownership of a number of subsidiaries, previously the Cathedral Group, which in turn are engaged in insurance and reinsurance business in the Lloyd's Market.

I am reporting a modest profit of £0.5 million that reflects the short time in which the company traded during the reporting period.

The most important feature of the year for the Company was the acquisition of the Cathedral Group of companies. The outside shareholders accepted a cash offer from the Alchemy Investment Plan, making them the majority shareholder, with the employees taking a substantial minority stake. This makes for a powerful business partnership and augurs well for the future of a business which inhabits a heavily regulated and aggressively volatile trading environment. On 12 April 2007, the Company changed its name from Disciple Topco Limited to Cathedral Capital Limited.

The main business of the Cathedral Group is the management of Syndicate 2010 at Lloyd's, which is a widely respected underwriting enterprise. The Cathedral Group has reported record profits for the year.

A full report on the trading activities of the Group can be found in the Chief Executive's Report that follows, however the general trading position of the Cathedral Group bodes well for the future of the Company.

Elvin Patrick
Chairman
25 April 2007

Chief Executive Officer's Report

Overview

In its own way the 2006 year has been as remarkable a year as its predecessor. Our industry, seriously exposed to over-trading only months previously, staggered into 2006 feeling the effects of significant capital, rating and exposure stress but has emerged with increased balance sheets, more market participants and an increased appetite for diversification into new business lines. Sadly, it equally appears none the wiser for the experience.

This is my first report following the acquisition of the Cathedral Group on 5 December and while 2006 was a record year of profits for the acquired Group only the results from the date of acquisition have been included in this Annual Report. However, in the financial review section of my report I have commented on the results as if the enlarged Cathedral Group had been a single group since the start of 2006.

2006 at Cathedral was very much business as usual in terms of classes written, the line sizes we deployed and the reinsurance cover we were able to buy. Consequently, unlike many of our competitors, we have not had to endure the rollercoaster ride of drastically re-writing business plans, slashing US wind exposures and re-assessing our risk appetite to cope with significantly larger net exposures. We may be less euphoric in tone about our result than some, but we are delighted that we have been able to refine the quality of our underlying portfolios for the future. We have also strengthened our trading position by teaming up the in situ management and underwriting team with a well know private equity partner during a year.

Market

Global economic losses from natural and man made catastrophes were estimated at approximately $48.4 billion for 2006 with the insured element of these totalling some $15.9 billion. The largest claims of the year resulted from a system of tornadoes that passed through the U.S. Mid-west in April accounting for some $3 billion of losses between them and Typhoon Shanshan which caused approximately $1billion of insured damage in Japan. This hardly memorable list of losses was punctuated with the loss of nearly six thousand people from an earthquake in Bantul, Indonesia, two thousand from the effects of the summer heat wave in Holland and Belgium and more than one thousand perished on a ferry that capsized off the Egyptian coast.

This is in stark contrast to the previous year where one single event comfortably generated insured losses greater than the entire global economic damage from catastrophe losses in 2006. The important thing to note here is not merely the contrast with 2005, but the fact that 2006 falls materially below a steadily rising long term average of annual catastrophe claims. To confuse 2006 with the profile of a typical year without any exceptional and infrequent losses would be a grave mistake.

The 2006 renewal season was tough but with hindsight not as difficult as we had anticipated. Prices for US coastal exposure rose sharply and reinsurance cover generally became scarce and limited in scope for those who had made a mess of their business in 2005. Many were restricted as to the exposures they could take in catastrophe exposed areas by reinsurers and reduced line sizes to a fraction of what they had been in 2005. Everyone took on substantially higher retentions.

Initial upward pricing movements were dampened as many had yet to come to terms with the full extent of their losses from 2005 and the impact on their balance sheets. Capital markets were rapidly deploying new and additional capital, either to replenish capital burnt by overtrading, or to fund 'sidecars' and start ups. Away from the US coast, business lines, be they property or otherwise, came under downward pricing pressure as businesses sought to replace the income lost with the exposures they had given up on the US coast.

Capital markets were consistent in that they continued to set up units that fitted into their standardised basic operating model with their standardised return on equity requirement. Sadly the need for quality underwriters that could build a balanced risk portfolio and control exposures still did not always feature highly. Most new entrants merely added another competitor with limited product into an already overpopulated market place.

Notwithstanding the new entrants to the market, the global appetite for US coastal exposure had fallen more quickly than the primary insurers could reduce it at source. Consequently both on a direct and reinsurance basis, pricing for coastal exposed business in the US continued to climb into the half year as market participants filled up their exposure limits and sold what was left for increasing prices.

Chief Executive Officer's Report

continued

During the latter half of 2006 most businesses had obtained some reinsurance by working their way down the list of new entrants who brought aggregate at a price to the market. Meanwhile the combination of the rating agencies, increased capital requirements for catastrophe business and the release of the new RMS model predicating far larger damage factors from windstorms (and oddly far less from earthquakes) resulted in the return on equity sensitive businesses needing to aggressively seek out premium in areas other than the US coast because it required less capital to support it.

Going into the 2007 renewal season, diversity became the buzzword and more new entrants have been attacking a wide range of business lines to obtain diversity and a lower capital requirement. It will come as no surprise that the immediate targets are lines where significant premiums can be gained in single contracts with little established distribution or technical expertise. Some of the most affected markets have been casualty, international and non coastal US direct property, airlines and energy.

A striking illustration has been the direct airline insurance market, which has been slowly consolidating for many years with significant over capacity. Rates fell by near 25% in 2005 after a largely loss free period since 2001. During 2006 five new entrants came to a market place which already had too much capacity. Original rates fell by nearly 40%.

To the outsider this would seem to be commercial insanity but the extra portfolio diversity helps to reduce the capital requirement now demanded by the rating agencies and as such affects the potential return on equity.

This process has gained intensity since the 2006 'hurricane season' passed without incident. The proverbial bullet has been dodged and regardless of the fact that huge net exposures were being run, some by choice and others by necessity, 2005 seems forgotten and the bulk of the industry is focussed on diversity and return on equity rather than exposure management. We were here eighteen months ago!

The market today is still sensibly priced in some areas (particularly US coastal). The year end renewals saw those insureds that were 'let off' reasonably lightly in the January and spring 2006 renewals being brought into line with those renewing in the summer. However much of this well priced business was oversubscribed and given a clean year clients will be looking for a break next year. Our Aviation reinsurance account occupies an area that requires technical expertise and remains disciplined. Elsewhere is a story of downward pressure particularly in casualty, big ticket and less technical lines.

What happens from here absent any major losses will almost certainly be a further softening across the board driven by surplus capital in too many participants that offer nothing but capacity. Surplus capital and insurance have seldom been happy bedfellows from an investor's standpoint, but the sheer number of relatively new mid market companies that offer little bears comparison to the late 1980's when Lloyd's had over 400 syndicates. What happened next is well known.

Given some substantial market wide losses, some capital may disappear as retentions remain high, though it is questionable how many of the current players would voluntarily return it to shareholders intact even if it is established that not all of them can deliver a business plan to trade successfully through a market cycle.

The bottom line is that things are likely to deteriorate from the current position until capital either disappears (voluntarily or otherwise) or it is deployed behind businesses that have the expertise, distribution and balance to survive the cycle and prosper into the next.

Syndicate 2010

John Hamblin's Underwriter's report in the Syndicate 2010 Annual Report gives a detailed account of the closing 2004 year of account, 2005 and 2006 open years and the current prospects. However there are a few highlights I would like to focus on.

Firstly, 2004 became, at the time, the worst year ever recorded in terms of insured loss with four significant hurricane losses in the US and Caribbean. Syndicate 2010 was impacted on both direct and reinsurance property accounts, both of which have a US focus. We have remained within our reinsurance protections both vertically and horizontally, and our losses were absorbed at a level where the balance of the account was able to deliver our business plan target profit. The industry as a whole lost most of its earnings rather than capital, although immediately some found themselves in difficulties.

The record level of insured losses in 2005 was a substantial increase on 2004 with Hurricane Katrina being the largest ever individual insured loss by threefold. This turned out to be a significant capital loss to the market and highlighted how severely many businesses were either overtrading or failing to manage the exposures they were taking on. Syndicate 2010 was affected via both its property accounts, both involving reinsurers toward the top end of their respective programmes. Losses have remained within our original estimates made shortly after Katrina happened. The balance of account including significant losses from Hurricanes Rita and Wilma has moved around in the context of gross numbers but has been stable on a net basis. As a result, we have been able to firm up our most likely final outcome for the 2005 year of account as a very marginal profit. This is high quality work by our underwriting team.

The hardest element of 2006 was to get our outwards reinsurance programme in place. Despite significant risk transfer from us to them in 2004 and 2005 we were again supported by our core reinsurers, since we had generated losses to them that were within predicted margins, thus proving that we really could manage our exposures. We, like the industry, suffered a higher retention but crucially we were neither restricted in the areas in which we underwrote, nor were we constrained in our line size and hence exposures.

Moving into 2007 we have been able to renew our reinsurances and at the same time have slightly increased the Syndicate capacity to £300 million, mainly to allow room for rate increases in the pipeline on our reinsurance and direct books as described earlier. Many renewals are now oversubscribed on bigger risks in the market but our leading position has thus far allowed us to protect our share reasonably well.

Terms and conditions remain in the top quartile of their historic range on our property accounts and continue to be well paid on the aviation reinsurance account. Our smaller specialist accounts such as contingency and satellite are both experiencing some pressure, requiring considerable expertise to underwrite through the cycle and continue to make a good contribution to the bottom line. However, with capital markets feeding in tens of billions of dollars into saturated markets, absent significant losses falling in the right places, there is little hope that a general downward movement will be averted.

In the last months the Florida state legislators have significantly expanded the size of the State Hurricane Catastrophe Fund in response to the lack of capacity for cover under the retention of the existing Catastrophe Fund and the prices charged for cover above the Fund in the open market. In expanding the cover provided the Fund will take out significant premiums from the reinsurance industry, particularly Bermuda, which will result in some Florida-focussed writers having to rethink their business plans and hunt elsewhere for premium. Fortunately Syndicate 2010 has a highly granular US regional catastrophe treaty account and we had already trimmed our Florida exposure during 2006.

Lloyd's

In last year's report I suggested that 2005 could be the making of Lloyd's. During 2006 the pendulum between Lloyd's and Bermuda as a platform for setting up or expanding a business has swung further in Lloyd's direction. The market produced a high quality result for 2005 and 2006 should produce a good profit to further strengthen the coffers.

The current dynamics are that Bermuda has the advantages of easy access via a 'template' set-up liked by the capital markets. It also has a considerably lighter regulatory burden and a considerable tax advantage. However the rating agency capital requirements for catastrophe exposed business are materially higher than in Lloyd's, which has a superior rating to many Bermudians, certainly most of the new ones. The proposed deal by Berkshire Hathaway to reinsure Equitas has now taken place and Lloyd's has immediately been upgraded by Fitch. A.M.Best and Standard and Poor will also view this transaction positively and may follow suit in due course. Lloyd's also has a far more diverse business base and has a considerably wider underwriting talent and distribution base with the London market providing far more quality experienced people in the local pool.

From a simple financial perspective the capital advantage coupled with global licensing and a superior rating now makes Lloyd's on the face of it a more desirable place to start or expand a business into. This has been evidenced by the number of applications for new start-ups in the last twelve months and indeed by some projects that are up and running. At the same time a number of Lloyd's entities have moved their holding companies to Bermuda to take advantage of the tax situation offshore but maintained their operations in Lloyd's at the business end.

From our perspective Lloyd's positioning as a desirable platform is very advantageous, however a careful watch will have to be kept on the quality of new admissions. So far the jury is out. A number of applications have failed to produce a business plans that meet the necessary criteria of the Franchise Board but equally some new Syndicates have been admitted which seem to bring little to the party with historically unprofitable lines of business or retreads of old operations that recently demonstrated their lack of underwriting and management skills.

The management of new market entrants will be as crucial as the ongoing oversight of the market in the next few years and we will be watching closely as it represents a real opportunity and threat to our business depending on how commercially it is managed.

There is much work afoot internally to make the market a more efficient, competitive and a lower cost business centre. Being a market place there is a wide divergence of opinion as to how this should happen. We are very supportive of anything that supports a well capitalised and policed market and wary of too much change that can leave the market subject to the influence of a few big players who view Lloyd's as a branch office to be leveraged.

Third party Portfolio

At the end of 2006 we ceased to participate on all but one of our third party portfolio syndicates. These outside syndicates this year have made a handsome contribution to the group result. At present we view the portfolio strategically as having run its course, as our core business in Syndicate 2010 has diversified sufficiently to ease balance sheet volatility and capital costs within the Group. We will take a commercial view on our continued participation on Syndicate 318 or any new opportunities that may present themselves in the future, but the third party portfolio itself now sits firmly as tactical rather than strategic in our thinking.

Financial review

Cathedral Capital Limited was incorporated on 5 October 2006, and was subsequently capitalised by the Alchemy Investment Plan, for the specific purpose of acquiring the Cathedral Capital Holdings group of companies. It acquired a subsidiary company, Cathedral Capital (Investments) Limited, which was also incorporated on 5 October 2006, on 30 October 2006 and used this, as the bid company, to make the offer for the Cathedral Capital Holdings group. This offer was made on 3 November 2006 and was declared unconditional as at 10.00 p.m. on 5 December 2006.

These are the first financial statements of the Cathedral Capital Limited Group of companies. The Company, and its subsidiary Cathedral Capital (Investments) Limited, changed their accounting reference date to 31 December to align it with the accounting reference date of the Cathedral Capital Holdings Limited group of companies. These financial statements of the Company (and Group) are in respect of the period from the date of incorporation to 31 December 2006 and the Group financial statements include the first 26 trading days of the enlarged Group.

Even though Cathedral Capital Limited is an unlisted private company, the Group has prepared its consolidated financial results under International Financial Reporting Standards ("IFRS") though the results of all the individual entities of the Group are reported under UK GAAP. It has elected to prepare its Group Financial Statements under IFRS to be consistent with the Cathedral Capital Holdings Limited sub-group's financial statements which are required to be prepared under IFRS because Cathedral Capital Holding Limited has issued and listed its four Floating Rate Subordinated Loan Notes on the Irish Stock Exchange. This sub-group is required to file its financial statements with the Irish Stock Exchange.

The basis of preparation of this Annual Report together with the details of the significant accounting policies adopted are set out in Notes 2 and 3 to the Annual Report.

Consolidated Income Statement

The Group made a profit after tax of £0.5 million for the period which equates to an earnings per share figure of 136.2 pence.

If the pre-acquisition results of the acquired Cathedral group are combined with these results for the period then on a pro-forma basis the result for the Group would be a profit of £19.5 million. An analysis of this is set out on the table below:

	Underwriting £'000	Corporate £'000	Total £'000
Net earned premium	147,864	(521)	147,343
Underwriting result	41,630	(521)	41,109
Expenses	(23,841)	(7,605)	(31,446)
Net investment return	7,686	6,593	14,279
Fees, commissions and other income	-	3,473	3,473
Profit before tax	25,475	1,940	27,415
Tax	(7,642)	(260)	(7,902)
Profit after tax	17,833	1,680	19,513

The figures in the table have taken into account the fair value adjustment that were made in the Consolidated Income Statement of the new enlarged Group for its accounting period ended 31 December 2006.

Underwriting

The main source of income to the Group continues to be derived from the underwriting results of its corporate member at Lloyd's subsidiary company. For the 2006 underwriting year of account approximately 80% of its allocated underwriting capacity was deployed on Syndicate 2010 and this has increased to circa 90% for the 2007 underwriting year of account.

The insurance and reinsurance contracts underwritten by the syndicates supported by this company are earned over the life of a policy normally commencing at the inception of a policy. An earnings pattern is established which will reflect the underwriting exposure of the business written. Thus net earned premiums for the period ended 31 December 2006 include premiums on policies incepting during that period together with estimates for premiums and adjustments to premiums on policies incepting in prior periods.

Chief Executive Officer's Report

continued

The gross and net earned premiums of Syndicate 2010 for the 2006 calendar year, at 100% level, are analysed by class of business below:

	31 December 2006	
	Gross £'000	Net £'000
Non-marine reinsurance	73,946	49,798
Aviation	39,401	30,708
Satellite	6,292	4,496
Direct & facultative property	77,763	64,145
Contingency	6,730	5,959
Other	15,095	15,220
Total	219,227	170,326

At the year end Syndicate 2010 had net unearned premiums of £73.3 million.

The combined ratio of Syndicate 2010 for the 2006 calendar year, which is expressed as a function of gross or net earned premiums and excludes investment return, at 100% level, is analysed by class of business below:

	31 December 2006	
	Gross %	Net %
Claims Ratio:		
Non-marine reinsurance	41.0	46.1
Aviation	45.2	57.1
Satellite	28.7	33.9
Direct & facultative property	32.5	35.2
Contingency	47.8	52.7
Other	65.0	64.4
Total Claims ratio	40.3	45.5
Expense Ratio	22.7	29.2
Combined Ratio	63.0	74.7

The expense ratio is on a UK GAAP basis, as disclosed in the accounts of Syndicate 2010, and does not include any gains and losses in the year.

Investment Strategy and Return

The investment policy adopted with respect to Syndicate 2010 reflects the underlying exposure and business written by the Syndicate. Premiums are retained in original currency in order that they are available to meet any claims incurred by the Syndicate from insurance and reinsurance policies it has written. The investment strategy for syndicate funds reflect the low investment risk appetite for these funds which are invested in short-term, high quality fixed income securities or held in cash.

However, the investment strategy with respect to the Group's funds at Lloyd's reflects the differing investment risk appetite that we have with respect to shareholder funds held to support the Group's underwriting activities. We consider the Group's funds at Lloyd's to be more akin to permanent capital rather than being held to meet claims and pay expenses on a day to day basis. This is reflected by a small equity proportion of the funds, but the majority of the funds remain held in short dated fixed income instruments and cash.

The Group had an investment return of approximately £1.1 million in the period to 31 December 2006.

Taxation

The Group tax charge is £0.2 million for the period which gives an effective tax rate of 28.8%. A detailed analysis of the composition of this tax figure is set out on Note 14 to the Annual Report.

Balance Sheet

The Consolidated Balance Sheet includes the Group's share of syndicate assets and liabilities together with other directly held corporate assets. The Consolidated Balance Sheet is analysed below and includes the Group's interest in Syndicate 2010 and external syndicates at 31 December 2006 as single line items:

	31 December 2006 £'000
Intangible assets	31,042
Tangible fixed assets	928
Group assets used as funds at Lloyd's ("FAL")	101,401
Other investments and cash balances	22,656
Borrowings	(117,698)
Unsecured subordinated loan notes	(37,904)
Deferred and current taxation	(22,027)
Interest in Syndicate 2010	26,386
Interest in external syndicates	3,861
Net other assets/(liabilities)	(6,899)
	1,746
Own shares (ESOP)	(17)
Total Shareholders' equity	1,729

The intangible assets are comprised of syndicate capacity, a value attributed to the in-force book of business acquired, on the acquisition of the Cathedral Capital Holdings group of companies, and an amount for other goodwill. The syndicate capacity and in-force book of business were fair valued by the Company on the acquisition of the Cathedral group. The value of the syndicate capacity is subject to an annual impairment test but the in-force business intangible asset will be written down as the earnings from this book of business are earned through the Consolidated Income Statement in the current and future periods. A deferred tax liability has been set up in respect of the syndicate capacity and the in-force book of business and included within deferred and current taxation.

The Group's FAL are held in trust accounts at Lloyd's and are used to support the Group's underwriting activities at Lloyd's. These funds comprise equities, fixed interest securities, alternative investments (which have a built in degree of capital protection) and cash. In addition to this a £30 million LOC is still retained in the Group's FAL which is scheduled to be released on the closure of all syndicates supported by the Group for the 2005 underwriting year of account.

The borrowings figures include the Preference shares of issued by the Company and the Investor and Manager Loan Notes of Cathedral Capital (Investments) Limited, that are not held by Cathedral Group's ESOP. These shares and loan notes have been issued to the equity shareholders of the Company.

As I have mentioned earlier in my report, Cathedral Capital Holdings Limited have issued four separate tranches of Floating Rate Subordinated Loan Notes all of which are listed on the Irish Stock Exchange. These notes comprise $60 million and €12 million. Further information on the terms of all of the Floating Rate Notes is set out in Note 25.

Chief Executive Officer's Report

continued

An analysis of the Group's interest in Syndicate 2010 and the external syndicates are set out below:

	31 December 2006	
	2010	External
	£'000	£'000
Cash and investments	84,143	91,791
Debtors – insurance and reinsurance	42,643	22,031
Net technical provisions	(100,160)	(103,967)
Creditors – insurance and reinsurance	(9,043)	(8,330)
Other net assets	8,803	2,336
Group's interest	26,386	3,861

As I mentioned earlier in my report premiums are earned over the life of the policy, commencing at inception, in accordance with the underlying exposure of the policy. Therefore, at the year end there is a proportion of these premiums unearned. The net unearned premium reserve at 31 December 2006 was £60.2 million which subject to normal claims activity on that business should contribute to the profitability of the Group during future years. The continuing favourable reserve development on Syndicate 2010 on earned premiums supports this view. The value of in-force business intangible asset will be impaired as the unearned premium reserve (as at 5 December 2006) and related profit commission of Syndicate 2010 is earned.

The own shares relate to the B ordinary 1 pence shares of the Company held by the Cathedral Group's ESOP. The value of the shares has been deducted from the Shareholders' equity. These shares have not been allocated to any employee. The ESOP also holds Preference shares in the Company and Manager Loan Notes in Cathedral Capital (Investments) Limited. These borrowings figures have also been reduced by the value of these holdings.

Underwriting Capital

The capital framework at Lloyd's requires each managing agent in the market to calculate the capital requirement for each syndicate they manage, a process known as Individual Capital Assessment ("ICA"). The FSA require the ICA to be calibrated at a confidence level of 99.5% over a 12 month time horizon. The ICA is regarded as the minimum regulatory capital requirement for that business. Lloyd's has the discretion to take into account other factors (including the need to maintain the market's overall security rating) when agreeing each syndicate's capital requirement. This is the Economic Capital Requirement ("ECA").

Lloyd's then uses each syndicate's ECA as a basis for determining member level capital requirement. The risk based capital requirement for the Group's underwriting subsidiary was set at 50.9%, of underwriting capacity supported for 2007, compared with 60.7%, of 2006 underwriting capacity. The reduction in the Group's capital requirement year on year reflects a similar improvement in Syndicate 2010's own 2007 capital requirement to 56.5% from 70.1% a year earlier.

Strategy

There is a significant advantage in having a business driven by leading underwriters who have a well balanced book of business, a supportive panel of reinsurers and an experienced management team. A falling market will then present fewer difficulties than in a business having a few large contracts, little underwriting expertise and a return on equity expectation that does not sit comfortably with the realities of the market place.

Normal cyclical activity usually sees the reinsurance classes follow down the direct markets to allow those with a balanced book to maintain a reasonable net position albeit with greater credit risk until there is a major market fall. However at present genuine worldwide retrocessional cover is severely limited and reinsurers with genuine spread may not follow the markets down absent more advantageous cover themselves.

Our position as a reinsurance house with a significant direct account is interesting as the distinction between direct and reinsurance seems to have been blurred in the property world since 2005, where the new distinction seems to be between US catastrophe exposed business and otherwise. In this case we have made the decision to be in the US camp and have become more so in the wake of 2005, increasing the relative weight of both our direct and reinsurance accounts so that US business now comprises some 75% of our property business.

We have a regional treaty account that is significantly less volatile through the cycle than nationwide stock company business, is closely held in subscription markets, and has been built by our underwriters over 20 years. On the direct account, support from our reinsurers allowing us to maintain line-size on all business has allowed us to refine our books and become an important market to our key producers. As many others are unloading their US positions having lost the support of their reinsurers we have stepped in to increase our bias toward the US business which offers potentially the biggest margin. We hope that this will enhance our long term position with our major producers.

As the Aviation direct market struggles with overcapacity the reinsurance market has remained disciplined and has found itself new clients. Prices are steady but our "miss factor" grows with more direct markets competing for a finite amount of business. Again we are an important market leader with good reinsurers' support offering a consistent approach to our clients. Ultimately this is the core strategy of our business which we are not inclined to change at present.

Over the next twelve months we will continue to examine other lines of business in the short tail classes and if a genuine class leading quality individual becomes available we would consider adding to our lines of business in house style. However, we have no wish at this stage in the cycle to take a major leap into mid market territory writing business in classes where we merely provide capacity.

Mid-market is where we see difficulties arising from the supply of quality business (or lack thereof). Companies without sustainable business models may struggle to make returns promised to investors and may have to choose whether to repatriate capital to investors and retire, or, enter into some sort of consolidation play.

The next twelve months are going to be a challenge to keep our books of business in the top quality shape they are in at present. Our main objective, however, is to manage the down-cycle so that we can move forward again when the next opportunity presents itself.

Summary

The Cathedral Group that has been acquired has reported record results for 2006 but I see potentially choppier waters ahead arising from the combination of a softening market and the structural difficulties. Our 2007 book is well balanced and attractively priced but we are not immune from market forces.

The market is in imbalance where it is long on capital and short on underwriting talent.

We are a business that is demonstrably long on underwriting talent and has the structure and experience to manage the down cycle. We have a relative trading advantage over many and should be able to deliver sensible returns given most circumstances the market may have in store for us in the near future.

Cathedral's reputation has been enhanced by the performance of our 2004 and 2005 years of account during 2006. From my stand point this stands out as an achievement above the significant profit likely to result from the 2006 year of account.

These results come from the hard work of every member of the team be they underwriting support, modelling, or the underwriters themselves. I would like to thank them all on behalf of our investors.

Peter Scales
Chief Executive Officer
25 April 2007

Directors and Advisors

Chairman	E E Patrick	(appointed 12 December 2006)
Directors	J A Lynch	(appointed 12 December 2006)
	A Morgan	(appointed 30 October 2006, resigned 22 January 2007)
	P D Scales	(appointed 12 December 2006)
	D J H Slade	(appointed 30 October 2006)
	B R Ally	(appointed 5 October 2006, resigned 30 October 2006)
Company Secretary	J A Lynch	(appointed 12 December 2006)
	A Morgan	(appointed 30 October 2006, resigned 12 December 2006)
	M R Henderson	(appointed 5 October 2006, resigned 30 October 2006)

Auditors
Mazars LLP
24 Bevis Marks
London EC3A 7NR

Bankers
Barclays Bank PLC
1 Churchill Place
London E14 5HP

Company Number
5958038

Registered Office
5th Floor
Fitzwilliam House
10 St Mary Axe
London EC3A 8EN

Registrars
Capita IRG Plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Directors of the Company

Elvin Patrick

After gaining a Masters in Business Administration from Cranfield, Elvin Patrick joined Edward Bates, merchant bankers in 1973 where he specialised in mergers and acquisitions, Stock Exchange practice and Balance Sheet Reorganisations, before joining the Lloyd's market in 1974. In 1981, he joined Stenhouse (becoming Limit/Bankside) as underwriter of marine syndicate 566 (until 1997). From 1989-1999 he was chairman of Bankside Underwriting Agencies Limited and latterly, 1998/99, chief executive officer of Limit PLC. He has held numerous positions at Lloyd's including deputy chairman in 1998, a member of the Lloyd's Regulatory Review Board in 1997 and a member of the Lloyd's Rowland Task Force in 1991. He was Active Underwriter of Syndicate 2010 until 30 November 2001. He was appointed as Non-Executive Chairman of Cathedral Capital (Investments) Limited and Cathedral Capital Limited on 12 December 2006.

Peter Scales

After gaining a degree in Economics and Geography at University College, London, Peter Scales joined Bankside Underwriting Agencies Limited in 1986. In 1991, he joined Wren Underwriting Agencies Limited as an analyst. He was appointed a director of Wren Underwriting Agencies Limited in 1993 and managing director of Wren Lloyd's Advisers Limited in 1994. He was involved in the original placement of one of Lloyd's first listed corporate capital vehicles, subsequently to become Wren Limited, of which he was an executive director. Following the acquisition of Wren Limited by BRIT Insurance Holdings PLC, he was director of capital management. He is Chief Executive Officer of Cathedral Capital Holdings Limited, was appointed as a director of Cathedral Capital (Investments) Limited and Chief Executive Officer of Cathedral Capital Limited on 12 December 2006.

John Lynch

After gaining a degree in commerce from University College Cork, Ireland in 1988, John Lynch joined Robson Rhodes and qualified as a chartered accountant in 1992. After spending two years in industry he joined Finsbury Asset Management Limited and became head of accounting and administration for institutional investment clients. Since 1994 he has also been involved in the structuring of capital entities in Lloyd's. He joined Wren Limited as company secretary and head of finance in January 1999. Following the acquisition of Wren Limited by BRIT Insurance Holdings PLC, he was company secretary and group financial controller from September 1999 until October 2000. He is Chief Financial Officer and Company Secretary of Cathedral Capital Holdings Limited, was appointed as a director of Cathedral Capital (Investments) Limited and Chief Financial Officer of Cathedral Capital Limited on 12 December 2006.

Dominic Slade

Dominic Slade is a partner of Alchemy Partners LLP and a member of the Investment Committees of Alchemy Partners and Alchemy Special Opportunities LLP. A Cambridge graduate in Social and Political Sciences, he also holds an MPhil in International Relations from Cambridge and an MBA from Harvard. Before joining Alchemy in 1998, he worked at UBS in investment banking. He has been responsible for leading most of the financial services transactions at Alchemy. He was appointed as a Director of Cathedral Capital Limited on 30 October 2006.

Tony Morgan

A Cambridge graduate in Engineering. He also holds an MEng in Manufacturing Engineering from Cambridge and an MBA from Harvard Business School. He previously worked at Permira where he focused on investments in the leisure sector and before that spent 5 years working as a strategy consultant with Mitchell Madison Group. He was appointed as a Director of Cathedral Capital Limited on 30 October 2007 and he resigned as a Director on 22 January 2007.

Report of the Directors

The Directors present their first annual report and the audited accounts for the period ended 31 December 2006.

Change of Name

The Company was incorporated on 5 October 2006 with the name Disciple Topco Limited. On 12 April 2007, the Company's name was changed to Cathedral Capital Limited.

Registered Office

On 22 December 2006, the registered office and principal place of business of the Company was changed to 5th Floor, Fitzwilliam House, 10 St Mary Axe, London EC3A 8EN. The accounting and statutory records of the Company are also held at this address.

Principal Activity and Review of the Business

The Company was initially established by the Alchemy Investment Plan for the purposes of acquiring the Cathedral Capital Holding Limited (formerly Cathedral Capital PLC) group of companies. The Company acquired Cathedral Capital (Investments) Limited (formerly Disciple Holdco Limited), an off the shelf company, on 30 October 2006 to enable it to make the offer for Cathedral Capital Holdings Limited. On 3 November 2006 Cathedral Capital (Investments) Limited made an offer for the A convertible ordinary shares of 25 pence each in the capital of Cathedral Capital Holdings Limited.

On 6 December 2006, Benfield Advisory Limited, on behalf of Cathedral Capital (Investments) Limited, declared the recommended cash offer to acquire the entire issued and to be issued A convertible ordinary shares, of the Cathedral Capital Holdings Limited not already contracted to be acquired by that company, to be unconditional in all respects as at 10.00 p.m. on 5 December 2006.

On 29 December 2006, pursuant to the provisions of sections 428 to 430F of the Companies Act 1985, Cathedral Capital (Investments) Limited sent a formal notice to shareholders, of A convertible ordinary shares of 25 pence and Deferred shares of 0.0001 pence, of Cathedral Capital Holdings Limited, who had not validly accepted the offer to compulsorily acquire their shares in accordance with the terms of the offer. On 14 February 2007 that company compulsorily acquired the A convertible ordinary shares and Deferred shares of Cathedral Capital Holdings Limited's six shareholders who had not validly accepted the offer. Cathedral Capital Holdings Limited and its six subsidiary companies are now wholly owned subsidiaries of the Group.

Cathedral Capital holdings Limited was originally set up in 1997 as a Names' Conversion vehicle which enabled names at Lloyd's with unlimited liability to convert to limited liability. One of its two main trading subsidiary companies, Cathedral Capital (1998) Limited, underwrites at Lloyd's as a corporate member. This company underwrote approximately £170 million of capacity for the 2006 year of account of which, £135 million supported Cathedral Syndicate 2010 with the remainder supporting three external third party syndicates. For the 2007 year of account, the Group supports capacity of circa £184.5 million of which £169.2 million supports Syndicate 2010, with the remainder supporting an external third party syndicate.

Cathedral Capital Holdings Limited's other main trading subsidiary is Cathedral Underwriting Limited, a Lloyd's managing agency which is authorised and regulated by the UK Financial Services Authority ("FSA") and Lloyd's. This company has the rights to manage Cathedral Syndicate 2010 a syndicate currently specialising in non-marine and aviation reinsurance and direct and facultative property and contingency business, with premium capacity of around £250 million for the 2006 year of account. The capacity of the Syndicate has been increased to circa £300 million for the 2007 year of account. Cathedral Syndicate 2010 has just closed its fourth underwriting year, the 2004 year of account, with a profit. The Syndicate has also reported a 2006 calendar year profit of £46.7 million which equates to a combined ratio of 74.7% for the Syndicate. This company intends to expand and develop its insurance operations as opportunities and market conditions allow. The Company has been approved by the FSA and Lloyd's as a controller of Cathedral Underwriting Limited.

A more detailed review of the activities and operating results of the Group are included in the Chief Executive Officer's Report on pages 3 to 11.

Results and Dividends

The results attributable to shareholders for the period and the transfer to reserves are shown on page 24.

Details of the accounting policies adopted by the Group for the period are set out in Note 3 to the Financial Statements.

The Directors do not intend to declare a dividend for the period.

Future Developments

Details of future plans for the Group are set out in the Chairman's Statement and Chief Executive Officer's Report on pages 2 to 11.

Financial instruments

The Group in general and its financial instruments are exposed to various risks, details of which are disclosed in Note 4.

Share Capital

The Company was incorporated with an authorised share capital of £12,500 divided into 1,250,000 ordinary shares of £0.01 each.

On 12 December 2006 written resolutions were passed pursuant to section 381A of the Companies Act 1985. The issued ordinary share of £0.01 in the capital of the Company was converted into an A ordinary share of £0.01 in the capital of the Company. The unissued ordinary shares of £0.01 each were converted and consolidated into 702,289 A ordinary shares of £0.01 each in the capital of the Company, 210,210 B ordinary shares of £0.01 each in the Capital of the Company and 337,500 Ordinary shares of £0.01 each in the capital of the Company. All three classes of ordinary shares rank pari passu in all respects.

All remaining unissued shares were allotted and issued on 12 December 2006 and this resulted in Alchemy Partners Nominees Limited having a 56% interest in the equity of the Company.

On 12 December 2006 a resolution was passed and the authorised share capital of the Company was increased to £39,170,656 by the creation of 39,158,156 Preference shares of £1 each in the capital of the Company. These Preference shares pay a coupon of 6.44% per annum.

Directors

The Directors who held office during the period are set out on page 12.

Report of the Directors

continued

Directors' Interests in Shares

The interests of the Directors and their families in the share capital of the Company for period ended 31 December 2006 according to the register of directors' interests are as follows:

	B ordinary 1 pence shares	Ordinary 1 pence shares	A ordinary 1 pence shares
E E Patrick	9,388	9,788	-
J A Lynch	21,634	33,413	-
A Morgan	-	-	126
D J H Slade	-	-	851
P D Scales	21,634	33,413	-

The Directors also have an interest in Preference shares issued by the Company and Investor and Manager Loan Notes issued by Cathedral Capital (Investments) Limited. These interests, which were acquired during December 2006, are set out below:

	Preferences £1 shares	Investor Loan Notes £	Manager Loan Notes £
E E Patrick	244,480	-	489,034
J A Lynch	844,489	-	1,689,232
A Morgan	5,541	11,084	-
D J H Slade	37,500	75,011	-
P D Scales	844,489	-	1,689,232

Mrs B R Ally, who was the first Director of the Company, had no interest in the ordinary or preference shares of the Company or the Investor or Manager Loan Notes of Cathedral Capital (Investments) Limited.

The Cathedral Group has an Employee Share Ownership Plan ("ESOP") in which all 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.

The interests of the ESOP in the B ordinary and Preference shares of the Company and the Manager Loan Notes issued by Cathedral Capital (Investments) Limited, at 31 December 2006, are:

	B ordinary 1 pence shares	Preference £1 shares	Manager Loan Notes £
At 31 December 2006	17,054	665,733	1,331,666

Related Parties

Details of related parties and any related party transactions can be found in Note 38.

Creditors Payment Policy

It is the Company's policy to settle all expenses on a timely basis in the ordinary course of business. Terms of trade are agreed in advance with all suppliers. The Company had no days purchases outstanding at 31 December 2006.

Going Concern

After making reasonable enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the accounts.

Auditors

Mazars LLP were appointed as initial auditors to the Company on 12 December 2006 and they have expressed their willingness to continue in office for the coming year. A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint them as auditors of the Company.

Disclosure of information to the auditors

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

Annual General Meeting

The Annual General Meeting of the Company will be held at 10 am on 14 June 2007 at the registered office of the Company, 5th Floor, Fitzwilliam House, 10 St Mary Axe, London EC3A 8EN. A separate notice convening this meeting is included at the end of this Annual Report.

Employee Involvement

Details of employees and their remuneration are included in Note12.

Cathedral is an equal opportunity employer with all existing and prospective employees being treated equally and without discrimination on the grounds of gender, race, religion, age or disability. Where existing employees become disabled it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotions to disabled employees wherever applicable.

The Group's employment practices and procedures are designed to attract and retain high calibre ambitious individuals. The work environment and culture is designed to enable motivated individuals to hone their skills in order to achieve their career goals and the appropriate training, both internal and external, is provided in an effort to ensure that this occurs in a timely manner. All employees receive the same opportunity for training, development and promotion.

Cathedral is committed to involving all employees in the performance and development of both the Company and the Group and employees are encouraged to discuss matters of interest and subjects affecting day-to-day operations. Employees are also regularly updated on the financial performance of the Group by the executive Directors.

Until 5 December 2006 most employees had an interest in the shares of Cathedral Capital Holdings Limited either through a direct personal shareholding or from grants of shares under the Approved Share Option Scheme 2000 or the Employee Share Ownership Plan. A number of employees have retained their equity interest by converting their shareholding into shares in this Company and Manager Loan Notes in Cathedral Capital (Investments) Limited. All employees of the Group have a potential interest in the Employee Share Ownership Plan.

Report of the Directors

continued

Donations

During the period the Group made no charitable or political donations.

Corporate Governance

Cathedral Capital Limited's Board comprises executive and independent non-executive Directors and meetings of the Board are held quarterly or at such other intervals as may be determined by the Board to discuss corporate business, with further meetings to consider Lloyd's related matters as required by Lloyd's or the FSA. Additional ad hoc meetings are convened as required. As provided by the Articles of Association, the quorum for Board meetings can be one. The Board of the Company exercises the highest level of authority in the Cathedral Group.

On a day to day basis the management of the Group's affairs and businesses are dealt with by the executive management of the Group who include the executive Directors of the Company and selected other senior management and underwriters. This group has delegated authority from the Board to make such decisions and authorise such acts as are decided by the management to be necessary to manage and control the Group's affairs. The executive management report back to the Board at its quarterly meetings.

The Board has also established two sub Committees of the Board being; Audit Committee and Remuneration Committee. The constitutions and compositions of these Committees are set out below:

Audit Committee

The Audit Committee concentrates mainly on the financial reporting, compliance, internal control and risk management framework of the Group. It is also responsible for vetting the appointment, independence and fees of the external auditors and makes recommendations to all subsidiary company Boards on these matters.

Membership of the Audit Committee comprises all the non-executive Directors of the Company. The Non-Executive Chairman of the Company is chairman of the Committee. The quorum for Audit Committee meetings is two and it meets at least annually.

The main activities of the Audit Committee include a detailed review of accounting policies and the financial statements; reviewing the report of the Group's risk management committee; an evaluation of the effectiveness of internal control, compliance and risk management systems of the Group; monitoring compliance with statutory and regulatory reporting requirements.

The Committee meets with the Group's external auditors and receives a report from them at least once a year. The Committee also agrees any appointment of the external auditors to provide any non audit services. The cost of the all the services provided by the external auditors are set out in Note11.

The Group has a risk management committee, which sits as a committee within the Group's managing agency subsidiary. This committee comprises the executive Directors of the Company together with the directors, senior managers and underwriters of the managing agency. This committee, though primarily determining and monitoring risks and controls within the regulated business of the managing agency, also evaluates risks and controls throughout the rest of the Group's operations. A report on the work of the risk management committee is made to the Audit Committee at least annually.

Remuneration Committee

The Remuneration Committee's main focus is on ensuring that salary, benefit and incentive levels throughout the Group are sufficiently competitive to attract and retain staff, particularly those holding key positions of responsibility.

The Board approves the membership of the Remuneration Committee, which currently comprises all non-executive Directors of the Company together with the Chief Executive Officer of the Company or his alternate. The Non-Executive Chairman of Cathedral Capital Limited is chairman of the Remuneration Committee and the quorum for meetings is two.

The Remuneration Committee is responsible for agreeing the remuneration of the Group Chief Executive Officer and the executive Directors of Cathedral Capital Limited, together with that of senior executives having basic salaries of £125,000 and above.

Directors' Remuneration

All executive Directors have employment contracts, with 12 months notice periods, with the Group which set out their employment terms and conditions. The non-executive Directors have appointment letters. The remuneration of the Directors, since the date of acquisition of Cathedral Capital Holdings Limited, is set out below:

	Fees & Salaries £'000	Benefits in kind £'000	Pensions £'000	Total £'000
E E Patrick	**34**	**-**	**1**	**35**
J A Lynch	**32**	**-**	**1**	**33**
A Morgan	**-**	**-**	**-**	**-**
P D Scales	**32**	**-**	**1**	**33**
D J H Slade	**-**	**-**	**-**	**-**
	98	**-**	**3**	**101**

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

The Group operates a discretionary profit sharing scheme from which all executive Directors and employees of the 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 Preference dividends of the Company. Any proposals by executives for distributions to staff, including those to executive Directors, from the profit sharing scheme, are discussed by the Group's Chief Executive Officer and the Remuneration Committee. The aggregate amount and timing of any payments are agreed by the Remuneration Committee. The rationale for any distributions to executive Directors and senior executives having basic salaries of £125,000 and above are explained to and agreed by the Remuneration Committee. The Remuneration Committee has agreed the proposed distributions to the executive Directors from the profit sharing scheme which have been included within the Fees and Salaries disclosed above. The amount of the profit sharing scheme is set out in detail in Note 27.

The Group also operates its Employee Share Ownership Plan ("ESOP") as an incentive scheme. Shares have not been granted from the ESOP to any executive Director of the Company. The non-executive Directors of the Company had and have no interest in this incentive scheme.

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements under International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

Company

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Report of the Directors

continued

Group

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

John Lynch
Company Secretary
25 April 2007

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Report of the Independent Auditors

Independent auditor's report to the members of Cathedral Capital Limited

We have audited the group and parent company financial statements ("the financial statements") of Cathedral Capital Limited for the period ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union, and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors Report, the Chairman's Statement and the Chief Executive Officer's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the period then ended;

- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006;

- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the financial statements.

Mazars LLP
Chartered Accountants and Registered Auditors
24 Bevis Marks, London, EC3A 7NR
25 April 2007

CATHEDRAL
CAPITAL LIMITED

Consolidated Income Statement
For the period ended 31 December 2006

	Notes	Period from 5 October to 31 December 2006 £'000
Income		
Gross premiums written	5	**11,204**
Less premiums ceded to reinsurers		**(2,483)**
Net premiums written		**8,721**
Gross amount of change in provision for unearned premiums		**914**
Reinsurers' share of change in provision for unearned premiums		**(163)**
Earned premiums, net of reinsurance		**9,472**
Fees and commission income	6	**116**
Investment return	7	**1,067**
Other income	8	**1**
Total income		**10,656**
Expenses		
Claims paid		
Gross amount	5	**(9,320)**
Reinsurers' share		**4,206**
Net claims paid		**(5,114)**
Net change in the provision for claims		
Gross amount	5	**4,931**
Reinsurers' share		**(3,841)**
Net change in the provision for claims		**1,090**
Claims incurred, net of reinsurance		**(4,024)**
Acquisition costs		**(2,209)**
Other operating expenses	9	**(2,965)**
Operating profits		**1,458**
Finance costs	10	**(761)**
Profit on ordinary activities before tax		**697**
Income tax expense	14	**(201)**
Profit on ordinary activities after tax	32	**496**
Profit attributable to equity shareholders of the parent company		**496**
Basic earnings per share	16	**136.2p**
Diluted earnings per share	16	**136.2p**

All activities were in respect of continuing operations.

The Notes on pages 29 to 74 form part of these consolidated financial statements.

Consolidated Balance Sheet
As at 31 December 2006

	Notes	31 December 2006 £'000
Assets		
Property, plant and equipment	17	**928**
Intangible assets	18	**22,781**
Fair value of in-force business	19	**8,261**
Reinsurance assets	26	**86,154**
Financial investments	20	**205,246**
Deferred acquisition costs	26	**12,903**
Other assets		**739**
Prepayments and accrued income	22	**5,631**
Trade and other receivables	23	**67,688**
Cash and cash equivalents	24	**94,745**
Total assets		**505,076**
Equity		
Called up share capital	30	**13**
Share premium account	31	**1,237**
Own shares	33	**(17)**
Retained earnings		**496**
Total shareholders' equity	32	**1,729**
Liabilities		
Borrowings	25	**155,602**
Insurance contracts	26	**290,251**
Provision for other liabilities and charges	27	**5,877**
Deferred tax liabilities	28	**18,803**
Trade and other payables	29	**26,959**
Current tax liabilities		**3,224**
Accruals and deferred income		**2,631**
Total liabilities		**503,347**
Total equity and liabilities		**505,076**

The Notes on pages 29 to 74 form part of these consolidated financial statements.

CATHEDRAL
CAPITAL LIMITED

Company Balance Sheet
As at 31 December 2006

	Notes	31 December 2006 £'000
Assets		
Investments in subsidiary undertakings	21	**40,408**
		40,408
Trade and other receivables	23	**4**
Total assets		**40,412**
Equity		
Called up share capital	30	**13**
Share premium	31	**1,237**
Profit and loss reserve	31	**(146)**
Total shareholders' equity	32	**1,104**
Liabilities		
Borrowings	25	**39,158**
Accruals and deferred income		**150**
Total liabilities		**39,308**
Total equity and liabilities		**40,412**

The financial statements on pages 24 to 74 were approved by the Board of Directors and authorised for issue on 25 April 2007 and signed on its behalf by:

Peter Scales
Chief Executive Officer

John Lynch
Chief Financial Officer

The Company Balance sheet is prepared under UK GAAP.
The Notes on pages 29 to 74 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the period ended 31 December 2006

	Balance at 5 October 2006 £'000	Issue of shares £'000	Acquisition of own shares in ESOP £'000	Profit for the period £'000	Total attributable to equity holders £'000
Called up share capital	-	13	-	-	13
Share premium account	-	1,237	-	-	1,237
Own shares	-	-	(17)	-	(17)
Retained earnings	-	-	-	496	496
Total shareholders' equity	-	1,250	(17)	496	1,729

The nature and purpose of each reserve, except for Own shares, is set out in Note 31.

The Own shares reserve relates to B ordinary shares in the Group which are held by the Group's ESOP.

The Notes on pages 29 to 74 form part of these consolidated financial statements.

CATHEDRAL
CAPITAL LIMITED

Consolidated Cash Flow Statement
For the period ended 31 December 2006

	Notes	Period from 5 October to 31 December 2006 £'000
Cash generated from operations	37	**(817)**
Interest received		**873**
Dividends received		**6**
Interest paid		**(517)**
Net cash from operating activities		**(455)**
Investing activities		
Purchase of investments		**(19,679)**
Proceeds from disposal of investments		**27,108**
Purchase of property plant and equipment		**(1)**
Net cash used in investing activities		**7,428**
Financing activities		
Proceeds from issue of share capital		**707**
Proceeds from issue of preference shares		**30,952**
Proceeds from issue of loan notes		**61,913**
Acquisition of subsidiary		**(87,189)**
Cash acquired from subsidiary		**81,389**
Net cash from financing activities		**87,772**
Net increase in cash and cash equivalents		**94,745**
Cash and cash equivalents at beginning of the period		**-**
Cash and cash equivalents at end of the period	24	**94,745**

The Notes on pages 29 to 74 form part of these consolidated financial statements.

Notes to the Financial Statements
For the period ended 31 December 2006

1 General Information

Cathedral Capital Limited ("the Company") is a limited company incorporated and domiciled in England and Wales. The addresses of its registered office and principal place of business are disclosed in the Report of the Directors on page 14. The principal activities of the Company and its subsidiaries ("the Group") are described in Note 21.

2 Basis of preparation of financial statements

a) *Basis of preparation*

i) Group

The Group's subsidiary, Cathedral Capital Holdings Limited, holds 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 EU in response to the IAS regulation (EC 1606/2002).

ii) Company

The financial statements of the Company are prepared under UK GAAP.

The financial statements of the Company have been prepared under the historical cost accounting rules, modified by the revaluation of certain financial instruments as described below and in accordance with the Companies Act 1985.

The Balance Sheet of the Company has been prepared in accordance with Schedule 4 to the Companies Act 1985. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act.

b) *Basis of consolidation*

The financial statements of the Group include the accounts of the Company and its subsidiaries, together with the Group's share of the assets, liabilities, revenues and expenses of the Lloyd's syndicates supported by the Group's corporate member subsidiary for the period ended 31 December 2006. Subsidiaries are those entities in which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. The Group's Employee Share Ownership Plan ("ESOP") is also included within the financial statements of the Group as the Group is deemed to have de facto control of the assets and liabilities of the ESOP. The financial statements of subsidiaries are prepared to the same reporting date as the Company. Adjustments are made to convert the accounts of the Company and its subsidiaries prepared under UK GAAP into IFRS so as to remove any dissimilar accounting policies that may exist. All inter-company balances, profit and transactions are eliminated on consolidation.

Companies acquired during the period, as set out in Note 40, have been included in the Group's accounts using the acquisition method of accounting. Accordingly, the Group's Consolidated Income Statement and Consolidated Cashflow Statement include the results and cashflows of those companies from the date of acquisition. The Group's share of the revenue and expenses of the Lloyd's syndicates supported by the Group's corporate member subsidiary is also included from the date of acquisition.

3 Significant Accounting Policies

a) *Use of estimates*

The financial statements have been prepared using critical estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual outcomes may ultimately differ from those estimates, possibly significantly.

b) *Recognition of insurance transactions and sources of data*

As mentioned above, the Group recognises its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ("the syndicates").

For each such syndicate, the Group's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the Group's Consolidated Income Statement. Similarly, the Group's proportion of the syndicate's assets and liabilities has been reflected in its Consolidated Balance Sheet. Syndicate assets are held subject to the terms of the trust deeds for the benefit of the Group's insurance policyholders.

The proportion referred to above is calculated by reference to the Group's participation as a percentage of each syndicate's total capacity for each year of account.

The financial information on the underwriting transactions, investment return, operating expenses, assets and liabilities of the syndicates is based on returns prepared by the managing agents of each syndicate and submitted to Lloyd's, with any adjustments in respect of IFRS provided directly by those agents to the Group. Syndicate 2010 is managed by the Group and such information is therefore determined by the Group's managing agent subsidiary. However, for other syndicates on which the Group participates, such information is provided by managing agents outside of the Group.

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

c) *Insurance contracts*

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

(i) *Premiums*

Gross written premiums represent contracts on business incepting during the financial period, together with adjustments made in the period 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 Group's share of outwards reinsurance premiums written by the syndicates and also premiums paid by the Group's subsidiaries for reinsurance protection.

The movement in the provision for unearned premiums (see below) is taken to the Consolidated Income Statement in order that revenue is recognised 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 period 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 period 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.

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.

With respect to the Group's share of syndicate 2010, the amount included in respect of IBNR is based on a detailed review of losses and loss development by the management. This provision is reviewed by external consulting actuaries. Techniques used generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, 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 critical assumptions used when estimating provisions are that the past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a reasonable reflection of the likely level of ultimate claims to be incurred.

With respect to the Group's share of externally managed syndicates, the amount included in respect of IBNR is based on estimates by the managing agent's of those syndicates.

The provision for claims includes amounts in respect of internal and external claims handling costs.

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any deferred acquisition costs.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together. No account is taken of any future investment return.

(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 period and the current security rating of the reinsurance companies involved.

If a reinsurance asset is impaired, the Group reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the Consolidated Income Statement. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the asset, that the Group may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. 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 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 balance sheet date, liability adequacy tests are performed, employing the current estimates of the Group's future cash flows under its insurance contracts. If, as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate in comparison to the value of these future cash flows, the deficiency is charged to the Consolidated Income Statement for the accounting period.

(viii) *Reinsurance to close*

To the extent that the Group participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the Group has offset its share of the reinsurance to close received against its share of the reinsurance to close paid. This is accounted for in the accounting period when the reinsurance to close contract is completed (usually the year after the year of account is deemed to have closed).

Where the Group has increased or decreased its syndicate participation from one year of account to the next, the difference between the reinsurance to close received and the reinsurance to close paid is shown in the Consolidated Income Statement as either gross premiums written or reinsurance premiums payable as appropriate.

c) *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 Group's managed syndicate. This excludes any fees charged to the 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 Group's share of the syndicates' investment return and the Group's investment return on its corporate assets. Interest income is recognised on an accruals basis. Dividend income is recognised when the shareholders' right to receive the payment is established.

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

d) *Other operating expenses*

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

e) *Foreign currency translation*

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

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

f) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary / associate 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 period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

g) *Syndicate participation rights*

The cost of participation rights is capitalised at cost in the Consolidated Balance Sheet. The cost in respect of syndicate 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 Income Statement in the same accounting period.

h) *Value of in-force business acquired*

When the Group acquired the Cathedral Capital Holdings Limited group, profits arising on insurance policies written but unearned at the date of acquisition (in-force business acquired) were estimated and recorded on the Consolidated Balance Sheet as an asset. This asset is then impaired over the period that these profits are earned.

i) *Investments*

The 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. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques, such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

For the Group, unlisted investments are stated at fair value. For the Company, unlisted investments and subsidiary undertaking are stated at the lower of cost or Directors valuation.

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

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

The Group's share of the syndicate's 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 Income Statement. Costs for repairs and maintenance are expensed as incurred.

k) *Cash and cash equivalents*

For the Group, 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.

For the Company, cash and cash equivalents consist of cash at bank and in hand and deposits repayable on demand if they can be withdrawn at any time without notice or penalty.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 Consolidate Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Deferred tax assets and liabilities are not discounted.

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

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

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

The Group's subsidiary, Cathedral Capital Holdings Limited, operates an ESOP which owns Manager Loan Notes in Cathedral Capital (Investments) Limited and B ordinary shares and Preference shares in Cathedral Capital Limited. The 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 Group, the cost of the Manager Loan Notes and Preference shares are deducted from the Group's borrowings, and the 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 Income Statement as 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 Income Statement over the period of the borrowings using the effective interest rate 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 Income Statement 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 Income Statement over the period of the loan notes. The loan notes payable are shown on the Consolidated Balance Sheet, net of any unamortised cost.

Borrowing costs are recognised in the Consolidated Income Statement in the period in which they are incurred.

p) *Retirement benefit costs*

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

q) *Provisions*

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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

IFRS 7, "Financial Instrument: Disclosures" will be effective from 1 January 2007 and introduces new disclosure requirements for financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk and a sensitivity analysis to market risk. IFRS 7 replaces IAS 30, "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure requirements in IAS 32, "Financial Instruments: Disclosures and Presentation". It is applicable to all entities that report under IFRS. In connection with the issuance of IFRS 7, a corresponding amendment to IAS 1 has also been issued. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

4 Risk disclosure

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

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

In addition, the Group underwrites on syndicates managed by non-Group managing agents. This is one of the ways that the Group manages to reduce its insurance risk through diversification (see below). However, in doing this, many of the operational controls applied to risks relating to the underwriting by those syndicates are dealt with by those managing agents and the Group has only limited influence as to how those risks are managed. Such risks include insurance risk, liquidity risk, market risk and credit risk, as well as the managing agents' own group and operational risk. These risks are a risk to the Group through its participations on those syndicates.

Furthermore, the Group is reliant on financial information provided by those managing agents semi-annually. This information is provided by way of returns submitted to Lloyd's. Any risk in relation to the accuracy or completeness of this financial information is mitigated, to some extent, by the fact that the returns are audited by the syndicates' external auditors and the managing agents are required to compile the returns in accordance with Lloyd's guidelines. The Group also receives annual audited accounts for those syndicates.

The Group also manages the risks outlined above in relation to the externally managed syndicates by attending meetings at least annually with representatives of the managing agents, reviewing annual business plans, monitoring the results of externally managed syndicates and reviewing other publicly available information in relation to those syndicates. Furthermore, the Lloyd's Franchise Board monitors all Lloyd's syndicates.

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

4.1 Insurance risk

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

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

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

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

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

4.1.1 Diversification across syndicates

Although more than two-thirds of the value of the Group's underwriting portfolio is on its managed syndicate, Syndicate 2010, the Group also writes on other syndicates in the Lloyd's market which to some extent have different underwriting / exposure profiles. This therefore provides a degree of diversification to the Group.

The Group monitors the type of business underwritten by all the syndicates that the Group underwrites on and, where appropriate, adjusts the Group's participations each year 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 Syndicate 2010 can be affected by several factors and these can impact the Group.

Syndicate 2010 specialises in property and aviation treaty reinsurance, direct and facultative property insurance, satellite and contingency business. The account is predominantly short-tail in nature, and it has a high degree of catastrophe exposure (for example the property accounts could be affected by hurricane losses or earthquakes).

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

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

The reinsurance arrangements include excess and catastrophe coverage. These arrangements are designed to mitigate the impact of any significant losses to a more manageable level. The Group models various loss scenarios and also runs specific Risk Disaster Scenarios ("RDS") in accordance with Lloyd's guidelines to enable it to monitor the exposure at a gross and net level for Syndicate 2010.

4.1.3 Underwriting risk

There are a number of risks that exist with regard to underwriting. As mentioned above, in respect of externally managed syndicates, reliance is placed on the managing agents of those syndicates to identify appropriately those key risks and manage them accordingly.

With respect to Syndicate 2010, the key underwriting risks include unknown / unexpected accumulations, the risk of extreme losses, frequency of major losses, wording issues and unsustainable pricing.

a) Unknown / unexpected accumulations

The US Terror Attacks in 2001 in market terms shows insurers suffering from the consequences of risks previously thought to be uncorrelated accumulating as a consequence of the activities of terrorists. Hurricane Katrina likewise showed the effect of a loss across different classes of business.

The nature of the business written by Syndicate 2010 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 Syndicate 2010 are of a well tested nature. More crucially, the approach taken to risk management is heavily aggregate driven. Syndicate 2010 continually seeks to model its portfolio of accounts in order to identify hot-spots or accumulations and to monitor the aggregates of the Syndicate, and the whole process is supported by sophisticated modelling systems. Finally to ensure the maximum depth of reinsurance coverage the significant accounts written by the Syndicate each have separate reinsurance programmes.

b) Risk of extreme losses

Even ignoring apocalyptical type losses (e.g. massive meteorite strike), crippling losses exceeding say $75-100 billion could have a major destabilising effect on the insurance industry as a whole. Whilst the reinsurance writings for Syndicate 2010 (unlike direct insurance) provide policyholders with defined cover by way of both limits and number of reinstatements, the development of the direct and facultative account gives rise to very large assured values which are vulnerable to failures in PML assumptions. Also, Syndicate 2010 could be vulnerable to significant failure amongst its own reinsurers.

For Syndicate 2010, 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. Syndicate 2010 also purchases reinsurance programmes for each of its key accounts, and structures the programmes to limit the exposure to any single reinsurer.

c) Frequency of major losses

Syndicate 2010 is vulnerable to a high frequency of major loss.

The major defences the Syndicate has to high frequency of major loss on the reinsurance accounts is both the level at which cover is given and the limited number of reinstatements which the Syndicate will typically provide. Additionally, Syndicate 2010 seeks to purchase a depth of cover at the lower levels particularly to protect against claims attrition.

Syndicate 2010's direct and facultative account is 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 with depth at lower levels.

d) Wording issues

The coverages provided by Syndicate 2010 may be extended in circumstances where either the wording used does not reflect the underwriters' intentions or where courts decide the wordings used provide wider coverage than intended.

Despite this risk, most coverages utilised are fairly standard. Slip checking is part of the underwriting process. Furthermore, the independent review director of the Group's managing agency subsidiary reviews a sample of risks written and as part of his review looks at wordings to identify inconsistencies between slips and wordings. The Syndicate is committed to ensure it meets the contract certainty requirements of Lloyd's and the FSA.

e) Unsustainable pricing

The cyclical nature of insurance means that rates constantly fluctuate. Whilst in the core reinsurance areas of Syndicate 2010's account 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 Syndicate 2010 which ensure that all risks are seen by at least two underwriters and the Syndicate's rate monitoring processes. The Syndicate 2010 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 Syndicate 2010's own performance.

Other controls in place to mitigate the key underwriting risks of Syndicate 2010 are set out below.

Syndicate 2010 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.

All risks underwritten on behalf of Syndicate 2010 by an underwriter are peer reviewed by at least one other senior underwriter. The pricing, terms and conditions of all risks are reviewed as part of this process. A risk summary report is generated daily, setting out all new risks and any changes to existing risks, which is reviewed and signed off by the relevant class underwriter. The independent review director of the Group's managing agency subsidiary, also reviews a sample of all risks underwritten by the Syndicate.

All property risks underwritten by Syndicate 2010 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 Syndicate's business plan. A bespoke aggregation system for the aviation account is also used to monitor exposures.

Syndicate 2010 has a defined event risk appetite. Best efforts are made to restrict the maximum gross and net loss that the Syndicate may retain/lose for any single major catastrophe event to not materially more than circa 20% of capacity net or circa 70% of capacity gross. A major loss is taken to be one with a probability of about 1:250. Syndicate 2010 models various loss scenarios and also prepares prescribed RDS which seek to analyse and quantify the Syndicate's exposures to certain specified events and the Syndicate endeavours to ensure that its potential loss exposures remain within Franchise Board Guidelines.

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.

With respect to the syndicates managed by external managing agents, the Group places reliance on the controls of the relevant managing agency in this area.

With respect to Syndicate 2010, the three key risks include an inappropriate reinsurance programme (or a reinsurance programme with unplanned 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

Syndicate 2010 knowingly runs exposures which are not covered by reinsurance. These exposures may be run below the attachment point of the outwards programme (Syndicate's 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 Syndicate 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. It is emphasised that the amount of reinsurance cover which the Syndicate purchases has 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 of the Group's managing agency subsidiary. There are known exclusions in our outwards cover, eg terrorism, spiral and pollution, and the inwards book is written to take account of these factors. Various loss scenarios are also modelled through the programme to determine where unexpected gaps, if any, may arise.

b) Collapse of the retrocession market

Whilst Syndicate 2010 aims 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 Syndicate's own record with its reinsurers together with the overall availability of retrocessional capacity.

The major controls operated by Syndicate 2010 rest at the underwriting level which are aimed at ensuring the Syndicate underwrites an account that does not expose its reinsurers to a scale or type of exposure which was not reasonably within their contemplation at the time of writing the Syndicate's outwards reinsurance programmes. The Syndicate endeavours to provide its reinsurers with the most up to date and accurate information on its account (and advise them quickly of any losses incurred) to ensure that it has the best prospect of being regarded as a reliable and fair reassured.

Should there be a collapse in the retrocessional market generally, the Syndicate would endeavour to adjust the inwards book 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

With respect to Syndicate 2010, the reinsurance programmes are planned and structured based on the business plan income and exposure assumptions. The Syndicate aims to protect itself 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 the Syndicate. Where such cover is not available, then the Syndicate's exposure to large losses increases accordingly, though this may be mitigated somewhat by a reduction in the aggregate exposures taken on by the Syndicate.

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 Group expects the ultimate settlement and administration of claims will cost. The reserving risk to the Group is that reserves established by the Group are insufficient to meet actual claims liabilities, or that reinsurance bad debt provisions or allowances for future expenses are inadequate.

When estimating claims liabilities, significant reserving judgements are required to be made, particularly in respect of the ultimate cost of major catastrophes, contentious 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. In respect of third party managed syndicates, reliance is placed on the work undertaken by the relevant managing agency.

The processes used to decide on assumptions and related sensitivities for both claims liabilities and unearned premiums are set out below.

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).

The process used to decide on assumptions differs for the Group's share of Syndicate 2010 and the Group's share of externally managed syndicates.

Group's share of Syndicate 2010

The Group uses assumptions based on a mixture of internal and market data to measure its claims liabilities. Syndicate 2010 is a relatively short-tail account, which can often mean that after a short period of time (e.g. two years), a large proportion of the underwriting losses have already been notified to the Syndicate and, more importantly, catastrophe losses are known as soon as an event occurs. Therefore, projections are able to be undertaken using underwriter judgement, market share analysis and comparison to the rest of the market.

Syndicate 2010 also has a catastrophe element to its account, giving the account 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. For example, the US Terror Attacks in 2001 have produced a large number of complex coverage issues, many of which are yet to be finally resolved. Nevertheless, the assumptions used in projecting claims liabilities are derived from underwriter judgement, statistical projections and market data.

For more recent losses, projections are made based on the development of earlier losses, allowing for changes in market conditions and changes in terms of the insurance policies from one year to the next.

Group's share of syndicates managed externally

As noted in the accounting policies, the Group is reliant upon receipt of information from the external managing agents for the syndicates (except for Syndicate 2010) and is also reliant upon the assumptions and calculations used by those agents when setting their claims liabilities. Nonetheless, all managing agents within Lloyd's are required to project their claims liabilities for their own statutory accounts purposes and for Lloyd's solvency purposes, and these are subject to actuarial review and audit from external actuaries and auditors respectively. Therefore, the Group uses these figures on the assumption that they are materially correct. The Group itself does not set the assumptions used in those projections.

(ii) Changes in assumptions and sensitivity analysis

The broad assumptions used in respect of Syndicate 2010 have not significantly changed during the year. Likewise, it is assumed that there have been no significant changes in the broad assumptions used by the externally managed syndicates.

(iii) Sensitivity analysis - sensitivity of claims liabilities

When reviewing the claims liability projections in respect of Syndicate 2010, the Group considers the factors and assumptions which could have a large impact on those projections. The main areas of sensitivity relate to:

– further litigation / legal developments in relation to the US Terror Attacks of 2001. This is particularly the case in respect of the aviation part of the account.

– future advices / notifications with respect to significant losses occuring close to the year end. By their nature, these claims are large at a gross level and, given the limited time between their event and the year-end, notifications by year-end would not be expected to be complete. Any projections of these losses at this early stage will be subjective. Nonetheless, the Group has sought to consider all potential exposures and reviews / follows up such exposures on a regular basis.

The loss development tables that follow are disclosed to provide information about historical claims development. In effect, the tables highlight the Group's ability to provide a robust estimate of the claims costs.

The top part of the table illustrates how the Group's estimate of claims ratio for each underwriting year of the Syndicate has changed at successive year-ends. The bottom half of the table reconciles the gross and net claims to the amount appearing in the Consolidated Balance Sheet. An underwriting year basis is considered to be the most appropriate basis for business written by the Group.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current claims liabilities. The Group believes that the estimate of total claims liabilities as at 31 December 2006 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.

Syndicate 2010 loss ratio development table (whole account)

Underwriting Year - Gross	2001	2002	2003	2004	2005	2006
12 months	181%	46%	50%	88%	157%	28%
24 months	141%	34%	29%	76%	121%	
36 months	148%	30%	27%	76%		
48 months	143%	29%	26%			
60 months	139%	29%				
72 months	139%					

Underwriting Year - Net	2001	2002	2003	2004	2005	2006
12 months	93%	58%	53%	69%	88%	39%
24 months	79%	44%	32%	56%	73%	
36 months	74%	37%	29%	56%		
48 months	70%	36%	28%			
60 months	68%	36%				
72 months	68%					

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

Group's share of Syndicate 2010

Underwriting Year - Gross	2004 £'000	2005 £'000	2006 £'000	Total £'000
Total gross claims (pure year)	68,846	131,657	20,023	220,526
Gross RITC accepted	30,310	-	-	30,310
Movements in prior years	(489)	-	-	(489)
Less paid claims	(57,174)	(89,315)	(7,262)	(153,751)
Gross claims liabilities	41,493	42,342	12,761	96,596
Plus external syndicates				127,146
				223,742

Underwriting Year - Net	2004 £'000	2005 £'000	2006 £'000	Total £'000
Total net claims	39,009	58,252	19,510	116,771
Net RITC accepted	11,210	-	-	11,210
Movements in prior years	(560)	-	-	(560)
Less paid claims	(33,233)	(31,297)	(7,090)	(71,620)
Net claims liabilities	16,426	26,955	12,420	55,801
Plus external syndicates				87,860
				143,661

The impact of any movements in the estimate of ultimate claims on a year of account that has already closed is shown in the movements in prior years line.

With respect to the externally managed syndicates, the sensitive factors are less well known. However, based on the nature of the books of business, some of the syndicates will also be sensitive to developments in relation to the US Terror Attacks of 2001 and other significant catastrophes that occur from time to time.

b) Provision for unearned premiums

(i) Process used to decide on assumptions

With respect to Syndicate 2010, the provision for unearned premiums is determined at an individual policy level and is either based on a straightforward time basis or, where appropriate, weighted towards where the exposure is believed to fall. For example, insurance policies protecting windstorms in the Florida region of the USA will tend to be earned later in the year as that is when the hurricane season will occur.

With respect to the externally managed syndicates, the Lloyd's instructions for the syndicate accounts and UK GAAP also require policies to be earned either on a time basis or, where more appropriate, based on the underlying exposure of the policy. There is no specific requirement for this to be done at an individual policy level, however, the provision is assumed by the Group to be reasonable given that the accounts for each syndicate with unearned premium are signed by the respective auditors as true and fair for 2006.

(ii) Changes in assumptions and sensitivity analysis

There have been no changes in assumptions for determining the provision for unearned premiums in respect of Syndicate 2010. As the process in deciding the assumptions is not overly subjective, it is assumed that there have been no significant changes in this process by the externally managed syndicates either.

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

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

A change in the proportion of business written in the period that is unearned of 1 percentage point would equate to an adjustment of £118,000 to the unearned premium provision.

4.2 Credit risk

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

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

With respect to Syndicate 2010, the Group's managing agency subsidiary's reinsurance and broker security committee has established guidelines on its exposure to a single counterparty. These guidelines are regularly reviewed by the committee and adjusted as appropriate by the managing agency subsidiary's board.

Reinsurance is used to manage insurance risk, specifically catastrophic losses. This does not, however, discharge the Group's liability to its assureds. If a reinsurer fails to pay a claim for any reason, the Group remains liable for payment to the policyholder. The creditworthiness of reinsurers is considered on a continuous basis.

The Group assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. An external consultant is also used to assess and evaluate reinsurers.

At the year-end, the Group has quantified the credit risk to Syndicate 2010 and reduced the amounts due from reinsurers and reinsurers' share of insurance liabilities for this. Where the Syndicate has any legal right of off-set, this is assumed in the calculation of credit risk.

With respect to the externally managed syndicates, the nature of the credit risk is similar to that for Syndicate 2010. However, reliance is placed on the specific credit risk management processes of the managing agents in this regard.

The Group also has exposure to credit risk on its investments and cash holdings, whereby an issuer default results in the Group losing all or part of the value of a financial instrument.

With respect to externally managed syndicates, reliance is placed on the external managing agents in this regard.

With respect to Syndicate 2010, all funds are held in either cash or short-dated fixed interest securities (either government or high-quality corporate bonds). Fixed interest managers are employed and their performance is regularly monitored by the Group's managing agency investment committee. Detailed requirements apply regarding asset diversification.

With respect to the Group's corporate investments, the Group applies an asset allocation strategy aimed at preserving capital. A limit is applied to the proportion of investments which can be invested in riskier asset classes such as equities or capital protected securities. The short-dated fixed interest securities can be invested in either government or high-quality corporate bonds.

The following tables analyse the Group's concentration of credit risk, using ratings from external rating agencies. This analysis is in respect of the corporate Group and the Group's share of Syndicate 2010 only.

At 31 December 2006	A++ to A- £'000	B++ to B- £'000	Unrated £'000	External Syndicates* £'000	Total £'000
Financial investments	121,281	-	8,279	75,686	205,246
Insurance receivables	13,104	-	29,539	22,031	64,674
Reinsurance assets	39,575	-	5,129	41,450	86,154
Cash and cash equivalents	74,039	-	4,601	16,105	94,745
	247,999	-	47,548	155,272	450,819

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

Some of the unrated insurance receivables and reinsurance assets are fully collateralised in trust funds. Also, a large element of the reinsurance assets relating to Cathedral's share of Syndicate 2010 are in respect of attritional IBNR losses and have not been allocated to any specific reinsurer.

4.3 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due on a timely basis. The Group is exposed to call on its available cash resources as follows:

Claims arising from insurance contracts are settled by the syndicates using their own funds. Where insufficient liquid funds exist, the syndicates can cash call the Names supporting them and can ultimately draw down from the Names' funds at Lloyd's. With respect to Syndicate 2010, the funds are held in cash or in short-term, liquid stocks which are able to be converted to cash within a few days. It is believed that this is also substantially true for the syndicates managed by other agents. Furthermore, Syndicate 2010 has banking catastrophe and overdraft facilities available to it.

Most of the corporate Group's assets are held as funds at Lloyd's which are restricted in terms of their use, although they can be drawn down to pay any cash calls to syndicates supported by the Group. Also, some of the corporate Group's assets are held in a restricted account for the bank guaranteed loan note holders. The balance of this account at 31 December 2006 was £1.8 million. At 31 December 2006, the Group however had £20.8 million of cash not committed to its funds at Lloyd's and also had overdraft facilities available to it.

4.4 Market risks

4.4.1 Interest-rate risk

Interest-rate risk is the risk that changes in interest rates will impact the Group. This can arise where the Group holds investments with a fixed return, and market interest rates change which in turn change the market value of the investments.

The fixed interest securities held by the corporate entities of the Group and Syndicate 2010 have a short duration and so foreseeable changes in market interest rates would not be expected to have a significant impact on their value. The Group holds limited information on the duration of fixed interest securities held by the externally managed syndicates and relies on the relevant managing agent to manage the credit risk in line with Lloyd's guidelines and requirements.

With respect to the Group's borrowings, the floating rate subordinated loan notes are all at variable rates which are re-priced quarterly. The rates are as set out in Note 25. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. However, this exposure is to some extent mitigated as any changes in LIBOR could be expected to impact both the interest earned on the cash and investments held by the Group as well as on the loans themselves. The Group has not entered into any interest rate swap products.

The Group's loan notes and preference shares are at fixed rates, as set out in Note 25.

The following tables group the debt securities, cash and cash equivalents and borrowings into maturity date periods. Note that the long term debt is based on the earliest date it can be redeemed.

At 31 December 2006	< 1 year £'000	1-3 years £'000	4-5 years £'000	> 5 years £'000	External Syndicates* £'000	Total £'000
Debt securities	48,275	69,184	-	-	62,185	179,644
Cash and cash equivalents	78,640	-	-	-	16,105	94,745
Borrowings	-	(13,013)	(24,891)	(117,698)	-	(155,602)
	126,915	56,171	(24,891)	(117,698)	78,290	118,787

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

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

	31 December 2006
Debt Securities	5.0%
Cash and cash equivalents	5.0%
Borrowings	8.3%

4.4.2 Equity price risk

The Group holds some equity investments on its balance sheet to try to enhance its investment returns over the longer term. However, by doing so, the Group is exposed to a degree of equity price risk. The exposure to equities is only on the corporate side of the Group as syndicates on which the Group participates did not hold equity investments.

The Group managed its equity price risk by placing a limit as to the investments that can be invested in equities. Furthermore, the equity fund managers have been instructed to aim for an absolute return rather than a return relative to an equity benchmark. The performance of the fund managers is monitored quarterly by the Group's asset allocation committee.

4.4.3 Currency risk

The Group holds assets and liabilities in three main currencies - sterling, euros and US dollars. The syndicates themselves also hold their assets and liabilities in Canadian dollars.

Syndicates for the most part aim to ensure that their assets and liabilities match by currency as closely as possible, which reduces the degree of currency risk somewhat.

Syndicate underwriting profits and losses are only capable of being distributed in either US dollars or sterling and so the Group is affected to some degree by movements in the US dollar. This is further compounded by the fact that any underwriting profits are currently only paid out once a year into funds at Lloyd's at the distribution date although any release of funds at Lloyd's is subject to Lloyd's solvency tests. The Group does not currently enter into any currency deals to mitigate this currency risk.

Notes to the Financial Statements
For the period ended 31 December 2006

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The currency split of the corporate side of the Group's assets and liabilities and the Group's share of Syndicate 2010's assets and liabilities is set out below. Information in respect of the Group's share of the external syndicates is not available.

	STG in conv. £'000	EUR in conv. £'000	USD in conv. £'000	CAD in conv. £'000	External Syndicates in conv. £'000	Total in conv. £'000
Assets						
Property, plant and equipment	928	-	-	-	-	928
Intangible assets	22,781	-	-	-	-	22,781
Fair value of in-force business	8,261	-	-	-	-	8,261
Reinsurers' share of technical provisions	3,708	192	40,319	485	41,450	86,154
Financial investments	69,638	3,874	49,117	6,931	75,686	205,246
Deferred acquisition costs	1,193	282	6,683	615	4,130	12,903
Other assets	-	-	-	-	739	739
Prepayments and accrued income	4,890	-	49	-	692	5,631
Trade and other receivables	8,259	1,883	31,852	1,297	24,397	67,688
Cash and cash equivalents	25,608	8,521	42,889	1,621	16,106	94,745
Total assets	145,266	14,752	170,909	10,949	163,200	505,076

	STG in conv. £'000	EUR in conv. £'000	USD in conv. £'000	CAD in conv. £'000	External Syndicates in conv. £'000	Total in conv. £'000
Equity						
Called up share capital	13	-	-	-	-	13
Share premium account	1,237	-	-	-	-	1,237
Own shares	(17)	-	-	-	-	(17)
Retained earnings	(32,239)	1,493	21,532	5,581	4,129	496
Total shareholders' equity	(31,006)	1,493	21,532	5,581	4,129	1,729
Liabilities						
Borrowings	117,698	8,036	29,868	-	-	155,602
Insurance contracts	18,250	5,419	116,517	4,918	145,147	290,251
Provision for other liabilities and charges	5,877	-	-	-	-	5,877
Deferred tax liabilities	18,803	-	-	-	-	18,803
Trade and other payables	5,985	235	6,863	444	13,432	26,959
Current tax liabilities	3,224	-	-	-	-	3,224
Accruals and deferred income	2,136	-	3	-	492	2,631
Total liabilities	171,973	13,690	153,251	5,362	159,071	503,347
Total equity and liabilities	140,967	15,183	174,783	10,943	163,200	505,076

5 Segmental reporting

Analysis of Consolidated Income Statement by Business Segments

	For the period ended 31 December 2006				
	Managed Syndicate 2010 £'000	External Syndicates £'000	Corporate £'000	Elimination £'000	Total £'000
Income					
Gross premiums written	8,228	2,976	-	-	11,204
Less premiums ceded to reinsurers	(1,864)	(619)	-	-	(2,483)
Net premiums written	6,364	2,357	-	-	8,721
Gross amount of change in provision for unearned premiums	(254)	1,168	-	-	914
Reinsurers' share of change in provision for unearned premiums	75	(201)	(37)	-	(163)
Net earned premiums	6,185	3,324	(37)	-	9,472
Fees and commission income - external	-	-	116	-	116
Fees and commission income - Inter-segment sales	-	-	59	(59)	-
Investment return	197	331	539	-	1,067
Other income	-	-	1	-	1
Total Income	6,382	3,655	678	(59)	10,656
Expenses					
Claims paid					
Gross amount	(5,432)	(3,888)	-	-	(9,320)
Reinsurers' share	2,538	1,668	-	-	4,206
Net claims paid	(2,894)	(2,220)	-	-	(5,114)
Net change in the provision for claims					
Gross amount	2,784	2,147	-	-	4,931
Reinsurers' share	(2,434)	(1,407)	-	-	(3,841)
Net change in the provision for claims	350	740	-	-	1,090
Claims incurred, net of reinsurance	(2,544)	(1,480)	-	-	(4,024)
Acquisition costs	(1,318)	(891)	-	-	(2,209)
Other operating expenses	(149)	(264)	(2,615)	63	(2,965)
Operating Profits	2,371	1,020	(1,937)	4	1,458
Finance costs	-	-	(761)	-	(761)
Profit on ordinary activities before tax	2,371	1,020	(2,698)	4	697
Income tax expense	(711)	(306)	817	(1)	(201)
Profit on ordinary activities after tax	1,660	714	(1,881)	3	496
Profit attributable to equity shareholders of the parent company	1,660	714	(1,881)	3	496

The secondary segment report requires the Group to disclose the revenue by geographical location of its customers. As all insurance contracts are written through Lloyd's of London, it is deemed that the geographical location of the Group's customers is the UK. Depreciation charged in the period amounted to £15,000 and related to the corporate segment only. No amortisation was charged during the period. £1,765,000 of impairment was recognised during the period (refer to Note 19).

5 Segmental reporting *continued*

Analysis of Consolidated Balance Sheet

At 31 December 2006	Managed Syndicate 2010 £'000	External Syndicates £'000	Corporate £'000	Elimination £'000	31 December 2006 Total £'000
Total assets	177,860	162,453	197,762	(32,999)	505,076
Total liabilities	177,860	162,453	196,033	(32,999)	503,347
Capital expenditure	-	-	1	-	1

Capital expenditure relates to acquisitions of assets to be used during more than one accounting period (property, plant, equipment and intangible assets).

6 Fees and commission income

	Period ended 31 December 2006 £'000
Managing agency fees	51
Profit commission	65
	116

7 Investment return

	Period ended 31 December 2006 £'000
Syndicate Investments	
Investment income - interest	577
Realised investment losses	(49)
Net investment return on syndicate investments	528
Funds at Lloyd's	
Investment income - interest	331
Investment income - dividends	6
Realised investment gains	1
Net fair value gains on assets at fair value through the income statement	115
Net investment return on funds at Lloyd's investments	453
Cash and other investments	
Investment income - interest	88
Realised (losses)	(42)
Net fair value gains on assets at fair value through the income statement	40
Net investment return on other investments	86
Net investment return	1,067

8 Other income

	Period ended 31 December 2006 £'000
Other income	1

9 Other operating expenses

	Period ended 31 December 2006 £'000
Syndicate operating expenses	462
Names' personal expenses on Lloyd's syndicates	262
Corporate expenses	2,583
(Profit) / loss on foreign exchange	(342)
Total	2,965

10 Finance costs

	Period ended 31 December 2006 £'000
Interest expense on:	
Long term loans	232
Loan notes	388
Guaranteed loan notes	3
Other	3
Dividends on preference shares	135
	761

11 Profit on ordinary activies before taxation

	Period ended 31 December 2006 £'000
The profit on ordinary activities before taxation is stated after charging:	
Net foreign exchange (gains)	(342)
Operating lease charges - rent	3
Depreciation of tangible fixed assets	15
Impairment of value of in-force business	1,765
Auditors' remuneration:	
Audit services	20
Taxation services	2

Mazars LLP received no further fees in the period. Fees paid to Mazars LLP in respect of the issue of the subordinated loan notes of Cathedral Capital Holdings Limited are charged to the Consolidated Income Statement as part of the finance cost.

12 Employees

	Period ended 31 December 2006 £'000
The aggregate payroll costs borne by the Corporate Group were as follows:	
Salaries	**592**
Social security costs	**76**
Pension costs under defined contribution plans	**7**
	675

The average monthly number of people (excluding non-executive directors) employed by the Group, from the date that the Cathedral Capital Holdings Limited Group was acquired, was 43. As at 31 December 2006, the number of people (excluding non-executive directors) employed by the Group was 43.

13 Compensation of key management personnel

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

Refer to Note 38 for details of compensation of key management personnel.

14 Income tax expense

	Period ended 31 December 2006 £'000
(a) Analysis of charge in the period	
Current tax	
Corporation tax at 30%	**(184)**
Adjustments in respect of previous periods	**-**
Overseas tax	**2**
Total current tax charge (Note 14(b))	**(182)**
Deferred taxation	
Underwriting profits	**1,016**
Investment losses	**10**
Timing differences on accelerated capital allowances	**2**
Additional tax losses	**49**
Other timing differences	**(694)**
Total deferred tax charge	**383**
Tax charge	**201**

(b) Factors affecting the tax charge for the period	
Profit on ordinary activities before tax	**697**
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**210**
Expenses not deductible for tax purposes	**41**
Timing differences	**(418)**
Investment income received net of tax	**(3)**
Investment income not taxable	**(3)**
Movement in tax losses	**(10)**
Overseas tax	**1**
Prior period adjustments	**-**
Total current tax charge	**(182)**

(c) Factors that may affect future tax charges

The future tax charge for the Group is dependent on the ability of the Group to utilise tax losses as they become available and also to control the costs of expenditure disallowable for tax purposes.

15 Loss attributable to members of the parent company

The loss dealt with in the accounts of the Company (as prepared under UK GAAP) was £146,000. As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account for the Company has been included in these financial statements.

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For the period ended 31 December 2006

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16 Earnings per share

	Period ended 31 December 2006 £'000
The basic earnings per share is calculated as follows:	
Profit for the period (£'000)	496
Diluted weighted average number of shares (no.)*	364,280
Diluted earnings per share (p)	136.2

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

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

17 Property, plant and equipment

	Lease £'000	Computers & other equipment £'000	Furniture, fixtures & fittings £'000	Assets under construction £'000	Total £'000
Cost					
At 5 October 2006	-	-	-	-	-
Acquisitions through business combination	29	607	535	210	1,381
Additions	-	-	1	-	1
At 31 December 2006	29	607	536	210	1,382
Depreciation					
At 5 October 2006	-	-	-	-	-
Acquisitions through business combination	2	379	58	-	439
Charge for the period	-	7	8	-	15
At 31 December 2006	2	386	66	-	454
Net book value					
At 31 December 2006	27	221	470	210	928
At 5 October 2006	-	-	-	-	-

The depreciation charge for the accounting period is included in other operating expenses in the Consolidated Income Statement.

18 Intangible assets

	Syndicate Participations £'000	Goodwill £'000	Total £'000
Cost at 5 October 2006	-	-	-
Intangible assets arising on acquisition	**22,481**	**300**	**22,781**
Cost at 31 December 2006	**22,481**	**300**	**22,781**

The cost of syndicate participations relates to the Group's underwriting subsidiary's right to participate on a syndicate for future underwriting years. The value of such a right is dependent on the expected underwriting results generated by each syndicate, plus any residual value in the auctions.

Goodwill relates to the difference between the consideration paid for the Cathedral Capital Holdings Limited group and the fair value of the assets acquired. 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 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 Group annually tests these assets for impairment. They are allocated to the Group's cash generating units as follows:

31 December 2006	Managed Syndicate £'000	External Syndicates £'000	Corporate £'000	Total £'000
Goodwill	-	-	**300**	**300**
Syndicate capacity	**21,345**	**1,136**	-	**22,481**

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 projected cash flows and an appropriate pre tax discount rate. The rate used to discount those cash flows varies depending on the expected timing of the various cashflows.

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 Group who held employment contracts with the Cathedral Capital Holdings Limited group at the date of acquisition and who are still employed by the Group.

19 Fair value of in-force business

Upon acquiring Cathedral Capital Holdings Limited, the present value of future profits on policies which have been written but not earned (value of in-force business) was recorded on the Group's Consolidated Balance Sheet. The basis of valuation has taken into account a number of factors, such as the remaining period of the policies and volatility. This value of in-force business is impaired over the period in which the related premiums are earned, and is expected to be fully impaired by 31 December 2008.

	£'000
Cost	
Cost at 5 October 2006	-
Arising on business combinations	**10,026**
Cost at 31 December 2006	**10,026**
Impaired amount	
Impaired at 5 October 2006	-
Arising on business combinations	**-**
Impairment charge in the period	**1,765**
Impaired at 31 December 2006	**1,765**
Net value	
At 31 December 2006	**8,261**
At 5 October 2006	**-**

A deferred tax liability of £3,008,000 was established at the date of acquisition in respect of this in-force business. During the period, the liability was reduced by £530,000 as the value of in-force business was impaired in the period.

20 Financial investments

The Group's financial investments consist of:

	31 December 2006 Market value £'000	31 December 2006 Cost £'000
Corporate		
Shares and other variable yield securities	**4,502**	**4,232**
Alternative investments	**5,792**	**4,857**
Debt and other fixed income securities	**49,683**	**49,775**
Total investments - Corporate	**59,977**	**58,864**
Syndicate participations		
Shares and other variable yield securities	**12,305**	**12,305**
Debt securities and other fixed interest securities	**129,961**	**129,878**
Deposits with ceding undertakings	**62**	**62**
Other loans and investments	**2,941**	**2,941**
Total investments - Syndicate participations	**145,269**	**145,186**
Group financial investments	**205,246**	**204,050**

The Group's financial investments are all categorised as investments at fair value through profit or loss.

Of the Group's investments above, £59,977,000 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.

All corporate investments are listed on recognised stock exchanges.

Alternative investments are investments which are characterised by a significant degree of capital protection.

The Company holds no financial investments.

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For the period ended 31 December 2006

continued

21 Investments in subsidiary undertakings

	31 December 2006 £'000
Cost	
At 5 October 2006	-
Additions during the period	40,408
At 31 December 2006	40,408

On 30 October 2006, the Company acquired the single subscriber share of Cathedral Capital (Investments) Limited which became a wholly owned subsidiary. On 12 December 2006, Cathedal Capital (Investments) Limited allocated and issued to the Company a further 31,659,425 ordinary shares of 1 pence each for cash at £1 per share and on the same date 8,748,731 Ordinary shares of 1 pence each were allotted and issued to the Company as consideration for repayment of £8,748,731 of the Managers Loan Notes 2014.

Details of the Company's subsidiaries are as follows:

Name of company	Nature of business	Proportion of ordinary shares held by the Company	Proportion of ordinary shares held by a subsidiary
Cathedral Capital (Investments) Limited	Intermediate holding company	100%	
Cathedral Capital Holdings Limited	Investment company		100%
Cathedral Capital (1998) Limited	Lloyd's corporate member		100%
Cathedral Capital (1999) Limited	Non trading		100%
Cathedral Capital Management Limited	Advisory company regulated by the FSA		100%
Cathedral Capital Services Limited	Employment company		100%
Cathedral Capital (2000) Limited	Intermediate holding company		100%
Cathedral Underwriting Limited	Lloyd's managing agent		100%

As from 1 January 2002, Cathedral Capital (1999) Limited ceased to underwrite new business at Lloyd's and resigned as a Name at Lloyd's with effect from 1 January 2005.

All companies are registered and operate in England.

22 Prepayments and accrued income

	Group 31 December 2006 £'000
Accrued income - investments	1,992
Accrued income - underwriting	2,534
Prepayments	1,105
	5,631

Accrued income - underwriting is in respect of profit commission receivable from Syndicate 2010.

23 Trade and other receivables

	Group 31 December 2006 £'000	Company 31 December 2006 £'000
Arising out of direct insurance operations	**21,820**	**-**
Arising out of reinsurance operations	**42,854**	**-**
Tax recoverable	**137**	**4**
Amounts owed by managed syndicates	**90**	**-**
Debtors within the ESOP	**112**	**-**
Other receivables	**2,675**	**-**
	67,688	**4**

Of the amounts due from managed syndicates, £nil is due in more than one year.

Debtors within the ESOP are as set out in Note 33. Of this balance, all is due within one year.

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

24 Cash and cash equivalents (Group)

	Group 31 December 2006 £'000
Cash and cash equivalents consists of:	
Cash at bank and in hand	**68,632**
Short term investments	**26,113**
	94,745
Cash and cash equivalents consist of:	
Cash and cash equivalents held by syndicates	**30,665**
Cash and cash equivalents held within funds at Lloyd's	**41,424**
Cash and cash equivalents held for the bank guaranteed loan note holders	**1,814**
Cash and cash equivalents available for use by the Group	**20,842**
	94,745

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

The cash and cash equivalents held for the bank guaranteed loan note holders are held in an account with Barclays Bank plc under the terms of the guaranteed loan note agreement. They are not available for use by the Group.

The effective interest rate for cash and cash equivalents is set out in Note 4.

25 Borrowings

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

	Group 31 December 2006 £'000	Company 31 December 2006 £'000
Floating Rate Subordinated Notes	**37,904**	**-**
Preference shares	**38,492**	**39,158**
Loan Notes	**76,996**	**-**
Guaranteed loan notes	**2,210**	**-**
	155,602	**39,158**

The carrying amount disclosed above reasonably approximates to fair values at period end. These amounts exclude the preference shares and Manager Loan Notes held by the ESOP as set out in Note 33.

The Floating Rate Subordinated Notes, the Preference shares and the Manager Loan Notes are all classed as non-current.

Floating Rate Subordinated Notes

During 2004, two 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) Euro 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 Capital Holdings Limited can redeem the Notes in whole or in part, from time to time, on any interest payment date falling on or after 31 December 2009.

(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 Capital Holdings Limited can redeem these Notes in whole or in part, from time to time, on any interest payment date falling on or after 15 December 2009.

During 2005, a further two 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 Capital Holdings Limited can redeem these Notes in whole or in part, from time to time, on any interest payment date falling on or after 15 June 2010.

(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 Capital Holdings Limited can redeem these Notes in whole or in part, from time to time, on any interest payment date falling on or after 15 December 2010.

The amount of interest charged to the Group in respect of the Subordinated Notes for the period ended 31 December 2006 was £232,000. Although the 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 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 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 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.

The amount of interest charged to the Group in respect of the loan notes for the period ended 31 December 2006 was £388,000.

Preference shares

On 12 December 2006, the Company 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 the Company. 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 33.

The amount of dividends charged to the Group in respect of the Preference shares for the period ended 31 December 2006 was £135,000.

Bank guaranteed loan notes

On 2 November 2006 the Group entered into a Guarantee Facility Agreement ("Facility") with Barclays Bank PLC. Floating Rate Unlisted Unsecured Guaranteed Loan Notes 2009 ("GLN"), of Cathedral Capital (Investments) Limited, can be issued under this Facility to a maximum value of £85,647,080 by executing bank guarantee utilisation requests and lodging these with the bank. The Group must apply all bank guarantees utilised by it under this Facility towards guaranteeing the principal outstanding amount under these GLN. The interest rate paid to GLN holders is set at the start of interest paying period and equals the Barclays treasury rate less 75 basis points. This Facility enabled shareholders of Cathedral Capital Holdings Limited to elect to receive these loan notes instead of cash as consideration for their shares.

On 15 December 2006 the first instrument constituting up to £1,555,766 of these GLN, under this Facility was entered into by the Group and the bank. On the same date this amount was increased to £1,772,008. Since the year-end two further instruments were entered into on 8 January and 24 January 2007 constituting up to a further £42,000 and £575,120 of these GLN respectively. GLN with a principal amount of £2,210,205 have been issued under this Facility.

The amount of interest charged in respect of the loan notes for the period ended 31 December 2006 was £3,000.

Facilities

The corporate Group has undrawn bank overdraft facilities facilities of £3 million. The syndicates also have borrowing facilities in order to meet their day to day running expenses and policyholder liabilities, however these are not available to the Group other than through their participation on the syndicates it supports.

26 Insurance contracts - technical provisions and reinsurance assets

	31 December 2006 £'000
Gross	
Claims outstanding	**223,742**
Provision for losses foreseen on open years	**267**
Provisison for unearned premiums	**66,242**
	290,251
Recoverable from reinsurers	
Claims outstanding	**80,081**
Provision for unearned premiums	**6,073**
	86,154
Net	**204,097**

Provision for claims outstanding - gross

The provision for claims outstanding - gross relates to underwriting losses which have been incurred by the Group but which have not yet been settled and includes an element of claims handling costs. The payment of these provisions is dependent on a large number of factors including the time for the legal aspects of a claim to be resolved, the time at which a full assessment of a claim can be completed and the processing of information through the broker. An element of the claims provision will be reimbursed by the Group's reinsurers and these are shown as an asset on the Consolidated Balance Sheet. The level of reimbursement depends on the extent to which the Group's reinsurance programmes are engaged and the ability of that reinsurer to pay its losses.

Provision for losses foreseen on open years

The provision for losses foreseen on open years relates to syndicates which are in run-off. There are only two syndicates on which the Group participates which are now in run-off, all relating to the 2000 and prior years of account. The Group has used information available in respect of these syndicates to determine the extent of the losses and have provided accordingly for this.

Provision for unearned premiums

This provision is in respect of premiums written by the Group but which have been deferred to a future year. This is to match the premium to the level of exposure of the policies underwritten by the Group. Although for insurance entities this is classed as a provision, it is actually deferred income.

26.1 Reconciliation of changes in insurance liabilities and reinsurance assets

	Claims outstanding - gross £'000	Provision for losses foreseen on open years £'000	Provision for unearned premiums £'000	Other technical provisions £'000	Total £'000
Gross					
Provision at 5 October 2006	-	-	-	-	-
Acquisitions through business combination	227,807	267	67,589	-	295,663
Additional provisions made in the period	7,181	-	254	-	7,435
Amounts used in the period	(10,960)	-	(1,168)	-	(12,128)
Unused amount reversed during the period	(286)	-	-	-	(286)
Exchange differences	-	-	(433)	-	(433)
Provision at 31 December 2006	223,742	267	66,242	-	290,251

	Claims outstanding £'000	Provision for unearned premiums £'000	Total £'000
Reinsurance assets			
Provision at 5 October 2006	-	-	-
Acquisitions through business combination	83,610	6,358	89,968
Additional provisions made in the period	1,354	75	1,429
Amounts used in the period	(4,804)	(238)	(5,042)
Unused amount reversed during the period	(79)	-	(79)
Exchange differences	-	(122)	(122)
Provision at 31 December 2006	80,081	6,073	86,154

26.2 Movement in deferred acquisition costs

	£'000
Provision at 5 October 2006	-
Acquisitions through business combination	13,149
Additional provisions made in the period	42
Amounts used in the period	(288)
Unused amount reversed during the period	-
Provision at 31 December 2006	12,903

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For the period ended 31 December 2006

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27 Provisions for other liabilities and charges

	Provision in respect of profit sharing scheme £'000
Provision at 5 October 2006	-
Provisions on acquisition of Cathedral Capital Holdings Limited	5,255
Charge for the period	622
Utilised in the period	-
Provision at 31 December 2006	5,877

The Group operates a profit sharing scheme from which all executive Directors of the Company and employees of the Group can benefit. The size of this profit related pool created under this scheme is determined annually and is equal to 15 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 Preference dividends of the Company. All distributions from this scheme are entirely at the discretion of the Board of the Company, following recommendations made by the Group's Remuneration Committee. The provision includes an estimate of employers' National Insurance (at 12.8%) which would be payable.

Any distributions made to the Directors of the Company have been included in the Directors emolument table on page 19. Since the year end, the Board has recommended to the Group Remuneration Committee that £5,681,000 (including employers' national insurance) should be distributed to Group employees.

28 Provision for deferred tax

The movement in the deferred tax liability for the Group is represented by:

	31 December 2006 £'000
Declared underwriting profits	6,619
Annually accounted profits	3,229
Provisions for future underwriting losses	(80)
Deferred tax on investment gains	361
Accelerated capital allowances	34
Tax losses carried forward	(198)
Other timing differences	8,838
Provision for deferred tax	18,803
Provision for deferred tax at start of period	-
Provision for deferred tax on acquisition of Cathedral Capital Holdings Limited	18,420
Deferred tax charge in Consolidated Income Statement for period	383
Provision for deferred tax at end of period	18,803

Unprovided deferred tax assets for the Group were £nil at 31 December 2006.

The Company had no deferred tax assets or liabilities at 31 December 2006. Nor did the Company have any unprovided deferred tax assets or liabilities at 31 December 2006.

All deferred tax assets are considered to be recoverable.

29 Other creditors

	Group 31 December 2006 £'000
Amounts due within one year:	
Arising out of direct insurance operations	**4,334**
Arising out of reinsurance operations	**14,825**
Other taxes and social security costs	**401**
Trade creditors	**3,742**
Other creditors	**3,262**
Amounts due after one year:	
Trade creditors	**395**
	26,959

Other creditors includes £2,179,000 payable to the shareholders of Cathedral Capital Holdings Limited who hadn't accepted the offer by the end of the year. By 9 February 2007, these shareholders had been paid £1,921,157 of this amount and on 1 March 2007 the remaining £257,843.60 was transferred to an account for those shareholders whose shares were compulsorily acquired.

30 Share capital

	31 December 2006 Authorised	31 December 2006 Allotted issued and fully paid
	No.'000	No.'000
Number:		
A ordinary shares of 1p each	**702,290**	**702,290**
B ordinary shares of 1p each	**210,210**	**210,210**
Ordinary shares of 1p each	**337,500**	**337,500**
	£'000	£'000
Nominal value		
A ordinary shares of 1p each	**7**	**7**
B ordinary shares of 1p each	**2**	**2**
Ordinary shares of 1p each	**3**	**3**
	13	**13**

All shares have the right to vote at general meetings of the Company and the right to receive dividends. All shares rank pari passu.

30 Share capital *continued*

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

	31 December 2006 No.
Allotted, issued and fully paid:	
A ordinary shares of 1p each	
At the beginning of the period	**1**
Shares issued in respect of acquisition of Cathedral Capital Holdings Limited	**702,289**
At the end of the period	**702,290**
B ordinary shares of 1p each	
At the beginning of the period	**-**
Shares issued in respect of acquisition of Cathedral Capital Holdings Limited	**210,210**
At the end of the period	**210,210**
Ordinary shares of 1p each	
At the beginning of the period	**-**
Shares issued in respect of acquisition of Cathedral Capital Holdings Limited	**337,500**
At the end of the period	**337,500**

31 Reserves

Movement in reserves - Group

Details of movement in reserves for the Group are set out in the Consolidated Statement of Changes in Equity on page 27.

Movement in reserves - Company

	Balance at 5 October 2006 £'000	Issue of shares £'000	(Loss) for the period £'000	Total attributable to shareholders £'000
Called up share capital	-	13	-	13
Share premium	-	1,237	-	1,237
Retained earnings	-	-	(146)	(146)
Equity shareholders' funds	**-**	**1,250**	**(146)**	**1,104**

Nature and purpose of each reserve

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

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

None of the profit and loss reserve at 31 December 2006 is distributable.

32 Reconciliation of total shareholders' equity

	Group 31 December 2006 £'000	Company 31 December 2006 £'000
Total recognised gains / (losses) for the period	496	(146)
Issue of shares in the period, excluding those held by ESOP	1,233	1,250
Total movements during the period	1,729	1,104
Opening total shareholders' equity	-	-
Closing total shareholders' equity	1,729	1,104

33 Employee Shares Ownership Plan

Cathedral Capital Holdings Limited operates an Employee Share Ownership Plan ("ESOP") which became part of the Group's assets when Cathedral Capital Holdings Limited was acquired by Cathedral Capital Limited. This ESOP had been set up in 2001 for the benefit of the employees of the Cathedral Capital Holdings Limited Group. The ESOP held A convertible ordinary Shares of Cathedral Capital Holdings Limited, some of which were issued to employees. Following the acquisition of Cathedral Capital Holdings Limited by Cathedral Capital (Investments) Limited and the Company, the A Convertible Ordinary Shares and Deferred shares of Cathedral Capital Holdings Limited which were held by the ESOP were converted into Manager Loan Notes in Cathedral Capital (Investments) Limited and Preference shares and B ordinary shares in Cathedral Capital Limited under the terms of the Offer. Cathedral Capital (Investments) Limited is a subsidiary of the Company and they are therefore related parties.

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

The Preference shares of the Company and Manager Loan Notes of Cathedral Capital (Investments) Limited are deducted against the Group's Preference shares and Manager Loan Notes. The B ordinary shares held by the ESOP are deducted from shareholders' equity and categorised as Own shares. The Manager Loan Notes, Preference shares and B ordinary shares are valued at cost in the Group accounts.

The Manager Loan Notes, preference shares and Ordinary shares held by the ESOP are as follows:

9.2% Manager Loan Notes in Cathedral Capital (Investments) Limited (£)	1,331,666
6.44% Preference shares of £1 each in Cathedral Capital Limited (no.)	665,733
B ordinary shares of 1 pence each in the capital of Cathedral Capital Limited (no.)	17,054

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

	31 December 2006 £'000
Income Statement for the period ended 31 December 2006	
Income	-
Expenses	-
Total profit	-
Balance Sheet	
Investments *	**2,014**
Debtors	**112**
Cash	**-**
Less liabilities	**(409)**
Net assets	**1,717**
ESOP funds	**1,717**
Reconciliation of ESOP funds	
ESOP funds on acquisition of Cathedral Capital Holdings Limited	**1,717**
Profit arising in ESOP during period	**-**
Expenses incurred and added to cost of investments	**-**
ESOP funds at 31 December 2006	**1,717**

*Valued at cost to the Group.

34 Capital commitments

The Group had no capital commitments at 31 December 2006.

The Company had no capital commitments at 31 December 2006.

35 Operating leases

	Group 31 December 2006 £'000
Commitments under operating leases which expire	
Land & buildings:	
Within one year	**-**
In the second to fifth years inclusive	**366**
	366

For 2006, the Group's commitments under operating leases relate to rent payable. Cathedral Capital Holdings Limited, a Group subsidiary company, entered into a ten year rental contract which commenced on 8 June 2006, although the contract is cancellable by either party giving at least nine months notice after a 5 year period. The contract includes an initial 11 months rent free period which is being credited over the first 5 years of the rental contract.

The Company had no commitments under operating leases.

36 Pensions

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

37 Reconciliation of profit to cash generated from operations

	Period ended 31 December 2006 £'000
Profit before taxation	**697**
Adjustments for:	
Depreciation	**15**
(Increase) in debtors & accrued income	**(3,724)**
Change in underwriting balances	**(1,352)**
Unrealised investment (gains)	**(66)**
Exchange revaluation	**134**
Increase in creditors	**1,955**
Impaiment of in-force business	**1,765**
Interest expense	**761**
Interest received	**(996)**
Dividends received	**(6)**
Cash generated from operations	**(817)**

38 Related party transactions

(i) Directors' Interest in Transactions

Acquisition of Cathedral Capital Holdings Limited

Both Mr Slade and Mr Morgan have an indirect beneficial interest in Alchemy Partners (Guernsey) Limited which has certain fee sharing arrangements with investors in the Alchemy Investment Plan. A transaction fee of £1.71 million was paid to Alchemy Partners (Guernsey) Limited by Cathedral Capital Holdings Limited on the acquisition of that company by the Alchemy Investment Plan.

Messrs Lynch, Patrick and Scales all sold the shares they held in Cathedral Capital Holdings Limited to Cathedral Capital (Investments) Limited, a subsidiary of the Company. They received as consideration cash and/or unsecured Manager Loan Notes 2014. None of Messrs Lynch, Patrick or Scales took part in Cathedral Capital (Investments) Limited's decision to acquire Cathedral Capital Holdings Limited as they were not appointed as Directors of that Company until after the acquisition of Cathedral Capital Holdings Limited. As part of the same transaction, each of Messrs Lynch, Patrick and Scales sold some of their Manager Loan Notes to Cathedral Capital Limited in order to acquire Preference shares and equity capital in Cathedral Capital Limited.

(ii) Directors' Interests in shares

The interest of the Directors and their families in the share capital are in respect of the Company for the period ended 31 December 2006. These interests according to the register of Directors' interests are as follows:

			31 December 2006
	A ordinary 1 pence shares	B ordinary 1 pence shares	Ordinary 1 pence shares
E E Patrick	-	9,388	9,788
J A Lynch	-	21,634	33,413
A Morgan	126	-	-
P D Scales	-	21,634	33,413
D J H Slade	851	-	-

The Directors also have an interest in Preference shares issued by Cathedral Capital Limited and loan notes issued by Cathedral Capital (Investments) Limited. These interests, which were acquired during December 2006, are set out below:

			31 December 2006
	Preference shares Number	Investor Loan Notes £	Manager Loan Notes £
E E Patrick	366,699	-	733,509
J A Lynch	844,489	-	1,689,232
A Morgan	5,541	11,084	-
P D Scales	844,489	-	1,689,232
D J H Slade	37,500	75,011	-

The Cathedral Group has an Employee Share Ownership Plan ("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.

No Director has been granted any options from the Approved Share Option Scheme 2000 at the year-end or at the date of this report.

(iii) Other

Alchemy Partners Nominee Limited

Since 5 December 2006, Alchemy Partners Nominee Limited ("Alchemy") is a 56% shareholder in the Company and since that date, Alchemy has been approved as a controller of the Group's managing agency subsidiary by both Lloyd's and the FSA. Alchemy has also been approved as a controller of the Company's two underwriting subsidiaries by Lloyd's.

(iv) Incentive Plans

There are two schemes, details of which are set out below. None of the non-executive Directors have any interest in either scheme.

Approved Share Option Scheme 2000 ("the approved scheme")

The approved scheme is a discretionary share option scheme, which was approved on 14 February 2001 by HM Revenue and Customs under Paragraph 1, Schedule 9 of the Income and Corporate Taxes Act 1988. Options may be granted within certain periods and no option can be granted more than ten years after the date of adoption of the approved scheme.

There were no new options granted during the period and no options outstanding at the year end.

Cathedral Capital Employee Share Ownership Plan

This ESOP has been set up by Cathedral Capital Holdings Limited for the benefit of all employees in the 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 743 of the Companies Act 1985.

Prior to the acquisition of Cathedral Capital Holdings Limited by the Group, the ESOP had granted shares to various employees of the Group. As part of the acquisition, those employees who had received grants from the ESOP either accepted the offer from Cathedral Capital Limited and Cathedral Capital (Investments) Limited and converted their shares into Manager Loan Notes, preference shares and B ordinary shares or contracted to sell their holdings in Cathedral Capital Holdings Limited to Cathedral Capital (Investments) Limited.

No grants were made to employees after the date of acquisition.

The interests of the ESOP at 31 December 2006 are:

	Cathedral Capital Limited	
	B ordinary 1 pence shares Number	**Preference shares Number**
At 31 December 2006	**17,054**	**665,733**

In addition, the ESOP held £1,331,666 of Manager Loan Notes of Cathedral Capital (Investments) Limited.

38 Related party transactions *continued*

(v) Key Management Compensation

Details of key management personnel are set out in Note 13. Details of the cost of their compensation charged to the Group were as follows:

	Period ended 31 December 2006 £'000
Key management compensation	
Salaries and other short-term employee benefits	**355**
Post-employment benefits	**10**
Other long-term benefits	**-**
Share based payments	**-**
	365

Loans advanced to Directors and key management of the Company (and their families) are solely in relation to the timing of payment of personal items. No interest is charged on these small loans. At 31 December 2006, there were no items outstanding.

39 Contingent liabilities

Lloyd's of London

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

If the corporate member subsidiary fails to meet any of its Lloyd's obligations, after having called on the Group under its guarantees, then:

(a) Lloyd's will be entitled to require the subsidiary to cease or reduce its underwriting; and / or

(b) having regard to the fact that the Central Fund or the New Central Fund may be applied to discharge the obligations of the defaulting corporate member subsidiary, Lloyd's will be entitled to require the corporate member subsidiary to contribute to the Central Fund or New Central Fund to the amount of its net profits held from time to time in its Premium Trust Funds, sufficient to reimburse the Central Fund or New Central Fund in full for any payment made on behalf of the defaulting member.

(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.

40 Business combiinations

On 5 December 2006, Cathedral Capital (Investments) Limited acquired 100% of the voting equity share capital of Cathedral Capital Holdings Limited for a consideration of £118.5 million. An analysis of the consideration is as follows:

	£'000
Cash consideration	87,541
Consideration for Manager Loan Notes 2014	25,378
Expenses	5,566
	118,485

Some of the cash consideration and expenses were not paid until after the year-end.

Manager Loan Notes with a nominal value of circa £8.7 million were sold to the Company as consideration for the issue of circa £8.2 million 6.44% Preference shares, circa £0.2 million B ordinary shares and circa £0.3 million ordinary shares. The Preference Shares are held in Cathedral Capital Limited.

The net assets of the business acquired during the period, as extracted from the acquiree's accounting records, and the fair value adjustments ascribed thereto, are set out below:

	Book values acquired £'000	Fair values alignments £'000	Fair values acquired £'000
Property, plant and equipment	943	-	943
Intangible assets	6,644	15,837	22,481
Fair value of in-force business	-	10,026	10,026
Reinsurance assets	89,968	-	89,968
Financial investments	214,756	-	214,756
Deferred acquisition costs	13,149	-	13,149
Other assets	739	-	739
Prepayments and accrued income	5,432	-	5,432
Trade and other receivables	64,118	-	64,118
Cash and cash equivalents	81,389	-	81,389
Borrowings	(37,904)	-	(37,904)
Insurance contracts	(295,663)	-	(295,663)
Provision for other liabilities and charges	(5,255)	-	(5,255)
Deferred tax liabilities	(9,984)	(8,436)	(18,420)
Trade and other payables	(21,753)	-	(21,753)
Current tax liabilities	(3,269)	-	(3,269)
Accruals and deferred income	(2,552)	-	(2,552)
	100,758	17,427	118,185

The difference between the value of consideration and the fair values of the assets and liabilities acquired is classed as goodwill.

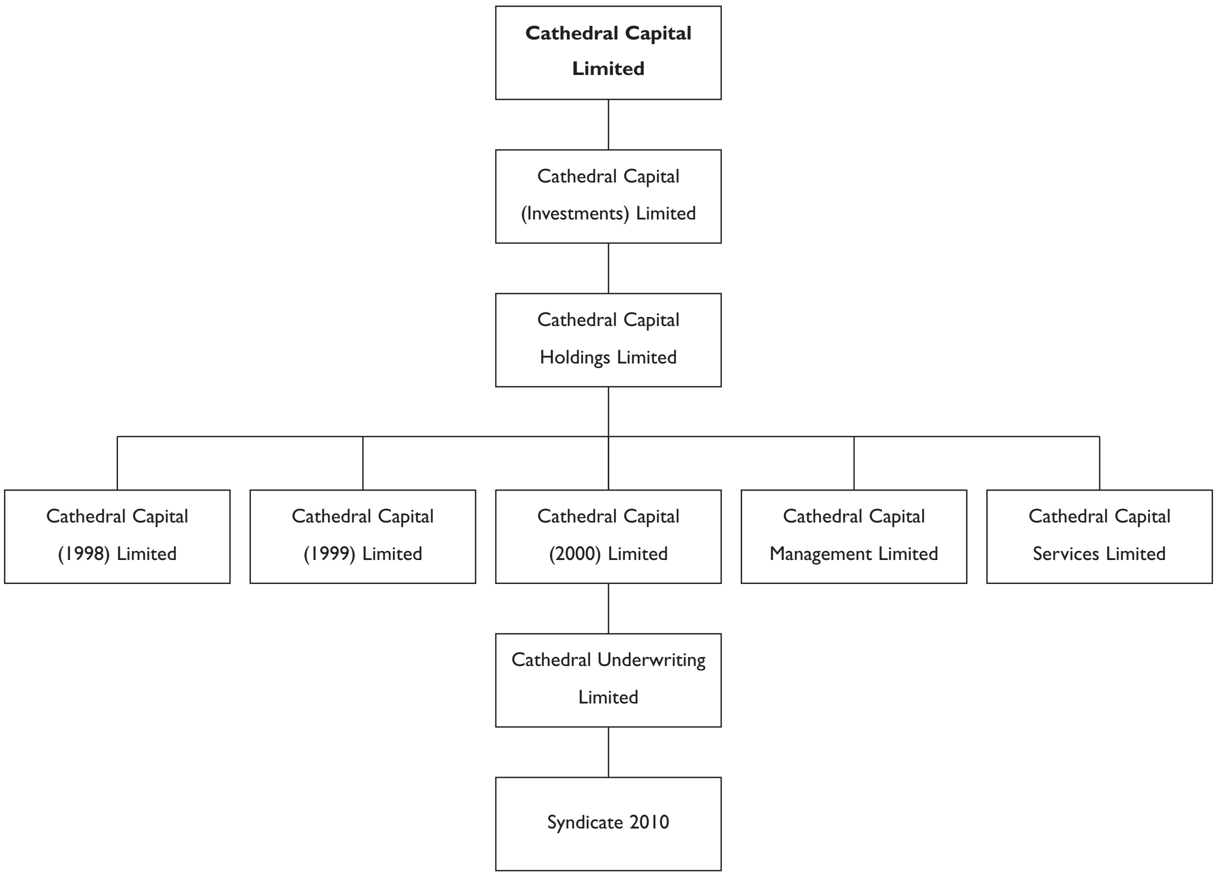
	£'000
Total value of consideration	**118,485**
Fair value of assets acquired	**118,185**
Goodwill	**300**

Further details of the amount of goodwill and the amount impaired in the period are set out in Note 18.

In the period following acquisition, the Cathedral Capital Holdings Limited group has contributed £2,190,000 to the Group's profit.

As the Group's accounting period is only from 5 October 2006 to 31 December 2006, and Cathedral Capital Holdings Limited's accounting period is from 1 January 2006 to 31 December 2006, it is impracticable to determine what the revenue and the profit of the Group would have been had the acquisition of Cathedral Capital Holdings Limited taken place on 5 October 2006.

Group Structure



CATHEDRAL
CAPITAL LIMITED

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Cathedral Capital Limited will be held at 5th Floor, Fitzwilliam House, 10 St Mary Axe, London EC3A 8EN on 14 June 2007 at 10am for the following purposes.

To consider and if thought fit, to pass the following resolution of which resolution 1 and 2 will be ordinary resolutions and resolution 3(a), 3(b) and 3(c) will be elective resolutions:

Ordinary Business

1. To receive and consider the audited accounts for the financial period ended 31 December 2006 and the Reports of the Directors and the Auditors thereon.

2. To reappoint Mazars LLP as the Auditors of the Company and authorise the Directors to determine their remuneration.

Special Business

3. That in accordance with Section 379A of the Act, and:

    a. pursuant to Section 252 of the Act, the Company elects to dispense with the laying of accounts and reports before the Company in general meeting in respect of the year ending 31 December 2007 and subsequent financial years;
    b. pursuant to Section 366A of the Act, the Company elects to dispense with the requirement to hold an annual general meeting of the Company for the year 2008 and subsequent years; and
    c. pursuant to Section 386 of the Act, the Company elects to dispense with the obligation to appoint auditors annually.

By order of the Board

John Lynch
Company Secretary
Registered Office:
5th Floor, Fitzwilliam House, 10 St Mary Axe, London EC3A 8EN

25 April 2007

Notes

1. Only the holders of A ordinary shares of 1p each, B ordinary shares of 1p each and Ordinary shares of 1p each are entitled to attend the meeting and vote.

2. A member entitled to attend and vote may appoint a proxy or proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company.

3. A form of proxy is provided. To be effective, a form of proxy must be completed, executed and (together with the original or a notarially certified copy of any power of attorney or other authority under which it is executed) lodged at the Company's registered office at 5th Floor, Fitzwilliam House, 10 St Mary Axe, London EC3A 8EN not later than 48 hours before the time of the meeting. Deposit of a completed form of Proxy will not preclude a member from attending the meeting and voting in person.

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CATHEDRAL
CAPITAL LIMITED

5th Floor
Fitzwilliam House
10 St. Mary Axe
London EC3A 8EN
United Kingdom

Tel: +44 (0)20 7170 9000
Fax: +44 (0)20 7170 9001
e-mail enquiries: info@cathedralcapital.com