CATHEDRAL
CAPITAL LIMITED

Annual Report

31 December 2007

CATHEDRAL CAPITAL LIMITED

Annual Report
For the year ended 31 December 2007

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CATHEDRAL CAPITAL LIMITED

Chairman's Statement

I am happy to report a profit for the year of £14.3 million, a most acceptable result.

Short-tail insurance and reinsurance are the main businesses of the group, underwritten largely in Lloyd's Syndicates 2010 and 3010. These Syndicates are managed by our regulated subsidiary company, Cathedral Underwriting Limited.

The above result is determined on an annual accounting basis. Because we underwrite for Lloyd's individual Names the syndicates also account on a three-year funded basis. It is worth noting that syndicate 2010, which has just completed the three-year accounts for 2005, made a good profit in a year memorable for a series of windstorms including the 40 billion dollar Hurricane Katrina.

Markets have no memory, and participants were wearily observed embarking on another cyclical bout of suicidal behaviour, diversifying for its own sake and pursuing market share in the time-honoured way – cutting prices and extending coverage. We are advantaged by having teams who have seen it all before and who will behave accordingly.

The employees have a significant shareholding in the company, whose majority shareholder is the Alchemy Investment Plan. This is a strong business partnership which is well placed to deal with a market that is probably going into freefall. Again.

Elvin Patrick
Chairman
9 April 2008

Chief Executive Officer's Report

Overview

2007 saw the Group make a profit of £14.3 million. This profit is after taking account of the servicing costs of the Preference shares, Investor Loan Notes and Manager Loan Notes issued to the equity shareholders.

Given the claims activity affecting our main trading accounts, the profit from the 2005 year of account of Syndicate 2010 that makes up part of this result, represents an excellent performance by the Cathedral team. The 2006 and 2007 years of account for the Syndicate are likely to return higher absolute underwriting profits, but had little claims activity of substance.

The start of 2007 saw one of the hardest underwriting markets for many years, but probably will be remembered as one of the most rapidly softening thereafter.

The closer relationship between the capital markets and the commercial insurance & reinsurance industry had been hailed as a relationship that would bring more discipline and efficiencies to our market place. In truth it has produced a wave of market entrants offering little to their customers apart from commoditised products that do not entirely fit their needs, sold to meet a technical return requirement regardless of customer, a business model that is likely to be tested going forward.

Market areas that lend themselves to being commoditised have been systematically saturated in the name of diversity. Meanwhile the anticipated market "efficiencies" are being shown through a lack of underwriting discipline that would have previously taken two or three years of softening conditions to arrive at.

The industry has seen a steadily increasing trend in premiums across most classes for seven or eight years. Many of the underwriters now trading have yet to trade in genuinely soft conditions that the structural issues in the "new" market place are accelerating us toward. In addition the plethora of model driven markets have to try to reconcile their entirely quantitative approach with the reality of a genuinely soft market for the first time.

In isolation this situation will only improve when capital and more importantly the number of players who merely add nothing but capacity reduces. At Cathedral we have experienced underwriting teams who have weathered and made decent returns in hostile trading conditions before and have a perfectly sustainable business model. As a result we are better placed than most for what may lie ahead.

Market

There were approximately $61 billion of economic losses resulting from catastrophe losses in 2007, some $25 billion of which were insured. Although an increase on 2006, they again fell below the rising long term average. 2007 was seen by the market place as another 'clean' year. The interesting point to note is that a large proportion of the economic losses did not transfer from the primary insurance market to the reinsurance market, a good example being the UK storms. Regardless of price movements in some areas, retentions of risk by insureds and primary insurers are still largely a function of the hard market conditions flowing through from the large losses in 2005.

The largest losses of 2007 came from Storm Kyrill in January, which affected Northern Europe causing severe disruption, power outages and property damage in the UK, across the Netherlands into Germany and Poland. Total insured losses are estimated at just under $6 billion. June and July saw two significant floods in the U.K, each of these incidents was estimated to have cost insurers in excess of $2 billion. The other major losses of the year were generated by a large system of tornadoes in the Midwest, the California bush fires and floods in Australia, all generating insured losses in excess of $1billion each. Unlike 2006 there were a number of significant smaller losses affecting the aviation, commercial property, space and notably in the last quarter, the casualty market, which is starting to see notifications of potential losses coming from the ongoing 'credit crunch' in the global financial markets. More of this later.

As mentioned earlier, 2007 started with "hard" market conditions as the remaining direct market with US coastal exposure was brought into line with the spike in prices that clients attempting to buy cover in mid 2006 had suffered. Most primary underwriters still retained significant risk across most accounts and most reinsurers in turn ran significant retentions before engaging their own retrocessionaires. Buoyed by confidence of "dodging the bullet" in 2006, more players entered the insurance markets across a variety of segments and existing catatstrophe focussed companies sought diversity away from the US coastal exposures.

Chief Executive Officer's Report

continued

The financial markets also engaged in the catastrophe markets attempting to sell fairly crudely structured products that seemed to work for them better than the clients they were aiming at! Locally at Lloyd's, new entrants with a very variable set of credentials were also admitted to the market to join in the exercise of gaining share into a falling market place.

By mid year many of the primary US insurance carriers had downsized their own coastal exposures and the pressure points of sharply increased demand for cover coupled with a reduced supply that had driven the upturn in trading conditions across the general market place had fallen back into balance. The fallout elsewhere became clearer to see as the year went on, with some market segments seeing dramatic falls in rates and a softening in terms and conditions. Those seeing some of the biggest falls in rating included direct airline business, big ticket commercial property and some of the casualty lines.

Going into the renewal season for 2008 business, there was increased competition in most lines and the reality that if an underwriter threw out a piece of business there was someone ready and waiting to write it at terms he declined. In truth the renewals in many areas held up better than we had expected given the general impetus of the market, however the message and the trend is clear. The reinsurance market has thus far held the line better than some of the direct markets. The issue is that many lines are on a downward trend in terms of pricing and have further to travel absent anything to disturb the status quo. The question is how far.

More concerning is that many companies that are triumphantly reporting on a record 2007, are in accord with most analysts and the rating agencies. They all say that looking into 2008, technical falls in ratings are generally small from a more than adequate base and that most markets are acting in a disciplined manner. Perhaps we trade in a vacuum compared to many of these companies with whom we compete on a daily basis, but we simply cannot be party to their analysis.

Syndicate 2010 and Syndicate 3010

For a detailed description of the trading activities of Syndicate 2010, I would commend to you John Hamblin's Underwriters report in the Syndicate 2010 Annual Report.

The highlight of the three trading years reported upon is achieving a good profit from our 2005 year of account where a record catastrophe year by some distance, heavily impacted both our direct property and reinsurance accounts. To achieve this return given our exposure to this severity and frequency of US catastrophe claims pays a huge compliment to the exposure management skills of the entire syndicate team and bodes very well going into more difficult trading conditions.

2006 and latterly 2007 saw some of the most favourable trading conditions the market place has ever seen. Syndicate 2010 was able to trade reasonably consistently as we had contained our 2005 losses within our own reinsurance coverage and were able to offer long standing clients some measure of continuity by maintaining our lines.

It is likely that Syndicate 2010 will produce a good profit for 2006 and although still substantially on risk 2007 looks likely to deliver a good return. There may well be a number of entities that produce proportionately larger returns but our underwriters elected to maintain a full reinsurance programme and do not have the income bonanza that many took on board since we continued to manage our exposures consistent with the risk profile of our business that we are comfortable with. With hindsight we could have written more business and bought less cover but given a 'normal' claims profile our business would have no different a risk profile to the rest of the market.

During 2006 and through 2007 the landscape of the market changed significantly. We have more participants trading in more areas buoyed by excellent results despite no expansion in the "expertise" pool. Their presence coupled with the readiness of capital markets willingness to forgive and replenish some horrible underwriting performances during 2005 has condensed potentially the most profitable part of the trading cycle down to only 18 months.

Syndicate 2010 has three principal accounts. Our aviation reinsurance account has seen small rate decreases, though in terms of exposure our underwriting position is hardly affected. Interestingly our clients in the direct market have perhaps suffered the most suicidal bout of rating cuts over the last three years where, despite being hugely over capacity, the number of market players has increased by more than 25% driven by the aim to diversify come what may. Their business model is now such than even without major losses it will most likely lose money. Any losses leading to an upward momentum in the direct market would be a good result for our account too.

Our catastrophe reinsurance account has a North American regional bias that by its nature is less volatile in pricing than the commoditised nationwide accounts. Much of our book has a natural protection that lies not only in long term relationships with our clients, but also in the fact that they spend relatively little on reinsurance and thus far have been off the radar of new entrants looking to expand and diversify in relatively few big chunks of premium.

This account got through the year end with single digit reductions in rate coming from a genuinely high base. Absent any major loss activity the nature of the business is that we are likely to see more of the same next year. However the larger accounts are under attack by entities not in the market and anything we throw out is hoovered up by others.

Our direct and facultative account is a different story. Readers will remember that we positioned our book into the relatively well paid US market which from mid 2006 to mid 2007 was offering rating levels at an all time high. This had resulted from the reduction of line sizes by a few of the larger market players causing a shortage of catastrophe exposed capacity. Since we had managed our exposures well during 2005 we were able with the support of our reinsurers to maintain our line structure making us a big player in the arena. In less than twelve months the traditional markets had ramped back up their line structures to the excesses of the past and new competitors, two relatively new businesses in particular, have ruthlessly chased market share to fill their capital base. The result is rate reductions in the order of a third on larger ticket business with volumes of primary business not even seeing the commercial market. Where this particular rollercoaster ends we do not know at present. However we have decreased our income budgets and will look to trade as effectively as we can. Having an experienced team who have successfully made good returns in the past from this type of market is invaluable.

In July 2007 we started a second Syndicate (3010) under our management. The capacity of this Syndicate is provided wholly from our own balance sheet. Syndicate 3010 at present underwrites marine cargo including specie business and is underwritten for us by an established and respected team that transferred from another Lloyd's syndicate. It is very early days so far as claims are concerned, but the team are pleased with the showing of business they have received and we are rapidly integrating their unit into our business. The cargo market is also in a competitive cycle, but our team is an acknowledged market lead and is developing a portfolio of business very close to that envisaged under the business plan when they first joined us.

Both syndicates have highly experienced teams that have traded through difficult conditions, falling markets are nothing new to the teams and they have experience of making profits in tough conditions that could lie ahead.

Lloyd's

In last years report I discussed the changing perception of the Lloyd's market place and how from going backward as a world centre it was likely to move forward. A good reporting year and three acquisitions of Lloyd's businesses later, Lloyd's now seems to feature in the business plan template of most investment bankers, in a sector ripe for consolidation once the wider financial markets have settled. The result for the closing 2005 year of account (a return of 2.6% on capacity) is to be applauded given Lloyd's proportion of exposure to US catastrophe, surplus lines and commercial property business is relatively high and did not have the casualty reserves used by much of the industry to smooth results.

The conclusion of the sale of Equitas to Berkshire Hathaway has now drawn a line under any legacy issues that the market has. Lloyd's has emerged as a well rated (by the agencies) relatively capital friendly place to do business with a wide pool of expertise. It also has the significant benefit of having a comparatively small proportion of the casualty market that must surely come into play as the effects of the "credit crunch" roll inexorably on.

As with the falling market the analyst, brokers and underwriters are all in broad accord, that whatever fallout there may be from the hundreds of billions of losses from various failures and losses from the credit crunch, little of it affects the insurance market and pretty universally none of it directly affects the commentators particular account. As an outside observer it seems to me that the effects of unwinding an overly geared global financial market are far from done and it seems unlikely that the legal profession is likely to let this size of potential prize pass them by without attacking anyone who can be deemed culpable. Although it comprises more than half the global premium base, liability business is something I am pleased that the Lloyd's market has a relatively smaller involvement than its peers.

The advent of the Franchise Board seems to have given a new degree of comfort to investors, though in the real world probably hasn't single handedly led the market to its results as some commentators would have you think. Broadly speaking the market is now used to its reporting systems and guidelines and provides a huge amount of data to the centre, though in some cases one is at a loss to know what meaningful conclusions can be drawn from it.

The one thing that no one can argue is that the value of the Lloyd's franchise continues to grow evidenced by the large amount of potential applications constantly heading to the market. Although a closed shop would be nice in the current trading conditions, we are aware and support the market needs to regenerate and refresh. Most applications have been turned down as they are not felt to be able to meet the standards of the market nor bring anything to it, but we have a few good additions to the market and some tired retreads who have not covered themselves with glory outside the market. These admissions are a great disappointment to anyone in Lloyd's who has worked hard to build the market back to its current status.

Notwithstanding the above, Lloyd's is a good place to trade from and as we move into the falling market place, the Franchise Board too will have to earn its money.

Third Party Portfolio

Going into 2008 the last remaining third party syndicate in our portfolio is Beaufort syndicate 318. The portfolio has reduced in size over time but has consistently made a good contribution to the group result. The closing year of account 2005 saw the third party portfolio produce an overall profit, which given the short tail nature of the underlying books is a first class performance. Going forward the third party portfolio has almost run its course in the group strategy and we now have Syndicate 3010 in which to develop new business lines on a wholly owned basis. I would like to record thanks to the underwriting teams of Beazley, Kiln, Beaufort and Atrium for their good work on our behalf.

Financial Review

The Group has elected to prepare its financial results under International Financial Reporting Standards ("IFRS") to be consistent with the Cathedral Capital Holdings Limited sub-group's financial statements which are required to be prepared under IFRS because that company has issued and listed its four Floating Rate Unsecured Subordinated Loan Notes on the Irish Stock Exchange. That sub-group is required to file its financial statements with the Irish Stock Exchange. Though the Investor Loan Notes issued by Cathedral Capital (Investments) Limited have been listed on the Channel Island Stock Exchange there is no requirement for that company to prepare its financial statements under IFRS. Accordingly all the results of the individual entities of the Group have continued to be reported under UK GAAP.

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

Similar to the 2006 year the Group results benefited from a relatively benign catastrophe year. The consolidated profit on ordinary activities, as reported in the Consolidated Income Statement, was £14.3 million (2006: £0.5 million) which equates to earnings per equity share of £11.56.

	Underwriting Managed £'000	Underwriting External £'000	Total £'000	Corporate £'000	Total £'000
Gross Written Premium	125,860	21,271	147,131	-	147,131
Net Earned Premium *	94,163	755	94,918	(30)	94,888
Net Claims incurred	(47,166)	11,614	(35,552)	-	(35,552)
Acquisition costs	(20,306)	(5,654)	(25,960)	-	(25,960)
Underwriting results	26,691	6,715	33,406	(30)	33,376
Other expenses **	(18,832)	(5,509)	(24,341)	(10,781)	(35,122)
Net investment return	5,513	2,790	8,303	7,027	15,330
Fees, Commissions and other income	-	-	-	5,718	5,718
Profit before tax	13,372	3,996	17,368	1,934	19,302
Tax	(3,497)	(1,063)	(4,560)	(492)	(5,052)
Profit after tax	9,875	2,933	12,808	1,442	14,250
Earnings per equity share	£8.01	£2.38	£10.39	£1.17	£11.56
Return on Equity ***	571%	170%	741%	83%	824%

* included in net earned premiums is net reinsurance to close premiums paid of £18.4 million (2006: a receipt of £9.3 million).

** includes PRP and financing charges which have been allocated to underwriting and corporate according to profitability of the profit centre.

*** Return on equity is based on profit after tax divided by opening shareholders' equity.

As I have said earlier in my report it has been a record result for the Group with the underwriting return being the main contributor to this overall result. However this record underwriting result is not dissimilar to that attained by many in the insurance industry in a year that was categorised by a remarkable lack of significant loss activity.

The insurance and reinsurance contracts underwritten by the syndicates supported by the Company's underwriting subsidiary are earned over the life of a policy normally commencing at the inception of a policy. An earnings pattern is established which reflects the underwriting exposure of the business written. Thus net earned premiums during 2007 include premiums on policies incepting during the year together with estimates for premiums and adjustments to premiums on policies incepting in previous periods.

Chief Executive Officer's Report

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The aggregate combined ratio, which is based on a function of gross or net earned premiums and excludes investment return, of Syndicates 2010 and 3010, at 100% level, is analysed by class of business below:

Managed Syndicates (Syndicates 2010 and 3010) Combined Ratio Analysis

	31 December 2007		31 December 2006	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Non-marine reinsurance	**37.3**	**50.8**	41.0	46.1
Aviation	**51.4**	**64.2**	45.2	57.1
Satellite	**131.0**	**135.3**	28.7	33.9
Direct & facultative property	**27.3**	**35.1**	32.5	35.2
Contingency	**43.2**	**49.8**	47.8	52.7
Cargo	**48.6**	**67.3**	-	-
Other	**46.2**	**46.4**	65.0	64.4
Total claims ratio	**38.0**	**48.8**	40.3	45.5
Expense ratio	**22.6**	**29.7**	22.7	29.2
Combined ratio	**60.6**	**78.5**	63.0	74.7

The aggregate expense ratio is on a UK GAAP basis, as disclosed in the accounts of Syndicates 2010 and 3010, and does not include any exchange gains and losses in the year.

Cathedral's participation on its managed Syndicates was not the same year on year so that the combined ratio at 100% level for these Syndicates is not the same as Cathedral's share of these Syndicates' result. The overall combined ratio for the Group includes its share of managed Syndicates, its share of external syndicates and non underwriting corporate expenses net of other fees and income. The Group's combined ratio is analysed below:

Group Combined Ratio Analysis

	31 December 2007		31 December 2006	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Managed syndicates	**32.4**	**49.7**	27.9	29.4
External syndicates	**(11.4)**	**(12.2)**	19.7	19.4
Total claims ratio	**21.0**	**37.5**	47.6	48.8
Expense ratio:				
Managed syndicates	**15.9**	**26.3**	17.8	22.4
External syndicates	**4.4**	**7.3**	9.7	12.3
Corporate	**10.1**	**16.9**	2.4	3.0
Staff profit-related pay	**4.7**	**7.8**	2.3	2.9
Total expense ratio	**35.1**	**58.3**	32.2	40.6
Combined ratio	**56.1**	**95.8**	79.8	89.4

The corporate expense ratio is net of fees, commissions and other non-investment income. For year end 2007 the gross expense ratio includes approximately 11% (net expense ratio 18.2%) relating to financing charges in respect of the servicing costs for the Preference shares, Investor Loan Notes and Manager Loan Notes issued to the equity investors.

Investment Strategy and Return

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

However, the investment strategy with respect to the Group's funds at Lloyd's reflects the differing investment risk appetite that we have with respect to shareholder funds held to support the Group's underwriting activities. We continue to view the Group's funds at Lloyd's to be more akin to permanent capital rather than being held to meet claims and pay expenses on a day to day basis. We continue to maintain a small equity exposure within these funds, but the majority of the funds remain held in short dated fixed income instruments and cash. The return from funds at Lloyd's for the year was a profit of £5.5 million which equates to a return of 5.6% up from 4.7% a year earlier. An analysis of this return is set out below:

	Average funds at Lloyd's £'000	**Actual return %**	**Actual return £'000**
Equities	3,762	12.2	461
Fixed interest	65,440	5.3	3,500
Alternative investments	5,377	3.4	182
Cash	24,622	5.6	1,389
Total	99,201	5.6	5,532

Financing of borrowings

The Company has paid, on 31 December 2007, dividends on its Preference shares at a rate of 6.44% per annum. The Group has also paid, on the same date, interest on both the Investor Loan Notes and the Manager Loan Notes at a rate of 9.2% per annum. The costs of these have been included within finance costs on the Consolidated Income Statement.

Taxation

The Group tax charge for the year is £5.1 million (2006: £0.2 million) which gives an effective tax rate of 26.2%. A detailed analysis of the composition of this tax figure is set out on Note 14 to the Annual Report.

Earnings per share

All equity shares rank pari passu with regards to distributions by the Group. The Preference shares of the Company and the Manager and Investor Loan Notes of Cathedral Capital (Investments) Limited are entitled to a fixed coupon per annum which has been taken into consideration when calculating the earnings per equity share. The earnings per share for the year are £11.56 up from £1.36 for the Group's initial trading period. The earnings per share are enhanced by 16 pence per share as a result of the equity shares held by the ESOP.

Return on equity

The return on equity for an equity shareholder is 824% for the year. However, these shareholders have also invested in the Preference shares of the Company together with either the Investor or Manager Loan Notes issued by Cathedral Capital (Investments) Limited. After taking account of the service costs of these instruments a return of 18.5% for the year was achieved on the total funds invested in the Group. This return has been enhanced by circa 0.2% as a result of the interests (B ordinary and Preference shares of the Company and Manager Loan Notes issued by Cathedral Capital (Investments) Limited) held by the ESOP.

Dividend

The Company does not intend to declare a final dividend for the year on its equity shares (2006: £nil).

Chief Executive Officer's Report

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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 continued to strengthen during the year which reflects a second consecutive relatively benign catastrophe loss free year to the insurance industry and also the favourable run-off and settlement of the reserves that had been established, by the syndicates supported by the Group, at the previous year end.

The consolidated balance sheet is analysed below and includes the Group's interest in the managed Syndicates and external syndicates at 31 December 2007 as single line items:

	31 December 2007 £'000	31 December 2006 £'000
Intangible assets	**25,200**	31,042
Tangible fixed assets	**744**	928
Group assets used as funds at Lloyd's	**94,770**	101,401
Other investments and cash balances	**27,826**	22,656
Borrowings	**(116,628)**	(117,698)
Unsecured subordinated loan notes	**(38,116)**	(37,904)
Deferred and current taxation	**(21,382)**	(22,027)
Interest in managed syndicates	**40,183**	26,386
Interest in external syndicates	**4,352**	3,861
Net other assets/(liabilities)	**(953)**	(6,899)
	15,996	1,746
Own shares (ESOP)	**(17)**	(17)
Equity shareholders' funds	**15,979**	1,729

The intangible assets comprise amounts for syndicate participations, goodwill and the fair value of in-force business acquired when the Group acquired the Cathedral Capital Holdings Limited sub-group. The value of in-force business acquired has been impaired by £7.4 million during 2007 in line with this business being earned by the Group and it is expected to be fully impaired by the end of 2008. The valuation of the intangible assets has increased through the acquisition of Syndicate 2010 capacity during the 2007 Lloyd's capacity auctions though there has been no change to the carrying value of goodwill. Both of these intangible assets continue to be the subject of annual impairment tests rather than straight line amortisation as was the case under UK GAAP. We have concluded that there was no impairment of these assets at the year end.

The borrowings figures include the Preference shares issued by the Company and the Investor and Manager Loan Notes of Cathedral Capital (Investments) Limited, that are not held by the Cathedral Group's ESOP. These shares and loan notes have been issued to the equity shareholders of the Company. The Investor Loan Notes have been listed on the Channel Islands Stock Exchange. These costs also include the amounts outstanding from the Bank Guaranteed Loan Notes issued by Cathedral Capital (Investments) Limited on its acquisition of the Cathedral Capital Holdings Limited sub-group.

The Group did not issue any new tranches of Unsecured Floating Rate Subordinated Loan Notes during the year. All four Unsecured Floating Rate Notes continue to be listed on the Irish Stock Exchange. Further information on the terms of all of the Floating Rate Notes is set out in Note 25.

The £30 million Letter of Credit ("LOC") that had been retained in the Group's Funds at Lloyds' ("FAL") until the closure of all syndicates supported by the Group for the 2005 underwriting year of account is in the process of being released since the year end. In January 2007 the Group entered into a new LOC agreement with a bank and there is now an LOC for £10 million included within the Group's FAL. This LOC was deposited by way of substitution in the Group's FAL with cash being released from the Group's FAL at the time of deposit.

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

	31 December 2007		31 December 2006	
	Managed £'000	**External £'000**	Managed £'000	External £'000
Cash and investments	**110,268**	**51,217**	84,143	91,791
Debtors - insurance and reinsurance	**43,531**	**11,509**	42,643	22,031
Net technical provisions	**(113,987)**	**(53,725)**	(100,160)	(103,967)
Creditors - insurance and reinsurance	**(8,951)**	**(6,341)**	(9,043)	(8,330)
Other net assets	**9,322**	**1,692**	8,803	2,336
Group's interest	**40,183**	**4,352**	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 unearned premium reserve at 31 December 2007 was £47.1 million (2006: £60.2 million) which subject to normal claims activity on that business should contribute to the profitability of the Group during future years.

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 borrowing figures have also been reduced by the value of these holdings. A more detailed analysis of the ESOP holdings can be found in Note 33.

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 Assessment ("ECA").

Lloyd's then uses each syndicate's ECA as a basis for determining member level Economic Capital Requirement ("ECR"). At the start of 2007 the risk based capital requirement for the Group's underwriting subsidiary was set at 50.9% of underwriting capacity supported. However when Syndicate 3010 was set up in the middle of 2007 the Group was required to deposit additional funds into FAL to support the underwriting activities of this syndicate. For 2008 the Group's FAL requirement has been set at 48.8% of underwriting capacity supported.

Strategy

We have built a sustainable core business that is well equipped to trade through the tougher conditions that we are heading into.

The market has historically been a cyclical one and this vintage has shown a truncated hard market largely down to the number of new entrants, the ease with which they have attracted capital and attempted to commoditise the operating processes.

Looking forward all does not need to be doom and gloom. We do know that there will at some point be a resumption of natural disasters and we do know that insured values in areas susceptible to these continue to grow. We also know that the current wave of new entrants has been driven by excess capital deployed in the financial services sector which is now showing itself to be over leveraged and in need of pulling its horns back in. This in turn may result in liability claims that may cause collateral damage to some companies who have traded on a premium base featuring a high proportion of liability business.

Chief Executive Officer's Report

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Historically, companies in the insurance market having just published record profits will be feeling quite pleased with themselves and have little concern about a reduction in margin, but wider issues in the financial services sector are likely to temper the appetite for widespread recommitment of capital should the new wave of market participants turn out not to meet investors expectations in the near future. In addition, with falling top line across the market, consolidation is likely to take place as waters calm.

At Cathedral we intend to leverage our trading advantages. We have first class underwriters with experience of successfully trading in a falling market place. We have extensive exposure management resource which has served us very well in the past. We will look to add any additional short tail accounts in house style but are not going to be in the business of attempting to build market share in the current market.

As markets toughen the differential between good and bad businesses tends to be highlighted. We will be focussed on making sure our planning for a softening market is realistic and deliverable and will be aiming to use the skills of our team to maintain a healthy trading margin without changing the risk profile of our business so that we are best placed the next time a significant opportunity presents itself.

As usual I would like to thank every member of the Cathedral staff for their contribution to another first class result.

Peter Scales
Chief Executive Officer
9 April 2008

CATHEDRAL
CAPITAL LIMITED

Directors and Advisors

Non Executive Chairman	E E Patrick	
Directors	J A Lynch	
	A Morgan	(resigned 22 January 2007)
	P D Scales	
	D J H Slade	
Company Secretary	J A Lynch	
Auditors	Mazars LLP Tower Bridge House St Katharine's Way London E1W 1DD	
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.

CATHEDRAL
CAPITAL LIMITED

Report of the Directors

The Directors present the annual report and the audited accounts for the year ended 31 December 2007.

Change of Name

On 12 April 2007, the Company's name was changed to Cathedral Capital Limited.

Registered Office

The registered office and principal place of business of the Company is 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 group of companies. On 3 November 2006 Cathedral Capital (Investments) Limited, a wholly owned subsidiary company, made an offer for the Cathedral Capital Holdings Limited group.

On 6 December 2006, Benfield Advisory Limited, on behalf of Cathedral Capital (Investments) Limited, declared the offer 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 £204.9 million (2006: £170.2 million) of capacity for the 2007 year of account of which, £189.2 million (2006: £135.2 million) supported Cathedral Syndicates 2010 and 3010 with the remainder supporting an external third party syndicate. For the 2008 year of account, the Group supports capacity of circa £219 million of which £203.4 million supports Syndicates 2010 and 3010, 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 and Cathedral Syndicate 3010. Syndicate 2010 currently specialises in non-marine and aviation reinsurance and direct and facultative property and contingency business, with premium capacity of around £300 million for the 2007 year of account. The capacity of the Syndicate has been maintained at £300 million for the 2008 year of account. Cathedral Syndicate 2010 has just closed its fifth underwriting year, the 2005 year of account, with a profit.

Cathedral Underwriting Limited set up Syndicate 3010 during 2007 with an initial capacity of £20 million and commenced underwriting on 1 July 2007. The Syndicate currently specialises in marine cargo including specie, fine art and war. The capacity of the Syndicate was increased to £30 million for the 2008 year of account. The Syndicate's sole capital provider is the Group's corporate member.

The managed Syndicates reported an aggregate 2007 calendar year profit of £41.9 million (2006: £46.7 million) which equates to an aggregate net combined ratio for the Syndicates of 78.5% (2006: 74.7%). 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 12.

Report of the Directors

continued

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 on the equity shares for the year (2006: £nil). The Company has paid a dividend at a rate of 6.44% per annum in respect of its preference shares on 31 December 2007.

Future Developments

Details of future plans for the Group are set out in the Chief Executive Officer's Report on pages 3 to 12.

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

There was no change in the share capital of the Company during the year. There are 702,290 A ordinary shares of £0.01, 210,210 B ordinary shares of £0.01 and 337,500 ordinary shares of £0.01 in issue. There are also 39,158,156 preference shares of £1 in issue with each preference share receiving a dividend at a rate of 6.44% per annum.

Directors

The Directors who held office during the period are set out on page 13.

Directors' Interests in Shares

The interests of the Directors and their families in the share capital of the Company as at 31 December 2007 and 31 December 2006 according to the register of directors' interests are as follows:

		31 December 2007 *			31 December 2006	
	B ordinary 1 pence shares	**Ordinary 1 pence shares**	**A ordinary 1 pence shares**	B ordinary 1 pence shares	Ordinary 1 pence shares	A ordinary 1 pence shares
E E Patrick	**9,388**	**9,788**	**-**	9,388	9,788	-
J A Lynch	**21,634**	**33,413**	**-**	21,634	33,413	-
A Morgan	**-**	**-**	**126**	-	-	126
D J H Slade	**-**	**-**	**851**	-	-	851
P D Scales	**21,634**	**33,413**	**-**	21,634	33,413	-

* holding at 31 December 2007 or at date of resignation

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 are set out below:

	31 December 2007 *			31 December 2006		
	Preference £1 share	**Investor Loan Notes £1**	**Manager Loan Notes £1**	Preference £1 shares	Investor Loan Notes £1	Manager Loan Notes £1
E E Patrick	**366,699**	**-**	**733,509**	366,699	-	733,509
J A Lynch	**844,489**	**-**	**1,689,232**	844,489	-	1,689,232
A Morgan	**5,541**	**11,084**	**-**	5,541	11,084	-
D J H Slade	**37,500**	**75,011**	**-**	37,500	75,011	-
P D Scales	**844,489**	**-**	**1,689,232**	844,489	-	1,689,232

* holding at 31 December 2007 or at date of resignation

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 the 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 2007 and 31 December 2006, are:

	B ordinary 1 pence shares	**Preference £1 shares**	**Manager Loan Notes £1**
At 31 December	**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 194 days purchases outstanding at 31 December 2007 (2006: nil days). The number of days outstanding at year end is disproportionately large as invoices in respect of 53% of the expenses charged to the Company were received just before 31 December 2007.

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 have expressed their willingness to continue in office for the coming year.

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.

Elective Resolutions

The Company has passed elective resolutions pursuant to Section 379A of the Companies Act 1985 on 14 June 2007. This dispenses with the need to hold an Annual General Meeting, lodge the report and financial statements before the members of the Company and appoint the auditors annually.

The subsequent implementation of the Companies Act 2006 has now rendered the first two of these resolutions redundant.

Employee Involvement

Details of employees and their remuneration are included in Note 12.

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.

A number of employees have an interest in the shares of the Company and the Manager Loan Notes of Cathedral Capital (Investments) Limited. All full time employees of the Group have a potential interest in the Employee Share Ownership Plan.

Donations

During the year the Group made no charitable or political donations (2006: £nil).

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 all the services provided by the external auditors are set out in Note 11.

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:

				31 December 2007	31 December 2006
	Fees & Salaries £'000	**Benefits in Kind £'000**	**Pensions £'000**	**Total £'000**	Total £'000
E E Patrick	**60**	**1**	**-**	**61**	35
J A Lynch	**775**	**1**	**22**	**798**	33
A Morgan	**-**	**-**	**-**	**-**	-
D J H Slade	**60**	**-**	**-**	**60**	-
P D Scales	**775**	**1**	**22**	**798**	33
	1,670	**3**	**44**	**1,717**	101

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

The Group operates a discretionary profit sharing scheme from which all executive Directors and full time employees of the Group can benefit. The size of the profit related pool created under this scheme is determined annually 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 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 judgments 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.

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 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
9 April 2008

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CATHEDRAL
CAPITAL LIMITED

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 year ended 31 December 2007 which comprise the Consolidated Income Statement, the Statement of Total Recognised Gains and Losses, 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. This other information comprises only the Chairman's Statement, the Chief Executive Officer's Report and the Directors' 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 2007 and of its profit for the year 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 2007;
- 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

Tower Bridge House, St Katharine's Way, London, E1W 1DD

9 April 2008

CATHEDRAL CAPITAL LIMITED

Consolidated Income Statement
For the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £'000	Period from 5 October to 31 December 2006 £'000
Income			
Gross premiums written	5	**147,131**	11,204
Less premiums ceded to reinsurers		**(61,616)**	(2,483)
Net premiums written		**85,515**	8,721
Gross amount of change in provision for unearned premiums		**10,324**	914
Reinsurers' share of change in provision for unearned premiums		**(951)**	(163)
Earned premiums, net of reinsurance		**94,888**	9,472
Fees and commission income	6	**5,705**	116
Investment return	7	**15,330**	1,067
Other income	8	**13**	1
Total income		**115,936**	10,656
Expenses			
Claims paid			
Gross amount	5	**(72,654)**	(9,320)
Reinsurers' share		**21,712**	4,206
Net claims paid		**(50,942)**	(5,114)
Net change in the provision for claims			
Gross amount	5	**39,631**	4,931
Reinsurers' share		**(24,241)**	(3,841)
Net change in the provision for claims		**15,390**	1,090
Claims incurred, net of reinsurance		**(35,552)**	(4,024)
Acquisition costs		**(25,960)**	(2,209)
Other operating expenses	9	**(22,150)**	(2,965)
Operating profits		**32,274**	1,458
Finance costs	10	**(12,972)**	(761)
Profit on ordinary activities before tax		**19,302**	697
Income tax expense	14	**(5,052)**	(201)
Profit on ordinary activities after tax	32	**14,250**	496
Profit attributable to equity shareholders of the parent company		**14,250**	496
Basic earnings per share	16	**£11.56**	£1.36
Diluted earnings per share	16	**£11.56**	£1.36

All activities were in respect of continuing operations.

The Notes on pages 29 to 73 form part of these consolidated financial statements.

Consolidated Balance Sheet
As at 31 December 2007

	Notes	31 December 2007 £'000	31 December 2006 £'000
Assets			
Property, plant and equipment	17	**744**	928
Intangible assets	18	**24,357**	22,781
Fair value of in-force business	19	**843**	8,261
Reinsurance assets	26	**55,314**	86,154
Financial investments	20	**175,521**	205,246
Deferred acquisition costs	26	**10,042**	12,903
Other assets		**1,188**	739
Prepayments and accrued income	22	**7,453**	5,631
Trade and other receivables	23	**60,846**	67,688
Cash and cash equivalents	24	**108,817**	94,745
Total assets		**445,125**	505,076
Equity			
Called up share capital	30	**13**	13
Share premium account	31	**1,237**	1,237
Own shares	33	**(17)**	(17)
Retained earnings		**14,746**	496
Total shareholders' equity	32	**15,979**	1,729
Liabilities			
Borrowings	25	**154,743**	155,602
Insurance contracts	26	**223,024**	290,251
Provision for other liabilities	27	**7,591**	5,877
Deferred tax liabilities	28	**19,946**	18,803
Trade and other payables	29	**20,561**	26,959
Current tax liabilities		**1,436**	3,224
Accruals and deferred income		**1,845**	2,631
Total liabilities		**429,146**	503,347
Total equity and liabilities		**445,125**	505,076

The Notes on pages 29 to 73 form part of these consolidated financial statements.

CATHEDRAL
CAPITAL LIMITED

Company Balance Sheet
As at 31 December 2007

	Notes	31 December 2007 £'000	31 December 2006 £'000
Assets			
Investments in subsidiary undertakings	21	**40,408**	40,408
		40,408	40,408
Trade and other receivables	23	**9,575**	4
Total assets		**49,983**	40,412
Equity			
Called up share capital	30	**13**	13
Share premium	31	**1,237**	1,237
Profit and loss reserve	31	**9,175**	(146)
Total shareholders' equity	32	**10,425**	1,104
Liabilities			
Borrowings	25	**39,158**	39,158
Trade and other payables	29	**61**	-
Overdraft		**75**	-
Accruals and deferred income		**264**	150
Total liabilities		**39,558**	39,308
Total equity and liabilities		**49,983**	40,412

The financial statements on pages 24 to 73 were approved by the Board of Directors and authorised for issue on 9 April 2008 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 73 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2007

	Balance at 1 January 2007 £'000	Profit for the year £'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**	**14,250**	**14,746**
Total shareholders' equity	**1,729**	**14,250**	**15,979**

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 Company which are held by the Group's ESOP.

The Notes on pages 29 to 73 form part of these consolidated financial statements.

CATHEDRAL
CAPITAL LIMITED

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £'000	Period from 5 October to 31 December 2006 £'000
Cash generated from operations	37	**(5,109)**	(817)
Interest received		**12,187**	873
Dividends received		**260**	6
Interest paid		**(10,830)**	(517)
Preference share dividends paid		**(2,660)**	-
Income taxes paid		**(5,697)**	-
Net cash from operating activities		**(11,849)**	(455)
Investing activities			
Purchase of investments		**(237,100)**	(19,679)
Proceeds from disposal of investments		**269,705**	27,108
Purchase of syndicate capacity		**(1,576)**	-
Purchase of property, plant and equipment		**(31)**	(1)
Net cash used in investing activities		**30,998**	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
Sale of own shares by ESOP		**112**	-
Acquisition of subsidiary*		**(4,778)**	(87,189)
Cash acquired from subsidiary		**-**	81,389
Net cash from financing activities		**(4,666)**	87,772
Net increase in cash and cash equivalents		**14,483**	94,745
Cash and cash equivalents at beginning of the year		**94,745**	-
Effect of exchange rate fluctuations on cash and cash equivalents		**(411)**	-
Cash and cash equivalents at end of the year	24	**108,817**	94,745

*The cashflows in 2007 classed as acquisition of subsidiary relate to the acquisition of the Cathedral Capital Holdings Limited group in 2006.

The Notes on pages 29 to 73 form part of these consolidated financial statements.

Notes to the Financial Statements
For the year ended 31 December 2007

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 15. 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), and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

(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 year ended 31 December 2007. 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 for the same reporting year 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.

c) *Changes to International Financial Reporting Standards*

In the current year, the Group has adopted IFRS 7, "Financial Instruments: Disclosures" and the related amendments to IAS 1, "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to increase the disclosures provided in the consolidated financial statements regarding financial instruments and the Group's management of capital.

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

At the date of authorisation of these financial statements, IFRS 8, "Operating Segments", had been published but was not yet effective. Furthermore, the following interpretations have also been published but are not yet effective:

(i) IFRIC 11, IFRS 2: "Group and Treasury Share Transactions";
(ii) IFRIC 12: "Service Concession Arrangements"; and
(iii) IFRIC 14, IAS 19: "The Limit of Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

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

Notes to the Financial Statements
For the year ended 31 December 2007

continued

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. Syndicates 2010 and 3010 are 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 year, together with adjustments made in the year to premiums written in previous accounting periods. All premiums are gross of commission payable to intermediaries.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured by the syndicates. This includes both the 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 year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate. Estimates are based on managing agent's estimates of the exposures of the underlying business written.

(iii) *Claims incurred*

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

(iv) *Outstanding claims provisions*

The outstanding claims comprise amounts set aside for claims notified by the balance sheet date and IBNR.

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 Syndicates 2010 and 3010, 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.

(v) *Reinsurance*

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

If a reinsurance asset is impaired, the 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 Syndicates. 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 year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the Consolidated 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 are 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 syndicate's 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 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.

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 classifies its financial assets held for investment purposes as designated at fair value through profit and loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management. The fair values of quoted financial investments are based on 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 its 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 year. 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.

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

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

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

4.1 Insurance risk

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

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

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy 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 over 90% of the value of the Group's current underwriting portfolio is on its managed Syndicates, 2010 and 3010, 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 the managed Syndicates can be affected by several factors and these can impact the Group.

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

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

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

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

For externally managed syndicates, the Group relies on their managing agents to identify key risks and manage them accordingly.

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 managed Syndicates, the key underwriting risks include unknown / unexpected accumulations, the risk of extreme losses, frequency of major loss, 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 the managed Syndicates are short tail in nature and whilst the US Terror Attacks in 2001 showed that short tail classes are not immune from unknown/unexpected accumulations the threat of this occurring is probably more pronounced in the liability fields. By and large the insurances and reinsurances provided by the managed Syndicates are of a well tested nature. More crucially, the approach taken to risk management is heavily aggregate driven. The managed Syndicates continually seek to model their portfolio of accounts in order to identify hot-spots or accumulations and to monitor the aggregates of the Syndicates, 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 managed Syndicates 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 the managed Syndicates (unlike direct insurance) provide policyholders with defined cover by way of both limits and number of reinstatements, the development of the direct and facultative account and marine cargo gives rise to very large assured values which are vulnerable to failures in PML assumptions. Also, the managed Syndicates could be vulnerable to significant failure amongst their own reinsurers.

For the managed Syndicates, the key controls rest on the strict recording of aggregate exposures and modelling work carried out on these numbers utilising various risk modelling systems and approaches. The managed Syndicates also purchase reinsurance programmes for each of their key accounts, and structure the programmes to limit the exposure to any single reinsurer.

c) Frequency of major loss

The managed Syndicates are vulnerable to a high frequency of major loss.

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

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

Despite this risk, most coverages utilised are fairly standard. Slip checking has always been part of the underwriting process. Furthermore, the Group's independent review director reviews a sample of risks written and as part of his review looks at wordings to identify inconsistencies between slips and wordings. The advent of contract certainty has further mitigated this risk and the managed Syndicates are committed to ensure they meet 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 the managed Syndicate's accounts, deductible levels tend to be the crucial driver, like all insurers the overall account written needs to develop sufficient income to pay for the attritional losses which would typically attach to the type of business it writes, to pay for the reinsurance programme which is required to protect and/or mitigate the impact of catastrophes and to meet all expenses, whilst leaving sufficient money to produce a profit to capital providers, given normal loss experience.

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

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

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

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

Each managed Syndicate prepares an annual business plan which sets out the premium income to be written, by class of business. This plan is monitored on a continuous basis throughout the year. Line limits for each underwriting team are pre agreed as are the line limits that can be deployed on each risk/programme. These limits are monitored throughout the year.

All risks underwritten on behalf of the managed Syndicates 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 managed Syndicates.

All property risks underwritten by the managed Syndicates are modelled in a timely fashion with underlying exposure information being recorded. This output is used to build up aggregates by class of business, broad risk types and geographical location. Aggregate reports by class of business and geographical zone are presented to the managing agency's Syndicate board monthly and these are monitored against those that had been expected per the managed Syndicates business plans. A bespoke aggregation system for the aviation account is also used to monitor exposures.

The managed Syndicates have a defined event risk appetite. Best efforts are made to restrict the maximum gross and net loss that the managed Syndicates may retain/lose for any single major catastrophe event to be 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. The managed Syndicates model various loss scenarios and also prepare prescribed RDS which seek to analyse and quantify their exposures to certain specified events, and the managed Syndicates endeavour to ensure that their potential loss exposures remain within Franchise Board Guidelines.

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 the managed Syndicates, 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

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

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

b) Collapse of the retrocession market

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

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

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

c) Lack of availability of reinsurance cover on acceptable terms

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

4.1.5 Reserving risk

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

Reserves for claims liabilities do not represent an exact calculation of liability. Rather, reserves are estimates of what the 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 externally 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 managed Syndicates and the Group's share of externally managed syndicates.

Group's share of managed Syndicates

The Group uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The managed Syndicates write relatively short-tail accounts, 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 them and, more importantly, catastrophic 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.

The managed Syndicates also have a catastrophe element to their accounts, giving the accounts exposure to large but relatively less frequent losses. When setting assumptions and projecting claims liabilities, this means that the underwriters will tend to know whether or not a loss large enough to materially impact the account has happened (e.g. severe windstorms, earthquakes, aircraft losses). However, such losses may have varying levels of complexity which can make the projection of some losses more difficult. 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 managing agents of the external syndicates and is also reliant upon the assumptions and calculations used by those agents when setting their claims liabilities. Nonetheless, all 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 the managed Syndicates 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 the managed Syndicates, 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.

If the provision for net outstanding claims deteriorated by 1%, the impact would equate to a pre tax decrease on net assets of £1,204,000 (2006: £1,437,000).

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 the claims ratio for each underwriting year of the managed Syndicates have 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 2007 are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Managed Syndicates loss ratio development table (whole account)

Underwriting Year - Gross	2001	2002	2003	2004	2005	2006	2007
12 months	181%	46%	50%	88%	157%	28%	27%
24 months	141%	34%	29%	76%	121%	35%	
36 months	148%	30%	27%	76%	115%		
48 months	143%	29%	26%	73%			
60 months	139%	29%	25%				
72 months	137%	29%					
84 months	136%						

Underwriting Year - Net	2001	2002	2003	2004	2005	2006	2007
12 months	93%	58%	53%	69%	88%	39%	59%
24 months	79%	44%	32%	56%	73%	45%	
36 months	74%	37%	29%	56%	67%		
48 months	70%	36%	28%	53%			
60 months	68%	36%	28%				
72 months	68%	35%					
84 months	66%						

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 managed Syndicates

Underwriting Year - Gross	2005	2006	2007	Total
	£'000	£'000	£'000	£'000
Total gross claims (pure year)	127,354	40,549	33,400	201,303
Gross RITC accepted	45,742	-	-	45,742
Movements in prior years	(3,174)	-	-	(3,174)
Less paid claims	(111,642)	(21,564)	(7,560)	(140,766)
Gross claims liabilities	58,280	18,985	25,840	103,105
Plus external syndicates				67,916
				171,021

Underwriting Year - Net	2005	2006	2007	Total
	£'000	£'000	£'000	£'000
Total net claims	54,947	39,678	32,443	127,068
Net RITC accepted	18,297	-	-	18,297
Movements in prior years	(2,991)	-	-	(2,991)
Less paid claims	(42,706)	(21,248)	(7,201)	(71,155)
Net claims liabilities	27,547	18,430	25,242	71,219
Plus external syndicates				49,147
				120,366

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 the managed Syndicates, 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 2007.

(ii) Changes in assumptions and sensitivity analysis

There have been no changes in assumptions for determining the provision for unearned premiums in respect of the managed Syndicates. 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 that is unearned of 1 percentage point would equate to an adjustment of £1,471,000 to the unearned premium provision (2006: £118,000).

4.2 Credit risk

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

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

With respect to the managed Syndicates, 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 the managed Syndicates and reduced the amounts due from reinsurers and reinsurers' share of insurance liabilities for this. Where the managed Syndicates have 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 the managed Syndicates. 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 the managed Syndicates, 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 investment committee.

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

With respect to the managed Syndicate's investments and Group's corporate investments, detailed requirements regarding asset diversification and concentration limits are set out in the investment mandates.

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 managed Syndicates only.

At 31 December 2007	**A++ to A-**	**B++ to B-**	**Unrated**	**External Syndicates***	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial investments	**129,570**	**-**	**8,079**	**37,872**	**175,521**
Insurance receivables	**32,449**	**211**	**10,870**	**11,509**	**55,040**
Reinsurance assets	**31,793**	**75**	**4,451**	**18,995**	**55,314**
Cash and cash equivalents	**95,211**	**-**	**261**	**13,345**	**108,817**
	289,023	**286**	**23,662**	**81,721**	**394,692**

At 31 December 2006	A++ to A-	B++ to B-	Unrated	External Syndicates*	Total
	£'000	£'000	£'000	£'000	£'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 (circa £1.3 million). Also, a large element of the reinsurance assets relating to Cathedral's share of managed Syndicates are in respect of attritional IBNR losses and have not been allocated to any specific reinsurer.

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4.3 Liquidity risk

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

Claims arising from insurance contracts are settled by the syndicates using their own funds. Where insufficient liquid funds exist, the syndicates can cash call the Names supporting them and can ultimately draw down from the Names' funds at Lloyd's. With respect to the managed Syndicates, the funds are held in cash or in short-term, liquid stocks which are able to be converted to cash within a few days. 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. At 31 December 2007, the Group however had £26.7 million of cash available for use (2006: £20.8 million) 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 the managed Syndicates have a short duration and so foreseeable changes in market interest rates would not be expected to have a significant impact on their value. 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.

Except for the Preference shares and Manager/Investor Loan Notes, all borrowings are 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 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 2007	**< 1 year £'000**	**1-3 years £'000**	**4-5 years £'000**	**> 5 years £'000**	**External Syndicates* £'000**	**Total £'000**
Debt securities	**73,771**	**55,799**	**-**	**-**	**37,323**	**166,893**
Cash and cash equivalents	**95,472**	**-**	**-**	**-**	**13,345**	**108,817**
Borrowings	**(1,139)**	**(38,116)**	**-**	**(115,488)**	**-**	**(154,743)**
	168,104	**17,683**	**-**	**(115,488)**	**50,668**	**120,967**

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 2007	31 December 2006
Debt Securities	**5.2%**	5.0%
Cash and cash equivalents	**4.4%**	5.0%
Borrowings	**8.4%**	8.3%

An increase in market interest rates of 1 percentage point would equate to a pre tax decrease on net assets of £754,000 (2006: £751,000). This has been calculated by revaluing the assets and liabilities that would be affected by a movement in market interest rates.

4.4.2 Equity price risk

The Group holds some equity investments on its 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.

Based on the year end value of equities and alternative investments, a decrease in the FTSE All Share Index of 10 percentage points would equate to a pre tax decrease on net assets of £808,000 (2006: £1,029,000).

4.4.3 Currency risk

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

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

The table that follows shows the currency split of the corporate side of the Group's assets and liabilities and the Group's share of managed Syndicate's assets and liabilities. Information in respect of the Group's share of the external syndicates is not available.

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

As at 31 December 2007	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	744	-	-	-	-	744
Intangible assets	24,357	-	-	-	-	24,357
Fair value of in-force business	843	-	-	-	-	843
Reinsurers' share of technical provisions	4,125	252	31,444	499	18,994	55,314
Financial investments	52,984	13	76,736	7,915	37,873	175,521
Deferred acquisition costs	1,265	384	6,754	701	938	10,042
Other assets	-	-	-	-	1,188	1,188
Prepayments and accrued income	7,254	-	2	-	197	7,453
Trade and other receivables	8,474	2,957	32,737	1,378	15,300	60,846
Cash and cash equivalents	27,820	14,190	50,272	3,191	13,344	108,817
Total assets	**127,866**	**17,798**	**197,945**	**13,684**	**87,834**	**445,125**

As at 31 December 2007	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*	(34,235)	(2,370)	40,304	6,423	4,624	14,746
Total shareholders' equity	**(33,002)**	**(2,370)**	**40,304**	**6,423**	**4,624**	**15,979**
Liabilities						
Borrowings	116,627	8,903	29,213	-	-	154,743
Insurance contracts	22,642	8,200	112,693	7,042	72,447	223,024
Provision for other liabilities and charges	7,591	-	-	-	-	7,591
Deferred tax liabilities	19,946	-	-	-	-	19,946
Trade and other payables	2,779	155	6,972	221	10,434	20,561
Current tax liabilities	1,436	-	-	-	-	1,436
Accruals and deferred income	1,513	-	3	-	329	1,845
Total liabilities	**172,534**	**17,258**	**148,881**	**7,263**	**83,210**	**429,146**
Total equity and liabilities	**139,532**	**14,888**	**189,185**	**13,686**	**87,834**	**445,125**
Impact of 10% currency movement: **						
2007	**-**	**54**	**4,906**	**642**	**-**	**5,602**
2006	-	106	1,766	559	-	2,431

* The retained earnings by currency are the cumulative underwriting profits of the managed Syndicates which include an element of pre acquisition retained earnings. The difference is within sterling.

** This is the pre tax impact on net assets of a decrease in the US dollar, Canadian dollar and euro against sterling by 10%, with all other variables constant. This is based on the above currency split, but excludes the impact of externally managed syndicates.

5 Segmental reporting

Analysis of Consolidated Income Statement by Business Segments

					For the period ended 31 December 2007
	Managed Syndicates £'000	External Syndicates £'000	Corporate £'000	Elimination £'000	Total £'000
Income					
Gross premiums written	125,860	21,271	-	-	147,131
Less premiums ceded to reinsurers	(30,306)	(31,310)	-	-	(61,616)
Net premiums written	95,554	(10,039)	-	-	85,515
Gross amount of change in provision for unearned premiums	(2,257)	12,581	-	-	10,324
Reinsurers' share of change in provision for unearned premiums	866	(1,787)	(30)	-	(951)
Net earned premiums	94,163	755	(30)	-	94,888
Fees and commission income - external	-	-	5,705	-	5,705
Fees and commission income - inter-segment sales	-	-	1,113	(1,113)	-
Investment return	5,513	2,790	7,027	-	15,330
Other income	-	-	13	-	13
Total income	99,676	3,545	13,828	(1,113)	115,936
Expenses					
Claims paid					
Gross amount	(44,245)	(28,409)	-	-	(72,654)
Reinsurers' share	12,167	9,545	-	-	21,712
Net claims paid	(32,078)	(18,864)	-	-	(50,942)
Net change in the provision for claims					
Gross amount	(6,744)	46,375	-	-	39,631
Reinsurers' share	(8,344)	(15,897)	-	-	(24,241)
Net change in the provision for claims	(15,088)	30,478	-	-	15,390
Claims incurred, net of reinsurance	(47,166)	11,614	-	-	(35,552)
Acquisition costs	(20,306)	(5,654)	-	-	(25,960)
Other operating expenses	(4,723)	(1,293)	(17,334)	1,200	(22,150)
Operating profits	27,481	8,212	(3,506)	87	32,274
Finance costs	-	-	(12,972)	-	(12,972)
Profit on ordinary activities before tax	27,481	8,212	(16,478)	87	19,302
Income tax expense	(7,502)	(2,349)	4,825	(26)	(5,052)
Profit on ordinary activities after tax	19,979	5,863	(11,653)	61	14,250
Profit attributable to equity shareholders of the parent company	19,979	5,863	(11,643)	61	14,250

5 Segmental reporting *continued*

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 year amounted to £214,000 (period ended 31 December 2006: £15,000) and related to the corporate segment only. No amortisation was charged during the year. £7,418,000 of impairment was recognised during the year (period ended 31 December 2006: £1,765,000).

5 Segmental reporting *continued*

Analysis of Consolidated Balance Sheet

At 31 December 2007	Managed Syndicates £'000	External Syndicates £'000	Corporate £'000	Elimination £'000	31 December 2007 Total £'000
Total assets	**201,634**	**87,881**	**200,011**	**(44,401)**	**445,125**
Total liabilities	**(201,634)**	**(87,881)**	**(184,032)**	**44,401**	**(429,146)**
Net assets	**-**	**-**	**15,979**	**-**	**15,979**
Capital expenditure	**-**	**-**	**1,607**	**-**	**1,607**

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)
Net assets	-	-	1,729	-	1,729
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

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
Managing agency fees	**810**	51
Profit commission	**4,895**	65
	5,705	116

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For the year ended 31 December 2007

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7 Investment return

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
Syndicate investments		
Investment income - interest	**6,267**	577
Realised investment gains / (losses)	**2,036**	(49)
Net investment return on syndicate investments	**8,303**	528
Funds at Lloyd's		
Investment income - interest	**4,511**	331
Investment income - dividends	**254**	6
Realised investment gains	**819**	1
Net fair value (losses) / gains on assets at fair value through the income statement	**(52)**	115
Net investment return on funds at Lloyd's investments	**5,532**	453
Cash and other investments		
Investment income - interest	**1,495**	88
Realised (losses)	**-**	(42)
Net fair value gains on assets at fair value through the income statement	**-**	40
Net investment return on other investments	**1,495**	86
Net investment return	**15,330**	1,067

8 Other income

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
Other income - fees	**13**	1

9 Other operating expenses

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
Syndicate operating expenses	**4,524**	462
Names' personal expenses on Lloyd's syndicates	**4,277**	262
Corporate expenses	**16,687**	2,583
(Profit) on foreign exchange	**(3,338)**	(342)
Total	**22,150**	2,965

10 Finance costs

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
Interest expense on:		
Unsecured Floating Rate Subordinated Notes	**3,293**	232
Loan Notes	**7,111**	388
Guaranteed loan notes	**84**	3
Other	**4**	3
Dividends on Preference shares	**2,480**	135
	12,972	761

Unsecured Floating Rate Subordinated Notes are measured at amortised cost.

11 Profit on ordinary activies before taxation

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
The profit on ordinary activities before taxation is stated after charging:		
Net foreign exchange (gains)	**(3,338)**	(342)
Operating lease charges - rent	**30**	3
Depreciation of tangible fixed assets	**214**	15
Impairment of value of in-force business	**7,418**	1,765
Fees payable to the auditor for:		
Audit of the Group annual accounts	**97**	20
Audit of the Company's annual accounts	**22**	10
Technical advice	**12**	-
Taxation services	**81**	2
Employee services	**9**	-
Advisory services	**81**	-

Mazars LLP received no further fees in the year. Fees paid to Mazars LLP in respect of the issue of the Floating Rate Subordinated Notes of Cathedral Capital Holdings Limited are charged to the Consolidated Income Statement as part of the finance cost.

12 Employees

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
The aggregate payroll costs borne by the Corporate Group were as follows:		
Salaries	**7,021**	592
Social security costs	**895**	76
Pension costs under defined contribution plans	**78**	7
	7,994	675

The average number of people (excluding non-executive directors) employed by the Group during the year was 45 (2006: from the date that the Cathedral Capital Holdings Limited Group was acquired, was 43). Of this, 25 were underwriting and claims (2006: 23) with the remainder of employees involved in operations, administration and finance.

Notes to the Financial Statements
For the year ended 31 December 2007

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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

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
(a) Analysis of charge in the period		
Current tax		
Corporation tax at 30%	**4,435**	(184)
Adjustments in respect of previous periods	**(590)**	-
Overseas tax	**64**	2
Total current tax charge	**3,909**	(182)
Deferred taxation		
Underwriting profits	**3,231**	1,016
Investment losses	**(44)**	10
Timing differences on accelerated capital allowances	**-**	2
Additional tax losses	**139**	49
Other timing differences	**(2,183)**	(694)
Total deferred tax charge	**1,143**	383
Tax charge	**5,052**	201
(b) Factors affecting the tax charge for the period		
Profit on ordinary activities before tax	**19,302**	697
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**5,789**	210
Expenses not deductible for tax purposes	**881**	41
Change in tax rates	**(855)**	-
Timing differences	**(103)**	(96)
Investment income received net of tax	**(53)**	(3)
Investment income not taxable	**(27)**	(3)
Movement in tax losses	**(58)**	51
Overseas tax	**64**	1
Prior period adjustments	**(586)**	-
Total current tax charge	**5,052**	201

(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 Profit/(loss) attributable to members of the parent company

The profit dealt with in the accounts of the Company (as prepared under UK GAAP) was £9,321,000 (2006: loss of £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.

16 Earnings per share

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
The basic earnings per share is calculated as follows:		
Profit for the period (£'000)	**14,250**	496
Diluted weighted average number of shares (no.)*	**1,232,946**	364,280
Diluted earnings per share (£)	**11.56**	1.36

* 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 1 January 2007	29	607	536	210	1,382
Additions	-	28	3	-	31
Disposals	-	(1)	-	-	(1)
At 31 December 2007	29	634	539	210	1,412
Depreciation					
At 1 January 2007	2	386	66	-	454
Charge for the year	6	104	104	-	214
Disposals	-	-	-	-	-
At 31 December 2007	8	490	170	-	668
Net book value					
At 31 December 2007	21	144	369	210	744
At 1 January 2007	27	221	470	210	928

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

18 Intangible assets

	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 January 2007	**22,481**	**300**	**22,781**
Additions in the year	**1,576**	**-**	**1,576**
Cost at 31 December 2007	**24,057**	**300**	**24,357**

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

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

Having considered the future prospects of the Lloyd's insurance market, the Board believe that the 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:

As at 31 December 2007	Managed Syndicate £'000	External Syndicates £'000	Corporate £'000	Total £'000
Goodwill	**-**	**-**	**300**	**300**
Syndicate capacity	**22,921**	**1,136**	**-**	**24,057**

As at 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. A 1% increase in the discount rate used would not result in any impairment to the intangible assets.

Value in use for Goodwill is based on only those employees who spend some or all of their time working on the corporate part of the 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 1 January 2007	**10,026**
Additions	**-**
Cost at 31 December 2007	**10,026**
Impaired amount	
Cost at 1 January 2007	**1,765**
Impairment charge in the year	**7,418**
Impaired at 31 December 2007	**9,183**
Net value	
At 31 December 2007	**843**
At 1 January 2007	**8,261**

A deferred tax liability of £253,000 exists in respect of this in-force business (31 December 2006: £2,478,000).

20 Financial investments

The Group's financial investments consist of:

	31 December 2007 Market value £'000	31 December 2007 Cost £'000	31 December 2006 Market value £'000	31 December 2006 Cost £'000
Corporate				
Shares and other variable yield securities	**3,609**	**3,217**	4,502	4,232
Alternative investments	**4,470**	**3,806**	5,792	4,857
Debt and other fixed income securities	**44,905**	**44,905**	49,683	49,775
Total investments - Corporate	**52,984**	**51,928**	59,977	58,864
Syndicate participations				
Shares and other variable yield securities	**-**	**-**	12,305	12,305
Debt securities and other fixed interest securities	**121,988**	**115,776**	129,961	129,878
Deposits with ceding undertakings	**41**	**41**	62	62
Other loans and investments	**508**	**508**	2,941	2,941
Total investments - Syndicate participations	**122,537**	**116,325**	145,269	145,186
Group financial investments	**175,521**	**168,253**	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, £52,984,000 (2006: £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, though for the most part they do have a degree of equity exposure.

The Company holds no financial investments.

21 Investments in subsidiary undertakings

	31 December 2007 £'000
Cost	
At 1 January 2007	**40,408**
Additions during the year	-
At 31 December 2007	**40,408**

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		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. Furthermore, Cathedral Capital Management Limited ceased to trade from 1 January 2008.

All companies are registered and operate in England.

22 Prepayments and accrued income

	Group 31 December 2007 £'000	Group 31 December 2006 £'000
Accrued income - investments	**2,062**	1,992
Accrued income - underwriting	**4,852**	2,534
Prepayments	**539**	1,105
	7,453	5,631

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

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23 Trade and other receivables

	Group 31 December 2007 £'000	Group 31 December 2006 £'000	**Company 31 December 2007 £'000**	Company 31 December 2006 £'000
Arising out of direct insurance operations	**15,919**	21,820	**-**	-
Arising out of reinsurance operations	**39,121**	42,854	**-**	-
Tax recoverable	**-**	137	**-**	4
Amounts owed by managed syndicates	**488**	90	**-**	-
Amounts owed by Group undertakings	**-**	-	**9,575**	-
Debtors within the ESOP	**-**	112	**-**	-
Other receivables	**5,318**	2,675	**-**	-
	60,846	67,688	**9,575**	4

Of the amounts due from managed syndicates, £nil (2006: £nil) is due in more than one year.

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

24 Cash and cash equivalents (Group)

	Group 31 December 2007 £'000	Group 31 December 2006 £'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	**69,155**	68,632
Overdraft	**(268)**	-
Short term investments	**39,930**	26,113
	108,817	94,745
Cash and cash equivalents consist of:		
Cash and cash equivalents held by syndicates	**38,948**	30,665
Cash and cash equivalents held within funds at Lloyd's	**41,786**	41,424
Cash and cash equivalents held by ESOP	**257**	-
Cash and cash equivalents held for the guaranteed loan note holders	**1,139**	1,814
Cash and cash equivalents available for use by the Group	**26,687**	20,842
	108,817	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 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 2007 £'000	Group 31 December 2006 £'000	**Company 31 December 2007 £'000**	Company 31 December 2006 £'000
Unsecured Floating Rate Subordinated Notes	**38,116**	37,904	**-**	-
Preference shares	**38,492**	38,492	**39,158**	39,158
Loan Notes	**76,996**	76,996	**-**	-
Guaranteed loan notes	**1,139**	2,210	**-**	-
	154,743	155,602	**39,158**	39,158

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

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

Unsecured Floating Rate Subordinated Notes

During 2004, two Unsecured Floating Rate Subordinated Notes Due 2034 were issued by Cathedral Capital Holdings Limited. Both Notes were listed on the Irish Stock Exchange effective from 12 January 2005.

(i) Eur 12,000,000 Floating Rate Subordinated Notes were issued on 18 November 2004 and pay interest at a variable interest rate equal to the rate for three month deposits in euro plus a margin of 3.75% per annum. The Company 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. The Company 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 Unsecured Floating Rate Subordinated Notes Due 2035 were issued by Cathedral Capital Holdings Limited. These Notes were listed on the Irish Stock Exchange effective from 1 July 2005 and 1 March 2006.

(i) US$ 25,000,000 Floating Rate Subordinated Notes were issued on 13 May 2005 and pay interest at a variable interest rate equal to the rate for three months deposits in US Dollars plus a margin of 3.25% per annum. The Company 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. The Company 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 during 2007 in respect of the Unsecured Floating Rate Subordinated Notes was £3,293,000 (period ended 31 December 2006: £232,000).

Although the Unsecured Floating Rate Subordinated Notes are listed, they are thinly traded as they are sold into CDO pools after which there is no readily available quoted market price for these Unsecured Floating Rate Subordinated Notes. The fair values of the borrowings are therefore based on a discounted cash flow model based on a yield curve appropriate for the remaining 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 year ended 31 December 2006 was £7,111,000 (period ended 31 December 2006: £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 year ended 31 December 2007 was £2,480,000 (period ended 31 December 200: £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 the Company, 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 the 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. 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. During the year, £1,071,230 of the GLN were repaid.

The amount of interest charged in respect of the bank guaranteed loan notes for the year ended 31 December 2007 was £84,000 (period ended 31 December 2006: £3,000).

Facilities

The corporate Group has undrawn bank overdraft facilities of £3 million (2006: £3 million). The syndicates also have borrowing facilities in order to meet their 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 2007 £'000	31 December 2006 £'000
Gross		
Claims outstanding	**171,021**	223,742
Provision for losses foreseen on open years	**271**	267
Provision for unearned premiums	**51,732**	66,242
	223,024	290,251
Recoverable from reinsurers		
Claims outstanding	**50,655**	80,081
Provision for unearned premiums	**4,659**	6,073
	55,314	86,154
Net	**167,710**	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. During 2007, one of the syndicates closed, and so there is only one remaining syndicate on which the Group participates which is in run-off. This relates to the 2000 year of account. The Group has used information available in respect of this syndicate 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	Total £'000
Gross				
Provision at 1 January 2007	223,742	267	66,242	290,251
Additional provisions made in the year	56,939	40	48,954	105,933
Amounts used in the year	(85,517)	2	(59,278)	(144,793)
Unused amount reversed during the year	(11,053)	(38)	-	(11,091)
Exchange differences	(13,090)	-	(4,186)	(17,276)
Provision at 31 December 2007	171,021	271	51,732	223,024

	Claims outstanding £'000	Provision for unearned premiums £'000	Total £'000
Reinsurance assets			
Provision at 1 January 2007	80,081	6,073	86,154
Additional provisions made in the year	1,937	4,612	6,549
Amounts used in the year	(23,734)	(5,563)	(29,297)
Unused amount reversed during the year	(2,443)	-	(2,443)
Exchange differences	(5,186)	(463)	(5,649)
Provision at 31 December 2007	50,655	4,659	55,314

26.2 Movement in deferred acquisition costs

	£'000
Provision at 1 January 2007	12,903
Additional provisions made in the year	9,743
Amounts used in the year	(12,604)
Unused amount reversed during the year	-
Provision at 31 December 2007	10,042

27 Provisions for other liabilities

	Provision in respect of profit sharing scheme £'000
Provision at 1 January 2007	**5,877**
Charge for the year	**7,395**
Utilised in the year	**(5,681)**
Provision at 31 December 2007	**7,591**

The Group operates a profit sharing scheme from which all executive directors and full time employees of the Group can benefit. The size of this profit related pool created under this scheme is determined annually and is equal to 15 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 £6,950,000 (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 2007 £'000	31 December 2006 £'000
Declared underwriting profits	**3,753**	6,619
Annually accounted profits	**9,329**	3,229
Provisions for future underwriting losses	**(82)**	(80)
Deferred tax on investment gains	**317**	361
Accelerated capital allowances	**34**	34
Tax losses carried forward	**(60)**	(198)
Other timing differences	**6,655**	8,838
Provision for deferred tax	**19,946**	18,803

Provision for deferred tax at start of year	**18,803**
Deferred tax charge in Consolidated Income Statement for year	**1,143**
Provision for deferred tax at end of year	**19,946**

Unprovided deferred tax assets for the Group were £nil at 31 December 2007 (31 December 2006: £nil).

The Company had no deferred tax assets or liabilities at 31 December 2007 (31 December 2006: £nil).

All deferred tax assets are considered to be recoverable.

Notes to the Financial Statements
For the year ended 31 December 2007

continued

29 Other creditors

	Group 31 December 2007 £'000	Group 31 December 2006 £'000	Company 31 December 2007 £'000	Company 31 December 2006 £'000
Amounts due within one year:				
Arising out of direct insurance operations	**4,761**	4,334	**-**	-
Arising out of reinsurance operations	**10,967**	14,825	**-**	-
Other taxes and social security costs	**157**	401	**-**	-
Trade creditors	**3,956**	3,742	**61**	-
Other creditors	**87**	3,262	**-**	-
Amounts due after one year:				
Trade creditors	**633**	395	**-**	-
	20,561	26,959	**61**	-

Other creditors includes £1,000 payable to the shareholders of Cathedral Capital Holdings Limited who hadn't accepted the offer by the end of the year (2006: £2,179,000). This amount is held in a specific bank account for those shareholders.

30 Share capital

	31 December 2007 Authorised	31 December 2006 Authorised	31 December 2007 Allotted issued and fully paid	31 December 2006 Allotted issued and fully paid
	No.'000	No.'000	**No.'000**	No.'000
Number:				
A ordinary shares of 1p each	**702,290**	702,290	**702,290**	702,290
B ordinary shares of 1p each	**210,210**	210,210	**210,210**	210,210
Ordinary shares of 1p each	**337,500**	337,500	**337,500**	337,500
	£'000	£'000	**£'000**	£'000
Nominal value				
A ordinary shares of 1p each	**7**	7	**7**	7
B ordinary shares of 1p each	**2**	2	**2**	2
Ordinary shares of 1p each	**3**	3	**3**	3
	13	13	**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.

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

	31 December 2007 £'000	31 December 2006 £'000
Allotted, issued and fully paid:		
A ordinary shares of 1p each		
At the beginning of the year	**702,290**	1
Shares issued in respect of acquisition of Cathedral Capital Holdings Limited	**-**	702,289
At the end of the year	**702,290**	702,290
B ordinary shares of 1p each		
At the beginning of the year	**210,210**	-
Shares issued in respect of acquisition of Cathedral Capital Holdings Limited	**-**	210,210
At the end of the year	**210,210**	210,210
Ordinary shares of 1p each		
At the beginning of the year	**337,500**	-
Shares issued in respect of acquisition of Cathedral Capital Holdings Limited	**-**	337,500
At the end of the year	**337,500**	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 1 January 2007 £'000	Profit for the year £'000	Total attributable to shareholders £'000
Called up share capital	13	-	13
Share premium	1,237	-	1,237
Retained earnings	(146)	9,321	9,175
Equity shareholders' funds	**1,104**	**9,321**	**10,425**

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.

All of the profit and loss reserve at 31 December 2007 is distributable (2006: £nil is distributable).

32 Reconciliation of total shareholders' equity

	Group 31 December 2007 £'000	Group 31 December 2006 £'000	**Company 31 December 2007 £'000**	Company 31 December 2006 £'000
Total recognised gains / (losses) for the year	**14,250**	496	**9,321**	(146)
Issue of shares in the period, excluding those held by ESOP	**-**	1,233	**-**	1,250
Total movements during the year	**14,250**	1,729	**9,321**	1,104
Opening total shareholders' equity	**1,729**	-	**1,104**	-
Closing total shareholders' equity	**15,979**	1,729	**10,425**	1,104

33 Employee Share Ownership Plan

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

	31 December 2007	31 December 2006
9.2% Manager Loan Notes in Cathedral Capital (Investments) Limited	**1,331,666**	1,331,666
6.44% Preference shares of £1 each in Cathedral Capital Limited	**665,733**	665,733
B ordinary shares in Cathedral Capital Limited	**17,054**	17,054

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

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Income Statement for the year ended 31 December 2007		
Investment income on shares and Loan Notes	**149**	-
Other interest	**2**	-
Total profit	**151**	-
Balance Sheet		
Investments *	**2,014**	2,014
Debtors	**-**	112
Cash	**257**	-
Less liabilities	**(403)**	(409)
Net assets	**1,868**	1,717
ESOP funds	**1,868**	1,717
Reconciliation of ESOP funds		
ESOP funds at 1 January 2007	**1,717**	
Profit arising in ESOP during year	**151**	
Expenses incurred and added to cost of investments	**-**	
ESOP funds at 31 December 2007	**1,868**	

*Valued at cost to the Group.

34 Capital commitments

The Group had no capital commitments at 31 December 2007 (2006: £nil).

The Company had no capital commitments at 31 December 2007 (2006: £nil).

35 Operating leases

	Group 31 December 2007 £'000	Group 31 December 2006 £'000
Future minimum lease payments under non-cancellable operating leases:		
Land & buildings:		
Within one year	**366**	214
In the second to fifth years inclusive	**915**	1,281
Other:		
Within one year	**13**	7
In the second to fifth years inclusive	**10**	10
	1,308	1,512

Commitments under operating leases for land & buildings relate to rent payable. The Group entered into a 10 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.

Other commitments relate to operating leases for IT equipment.

The Company had no commitments under operating leases for 2007 or 2006.

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

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Profit before taxation	**19,302**	697
Adjustments for:		
Depreciation	**215**	15
Decrease / (increase) in debtors & accrued income	**4,651**	(3,724)
Change in underwriting balances	**(33,526)**	(1,352)
(Decrease) / increase in ESOP debtors	**(112)**	-
Unrealised investment (gains) / losses	**(1,984)**	(66)
Exchange revaluation	**(242)**	134
Increase in creditors	**(1,245)**	1,955
Impairment of in-force business	**7,418**	1,765
Interest expense	**12,941**	761
Interest received	**(12,273)**	(996)
Dividends received	**(254)**	(6)
Cash generated from operations	**(5,109)**	(817)

38 Related party transactions

(i) Directors' Interest in Transactions

As set out in section (ii) below, each of the directors (except for Mr Slade) owned shares and Loan Notes in Cathedral Capital (Investments) Limited and Cathedral Capital Limited. Mr Slade had an indirect beneficial interest in Alchemy Partners (Guernsey) Limited which, as set out below, owned shares and Loan Notes in Cathedral Capital (Investments) Limited and Cathedral Capital Limited. The Preference shares pay a dividend of 6.44% and the Loan Notes pay interest of 9.2%. Each of the directors therefore earned dividends and interest in respect of their holdings.

(ii) Directors' Interests in shares

The interest of the Directors and their families in the share capital in respect of the Company at 31 December 2007 and 31 December 2006 (according to the register of Directors' interests) are set out below:

	31 December 2006 & 2007*		
	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	-	-

* holding at 31 December 2007 or at date of resignation.

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 at 31 December 2007 and 31 December 2006 (according to the register of Directors' interests) are set out below:

	31 December 2006 & 2007*		
	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	-

* holding at 31 December 2007 or at date of resignation.

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.

(iii) Other

Alchemy Partners Nominee Limited

Alchemy Partners Nominee Limited ("Alchemy") is a 56% shareholder in the Company and 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

Cathedral Capital Employee Share Ownership Plan

This ESOP has been set up for the benefit of all full time 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.

The interests of the ESOP at 31 December 2007 and 31 December 2006 are:

	Cathedral Capital Limited B ordinary 1 pence shares Number	Cathedral Capital Limited Preference shares Number	Cathedral Capital (Investment) Limited Manager Loan Notes £
At 31 December	**17,054**	**665,733**	**1,331,666**

Further details of the ESOP are set out in Note 33.

(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:

	Year ended 31 December 2007 £'000	Period ended 31 December 2006 £'000
Key management compensation		
Salaries and other short-term employee benefits	**5,067**	355
Post-employment benefits	**108**	10
Other long-term benefits	**-**	-
Share based payments	**-**	-
	5,175	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 2007, there were no items outstanding (2006: £nil 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 Capital

The Group's capital structure consists of equity attributable to equity holders of the Company (which in turn comprises issued capital, reserves and retained earnings), Preference shares, Manager and Investor Loan Notes and Unsecured Floating Rate Subordinated Loan Notes. Details of the equity attributable to equity holders of the Company are set out in note 31 and details of the loan capital are set out in note 25.

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

The Group's corporate member, which underwrites on various syndicates at Lloyd's, is required to hold regulatory capital in compliance with the rules issued by the Financial Services Authority ("FSA"). Furthermore, it is also subject to Lloyd's capital requirements.

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

Each managing agent is required to calculate an Individual Capital Assessment ("ICA") for each syndicate it manages. This calculation is calibrated such that the probability of resources being sufficient to meet liabilities over a one year time period are at least at a 99.5% confidence level. In so doing they must consider not only ultimate insurance losses, but also credit, market, liquidity, group and operational risks. Lloyd's may impose an increase to an individual ICA where it does not regard the managing agent has submitted an adequate figure.

The basis of the ICA calculation is considered to be broadly equivalent to a BBB insurance financial strength rating. Lloyd's has the ability to uplift ICAs in order to ensure market level capital that will among other factors support and maintain its rating. To achieve this, each syndicate ICA is currently uplifted by 35% to arrive at its Economic Capital Assessment ("ECA").

Lloyd's uses the syndicate ECA as a starting point for the calculation of corporate member capital requirements. The final member level capital requirement as determined by Lloyd's is known as the Economic Capital Requirement ("ECR"). The ECR includes a number of additional factors, including a credit for diversification, given where a member supports more than one syndicate. Currently the minimum Funds at Lloyd's ratio is 40% (except for UK motor business).

Each ICA is reviewed by Lloyd's annually and by the FSA on a sample basis. Management are required to carry out regular assessments of the amount of capital that is adequate for the size and nature of each syndicate. Funds at Lloyd's requirements are formally assessed twice a year and must be met for the Group to continue underwriting at Lloyd's. In addition, adjustments are made by Lloyd's to allow for open year profits and losses of the syndicates on which the corporate member participates. Members must remain solvent on a continuous basis.

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

At 31 December 2007, the Group's funds at Lloyd's amounted to £94.8 million, which was in excess of its capital requirements. These funds were invested in a mixture of equities, fixed interest instruments and cash.

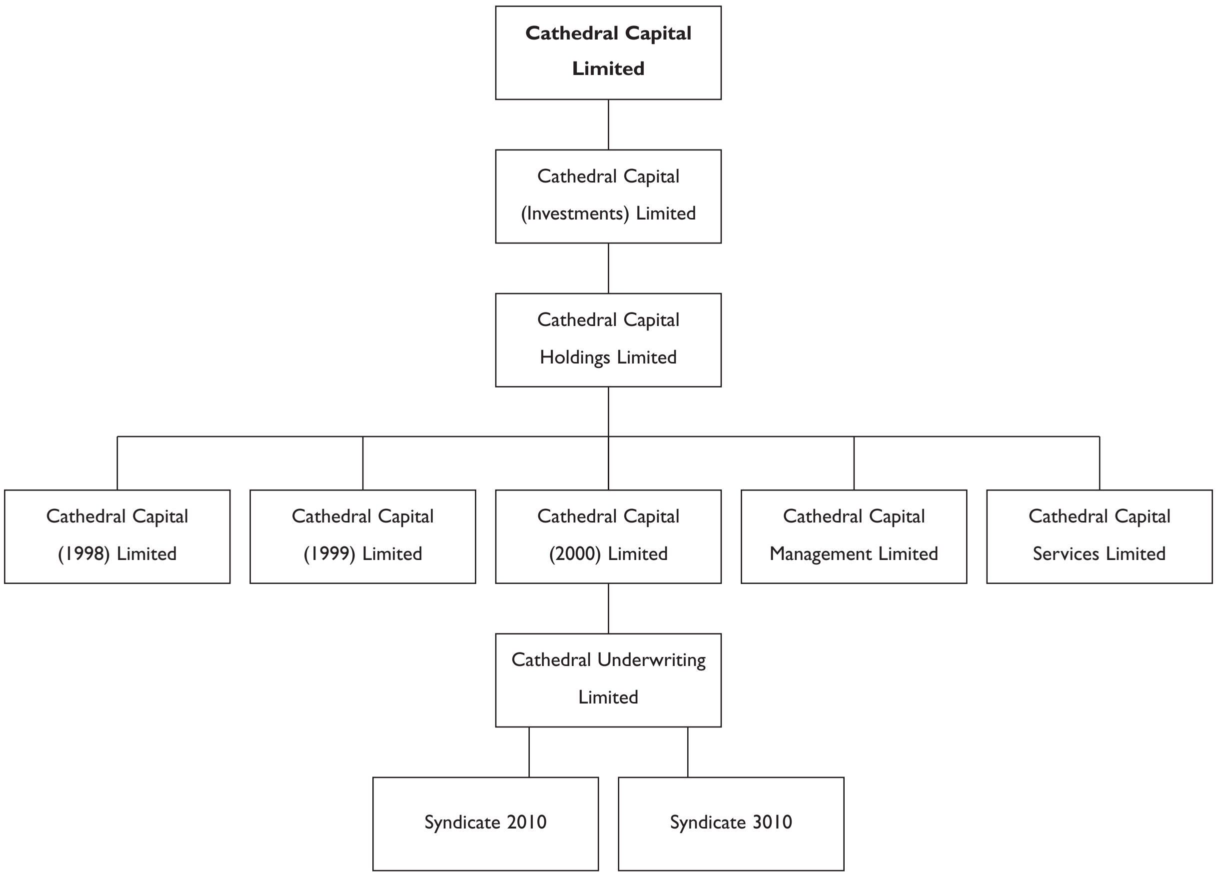
41 Categories of financial assets and liabilities

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

As at 31 December 2007	Financial assets	Loans and receivables	Assets at fair value through profit or loss	Insurance contracts	Non-financial assets	Total
Assets						
Property, plant and equipment	-	-	-	-	744	744
Intangible assets	-	-	-	-	24,357	24,357
Fair value of in-force business	-	-	-	-	843	843
Reinsurers' share of technical provisions	-	-	-	55,314	-	55,314
Financial investments	-	-	175,521	-	-	175,521
Deferred acquisition costs	-	-	-	10,042	-	10,042
Other assets	-	-	-	-	1,188	1,188
Prepayments and accrued income	2,062	-	-	-	5,391	7,453
Trade and other receivables	-	60,846	-	-	-	60,846
Cash and cash equivalents	-	108,817	-	-	-	108,817
Total assets	**2,062**	**169,663**	**175,521**	**65,356**	**32,523**	**445,125**

	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
Liabilities					
Borrowings	38,116	116,627	-	-	154,743
Insurance contracts	-	-	223,024	-	223,024
Provision for other liabilities and charges	-	-	-	7,591	7,591
Deferred tax liabilities	-	-	-	19,946	19,946
Trade and other payables	-	199	-	20,362	20,561
Current tax liabilities	-	-	-	1,436	1,436
Accruals and deferred income	-	-	-	1,845	1,845
Total liabilities	**38,116**	**116,826**	**223,024**	**51,180**	**429,146**

Group Structure



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