CATHEDRAL
CAPITAL LIMITED

Annual Report

31 December 2008

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CAPITAL LIMITED

Annual Report
For the year ended 31 December 2008

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Chairman's Statement

I am happy to report a 2008 profit of £17.5 million.

The year will be forever famous for the global consequences of the events triggered by the banking world's failure to assess its own risk, colloquially known as the credit crunch. The insurance and reinsurance industry has been affected by investment losses, impending large liability losses and a scarcity of new and replacement capital.

We have avoided the first and will not suffer the second. We will, however, be affected to some extent because there will be less capacity to provide the kind of reinsurance we typically buy partly to protect our own catastrophe underwriting risk.

The Cathedral underwriting business started new for the 2001 underwriting year, specialising in taking other insurers' catastrophe risks. We ran straight into the exceptional losses of the World Trade Centre terrorist attack in that year, and since then there has been a series of exceptionally expensive hurricane and fire losses. It is worth observing that so far Syndicate 2010 has been profitable every year notwithstanding such volatility in our core markets. The reason for this is that the underwriting teams are thoroughly experienced and they are supported by outstandingly effective support systems, including an intelligent aggregate management capability.

On behalf of shareholders I would like to thank the team for their continuing efforts.

Elvin Patrick
Chairman
8 April 2009

Chief Executive Officer's Report

Overview

The group made a post tax profit of £17.5 million, up from £14.3 million a year earlier. This profit takes into account the servicing costs of the Preference Shares, Investor Loan Notes and Manager Loan Notes issued to the equity Shareholders. Given the frequency and severity of loss activity across the insurance and reinsurance sectors alongside the global effects of the turmoil in the financial markets during the last year, we view this as an excellent result. Our bottom line return has benefitted from exchange gains arising from Sterling, our accounting currency, weakening significantly against our main trading currency the US Dollar. Ironically the year end exchange rate is not too far from that when we started Cathedral in 2000.

We remain a focussed underwriting business thus avoiding many of the issues that continue to give problems to a number of our competitors in the industry. We suspect that many of this years' industry results, ranging from reduced profits through to financial meltdown, will not be the end of the story. It is critical for us to leverage our expertise in our core underwriting areas to take advantage of the opportunities that will almost certainly arise in what is likely to be a period of changing landscape in our industry.

Last year's report highlighted the influx of market participants principally driven by the wider financial markets investing in areas of the insurance business which could be easily commoditised and, as a result, contributed to a softening market place. During the last quarter of 2008 we have seen some household names in our industry rocked to their foundations and many of the newer markets retreating from catastrophe exposed business lines when they realised that a business model based on a ready supply of additional capital, once they had destroyed their own, was no longer tenable.

Notwithstanding the problems facing the insurance industry there are still too many participants in most sectors who add little to the market place. However, in a year when the third biggest natural disaster of all time failed to make the first three stories on the news that day, there are wider forces at work that may influence the cyclicality of our business in addition to the ones we are familiar with.

We have a solid focussed business, without issue on the asset side of the balance sheet, nor any potential exposure to liabilities that will follow from the massive losses in the financial markets. In unfamiliar circumstances this is an advantageous start point to what is likely to be a period of significant change and opportunity in our market.

Market

2008 proved to be the second costliest year for the industry of all time with insured losses topping US$50 billion. Total economic losses are estimated to be a staggering US$225 billion. Cyclone Nagris in Burma and the Sichuan earthquake in China cost nearly 250,000 lives between them with estimated economic costs of over US$100 billion, of which little was insured in the commercial market.

The largest single loss to the industry by some distance was Hurricane Ike. Ike landed near Galveston Island, Texas as a category 2 hurricane causing significant damage to offshore oil interests, property in Galveston and Houston. Unusually, instead of dissipating when inland, Ike collided with another major storm system which tracked through the Mid-West causing substantial damage all the way up to Ohio. There are unusually diverse opinions as to the final cost of Ike but the general consensus seems to be about US$20 billion making it the third costliest loss in the industry's history. One can only speculate what may have happened if Ike had landed in the same place as a Category 5 storm, but it would be a good bet that the market would be a very different place!

As well as the huge loss from Ike, Hurricanes Gustav and Dolly, Tropical Storms Fay and Hanna hit various spots on the US coast from Texas to the Carolinas making for a busy wind season to add to severe flooding in the Mid-West and wildfires in California. Not to be left out Europe suffered an estimated US$1.3billion of losses from windstorm Emma which caused widespread damage particularly in Germany.

Aside from the raft of catastrophe losses, 2008 had an additional element to contend with in the form of an exceptional run of individual risk losses which affected the direct commercial property writers as well as their reinsurers. Losses in the region of US$8 billion were run up in a catalogue of events from a fire at Universal Studios, to an explosion at a steel plant in Michigan costing in the region of US$500 million each. The two largest loss contributors on the risk side weighed in at more than US$1.5billion each. These related to an explosion at a gas producer that cut supplies for one third of Western Australia's needs for two months and the flooding of a network of 33 mines in Queensland. Both resulted in substantial business interruption claims from customers and were exacerbated by prices for commodities being at an all time high. In addition, a larger than usual string of medium sized losses affected the marine and aviation markets.

I was reminded recently that although most commentators spend most of their time addressing the state of the catastrophe market, in premium terms it is a relatively small part of the whole. The largest sector of the global property & casualty market is the liability sector. Here we have an interesting situation brewing.

Apart from the headline grabbers of Madoff, Stanford and Satyam, there have been trillions of Dollars lost across the financial markets over the last two years. In some cases such as those mentioned, law suits have quickly been attached to those obviously having some culpability. Given the global scope of both losses and huge variety of potentially implicated parties, one assumes that the legal profession is currently investing time in trying to establish precedents of liability that could be applied across the whole gamut of bankers, advisors, accountants and intermediaries that have some involvement with companies that have lost substantial sums of investors' money.

However, the latest results for the industry show many companies releasing substantial reserves to bolster mostly poor accident year results or unsuccessful investment activities. They also seem confident that they have relatively little or no involvement in claims that may arise in the future from the losses that have taken place in the financial markets which they expect to yield only a modicum of successful actions.

Looking in from the outside, collective denial that these circumstances could give rise to significant loss to insurers seems a predictable position to take but, not one without considerable downside risk. Given what has taken place over the last 18 months, a huge wave of claims covering commercial liability lines which exceed current reserves does not seem beyond all reason. In this situation there will be many in the industry who will find themselves with substantial deficits in reserves.

At the moment the market as a whole is in a brittle state and hard to call. Notwithstanding the liability issue, there is a general feeling that a change in the physical damages classes beyond catastrophe exposed areas of the US is long overdue, but as yet there is little or no evidence of a change into wider hard market conditions.

As you will be aware, 2008 produced significant physical damage claims across many classes and geographical locations with the US experiencing a particularly difficult year. It has also been a year in which there has been a lack of appetite to recapitalise businesses which incurred significant losses. By the end of 2008 this led to the withdrawal of much retrocessional capacity and pushed prices and attachment levels of coverage higher. Property reinsurance followed suit, however, there were really no significant removals of capacity. As we moved into the start of 2009 we have seen the announcements by a few market players that they will be reducing their capacity to write reinsurance (we expect more to follow suit) going forward as they look to protect their capital base from shock loss which might erode funds to a level which could threaten their rating. Consequently we believe that the trading environment in the reinsurance and remaining retrocessional markets will continue to remain firm for this year and beyond.

We now have an odd position where the direct markets are being squeezed and having to either pay more for reinsurance or retain more exposure. However, they are not increasing pricing on their own inwards business to offset the potential reduction in margin. This applies to the direct property, marine and aviation markets. To move the industry onto a firmer footing it is these direct classes, principally property, that need to move forward. Property rates have now flattened out and are in some places increasing, but not generally at a level that matches the substantial declines over the last two years.

The commercial property market faces opposing forces; firstly the world recession will mean there are fewer businesses to buy insurance and many more that do survive will buy less coverage reflecting less trading activity. This is exacerbated by the fall in commodity prices and general world trading volumes.

On the opposite side of the coin AIG group is by far the largest global player in the sector. It is obvious to risk managers and reinsurers alike that the future of the group is uncertain and although largely owned by the US taxpayer, there have been a number of announcements to the effect that the group is looking to dispose of certain trading operations and to rein in its activities. If AIG were to effectively protect its business by competitive behaviour and slowly reduce market share, then there is little reason to think this will do anything to firm up the market place as migrating business will slowly be absorbed by the existing market place (that no-one has withdrawn from). If, however, it is decided to significantly reduce the exposures generated to the US tax payer then the rapid displacement of these exposures would quickly over run the capability of the rest of the market place and lead to a significant hardening which is likely to spread to other classes.

In short the direct market property market has the capability to suddenly and significantly harden despite the underlying economic slow-down, however this is not going to happen until we see significant withdrawal of capacity. A similar story applies to our clients in the aviation market, where one significant loss could change the dynamics of a market place that is marginal at best and present the reinsurance market with significant opportunity.

2009 is likely to be a year where there will be significant changes in the market place resulting from both trading activities and corporate action. We suspect, however, the full ramifications will not be felt until 2010.

Syndicate 2010 and Syndicate 3010

Syndicates 2010 and 3010 are both managed by the Group's managing agency subsidiary, Cathedral Underwriting Limited, and provide the substantial part of the underwriting exposure for the group. For a detailed description of their respective trading activities, I would commend to you John Hamblin's Underwriter's Report within each Syndicate's Report & Accounts.

Syndicate 2010 produced a good final profit for the 2006 year of account of 22.3% for a third party investor. That year's claims pattern proved to be benign in comparison to its predecessor. The result has been assisted by movements in foreign exchange but may not appear as spectacular as some returns in the sector as we were able to purchase a full reinsurance programme that many others were unable to do. On reflection it was no bad thing that our reinsurance panel received some pay-back following some material risk transfer from us to them in the previous two years. We worked very hard to get the programme in place and have been able to trade on a consistent risk profile that we are happy with.

The 2007 year of account saw very firm pricing at its commencement in our property accounts but prices fell quickly during the year due to pressure from both new market entrants and some existing writers diversifying into ancillary lines in order to reduce overall capital requirements. This latter development in our industry is unfortunate to say the least, but is a product of the rating agencies and regulators applying standardised models and actuarial techniques in markets where they do not fit as well as the personal lines/life insurance sectors for which they were originally devised.

2007 experienced increased loss activity compared to 2006 including Windstorm Kyrill affecting Northern Europe, floods in the UK and Australia together with storm and forest fire damage in the US. In comparison to 2005 this was a year with light catastrophes in absolute size, but did have a number of medium sized losses. Many of these losses were retained in the primary insurance and first tier reinsurance markets. All things being equal we would expect to make a respectable rather than an exceptional profit at the closure of the year of account.

During the summer of 2007 we commenced underwriting Cargo business on new Syndicate 3010. Given the short trading period, the Syndicate has done well in building its target book in what have proved to be less than inspiring trading conditions. To date claims experience has been favourable and we remain hopeful of a profitable outcome.

Both Syndicates remain very much on risk for the 2008 account writings. As discussed earlier, the calendar year has seen substantial frequency and severity of loss for the market as a whole, but at present we are hopeful of a profitable year of account outcome on both syndicates, which would be a good performance given the number, size and variety of market losses we have already seen and which affected our principal trading areas.

Going forward both syndicates have been able to secure a comprehensive reinsurance programme (unlike many of our competitors) and we are well positioned to take advantage in any sudden change in market conditions that may arise from the circumstances described earlier.

Chief Executive Officer's Report

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Lloyd's

The Lloyd's market had another good year both in terms of results and perception. It is now evident that the swing in preferred trading platform from Bermuda to Lloyd's that we discussed last year has now taken place with all but two of the major Bermudian companies entering or attempting to enter the Lloyd's market. Lloyd's has distinct advantage in capital ratios, a good and stable rating and a wider pool of expertise to draw from. This is beginning to overtake the tax advantage of Bermuda as a management priority, particularly as many Lloyd's businesses have or are in the process of re-domiciling their holding companies to other tax advantageous destinations.

The Franchise Board are doing a decent job despite the fact that we are all faced with an ever increasing reporting load. We do however have some concern about some of the latest admissions to the market place. Lloyd's turns away a good proportion of all applications to come into the market and we are firm supporters of the market place being continually regenerated. However, among some very worthwhile entrants to the market, there are others that have hardly covered themselves in glory in terms of exposure management and consequent capital destruction in their activities outside of Lloyd's. We are reliant on the Franchise Board to enforce standards in the market so that our business is not jeopardised by the actions of others whose practices elsewhere would be detrimental if applied in the Lloyd's market.

Lloyd's has an important management task ahead over the next few years in cementing its position as the platform of choice in the industry for specialty business but at the same time keeping the quality of businesses trading in the market up and keeping sheer numbers of market entry points at a level that doesn't undermine it.

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. In addition, all the results of the individual subsidiary 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

The consolidated profit on ordinary activities after tax, as reported in the Consolidated Income Statement, was £17.5 million (2007: £14.3 million) which equates to earnings per equity share of £14.18 (2007: £11.56). This was achieved in spite of the frequency and severity of the loss activity that impacted the insurance industry during the year and the continuing turmoil in the financial markets that is costing a number of our competitors' capital.

	Underwriting				
	Managed £'000	External £'000	Total £'000	Corporate £'000	Total £'000
Gross Written Premium	149,015	12,098	161,113	-	161,113
Net Earned Premium *	102,854	(15,713)	87,141	-	87,141
Net Claims incurred	(62,774)	16,084	(46,690)	-	(46,690)
Acquisition costs	(23,759)	(2,141)	(25,900)	-	(25,900)
Underwriting results	16,321	(1,770)	14,551	-	14,551
Other expenses **	(29,578)	(1,937)	(31,515)	(12,705)	(44,220)
Net investment return	6,995	1,233	8,228	6,315	14,543
Fees, Commissions and other income	23,446	2,858	26,304	14,072	40,376
Profit before tax	17,184	384	17,568	7,682	25,250
Tax	(4,705)	(104)	(4,809)	(2,910)	(7,719)
Profit after tax	12,479	280	12,759	4,772	17,531
Earnings per equity share	£10.09	£0.23	£10.32	£3.86	£14.18
Return on Equity ***	78.1%	1.7%	79.8%	29.9%	109.7%

* included in net earned premiums is net reinsurance to close premiums paid of £24.7 million (2007: £18.4 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 said earlier in my report this is an excellent result for the Group in the light of the challenging conditions in both the insurance and wider financial markets and as in prior years the underwriting return remains the main contributor to the overall results.

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 2008 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 2008		31 December 2007	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Non-marine reinsurance	**77.1**	**53.0**	37.3	50.8
Aviation	**42.0**	**55.1**	51.4	64.2
Satellite	**16.0**	**13.7**	131.0	135.3
Direct & facultative property	**72.9**	**75.9**	27.3	35.1
Contingency	**45.4**	**49.7**	43.2	49.8
Cargo	**54.8**	**64.6**	48.6	67.3
Other	**31.0**	**31.0**	46.2	46.4
Total claims ratio	**67.4**	**60.8**	38.0	48.8
Expense ratio	**19.5**	**27.5**	22.6	29.7
Combined ratio	**86.9**	**88.3**	60.6	78.5

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 2008		31 December 2007	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Managed syndicates	**62.2**	**72.0**	32.4	49.7
External syndicates	**(16.8)**	**(18.5)**	(11.4)	(12.2)
Total claims ratio	**45.4**	**53.5**	21.0	37.5
Expense ratio:				
Managed syndicates	**20.6**	**36.7**	17.9	29.6
External syndicates	**2.3**	**4.1**	5.0	8.3
Corporate	**(3.0)**	**(5.3)**	3.6	6.0
Staff profit-related pay	**4.7**	**8.3**	4.7	7.8
Total expense ratio	**24.6**	**43.8**	31.2	51.7
Combined ratio	**70.0**	**97.3**	52.2	89.2

The corporate expense ratio is net of fees, commissions and other non-investment income. For year end 2008 the gross expense ratio does not include circa 6.2% (2007: 6.1%) (net expense ratio 11.0%(2007: 10.1%)) 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. Nor does it include circa £18 million (2007: £3.3 million) of exchange gains or losses from its trading or financing activities that have been accounted for through the Consolidated Income Statement.

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 corporate investment return for the year was a profit of £6.3 million (2007: £7 million) which equates to a return of 4.5% down from 5.7% a year earlier. An analysis of this return is set out on the table below:

	Average funds at Lloyd's £'000	Actual return %	Actual return £'000
Funds at Lloyd's:			
Equities	3,085	(17.6)	(543)
Fixed interest	66,375	6.4	4,256
Alternative investments	3,859	(11.8)	(455)
Cash	19,244	3.4	657
Total	92,563	4.2	3,915
Free Funds:			
Cash	47.152	5.1	2,400
Total	139,715	4.5	6,315

Financing of borrowings

The Company has paid, on 31 December 2008, 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.

The Group has also issued a series of 4 Unsecured Floating Rate Subordinated Notes due in 2034 and 2035. These Notes comprise US$60 million and €12 million and the net cost was £2.3 million (2007: £3.3 million) on these borrowings by the Group during the course of the year. More detail on these borrowings can be found in Note 25 to the Annual Report.

Taxation

The Group tax charge for the year is £7.7 million (2007: £5.1 million) which gives an effective tax rate of 30.6% (2007: 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 £14.18 up from £11.56 from the previous year. The earnings per share are enhanced by 16 pence (2007: 16 pence) per share as a result of the equity shares held by the ESOP.

Chief Executive Officer's Report

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Return on equity

The return on equity for an equity shareholder is 110% 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 19.1% (2007: 18.5%) for the year was achieved on the total funds invested in the Group. This return has been enhanced by circa 0.3% (2007: 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 (2007: £nil).

Balance Sheet

The Consolidated Balance Sheet includes the Group's share of syndicate assets and liabilities together with other directly held corporate assets.

In spite of increased catastrophe activity last year, following the generally benign 2007 calendar year, the Consolidated Balance Sheet continued to strengthen during the year

The consolidated balance sheet is analysed below and includes the Group's interest in the managed Syndicates and external syndicates at 31 December 2008 as single line items:

	31 December 2008 £'000	31 December 2007 £'000
Intangible assets	**23,234**	25,200
Tangible fixed assets	**694**	744
Group assets used as funds at Lloyd's	**95,856**	94,770
Other investments and cash balances	**52,446**	27,826
Borrowings	**(112,501)**	(116,628)
Unsecured subordinated loan notes	**(50,874)**	(38,116)
Deferred and current taxation	**(26,509)**	(21,382)
Interest in managed syndicates	**51,402**	40,183
Interest in external syndicates	**(609)**	4,352
Net other assets/(liabilities)	**388**	(953)
	33,527	15,996
Own shares (ESOP)	**(5)**	(17)
Equity shareholders' funds	**33,522**	15,979

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 £0.8 million during 2008 (2007: £7.4 million) in line with this business being earned by the Group and it is now fully impaired. The valuation of the intangible assets has decreased through the disposal of Syndicate 318 capacity during the 2008 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. At the year end, the company redeemed 1,013,194 of the £1 preference shares at par. On the same date the Group repaid £1,601,700 and £424,650 of the Investor and Manager Loan Notes, respectively. The Investor Loan Notes have been listed on the Channel Islands Stock Exchange.

The amounts outstanding, at 1 January 2008, from the Bank Guaranteed Loan Notes, issued by Cathedral Capital (Investments) Limited on its acquisition of the Cathedral Capital Holdings Limited sub-group, were repaid in full during the year.

The Group did not issue any new tranches of Unsecured Floating Rate Subordinated Loan Notes during the year and the increase in cost of these borrowings is substantially as a result of Sterling weakening against both the US dollar and the Euro, which are the dominating currencies of these Loan Notes. 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 bank facility for a £10 million Letter of Credit that had been retained in the Group's Funds at Lloyd's was not renewed on the due date and the Group is in the process of releasing this Letter of Credit back to the bank.

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

	31 December 2008		31 December 2007	
	Managed £'000	**External £'000**	Managed £'000	External £'000
Cash and investments	**146,969**	**26,889**	110,268	51,217
Debtors - insurance and reinsurance	**74,080**	**7,165**	43,531	11,509
Net technical provisions	**(157,577)**	**(32,981)**	(113,987)	(53,725)
Creditors - insurance and reinsurance	**(21,416)**	**(3,219)**	(8,951)	(6,341)
Other net assets	**9,346**	**1,537**	9,322	1,692
Group's interest	**51,402**	**(609)**	40,183	4,352

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 2008 was £56.9 million (2007: £47.1 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"). For 2009 the Group's Funds at Lloyd's requirement was initially set at 46% of underwriting capacity supported. This figure has been revisited following significant movement in Sterling during the second half of 2008 and is set to increase to 59%. This compares with a Funds at Lloyd's requirement for 2008 of 49%.

Chief Executive Officer's Report

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Strategy

The phrase 'survive to thrive' seems to be often used around our industry at present where many business units, be they large or small, are concerning themselves with repairing damage done to their balance sheets or looking to position themselves to trade safely through a period with little likelihood of substantial capital replacement and an inevitable round of consolidation. Most agendas go little further than simply surviving until the market conditions improve as the fall-out from the financial crises becomes more apparent and the general economic backdrop stabilises.

As a smaller unit in the market, we possess significant influence in our trading areas. Consequently, we are well placed to take advantage of business opportunities as they arise, especially as we do not have legacy issues and our balance sheet is not impaired. Therefore we will be focussing on how to effectively take the business forward should the opportunity present itself while some of our competitors are firmly in 'survival mode'.

Our principal trading areas could all see significant opportunities should the circumstances arise that change the dynamics of their particular market, whether it is a major capacity withdrawal in the property market or a substantial loss in the aviation or catastrophe markets. We have capital resource beyond that which is currently committed to underwriting which we can deploy should opportunity present itself and are exploring ways to ensure we have adequate resource in place over the medium term so we can fully participate in opportunities that others may not be so equipped to, without unduly changing our risk appetite.

Finally it is worth remembering that we would not be in such a fortunate position as a business without the hard work of all the people in it. 2008 proved to be a year with many challenges to overcome and no doubt 2009 will not be any easier. We have a first class team at Cathedral and I would like to thank all of them for their efforts and contribution to producing both an excellent result and putting us in such a good position for the future.

Peter Scales
Chief Executive Officer
8 April 2009

Directors and Advisors

Non Executive Chairman	E E Patrick
Directors	J A Lynch 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.

Report of the Directors

The Directors present the annual report and the audited accounts for the year ended 31 December 2008.

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, this offer was declared to be unconditional in all respects. Following the acquisition, Alchemy own 56.1% of the Ordinary Shares of the Company.

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 £219 million (2007: £204.9 million) of capacity for the 2008 year of account of which £203.4 million (2007: £189.2 million) supported Cathedral Syndicates 2010 and 3010 with the remainder supporting an external third party syndicate. For the 2009 year of account, the Group will underwrite £203.4 million of capacity across Syndicates 2010 and 3010 only.

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 2008 year of account. The capacity of the Syndicate has been maintained at £300 million for the 2009 year of account. Cathedral Syndicate 2010 has just closed its sixth underwriting year, the 2006 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 and maintained at that level for the 2009 year of account. The Syndicate's sole capital provider is the Group's corporate member.

The managed Syndicates reported an aggregate 2008 calendar year profit of £25.1 million (2007: £41.9 million) which equates to an aggregate net combined ratio for the Syndicates of 88.3% (2007: 78.5%). 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.

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 (2007: £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 and 2008.

Report of the Directors

continued

Future Developments

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

Principal risks and uncertainties

The Group is exposed to various risks and uncertainties, details of which are disclosed in Note 4. This includes risks associated with the Group's financial instruments.

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.

On 31 December 2008 the Company redeemed 1,013,194 preference shares of £1 at par. At the year end, there were 38,144,962 (2007: 39,158,156) preference shares of £1 in issue with each preference share entitled to receive 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 at the year end according to the register of directors' interests are as follows:

		31 December 2008			31 December 2007	
	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	-
D J H Slade	**-**	**-**	**851**	-	-	851
P D Scales	**21,634**	**33,413**	**-**	21,634	33,413	-

The Directors and their families 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 2008			31 December 2007	
	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	**357,211**	**-**	**714,533**	366,699	-	733,509
J A Lynch	**822,639**	**-**	**1,645,531**	844,489	-	1,689,232
D J H Slade	**36,350**	**73,071**	**-**	37,500	75,011	-
P D Scales	**822,639**	**-**	**1,645,531**	844,489	-	1,689,232

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 the year end are:

	31 December 2008			31 December 2007		
	B ordinary 1 pence shares	**Preference £1 shares**	**Manager Loan Notes £1**	B ordinary 1 pence shares	Preference £1 shares	Manager Loan Notes £1
ESOP	**13,655**	**648,508**	**1,297,216**	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 177 days purchases outstanding at 31 December 2008 (2007: 194 days).

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. This dispenses with the need to appoint the auditors annually.

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, sexual orientation or disability. Where existing employees become disabled it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotions to disabled employees wherever applicable.

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

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

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 (2007: £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 is 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 is set out below:

			31 December 2008		31 December 2007
	Fees & Salaries £'000	Benefits in Kind £'000	Pensions £'000	Total £'000	Total £'000
E E Patrick	120	2	-	122	61
J A Lynch	775	1	23	799	798
D J H Slade	63	-	-	63	60
P D Scales	775	1	23	799	798
	1,733	4	46	1,783	1,717

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' and Officers' Insurance

In accordance with the provisions of the articles, the Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself, all of its subsidiary companies and all directors and officers of the Group.

Report of the Directors

continued

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
8 April 2009

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Report of the Independent Auditors

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

We have audited the group and parent company financial statements ("the financial statements") of Cathedral Capital Limited for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. 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 2008 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 2008;
- 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
8 April 2009

CATHEDRAL
CAPITAL LIMITED

Consolidated Income Statement
For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Income			
Gross premiums written	5	**161,113**	147,131
Less premiums ceded to reinsurers		**(67,657)**	(61,616)
Net premiums written		**93,456**	85,515
Gross amount of change in provision for unearned premiums		**(5,715)**	10,324
Reinsurers' share of change in provision for unearned premiums		**(600)**	(951)
Earned premiums, net of reinsurance		**87,141**	94,888
Fees and commission income	6	**4,866**	5,705
Investment return	7	**14,543**	15,330
Other income	8	**35,510**	3,594
Total income		**142,060**	119,517
Expenses			
Claims paid			
Gross amount	5	**(95,035)**	(72,654)
Reinsurers' share		**31,696**	21,712
Net claims paid		**(63,339)**	(50,942)
Net change in the provision for claims			
Gross amount	5	**24,506**	39,631
Reinsurers' share		**(7,857)**	(24,241)
Net change in the provision for claims		**16,649**	15,390
Claims incurred, net of reinsurance		**(46,690)**	(35,552)
Acquisition costs		**(25,900)**	(25,960)
Other operating expenses	9	**(17,985)**	(25,488)
Operating profits		**51,485**	32,517
Finance costs	10	**(26,235)**	(13,215)
Profit on ordinary activities before tax		**25,250**	19,302
Income tax expense	14	**(7,719)**	(5,052)
Profit on ordinary activities after tax		**17,531**	14,250
Profit attributable to equity shareholders of the parent company		**17,531**	14,250
Basic & diluted earnings per share	16	**£14.18**	£11.56

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 2008

	Notes	31 December 2008 £'000	31 December 2007 £'000
Assets			
Property, plant and equipment	17	**694**	744
Intangible assets	18	**23,234**	24,357
Fair value of in-force business	19	**-**	843
Reinsurance assets	26	**61,651**	55,314
Financial investments	20	**174,982**	175,521
Deferred acquisition costs	26	**12,001**	10,042
Other assets		**2,852**	1,188
Prepayments and accrued income	22	**6,772**	7,453
Trade and other receivables	23	**83,838**	60,846
Cash and cash equivalents	24	**147,179**	108,817
Total assets		**513,203**	445,125
Equity			
Called up share capital	30	**13**	13
Share premium account	31	**1,237**	1,237
Other reserves		**1,013**	-
Own shares		**(5)**	(17)
Retained earnings		**31,264**	14,746
Total shareholders' equity		**33,522**	15,979
Liabilities			
Borrowings	25	**163,375**	154,743
Insurance contracts	26	**252,209**	223,024
Provision for other liabilities	27	**7,903**	7,591
Deferred tax liabilities	28	**26,369**	19,946
Trade and other payables	29	**28,170**	20,561
Current tax liabilities		**140**	1,436
Accruals and deferred income		**1,515**	1,845
Total liabilities		**479,681**	429,146
Total equity and liabilities		**513,203**	445,125

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

CATHEDRAL
CAPITAL LIMITED

Company Balance Sheet
As at 31 December 2008

	Notes	**31 December 2008 £'000**	31 December 2007 £'000
Assets			
Investments in subsidiary undertakings	21	**40,408**	40,408
		40,408	40,408
Trade and other receivables	23	**6,144**	9,575
Cash and cash equivalents		**6**	-
Total assets		**46,558**	49,983
Equity			
Called up share capital	30	**13**	13
Share premium	31	**1,237**	1,237
Capital redemption reserve	31	**1,013**	-
Profit and loss reserve	31	**5,938**	9,175
Total shareholders' equity	32	**8,201**	10,425
Liabilities			
Borrowings	25	**38,145**	39,158
Trade and other payables	29	**55**	61
Current tax liabilities		**119**	-
Overdraft		**-**	75
Accruals and deferred income		**38**	264
Total liabilities		**38,357**	39,558
Total equity and liabilities		**46,558**	49,983

The financial statements on pages 24 to 73 were approved by the Board of Directors and authorised for issue on 8 April 2009 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 2008

Year ended 31 December 2008	**Balance at 1 January 2008 £'000**	**Profit for the year £'000**	**Redemption of preference shares £'000**	**Sale of Own shares £'000**	**Total attributable to equity holders £'000**
Called up share capital	**13**	**-**	**-**	**-**	**13**
Share premium account	**1,237**	**-**	**-**	**-**	**1,237**
Capital redemption reserve	**-**	**-**	**1,013**	**-**	**1,013**
Own shares	**(17)**	**-**	**-**	**12**	**(5)**
Retained earnings	**14,746**	**17,531**	**(1,013)**	**-**	**31,264**
Total shareholders' equity	**15,979**	**17,531**	**-**	**12**	**33,522**

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. Details of the ESOP are set out in Note 33.

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 2008

	Notes	**Year ended 31 December 2008 £'000**	Year ended 31 December 2007 £'000
Cash generated from operations	37	**21,377**	27,496
Interest received		**12,474**	12,187
Dividends received		**218**	260
Interest paid		**(9,428)**	(10,830)
Preference share dividends paid		**(2,479)**	(2,660)
Income taxes paid		**(2,592)**	(5,697)
Net cash from operating activities		**19,570**	20,756
Investing activities			
Purchase of syndicate capacity		**-**	(1,576)
Proceeds from disposal of syndicate capacity		**4,305**	-
Purchase of property, plant and equipment		**(192)**	(31)
Net cash used in investing activities		**4,113**	(1,607)
Financing activities			
Redemption of preference shares		**(996)**	-
Redemption of loan notes		**(1,991)**	-
Sale of own shares by ESOP		**12**	112
Acquisition of subsidiary*		**(1,139)**	(4,778)
Net cash from financing activities		**(4,114)**	(4,666)
Net increase in cash and cash equivalents		**19,569**	14,483
Cash and cash equivalents at beginning of the year		**108,817**	94,745
Effect of exchange rate fluctuations on cash and cash equivalents		**18,793**	(411)
Cash and cash equivalents at end of the year	24	**147,179**	108,817

*The cashflows 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.

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 and adopted by the EU, 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 2008. 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) *Standards, interpretations and amendments to published standards that are not yet effective*

At the date of authorisation of these financial statements, the following Standards and Interpretations issued by the International Accounting Standards Board (IASB) are in issue but not yet effective:

(i) Amendments to IFRS 1 ("First-time Adoption of IFRS") and IAS 27 ("Consolidated and Separate Financial Statements"): Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;
(ii) Amendment to IFRS 2 ("Share-based Payment"): Vesting Conditions and Cancellations;
(iii) Revision to IFRS 3 ("Business Combinations");
(iv) IFRS 8: "Operating Segments";
(v) Amendments to IAS 1 ("Presentation of Financial Statements");
(vi) Amendments to IAS 23 ("Borrowing Costs");
(vii) Amendments to IAS 32 ("Financial Instruments: Presentation"); and
(viii) IFRIC 16: "Hedges of a Net Investment in a Foreign Operation".

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.

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 syndicates' 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 agent 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 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 agents' 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 of the Group's managing subsidiary. 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. Where reliance has been placed on the security rating by rating agencies, it has been assumed that they provide a reliable estimate of the likelihood of the reinsurer in question being able to meet its obligations when called upon to do so.

If a reinsurance asset is impaired, the Group reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the Consolidated 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 that 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 agent's 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 only 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 of 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 syndicates' operating expenses and the Group's corporate expenses. The Group's share of the syndicates' operating expenses includes the direct costs of membership of Lloyd's ("personal expenses"). Expenses are accounted for on an accruals basis. 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 accounting 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 was then impaired over the period these profits were earned.

i) *Investments*

The Group has classified its financial assets held for investment purposes as designated at fair value through profit and loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management. The fair values of quoted financial investments are based on bid prices at the balance sheet date. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques, such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

For the Group, unlisted investments are stated at fair value. 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 of financial assets require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

The Group's share of the syndicates' investments are treated as sold and purchased at each 31 December in recognition of the annual venture nature of participations on a syndicate. Their cost is therefore their market value, based on bid values, at that date.

j) *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 in the same accounting period. 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 accounting periods 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 relevant 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 in the accounting period they are incurred.

o) *Borrowings*

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated 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 accounting period in which they are incurred.

p) *Retirement benefit costs*

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

q) *Provisions*

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

r) *Restatement of cashflows*

The cashflow statement for 2007 has been restated to include purchases and sales of investments within cash generated from operations rather than cash used in investing activities.

s) *Restatement of exchange gains and losses*

Exchange gains for 2007 have been reclassified as Other income rather than Other operating expenses. Furthermore, exchange losses relating to borrowing have been reclassified as finance costs.

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

The Group underwrites on third party syndicates managed by external managing agents. This diversification (see below) is one of the ways that the Group manages to reduce its insurance risk, although this is forming a decreasing proportion of the Group's underwriting portfolio. 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 their managing agent, 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 so as to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks in an attempt to reduce the variability of the expected outcome. However, it should be recognised that much of the business written by the Group is accumulative by nature.

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

4.1.1 Diversification across classes of business

The Group's underwriting covers various classes of business which, to some extent, have different exposure profiles and therefore provides an element of diversification to the Group. An analysis of gross written premiums by class of business is as follows:

	2008 £'000	**2008 %**	2007 £'000	2007 %
Cathedral managed syndicates:				
Non-marine	**58,764**	**36.5**	48,402	35.5
Direct property	**45,801**	**28.4**	44,853	32.9
Aviation	**20,695**	**12.9**	19,966	14.6
Cargo	**16,124**	**10.0**	4,074	3.0
Contingency	**5,097**	**3.2**	4,163	3.1
Satellite	**2,164**	**1.3**	1,737	1.3
FTC	**284**	**0.2**	855	0.6
Externally managed syndicates:	**12,094**	**7.5**	12,204	9.0
	161,023	**100.0**	136,254	100.0
RITC adjustment	**90**		10,877	
	161,113		147,131	

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

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

4.1.2 Frequency and severity of claims

The frequency and severity of claims in respect of the 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 franchise 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 agent 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. 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 losses, wording issues and unsustainable pricing. These are discussed in detail below:

a) Unknown / unexpected accumulations

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 internal and external 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 of circa US$50 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 property account and the marine cargo account 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 property account and the marine cargo 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.

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 independent review director of the Group's managing agent reviews a sample of risks written and as part of his review looks at wordings to identify inconsistencies between slips and wordings. Contract certainty further mitigates this risk.

e) Unsustainable pricing

The cyclical nature of insurance means that rates constantly fluctuate. Whilst in the core reinsurance areas of the 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 managing agency's syndicates' board reviews loss ratio statistics to identify adverse developments (which may be due to pricing issues) so that appropriate remedial action can be taken. It also reviews the rate monitoring index to identify pricing trends.

The Lloyd's Franchise Board provides quarterly updates of key trends in the market at risk level, as well as benchmarking the 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 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. Aggregation systems are also used for the other accounts 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. 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 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 on the next page.

a) Claims outstanding

(i) Process used to decide on assumptions

The projection of claims outstanding (and reinsurance recoveries thereon) is subjective in nature as it relates to claims which have happened but for which there is limited information available at the year-end, or which relates to claims which can be complex (for example, subject to potential litigation or disputes over specific terms and conditions of the policies written).

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, some 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 basis 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 presumed 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.

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If the provision for net outstanding claims changed by 1%, the impact would equate to a pre tax movement on net assets/profits of £1,334,000 (2007: £1,204,000).

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 2008 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**	**2008**
12 months	181%	46%	50%	88%	157%	28%	27%	74%
24 months	141%	34%	29%	76%	121%	35%	46%	
36 months	148%	30%	27%	76%	115%	36%		
48 months	143%	29%	26%	73%	115%			
60 months	139%	29%	25%	73%				
72 months	137%	29%	25%					
84 months	136%	28%						
96 months	139%							

Underwriting Year - Net	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
12 months	93%	58%	53%	69%	88%	39%	59%	67%
24 months	79%	44%	32%	56%	73%	45%	57%	
36 months	74%	37%	29%	56%	67%	46%		
48 months	70%	36%	28%	53%	66%			
60 months	68%	36%	28%	53%				
72 months	68%	35%	28%					
84 months	66%	35%						
96 months	68%							

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

Group's share of syndicate liabilities

Underwriting Year - Gross	**2006**	**2007**	**2008**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Managed syndicates				
Total gross claims (pure year)	53,923	78,300	84,963	217,186
Gross RITC accepted	77,933	-	-	77,933
Movements in prior years	(1,235)	-	-	(1,235)
Less paid claims	(60,573)	(42,431)	(35,767)	(138,771)
Gross claims liabilities	70,048	35,869	49,196	155,113
Plus external syndicates				35,548
				190,661

Underwriting Year - Net	**2006**	**2007**	**2008**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Managed syndicates				
Total net claims (pure year)	52,979	72,096	47,238	172,313
Net RITC accepted	36,526	-	-	36,526
Movements in prior years	(1,918)	-	-	(1,918)
Less paid claims	(49,450)	(38,259)	(13,146)	(100,855)
Net claims liabilities	38,137	33,837	34,092	106,066
Plus external syndicates				27,285
				133,351

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 2008.

(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 £1,611,000 to the unearned premium provision (2007: £1,471,000).

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

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 contracted by the Group's managing agency subsidiary to assist in assessing and evaluating 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 taken into account in the assessment 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 external 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 managing agency subsidiary's syndicate investment committee. Detailed requirements apply regarding asset diversification.

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

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 2008	**A++ to A- £'000**	**B++ to B- £'000**	**F £'000**	**Unrated £'000**	**External Syndicates* £'000**	**Total £'000**
Financial investments	**148,794**	**91**	**-**	**5,886**	**20,211**	**174,982**
Insurance receivables	**59,266**	**-**	**1,886**	**12,928**	**7,165**	**81,245**
Reinsurance assets	**45,862**	**-**	**2,198**	**5,090**	**8,501**	**61,651**
Cash and cash equivalents	**140,296**	**-**	**-**	**205**	**6,678**	**147,179**
	394,218	**91**	**4,084**	**24,109**	**42,555**	**465,057**

At 31 December 2007	A++ to A- £'000	B++ to B- £'000	F £'000	Unrated £'000	External Syndicates* £'000	Total £'000
Financial investments	129,570	-	-	8,079	37,872	175,521
Insurance receivables	32,449	211	-	10,871	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

* 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 £2.3 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.

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, the managed Syndicates have banking catastrophe facilities available to them.

A portion of the corporate Group's assets are held as funds at Lloyd's which are restricted in terms of their use, although they can be drawn down to pay any cash calls to syndicates supported by the Group. However, at 31 December 2008, the Group had £52.2 million of cash available for use (2007: £26.7 million).

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 2008	**< 1 year £'000**	**1-3 years £'000**	**4-5 years £'000**	**> 5 years £'000**	**External Syndicates* £'000**	**Total £'000**
Debt securities	**77,763**	**70,488**	**634**	**-**	**20,154**	**169,039**
Cash and cash equivalents	**140,501**	**-**	**-**	**-**	**6,678**	**147,179**
Borrowings	**-**	**(50,874)**	**-**	**(112,501)**	**-**	**(163,375)**
	218,264	**19,614**	**634**	**(112,501)**	**26,832**	**152,843**

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

* 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 2008	31 December 2007
Debt Securities	**1.9%**	5.2%
Cash and cash equivalents	**3.1%**	4.4%
Borrowings	**8.0%**	8.4%

A change in market interest rates of 1 percentage point would equate to a pre tax movement on net assets/profits of £2,787,000 (2007: £754,000).

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

The Group manages its equity price risk by placing a limit on the amounts that can be invested in equities. 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 continuously monitored and the Group's asset allocation committee formerly receives a report from the fund managers each quarter.

Based on the year end value of equity and alternative investments, a change in the FTSE All Share Index of 10 percentage points would equate to a pre tax movement on net assets/profits of £589,000 (2007: £808,000).

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 mitigates the degree of currency risk somewhat.

Syndicate underwriting profits and losses are normally 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 normally only paid out once a year into members reserves at the distribution date although any release of funds is subject to Lloyd's distribution tests. The Group does not currently enter into any currency deals to mitigate this currency risk.

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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 2008	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	694	-	-	-	-	694
Intangible assets	23,234	-	-	-	-	23,234
Reinsurers' share of technical provisions	3,460	265	48,855	570	8,501	61,651
Financial investments	54,676	18	93,006	7,071	20,211	174,982
Deferred acquisition costs	1,611	569	7,785	937	1,099	12,001
Other assets	1,694	-	-	-	1,158	2,852
Prepayments and accrued income	6,596	-	2	-	174	6,772
Trade and other receivables	8,962	4,119	61,703	1,222	7,832	83,838
Cash and cash equivalents	75,638	23,798	35,769	5,296	6,678	147,179
Total assets	**176,565**	**28,769**	**247,120**	**15,096**	**45,653**	**513,203**

As at 31 December 2008	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
Liabilities						
Borrowings	112,501	11,538	39,336	-	-	163,375
Insurance contracts	21,978	10,972	169,175	8,601	41,483	252,209
Provision for other liabilities and charges	7,903	-	-	-	-	7,903
Deferred tax liabilities	26,369	-	-	-	-	26,369
Trade and other payables	4,758	467	17,860	535	4,550	28,170
Current tax liabilities	140	-	-	-	-	140
Accruals and deferred income	1,376	-	64	-	75	1,515
Total liabilities	**175,025**	**22,977**	**226,435**	**9,136**	**46,108**	**479,681**
Net assets	**1,540**	**5,792**	**20,685**	**5,960**	**(455)**	**33,522**
Impact of 10% currency movement:*						
2008	**-**	**579**	**2,069**	**596**	**-**	**3,244**
2007	-	54	4,906	642	-	5,602

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

5 Segmental reporting

Analysis of Consolidated Income Statement by Business Segments

					For the year ended 31 December 2008
	Managed Syndicates £'000	External Syndicates £'000	Corporate £'000	Elimination £'000	Total £'000
Income					
Gross premiums written	149,015	12,098	-	-	161,113
Less premiums ceded to reinsurers	(40,489)	(27,168)	-	-	(67,657)
Net premiums written	108,526	(15,070)	-	-	93,456
Gross amount of change in provision for unearned premiums	(5,057)	(658)	-	-	(5,715)
Reinsurers' share of change in provision for unearned premiums	(615)	15	-	-	(600)
Net earned premiums	102,854	(15,713)	-	-	87,141
Fees and commission income - external	-	-	4,866	-	4,866
Fees and commission income - intersegment sales	-	-	1,432	(1,432)	-
Investment return	6,995	1,233	6,315	-	14,543
Other income	23,446	2,858	9,206	-	35,510
Total income	133,295	(11,622)	21,819	(1,432)	142,060
Expenses					
Claims paid					
Gross amount	(80,945)	(14,090)	-	-	(95,035)
Reinsurers' share	28,940	2,756	-	-	31,696
Net claims paid	(52,005)	(11,334)	-	-	(63,339)
Net change in the provision for claims					
Gross amount	(15,719)	40,225	-	-	24,506
Reinsurers' share	4,950	(12,807)	-	-	(7,857)
Net change in the provision for claims	(10,769)	27,418	-	-	16,649
Claims incurred, net of reinsurance	(62,774)	16,084	-	-	(46,690)
Acquisition costs	(23,759)	(2,141)	-	-	(25,900)
Other operating expenses	(8,210)	(1,426)	(9,776)	1,427	(17,985)
Operating profits	38,552	895	12,043	(5)	51,485
Finance costs	-	-	(26,235)	-	(26,235)
Profit on ordinary activities before tax	38,552	895	(14,192)	(5)	25,250
Income tax expense	(10,795)	(250)	3,324	1	(7,719)
Profit on ordinary activities after tax	27,757	645	(10,868)	(4)	17,531
Profit attributable to equity shareholders of the parent company	27,757	645	(10,686)	(4)	17,531

5 Segmental reporting *continued*

Analysis of Consolidated Income Statement by Business Segments

	For the year 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 - intersegment sales	-	-	1,113	(1,113)	-
Investment return	5,513	2,790	7,027	-	15,330
Other income	-	-	3,594	-	3,594
Total income	99,676	3,545	17,409	(1,113)	119,517
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)	(20,672)	1,200	(25,488)
Operating profits	27,481	8,212	(3,263)	87	32,517
Finance costs	-	-	(13,215)	-	(13,215)
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	(11,653)	61	14,250

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.

£242,000 of depreciation (2007: £214,000) and £843,000 of impairment (2007: £7,418,000) was charged to the income statement in the year. These relate to the corporate segment only. No amortisation has been charged in the year.

5 Segmental reporting *continued*

Analysis of Consolidated Balance Sheet

At 31 December 2008	**Managed Syndicates £'000**	**External Syndicates £'000**	**Corporate £'000**	**Elimination £'000**	**31 December 2008 Total £'000**
Total assets	**287,508**	**45,653**	**226,380**	**(46,338)**	**513,203**
Total liabilities	**(287,508)**	**(45,653)**	**(192,858)**	**46,338**	**(479,681)**
Net assets	**-**	**-**	**33,522**	**-**	**33,522**
Capital expenditure	**-**	**-**	**192**	**-**	**192**

At 31 December 2007	Managed Syndicate 2010 £'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

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 2008 £'000	Year ended 31 December 2007 £'000
Managing agency fees	**812**	810
Profit commission	**4,054**	4,895
	4,866	5,705

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7 Investment return

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Syndicate investments		
Investment income - interest	**5,244**	6,267
Realised investment gains	**2,984**	2,036
Net investment return on syndicate investments	**8,228**	8,303
Funds at Lloyd's		
Investment income - interest	**4,431**	4,511
Investment income - dividends	**215**	254
Realised investment gains	**425**	819
Net fair value (losses) on assets at fair value through the income statement	**(1,156)**	(52)
Net investment return on funds at Lloyd's investments	**3,915**	5,532
Cash and other investments		
Investment income - interest	**2,400**	1,495
Net investment return	**14,543**	15,330

8 Other income

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Profit on sale syndicate capacity	**3,182**	-
Exchange gains	**32,327**	3,581
Other income	**1**	13
	35,510	3,594

9 Other operating expenses

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Syndicate operating expenses	**5,150**	4,524
Names' personal expenses on Lloyd's syndicates	**3,011**	4,277
Corporate expenses	**9,824**	16,687
Total	**17,985**	25,488

10 Finance costs

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Interest expense on:		
Unsecured Floating Rate Subordinated Notes	**2,279**	3,293
Investor and Manager Loan Notes	**7,083**	7,111
Bank guaranteed loan notes	**50**	84
Other	**1**	4
Dividends on Preference shares	**2,479**	2,480
Exchange loss on financing	**14,343**	243
	26,235	13,215

11 Profit on ordinary activies before taxation

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
The profit on ordinary activities before taxation is stated after charging:		
Operating lease charges - rent	**30**	30
Operating lease charges - other	**2**	-
Depreciation of tangible fixed assets	**242**	214
Impairment of value of in-force business	**843**	7,418
Fees payable to the auditor for:		
Audit of the Company's annual accounts	**7**	22
Audit of the Company's subsidiaries' annual accounts	**79**	75
Technical advice	**6**	12
Taxation services	**30**	81
Employee services	**2**	9
Advisory services	**16**	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 2008 £'000	Year ended 31 December 2007 £'000
The aggregate payroll costs borne by the Corporate Group were as follows:		
Salaries	**6,917**	7,021
Social security costs	**882**	895
Pension costs under defined contribution plans	**78**	78
	7,877	7,994

The average monthly number of people (excluding non-executive directors) employed by the Group during the year was 48 (2007:45). Of this, 28 were dedicated underwriting and claims (2007: 25) with the remainder of employees involved in operations, administration and finance.

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 2008 £'000	Year ended 31 December 2007 £'000
(a) Analysis of charge in the year		
Current tax		
Corporation tax at 28.5% (2007: 30%)	**1,238**	4,435
Adjustments in respect of previous years	**(323)**	(590)
Overseas tax	**356**	64
Withholding tax	**25**	-
Total current tax charge	**1,296**	3,909
Deferred taxation		
Underwriting profits	**7,290**	3,231
Investment losses	**(398)**	(44)
Timing differences on accelerated capital allowances	**(11)**	-
Additional tax losses	**-**	139
Other timing differences	**(458)**	(2,183)
Total deferred tax charge	**6,423**	1,143
Tax charge	**7,719**	5,052
(b) Factors affecting the tax charge for the year		
Profit on ordinary activities before tax	**25,250**	19,302
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	**7,196**	5,789
Expenses not deductible for tax purposes	**730**	881
Change in tax rates	**-**	(855)
Timing differences	**(188)**	(103)
Investment income received net of tax	**(61)**	(53)
Investment income not taxable	**(24)**	(27)
Movement in tax losses	**(22)**	(58)
Overseas tax	**386**	64
Withholding tax	**25**	-
Prior period adjustments	**(323)**	(586)
Total tax charge	**7,719**	5,052

15 (Loss)/profit attributable to members of the parent company

The loss dealt with in the accounts of the Company (as prepared under UK GAAP) was £2,224,000 (2007: profit of £9,321,000). 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 2008 £'000	Year ended 31 December 2007 £'000
The basic earnings per share is calculated as follows:		
Profit for the year (£'000)	**17,531**	14,250
Basic and diluted weighted average number of shares (no.)*	**1,236,085**	1,232,946
Basic and diluted earnings per share (£)	**14.18**	11.56

* 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 2008 £'000**	Total 2007 £'000
Cost						
At 1 January	**29**	**634**	**539**	**210**	**1,412**	1,382
Additions	**-**	**179**	**13**	**-**	**192**	31
Transfers	**-**	**-**	**-**	**-**	**-**	-
Disposals	**-**	**(103)**	**-**	**-**	**(103)**	(1)
At 31 December	**29**	**710**	**552**	**210**	**1,501**	1,412
Depreciation						
At 1 January	**8**	**490**	**170**	**-**	**668**	454
Charge for the year	**6**	**132**	**104**	**-**	**242**	214
Disposals	**-**	**(103)**	**-**	**-**	**(103)**	-
At 31 December	**14**	**519**	**274**	**-**	**807**	668
Net book value						
At 31 December	**15**	**191**	**278**	**210**	**694**	744
At 1 January	**21**	**144**	**369**	**210**	**744**	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
Cost at 1 January 2008	**24,057**	**300**	**24,357**
Disposals in the year	**(1,123)**	**-**	**(1,123)**
Cost at 31 December 2008	**22,934**	**300**	**23,234**

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 aquired 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 2008	**Managed Syndicate £'000**	**External Syndicates £'000**	**Corporate £'000**	**Total £'000**
Goodwill	**-**	**-**	**300**	**300**
Syndicate capacity	**22,934**	**-**	**-**	**22,934**

As at 31 December 2007	Managed Syndicate £'000	External Syndicates £'000	Corporate £'000	Total £'000
Goodwill	-	-	300	300
Syndicate capacity	22,934	1,123	-	24,057

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 for six years 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 took into account a number of factors, such as the remaining period of the policies and volatility. This value of in-force business was impaired over the period in which the related premiums were earned, and was fully impaired at 31 December 2008.

	£'000
Cost	
Cost at 1 January 2008	**10,026**
Additions	**-**
Cost at 31 December 2008	**10,026**
Impaired amount	
Impaired at 1 January 2008	**9,183**
Impairment charge in the year	**843**
Impaired at 31 December 2008	**10,026**
Net value	
At 31 December 2008	**-**
At 1 January 2008	**843**

There is no deferred tax liability in respect of this in-force business (31 December 2007: £253,000).

20 Financial investments

The Group's financial investments consist of:

	31 December 2008 Market value £'000	**31 December 2008 Cost £'000**	31 December 2007 Market value £'000	31 December 2007 Cost £'000
Corporate				
Shares and other variable yield securities	**2,795**	**3,289**	3,609	3,217
Alternative investments	**3,091**	**3,293**	4,470	3,806
Debt and other fixed income securities	**48,790**	**48,191**	44,905	44,905
Total investments - Corporate	**54,676**	**54,773**	52,984	51,928
Syndicate participations				
Debt securities and other fixed interest securities	**120,249**	**118,007**	121,988	115,776
Deposits with ceding undertakings	**18**	**18**	41	41
Other loans and investments	**39**	**48**	508	508
Total investments - Syndicate participations	**120,306**	**118,073**	122,537	116,325
Group financial investments	**174,982**	**172,846**	175,521	168,253

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

Of the Group's investments above, £54,677,000 (2007: £52,984,000) 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 2008 £'000
Cost	
At 1 January 2008	**40,408**
Additions during the year	-
At 31 December 2008	**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	Non trading		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 2008 £'000	Group 31 December 2008 £'000
Accrued income - investments	**1,660**	2,062
Accrued income - underwriting	**4,319**	4,852
Prepayments	**793**	539
	6,772	7,453

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 2008 £'000	Group 31 December 2007 £'000	**Company 31 December 2008 £'000**	Company 31 December 2007 £'000
Arising out of direct insurance operations	**19,433**	15,919	**-**	-
Arising out of reinsurance operations	**61,812**	39,121	**-**	-
Amounts owed by managed syndicates	**1,747**	488	**-**	-
Amounts owed by Group undertakings	**-**	-	**6,144**	9,575
Other receivables	**846**	5,318	**-**	-
	83,838	60,846	**6,144**	9,575

Of the amounts due from managed syndicates, £nil (2007: £nil) is due in more than one year.

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

24 Cash and cash equivalents (Group)

	Group 31 December 2008 £'000	Group 31 December 2007 £'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	**134,015**	69,155
Overdraft	**-**	(268)
Short term investments	**13,164**	39,930
	147,179	108,817
Cash and cash equivalents consist of:		
Cash and cash equivalents held by syndicates	**53,552**	38,948
Cash and cash equivalents held within funds at Lloyd's	**41,180**	41,786
Cash and cash equivalents held by ESOP	**198**	257
Cash and cash equivalents held for the guaranteed loan note holders	**-**	1,139
Cash and cash equivalents available for use by the Group	**52,249**	26,687
	147,179	108,817

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 were held in an account with Barclays Bank plc under the terms of the guaranteed loan note agreement. They were not available for use by the Group.

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

25 Borrowings

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

	Group 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2008 £'000	Company 31 December 2007 £'000
Unsecured Floating Rate Subordinated Notes	**50,874**	38,116	**-**	-
Preference shares	**37,496**	38,492	**38,145**	39,158
Loan Notes	**75,005**	76,996	**-**	-
Guaranteed loan notes	**-**	1,139	**-**	-
	163,375	154,743	**38,145**	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 2008 in respect of the Unsecured Floating Rate Subordinated Notes was £2,279,000 (2007: £3,293,000).

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.

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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.

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

The amount of interest charged to the Group in respect of the loan notes for the year ended 31 December 2008 was £7,083,000 (2007: £7,111,000).

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.

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

The amount of dividends charged to the Group in respect of the Preference shares for the year ended 31 December 2008 was £2,479,000 (2007: £2,480,000).

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 £1,138,975 representing the balance of the GLN was repaid (2007: £1,071,230).

The amount of interest charged in respect of the bank guaranteed loan notes for the year ended 31 December 2008 was £50,000 (2007: £84,000).

Facilities

The corporate Group had no bank overdraft facilities as at 31 December 2008 (2007: £3 million). The syndicates 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 2008 £'000	31 December 2007 £'000
Gross		
Claims outstanding	**190,661**	171,021
Provision for losses foreseen on open years	**277**	271
Provision for unearned premiums	**61,271**	51,732
	252,209	223,024
Recoverable from reinsurers		
Claims outstanding	**57,310**	50,655
Provision for unearned premiums	**4,341**	4,659
	61,651	55,314
Net	**190,558**	167,710

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 one syndicate 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.

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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 2008 £'000	Total 2007 £'000
Gross					
Provision at 1 January	**171,021**	**271**	**51,732**	**223,024**	290,251
Additional provisions made in the year	**78,470**	**6**	**56,178**	**134,654**	105,933
Amounts used in the year	**(101,302)**	**-**	**(50,463)**	**(151,765)**	(144,793)
Unused amount reversed during the year	**(1,674)**	**-**	**-**	**(1,674)**	(11,091)
Exchange differences	**44,146**	**-**	**3,824**	**47,970**	(17,276)
Provision at 31 December	**190,661**	**277**	**61,271**	**252,209**	223,024

	Claims outstanding - gross £'000	Provision for unearned premiums £'000	Total 2008 £'000	Total 2007 £'000
Reinsurance assets				
Provision at 1 January	**50,655**	**4,659**	**55,314**	86,154
Additional provisions made in the year	**17,078**	**4,444**	**21,522**	6,549
Amounts used in the year	**(25,022)**	**(5,044)**	**(30,066)**	(29,297)
Unused amount reversed during the year	**87**	**-**	**87**	(2,443)
Exchange differences	**14,512**	**282**	**14,794**	(5,649)
Provision at 31 December	**57,310**	**4,341**	**61,651**	55,314

26.2 Movement in deferred acquisition costs

	2008 £'000	2007 £'000
Provision at 1 January	**10,042**	12,903
Additional provisions made in the year	**10,775**	9,743
Amounts used in the year	**(8,816)**	(12,604)
Provision at 31 December	**12,001**	10,042

27 Provisions for other liabilities

Provision in respect of profit sharing scheme	31 December 2008 £'000	31 December 2007 £'000
Provision at 1 January	**7,591**	5,877
Charge for the year	**7,261**	7,395
Utilised in the year	**(6,949)**	(5,681)
Provision at 31 December	**7,903**	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 issued by Cathedral Capital (Investments) Limited and dividends on the preference shares issued by 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 is 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 Group Remuneration Committee has recommended to the Board that £7,381,000 (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 2008 £'000	31 December 2007 £'000
Declared underwriting profits	**12,408**	3,753
Annually accounted profits	**7,958**	9,329
Provisions for future underwriting losses	**(77)**	(82)
Unrealised investment (losses)/gains	**(195)**	317
Accelerated capital allowances	**23**	34
Tax losses carried forward	**(56)**	(60)
Other timing differences	**6,308**	6,655
Provision for deferred tax	**26,369**	19,946

Provision for deferred tax at start of year	**19,946**
Deferred tax charge in Consolidated Income Statement for year	**6,423**
Provision for deferred tax at end of year	**26,369**

Unprovided deferred tax assets for the Group were £nil at 31 December 2008 (31 December 2007: £nil).

The Company had no deferred tax assets or liabilities at 31 December 2008 (31 December 2007: £nil).

All deferred tax assets are considered to be recoverable.

29 Other creditors

	Group 31 December 2008 £'000	Group 31 December 2007 £'000	Company 31 December 2008 £'000	Company 31 December 2007 £'000
Amounts due within one year:				
Arising out of direct insurance operations	**2,289**	4,761	**-**	-
Arising out of reinsurance operations	**22,558**	10,967	**-**	-
Other taxes and social security costs	**175**	157	**-**	-
Trade creditors	**3,066**	3,956	**55**	61
Other creditors	**82**	87	**-**	-
Amounts due after one year:				
Trade creditors	**-**	633	**-**	-
	28,170	20,561	**55**	61

Other creditors includes £1,400 payable to the shareholders of Cathedral Capital Holdings Limited who hadn't accepted the offer by the end of the year (2007: £1,400). This amount is held in a specific bank account for those shareholders.

30 Share capital

	31 December 2008 Authorised	31 December 2007 Authorised	31 December 2008 Allotted issued and fully paid	31 December 2007 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.

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 2008 £'000	(Loss) for the year £'000	Redemption of shares £'000	Total attributable to shareholders £'000
Called up share capital	13	-	-	13
Share premium	1,237	-	-	1,237
Capital redemption reserve	-	-	1,013	1,013
Retained earnings	9,175	(2,224)	(1,013)	5,938
Equity shareholders' funds	**10,425**	**(2,224)**	**-**	**8,201**

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.

The capital redemption reserve is in respect of preference shares which are redeemed out of distributable profits, and is not distributable.

All of the profit and loss reserve at 31 December 2008 and 31 December 2007 is distributable.

32 Reconciliation of total shareholders' equity

	Company 31 December 2008 £'000	Company 31 December 2007 £'000
Total recognised gains / (losses) for the year	**(2,224)**	9,321
Proceeds of sale of shares in the year by ESOP	**-**	-
Total movements during the year	**(2,224)**	9,321
Opening shareholders' equity	**10,425**	1,104
Closing shareholders' equity	**8,201**	10,425

Notes to the Financial Statements
For the year ended 31 December 2008

continued

33 Employee Share Ownership Plan

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

	31 December 2008	31 December 2007
9.2% Manager Loan Notes in Cathedral Capital (Investments) Limited	**1,297,216**	1,331,666
6.44% Preference shares of £1 each in Cathedral Capital Limited	**648,508**	665,733
B ordinary shares in Cathedral Capital Limited	**13,655**	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 2008 £'000	Year ended 31 December 2007 £'000
Income Statement For the year ended 31 December 2008		
Investment income on shares and Loan Notes	**165**	149
Other interest	**1**	2
Realised gains on disposal of shares and Loan Notes	**9**	-
Tax withheld	**(25)**	-
Total profit	**150**	151
Balance Sheet		
Investments *	**1,959**	2,014
Cash	**198**	257
Less liabilities	**(139)**	(403)
Net assets	**2,018**	1,868
ESOP funds	**2,018**	1,868
Reconciliation of ESOP funds		
ESOP funds at 1 January 2008	**1,868**	
Profit arising in ESOP during year	**150**	
ESOP funds at 31 December 2008	**2,018**	

*Valued at cost to the Group.

34 Capital commitments

The Group had no capital commitments at 31 December 2008 (2007: £nil).

The Company had no capital commitments at 31 December 2008 (2007: £nil).

35 Operating leases

	Group 31 December 2008 £'000	Group 31 December 2007 £'000
Future minimum lease payments under non-cancellable operating leases:		
Land & buildings:		
Within one year	**366**	366
In the second to fifth years inclusive	**549**	915
Other:		
Within one year	**14**	13
In the second to fifth years inclusive	**11**	14
	940	1,308

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 2008 or 2007.

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 2008 £'000	Year ended 31 December 2007 £'000
Profit before taxation	**25,250**	19,302
Adjustments for:		
Depreciation	**242**	215
(Profit) on sale of syndicate capacity	**(3,182)**	-
(Increase) / decrease in debtors & accrued income	**(24,377)**	4,651
Change in underwriting balances	**20,889**	(33,526)
(Increase) / decrease in ESOP debtors	**-**	(112)
Purchase of investments	**(307,223)**	(237,100)
Proceeds from disposal of investments	**346,345**	269,705
Unrealised investment (gains)	**(1,828)**	(1,984)
Exchange revaluation	**(41,612)**	(242)
Increase / (decrease) in creditors	**7,606**	(1,245)
Impairment of in-force business	**843**	7,418
Interest expense	**10,714**	12,941
Interest received	**(12,075)**	(12,273)
Dividends received	**(215)**	(254)
Cash generated from operations	**21,377**	27,496

38 Related party transactions

(i) Directors' Interest in Transactions

As set out in section (ii) below, each of the directors also has owned shares and Loan Notes in Cathedral Capital (Investments) Limited and Cathedral Capital Limited. Mr Slade also has 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 2008 and 31 December 2007 (according to the register of Directors' interests) are set out below:

		31 December 2008			31 December 2007	
	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	-
D J H Slade	**-**	**-**	**851**	-	-	851
P D Scales	**21,634**	**33,413**	**-**	21,634	33,413	-

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 2008 and 31 December 2007 (according to the register of Directors' interests) are set out below:

		31 December 2008			31 December 2007	
	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	**357,211**	**-**	**714,533**	366,699	-	733,509
J A Lynch	**822,639**	**-**	**1,645,531**	844,489	-	1,689,232
D J H Slade	**36,350**	**73,071**	**-**	37,500	75,011	-
P D Scales	**822,639**	**-**	**1,645,531**	844,489	-	1,689,232

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 underwriting subsidiary 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 2008 and 31 December 2007 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 2008	**13,655**	**648,508**	**1,297,216**
At 31 December 2007	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 2008 £'000	Year ended 31 December 2007 £'000
Key management compensation		
Salaries and other short-term employee benefits	**5,151**	5,067
Post-employment benefits	**97**	108
	5,248	5,175

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 2008, there were no items outstanding (2007: £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. There is an obligation on members to remain continuously solvent.

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

At 31 December 2008, the group's funds at Lloyd's amounted to £105.9 million (inclusive of a £10 million letter of credit), which was in excess of its capital requirements. These funds were invested in a mixture of equities, fixed interest instruments and cash.

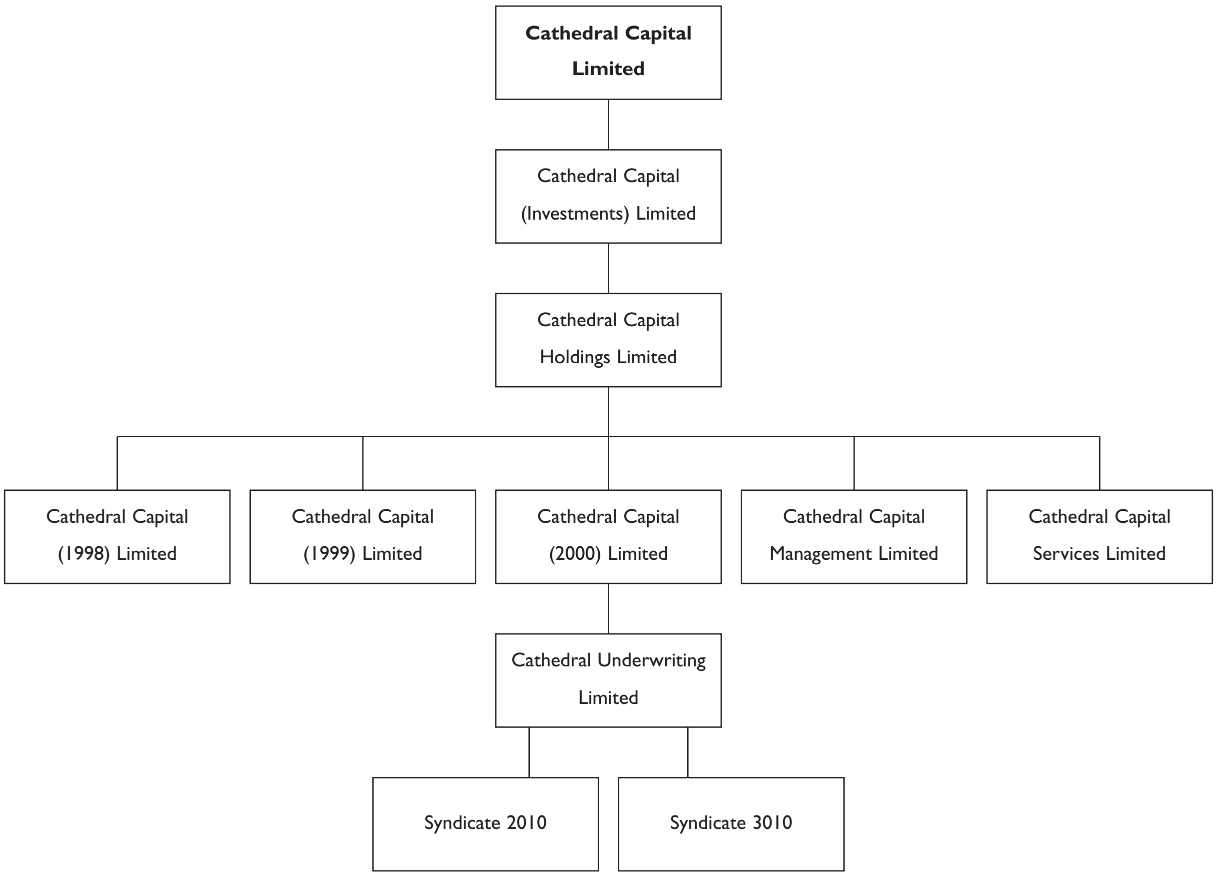
41 Categories of financial assets and liabilities

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

As at 31 December 2008	Financial assets	Loans and receivables	Assets at fair value through profit or loss	Insurance contracts	Non-financial assets	Total
Assets						
Property, plant and equipment	-	-	-	-	694	694
Intangible assets	-	-	-	-	23,234	23,234
Fair value of in-force business	-	-	-	-	-	-
Reinsurers' share of technical provisions	-	-	-	61,651	-	61,651
Financial investments	-	-	174,982	-	-	174,982
Deferred acquisition costs	-	-	-	12,001	-	12,001
Other assets	-	-	-	-	2,852	2,852
Prepayments and accrued income	1,660	-	-	-	5,112	6,772
Trade and other receivables	-	83,838	-	-	-	83,838
Cash and cash equivalents	-	147,179	-	-	-	147,179
Total assets	**1,660**	**231,017**	**174,982**	**73,652**	**31,892**	**513,203**

	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
Liabilities					
Borrowings	50,874	112,501	-	-	163,375
Insurance contracts	-	-	252,209	-	252,209
Provision for other liabilities and charges	-	-	-	7,903	7,903
Deferred tax liabilities	-	-	-	26,369	26,369
Trade and other payables	-	-	-	28,170	28,170
Current tax liabilities	-	-	-	140	140
Accruals and deferred income	-	184	-	1,331	1,515
Total liabilities	**50,874**	**112,685**	**252,209**	**63,913**	**479,681**

Group Structure



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