CATHEDRAL
CAPITAL LIMITED

Annual Report

31 December 2009

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Annual Report
For the year ended 31 December 2009

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Chief Executive Officer's Report

Overview

The group made a post tax profit of £9.5 million, down from £17.5 million a year earlier. This takes into account the servicing costs of the Preference Shares, Investor Loan Notes and Manager Loan Notes issued to the equity Shareholders. Net Tangible Assets of the Group have grown from £127.8 million to £137.3 million over the course of the year.

Syndicate 2010, our main trading entity, produced a very creditable combined ratio of 74.9% for the year. Given this performance, a reduced bottom line at Group level from the preceding year is somewhat counter-intuitive. However, the overall result has been impacted by the exchange rate effects that benefitted us last year in tandem with reduced investment income reflecting the cautious strategy adopted for our investment portfolio. The underlying business has had another strong trading year and performed well.

The market place has once again changed complexion over the course of the last year. The start of 2009 saw a generally positive market place in most lines following a high incidence of claims in 2008 set against the continuing background of fall-out from the financial crisis and world wide recession. By the second half of the year more entrants piled into more markets seemingly free from the shackles of expertise in the name of diversification, using apparently 'surplus' capital. In addition the expected fall from grace of AIG failed to materialise since its main P&C units were allowed to compete aggressively to maintain market share effectively writing on US government paper.

We now find ourselves in another record reporting season on the back of an absence of major catastrophe losses that will boost balance sheets and drive further pressure on underwriting discipline. Again. It is perhaps a sign of the times that any perception of buoyant and improving trading conditions is met with either existing or brand new entities inserting themselves into already competitive markets bringing little to the party other than price competition. Although many of these moves seem completely illogical in terms of profitability they seem to play well with the rating agencies and presumably investors.

Over recent years, the industry has increased its emphasis on 'risk management' or at least the additional layers of process which are interpreted as constituting its best practice. One notable effect has been the heavy policing of property catastrophe exposures by the rating agencies, regulators and analysts who regard modelled output and price indices as reliable tools with which to measure risk and prospects. It is to areas outside of catastrophe exposure where the rating agencies and regulators are by default pushing the industry. Few of these areas offer ready reference points for quantitative assessment or benchmarking. This has resulted in relatively light policing of a wide and evolving variety of exposures ranging from widespread risk in the casualty markets to various complex individual credit risks

The law of unintended consequences has resulted in more entities being driven to diversify into areas that are less transparent, more complex and sometimes having no prospect of making profits. In short, since the industry has 'embedded the risk management framework' in its process, more companies trade in more areas with less specialist knowledge of exposures which are themselves less readily quantifiable.

It would be better for all concerned if the balance of policing were redressed to reflect a wider approach with a lighter more qualitative touch, giving a more accurate broader picture for regulators and investors to assess. Meanwhile, the UK and European insurance and presumably paper industries are girding themselves for the implementation of the EU Solvency II directive to further embed active risk management and documentation procedures into all trading businesses. It is to be hoped that all this achieves real improvement in risk management rather than simply the addition of extra pointless bureaucracy.

Despite entering another competitive phase, the overall tenor of the market place is one of reasonably priced core classes under varying degrees of pressure on terms and conditions with a softer 'brokers' market round the edges. We have seen this all before and previously it has resolved itself by the effectiveness of the broker network burning off the less able. Equally, decent businesses with expertise and franchise can happily make sensible returns without changing their risk profile.

I suspect the biggest overall driver of the market going forward will be the extent to which adverse movements in casualty books during the next year or so make themselves apparent, potentially stopping or reversing the sequence of reserve releases which have bolstered results and balance sheets over recent years.

Another potential driver for change is some form of market consolidation. It is clear that there are too many participants in most segments. If significant following-market capacity was pulled out of Lloyd's, Bermuda, Europe and the US admitted market, it is highly unlikely that trading conditions would be the worse for it and clients would still be able to access the cover they required.

There has been some talk of a round of mergers & acquisitions that could have the above effect. However, there is a valuation issue that may inhibit a sensible solution. The industry as a whole has returned attractive IRR's for the last number of years which are superior to most other asset classes over the same timeframe, yet many quoted companies are attributed a negative value to their assets by the markets. We all understand that buying a controlling share might involve some sort of premium, but coming from a base level where one of the most rewarding asset classes over the last few years would be more highly valued if no one came to work tomorrow is a nonsense!

As a consequence investors and analysts need serious persuasion to consider any proposal that involves apparently 'destroying value' at the point of transaction by paying a premium for goodwill, even if that transaction could rebase the long term earnings and valuation of an enlarged group.

Assuming that the owners of premium businesses will not be in the business of rushing to sell for close to analyst's fair value (little or none!) then the most likely outcomes are some paper for paper deals among companies on similar valuations which at least may satisfy investors with itchy feet. A number of these transactions may eventually lead to some rationalisation of the points of entry each has into various markets, but will not necessarily improve the quality of underwriting of the larger unit.

Meanwhile, many analysts' and investors' thoughts as to future prospects for the industry seem to be unduly guided by soundbites on market 'rates'. These are hardly a reliable indicator of anything in isolation, but are frequently used as an easy quantitative reference point from which to position investment strategy. Of course, if the casualty market is significantly under reserved or there is a huge property loss tomorrow then today's market valuations could be remarkably prophetic!

Thankfully we have chosen to remain a private focussed short tail business with expertise in all areas where we trade. We have not dabbled in some of the more esoteric risks that are now producing substantial claims nor have we been persuaded that the casualty market is the place for us. Going in 2010 we are in good trading position without many of the issues that larger and wider spread businesses may need to address in the near future.

Market

2009 saw estimated catastrophe losses of $52bn of which $24bn were insured. This figure is below the long term average and compares very favourably with 2008. The year was also notable as no hurricanes made landfall in the US. The largest single loss of the year was Windstorm Klaus which caused $3.5bn of damage across France and Spain in January. Four storm systems, one in Europe and three in the US, also resulted in insured losses in excess of $1bn during the year. At a lower loss level the Mid-West states took another battering from weather losses as they had the year before.

The biggest headline loss of the year was that of Air France flight 447 over the Atlantic. None of the 228 passengers and crew were found, the only recovery to date being some wreckage of the Airbus A330. Apart from the tragic loss of life, the initial expectation is of a market loss in the region of $700m, though given the unclear circumstances of the aircraft's failure and with little prospect of retrieving detailed flight data, a resolution as to exactly what went wrong could take some time to reach.

In the background, liability claims continued to rumble on across a wide variety of fronts without manifesting themselves on many balance sheets as yet and most companies in the casualty business managed another substantial release from old years' reserves, accounting for a significant portion of their results. It is worth stating that we are not involved or highly knowledgeable about the workings of the liability market. However, the consensus release of reserves over the last few years still seems to us to represent significant downside risk unless there are really very few claims directly or indirectly falling out of the entire financial crisis and global recession.

Finally the year was rounded out by a number of expensive individual claims relating to so called 'political' and 'trade credit' risks. These are one off deals which seem to involve a surprising variety and number of markets given the level of expertise one would assume was needed to understand and underwrite them. They rarely form the core of any business and as such only really come to light when there is a loss. They do however indicate the flavour of where some companies have been hunting for additional premium around the edges of core books. The brokers have then been able quickly to engage and develop a market place which does not yet appear to attract much regulatory attention.

Syndicate 2010 and Syndicate 3010

Both Syndicates had a quiet year so far as catastrophe loss activity goes. As one would expect we have an involvement on the Air France loss that will engage our own reinsurers. In addition Syndicate 3010 has an involvement in the Graff diamond robbery in Mayfair.

For next year we have increased the capacity of Syndicate 2010 to £350m largely to cope with exchange issues surrounding a periodically weak Sterling. We have maintained our exposures at a reasonably consistent level with which we are comfortable suits the risk profile of the business.

For a more in-depth commentary of both Syndicates' results and prospects I would commend John Hamblin's underwriters report in the respective Syndicate Report & Accounts.

As a sad post script, the 2010 year has started in disastrous fashion for the people of Haiti and Chile where major earthquakes have devastated major population centres causing substantial loss of life and huge upheaval for those who remain. The damage in Chile will cause notable loss to the international insurance and reinsurance markets, while Haiti is likely to generate little in the way of material claims.

Lloyd's

As a market place Lloyd's remains very much on the up in terms of client perceptions with another good financial performance for the market, a less than average exposure to the liability classes and an increasingly robust central fund.

Lloyd's continues to receive numerous enquiries from companies in the industry, as worldwide licensing and the capital structure make it the place of choice to develop and build a new specialty business. Lloyd's central have been consistent in their approach to new applications to the market in that there are 'hurdles' to clear and most applications are rejected. In the last few years a significant number of new businesses, be they subsidiaries of international carriers or independents, have still gained entry to the market either by the front door or by acquisition. Most business plans predicted a small focused approach where they had some expertise but it will be no surprise that many seem to have widened their remit significantly. The result has been competition generated from inside Lloyd's to add to the general market situation.

I am not convinced that excess capital per se precipitates softening trading conditions and indiscipline; I believe more impetus in this direction comes from the increasing number of participants who bring only capacity to already saturated markets, thus allowing brokers and clients the upper hand. It has been noticeable over the last year that Lloyd's generated competition across a number of classes has increased substantially and is now one of the major sources of pressure on our lines of business. This has not been the case until recently.

Lloyd's has launched its new strategic plan for the next three years after much consulting, but arrived at something that effectively indicates more of the same. In some ways this is reassuring that nothing is fundamentally broken. However, in others it's slightly disappointing as the development of more efficient ways to bring capital to the market and a more effective regulatory engagement with the market place have not been addressed. One significant change is the retirement of Rolfe Tolle as Franchise performance director. Rolfe was well liked and did good work over a number of years on behalf of the market. We expect Tom Bolt, his successor, to have a slightly different style we hope with a more qualitative feel. We wish him well as he has important work ahead.

Not withstanding the above and the less than helpful UK tax regime, Lloyd's still remains the best place to build specialist businesses. We all hope Lloyd's can continue to provide such an environment going forward and does not let overtly intrusive regulation erode the market's trading advantage.

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.

Chief Executive Officer's Report

continued

Consolidated Statement of Comprehensive Income

The consolidated profit on ordinary activities after tax, as reported in the Consolidated Statement of Comprehensive Income, was £9.5 million (2008: £17.5 million) which equates to earnings per equity share of £7.66 (2008: £14.18).

	Underwriting				
	Managed £'000	External £'000	Total £'000	Corporate £'000	Total £'000
Gross Written Premium	186,845	591	187,436	-	187,436
Net Earned Premium *	139,380	(5,347)	134,033	-	134,033
Net Claims incurred	(73,561)	8,050	(65,511)	-	(65,511)
Acquisition costs	(30,507)	(1,355)	(31,862)	-	(31,862)
Underwriting results	35,312	1,348	36,660	-	36,660
Other expenses **	(29,216)	(1,001)	30,217)	(4,036)	34,253
Net investment return	2,444	145	2,589	3,969	6,558
Fees, Commissions and other income	-	-	-	3,567	3,567
Profit before tax	8,540	492	9,032	3,500	12,532
Tax	(1,800)	(98)	(1,898)	(1,170)	(3,068)
Profit after tax	6,740	394	7,134	2,330	9,464
Earnings per equity share	£5.45	£0.32	£5.77	£1.89	£7.66
Return on Equity ***	20.1%	1.2%	21.3%	6.9%	28.2%

* included in net earned premiums is net reinsurance to close premiums paid of £9.8 million (2008: £24.7 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.

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 2009 include premiums on policies incepting during the year together with estimates for premiums and adjustments to premiums on policies incepting in previous periods.

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 2009		31 December 2008	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Non-marine reinsurance	**28.9**	**34.3**	77.1	53.0
Aviation	**82.5**	**71.0**	42.0	55.1
Satellite	**70.4**	**71.8**	16.0	13.7
Direct & facultative property	**45.1**	**57.4**	72.9	75.9
Contingency	**85.6**	**39.6**	45.4	49.7
Cargo	**78.0**	**70.4**	54.8	64.6
Other	**0.5**	**0.3**	31.0	31.0
Total claims ratio	**48.3**	**51.2**	67.4	60.8
Expense ratio	**19.9**	**26.6**	19.5	27.5
Combined ratio	**68.2**	**77.8**	86.9	88.3

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 2009		31 December 2008	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Managed syndicates	**49.1**	**54.9**	62.2	72.0
External syndicates	**(6.6)**	**(6.0)**	(16.8)	(18.5)
Total claims ratio	**42.5**	**48.9**	45.4	53.5
Expense ratio:				
Managed syndicates	**20.1**	**28.5**	20.6	36.7
External syndicates	**0.7**	**1.0**	2.3	4.1
Corporate	**(2.2)**	**(3.2)**	(3.0)	(5.3)
Staff profit-related pay	**2.3**	**3.3**	4.7	8.3
Total expense ratio	**20.9**	**29.6**	24.6	43.8
Combined ratio	**63.4**	**78.5**	70.0	97.3

The corporate expense ratio is net of fees, commissions and other non-investment income. For the year ended 2009 the gross expense ratio does not include circa 4.9% (2008: 6.2%) (net expense ratio 6.9% (2008: 11.0%)) 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 £13.5 million of exchange losses (2008: £18 million of exchange gains) from its trading or financing activities that have been accounted for through the Consolidated Statement of Comprehensive Income.

Chief Executive Officer's Report

continued

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 an 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 £4.0 million (2008: £6.3 million) which equates to a return of 2.6% down from 4.5% 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	2,488	26.2	652
Fixed interest	74,290	2.6	1,910
Alternative investments	3,077	11.1	342
Cash	21,208	0.9	191
Total	101,063	3.1	3,095
Free Funds:			
Cash	53,119	1.6	874
Total	154,182	2.6	3,969

Financing of borrowings

The Company has paid, on 31 December 2009, 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 Statement of Comprehensive Income.

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 (2008: restated £3.7 million) on these borrowings by the Group during the course of the year. More detail on these borrowings can be found in Note 24 to the Annual Report.

Taxation

The Group tax charge for the year is £3.1 million (2008: £7.7 million) which gives an effective tax rate of 24.5% (2008: 30.6%). 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 £7.66 down from £14.18 from the previous year. The earnings per share are enhanced by 10 pence (2008: 16 pence) per share as a result of the equity shares held by the Cathedral Group Employee Ownership Plan ("ESOP").

Return on equity

The return on equity for an equity shareholder is 28.2% 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 11.5% (2008: 19.1%) for the year was achieved on the total funds invested in the Group. This return has been enhanced by circa 0.2% (2008: 0.3%) 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 (2008: £nil).

Conolidated Statement of Financial Position

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

The Consolidated Statement of Financial Position is analysed below and includes the Group's interest in the managed Syndicates and external syndicates at 31 December 2009 as single line items:

	31 December 2009 £'000	31 December 2008 £'000
Intangible assets	**23,234**	23,234
Tangible fixed assets	**562**	694
Group assets used as funds at Lloyd's	**110,265**	95,856
Other investments and cash balances	**39,316**	52,446
Borrowings	**(112,501)**	(112,501)
Unsecured subordinated loan notes	**(43,153)**	(50,874)
Deferred and current taxation	**(23,398)**	(26,509)
Interest in managed syndicates	**48,177**	51,402
Interest in external syndicates	**(2,648)**	(609)
Net other assets/(liabilities)	**3,137**	388
	42,991	33,527
Own shares (ESOP)	**(13)**	(5)
Equity shareholders' funds	**42,978**	33,522

The valuation of the intangible assets consists of the cost of underwriting capacity for Syndicate 2010 and 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. Accordingly, the equity shareholders consider their net tangible assets to be £137.3 million. The Investor Loan Notes are listed on the Channel Islands Stock Exchange.

The Group did not issue any new tranches of Unsecured Floating Rate Subordinated Loan Notes during the year and the decrease in cost of these borrowings is substantially as a result of reductions in interest rates during the year. All four Unsecured Floating Rate Notes continue to be listed on the Irish Stock Exchange. Further information on the terms of all of the Floating Rate Notes is set out in Note 24.

The Group had no bank facilities at December 2009 and the £10 million letter of credit in the Group's funds at Lloyd's was released back to the bank in the year.

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

	31 December 2009		31 December 2008	
	Managed £'000	**External £'000**	Managed £'000	External £'000
Cash and investments	**169,474**	**7,881**	146,969	26,889
Debtors - insurance and reinsurance	**57,609**	**689**	74,080	7,165
Net technical provisions	**(173,789)**	**(11,359)**	(157,577)	(32,981)
Creditors - insurance and reinsurance	**(15,321)**	**(99)**	(21,416)	(3,219)
Other net assets	**10,204**	**240**	9,346	1,537
Group's interest	**48,177**	**(2,648)**	51,402	(609)

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 2009 was £63.8 million (2008: £56.9 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 32.

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 the 2010 year, the Group's Funds at Lloyd's requirement was set at 55% of underwriting capacity supported. This compares with a Funds at Lloyd's requirement of 59% for 2009, as revised following the significant movement in Sterling during the second half of 2008.

Strategy

We have a settled business that is performing well. Our market position and experience across our trading areas mean that we are in a relatively good position to deal with any deterioration in general trading conditions. Equally, we are in a good position to respond to any opportunities that present themselves as a result of possible changes in the dynamics of the market.

Historically, we have chosen to take our risk to balance sheet on the underwriting rather than investment side and as such intend to maintain our rather unexciting investment strategy as we still see opportunities to continue to make decent returns from our underwriting activities.

If an opportunity to add to our underwriting portfolio via the acquisition of certain individuals in a limited number of classes that fit our risk appetite arises we would be interested to bring them into the business. However beyond this we have no immediate plans to dabble in areas in which we are not expert nor do we envisage any major departures into areas that do not fit with our long standing underwriting prejudices.

Given the general market background and the current perception of value of businesses in the sector at present, doing anything other than concentrating on what we do well would seem rather odd!

Remarkably, it is ten years since the team filed a business plan at Lloyd's to start Cathedral Underwriting and Syndicate 2010. From a standing start, the business has increased in size, scope and reputation but still trades in areas where we can add underwriting value and add up our exposures.

Despite some testing years we have been profitable throughout and made decent returns for many investors who have supported us during the development of the business. All of the senior team and most of those who started the venture with us are still here as well as colleagues that have joined us along the way. I would like to extend my thanks to everyone concerned in a great genuinely team effort over the period as well as this last year.

Peter Scales
Chief Executive Officer
7 April 2010

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	5958018
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 2009.

Registered Office and Company Number

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. The Company registration number is 5958018.

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 £203.4 million (2008: £219.0 million) of capacity for the 2009 year of account all of which supported Cathedral Syndicates 2010 and 3010. For the 2010 year of account, the Group will underwrite £232.3 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 2009 year of account. The capacity of the Syndicate has been increased to £350 million for the 2010 year of account. Cathedral Syndicate 2010 has just closed its seventh underwriting year, the 2007 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 and 2010 years of account. The Syndicate's sole capital provider is the Group's corporate member. Cathedral Syndicate 3010 has just closed its first underwriting year, the 2007 year of account, with a small profit.

The managed Syndicates reported an aggregate 2009 calendar year profit of £49.8 million (2008: £25.1 million) which equates to an aggregate net combined ratio for the Syndicates of 77.8% (2008: 88.3%). 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 2 to 11.

Results and Dividends

The results attributable to shareholders for the period and the transfer to reserves are shown on page 22.

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 (2008: £nil). The Company has paid a dividend at a rate of 6.44% per annum in respect of its Preference shares on 31 December 2008 and 2009.

Future Developments

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

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.

At the year end, there were 38,144,962 (2008: 38,144,962) 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 12.

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 2009			31 December 2008		
	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	-
P D Scales	**21,634**	**33,413**	**-**	21,634	33,413	-
D J H Slade	**-**	**-**	**851**	-	-	851

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 2009			31 December 2008		
	Preference £1 shares	**Investor Loan Notes £1**	**Manager Loan Notes £1**	Preference £1 shares	Investor Loan Notes £1	Manager Loan Notes £1
E E Patrick	**357,211**	**-**	**714,533**	357,211	-	714,533
J A Lynch	**822,639**	**-**	**1,645,531**	822,639	-	1,645,531
P D Scales	**822,639**	**-**	**1,645,531**	822,639	-	1,645,531
D J H Slade	**36,350**	**73,071**	**-**	36,350	73,071	-

The Cathedral Group has an ESOP in which all full time employees are potential beneficiaries. As such, all Directors who are full time employees of the Cathedral Group have a potential interest in the shares (and other assets) held by the ESOP.

Report of the Directors

continued

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 2009			31 December 2008		
	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	**13,723**	**651,084**	**1,302,367**	13,655	648,508	1,297,216

Related Parties

Details of related parties and any related party transactions can be found in Note 37.

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.

Employee Involvement

Details of employees and their remuneration are included in Note 13.

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 ESOP.

Donations

During the year the Group made no charitable or political donations (2008: £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 12.

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

Details of the Director's Renumeration is set out in Note 37 of this Annual Report.

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.

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 adequate records that disclose with reasonable accuracy at any time the financial position of the Company and Group and to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safe-guarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein. Financial statements are published on the Group's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

By order of the Board

John Lynch
Company Secretary
7 April 2010

Report of the Independent Auditors

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

We have audited the financial statements of Cathedral Capital Limited for the year ended 31 December 2009 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in the preparation of the Consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 18 and 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the Consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Andrew Hubbard *(Senior Statutory Auditor)*
for and on behalf of Mazars LLP, Chartered Accountants (Statutory auditor)

Tower Bridge House, St Katharine's Way, London E1W 1DD
7 April 2010

CATHEDRAL
CAPITAL LIMITED

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2009

	Notes	**Year ended 31 December 2009 £'000**	Year ended 31 December 2008 (Restated) £'000
Income			
Gross premiums written	5	**187,436**	161,113
Less premiums ceded to reinsurers		**(54,796)**	(67,657)
Net premiums written		**132,640**	93,456
Gross amount of change in provision for unearned premiums		**2,657**	(5,715)
Reinsurers' share of change in provision for unearned premiums		**(1,264)**	(600)
Earned premiums, net of reinsurance		**134,003**	87,141
Fees and commission income	6	**3,534**	4,866
Investment return	7	**6,558**	14,543
Other income	8	**33**	3,183
Total income		**144,158**	109,733
Expenses			
Claims paid			
Gross amount		**(87,496)**	(95,035)
Reinsurers' share		**19,829**	31,696
Net claims paid		**(67,667)**	(63,339)
Net change in the provision for claims			
Gross amount		**6,582**	24,506
Reinsurers' share		**(4,426)**	(7,857)
Net change in the provision for claims		**2,156**	16,649
Claims incurred, net of reinsurance	5	**(65,511)**	(46,690)
Acquisition costs		**(31,862)**	(25,900)
Other operating expenses	9	**(11,796)**	(17,985)
Net foreign exchange (losses)/gains	10	**(13,470)**	17,984
Total expenses, excluding finance costs		**(122,639)**	(72,591)
Operating profits		**21,519**	37,142
Finance costs	11	**(8,987)**	(11,892)
Profit on ordinary activities before tax		**12,532**	25,250
Income tax expense	14	**(3,068)**	(7,719)
Profit on ordinary activities after tax		**9,464**	17,531
Profit attributable to equity shareholders of the parent company		**9,464**	17,531
Other comprehensive income		**-**	-
Total comprehensive income for the year		**9,464**	17,531
Basic & diluted earnings per share	16	**£7.66**	£14.18

All activities were in respect of continuing operations.

The Notes on pages 27 to 70 form part of these consolidated financial statements.

Consolidated Statement of Financial Position
As at 31 December 2009

	Notes	**31 December 2009 £'000**	31 December 2008 £'000
Assets			
Property, plant and equipment	17	**562**	694
Intangible assets	18	**23,234**	23,234
Reinsurance assets	25	**51,691**	61,651
Financial investments	19	**180,061**	174,982
Deferred acquisition costs	25	**13,090**	12,001
Other assets		**1,220**	2,852
Prepayments and accrued income	21	**5,524**	6,772
Trade and other receivables	22	**61,172**	83,838
Cash and cash equivalents	23	**146,875**	147,179
Total assets		**483,429**	513,203
Equity			
Called up share capital	29	**13**	13
Share premium account	30	**1,237**	1,237
Other reserves		**1,013**	1,013
Own shares		**(13)**	(5)
Retained earnings		**40,728**	31,264
Total shareholders' equity		**42,978**	33,522
Liabilities			
Borrowings	24	**155,654**	163,375
Insurance contracts	25	**236,839**	252,209
Provision for other liabilities	26	**4,972**	7,903
Deferred tax liabilities	27	**19,251**	26,369
Trade and other payables	28	**18,449**	28,170
Current tax liabilities		**4,147**	140
Accruals and deferred income		**1,139**	1,515
Total liabilities		**440,451**	479,681
Total equity and liabilities		**483,429**	513,203

The Notes on pages 27 to 70 form part of these consolidated financial statements.

CATHEDRAL
CAPITAL LIMITED

Company Balance Sheet
As at 31 December 2009

	Notes	**31 December 2009 £'000**	31 December 2008 £'000
Assets			
Investments in subsidiary undertakings	20	**40,408**	40,408
		40,408	40,408
Trade and other receivables	22	**6,077**	6,144
Cash and cash equivalents		**1**	6
Total assets		**46,486**	46,558
Equity			
Called up share capital	29	**13**	13
Share premium	30	**1,237**	1,237
Capital redemption reserve	30	**1,013**	1,013
Profit and loss reserve	30	**5,983**	5,938
Total shareholders' equity	31	**8,246**	8,201
Liabilities			
Borrowings	24	**38,145**	38,145
Trade and other payables	28	**55**	55
Current tax liabilities		**1**	119
Accruals and deferred income		**39**	38
Total liabilities		**38,240**	38,357
Total equity and liabilities		**46,486**	46,558

The financial statements on pages 22 to 70 were approved by the Board of Directors and authorised for issue on 7 April 2010 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 27 to 70 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2009

Year ended 31 December 2009	**Balance at 1 January 2009 £'000**	**Profit for the year £'000**	**Redemption of preference shares £'000**	**Purchase 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	**(5)**	**-**	**-**	**(8)**	**(13)**
Retained earnings	**31,264**	**9,464**	**-**	**-**	**40,728**
Total shareholders' equity	**33,522**	**9,464**	**-**	**(8)**	**42,978**

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

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 shares (including preference shares) cancelled by the Company and is not distributable.

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 32.

The Notes on pages 27 to 70 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Cash generated from operations	36	**14,456**	21,377
Interest received		**8,351**	12,474
Dividends received		**251**	218
Interest paid		**(9,246)**	(9,428)
Preference share dividends paid		**(2,415)**	(2,479)
Income taxes paid		**(5,885)**	(2,592)
Net cash from operating activities		**5,512**	19,570
Investing activities			
Proceeds from disposal of syndicate capacity		**-**	4,305
Purchase of property, plant and equipment		**(105)**	(192)
Net cash used in investing activities		**(105)**	4,113
Financing activities			
Redemption of preference shares		**-**	(996)
Redemption of loan notes		**-**	(1,991)
Purchase of own shares by ESOP		**(8)**	-
Sale of own shares by ESOP		**-**	12
Acquisition of subsidiary*		**-**	(1,139)
Net cash from financing activities		**(8)**	(4,114)
Net increase in cash and cash equivalents		**5,399**	19,569
Cash and cash equivalents at beginning of the year		**147,179**	108,817
Effect of exchange rate fluctuations on cash and cash equivalents		**(5,703)**	18,793
Cash and cash equivalents at end of the year	23	**146,875**	147,179

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

The Notes on pages 27 to 70 form part of these consolidated financial statements.

Notes to the Financial Statements
For the year ended 31 December 2009

1 General Information

Cathedral Capital Limited ("the Company") is a limited company incorporated and domiciled in England and Wales. The addresses of its registered office and principal place of business are disclosed in the Report of the Directors on page 14. The principal activities of the Company and its subsidiaries ("the Group") are described in Note 20.

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 2006 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 Regulation 3(1) of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008.

No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006.

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 2009. 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) *Adoption of new and revised Standards*

IFRS 8 ("Operating Segments) became effective for the current year. The adoption of this Standard has had no impact on the Group's assets, liabilities or equity reported in earlier years. The impact has been only on disclosure. Accordingly, only two statements of financial position have been presented.

An interpretation issued by the International Financial Reporting Interpretations Committee ("IFRIC") has become effective for the current year. This is IFRIC 16: ("Hedges of a Net Investment in a Foreign Operation") and has not led to any changes in the Group's accounting policies or disclosures.

In addition, Amendments to IAS 1 ("Presentation of Financial Statements") and Amendments to IAS 23 ("Borrowing Costs") have been adopted. These have had no impact on the Group's assets, liabilities or equity reported in earlier years. The impact has been only on disclosure. Accordingly, only two statements of financial position have been presented.

d) 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 ("Revisions to IFRS 1 on First-time Adoption of IFRSs");
(ii) Amendments to IFRS 1 ("Additional Exemptions for First-time Adopters");
(iii) Amendments to IFRS 2 ("Group Cash-settled Share based Payments");
(iv) Amendments to IFRS 3 and IAS 27 ("Business Combinations");
(v) Amendments to IAS 24 ("Related Party Disclosures");
(vi) Amendments to IAS 32 ("Classification of Rights Issues");
(vii) Amendments to IAS 39 ("Eligible Hedged Items");
(viii) IFRIC 17 ("Distributions of Non-cash Assets to Owners");
(ix) IFRIC 18 ("Transfers of Assets from Customers");
(x) IFRC 19 ("Extinguishing Financial Liabilities with Equity Instruments");
(xi) Amendments to IFRIC 14 ("Prepayments of a Minimum Funding Requirement"); and
(xii) IFRS 9 ("Financial Instruments: Classification and Measurement").

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) Recognition of insurance transactions and sources of data

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

The Group recognises its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ("the syndicates") within the Group's Consolidated Statement of Comprehensive Income. Similarly, the Group's proportion of the syndicates' assets and liabilities has been reflected in its Consolidated Statement of Financial Position. This proportion is calculated by reference to the Group's participation as a percentage of each syndicate's total capacity for each year of account.

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

The financial information on these transactions, 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. Information for syndicates managed by the Group is 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).

b) 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. For those syndicates managed by managing agents outside of the Group, the Group has relied on information provided by those agents.

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 Statement of Comprehensive Income 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 and includes amounts in respect of internal and external claims handling costs.

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

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 agent 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.

(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 Statement of Comprehensive Income. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the asset, that the 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 year end, 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 (underwriting at Lloyd's) 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income.

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 Statement of Financial Position. 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 Statement of Comprehensive Income 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 Statement of Financial Position 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 Statement of Comprehensive Income.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in 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 Manager Loan Notes and Preference shares are deducted from the Group's borrowings, and the B ordinary shares held by the ESOP are presented as a reserve and deducted against equity shareholders' funds. Any profits arising on the sale of such shares by the ESOP are credited to this reserve.

n) *Leased assets*

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

o) *Borrowings*

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

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

Costs arising on the issue of loan notes are charged to the Consolidated Statement of Comprehensive Income over the period of the loan notes. The loan notes payable are shown on the Consolidated Statement of Financial Position, net of any unamortised cost. Borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the 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 net foreign exchange gains and losses*

All exchange gains and losses for 2008 have been reclassified as Expenses and separately identified on the Consolidated Statement of Comprehensive Income.

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 predominantly on its own managed syndicates and the risks set out below relate to this. However, the Group also underwrote on third party syndicates managed by external managing agents for the 2008 and prior years of account. 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.

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. Furthermore, the capacity and number of syndicates supported that are managed by external managing agents have significantly reduced in recent years and are, for the most part, an immaterial part of the Group's overall result.

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

4.1 Insurance risk

The 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:

	2009 £'000	**2009 %**	2008 £'000	2008 %
Cathedral managed syndicates:				
Non-marine	**70,570**	**38.0**	58,764	36.5
Direct property	**56,483**	**30.4**	45,801	28.4
Aviation	**25,910**	**13.9**	20,695	12.9
Cargo	**21,719**	**11.7**	16,124	10.0
Contingency	**4,980**	**2.7**	5,097	3.2
Satellite	**5,124**	**2.7**	2,164	1.3
FTC	**535**	**0.3**	284	0.2
Externally managed syndicates:	**591**	**0.3**	12,094	7.5
	185,912	**100.0**	161,023	100.0
RITC adjustment	**1,524**		90	
	187,436		161,113	

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 monitors the type of business underwritten by its managed syndicates at a whole account level and, where appropriate, adjusts either the business mix or the level of reinsurance protection in place to try to reduce the extent of overly concentrated exposures.

4.1.2 Frequency and severity of claims

The frequency and severity of claims in respect of the 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 some of them have a high degree of catastrophe exposure (for example the property accounts could be affected by hurricane losses or earthquakes).

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

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

4.1.3 Underwriting

The managed syndicates have a defined event risk appetite. Best efforts are made to restrict the maximum gross and net loss that the managed syndicates may retain/lose for any single major catastrophe event (taken to be a Lloyd's RDS) to be not materially more than circa 20% of capacity net or circa 75% of capacity gross. This is when applying rates of exchange used for planning purposes. The managed syndicates model various loss scenarios and also prepare prescribed RDS which seek to analyse and quantify their exposures to certain specified events, and the managed syndicates endeavour to ensure that their potential loss exposures remain within Franchise Board guidelines.

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

a) Unrecognised / unexpected accumulations

The business written by the managed syndicates is short tail in nature and, whilst the US Terror Attacks in 2001 showed that short tail classes are not immune from unrecognised/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 exposure driven. The managed syndicates continually seek to model their portfolio of accounts in order to identify accumulations and to monitor the exposures of the syndicates, and the whole process is supported by sophisticated bespoke internal and external modelling systems. Finally, to ensure the maximum depth of reinsurance coverage, all accounts other than FTC have purchased separate reinsurance programmes.

b) Risk of extreme losses

Even ignoring apocalyptical type losses (e.g. massive meteorite strike), crippling losses of circa 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.

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 that are structured so as 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 a frequency of mid-sized claims. The direct and facultative property account and the marine cargo account are also more vulnerable to loss frequency, although this is mitigated by modulating line size by attachment point, geographical spread of risks and a separate reinsurance programme.

d) Wording issues

The coverages provided by the 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 subsidiary reviews a sample of risks written and as part of his review looks at wordings to identify inconsistencies between slips and wordings. Contract certainty and pre-bind checks further mitigates this risk.

e) Unsustainable pricing

The cyclical nature of insurance means that rates constantly fluctuate. Whilst in the core reinsurance areas of the 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 addition to the above, 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.

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.

4.1.4 Reinsurance risk

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

a) Inappropriate reinsurance programme / unplanned gaps

The 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.

Also, if following the occurence of major losses, the reinsurance programmes do not respond or provide that which was assumed, then there could be significant financial consequences to the managed syndicates. It is emphasised that the amount of reinsurance cover which the 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 rest at the underwriting level and are aimed at ensuring the managed syndicates underwrite accounts that do not expose their reinsurers to a scale or type of exposure which was not reasonably within their contemplation at the time of writing the syndicates' outward reinsurance programmes. The 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

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 or complex claims, reinsurance recoverables and liability awards.

Provisions for unearned premiums are generally less contentious, but the reserving risk still remains that the written premiums are earned too quickly and not in accordance with the underlying exposure.

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

a) Claims outstanding

(i) Process used to decide on assumptions

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

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

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

(ii) Changes in assumptions and sensitivity analysis

The broad assumptions used in respect of the managed syndicates have not significantly changed during the year.

(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; and

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

If the provision for net outstanding claims changed by 1%, the impact would equate to a pre tax movement on net assets/profits of £1,210,000 (2008: £1,334,000).

The loss development table that follows provides information about historical claims development for managed syndicates. It shows how the Group's estimates of the claims ratio for the past nine underwriting years have changed at successive year-ends. In effect, the table highlights the Group's ability to provide a robust estimate of the claims costs. An underwriting year basis is considered to be the most appropriate basis for business written by the 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 2009 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**	**2009**
1 year	181%	46%	50%	88%	157%	28%	27%	74%	40%
2 years	141%	34%	29%	76%	121%	35%	46%	70%	
3 years	148%	30%	27%	76%	115%	36%	48%		
4 years	143%	29%	26%	73%	118%	36%			
5 years	139%	29%	25%	73%	117%				
6 years	137%	29%	25%	73%					
7 years	136%	28%	25%						
8 years	139%	27%							
9 years	137%								

	Underwriting Year								
Net	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
1 year	93%	58%	53%	69%	88%	39%	59%	67%	53%
2 years	79%	44%	32%	56%	73%	45%	57%	60%	
3 years	74%	37%	29%	56%	67%	46%	57%		
4 years	70%	36%	28%	53%	66%	44%			
5 years	68%	36%	28%	53%	66%				
6 years	68%	35%	28%	52%					
7 years	66%	35%	28%						
8 years	68%	34%							
9 years	67%								

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

b) Provision for unearned premiums

(i) Process used to decide on assumptions

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 calendar year as that is when the hurricane season will occur.

(ii) Changes in assumptions and sensitivity analysis

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

(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 (of the managed syndicates) 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 one percentage point would equate to an adjustment of £1,874,000 to the unearned premium provision (2008: £1,611,000).

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 this committee and adjusted as appropriate by the managing agency subsidiary's board.

Reinsurance is used to manage insurance risk, specifically catastrophe losses. This does not, however, discharge the 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 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 assumed in the calculation of credit risk.

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 the managed syndicates, all funds are held in either cash or short-dated fixed interest securities (either government or high-quality investment grade corporate bonds). Fixed interest managers are employed and their performance is regularly monitored by the managing agency subsidiary's syndicate investment committee.

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

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

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 2009	**A++ to A- £'000**	**B++ to B- £'000**	**F £'000**	**Unrated £'000**	**External Syndicates* £'000**	**Total £'000**
Financial investments	**169,918**	**-**	**-**	**6,455**	**3,688**	**180,061**
Insurance receivables	**40,112**	**297**	**4,319**	**12,881**	**689**	**58,298**
Reinsurance assets	**44,128**	**18**	**1,068**	**4,394**	**2,083**	**51,691**
Cash and cash equivalents	**142,487**	**-**	**-**	**195**	**4,193**	**146,875**
	396,645	**315**	**5,387**	**23,925**	**10,653**	**436,925**

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

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

Some of the unrated insurance receivables and reinsurance assets are fully collateralised in trust funds (circa £1.2 million). Also, a large element of the reinsurance assets relating to the Group's share of managed syndicates are in respect of attritional IBNR losses and have not been allocated to any specific reinsurer.

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

	Group 31 December 2009 £'000	Group 31 December 2008 £'000
3 to 6 months past due	**263**	510
6 to 9 months past due	**41**	133
Greater than 9 months past due	**779**	756
	1,083	1,399

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 2009, the Group had £39.1 million of cash available for use (2008: £52.2 million).

The following tables group the debt securities, cash and cash equivalents and borrowings into maturity date periods. Note that the maturity date used below for the longterm debt is on the same basis as its valuation.

At 31 December 2009	**< 1 year £'000**	**1-3 years £'000**	**4-5 years £'000**	**> 5 years £'000**	**External Syndicates* £'000**	**Total £'000**
Debt securities	**81,072**	**81,768**	**5,273**	**1,805**	**3,688**	**173,606**
Cash and cash equivalents	**142,682**	**-**	**-**	**-**	**4,193**	**146,875**
Borrowings	**-**	**-**	**(112,501)**	**(43,153)**	**-**	**(155,654)**
	223,754	**81,768**	**(107,228)**	**(41,348)**	**7,881**	**164,827**

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

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

4.4 Market risks

4.4.1 Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the Group. This can arise where the Group holds investments (either directly or through its participation on syndicates) with a fixed return, and market interest rates change which in turn change the market value of the investments.

The fixed interest securities held by the corporate entities of the 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.

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

	31 December 2009	31 December 2008
Debt Securities	**1.0%**	1.9%
Cash and cash equivalents	**1.2%**	3.1%
Borrowings	**7.6%**	8.0%

A change in market interest rates of one percentage point would equate to a pre tax movement on net assets/profits of £4,076,000 (2008: £2,787,000). 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 Consolidated Statement of Financial Position 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. The performance of the investment managers is continuously monitored and the Group's asset allocation committee formally receives a report from the investment managers each quarter.

Based on the year end value of equities and alternative investments, a change in the FTSE All Share Index of 10 percentage points would equate to a pre tax movement on net assets/profits of £646,000 (2008: £589,000).

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 currently 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.

The table below shows 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. Information in respect of the Group's share of the external syndicates is not available.

As at 31 December 2009	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	562	-	-	-	-	562
Intangible assets	23,234	-	-	-	-	23,234
Reinsurers' share of technical provisions	3,024	478	45,489	617	2,083	51,691
Financial investments	39,539	-	128,398	8,436	3,688	180,061
Deferred acquisition costs	1,708	584	9,873	860	65	13,090
Other assets	-	-	859	315	46	1,220
Prepayments and accrued income	5,333	2	146	-	43	5,524
Trade and other receivables	8,819	4,850	44,976	1,721	806	61,172
Cash and cash equivalents	82,180	22,221	34,622	3,659	4,193	146,875
Total assets	**164,399**	**28,135**	**264,363**	**15,608**	**10,924**	**483,429**

As at 31 December 2009	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	9,731	33,422	-	-	155,654
Insurance contracts	21,114	15,333	174,680	12,270	13,442	236,839
Provision for other liabilities and charges	4,972	-	-	-	-	4,972
Deferred tax liabilities	19,251	-	-	-	-	19,251
Trade and other payables	5,003	639	12,125	579	103	18,449
Current tax liabilities	4,147	-	-	-	-	4,147
Accruals and deferred income	943	56	113	-	27	1,139
Total liabilities	**167,931**	**25,759**	**220,340**	**12,849**	**13,572**	**440,451**
Net assets	**(3,532)**	**2,376**	**44,023**	**2,759**	**(2,648)**	**42,978**
Impact of 10% currency movement:*						
2009	**-**	**238**	**4,402**	**276**	**-**	**4,916**
2008	-	579	2,069	596	-	3,244

* 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 information

Analysis of Group's Reportable Segments

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

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

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

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

	For the year ended 31 December 2009					
	Managed Syndicates £'000	External Syndicates £'000	Corporate Funds £'000	Corporate Other £'000	Elimination £'000	Total £'000
Gross premiums written	185,322	591	-	-	-	185,913
Underwriting:						
Net earned premiums	137,857	5,969	-	-	-	143,826
Net claims incurred	(72,038)	(3,266)	-	-	-	(75,304)
Underwriting expenses	(30,507)	(1,355)	-	-	-	(31,862)
Underwriting result	35,312	1,348	-	-	-	36,660
Other income and expenses:						
Fees and commission income	-	-	-	4,932	(1,398)	3,534
Investment return	2,444	145	3,969	-	-	6,558
Other income	-	-	-	33	-	33
Operating expenses	(7,733)	24	-	(5,514)	1,427	(11,796)
Exchange (losses)/gains	(13,753)	(498)	-	781	-	(13,470)
Interest payable	-	-	-	(8,987)	-	(8,987)
Profit before tax	16,270	1,019	3,969	(8,755)	29	12,532
Income tax expense	(3,504)	(219)	(1,111)	1,774	(8)	(3,068)
Profit after tax	12,766	800	2,858	(6,981)	21	9,464
Combined ratio	80.0%	77.0%	N/A	N/A	N/A	89.0%
Total assets	-	-	149,581	(79,296)	-	228,877
Total liabilities	-	-	-	(185,899)	-	(185,899)
Net assets	-	-	149,581	(106,603)	-	42,978
Capital expenditure	-	-	-	105	-	105

5 Segmental information *continued*

	For the year ended 31 December 2008					
	Managed Syndicates £'000	External Syndicates £'000	Corporate Funds £'000	Corporate Other £'000	Elimination £'000	Total £'000
Gross premiums written	148,929	12,094	-	-	-	161,023
Underwriting:						
Net earned premiums	102,768	9,040	-	-	-	111,808
Net claims incurred	(62,688)	(8,669)	-	-	-	(71,357)
Underwriting expenses	(23,759)	(2,141)	-	-	-	(25,900)
Underwriting result	16,321	(1,770)	-	-	-	14,551
Other income and expenses:						
Fees and commission income	-	-	-	6,208	(1,342)	4,866
Investment return	6,995	1,233	6,315	-	-	14,543
Other income	-	-	-	3,183	-	3,183
Operating expenses	(8,162)	(1,426)	-	(9,824)	1,427	(17,985)
Exchange gains/(losses)	22,650	2,788	-	(7,454)	-	17,984
Interest payable	-	-	-	(11,892)	-	(11,892)
Profit before tax	37,804	825	6,315	(19,779)	85	25,250
Income tax expense	(10,518)	(229)	(1,757)	4,809	(24)	(7,719)
Profit after tax	27,286	596	4,558	(14,970)	61	17,531
Combined ratio	92.1%	135.4%	N/A	N/A	N/A	95.9%
Total assets	-	-	148,303	84,951	-	233,254
Total liabilities	-	-	-	(199,732)	-	(199,732)
Net assets	-	-	148,303	(114,781)	-	33,522
Capital expenditure	-	-	-	192	-	192

All revenues for each reportable segment are from external customers, with the exception of £1,398,000 (2008: £1,342,000) of sales received by Corporate Other which are from managed syndicates.

Corporate Other also includes depreciation and amortisation of £237,000 (2008: £242,000) and impairment of £nil (2008: £843,000).

5 Segmental information *continued*

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

Reconciliation of reportable segments to Financial Statements

	For the year ended 31 December 2009			
	Per total Reportable Segments	**Adjustment for RITC premiums**	**Syndicate assets and liabilities**	**Per total Group Accounts**
Gross premiums written	**185,913**	**1,523**	**-**	**187,436**
Underwriting:				
Net earned premiums	**143,826**	**(9,793)**	**-**	**134,033**
Net claims incurred	**(75,304)**	**9,793**	**-**	**(65,511)**
Underwriting expenses	**(31,862)**	**-**	**-**	**(31,862)**
Underwriting result	**36,660**	**-**	**-**	**36,660**
Other income and expenses:				
Fees and commission income	**3,534**	**-**	**-**	**3,534**
Investment return	**6,558**	**-**	**-**	**6,558**
Other income	**33**	**-**	**-**	**33**
Operating expenses	**(11,796)**	**-**	**-**	**(11,796)**
Exchange (losses)/gains	**(13,470)**	**-**	**-**	**(13,470)**
Interest payable	**(8,987)**	**-**	**-**	**(8,987)**
Profit before tax	**12,532**	**-**	**-**	**12,532**
Income tax expense	**(3,068)**	**-**	**-**	**(3,068)**
Profit after tax	**9,464**	**-**	**-**	**9,464**
Total assets	**228,877**	**-**	**254,552**	**483,429**
Total liabilities	**(185,899)**	**-**	**(254,552)**	**(440,451)**
Net assets	**42,978**	**-**	**-**	**42,978**

	For the year ended 31 December 2008			
	Per total Reportable Segments	Adjustment for RITC premiums	Syndicate assets and liabilities	Per total Group Accounts
Gross premiums written	161,023	90	-	161,113
Underwriting:				
Net earned premiums	111,808	(24,667)	-	87,141
Net claims incurred	(71,357)	24,667	-	(46,690)
Underwriting expenses	(25,900)	-	-	(25,900)
Underwriting result	14,551	-	-	14,551
Other income and expenses:				
Fees and commission income	4,866	-	-	4,866
Investment return	14,543	-	-	14,543
Other income	3,183	-	-	3,183
Operating expenses	(17,985)	-	-	(17,985)
Exchange (losses)/gains	17,984	-	-	17,984
Interest payable	(11,892)	-	-	(11,892)
Profit before tax	25,250	-	-	25,250
Income tax expense	(7,719)	-	-	(7,719)
Profit after tax	17,531	-	-	17,531
Total assets	233,254	-	279,949	513,203
Total liabilities	(199,732)	-	(279,949)	479,681
Net assets	33,522	-	-	33,522

5 Segmental information *continued*

Explanations of the reconciling items

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

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

Geographical information

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

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

Information about major customers

No revenues from transactions with a single external customer amounted to 10 per cent or more of the Group's revenues for the year ended 31 December 2009 or the year ended 31 December 2008.

6 Fees and commission income

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Managing agency fees	**825**	812
Profit commission	**2,709**	4,054
	3,534	4,866

Notes to the Financial Statements
For the year ended 31 December 2009

continued

7 Investment return

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Syndicate investments		
Investment income - interest	**4,112**	5,244
Realised investment (losses)/gains	**(1,523)**	2,984
Net investment return on syndicate investments	**2,589**	8,228
Funds at Lloyd's		
Investment income - interest	**2,098**	4,431
Investment income - dividends	**249**	215
Realised investment gains	**232**	425
Net fair value gains/(losses) on assets at fair value through the Consolidated Statement of Comprehensive Income	**516**	(1,156)
Net investment return on funds at Lloyd's investments	**3,095**	3,915
Cash and other investments		
Investment income - interest	**881**	2,400
Net fair value (losses) on assets at fair value through the Consolidated Statement of Comprehensive Income	**(7)**	-
Net investment return on other investments	**874**	2,400
Net investment return	**6,558**	14,543

8 Other income

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 (Restated) £'000
Profit on sale syndicate capacity	**-**	3,182
Other income	**33**	1
	33	3,183

9 Other operating expenses

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Syndicate operating expenses	**5,652**	5,150
Names' personal expenses on Lloyd's syndicates	**630**	3,011
Corporate expenses	**5,514**	9,824
	11,796	17,985

10 Net foreign echange losses/(gains)

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Retranslation of underwriting balances	**3,063**	(15,529)
Exchange loss/(gain) to maintain non-monetary assets and liabilities at historical rates of exchange	**11,188**	(9,909)
Exchange (gain)/loss on long-term loan notes	**(5,123)**	14,343
Retranslation of other corporate balances	**4,342**	(6,889)
	13,470	(17,984)

11 Finance costs

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 (Restated) £'000
Interest expense on:		
Unsecured Floating Rate Subordinated Notes	**2,263**	3,701
Investor and Manager Loan Notes	**6,900**	7,083
Bank guaranteed loan notes	**-**	50
Other	**7**	1
Effective interest rate method adjustment	**(2,598)**	(1,422)
Dividends on Preference shares	**2,415**	2,479
	8,987	11,892

12 Profit on ordinary activies before taxation

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
The profit on ordinary activities before taxation is stated after charging:		
Operating lease charges - rent	**24**	30
Operating lease charges - other	**1**	2
Depreciation of tangible fixed assets	**237**	242
Impairment of value of in-force business	**-**	843
Fees payable to the auditor for:		
Audit of the Company's annual accounts	**12**	7
Audit of the Company's subsidiaries' annual accounts	**88**	79
Technical advice	**1**	6
Taxation services	**23**	30
Employee services	**1**	2
Advisory services	**-**	16
Internal review	**25**	-

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 Statement of Comprehensive Income as part of the finance cost.

13 Employees

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
The aggregate payroll costs borne by the Corporate Group were as follows:		
Salaries	**4,362**	6,917
Social security costs	**570**	882
Pension costs under defined contribution plans	**71**	78
	5,003	7,877

The average monthly number of people (excluding non-executive directors) employed by the Group during the year was 49 (2008:48). Of this, 29 were dedicated underwriting and claims (2008: 28) with the remainder of employees involved in operations, administration and finance. Refer to Note 37 for details of compensation of key management personnel.

14 Income tax expense

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
(a) Analysis of charge in the year		
Current tax		
Corporation tax at 28% (2008: 28.5%)	**9,557**	1,238
Adjustments in respect of previous years	**358**	(323)
Overseas tax	**247**	356
Withholding tax	**24**	25
Total current tax charge	**10,186**	1,296
Deferred taxation		
Underwriting profits	**(7,446)**	7,290
Investment losses	**211**	(398)
Temporary differences on accelerated capital allowances	**(15)**	(11)
Other temporary differences	**132**	(458)
Total deferred tax charge	**(7,118)**	6,423
Tax charge	**3,068**	7,719
(b) Factors affecting the tax charge for the year		
Profit on ordinary activities before tax	**12,532**	25,250
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 28.5%)	**3,509**	7,196
Expenses not deductible for tax purposes	**753**	730
Temporary differences	**(116)**	(188)
Investment income received net of tax	**(70)**	(61)
Investment income not taxable	**(5)**	(24)
Movement in tax losses	**-**	(22)
Overseas tax	**247**	386
Withholding tax	**24**	25
Prior period adjustments	**(1,274)**	(323)
Total tax charge	**3,068**	7,719

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

The profit dealt with in the accounts of the Company (as prepared under UK GAAP) was £45,000 (2008: loss of £2,224,000). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account for the Company has been included in these financial statements.

16 Earnings per share

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
The basic earnings per share is calculated as follows:		
Profit for the year (£'000)	**9,464**	17,531
Basic and diluted weighted average number of shares (no.)*	**1,236,308**	1,236,085
Basic and diluted earnings per share (£)	**7.66**	14.18

* 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 2009 £'000**	Total 2008 £'000
Cost						
At 1 January	**29**	**710**	**552**	**210**	**1,501**	1,412
Additions	**-**	**105**	**-**	**-**	**105**	192
Disposals	**-**	**-**	**-**	**-**	**-**	(103)
At 31 December	**29**	**815**	**552**	**210**	**1,606**	1,501
Depreciation						
At 1 January	**14**	**519**	**274**	**-**	**807**	668
Charge for the year	**6**	**128**	**103**	**-**	**237**	242
Disposals	**-**	**-**	**-**	**-**	**-**	(103)
At 31 December	**20**	**647**	**377**	**-**	**1,044**	807
Net book value						
At 31 December	**9**	**168**	**175**	**210**	**562**	694
At 1 January	**15**	**191**	**278**	**210**	**694**	744

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

18 Intangible assets

	Syndicate participations £'000	Goodwill £'000	Total 2009 £'000	Total 2008 £'000
Cost at 1 January	**22,934**	**300**	**23,234**	24,357
Disposals in the year	**-**	**-**	**-**	(1,123)
Cost at 31 December	**22,934**	**300**	**23,234**	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 2009	**Managed Syndicate £'000**	**Corporate £'000**	**Total £'000**
Goodwill	**-**	**300**	**300**
Syndicate capacity	**22,934**	**-**	**22,934**

As at 31 December 2008	Managed Syndicate £'000	Corporate £'000	Total £'000
Goodwill	-	300	300
Syndicate capacity	22,934	-	22,934

When testing for impairment, the recoverable amounts of a cash generating unit are determined based on value in use. Value in use is calculated using projected cash flows for six years and an appropriate pre tax discount rate. These cashflow projections are the latest ones approved by the Board. The Board has used cashflows for more than five years as the Group does not receive its underwriting profits until the fourth year after the year of account has commenced. 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 Financial investments

The Group's financial investments consist of:

	31 December 2009 Market value £'000	31 December 2009 Cost £'000	31 December 2008 Market value £'000	31 December 2008 Cost £'000
Corporate				
Shares and other variable yield securities	**3,786**	**3,443**	2,795	3,289
Alternative investments	**2,669**	**2,799**	3,091	3,293
Debt and other fixed income securities	**47,896**	**47,565**	48,790	48,191
Total investments - Corporate	**54,351**	**53,807**	54,676	54,773
Syndicate participations				
Debt securities and other fixed interest securities	**125,710**	**125,959**	120,249	118,007
Deposits with ceding undertakings	**-**	**-**	18	18
Other loans and investments	**-**	**-**	39	48
Total investments - Syndicate participations	**125,710**	**125,959**	120,306	118,073
Group financial investments	**180,061**	**179,766**	174,982	172,846

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

Of the Group's investments above, £54,351,000 (2008: £54,676,000) are held as funds at Lloyd's and therefore their use is restricted. All investments held by syndicates are only available for investment and for paying of claims and expenses by the syndicates to their policyholders. Corporate investments of £54,351,000 (2008: £54,676,000) are listed on recognised stock exchanges.

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

The Company holds no financial investments.

20 Investments in subsidiary undertakings

	31 December 2009 £'000	31 December 2008 £'000
Investments in subsidiary undertakings	**40,408**	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.

21 Prepayments and accrued income

	Group 31 December 2009 £'000	Group 31 December 2008 £'000
Accrued income - investments	**398**	1,660
Accrued income - underwriting	**4,641**	4,319
Prepayments	**485**	793
	5,524	6,772

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

22 Trade and other receivables

	Group 31 December 2009 £'000	Group 31 December 2008 £'000	Company 31 December 2009 £'000	Company 31 December 2008 £'000
Arising out of direct insurance operations	**14,232**	19,433	**-**	-
Arising out of reinsurance operations	**44,066**	61,812	**-**	-
Amounts owed by managed syndicates	**2,333**	1,747	**-**	-
Amounts owed by Group undertakings	**-**	-	**6,077**	6,144
Other receivables	**541**	846	**-**	-
	61,172	83,838	**6,077**	6,144

Of the amounts due from managed syndicates, £nil (2008: £nil) is due in more than one year.

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

23 Cash and cash equivalents (Group)

	Group 31 December 2009 £'000	Group 31 December 2008 £'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	**122,179**	134,015
Short term investments	**24,696**	13,164
	146,875	147,179

Cash and cash equivalents consist of:		
Cash and cash equivalents held by syndicates	**51,645**	53,552
Cash and cash equivalents held within funds at Lloyd's	**55,914**	41,180
Cash and cash equivalents held by ESOP	**189**	198
Cash and cash equivalents available for use by the Group	**39,127**	52,249
	146,875	147,179

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

24 Borrowings

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

	Group 31 December 2009 £'000	Group 31 December 2008 £'000	**Company 31 December 2009 £'000**	Company 31 December 2008 £'000
Unsecured Floating Rate Subordinated Notes	**43,153**	50,874	**-**	-
Preference shares	**37,496**	37,496	**38,145**	38,145
Loan Notes	**75,005**	75,005	**-**	-
	155,654	163,375	**38,145**	38,145

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 2009 in respect of the Unsecured Floating Rate Subordinated Notes is set out in Note 11.

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

Loan Notes

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

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

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 2009 was £6,900,000 (2008: £7,083,000).

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 32.

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 2009 was £2,415,000 (2008: £2,479,000).

Facilities

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

25 Insurance contracts - technical provisions and reinsurance assets

	31 December 2009 £'000	31 December 2008 £'000
Gross		
Claims outstanding	**168,840**	190,661
Provision for unearned premiums	**67,658**	61,271
Other provisions	**341**	277
	236,839	252,209
Recoverable from reinsurers		
Claims outstanding	**47,828**	57,310
Provision for unearned premiums	**3,863**	4,341
	51,691	61,651
Net	**185,148**	190,558

Provision for claims outstanding

The provision for claims outstanding 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 Statement of Financial Position. 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 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.

Other provisions

Other provisions are in respect of losses foreseen on open years and 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.

25.1 Reconciliation of changes in insurance liabilities and reinsurance assets

	Claims outstanding - gross £'000	Provision for unearned premiums £'000	Other provisions £'000	Total 2009 £'000	Total 2008 £'000
Gross					
Provision at 1 January	**190,661**	**61,271**	**277**	**252,209**	223,024
Additional provisions made in the year	**80,682**	**61,821**	**64**	**142,567**	134,654
Amounts used in the year	**(89,660)**	**(64,488)**	**-**	**(154,148)**	(151,765)
Unused amount reversed during the year	**2,388**	**-**	**-**	**2,388**	(1,674)
Exchange differences	**(15,231)**	**9,054**	**-**	**(6,177)**	47,970
Provision at 31 December	**168,840**	**67,658**	**341**	**236,839**	252,209

	Claims outstanding - gross £'000	Provision for unearned premiums £'000	Other provisions £'000	Total 2009 £'000	Total 2008 £'000
Reinsurance assets					
Provision at 1 January	**57,310**	**4,341**	**-**	**61,651**	55,314
Additional provisions made in the year	**15,356**	**3,873**	**-**	**19,229**	21,522
Amounts used in the year	**(22,060)**	**(5,138)**	**-**	**(27,198)**	(30,066)
Unused amount reversed during the year	**2,275**	**-**	**-**	**2,275**	87
Exchange differences	**(5,053)**	**787**	**-**	**(4,266)**	14,794
Provision at 31 December	**47,828**	**3,863**	**-**	**51,691**	61,651
Net	**121,012**	**63,795**	**341**	**185,148**	190,558

25.2 Movement in deferred acquisition costs

	2009 £'000	2008 £'000
Provision at 1 January	**12,001**	10,042
Additional provisions made in the year	**11,756**	10,775
Amounts used in the year	**(10,667)**	(8,816)
Provision at 31 December	**13,090**	12,001

26 Provisions for other liabilities

	31 December 2009 £'000	31 December 2008 £'000
Provision in respect of profit sharing scheme		
Provision at 1 January	**7,903**	7,591
Charge for the year	**4,449**	7,261
Utilised in the year	**(7,380)**	(6,949)
Provision at 31 December	**4,972**	7,903

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 68. Since the year end, the Group Remuneration Committee has recommended to the Board that £4,744,000 (including employers' national insurance) should be distributed to Group employees.

27 Provision for deferred tax

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

	31 December 2009 £'000	31 December 2008 £'000
Declared underwriting profits	**6,471**	12,408
Annually accounted profits	**6,467**	7,958
Provisions for future underwriting losses	**(95)**	(77)
Unrealised investment (losses)/gains	**23**	(195)
Accelerated capital allowances	**8**	23
Tax losses carried forward	**(111)**	(56)
Other timing differences	**6,488**	6,308
Provision for deferred tax	**19,251**	26,369

Provision for deferred tax at start of year	**26,369**
Deferred tax charge in Consolidated Statement of Comprehensive Income for year	**(7,118)**
Provision for deferred tax at end of year	**19,251**

Unprovided deferred tax assets for the Group were £nil at 31 December 2009 (31 December 2008: £nil).

The Company had no deferred tax assets or liabilities at 31 December 2009 (31 December 2008: £nil).

All deferred tax assets are considered to be recoverable.

28 Other creditors

	Group 31 December 2009 £'000	Group 31 December 2008 £'000	**Company 31 December 2009 £'000**	Company 31 December 2008 £'000
Amounts due within one year:				
Arising out of direct insurance operations	**1,322**	2,289	**-**	-
Arising out of reinsurance operations	**14,098**	22,558	**-**	-
Other taxes and social security costs	**469**	175	**-**	-
Owed to parent company	-	-	**55**	55
Trade creditors	**2,560**	3,066	**-**	-
Other creditors	**-**	82	**-**	-
Amounts due after one year:				
Trade creditors	**-**	-	**-**	-
	18,449	28,170	**55**	55

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 (2008: £1,400). This amount is held in a specific bank account for those shareholders.

29 Share capital

	31 December 2009 Allotted issued and fully paid	31 December 2008 Allotted issued and fully paid
	No.'000	No.'000
Number:		
A ordinary shares of 1p each	**702,290**	702,290
B ordinary shares of 1p each	**210,210**	210,210
Ordinary shares of 1p each	**337,500**	337,500
	£'000	£'000
Nominal value		
A ordinary shares of 1p each	**7**	7
B ordinary shares of 1p each	**2**	2
Ordinary shares of 1p each	**3**	3
	13	13

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

30 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 25.

Movement in reserves - Company

	Balance at 1 January 2009 £'000	Profit for the year £'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	5,938	45	5,983
Equity shareholders' funds	**8,201**	**45**	**8,246**

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 2009 and 31 December 2008 is distributable.

31 Reconciliation of total shareholders' equity

	Company 31 December 2009 £'000	Company 31 December 2008 £'000
Total recognised gains / (losses) for the year	**45**	(2,224)
Proceeds of sale of shares in the year by ESOP	**-**	-
Total movements during the year	**45**	(2,224)
Opening shareholders' equity	**8,201**	10,425
Closing shareholders' equity	**8,246**	8,201

32 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 2009 Number	31 December 2008 Number
9.2% Manager Loan Notes in Cathedral Capital (Investments) Limited	**1,302,367**	1,297,216
6.44% Preference shares of £1 each in Cathedral Capital Limited	**651,084**	648,508
B ordinary shares in Cathedral Capital Limited	**13,723**	13,655

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 2009 £'000	Year ended 31 December 2008 £'000
Profit and loss account		
Investment income on shares and Loan Notes	**162**	165
Other interest	**-**	1
Realised gains on disposal of shares and Loan Notes	**-**	9
Tax withheld	**(24)**	(25)
Total profit	**138**	150
Balance Sheet		
Investments *	**1,967**	1,959
Cash	**189**	198
Less liabilities	**-**	(139)
Net assets	**2,156**	2,018
ESOP funds	**2,156**	2,018
Reconciliation of ESOP funds		
ESOP funds at 1 January	**2,018**	1,868
Profit arising in ESOP during year	**138**	150
ESOP funds at 31 December	**2,156**	2,018

*Valued at cost to the Group.

33 Capital commitments

The Group had no capital commitments at 31 December 2009 (2008: £nil).

The Company had no capital commitments at 31 December 2009 (2008: £nil).

34 Operating leases

	Group 31 December 2009 £'000	Group 31 December 2008 £'000
Future minimum lease payments under non-cancellable operating leases:		
Land & buildings:		
Within one year	**366**	366
In the second to fifth years inclusive	**183**	549
Other:		
Within one year	**12**	15
In the second to fifth years inclusive	**11**	11
	572	940

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 2009 or 2008.

35 Pensions

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

36 Reconciliation of profit to cash generated from operations

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Profit before taxation	**12,532**	25,250
Adjustments for:		
Depreciation	**237**	242
(Profit) on sale of syndicate capacity	**-**	(3,182)
Decrease / (increase) in debtors & accrued income	**24,284**	(24,377)
Change in underwriting balances	**(6,499)**	20,889
Purchase of investments	**(193,944)**	(307,223)
Proceeds from disposal of investments	**177,748**	346,345
Unrealised investment losses / (gains)	**1,014**	(1,828)
Exchange revaluation	**10,683**	(41,612)
(Decrease) / increase in creditors	**(13,246)**	7,606
Impairment of in-force business	**-**	843
Interest expense	**8,987**	10,714
Interest received	**(7,091)**	(12,075)
Dividends received	**(249)**	(215)
Cash generated from operations	**14,456**	21,377

37 Related party transactions

(i) Directors' Interest in Transactions

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

The interests of the Directors and their families in the Preference shares issued by Cathedral Capital Limited and the Loan Notes issued by Cathedral Capital (Investments) Limited at 31 December 2009 and 31 December 2008 (according to the register of Directors' interests) are set out below:

		31 December 2009			31 December 2008	
	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**	357,211	-	714,533
J A Lynch	**822,639**	**-**	**1,645,531**	822,639	-	1,645,531
P D Scales	**822,639**	**-**	**1,645,531**	822,639	-	1,645,531
D J H Slade	**36,350**	**73,071**	**-**	36,350	73,071	-

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. Details of the Preference shares, Manager Loan Notes and B ordinary shares held by the ESOP are set out in Note 32.

(ii) 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 active underwriting subsidiary by Lloyd's.

(iii) Incentive Plans

Cathedral Capital Employee Share Ownership Plan

This ESOP has been set up for the benefit of all full time employees in the 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 1166 of the Companies Act 2006.

The interests of the ESOP at 31 December 2009 and 31 December 2008 are:

	Cathedral Capital Limited		**Cathedral Capital (Investment) Limited Manager Loan Notes £**
	B ordinary 1 pence shares Number	**Preference shares Number**	
At 31 December 2009	**13,723**	**651,084**	**1,302,367**
At 31 December 2008	13,655	648,508	1,297,216

Further details of the ESOP are set out in Note 32.

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:

	Fees & Salaries £'000	Benefits in Kind £'000	Pensions £'000	31 December 2009 Total £'000	31 December 2008 Total £'000
E E Patrick	**60**	**2**	**-**	**62**	122
J A Lynch	**515**	**1**	**23**	**539**	799
P D Scales	**515**	**1**	**23**	**539**	799
	1,090	**4**	**46**	**1,140**	1,720

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

Alchemy Partners (Guernsey) Limited received a fee of £63,000 (2008: £63,000) in respect of Mr Slade's directorship.

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 dividends on the preference shares issued by 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 Chrief 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 details in Note 26.

As mentioned above, 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.

(iv) Key Management Compensation

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. Details of the cost of key management compensation charged to the Group are as follows:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Key management compensation		
Salaries and other short-term employee benefits	**3,342**	5,151
Post-employment benefits	**110**	97
	3,452	5,248

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 2009, there were no items outstanding (2008: £nil outstanding).

38 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.

39 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 30 and details of the loan capital are set out in Note 24.

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 2009, the Group's funds at Lloyd's amounted to £110.3 million, which was in excess of its capital requirements. These funds were invested in a mixture of equities, fixed interest instruments and cash.

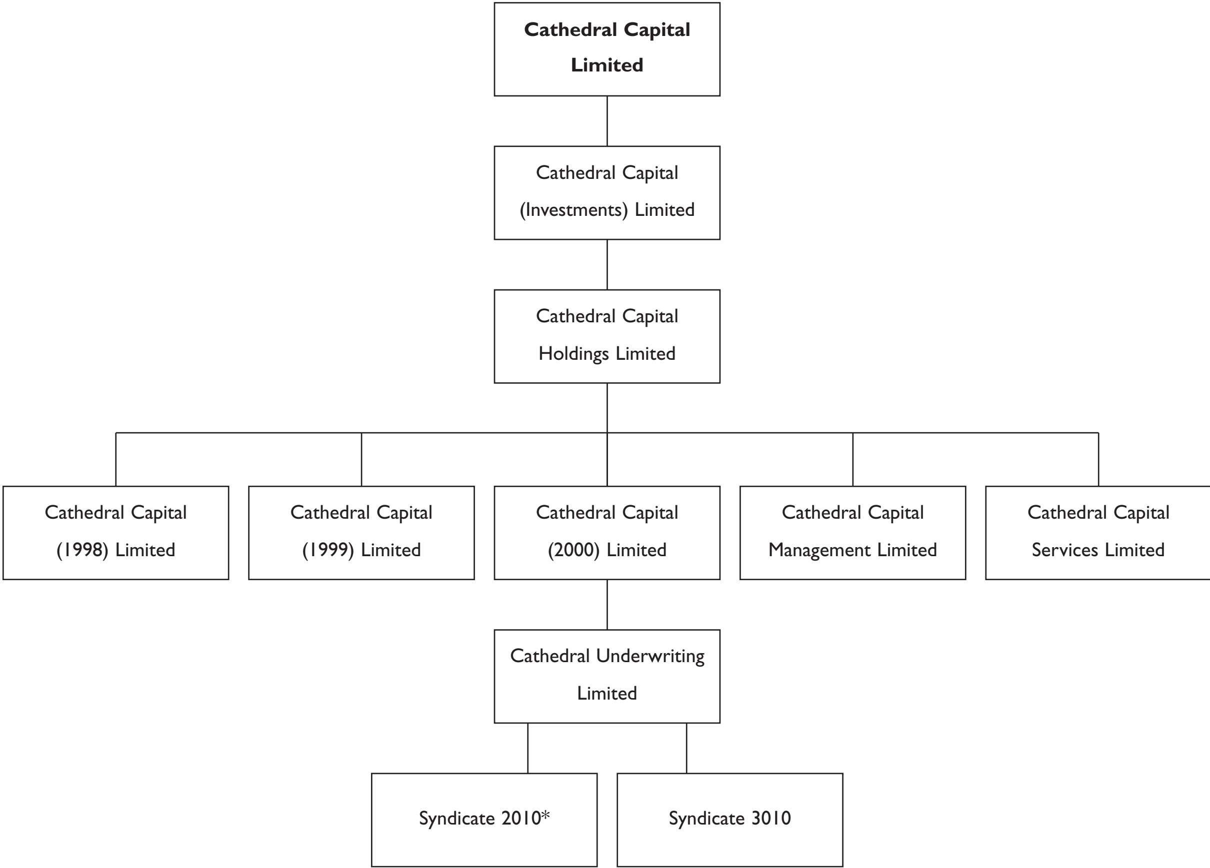
40 Categories of financial assets and liabilities

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

As at 31 December 2009 £'000	Financial assets	Loans and receivables	Assets at fair value through profit or loss	Insurance contracts	Non-financial assets	Total
Assets						
Property, plant and equipment	-	-	-	-	562	562
Intangible assets	-	-	-	-	23,234	23,234
Reinsurers' share of technical provisions	-	-	-	51,691	-	51,691
Financial investments	-	-	180,061	-	-	180,061
Deferred acquisition costs	-	-	-	13,090	-	13,090
Other assets	-	-	-	-	1,220	1,220
Prepayments and accrued income	398	-	-	-	5,126	5,524
Trade and other receivables	-	61,172	-	-	-	61,172
Cash and cash equivalents	-	146,875	-	-	-	146,875
Total assets	**398**	**208,047**	**180,061**	**64,781**	**30,142**	**483,429**

£'000	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
Liabilities					
Borrowings	43,153	112,501	-	-	155,654
Insurance contracts	-	-	236,839	-	236,839
Provision for other liabilities and charges	-	-	-	4,972	4,972
Deferred tax liabilities	-	-	-	19,251	19,251
Trade and other payables	-	-	-	18,449	18,449
Current tax liabilities	-	-	-	4,147	4,147
Accruals and deferred income	-	108	-	1,031	1,139
Total liabilities	**43,153**	**112,609**	**236,839**	**47,850**	**440,451**

Group Structure



*The Group provides capital to support 57.8% of the stamp.

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