CATHEDRAL
CAPITAL LIMITED

Annual Report
31 December 2011

CATHEDRAL
CAPITAL LIMITED

Annual Report
For the year ended 31 December 2011

Contents

Chief Executive Officer's Report

Overview

It is with regret but little surprise that I have to report a bottom line loss for the year of £3.9 million after all expenses and the service costs of the Preference Shares and Loan Notes. On an EBITDA basis this equates to a profit of £5.7 million.

The Group produced a combined ratio of 103.1%.

My report last year highlighted that a high frequency of medium sized losses is the biggest threat to the profitability of our business model and that 2010 had been an exceptionally poor year in this regard. I am disappointed to report that it turned out to be a light preamble to the frequency of losses in 2011 which is one of, if not the worst, recorded years for insured catastrophe losses to the industry, at comfortably over $100bn.

Floods in Queensland and Victoria, Australia; Cyclone Yasi, Australia; Christchurch earthquake (No.2) New Zealand; Tohoku earthquake and tsunami, Japan; Tuscaloosa Tornado, Alabama USA; Joplin Tornado, Missouri USA; Copenhagen Floods, Denmark; Christchurch earthquake (No.3), New Zealand; Hurricane Irene, Eastern seaboard USA; Texas Wildfires, USA; Reno Air Races, Nevada, USA; and widespread floods in Thailand were 'highlights' of an unusually active year for weather claims both internationally and in the USA. The combination produced significant losses to the market place and, to varying extents, our books of business.

I was recently reminded that the last earthquake loss of any consequence prior to the last two years was Northridge in 1994 and that most current underwriters would not have dealt with one in their career. It is a reflection of the extraordinary battering the market place has had over the last 18 months that we are now giving them numbers!

Bearing in mind our short tail, catastrophe orientated business model, I suspect our result, though disappointing to us, will be more than respectable in the context of our peers, particularly when further 'loss creep' emerges in many numbers as 2012 unfolds.

More positively, our core accounts are moving forward from where we started last year, in some cases markedly. We are yet to see a fundamental market wide change but things are moving in the right direction now. Our year end renewals have gone better than we had expected and we have saved some aggregate for later in the year where we see things improving further.

Market

Catastrophe reinsurance underwriters have endured a torrid claims frequency including some substantial losses, but it could have been a lot worse for some. Had the Japanese earthquake and Tsunami hit Tokyo or more significantly had Hurricane Irene followed the same path and remained as a Category 3 Hurricane or more as it travelled up the U.S. East coast into New York and New England then what follows in this report would be largely irrelevant and the market place would look rather different to how it looks today.

There is undoubtedly too much capital deployed in the market with more waiting in the wings if a decent opportunity arises. However, I would still argue a bigger problem is simply that there are too many players in most market segments, most of who offer little other than capacity and provide another point the brokers can leverage.

There is nothing new here, but formulaic diversification to minimise capital provision has enticed more participants into more areas than they would naturally trade in, or that the talent pool in each segment can sustain. New participants are still moving into heavily oversubscribed and loss-making markets for 'capital benefits'. Although it is logical for each company to manage capital in as effective a manner as possible, the fact the capital management ratio tail seems to be wagging the underwriting dog isn't doing the overall industry performance too many favours.

It is a relief to see that there are hints that the rating agencies have now stopped to at least ponder whether out-and-out diversification is a panacea for the industry. If things carry on this way, we may see capital requirements favour expertise and track record rather than how many lines of business a company can have a stab at writing! However, we are not holding our breath just yet.

Despite the over-populated market places and the lack of retirements from the fray, the losses of last year caused some genuine shortages of capacity and (not always logical) moves in pricing.

The most obvious place to start, since it has taken a complete battering, is the worldwide (not the USA) reinsurance market. In general terms, the business model has typically been to underwrite as many geographically contained territories as possible at comparatively low rates to build pots of uncorrelated exposures. Within the portfolio there would be a few 'hot spots' of recognised high values and accumulation such as Japan and the UK for example. However, most of the globe has been written to one extent or other as an exercise in filling up pots of exposure at relatively low rates. Rating in these areas has remained low for many years due to competition for territories that offer this diverse set of exposures and the huge influence of some of the major European reinsurers whose agenda seems much more concerned with market share than pricing to reflect potential loss exposure. Until 2010 this book has had a fairly benign loss experience, supporting this strategy and the formulaic pricing models that were increasingly being used to rate the business.

However, the last two years has highlighted that some 'cold spot' territories such as Chile and New Zealand have concentrated local markets who buy significant tranches of reinsurance in the international markets. These territories had been effectively loss free, but after the recent claims activity, it is hard to envisage any scenario where the original carriers can pay rates going forward to give reinsurers any sort of payback as the local economies simply cannot support the uplift in pricing required.

Most business from New Zealand, Japan and Australia renews this spring and summer and will attract significant pricing uplift and / or a significant fall in appetite from the wider market. We expect many players might take in the enhanced rate but reduce their own exposure leaving the brokers with some work to do to get the larger programmes home. Apart from these heavily loss impacted territories, non U.S. renewals at year end were disappointing and in some cases hardly moving upward at all. The larger players still regard this (particularly northern European) business as core and have not moved on non loss affected territories despite a heavily loss making overall book in order to retain their market share.

Many others are reviewing their strategies and in some cases pulling out of the more thinly priced territories. The result thus far, seems to be little pricing movement as the market share players have been happy to take up any slack. However this story may have a little further to run.

The USA is a major contrast. Despite dodging the proverbial bullet on Hurricane Irene, 2011 was still a very painful year for the domestic P&C industry. Two tornadoes both substantially larger than anything previously recorded and major wildfires in Texas capped off a terrible year for losses from tornado, hail and winter weather. Many domestic carriers (including our client base of the regional companies) had not only losses to their reinsurance programmes but significant retained losses over and above their expected attrition to contend with.

RMS, (one of the industry modelling companies) also released a new model version during the year. This broad attempt to deal with the effects of windstorms further inland has loaded significant increases to the modelled exposures of a wide array of companies. Most companies chose not to buy or could not afford to buy the additional reinsurance the model implied was now required. However, from a re-insurers perspective this sudden apparent hike in exposure in existing books (particularly if you run your business by the models) acted as further upward rating pressure.

It soon became evident that there was little appetite for new US exposure over and above renewal books and a few players in the reinsurance market chose to reduce their own involvements or quietly exit. The net effect has been a firm market place with increases on clean companies in the area of 10-15% and much more on those with losses, in some case multiples. We expect to see this situation tighten further as direct carriers are now applying increases on their own business. If we see a major US loss this year things could get rather interesting, very quickly.

Chief Executive Officer's Report

continued

The US is an interesting contrast to the worldwide market. Base pricing is at a level where the clients can pay back the market over time and there is some understanding that the reinsurance industry is a global business where events elsewhere may indirectly affect them. Although there is little general appetite in the market to take on further US exposure at present, it is often paid better for similar natural peril threat to many territories in the world wide book, but oddly isn't dominated by a small number of market share players.

Moving to the much larger commercial insurance market place, things can best be described as stable after a year of falling prices (and even more new entrants) with occasional but not sustained bursts of improvement. In the broadest terms the direct market is still finding its own margins squeezed due to the inability to move its own pricing across the board to reflect the higher retentions and reinsurance costs imposed upon it. Without wishing to greet another false dawn, the market is gaining some traction generally and presents some opportunities in territories that have sustained heavy losses where we were not involved. We may look to spread our exposure base a little wider from its present focus in the USA which has in recent years, offered more attractive pricing.

The direct aviation market is a classic case of a diversification play; it is massively over-subscribed and has lost money for a number of years. While more potential clients and a wider spread of exposures is good for our Aviation Reinsurance book, the fact they and their brokers are looking to find ways to reduce reinsurance spend to help subsidise under-pricing of the original product is not. Furthermore we have seen some new entrants attempting to come into our market place and lead (usually undermining their own direct account at the same time). This situation was looking rather unpleasant in the autumn although latterly the market place has calmed down and is back on more of an even keel.

Although this report principally covers the short tail markets where we trade, we must give a mention to the liability or casualty market which takes by far the largest share of the industry premium base and also represents a significant proportion of the portfolio of most of the larger carriers globally.

Yet again, we are seeing the release of reserves from, in some cases, reasonably recent accident years, subsidising this years' catastrophe losses and helping to produce combined ratios remarkably around 99%. I have been suggesting in my reports for a few years that the well of surplus reserves to release must be drying up, particularly given potential claims and the absence of meaningful investment returns over the last few years. I have to date been proved wrong. During this period most liability classes have been under rating pressure and in very general terms pricing has been falling steadily since the last major readjustment in the market a decade ago. At some point this situation will resolve itself in a big way and logic at least suggests that is probably going to be sooner rather than later.

The direct relevance of this to our business model is two-fold; firstly we don't have this exposure as a downside. Although the casualty books have made huge releases that have enhanced profits for a good few years, right now I would still rather trade the potential upside of more to come, to avoid the potential downside of potential significant under-reserving. Secondly, wider genuinely hard markets are usually driven by a step change in the casualty market, although it may take a major catastrophe loss or significant adverse move in the financial markets to force peoples' hands into acknowledging reserve shortfalls and do something to correct it. After this happened at the end of 2001, many entities withdrew to their core business lines or disappeared completely. Although the players are different I would expect a similar set of circumstances to play out which would advantage us across our portfolio and allow us to offer continuity and build out our involvements on our long standing client bases.

In summary we are at an interesting place where it feels like there is a genuine forward momentum, but in spots. We are fortunate that we are in the front line of some market segments that have some momentum already that we are hopeful will build during the year. I suspect given further significant short tail losses or some heads appearing over the parapet with liability reserving issues that things could move on quickly from here.

Syndicates 2010 and 3010

As usual I would commend readers to look at John Hamblin's Underwriter's reports for our two Syndicates 2010 and 3010 to give more detail on their trading performance.

Without reprising the bulk of John's report here, on a Lloyd's three year accounting basis, Syndicate 2010 is closing the 2009 year of account at a profit of 16.1% for a third party Name and a profit of 9.4% on Syndicate 3010.

The 2010 year of account on Syndicate 2010 is currently forecast to make a small loss as it is the recipient of not only a frequency of losses in 2010 but also a proportion of the larger losses in the first half of 2011, notably Japan and 'New Zealand 2'. The 2011 year of account remains heavily on risk at this stage, however a return to profitability looks more than plausible. Given the business mix of Syndicate 2010, I would think any kind of profit between 2010 and 2011 taken together would be a good outcome. Syndicate 3010's book of substantially Cargo business in 2010 is still immature and we are currently forecasting a marginal but hopefully another profitable return. Similarly 2011 is heavily on risk at present but nothing untoward has surfaced as yet.

The results for the closing 2009 year of account on a Lloyd's basis, come from the combination of a comparatively benign trading year and some releases from redundant reserves. I would stress here that the releases come from short-tail claims which have been withdrawn or reduced, or catastrophe reserves that have proven unduly conservative.

Our general reserving philosophy for major catastrophe claims is to examine the exposure we have and work on a 'guilty until proven innocent' basis. We are not fans of the new industry sport of 'loss creep', which seems to have slipped into general parlance in the last year. Basically 'loss creep' is either underestimating your own potential exposure or choosing to bleed out the inevitable bad news as you are formally advised by clients. I fear that the 'discipline' of quarterly reporting, loss questionnaires and benchmarking of disclosures has once again shot itself in the foot and we haven't heard the last of 'loss creep'.

The combination of underwriting years 2009, 2010 and 2011 is also a good illustration of our reinsurance philosophy. We have always been concerned to the point of paranoia about exposure management and spend significant resource dealing with this. Our chief concern is to protect our capital base by not taking on undue exposures ourselves in the first instance, to the extent that large vertical losses such as Hurricane Katrina in 2005 remain within cover. We also mitigate the effects of a high frequency of loss years, such as the last two we have just seen. Our aim is to be in the best position to move forward following difficult years, to offer continuity to clients and take advantage of markets moving where our risk reward is much improved, without being reliant on the availability of attractively priced replacement capital.

Proportionately we choose to spend more than most catastrophe underwriters on reinsurance cover which will limit the comparative upside on a relatively clean year to others who buy much less cover and have much higher downside risk . We also buy a full programme for each account that we underwrite and haven't been convinced by the mathematics of umbrella covers or the current trend to drop bottom end cover in order to save costs. Ultimately, if you are spending less on reinsurance the chances are you are getting less cover.

We have a good relationship with our panel of reinsurers who have been highly supportive over the years. Although there has been a good degree of risk transfer from us to them in difficult years such as 2011, over time the trading balances show a profit for our reinsurers which is good for both parties and makes for a good ongoing relationship.

The Syndicates have had a testing two years but we see no need to change our business fundamentals as a result.

Lloyd's

Our market place continues to throw up advantages and challenges for our business. On the plus side, Lloyd's seems still to be on the up in terms of client perception in the lines we trade in and has a great showing of global business. Moves such as Aon announcing they are moving their global headquarters to EC3 is another good sign that London is being seen as the best location to capture a developing international business base. It remains a highly desirable place for businesses looking to come into the industry or broaden international insurance and reinsurance strategies.

Within the market there is now a contingent of relatively newer businesses (probably a third are 5 years old or less) who have had a tough few introductory years. Those that had developed business outside the market place and brought it with them or who are acknowledged leaders and add something to the market have generally fared better thus far. However, syndicates in the Lloyd's market over the last two years have become the main source of unconstructive competition across all lines we write, be-it new syndicates struggling for income or equally, units of bigger organisations on a diversification play.

Bearing in mind that Lloyd's is a genuine market place and we were a newcomer only 11 years ago we cannot complain and are more than capable of dealing with the frustrations this may cause from time to time. Life, however, is being made more costly and complicated by our regulatory regime.

There is no getting away from the fact that trading in the market place in the last two years has felt like a relentless task. One major contributor has been the Solvency II exercise, which has consumed considerable time and required not unsubstantial additional resources.

Lloyd's required all managing agents to submit 'Final Application Packs' by the year end and is now evaluating these to ensure all agents cross the line and Lloyd's is able to submit its own application for the whole market to the FSA on time. 'On time' is becoming an interesting concept here as the timetable between Lloyd's and the FSA is and has been subject to change. Furthermore the Solvency II process in Europe, (the originator of the project) is being treated inconsistently by country regulators. It looks like most of Europe with significant insurance and reinsurance interests is kicking the can well and truly down the road, seizing on a number of opt outs and delays in implementation, while others are simply not engaging with the process at all.

This leaves the UK as seemingly the only country likely to be capable of meeting the current timetable from Europe even though the FSA is looking for regulations to be implemented to a gold plated standard. It is not clear whether UK companies and Lloyd's will be required to complete the exercise on the current timeline, even if the rest of Europe delays, or whether Lloyd's could be the only entity operating under this new regime. However, as a market Lloyd's is moving forward until we are advised otherwise and we like all managing agents in the market will ensure our bit is done.

The project is interesting from the standpoint that at its core are a number of disciplines that most competent businesses would already undertake on a more or less formal basis depending on size and complexity. One can see that for a big multiplatform operation that the construction of group financial models to aggregate these operations in a more detailed and holistic way and to give more structure to governance adds proportionally more value than for a smaller business, assuming they were all equally well run in the first place. I suspect a positive legacy of the exercise will be more common place reference to the internal models alongside the decision making and exposure monitoring processes as the models become more capable of delivering useful information on complex interactions.

However, value from the project is being seriously impaired by the obsessive degree of validation, documentation and general process that is being demanded to produce a capital number that could be achieved with as much accuracy at a fraction of the cost. Significant management time that should be used to run the business through a fairly tricky phase in the market is being burnt in ensuring that documentation is produced in the preferred manner, additional processes are in place to conform to a 'one size fits all' management template and data is validated to in some cases implausible degree. This is a major proportionality issue that needs to be resolved as the market moves forward under this regime if it is to be better off as a result of its implementation.

Sadly the policing of the market feels it is heading the same way, where provision of more data to the centre, more process and more benchmarks is heading toward missing the woods for seeing the trees. Fundamentally better business are run by the best people with experience and good judgement; requiring all parties to conduct themselves in an increasingly formulaic manner isn't going to change this.

As a smaller specialist business, we are huge supporters of the Lloyd's market place. We support Lloyd's being the best regulated market as we are tied by the Central Fund to all who trade in the market and rely on it for our ratings and global licenses. We will happily deliver what is required by the regulators, but will also take time out to make sure we keep our eye on the ball in running the business and not expect the processes to do it for us, any more than we wholly rely on the models to understand our exposures.

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, is set out in Notes 2 and 3 to the Annual Report.

Consolidated Statement of Comprehensive Income

The consolidated loss on ordinary activities after tax, as reported in the Consolidated Statement of Comprehensive Income, was £3.9 million (2010: profit of £4.0 million) which equates to a loss per equity share of £3.16 (2010: earnings per equity share profit of £3.23).

	Underwriting £'000	Corporate £'000	Total £'000
Gross Written Premium	185,937	-	185,937
Net Earned Premium *	138,516	-	138,516
Net Claims incurred	(101,899)	-	(101,899)
Acquisition costs	(31,368)	-	(31,368)
Underwriting results	5,249	-	5,249
Other expenses **	(7,740)	(12,577)	(20,317)
Net investment return	2,349	2,325	4,674
Fees, commission and other income	-	3,809	3,809
Loss before tax	(142)	(6,443)	(6,585)
Tax	(61)	2,762	2,701
Loss after tax	(203)	(3,681)	(3,884)
Loss per equity share	£(0.17)	£(2.99)	£(3.16)
Return on Equity ***	-0.4%	-7.9%	-8.3%

* included in net earned premiums is net reinsurance to close premiums paid of £0.0 million (2010: reinsurance to close premium received of £1.0 million).

** includes Profit Related Pay 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 2011 include premiums on policies incepting during the year together with estimates for premiums and adjustments to premiums on policies incepting in earlier periods.

The aggregate combined ratio, which is based on a function of gross or net earned premiums and excludes the 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 2011		31 December 2010	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Non-marine reinsurance	**141.5**	**102.1**	78.9	68.0
Aviation	**44.9**	**52.9**	70.9	78.1
Satellite	**85.1**	**96.9**	37.3	36.8
Direct & facultative property	**54.3**	**61.4**	45.8	61.9
Contingency	**59.4**	**18.5**	51.0	62.4
Cargo	**34.3**	**34.3**	68.4	72.2
Other	**48.1**	**44.3**	82.1	82.1
Total claims ratio	**94.5**	**75.5**	65.5	67.2
Expense ratio	**20.9**	**28.9**	19.8	26.8
Combined ratio	**115.4**	**104.4**	85.3	94.0

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 the 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 as follows:

Group Combined Ratio Analysis

	31 December 2011		31 December 2010	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Managed syndicates	**92.1**	**73.6**	66.1	67.6
External syndicates	**-**	**-**	(0.7)	(0.9)
Total claims ratio	**92.1**	**73.6**	65.4	66.7
Expense ratio:				
Managed syndicates	**21.7**	**29.5**	20.6	27.3
External syndicates	**-**	**-**	(0.1)	(0.1)
Corporate	**(0.4)**	**(0.4)**	(1.2)	(1.6)
Staff profit-related pay	**0.3**	**0.4**	1.7	2.2
Total expense ratio	**21.6**	**29.5**	21.0	27.8
Combined ratio	**113.7**	**103.1**	86.4	94.5

The corporate expense ratio is net of fees, commissions and other non-investment income. For the year ended 2011 the gross expense ratio does not include circa 4.9% (2010: 5.0%) (net expense ratio 6.7% (2010: 6.6%)) 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 £2.3 million of exchange gains (2010: £1.5 million of exchange gains) from its trading or financing activities that have been accounted for through the Consolidated Statement of Comprehensive Income.

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 £2.2 million (2010: £3.4 million) which equates to a return of 1.3% down from 2.1% a year earlier. An analysis of this return is set out on the table below:

	Average funds £'000	Actual return %	Actual return £'000
Funds at Lloyd's:			
Equities	4,613	-	(2)
Fixed interest	122,552	1.4	1,699
Alternative investments	2,474	7.4	184
Cash	7,576	0.4	31
Total	137,215	1.4	1,912
Free Funds:			
Cash	33,171	0.9	292
Total	170,386	1.3	2,204

Financing of borrowings

Dividends on the Company's Preference shares became payable on 31 December 2011 at a rate of 6.44% per annum. Interest on the Group's Investor Loan Notes and Manager Loan Notes at a rate of 9.2% per annum were also payable on 31 December 2011. However, the majority of these were not actually paid until 3 January 2012 due to the pay date falling due on a weekend. 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 four Unsecured Floating Rate Subordinated Notes due in 2034 and 2035. These Notes comprise US$60 million and €12 million and the net cost was £1.9 million (2010: £1.9 million) on these borrowings by the Group during the course of the year. More detail on these borrowings can be found in Note 21 to the Annual Report.

Taxation

The Group tax charge for the year is a credit of £2.7 million (2010: charge of £1.9 million) which gives an effective tax rate of negative 41.0% (2010: positive 32.8%). This year, we have claimed an additional £0.8 million of tax relating to claims equalisation reserves which brings the total claimed to £6.1 million, although we expect this to eventually be repaid. The impact is therefore on the split of current and deferred tax. A detailed analysis of the composition of the Group charge figure is set out on Note 13 to the Annual Report.

Chief Executive Officer's Report

continued

Loss 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 loss per equity share. The loss per share for the year is £3.16 (2010: earnings per share of £3.23). The loss per share is enhanced by 4 pence (2010: 4 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 negative 8.7% 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 2.2% (2010: 7.3%) for the year was achieved on the total funds invested in the Group. This return has been enhanced by circa 0.1% (2010: 0.1%) 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 (2010: £nil).

Consolidated 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 2011 as single line items:

	31 December 2011 £'000	31 December 2010 £'000
Intangible assets	**23,234**	23,234
Tangible fixed assets	**361**	504
Group assets used as funds at Lloyd's	**146,983**	127,853
Other investments and cash balances	**34,286**	29,112
Borrowings	**(112,490)**	(112,501)
Unsecured subordinated loan notes	**(45,792)**	(44,522)
Deferred and current taxation	**(23,604)**	(21,927)
Interest in managed syndicates	**13,394**	35,779
Interest in external syndicates	**-**	(1,013)
Net other assets	**6,730**	10,467
	43,102	46,986
Own shares (ESOP)	**(6)**	(13)
Equity shareholders' funds	**43,096**	46,973

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 £136.9 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. 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 21.

The Group had no bank borrowing facilities at December 2011.

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

	31 December 2011		31 December 2010	
	Managed £'000	**External £'000**	Managed £'000	External £'000
Cash and investments	**179,543**	-	187,884	5,467
Debtors - insurance and reinsurance	**65,989**	-	59,318	537
Net technical provisions	**(219,418)**	-	(205,800)	(6,669)
Creditors - insurance and reinsurance	**(21,014)**	-	(15,128)	(128)
Other net assets/(liabilities)	**8,294**	-	9,505	(220)
Group's interest	**13,394**	-	35,779	(1,013)

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 2011 was £54.6 million (2010: £58.3 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 27.

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 2012 calendar year, the Group's Funds at Lloyd's initial requirement was set at 52% of underwriting capacity supported. This compares with an initial Funds at Lloyd's requirement of 58% for 2011, subsequently reduced to 56% mid-year.

Strategy

The last two years have delivered the circumstance that our business and many others with a catastrophe exposed portfolio least readily deal with, frequency. Despite this, no collateral damage has been done and we know from previous years such as 2005, that we are able to deal with substantial individual market losses and emerge in good order without the downside risk of liability reserves proving inadequate.

We are unusually (for us) optimistic about where some of our core markets are heading and have made a few tweaks to our portfolio positioning and are ahead of business plan thus far.

Chief Executive Officer's Report

continued

Our biggest trading advantage remains the quality of our team, be they the front line underwriters or those who allow them to do their job. We have experience and continuity with clients, brokers and reinsurers that allow us to move forward without a wholesale global hard market and we can do this with a sensible balance of risk and reward that doesn't make us wholly reliant on our shareholders to provide a replacement set of capital to participate in the opportunity, or find others that will take it for them.

In the longer term we will give some thought to further utilising our underwriting team and how best to leverage our skill sets on a larger canvass that we already have the resources to manage. At present we see potential M&A activity and consolidation of the businesses that are overtly for sale on the back of an improving marketplace that may well throw up additional opportunities.

Finally

Although not our finest hour in terms of result, I am confident it will stand favourable comparison to most other well regarded businesses that have a predominately catastrophe exposed short tail portfolios.

The last year or two has seen little or no respite for the team, all who have worked tirelessly and (most of the time) kept a sense of humour over a period that has combined the experience of a bookmaker on the day Frankie Dettori won all 7 races at Ascot, with juggling the huge administrative process of bringing in the Solvency II project while actually running our business.

The people at Cathedral are our primary asset. They are an extraordinarily experienced, talented and hardworking team. I would like to thank them all for that, once again and look forward to returning to more rewarding times.

Peter Scales
Chief Executive Officer
20 March 2012

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 8BF
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 2011.

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 8BF. 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 63.1% 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 £232.3 million (2010: £232.3 million) of capacity for the 2011 year of account all of which supported Cathedral Syndicates 2010 and 3010. For the 2012 year of account, the Group will underwrite £232.3 million of capacity across Cathedral Syndicates 2010 and 3010.

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 £350 million for the 2011 year of account. The capacity of the Syndicate has been maintained at £350 million for the 2012 year of account. Cathedral Syndicate 2010 has just closed its ninth underwriting year, the 2009 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 since then. The Syndicate's sole capital provider is the Group's corporate member. Cathedral Syndicate 3010 has just closed its third underwriting year, the 2009 year of account, with a profit.

The managed Syndicates reported an aggregate 2011 calendar year loss of £8.0 million (2010: profit of £15.7 million) which equates to an aggregate net combined ratio for the Syndicates of 104.4% (2010: 94.0%), this excludes currency translation gains. 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 12.

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 (2010: £nil). Dividends in respect of its Preference shares became payable on 31 December 2011 at a rate of 6.44% and these were paid on 3 January 2012 (2010: dividends were paid on 31 December 2010).

Report of the Directors

continued

Future Developments

Details of future plans for the Group are set out in the Chief Executive Officer's Report on pages 2 to 12.

Principal risks and uncertainties

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

Share Capital

On 13 December 2011, the Company reorganised its share capital as follows:

115,257 of the Ordinary Shares, 7,352 of the B shares, and 16,173 of the B1 Ordinary Shares were converted into Deferred Shares and immediately bought back by the Company for an aggregate of 1p, and then cancelled by the Company.

Following this share reorganisation, the voting rights of the shares were such that the A Ordinary Shares of 0.1p each equate to 51.3% of the total votes, the B Ordinary Shares of 1p each equate to 5.25% of the total votes, the B1 Ordinary Shares of 1p each equate to 23.45% of the total votes and the Ordinary Shares of 1p each equate to 20.0% of the total votes.

The A Ordinary Shares of 0.1p each, the Ordinary Shares of 1p each, the B Ordinary Shares of 1p each and the B1 Ordinary Shares of 1p each all continue to rank pari-passu as regards to economic rights.

At the year end, there were 38,144,962 (2010: 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 13.

Directors' Interests in Shares

The interests of the Directors and their families in the share capital and Preference shares issued by the Company and Investor and Manager Loan Notes issued by Cathedral Capital (Investments) Limited at the year end according to the register of directors' interests are as follows:

						31 December 2011
	B/B1 ordinary 1 pence shares*	**Ordinary 1 pence shares**	**A ordinary 0.1 pence shares**	**Preference £1 shares**	**Investor Loan Notes £1**	**Manager Loan Notes £1**
E E Patrick	**8,337**	**6,455**	**-**	**357,211**	**-**	**714,533**
J A Lynch	**19,213**	**22,002**	**-**	**822,639**	**-**	**1,645,531**
P D Scales	**19,213**	**22,002**	**-**	**822,639**	**-**	**1,645,531**
D J H Slade	**-**	**-**	**851**	**36,530**	**73,071**	**-**

						31 December 2010
	B/B1 ordinary 1 pence shares	Ordinary 1 pence shares	A ordinary 1 pence shares	Preference £1 shares	Investor Loan Notes £1	Manager Loan Notes £1
E E Patrick	9,388	9,788	-	357,211	-	714,533
J A Lynch	21,634	33,413	-	822,639	-	1,645,531
P D Scales	21,634	33,413	-	822,639	-	1,645,531
D J H Slade	-	-	851	36,530	73,071	-

* Mr Patrick held B ordinary 1 pence shares and Messrs Lynch and Scales held B1 ordinary 1 pence shares.

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.

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 2011			31 December 2010		
	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	**12,212**	**652,162**	**1,304,524**	13,723	651,084	1,302,367

Related Parties

Details of related parties and any related party transactions can be found in Note 31.

Going Concern

The financial statements of Cathedral Capital Limited have been prepared on a going concern basis.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Report on pages 2 to 12. The level of investments and cash and cash equivalents in the Group are set out in Notes 17 and 20 although some of these are restricted. Note 4 sets out the various risks to the Group, such as underwriting risk, credit risk, liquidity risk and market risk. Having taken these factors into account and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and 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 auditors in connection with preparing their report, of which the auditors are 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 auditors are aware of that information.

Employee Involvement

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

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

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

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

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

Donations

During the year the Group made no charitable or political donations (2010: £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; the Audit Committee and the Remuneration Committee. The constitutions and compositions of these Committees are set out below:

Audit Committee

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

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

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

The Committee meets with the Group's external auditors and receives a report from them at least once a year. The Committee also agrees any appointment of the external auditors to provide any non audit services. The cost of all the services provided by the external auditors is set out in Note 11.

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

Remuneration Committee

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

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

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

Directors' Remuneration

Details of the Director's Remuneration is set out in Note 31 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.

Statement of 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. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

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

- 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 Group's financial position and financial performance.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control for safeguarding the assets of the Group 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
20 March 2012

CATHEDRAL
CAPITAL LIMITED

Report of the Independent Auditors

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

We have audited the Group financial statements of Cathedral Capital Limited for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, 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 their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit and express an opinion on the Group 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 to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

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/private.cfm.

Opinion on the financial statements

In our opinion, the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements. The information given in the Directors Report includes that specific information presented in the Chief Executive Officer's Report that is cross referred from the Directors Report. Our responsibilities do not extend to any other information.

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:

- 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.

Other matter

We have reported separately on the parent company financial statements of Cathedral Capital Limited for the year ended 31 December 2011.

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

Tower Bridge House
St Katharine's Way
London
E1W 1DD
20 March 2012

CATHEDRAL
CAPITAL LIMITED

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Income			
Gross premiums written	5	**185,937**	182,784
Less premiums ceded to reinsurers		**(49,688)**	(47,673)
Net premiums written		**136,249**	135,111
Gross amount of change in provision for unearned premiums		**2,921**	5,280
Reinsurers' share of change in provision for unearned premiums		**(654)**	1,140
Earned premiums, net of reinsurance		**138,516**	141,531
Fees and commission income	6	**3,765**	5,061
Investment return	7	**4,674**	6,009
Other income		**44**	16
Total income		**146,999**	152,617
Expenses			
Claims paid;			
Gross amount		**(111,067)**	(84,313)
Reinsurers' share		**25,866**	20,386
Net claims paid		**(85,201)**	(63,927)
Net change in the provision for claims			
Gross amount		**(62,843)**	(38,513)
Reinsurers' share		**46,145**	8,019
Net change in the provision for claims		**(16,698)**	(30,494)
Claims incurred, net of reinsurance	5	**(101,899)**	(94,421)
Acquisition costs		**(31,368)**	(30,998)
Other operating expenses	8	**(10,367)**	(10,663)
Net foreign exchange gains	9	**2,331**	1,520
Total expenses, excluding finance costs		**(141,303)**	(134,562)
Operating profits		**5,696**	18,055
Finance costs	10	**(12,281)**	(12,112)
(Loss)/profit on ordinary activities before tax	11	**(6,585)**	5,943
Income tax credit/(expense)	13	**2,701**	(1,948)
(Loss)/profit on ordinary activities after tax		**(3,884)**	3,995
(Loss)/profit attributable to equity shareholders of the parent company		**(3,884)**	3,995
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(3,884)**	3,995
Basic & diluted (loss)/earnings per share	14	**(£3.16)**	£3.23

All activities were in respect of continuing operations.

The Notes on pages 26 to 70 form part of these consolidated financial statements.

Consolidated Statement of Financial Position
As at 31 December 2011

	Notes	31 December 2011 £'000	31 December 2010 £'000
Assets			
Property, plant and equipment	15	**361**	504
Intangible assets	16	**23,234**	23,234
Reinsurance assets	22	**107,161**	62,215
Financial investments	17	**245,585**	250,938
Deferred acquisition costs	22	**11,444**	12,687
Deferred tax assets	24	**6,253**	-
Other assets		**-**	645
Prepayments and accrued income	18	**6,539**	7,189
Trade and other receivables	19	**70,160**	66,387
Cash and cash equivalents	20	**115,228**	99,378
Total assets		**585,965**	523,177
Equity			
Called up share capital	26	**5**	6
Share premium account		**1,237**	1,237
Capital redemption reserve		**1,021**	1,020
Own shares		**(6)**	(13)
Retained earnings		**40,839**	44,723
Total shareholders' equity		**43,096**	46,973
Liabilities			
Borrowings	21	**158,282**	157,023
Insurance contracts	22	**326,577**	274,684
Provision for other liabilities	23	**588**	3,337
Deferred tax liabilities	24	**21,669**	21,375
Trade and other payables	25	**33,005**	18,075
Current tax liabilities		**1,522**	552
Accruals and deferred income		**1,226**	1,158
Total liabilities		**542,869**	476,204
Total equity and liabilities		**585,965**	523,177

The financial statements on pages 22 to 70 were approved by the Board of Directors and authorised for issue on 20 March 2012.

Peter Scales
Chief Executive Officer

John Lynch
Chief Financial Officer

The Notes on pages 26 to 70 form part of these consolidated financial statements.

CATHEDRAL
CAPITAL LIMITED

Consolidated Statement of Changes in Equity
For the year ended 31 December 2011

Year ended 31 December 2011	Balance at 1 January 2011 £'000	Total Comprehensive Income for the year £'000	Share reorganisation £'000	Total attributable to equity holders £'000
Called up share capital	6	-	(1)	5
Share premium account	1,237	-	-	1,237
Capital redemption reserve	1,020	-	1	1,021
Own shares	(13)	-	7	(6)
Retained earnings	44,723	(3,884)	-	40,839
Total shareholders' equity	**46,973**	**(3,884)**	**7**	**43,096**

Year ended 31 December 2010	Balance at 1 January 2010 £'000	Total Comprehensive Income for the year £'000	Purchase of Own shares £'000	Total attributable to equity holders £'000
Called up share capital	13	-	(7)	6
Share premium account	1,237	-	-	1,237
Capital redemption reserve	1,013	-	7	1,020
Own shares	(13)	-	-	(13)
Retained earnings	40,728	3,995	-	44,723
Total shareholders' equity	42,978	3,995	-	46,973

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 the premium arising on the related shares issued.

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 27.

Retained earnings are in respect of the cumulative comprehensive income retained by the Group after dividends and tax.

The Notes on pages 26 to 70 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Cash generated from operations	30	**10,148**	(34,856)
Interest received		**6,209**	5,135
Dividends received		**249**	278
Income taxes received/(paid)		**980**	(7,351)
Net cash from/(used in) operating activities		**17,586**	(36,794)
Investing activities			
Purchase of property, plant and equipment		**(57)**	(186)
Net cash (used in) investing activities		**(57)**	(186)
Financing activities			
Interest paid on loan notes		**(1,945)**	(8,839)
Preference share dividends paid		**(4)**	(2,415)
Purchase of own shares by ESOP		**(4)**	-
Net cash (used in) financing activities		**(1,953)**	(11,254)
Net increase/(decrease) in cash and cash equivalents		**15,576**	(48,234)
Cash and cash equivalents at beginning of the year		**99,378**	146,875
Effect of exchange rate fluctuations on cash and cash equivalents		**274**	737
Cash and cash equivalents at end of the year	20	**115,228**	99,378

The Notes on pages 26 to 70 form part of these consolidated financial statements.

Notes to the Financial Statements
For the year ended 31 December 2011

1 General Information

Cathedral Capital Limited ("the Company") is a limited company incorporated and domiciled in England and Wales. The addresses of its registered office and principal place of business are disclosed in the Report of the Directors on page 15. The principal activities of the Company and its subsidiaries ("the Group") are described in the Report of the Directors on Page 15.

2 Basis of preparation of financial statements

a) *Basis of preparation*

The Group's subsidiary, Cathedral Capital Holdings Limited, issued a series of Floating Rate Subordinated Loan Notes due in 2034 and 2035, all of which are listed on the Irish Stock Exchange. Accordingly, Cathedral Capital Holdings Limited is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Commission ("EC"). Given this, Cathedral Capital Limited has elected to prepare its consolidated financial statements under the historical cost accounting rules, modified by the revaluation of certain financial instruments as described below and in accordance with IFRS as adopted by the EU, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The accounts have been prepared on a going concern basis.

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 2011. 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. 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*

All new standards and interpretations released by the International Accounting Standards Board ("IASB") have been considered and, of these, the following new and amended standards which are relevant to these financial statements have been adopted by the Group during the year.

The amendment to IAS 24 ("Related Party Disclosures") has been adopted. The adoption of this Standard has not led to any changes in the Group's accounting policies or disclosures.

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) and which are relevant to the Group are in issue but not yet effective:

(i) Amendments to IAS 32 ("Financial Instruments: Presentation");
(ii) Amendments to IFRS 7 ("Financial Instruments Disclosures");
(iii) IFRS 9 ("Financial Instruments");
(iv) IFRS 10 ("Consolidated Financial Statements");
(v) IFRS 12 ("Disclosure of involvement with other entities"); and
(vi) IFRS 13 ("Fair Value 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 changes to 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, for the previous year, it included 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 participated, such information was 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 the previous year, 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 agent's estimates of the exposures of the underlying business written.

(iii) *Claims incurred*

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

(iv) *Outstanding claims provisions*

The outstanding claims comprise amounts set aside for claims notified by the balance sheet date and IBNR 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. IBNR for major catastrophe losses is individually assessed by the underwriting and non underwriting management of the Group's managing agent subsidiary. IBNR for smaller and more attritional losses is based on projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced 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 Group's managing agent subsidiary uses a number of statistical and other techniques to assist in making the above estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

For the previous year, 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 agents 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.

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. For the previous year, 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 period 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 the accounting period.

(viii) *Reinsurance to close*

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

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

d) *Revenue recognition*

(i) *Fees and commission income*

Fees and commission income consists mainly of managing agents fees and profit commission charged to Names in respect of the Group's managed syndicates. This excludes any fees charged to the Group's corporate member subsidiary. The fees are recognised in the accounting period in which the service is rendered by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided. Profit commission is recognised on open years where its measurement is reasonably certain.

(ii) *Investment return*

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses. The investment return comprises both the Group's share of the syndicates' investment return and the Group's investment return on its corporate assets. Interest income is recognised on an accruals basis. Dividend income is recognised when the shareholders' right to receive the payment is established.

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

(iii) *Profit on sale of syndicate capacity*

Where syndicate capacity is disposed during the period, any proceeds less the carrying value of the capacity disposed are recognised in the Consolidated Statement of Comprehensive Income in the same accounting period.

e) *Other operating expenses*

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

f) *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.

g) *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.

h) *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.

i) *Investments*

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

The fair values of quoted financial investments are based on current bid prices 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. Unlisted investments are stated at fair value.

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

j) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost over their estimated useful economic lives using the straight line method. The estimated useful economic lives are as follows:

• Lease	5 years
• Computer and other equipment	3 years
• Furniture, fixtures and fittings	5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset and included in the Consolidated Statement of Comprehensive Income. Costs for repairs and maintenance are expensed as incurred.

k) *Cash and cash equivalents*

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, bank overdrafts and other short-term highly liquid investments with maturities of three months or less from the date of acquisition.

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 years and it further excludes items that are never taxable or deductible. The Group's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax

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

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

Deferred income tax is calculated using tax rates (and laws) that are expected to apply when the liability is settled or the asset realised. Deferred tax is charged or credited to the Consolidated 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 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 Balance Sheet, net of any unamortised cost. Borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the 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.

4 Risk disclosure

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

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

The Group underwrites on its own managed syndicates and the risks set out below relate to this. However, for the 2010 calendar year, the Group also underwrote on third party syndicates managed by external managing agents. Many of the operational controls applied to risks relating to the underwriting by those syndicates were dealt with by those managing agents and the Group had only limited influence as to how those risks were managed. Such risks included insurance risk, liquidity risk, market risk and credit risk, as well as the managing agents' own group and operational risk.

Since December 2010, the Group no longer wrote on syndicates managed by external managing agents and so the Group has no risks remaining with respect to these syndicates.

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 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:

	2011 £'000	2011 %	2010 £'000	2010 %
Cathedral managed syndicates:				
Non-marine	**85,622**	**46.0**	77,482	42.6
Direct property	**54,583**	**29.4**	53,048	29.2
Aviation	**16,907**	**9.1**	22,904	12.6
Cargo	**24,118**	**13.0**	21,631	11.9
Contingency	**3,809**	**2.0**	3,415	1.9
Satellite	**815**	**0.4**	2,858	1.5
FTC	**97**	**0.1**	492	0.3
Marine	**(14)**	**-**	-	-
Externally managed syndicates:	**-**	**-**	(37)	-
	185,937	**100.0**	181,793	100.0
RITC adjustment*	**-**		991	
	185,937		182,784	

* 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 accumulative loss including unknown / unexpected accumulations, the risk of extreme losses, frequency of major loss, wording issues and unsustainable pricing. These are discussed in detail below:

a) Accumulative loss including unknown / 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 unknown/unexpected accumulations, the threat of this occurring is probably more pronounced in the liability fields. By and large the insurances and reinsurances provided by the managed syndicates are of a well tested nature. More crucially, the approach taken to risk management is heavily 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 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 occurrence 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 syndicates' exposures to large losses increases accordingly, though this may be mitigated somewhat by a reduction in the aggregate exposures taken on by them.

4.1.5 Reserving risk

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

Reserves for claims liabilities do not represent an exact calculation of liability. Rather, reserves are estimates of what the Group expects the ultimate settlement and administration of claims will cost. The reserving risk to the Group is that reserves established by the Group are insufficient to meet actual claims liabilities, or that reinsurance bad debt provisions or allowances for future expenses are inadequate.

When estimating claims liabilities, significant reserving judgements are required to be made, particularly in respect of the ultimate cost of major catastrophes, contentious 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 managed syndicates also have a catastrophe element to their accounts, giving the accounts exposure to large but relatively less frequent losses. When setting assumptions and projecting claims liabilities, this means that the underwriters will tend to know whether or not a loss large enough to materially impact the account has happened (e.g. severe windstorms, earthquakes, aircraft losses). However, such losses may have varying levels of complexity which can make the projection of some losses more difficult. 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:

- those claims which are of a complex nature, particularly where information is not forthcoming or have the potential to develop further in the light of litigation or legal dispute.

- 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 oustanding claims deteriorated by 1%, the impact would equate to pre tax decrease on net assets of £1,648,000 (2010: £1,542,000).

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 ten 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 2011 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	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
1 year	46%	50%	89%	156%	28%	40%	74%	40%	64%	81%
2 years	35%	29%	76%	121%	36%	46%	70%	52%	92%	
3 years	29%	27%	76%	116%	36%	47%	70%	49%		
4 years	29%	26%	73%	117%	36%	46%	67%			
5 years	29%	26%	73%	117%	35%	45%				
6 years	28%	25%	73%	117%	35%					
7 years	28%	25%	73%	117%						
8 years	27%	25%	73%							
9 years	27%	25%								
10 years	27%									

	Underwriting Year									
Net	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
1 year	57%	52%	70%	87%	39%	58%	66%	53%	76%	86%
2 years	44%	33%	55%	72%	45%	57%	60%	58%	80%	
3 years	36%	29%	56%	66%	46%	57%	60%	52%		
4 years	36%	29%	53%	66%	44%	55%	56%			
5 years	36%	28%	53%	66%	44%	54%				
6 years	35%	28%	52%	66%	43%					
7 years	35%	28%	52%	65%						
8 years	34%	28%	52%							
9 years	34%	27%								
10 years	33%									

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.

If a change in the proportion of total business written of one percentage point was to become unearned this would equate to an adjustment of £1,859,000 to the unearned premium provision (2010: £1,828,000).

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 assesssing 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 asset allocation 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 2011	**A++ to A- £'000**	**B++ to B- £'000**	**F £'000**	**Unrated £'000**	**External Syndicates* £'000**	**Total £'000**
Financial investments	**227,881**	**1,958**	**-**	**15,746**	**-**	**245,585**
Insurance receivables	**56,461**	**290**	**2,531**	**6,707**	**-**	**65,989**
Reinsurance assets	**89,393**	**56**	**2**	**17,710**	**-**	**107,161**
Cash and cash equivalents	**114,896**	**-**	**-**	**332**	**-**	**115,228**
	488,631	**2,304**	**2,533**	**40,495**	**-**	**533,963**

At 31 December 2010	A++ to A- £'000	B++ to B- £'000	F £'000	Unrated £'000	External Syndicates* £'000	Total £'000
Financial investments	240,006	-	-	8,671	2,261	250,938
Insurance receivables	43,538	432	2,354	12,994	537	59,855
Reinsurance assets	51,328	40	33	9,427	1,387	62,215
Cash and cash equivalents	95,838	-	-	334	3,206	99,378
	430,710	472	2,387	31,426	7,391	472,386

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

Some of the unrated reinsurance assets are fully collateralised in trust funds circa £8.0 million (2010: circa £0.3 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 2011 £'000	Group 31 December 2010 £'000
3 to 6 months past due	**476**	680
6 to 9 months past due	**(281)**	260
Greater than 9 months past due	**847**	322
	1,042	1,262

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 2011, the Group had £24.4 million of cash available for use (2010: £28.8 million).

The following tables group the debt securities, cash and cash equivalents, borrowings, gross provisions for outstanding claims, and claims outstanding recoverable from reinsurers into maturity date periods. The gross provisions for outstanding claims, and claims outstanding recoverable from reinsurers reflect the estimated, undiscounted cash flows. Note that the maturity date used below for the long term debt is on the same basis as its valuation, as set out in note 21.

At 31 December 2011	**< 1 year £'000**	**1-3 years £'000**	**4-5 years £'000**	**> 5 years £'000**	**External Syndicates* £'000**	**Total £'000**
Debt securities	**118,550**	**105,238**	**3,772**	**1,196**	**-**	**228,756**
Cash and cash equivalents	**115,228**	**-**	**-**	**-**	**-**	**115,228**
Borrowings	**-**	**(112,490)**	**(48,710)**	**-**	**-**	**(161,200)**
Gross provision for claims outstanding	**(100,291)**	**(106,679)**	**(27,851)**	**(32,892)**	**-**	**(267,713)**
Claims outstanding recoverable from reinsurers	**36,448**	**36,872**	**11,141**	**18,415**	**-**	**102,876**
	169,935	**(77,059)**	**(61,648)**	**(13,281)**	**-**	**17,947**

At 31 December 2010	< 1 year £'000	1-3 years £'000	4-5 years £'000	> 5 years £'000	External Syndicates* £'000	Total £'000
Debt securities	143,602	95,566	1,505	115	2,261	243,049
Cash and cash equivalents	96,172	-	-	-	3,206	99,378
Borrowings	-	-	(160,974)	-	-	(160,974)
Gross provision for claims outstanding	(87,884)	(72,627)	(20,416)	(22,127)	(8,275)	(211,329)
Claims outstanding recoverable from reinsurers	24,067	16,994	5,767	8,897	1,387	57,112
	175,957	39,933	(174,118)	(13,115)	(1,421)	27,236

* 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 21 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 2011	31 December 2010
Debt Securities	**1.2%**	0.8%
Cash and cash equivalents	**0.9%**	0.7%
Borrowings	**7.6%**	6.0%

A change in market interest rates of one percentage point would equate to a pre tax movement on net assets/profits of £3,591,000 (2010: £3,927,000). 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 positions 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 £724,000 (2010: £789,000).

4.4.3 Currency risk

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

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

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

Notes to the Financial Statements
For the year ended 31 December 2011

continued

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 2011

	STG in conv. £'000	EUR in conv. £'000	USD in conv. £'000	CAD in conv. £'000	Total in conv. £'000
Assets					
Property, plant and equipment	361	-	-	-	361
Intangible assets	23,234	-	-	-	23,234
Reinsurers' share of technical provisions	42,186	942	63,377	656	107,161
Financial investments	57,683	19,642	157,253	11,007	245,585
Deferred acquisition costs	1,793	429	8,232	990	11,444
Deferred tex asset	6,253	-	-	-	6,253
Other assets	-	-	-	-	-
Prepayments and accrued income	5,841	205	493	-	6,539
Trade and other receivables	18,700	4,693	45,287	1,480	70,160
Cash and cash equivalents	63,210	6,852	40,076	5,090	115,228
Total assets	**219,261**	**32,763**	**314,718**	**19,223**	**585,965**

As at 31 December 2011

	STG in conv. £'000	EUR in conv. £'000	USD in conv. £'000	CAD in conv. £'000	Total in conv. £'000
Liabilities					
Borrowings	112,490	9,579	36,213	-	158,282
Insurance contracts	99,931	15,943	198,662	12,041	326,577
Provision for other liabilities and charges	588	-	-	-	588
Deferred tax liabilities	21,669	-	-	-	21,669
Trade and other payables	19,567	309	12,863	266	33,005
Current tax liabilities	1,522	-	-	-	1,522
Accruals and deferred income	1,111	52	63	-	1,226
Total liabilities	**256,878**	**25,883**	**247,801**	**12,307**	**542,869**
Net assets	**(37,617)**	**6,880**	**66,917**	**6,916**	**43,096**
Impact of 10% currency movement:*					
2011	**-**	**688**	**6,692**	**692**	**8,072**
2010	-	948	5,160	594	6,702

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

5 Segmental Reporting

Analysis of 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 participated but which were 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 2011
	Managed Syndicates £'000	External Syndicates £'000	Corporate Funds £'000	Corporate Other £'000	Elimination £'000	Total £'000
Gross premiums written	185,937	-	-	-	-	185,937
Underwriting:						
Net earned premiums	138,542	-	-	-	-	138,542
Net claims incurred	(101,925)	-	-	-	-	(101,925)
Underwriting expenses	(31,368)	-	-	-	-	(31,368)
Underwriting result	5,249	-	-	-	-	5,249
Other income and expenses:						
Fees and commission income	-	-	-	5,357	(1,592)	3,765
Investment return	2,349	-	2,325	-	-	4,674
Other income	-	-	-	44	-	44
Operating expenses	(9,659)	-	(209)	(2,112)	1,613	(10,367)
Exchange gains	1,932	-	-	399	-	2,331
Finance costs	279	-	(4,564)	(7,951)	(45)	(12,281)
(Loss)/profit before tax	150	-	(2,448)	(4,263)	(24)	(6,585)
Income tax (credit)/expense	(61)	-	1,003	1,749	10	2,701
(Loss)/profit after tax	89	-	(1,445)	(2,514)	(14)	(3,884)
Combined ratio	103.2%	N/A	N/A	N/A	N/A	103.1%
Total assets	-	-	181,269	48,102	-	229,371
Total liabilities	-	-	-	(186,275)	-	(186,275)
Net assets	-	-	181,269	(138,173)	-	43,096
Capital expenditure	-	-	-	57	-	57

The combined ratio is net of fees and commission income and excludes finance costs relating to Preference share dividends and Investor and Manager Loan Notes interest as detailed in Note 10.

Notes to the Financial Statements
For the year ended 31 December 2011

continued

5 Segmental Reporting *continued*

	For the year ended 31 December 2010					
	Managed Syndicates £'000	External Syndicates £'000	Corporate Funds £'000	Corporate Other £'000	Elimination £'000	Total £'000
Gross premiums written	181,830	(37)	-	-	-	181,793
Underwriting:						
Net earned premiums	140,485	55	-	-	-	140,540
Net claims incurred	(94,693)	1,263	-	-	-	(93,430)
Underwriting expenses	(30,938)	(60)	-	-	-	(30,998)
Underwriting result	14,854	1,258	-	-	-	16,112
Other income and expenses:						
Fees and commission income	-	-	-	6,638	(1,577)	5,061
Investment return	2,541	82	3,386	-	-	6,009
Other income	-	-	-	16	-	16
Operating expenses	(9,355)	(50)	(497)	(2,370)	1,609	(10,663)
Exchange gains/(losses)	1,097	(14)	-	437	-	1,520
Finance costs	(6,130)	(857)	(1,938)	(3,166)	(21)	(12,112)
Profit before tax	3,007	419	951	1,555	11	5,943
Income tax expense	(986)	(137)	(312)	(510)	(3)	(1,948)
Profit after tax	2,021	282	639	1,045	8	3,995
Combined ratio	97.1%	-1,736.4%	N/A	N/A	N/A	94.5%
Total assets	-	-	156,965	73,571	-	230,536
Total liabilities	-	-	-	(183,563)	-	(183,563)
Net assets	-	-	156,965	(109,992)	-	46,973
Capital expenditure	-	-	-	186	-	186

All revenues for each reportable segment are from external customers, with the exception of £1,592,000 (2010: £1,577,000) of sales received by Corporate Other which are from managed syndicates.

Corporate Other also includes depreciation and amortisation of £200,000 (2010: £244,000) and impairment of £nil (2010: £nil).

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.

5 Segmental Reporting *continued*

Reconciliation of reportable segments to Financial Statements

	Per total Reportable Segments £'000	Adjustment for RITC premiums £'000	Syndicate assets and liabilities £'000	Gross up adustments £'000	Per total Group Accounts £'000
			For the year ended 31 December 2011		
Gross premiums written	**185,937**	**-**	**-**	**-**	**185,937**
Underwriting:					
Net earned premiums	**138,542**	**(26)**	**-**	**-**	**138,516**
Net claims incurred	**(101,925)**	**26**	**-**	**-**	**(101,899)**
Underwriting expenses	**(31,368)**	**-**	**-**	**-**	**(31,368)**
Underwriting result	**5,249**	**-**	**-**	**-**	**5,249**
Other income and expenses:					
Fees and commission income	**3,765**	**-**	**-**	**-**	**3,765**
Investment return	**4,674**	**-**	**-**	**-**	**4,674**
Other income	**44**	**-**	**-**	**-**	**44**
Operating expenses	**(10,367)**	**-**	**-**	**-**	**(10,367)**
Exchange gains	**2,331**	**-**	**-**	**-**	**2,331**
Finance costs	**(12,281)**	**-**	**-**	**-**	**(12,281)**
(Loss) before tax	**(6,585)**	**-**	**-**	**-**	**(6,585)**
Income tax expense	**2,701**	**-**	**-**	**-**	**2,701**
(Loss) after tax	**(3,884)**	**-**	**-**	**-**	**(3,884)**
Total assets	**229,371**	**-**	**351,790**	**4,804**	**585,965**
Total liabilities	**(186,275)**	**-**	**(351,790)**	**(4,804)**	**(542,869)**
Net assets	**43,096**	**-**	**-**	**-**	**43,096**

	Per total Reportable Segments £'000	Adjustment for RITC premiums £'000	Syndicate assets and liabilities £'000	Per total Group Accounts £'000
			For the year ended 31 December 2010	
Gross premiums written	181,793	991	-	182,784
Underwriting:				
Net earned premiums	140,540	991	-	141,531
Net claims incurred	(93,430)	(991)	-	(94,421)
Underwriting expenses	(30,998)	-	-	(30,998)
Underwriting result	16,112	-	-	16,112
Other income and expenses:				
Fees and commission income	5,061	-	-	5,061
Investment return	6,009	-	-	6,009
Other income	16	-	-	16
Operating expenses	(10,663)	-	-	(10,663)
Exchange gains	1,520	-	-	1,520
Finance costs	(12,112)	-	-	(12,112)
Profit before tax	5,943	-	-	5,943
Income tax expense	(1,948)	-	-	(1,948)
Profit after tax	3,995	-	-	3,995
Total assets	230,536	-	292,641	523,177
Total liabilities	(183,563)	-	(292,641)	(476,204)
Net assets	46,973	-	-	46,973

5 Segmental Reporting *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.

For internal reporting purposes, deferred tax is reported as a netted down balance, whereas deferred tax assets and liabilities are required to be grossed up for statutory reporting purposes. Likewise, for internal reporting purposes, the loan from the group to the syndicate is reported as an asset at corporate level whereas for statutory reporting purposes, the group's asset is offset against the liability in the syndicate as a consolidation adjustment.

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 2011 or the year ended 31 December 2010..

6 Fees and commission income

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Managing agency fees	**940**	932
Profit commission	**2,825**	4,129
	3,765	5,061

7 Investment return

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Syndicate investments		
Investment income - interest	**3,354**	3,488
Realised investment (losses)	**(884)**	(865)
Net investment return on syndicate investments	**2,470**	2,623
Funds at Lloyd's		
Investment income - interest	**2,498**	2,048
Investment income - dividends	**258**	283
Realised investment (losses)	**(306)**	(105)
Net fair value (losses)/gains on assets at fair value through the Consolidated Statement of Comprehensive Income	**(538)**	859
Net investment return on funds at Lloyd's investments	**1,912**	3,085
Cash and other investments		
Investment income - interest	**292**	292
Realised (losses)	**-**	(121)
Net fair value gains on assets at fair value through the Consolidated Statement of Comprehensive Income	**-**	130
Net investment return on cash and other investments	**292**	301
Net investment return	**4,674**	6,009

8 Other operating expenses

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Syndicate operating expenses	**6,274**	4,166
Names' personal expenses on Lloyd's syndicates	**1,783**	1,831
Corporate expenses	**2,310**	4,666
	10,367	10,663

9 Net foreign exchange (gains)/losses

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Retranslation of underwriting balances	**(489)**	(603)
Exchange (gain) to maintain non-monetary assets and liabilities at historical rates of exchange	**(1,443)**	(480)
Exchange loss on long-term loan notes	**228**	519
Retranslation of other corporate balances	**(627)**	(956)
	(2,331)	(1,520)

10 Finance costs

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Interest expense on:		
Unsecured Floating Rate Subordinated Notes	**1,924**	1,946
Investor and Manager Loan Notes	**6,900**	6,900
Effective interest rate method adjustment	**1,042**	851
Dividends on Preference shares	**2,415**	2,415
	12,281	12,112

Unsecured Floating Rate Subordinated Notes are measured at amortised cost.

11 (Loss)/profit on ordinary activies before taxation

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
The (loss)/profit on ordinary activities before taxation is stated after charging:		
Operating lease charges - rent	**37**	27
Operating lease charges - other	**3**	1
Depreciation of tangible fixed assets	**200**	244
Fees payable to the auditor for:		
Audit of the Company's annual accounts	**12**	10
Audit of the Company's subsidiaries' annual accounts	**88**	72
Technical and actuarial support	**4**	5
Taxation services	**27**	25
Employee services	**3**	1
Internal review	**4**	-

12 Employees

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
The aggregate payroll costs borne by the Corporate Group were as follows:		
Salaries	**1,087**	3,306
Social security costs	**156**	435
Pension costs under defined contribution plans	**100**	95
	1,343	3,836

The average monthly number of people (excluding non-executive directors) employed by the Group during the year was 56 (2010: 52). Of this, 32 were dedicated underwriting and claims (2010: 31) with the remainder of employees involved in operations, administration and finance.

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

Refer to Note 31 for details of compensation of key management personnel.

13 Income tax (credit)/expense

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
(a) Analysis of (credit)/expense in the year		
Current tax		
Corporation tax at 26.5% (2010: 28%)	**3,429**	2,999
Adjustments in respect of previous years	**(664)**	(3,373)
Overseas tax	**469**	174
Withholding tax	**24**	24
Total current tax expense/(credit)	**3,258**	(176)
Deferred taxation		
Underwriting profits	**(5,721)**	(3,047)
Investment losses	**(15)**	318
Temporary differences on accelerated capital allowances	**(19)**	(19)
Adjustments in respect of previous years	**(38)**	3,477
Changes in tax rates	**(924)**	(456)
Other temporary differences	**758**	1,851
Total deferred tax (credit)/expense	**(5,959)**	2,124
Tax (credit)/expense	**(2,701)**	1,948
(b) Factors affecting the tax charge for the year		
(Loss)/profit on ordinary activities before tax	**(6,585)**	5,943
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28.%)	**(1,745)**	1,664
Expenses not deductible for tax purposes	**641**	683
Temporary differences	**-**	2
Change in tax rates	**(1,286)**	(592)
Investment income received net of tax	**(68)**	(79)
Investment income not taxable	**(33)**	(32)
Overseas tax	**469**	174
Withholding tax	**24**	24
Prior period adjustments	**(703)**	104
Total tax (credit)/expense	**(2,701)**	1,948

14 (Loss)/earnings per share

	Year ended 31 December 2011	Year ended 31 December 2010
The basic earnings per share is calculated as follows:		
(Loss)/profit for the year (£'000)	**(3,884)**	3,995
Basic and diluted weighted average number of shares (no.)*	**1,229,507**	1,236,277
Basic and diluted (loss)/earnings per share (£)	**(3.16)**	3.23

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

The A ordinary, B ordinary, B1 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.

15 Property, plant and equipment

	Lease £'000	**Computers & other equipment £'000**	**Furniture, fixtures & fittings £'000**	**Assets under construction £'000**	**Total 2011 £'000**	Total 2010 £'000
Cost						
At 1 January	**29**	**901**	**565**	**210**	**1,705**	1,606
Additions	**-**	**53**	**4**	**-**	**57**	186
Disposals	**-**	**(11)**	**-**	**-**	**(11)**	(87)
At 31 December	**29**	**943**	**569**	**210**	**1,751**	1,705
Depreciation						
At 1 January	**25**	**696**	**480**	**-**	**1,201**	1,044
Charge for the year	**4**	**125**	**71**	**-**	**200**	244
Disposals	**-**	**(11)**	**-**	**-**	**(11)**	(87)
At 31 December	**29**	**810**	**551**	**-**	**1,390**	1,201
Net book value						
At 31 December	**-**	**133**	**18**	**210**	**361**	504
At 1 January	**4**	**205**	**85**	**210**	**504**	562

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

16 Intangible assets

As at 31 December 2011	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 January	**22,934**	**300**	**23,234**
Disposals in the year	**-**	**-**	**-**
Cost at 31 December	**22,934**	**300**	**23,234**

As at 31 December 2010	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 January	22,934	300	23,234
Disposals in the year	-	-	-
Cost at 31 December	22,934	300	23,234

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

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

Having considered the future prospects of the Lloyd's insurance market, the Board believe that the Group's ownership of the syndicate participation rights and the goodwill will provide economic benefits over an indefinite period. Consequently they are not annually amortised but the Group annually tests these assets for impairment. They are allocated to the Group's cash generating units as follows:

As at 31 December 2011	Managed Syndicate £'000	Syndicate Management £'000	Total £'000
Goodwill	**-**	**300**	**300**
Syndicate capacity	**22,934**	**-**	**22,934**

As at 31 December 2010	Managed Syndicate £'000	Syndicate Management £'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 risk adjusted projected cash flows for six years and a discount rate of 8%. 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. 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.

17 Financial investments

The Group's financial investments consist of:

	31 December 2011 Market value £'000	31 December 2011 Cost £'000	31 December 2010 Market value £'000	31 December 2010 Cost £'000
Corporate				
Shares and other variable yield securities	**5,265**	**4,779**	5,100	4,315
Alternative investments	**1,973**	**1,415**	2,789	2,329
Debt and other fixed income securities	**117,602**	**117,783**	109,730	109,573
Deposits held with credit institutions	**9,591**	**9,591**	-	-
Total investments - Corporate	**134,431**	**133,568**	117,619	116,217
Syndicate participations				
Debt securities and other fixed interest securities	**111,154**	**111,390**	133,319	126,035
Total investments - Syndicate participations	**111,154**	**111,390**	133,319	126,035
Group financial investments	**245,585**	**244,958**	250,938	242,252

The Group's financial investments are all categorised as investments at fair value through profit or loss.All investments are classified as level 1 of the fair value hierarchy.

Of the Group's investments above, £134,431,000 (2010: £117,619,000) 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 £124,840,000 (2010: £117,619,000) 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.

18 Prepayments and accrued income

	31 December 2011 £'000	31 December 2010 £'000
Accrued income - investments	**1,039**	1,095
Accrued income - underwriting	**5,087**	5,620
Prepayments	**413**	474
	6,539	7,189

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

19 Trade and other receivables

	31 December 2011 £'000	31 December 2010 £'000
Arising out of direct insurance operations	**10,196**	13,159
Arising out of reinsurance operations	**55,793**	46,696
Tax recoverable	**664**	3,932
Amounts owed by managed syndicates	**2,362**	2,252
Other receivables	**1,145**	348
	70,160	66,387

Of the amounts due from managed syndicates, £nil (2010: £nil) is due in more than one year.

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

20 Cash and cash equivalents

	31 December 2011 £'000	31 December 2010 £'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	**78,659**	70,858
Short term investments	**36,569**	28,520
	115,228	99,378
Cash and cash equivalents consist of:		
Cash and cash equivalents held by syndicates	**68,390**	60,032
Cash and cash equivalents held within funds at Lloyd's	**22,142**	10,234
Cash and cash equivalents held by ESOP	**327**	328
Cash and cash equivalents available for use by the Group	**24,369**	28,784
	115,228	99,378

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.

21 Borrowings

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

	31 December 2011 £'000	31 December 2010 £'000
Unsecured Floating Rate Subordinated Notes	**45,792**	44,522
Preference shares	**37,493**	37,496
Loan Notes	**74,997**	75,005
	158,282	157,023

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.

(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.

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.

(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.

The amount of interest charged during 2011 in respect of the Unsecured Floating Rate Subordinated Notes is set out in Note 10.

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 expected 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 2011 was £6,900,000 (2010: £6,900,000).

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 27.

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

The amount of dividends charged to the Group in respect of the Preference shares for the year ended 31 December 2011 was £2,415,000 (2010: £2,415,000).

Facilities

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

22 Insurance contracts - technical provisions and reinsurance assets

	31 December 2011 £'000	31 December 2010 £'000
Gross		
Claims outstanding	**267,713**	211,329
Provision for unearned premiums	**58,864**	63,355
	326,577	274,684
Recoverable from reinsurers		
Claims outstanding	**102,876**	57,112
Provision for unearned premiums	**4,285**	5,103
	107,161	62,215
Net	**219,416**	212,469

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.

22.1 Reconciliation of changes in insurance liabilities and reinsurance assets

	Claims outstanding - gross £'000	Provision for unearned premiums £'000	Total 2011 £'000	Total 2010 £'000
Gross				
Provision at 1 January	**211,329**	**63,355**	**274,684**	236,839
Additional provisions made in the year	**166,017**	**54,580**	**220,597**	169,382
Amounts used in the year	**(89,473)**	**(57,493)**	**(146,966)**	(134,869)
Unused amount reversed during the year	**(13,604)**	**-**	**(13,604)**	(1,283)
Exchange differences	**(6,556)**	**(1,578)**	**(8,134)**	4,615
Provision at 31 December	**267,713**	**58,864**	**326,577**	274,684

	Claims outstanding - gross £'000	Provision for unearned premiums £'000	Total 2011 £'000	Total 2010 £'000
Reinsurance assets				
Provision at 1 January	**57,112**	**5,103**	**62,215**	51,691
Additional provisions made in the year	**68,936**	**4,455**	**73,391**	30,125
Amounts used in the year	**(22,504)**	**(5,101)**	**(27,605)**	(20,966)
Unused amount reversed during the year	**(462)**	**-**	**(462)**	-
Exchange differences	**(206)**	**(172)**	**(378)**	1,365
Provision at 31 December	**102,876**	**4,285**	**107,161**	62,215
Net	**164,837**	**54,579**	**219,416**	212,469

22.2 Movement in deferred acquisition costs

	31 December 2011 £'000	31 December 2010 £'000
Provision at 1 January	**12,687**	13,090
Additional provisions made in the year	**10,240**	11,597
Amounts used in the year	**(11,483)**	(12,000)
Provision at 31 December	**11,444**	12,687

23 Provisions for other liabilities

	31 December 2011 £'000	31 December 2010 £'000
Provision in respect of profit sharing scheme		
Provision at 1 January	**3,337**	4,972
Charge for the year	**562**	3,109
Utilised in the year	**(3,311)**	(4,744)
Provision at 31 December	**588**	3,337

The Group operates a profit sharing scheme from which all executive directors and full time employees of the Group can benefit. The size of this profit related pool created under this scheme is determined annually and is equal to 15 per cent of the consolidated Group profit before tax and amortisation (including any impairment charges) and before the interest charge on Manager and Investor Loan Notes of Cathedral Capital (Investments) Limited and 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 either 12.8% or 13.8% depending on the prevailing rate) which would be payable.

Any distributions made to the Directors of the Company have been included in the Directors emolument table on page 67. Since the year end, the Group Remuneration Committee has not recommended any such distribution to the Board, though it may recommend that some of the provision be distributed to Group employees later in 2012.

24 Provision for deferred tax

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

	31 December 2011 £'000	31 December 2010 £'000
Declared underwriting (profits)	**(9,515)**	(5,884)
Annually accounted loss/(profits)	**6,071**	(3,650)
Unrealised investment gains	**(264)**	(339)
Accelerated capital allowances	**39**	24
Tax losses carried forward	**143**	154
Claims equalisation reserve	**(6,116)**	(5,301)
Other temporary differences	**(5,774)**	(6,379)
Provision for deferred tax	**(15,416)**	(21,375)
Reflected in the balance sheet as follows:		
Deferred tax assets	**6,253**	-
Deferred tax liabilities	**(21,669)**	(21,375)
	(15,416)	(21,375)

Provision for deferred tax at start of year	**(21,375)**
Deferred tax credit in Consolidated Statement of Comprehensive Income for year	**5,959**
Provision for deferred tax at end of year	**(15,416)**

Unprovided deferred tax assets for the Group were £nil at 31 December 2011 (31 December 2010: £nil).

All deferred tax assets are considered to be recoverable.

25 Trade and other payables

	31 December 2011 £'000	31 December 2010 £'000
Amounts due within one year:		
Arising out of direct insurance operations	**1,614**	1,377
Arising out of reinsurance operations	**19,400**	13,879
Other taxes and social security costs	**209**	487
Trade creditors	**2,506**	2,331
Interest payable - loan notes	**6,864**	-
Dividends payable - preference shares	**2,411**	-
Other creditors	**1**	1
	33,005	18,075

Other creditors includes £1,400 payable to the shareholders of Cathedral Capital Holdings Limited who hadn't accepted the offer to purchase their shares by the end of the year (2010: £1,400). This amount is held in a specific bank account for those shareholders.

26 Share capital

	31 December 2011 Authorised allotted issued and fully paid	31 December 2010 Authorised allotted issued and fully paid
	Number	Number
Number:		
A ordinary shares of 1p each	**-**	-
A ordinary shares of 0.1p each	**702,290**	702,290
B ordinary shares of 1p each	**58,343**	65,695
B1 ordinary shares of 1p each	**128,342**	144,515
Ordinary shares of 1p each	**222,243**	337,500

	£'000	£'000
Nominal value		
A ordinary shares of 0.1p each	**1**	1
B ordinary shares of 1p each	**1**	1
B1 ordinary shares of 1p each	**1**	1
Ordinary shares of 1p each	**2**	3
	5	6

On 13 December 2011, the Company reorganised its share capital as follows:

115,257 of the Ordinary Shares, 7,352 of the B Shares, and 16,173 of the B1 Ordinary Shares were converted into Deferred Shares and immediately bought back by the Company for an aggregate of 1p, and then cancelled by the Company.

Following this share reorganisation, the voting rights of the shares were such that the A Ordinary Shares of 0.1p each equate to 51.3% of the total votes, the B Ordinary Shares of 1p each equate to 5.25% of the total votes, the B1 Ordinary Shares of 1p each equate to 23.45% of the total votes and the Ordinary Shares of 1p each equate to 20.0% of the total votes.

The A Ordinary Shares of 0.1p each, the Ordinary Shares of 1p each, the B Ordinary Shares of 1p each and the B1 Ordinary Shares of 1p each all continue to rank pari-passu as regards to economic rights.

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

Authorised, allotted, issued and fully paid:	**31 December 2011 Number**	31 December 2010 Number
A ordinary shares of 1p each		
At the beginning of the year	**-**	702,290
Converted to A ordinary shares of 0.1p each	**-**	(70,229)
Converted to Deferred A shares of 0.9p each	**-**	(632,061)
At the end of the year	**-**	-
Deferred A shares of 0.9p each		
At the beginning of the year	**-**	-
Converted to A ordinary shares of 1p each	**-**	702,290
Cancelled Deferred A shares of 0.9p each	**-**	(702,290)
At the end of the year	**-**	-
A ordinary shares of 0.1p each		
At the beginning of the year	**702,290**	-
Converted from A ordinary shares of 1p each	**-**	702,290
At the end of the year	**702,290**	702,290
B ordinary shares of 1p each		
At the beginning of the year	**65,695**	210,210
Converted from B1 ordinary shares of 1p each	**-**	(144,515)
Converted to Deferred B shares of 1p each	**(7,352)**	-
At the end of the year	**58,343**	65,695
B1 ordinary shares of 1p each		
At the beginning of the year	**144,515**	-
Converted to Deferred B1 shares of 1p each	**(16,173)**	144,515
At the end of the year	**128,342**	144,515
Ordinary shares of 1p each		
At the beginning of the year	**337,500**	337,500
Converted to Deferred shares of 1p each	**(115,257)**	-
At the end of the year	**222,243**	337,500
Deferred shares of 1p each		
At the beginning of the year	**-**	-
Converted from Ordinary shares of 1p each	**115,257**	-
Converted from B shares of 1p each	**7,352**	-
Converted from B1 ordinary shares of 1p each	**16,173**	-
Cancelled Deferred shares of 1p each	**(138,782)**	-
At the end of the year	**-**	-

27 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 2011 Number	31 December 2010 Number
9.2% Manager Loan Notes in Cathedral Capital (Investments) Limited	**1,304,524**	1,302,367
6.44% Preference shares of £1 each in Cathedral Capital Limited	**652,162**	651,084
B ordinary shares in Cathedral Capital Limited	**12,212**	13,723

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 December 2011	ESOP £'000	Elimination £'000	Group £'000
Profit and loss account			
Investment income on shares and Loan Notes	**162**	**(162)**	**-**
Other interest	**3**	**-**	**3**
Realised gains on disposal of shares and Loan Notes	**(1)**	**1**	**-**
Tax withheld	**(24)**	**-**	**(24)**
Total profit	**140**	**(161)**	**(21)**
Balance Sheet			
Investments *	**1,963**	**(1,957)**	**6**
Cash	**327**	**-**	**327**
Accrued interest & deferred income	**162**	**(162)**	**-**
Less liabilities	**(24)**	**-**	**(24)**
Net assets	**2,428**	**(2,119)**	**309**
ESOP funds	**2,428**	**(323)**	**2,105**
Reconciliation of ESOP funds			
ESOP funds at 1 January	**2,288**	**(162)**	**2,126**
Profit arising in ESOP during year	**140**	**(161)**	**(21)**
ESOP funds at 31 December	**2,428**	**(323)**	**2,105**

*Valued at cost to the Group.

27 Employee Share Ownership Plan *continued*

Year ended December 2010	ESOP £'000	Elimination £'000	Group £'000
Profit and loss account			
Investment income on shares and Loan Notes	162	(162)	-
Other interest	1	-	1
Realised gains on disposal of shares and Loan Notes	-	-	-
Tax withheld	(24)	-	(24)
Total profit	139	(162)	(23)
Balance Sheet			
Investments *	1,960	(1,954)	6
Cash	328	-	328
Accrued interest & deferred income	-	-	-
Less liabilities	-	-	-
Net assets	2,288	(1,954)	334
ESOP funds	2,288	(162)	2,126
Reconciliation of ESOP funds			
ESOP funds at 1 January	2,149	-	2,149
Profit arising in ESOP during year	139	(162)	(23)
Expenses incurred and added to cost of investments	-	-	-
ESOP funds at 31 December	2,288	(162)	2,126

*Valued at cost to the Group.

28 Capital commitments

The Group had no capital commitments at 31 December 2011 (2010: £nil).

29 Operating leases

	Group 31 December 2011 £'000	Group 31 December 2010 £'000
Future minimum lease payments under non-cancellable operating leases:		
Land & buildings:		
Within one year	**439**	244
In the second to fifth years inclusive	**1,538**	1,464
More than five years	**-**	153
Other:		
Within one year	**17**	13
In the second to fifth years inclusive	**15**	23
	2,009	1,897

Commitments under operating leases for land & buildings relate to rent payable. The Group entered into a 10 year rental contract commencing on 8 June 2006. Either party could give at least nine months notice to cancel the contract on 8 June 2011. However, no such notice was given. The contract included an initial 11 months rent free period which was credited over the first five years of the rental contract. There is a further four months rent free period from 8 June 2011 to 8 October 2011 which is credited over the remaining five years of the rental contract.

Other commitments relate to operating leases for IT equipment.

30 Reconciliation of (loss)/profit to cash generated from operations

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
(Loss)/profit before taxation	**(6,585)**	5,943
Adjustments for:		
Depreciation	**200**	244
(Increase) in debtors & accrued income	**(5,802)**	(1,676)
Change in underwriting balances	**8,190**	27,724
Purchase of investments	**(218,018)**	(211,565)
Proceeds from disposal of investments	**223,658**	143,659
Unrealised investment losses/(gains)	**1,422**	(125)
Exchange revaluation	**(1,755)**	(3,064)
Increase/(decrease) in creditors	**2,959**	(1,997)
Interest expense	**12,281**	12,112
Interest receivable	**(6,144)**	(5,828)
Dividends receivable	**(258)**	(283)
Cash generated from operations	**10,148**	(34,856)

Notes to the Financial Statements
For the year ended 31 December 2011
continued

31 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 2011 and 31 December 2010 (according to the register of Directors' interests) are set out below:

		31 December 2011			31 December 2010	
	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	**36,530**	**73,071**	**-**	36,530	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 27.

(ii) Other

Alchemy Partners Nominee Limited

Alchemy Partners Nominee Limited ("Alchemy") is a 63% shareholder in the Company (31 December 2010: 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 1116 of the Companies Act 2006.

The interests of the ESOP at 31 December 2011 and 31 December 2010 are:

	Cathedral Capital Limited		**Cathedral Capital (Investments) Limited**
	B ordinary 1 pence shares Number	**Preference shares Number**	**Manager Loan Notes £**
At 31 December 2011	**12,212**	**652,162**	**1,304,524**
At 31 December 2010	13,723	651,084	1,302,367

Further details of the ESOP are set out in Note 27.

(iv) Directors' Remuneration

All executive directors have employment contracts, with 12 months notice periods, with the Group which set out their employment terms and conditions. The non-executive directors have appointment letters. The remuneration of the directors is set out below:

	Fees & Salaries £'000	Benefits in Kind £'000	Pensions £'000	31 December 2011 Total £'000	31 December 2010 Total £'000
E E Patrick	**60**	**3**	**-**	**63**	62
J A Lynch	**175**	**1**	**23**	**199**	424
P D Scales	**175**	**2**	**27**	**204**	425
	410	**6**	**50**	**466**	911

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

Alchemy Partners (Guernsey) Limited received a fee of £68,000 (2010: £65,000) 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 Chief Executive Officer and the Remuneration Committee. The aggregate amount and timing of any payments are agreed by the Remuneration Committee. The rationale for any distributions to executive directors and senior executives having basic salaries of £125,000 and above are explained to and agreed by the Remuneration Committee.

For this year, the Remuneration Committee has not agreed any proposed distributions to the executive directors from the profit sharing scheme and therefore have not been included within the Fees and Salaries disclosed above. The amount of the profit sharing scheme is set out in detail in Note 23.

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.

(v) 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 2011 £'000	Year ended 31 December 2010 £'000
Key management compensation		
Salaries and other short-term employee benefits	**986**	2,536
Post-employment benefits	**107**	118
	1,093	2,654

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 2011, these items were de minimis (2010: de minimis outstanding).

32 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.

33 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 the Consolidated Statement of Changes in Equity and details of the loan capital are set out in Note 21.

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%.

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

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

At 31 December 2011, the Group's funds at Lloyd's amounted to £147.0 million, which was in excess of its capital requirements after allowing for solvency credits. These funds were invested in a mixture of equities, fixed interest instruments and cash.

34 Categories of financial assets and liabilities

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

As at 31 December 2011 £'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	-	-	-	-	361	361
Intangible assets	-	-	-	-	23,234	23,234
Reinsurers' share of technical provisions	-	-	-	107,161	-	107,161
Financial investments	-	-	245,585	-	-	245,585
Deferred acquisition costs	-	-	-	11,444	-	11,444
Deferred tax assets	-	-	-	-	6,253	6,253
Prepayments and accrued income	1,039	-	-	-	5,500	6,539
Trade and other receivables	-	70,160	-	-	-	70,160
Cash and cash equivalents	-	115,228	-	-	-	115,228
Total assets	**1,039**	**185,388**	**245,585**	**118,605**	**35,348**	**585,965**

£'000	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
Liabilities					
Borrowings	45,792	112,490	-	-	158,282
Insurance contracts	-	-	326,577	-	326,577
Provision for other liabilities and charges	-	-	-	588	588
Deferred tax liabilities	-	-	-	21,669	21,669
Trade and other payables	-	-	-	33,005	33,005
Current tax liabilities	-	-	-	1,522	1,522
Accruals and deferred income	-	2	-	1,224	1,226
Total liabilities	**45,792**	**112,492**	**326,577**	**58,008**	**542,869**

Notes to the Financial Statements
For the year ended 31 December 2011

continued

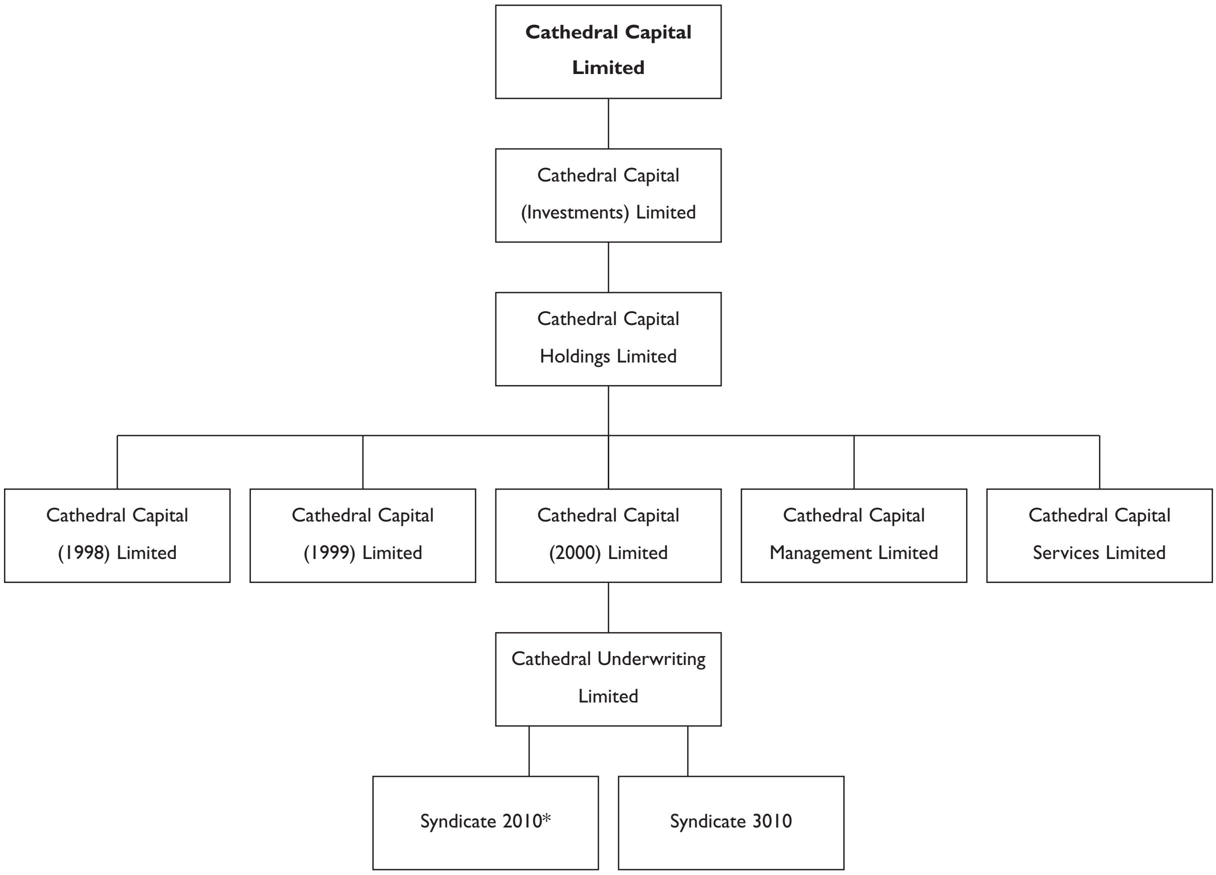
34 Categories of financial assets and liabilities *continued*

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

As at 31 December 2010 £'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	-	-	-	-	504	504
Intangible assets	-	-	-	-	23,234	23,234
Reinsurers' share of technical provisions	-	-	-	62,215	-	62,215
Financial investments	-	-	250,938	-	-	250,938
Deferred acquisition costs	-	-	-	12,687	-	12,687
Other assets	-	-	-	-	645	645
Prepayments and accrued income	1,095	-	-	-	6,094	7,189
Trade and other receivables	-	66,387	-	-	-	66,387
Cash and cash equivalents	-	99,378	-	-	-	99,378
Total assets	1,095	165,765	250,938	74,902	30,477	523,177

£'000	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
Liabilities					
Borrowings	44,522	112,501	-	-	157,023
Insurance contracts	-	-	274,684	-	274,684
Provision for other liabilities and charges	-	-	-	3,337	3,337
Deferred tax liabilities	-	-	-	21,375	21,375
Trade and other payables	-	-	-	18,075	18,075
Current tax liabilities	-	-	-	552	552
Accruals and deferred income	-	115	-	1,043	1,158
Total liabilities	44,522	112,616	274,684	44,382	476,204

Group Structure



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

PARENT COMPANY FINANCIAL STATEMENTS

Statement of 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 Company financial statements under UK Generally Accepted Accounting Practice (UK 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:

- 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.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

John Lynch
Company Secretary
20 March 2012

Report of the Independent Auditors

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

We have audited the parent company financial statements of Cathedral Capital Limited for the year ended 31 December 2011 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation 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 page 73, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the parent company 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 member 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 member those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s member 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/private.cfm.

Opinion on the financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on the other matter prescribed by the Companies Act 2006

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

Other matter

We have reported separately on the Group financial statements of Cathedral Capital Limited for the year ended 31 December 2011.

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

Tower Bridge House
St Katharine's Way
London
E1W 1DD
20 March 2012

CATHEDRAL
CAPITAL LIMITED

Parent Company Balance Sheet
As at 31 December 2011

	Notes	**31 December 2011 £'000**	31 December 2010 £'000
Assets			
Investment in subsidiary undertaking	5	**40,408**	40,408
		40,408	40,408
Trade and other receivables	6	**5,981**	5,984
Prepayments and accrued income		**-**	1
Cash at bank and in hand		**1**	-
Total assets		**46,390**	46,393
Equity			
Called up share capital	9	**5**	6
Share premium	10	**1,237**	1,237
Capital redemption reserve	10	**1,021**	1,020
Profit and loss reserve	10	**3,445**	5,949
Total shareholders' equity	11	**5,708**	8,212
Liabilities			
Borrowings	7	**38,145**	38,145
Trade and other payables	8	**2,502**	-
Accruals and deferred income		**35**	36
Total liabilities		**40,682**	38,181
Total equity and liabilities		**46,390**	46,393

The financial statements on pages 76 to 82 were approved by the Board of Directors and authorised for issue on 20 March 2012 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 77 to 82 form part of these financial statements.

1 General Information

Cathedral Capital Limited ("the Company") is a limited company incorporated and domiciled in England and Wales. The addresses of its registered office and principal place of business are disclosed in the Report of the Directors on page 15.

2 Basis of preparation of financial statements

Basis of preparation

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. The accounts have been prepared on a going concern basis.

No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006. The result of the Company is set out in Note 4.

3 Significant Accounting Policies

a) *Expenses*

Expenses are accounted for on an accruals basis.

b) *Cash at bank and in hand*

Cash at bank and in hand consists of cash at bank and in hand and includes deposits repayable on demand if they can be withdrawn at any time without notice or penalty.

c) *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 Profit and Loss Account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company'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 Profit and Loss Account, 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 Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are not discounted.

d) *Borrowings*

Preference shares are included within borrowings as there is a specified repayment date. Borrowing costs are recognised in the Profit and Loss Account in the period in which they are incurred.

4 (Loss) attributable to members of the parent company

The loss dealt with in the accounts of the Company (as prepared under UK GAAP) was £2,504,000 (2010: loss of £34,000). 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.

5 Investment in subsidiary undertakings

	31 December 2011 £'000	31 December 2010 £'000
Investment 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%

All companies are registered and operate in England.

6 Trade and other receivables

	31 December 2011 £'000	31 December 2010 £'000
Tax recoverable	**-**	119
Amounts owed by Subsidiary undertakings	**5,981**	5,865
	5,981	5,984

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

7 Borrowings

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

	31 December 2011 £'000	31 December 2010 £'000
Preference shares	**38,145**	38,145

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

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 are valued at par and recorded on the balance sheet as a liability as there is a fixed repayment date.

On 31 December 2008, £1,013,194 of the Preference Shares were redeemed by the Company.

The amount of dividends charged to the Company in respect of the Preference shares for the year ended 31 December 2011 was £2,457,000 (2010: £2,457,000).

8 Trade and other payables

	31 December 2011 £'000	31 December 2010 £'000
Amounts due within one yaer:		
Tax credtors	**49**	-
Dividends payable - preference shares	**2,453**	-
	2,502	-

Notes to the Financial Statements
For the year ended 31 December 2011

continued

9 Share capital

	31 December 2011 Authorised allotted issued and fully paid	31 December 2010 Authorised allotted issued and fully paid
	Number	Number
Number:		
A ordinary shares of 1p each	**-**	-
A ordinary shares of 0.1p each	**702,290**	702,290
B ordinary shares of 1p each	**58,343**	65,695
B1 ordinary shares of 1p each	**128,342**	144,515
Ordinary shares of 1p each	**222,243**	337,500

	£'000	£'000
Nominal value		
A ordinary shares of 1p each	**-**	-
A ordinary shares of 0.1p each	**1**	1
B ordinary shares of 1p each	**1**	1
B1 ordinary shares of 1p each	**1**	1
Ordinary shares of 1p each	**2**	3
	5	6

On 13 December 2011, the Company reorganised its share capital as follows:

115,257 of the Ordinary shares, 7,352 of the B shares, and 16,173 of the B1 Ordinary shares were converted into Deferred shares and immediately bought back by the Company for an aggregate of 1p, and then cancelled by the Company.

Following this share reorganisation, the voting rights of the shares were such that the A Ordinary Shares of 0.1p each equate to 51.3% of the total votes, the B Ordinary Shares of 1p each equate to 5.25% of the total votes, the B1 Ordinary Shares of 1p each equate to 23.45% of the total votes and the Ordinary Shares of 1p each equate to 20.0% of the total votes.

The A Ordinary Shares of 0.1p each, the Ordinary Shares of 1p each, the B Ordinary Shares of 1p each and the B1 Ordinary Shares of 1p each all continue to rank pari-passu as regards to economic rights.

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

Authorised, allotted, issued and fully paid:	**31 December 2011 Number**	31 December 2010 Number
A ordinary shares of 1p each		
At the beginning of the year	**-**	702,290
Converted to A ordinary shares of 0.1p each	**-**	(70,229)
Converted to Deferred A shares of 0.9p each	**-**	(632,061)
At the end of the year	**-**	-
Deferred A shares of 0.9p each		
At the beginning of the year	**-**	-
Converted to A ordinary shares of 1p each	**-**	702,290
Cancelled Deferred A shares of 0.9p each	**-**	(702,290)
At the end of the year	**-**	-
A ordinary shares of 0.1p each		
At the beginning of the year	**702,290**	-
Converted from A ordinary shares of 1p each	**-**	702,290
At the end of the year	**702,290**	702,290
B ordinary shares of 1p each		
At the beginning of the year	**65,695**	210,210
Converted from B1 ordinary shares of 1p each	**-**	(144,515)
Converted to Deferred B shares of 1p each	**(7,352)**	-
At the end of the year	**58,343**	65,695
B1 ordinary shares of 1p each		
At the beginning of the year	**144,515**	-
Converted to Deferred B1 shares of 1p each	**(16,173)**	144,515
At the end of the year	**128,342**	144,515
Ordinary shares of 1p each		
At the beginning of the year	**337,500**	337,500
Converted to Deferred shares of 1p each	**(115,257)**	-
At the end of the year	**222,243**	337,500
Deferred shares of 1p each		
At the beginning of the year	**-**	-
Converted from Ordinary shares of 1p each	**115,257**	-
Converted from B shares of 1p each	**7,352**	-
Converted from B1 ordinary shares of 1p each	**16,173**	-
Cancelled Deferred shares of 1p each	**(138,782)**	-
At the end of the year	**-**	-

10 Reserves

Movement in reserves

	Balance at 1 January 2011 £'000	(Loss) for the year £'000	Share reorganisation £'000	Total attributable to shareholders £'000
Called-up share capital	**6**	**-**	**(1)**	**5**
Share premium	**1,237**	**-**	**-**	**1,237**
Capital redemption reserve	**1,020**	**-**	**1**	**1,021**
Retained earnings	**5,949**	**(2,504)**	**-**	**3,445**
Equity shareholders' funds	**8,212**	**(2,504)**	**-**	**5,708**

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 and deferred shares which are redeemed out of distributable profits and is not distributable.

All of the profit and loss reserve at 31 December 2011 and 31 December 2010 is distributable.

11 Reconciliation of total shareholders' equity

	31 December 2011 £'000	31 December 2010 £'000
Total recognised (losses) for the year	**(2,504)**	(34)
Opening shareholders' equity	**8,212**	8,246
Closing shareholders' equity	**5,708**	8,212

The Company had no capital commitments at 31 December 2011 (2010: £nil).

12 Directors' emoluments

The remuneration of the directors charged to the Company was as follows:

	31 December 2011 £'000	31 December 2010 £'000
Emoluments	**20**	20
Pension costs	**2**	2
Directors fees	**68**	65
Total directors' emoluments	**90**	87

This page is left intentionally blank.

This page is left intentionally blank.

CATHEDRAL
CAPITAL LIMITED

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

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