CATHEDRAL
CAPITAL LIMITED

Annual Report

31 December 2012

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Annual Report
For the year ended 31 December 2012

Contents

Chief Executive Officer's Report

Overview

The last 12 months have given us some respite from the extraordinary frequency of catastrophe claims over the previous two years. Consequently, I am able to report a return to more normal trading conditions and for the year a bottom line profit of £11.6 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 £24.9 million.

The group produced a combined ratio of 83%, our main trading entity Syndicate 2010 producing a combined ratio of 77%.

Despite being comparatively quiet on the claims front, the year was not without incident. In contrast to the two previous years the USA was the focal point for insured losses. The largest of these, Hurricane Sandy, not only caused substantial damage and disruption to North Eastern coastal areas, but influenced renewal market dynamics.

This year has also been notable for a sea change in relationship between capital providers and underwriters led by an influx of capital market funds into the reinsurance markets, albeit on a commoditised and limited basis at present. This is not a temporary development and we and our market place will need to give some serious thought as to how we most effectively interact with our capital backers and counterparties in years to come.

Market

As mentioned in last year's commentary, trading conditions across our principal accounts were reasonably healthy at the start of the year with additional competitive pressures building through the third quarter once the market had convinced itself that the wind season was over ….

Industry estimates for insured losses for 2012 total some $65 billion, approximately one half of those in 2011. Although this loss level still remains significantly above the 10 year average, the distribution of market losses differs significantly from the previous two years with the bulk of this year's losses arising in the USA notwithstanding a seventh successive year without a major hurricane making landfall.

The largest loss of life of 2012 occurred as a result of Super Typhoon Bopha in the Philippines, but its financial effects were limited in comparison to combined losses of approximately $11 billion from persistent drought conditions in 'middle' America and assorted other weather losses such as tornadoes. These in turn were eclipsed by losses generated by Hurricane Sandy.

Sandy made final landfall in New Jersey with winds slightly under hurricane force; a combination of a slow forward motion, interaction with other weather systems and tidal patterns resulted in a wide slow moving storm that caused significant flooding, snowfall and wind damage across the North East quadrant of the USA affecting many urban and suburban areas, not least New York.

Several months later there is still a wide spread of estimates in the market as to the final cost of Sandy which encompasses significant losses across a wide range of apparently diversified classes of business. Once the Federal plans are included, I suspect the final bill will be in the region of $25-30 billion.

Advised losses arising from reinsurances of the domestic personal lines carriers are stable, have been decreasing from opening estimates, and many are now paid. Losses arising from large individual commercial property placements such as the Metropolitan Transportation Authority and to the 'Marine' market in its many guises, will take a while to resolve.

One might think that storms such as Irene in 2011 and Sandy in 2012 would at the very least beg the question as to what does happen when a Cat 4 or 5 hurricane comes ashore on a similar track and affects major urban areas, where most of the supposedly 'non-correlating classes' correlate, and the models on which the more commoditised segment of the market are highly reliant, give the usual hopeless estimates of what values are at stake?

Mercifully, a major wind storm is yet directly to hit a US city where this apparently 'apocalyptic' scenario could play out, but a cursory look at a map of the USA (or for that matter Japan or Europe) shows how many major cities are on the coast in hazard zones. Our industry really should not be surprised time and again when the infrastructure and major commercial sites in major urban areas are flooded or damaged because they are located at or below sea level, on the coast.

Anyone still reading at this point will ask what effect has this had on the wider market place? The short answer is, as usual, very little. However, it did have a bearing on renewal season.

Up until Sandy's arrival late in the wind season, the market was generally looking at a good trading year, particularly in comparison to the two that preceded it. This inevitably led to more capacity being readied for market and an increased appetite from a number of existing entities to take on additional business at the year end. Sandy brought a hiatus to this process as clients, particularly in the marine market, scrambled to find sensible loss numbers they could present to their reinsurers to get their 2013 outward reinsurance programmes moving. It also slowed down arrangements to put in place a number of new vehicles and 'sidecars' to write largely collateralised reinsurances backed by the capital markets and pension funds.

The actual effect on the January renewals was to stabilise US catastrophe business in terms of pricing more than we expected immediately before Sandy. Some loss-affected accounts (not just from Sandy) paid material increases, with the general tenor of renewals being flat to small increases. Once organised and arriving rather late on the scene, new capacity has driven significant pressure onto signings (the proportion of an oversubscribed risk each underwriter actually gets). There has been a marked difference in the ability to maintain their share of the business by leading underwriters, who add some value to the market, in comparison to those who merely tag along and provide capacity (or in this case, don't).

This is a classic precursor to pricing pressure as clients see that they could have achieved significantly more than 100% placement of their business at the price they paid. Furthermore it will cause the 'have-nots' to consider offering better terms so that they may regain lost ground on business they have been pushed away from.

This is simply the way of the market place (notwithstanding 'cycles' are now getting very short). Furthermore, a dozen or so brand new vehicles have appeared in the last few months. Very few of them have fully sold the products that they drew down cash from investors to sell and many are still trying to push out more capacity on a basis that was not originally advertised. Clearly some of this capital will be returned to investors if it cannot be used, but given the return profile of the sector over the last decade compared to other asset classes, it is likely to come back given any sort of encouragement.

What is becoming obvious is that many of these new entrants are attempting to target the same areas of exposure where they can obtain (according to the models) an attractive return rate with low frequency of loss. Not surprisingly the number of relatively simple and similar products designed more for ease of investor engagement than for the customer is creating extra competitive pressure.

This has and will continue to result in redundancy of subscribed capital and return levels somewhat less than originally advertised, unless the products become more attractive to the customer in comparison to those provided by traditional markets, or provide a way to participate in an ongoing portfolio of risks rather than selling a series of one-offs.

How this pans out is going to be a long term structural issue for our market place as I see a continuing trend of asset managers looking to maintain a more permanent exposure to overt risk assets in their overall asset management strategies.

The real take-away from 2012 is that the structural investor base in our industry is changing and although the relationship between the relative values of capital and underwriters ebbs and flows with trading conditions, never in my experience has there been so much capital in comparison to quality underwriting teams with sustainable businesses.

Syndicates 2010 and 3010

Syndicates 2010 and 3010 produced profits of 2.2% and 10.0% respectively for the closing Lloyd's 2010 year of account. Given the well documented frequency of losses affecting both the 2010 and 2011 years of account in the areas in which we specialise, I regard this as a very commendable performance. These are fully discussed in the Report and Accounts for each Syndicate and I shall not repeat them here, save to say the outlook for the 2012 account which remains heavily on risk looks much improved at this stage.

Lloyd's

Regular readers will be aware that we are firm advocates of the Lloyd's market place and that the businesses trading within it must be well run and have good governance.

You will also be aware that in recent years we have become increasingly concerned about the encroachment of regulation into the market to the point where it makes businesses overly costly to run and uses up quality resources ineffectively.

The proverbial Solvency II can has been kicked down the road once again, with little sign of the wider European industry finding a date when they will fully take on board the proposal. The UK, particularly Lloyd's, which is much further down the road in terms of implementation and substantial incurred cost, now seems rather isolated. However, the regulators are keen to maintain what value they can from undertaking this project. It has not been formally announced yet how Lloyd's will proceed, but the noises from the centre rather than the market seem to favour continuing in the vein of more documentation and validation of process being built into the ongoing minimum standards for the market.

I have to say I am disappointed that Lloyd's makes statements to the effect that they regard the most sophisticated and well run businesses to be the ones who most frequently run and relies on their internal models and processes to run their businesses.

We are by no means dinosaurs and have a business that is widely regarded by our reinsurers, brokers and customers as one of the most sophisticated in its understanding of exposure management. I cannot ignore the fact that underwriters, management and in depth knowledge of books of business with many years of successful trading experience, offer me more reassurance as to the risks facing our business, than a model will ever do. Layer upon layer of procedures, validation and documentation does not in itself equate to good governance.

It will come as no surprise that supervision of the market by the Franchise Performance Directorate (FPD) also continues in ever more quantitative mode, requiring more information and reporting that re-appears in various performance benchmarks that are swept into various areas of the centre.

We are entering a more competitive phase of the market where differences between syndicates with genuine franchise and proven track record and those who have little or none will start to show more dramatically. It is now we need the FPD to be on their game for the good of the market, but I fear it is unlikely to achieve this by collecting and benchmarking ever more rear view mirror statistics and implementing more policies alone.

The future of the market hinges on good governance from the centre, but the market has to be a willing accomplice. The centre should be able to give more credit for the value of the quality of people, experience, track record and resource, rather than attempting to box businesses into its preferred template. It also needs to rebuild relationships between its on the ground representatives and principals of the businesses they regulate, rather than deploy a continuous turnover of contacts who are trying to implement policy on businesses that they have had little time to get to know. The start point of this process needs to be a halt to the perceived divergence of interest between the market and the centre. We need to stop the ongoing escalation of regulation by process, now.

Equally, the market must make time and resource available to build relationships with the regulators and the Franchise Board so that both sides can benefit from a robust but more workable interaction.

Either way I, and many in the market, feel that the centre and the market are currently pulling at different ends of one piece of very expensive string. To be effective going forward and to stop Lloyd's historical competitive advantage being turned into competitive disadvantage, the centre (and the market) need to pause and find a better way forward, hopefully in the same direction.

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 profit on ordinary activities after tax, as reported in the Consolidated Statement of Comprehensive Income, was £11.6 million (2011: loss of £3.9 million) which equates to an earnings per equity share of £10.55 (2011: loss per equity share of £3.16).

	Underwriting £'000	Corporate £'000	Total £'000
Gross Written Premium	193,266	-	193,266
Net Earned Premium *	145,071	-	145,071
Net Claims incurred	(74,166)	-	(74,166)
Acquisition costs	(33,021)	-	(33,021)
Underwriting results	37,884	-	37,884
Other expenses **	(29,877)	(1,291)	(31,168)
Net investment return	2,140	3,858	5,998
Fees, commission and other income	-	1,817	1,817
Profit before tax	10,147	4,384	14,531
Tax	(2,054)	(890)	(2,944)
Profit after tax	8,093	3,494	11,587
Earnings per equity share	£7.37	£3.18	£10.55
Return on Equity ***	18.8%	8.1%	26.9%

* included in net earned premiums is net reinsurance to close premiums received of £4,000 (2011: reinsurance to close premium received of £nil).

** 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.

Chief Executive Officer's Report

continued

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 2012 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 2012		31 December 2011	
	Gross %	**Net %**	Gross %	Net %
Claims ratio:				
Non-marine reinsurance	**75.3**	**65.7**	141.5	102.1
Aviation	**3.0**	**9.0**	44.9	52.9
Satellite	**41.5**	**39.1**	85.1	96.9
Direct & facultative property	**35.5**	**41.7**	54.3	61.4
Contingency	**41.4**	**73.4**	59.4	18.5
Cargo	**61.5**	**55.5**	34.3	34.3
Other	**-**	**-**	48.1	44.3
Total claims ratio	**52.7**	**50.5**	94.5	75.5
Expense ratio	**21.3**	**28.5**	20.9	28.9
Combined ratio	**74.0**	**79.0**	115.4	104.4

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 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 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 2012		31 December 2011	
	Gross %	**Net %**	Gross %	Net %
Claims ratio	**53.2**	**51.1**	92.1	73.6
Expense ratio:				
Syndicates	**22.1**	**29.1**	21.7	29.5
Corporate	**(0.2)**	**(0.2)**	(0.4)	(0.4)
Staff profit-related pay	**2.6**	**3.4**	0.3	0.4
Total expense ratio	**24.5**	**32.3**	21.6	29.5
Combined ratio	**77.7**	**83.4**	113.7	103.1

The corporate expense ratio is net of fees, commissions and other non-investment income. For the year ended 2012 the gross expense ratio does not include circa 4.9% (2011: 4.9%) (net expense ratio 6.4% (2011: 6.7%)) 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 £6.2 million of exchange losses (2011: £2.3 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 £3.7 million (2011: £2.2 million) which equates to a return of 1.9% up from 1.3% 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	5,769	7.0	404
Fixed interest	151,991	1.9	2,912
Alternative investments	2,064	3.8	79
Cash	4,730	1.5	69
Total	164,554	2.1	3,464
Free Funds:			
Cash	28,826	1.0	284
Total	193,380	1.9	3,748

Financing of borrowings

On 31 December 2012, the Company paid dividends on its Preference shares at a rate of 6.44% per annum. The Group also paid, on the same date, interest on both the Investor Loan Notes and the Manager Loan Notes at a rate of 9.2% per annum. The costs of these have been included within finance costs on the Consolidated Statement of Comprehensive Income. Whilst the majority of the interest costs in respect of the 2011 accounting year were not actually paid until 3 January 2012 (since the payment date fell on a weekend) this amount was included as part of the finance costs within the 2011 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 (2011: £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 £2.9 million (2011: credit of £2.7 million) which gives an effective tax rate of 20.3% (2011: negative 41.0%). This year, we have claimed an additional £1.7 million of tax relating to claims equalisation reserves which brings the total claimed to £7.8 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

Earnings per share

All equity shares rank pari passu with regards to distributions by the Group. The Preference shares of the Company and the Manager and Investor Loan Notes of Cathedral Capital (Investments) Limited are entitled to a fixed coupon per annum which has been taken into consideration when calculating the earnings per equity share. The earnings per share for the year is £10.55 (2011: loss per share of £3.16). The earnings per share is enhanced by 12 pence (2011: 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 28.4% 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 12.5% (2011: 2.2%) for the year was achieved on the total funds invested in the Group. This return has been enhanced by circa 0.2% (2011: 0.1%) as a result of the interests (A ordinary, B ordinary and Preference shares of the Company and Investor Loan Notes 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 (2011: £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 syndicates at 31 December 2012 as a single line item:

	31 December 2012 £'000	31 December 2011 £'000
Intangible assets	**23,234**	23,234
Tangible fixed assets	**340**	361
Group assets used as funds at Lloyd's	**170,068**	146,983
Other investments and cash balances	**26,917**	34,286
Borrowings	**(112,394)**	(112,490)
Unsecured subordinated loan notes	**(42,974)**	(45,792)
Deferred and current taxation	**(16,132)**	(23,604)
Interest in syndicates	**3,923**	13,394
Net other assets	**1,707**	6,730
	54,689	43,102
Own shares (ESOP)	**(9)**	(6)
Equity shareholders' funds	**54,680**	43,096

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 £149.2 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 are set out in Note 21.

The Group had no bank borrowing facilities at December 2012.

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

	31 December 2012 Managed £'000	31 December 2011 Managed £'000
Cash and investments	**162,193**	179,543
Debtors - insurance and reinsurance	**62,187**	65,989
Net technical provisions	**(209,682)**	(219,418)
Creditors - insurance and reinsurance	**(20,005)**	(21,014)
Other net assets	**9,230**	8,294
Group's interest	**3,923**	13,394

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 2012 was £57.2 million (2011: £54.6 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 A ordinary 1 pence shares and 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 Investor Loan Notes 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"). Despite the continuing uncertainty over the start date of Solvency II, the FSA indicated that it would allow firms to use Solvency II models under an enhanced ICA regime known as ICA+. Solvency II internal models and the ultimate Solvency Capital Requirement ("uSCR") were used at Lloyd's during 2012 to determine capital for the 2013 year of account. This approach is similar to but not the same as the old ICA calculation. The uSCR of each syndicate at Lloyd's is regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's has the discretion to take into account other factors at member level to uplift the calculated uSCR (including the need to maintain the market's overall security rating). Any uplift by Lloyd's is added to the uSCR to produce 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 2013 calendar year the Group's Funds at Lloyd's initial requirement was set at 59% of underwriting capacity supported. This compares with an initial Funds at Lloyd's requirement of 52% for 2012. However, the available assets to meet the ECR for 2013 included the sum of net balances as at 30 June 2012 on a Solvency II basis (plus the valuation of FAL) and this credit was larger for 2013 than it would have been under the old ICA solvency basis.

Chief Executive Officer's Report

continued

Strategy

Our market place is going to be subjected to increased pricing pressure. We are leaders in the lines we write and have good experience of trading in less favourable conditions than we have now. Although as underwriters, like farmers, we always like to complain about trading conditions, the specific markets in which we trade are not in a bad place. The trick is maintaining the situation. This comes from having experienced underwriters with reputation and skill sets beyond those found in a model with an infrastructure which allows them to most effectively leverage those skills.

Our business is coming off a good trading year and our January renewals which represent a material part of our total business went well. As referenced earlier, I think the main story is what happens both to the business and the market place going forward.

Usually around once a decade, there has been a perceptible change in the Lloyd's market, be it a crop of senior underwriters retiring or new ways of capitalising the sector emerging. The market has the feel that we are about to enter another of these phases.

My view is that the new monies to the industry emanating from asset managers and pension funds are here to stay. There is always an element of 'hot money' with these types of investors but most have been attracted by the double digit returns generated by much of the industry over the last decade that have been produced by very few other asset classes. Given the general global economic outlook for interest rates and absent any significant new opportunities emerging, most medium term outlooks would suggest that having an overt 'risk' corner in an asset management strategy is the way to go.

At present most capital is heading toward a variety of one-off reinsurance deals which offer, in theory, returns of 20%+ at, in theory, reasonably remote risk. These come in a variety of forms from Cat Bonds, Insurance Linked Securities issued directly to capital markets or collateralised reinsurances written by third party managers in the industry and distributed by brokers. Very significant capital has been deployed into this space in the last few years, which is now taking substantial shares in spots of the market that are easiest to commoditise, such as the Florida catastrophe market.

These forms of participation are popular with an increasing range of investors not previously active in our market place as they are simple to invest in, assets are tied up for relatively short periods and rely on modelled parameters to set up the basis on which brokers can distribute the basket of products offered by the manager on their behalf. The problem is that most products target similar levels of attachment (remoteness from risk) with similar pricing expectations. The products themselves tend to be single indemnity limits and as a rule are less attractive to the insurers and reinsurers who buy them than the wider coverages offered by traditional markets or are heavily commissioned substitutes for large blocks of traditional cover where a 'clean year' is required to make advertised returns.

This renewal season, huge amounts of new capacity for similar offerings was pushed into one heavily oversubscribed area of the market. The result has been funds that have been drawn down unutilised and being returned to investors or, in some cases managers selling products with lower pricing or much nearer the risk in order to make use of investors' funds. Either way average returns will not live up to the high return profiles that initially attracted so many to the sector. The better more established managers make a point of highlighting this to new investors but not all.

The longer this goes on, the more there will be a differentiation in the value of being able to participate in a known long term book of business in comparison to one-off new products that are distributed to those who have the best reason to buy them.

At present, ease of investment and apparent liquidity of moving funds in and out of the sector are taking precedence over the actual trading returns and risks that are being taken to secure them. In the longer run, I suspect this balance will change and long term investors will want to be more closely aligned with expertise of market practitioners with good trading records rather than counterparties to them.

As more investors regularly participate in the sector and make it a part of their own asset management profile, they will notice that catastrophe reinsurance per se actually makes up a relatively small (and volatile on a gross basis) part of the industry premium base. It will also become evident that many longstanding businesses are able realistically to return similar or superior, less volatile returns to those actually being achieved by participating in the current short term single year catastrophe offerings. Permanent businesses tend to be based on a wider spread of classes of business, they tend to be protected from extremes of volatility (many using these products to achieve it) and have seasoned books of renewal business that for the better underwriters with client relationships, is a known quantity and returns year after year.

Coming back to Cathedral, we have not significantly changed our business profile in the last few years (rather fortuitously given the losses in the market). However, we have always stated that should one of the best underwriters in a sector, who shares our trading prejudices in a short tail field, becomes accessible then we will look to bring them into our business. It seems that the 'change in feel' of the market place is wider than simply on the capital side and we are aware of people becoming accessible who might well fit the bill. This has not been the case for a number of years and should the right opportunity present itself we will look to take it on and expand our business base in house style.

Our balance sheet is not quite fully deployed and could deal with one or more new lines as we sit at present. However we have the underwriting and management capability to take on materially more business in our core areas. We could easily scale up to accommodate a new line or consider underwriting for additional third party capital.

The obvious opportunity and challenge here is to how to future-proof our business and take best advantage of the change in dynamics I mentioned above. If one assumes that quality underwriting resource is going to become increasingly scarce in comparison to capital, then we should think about how we can maximise our talents whilst providing a more attractive return profile to capital markets than they can currently access and, in turn, increase the returns of our own business.

None of the asset management community has yet taken the plunge to put goodwill on a balance sheet in order to secure in-house expertise, long term returns and income flows managed to suit it, bar the likes of Berkshire Hathaway who successfully coined this concept many years ago. However, I think there is a good chance that this may become a future model for some of the higher quality Lloyd's businesses.

In Conclusion

We see potential opportunities to take the business forward and at the same time see structural changes affecting our industry's relationship with the capital markets. With some thought our business could be well placed to benefit.

Cathedral has always had more than its fair share of high quality people who have produced another great team effort. Once again, I can only convey my sincere thanks to one and all.

Peter Scales
Chief Executive Officer
22 March 2013

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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 is Non-Executive Chairman of Cathedral Capital Holdings Limited, 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 managing 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 2012.

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 (2011: £232.3 million) of capacity for the 2012 year of account all of which supported Cathedral Syndicates 2010 and 3010. For the 2013 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 2012 year of account. The capacity of the Syndicate has been maintained at £350 million for the 2013 year of account. Cathedral Syndicate 2010 has just closed its tenth underwriting year, the 2010 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 fourth underwriting year, the 2010 year of account, with a profit.

The Syndicates reported an aggregate 2012 calendar year profit of £50.9 million (2011: loss of £8.0 million) which equates to an aggregate net combined ratio for the Syndicates of 79.0% (2011: 104.4%), this excludes currency translation loss of £0.9 million (2011: gain of £0.9 million). Cathedral Underwriting Limited intends to expand and develop its insurance operations as opportunities and market conditions allow. The Company has been approved by the FSA and Lloyd's as a controller of Cathedral Underwriting Limited.

A more detailed review of the activities and operating results of the Group are included in the Chief Executive Officer's Report on pages 2 to 11.

Results and Dividends

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

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

The Directors do not intend to declare a dividend on the equity shares for the year (2011: £nil). Dividends in respect of its Preference shares became payable on 31 December 2012 at a rate of 6.44% and these were paid on that date. Dividends in respect of its Preference shares which became payable on 31 December 2011 were paid on 3 January 2012.

Future Developments

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

Principal risks and uncertainties

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

Share Capital

The Company has 1,111,218 Equity shares in issue, as set out in Note 26.

During 2011, the Company reorganised its share capital as follows:

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 (2011: 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 2012
	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	**-**	**-**	**957**	**41,084**	**82,181**	**-**

						31 December 2011
	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	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	-

* 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 A ordinary, B ordinary and Preference shares of the Company and the Investor Loan Notes and Manager Loan Notes issued by Cathedral Capital (Investments) Limited at the year end are:

	31 December 2012	31 December 2011
	number	number
Cathedral Capital Limited		
A Ordinary shares	**751**	-
B Ordinary shares	**12,212**	12,212
Preference £1 shares	**684,374**	652,162
	£	£
Cathedral Capital (Investments) Limited		
Investor Loan Notes	**64,469**	-
Manager Loan Notes	**1,304,524**	1,304,524

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 11. 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 a direct 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 (2011: £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 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
22 March 2013

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 2012 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 and of its profit 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 2012.

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
22 March 2013

CATHEDRAL
CAPITAL LIMITED

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

	Notes	**Year ended 31 December 2012 £'000**	Year ended 31 December 2011 £'000
Income			
Gross premiums written	5	**193,266**	185,937
Less premiums ceded to reinsurers		**(45,961)**	(49,688)
Net premiums written		**147,305**	136,249
Gross amount of change in provision for unearned premiums		**(2,201)**	2,921
Reinsurers' share of change in provision for unearned premiums		**(33)**	(654)
Earned premiums, net of reinsurance		**145,071**	138,516
Fees and commission income	6	**1,774**	3,765
Investment return	7	**5,998**	4,674
Other income		**43**	44
Total income		**152,886**	146,999
Expenses			
Claims paid;			
Gross amount		**(119,991)**	(111,067)
Reinsurers' share		**38,705**	25,866
Net claims paid		**(81,286)**	(85,201)
Net change in the provision for claims			
Gross amount		**18,332**	(62,843)
Reinsurers' share		**(11,212)**	46,145
Net change in the provision for claims		**7,120**	(16,698)
Claims incurred, net of reinsurance	5	**(74,166)**	(101,899)
Acquisition costs		**(33,021)**	(31,368)
Other operating expenses	8	**(14,608)**	(10,367)
Net foreign exchange (losses)/gains	9	**(6,172)**	2,331
Total expenses, excluding finance costs		**(127,967)**	(141,303)
Operating profits		**24,919**	5,696
Finance costs	10	**(10,388)**	(12,281)
Profit/(loss) on ordinary activities before tax	11	**14,531**	(6,585)
Income tax (expense)/credit	13	**(2,944)**	2,701
Profit/(loss) on ordinary activities after tax		**11,587**	(3,884)
Profit/(loss) attributable to equity shareholders of the parent company		**11,587**	(3,884)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**11,587**	(3,884)
Basic & diluted earnings/(loss) per share	14	**£10.55**	(£3.16)

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 2012

	Notes	**31 December 2012 £'000**	31 December 2011 £'000
Assets			
Property, plant and equipment	15	**340**	361
Intangible assets	16	**23,234**	23,234
Reinsurance assets	22	**93,112**	107,161
Financial investments	17	**258,528**	245,585
Deferred acquisition costs	22	**12,391**	11,444
Deferred tax assets	24	**1,309**	6,253
Prepayments and accrued income	18	**2,282**	6,539
Trade and other receivables	19	**71,273**	70,160
Cash and cash equivalents	20	**95,786**	115,228
Total assets		**558,255**	585,965
Equity			
Called up share capital	26	**5**	5
Share premium account		**1,237**	1,237
Capital redemption reserve		**1,021**	1,021
Own shares		**(9)**	(6)
Retained earnings		**52,426**	40,839
Total shareholders' equity		**54,680**	43,096
Liabilities			
Borrowings	21	**155,368**	158,282
Insurance liabilities	22	**302,793**	326,577
Provision for other liabilities	23	**4,907**	588
Deferred tax liabilities	24	**15,550**	21,669
Trade and other payables	25	**23,440**	33,005
Current tax liabilities		**582**	1,522
Accruals and deferred income		**935**	1,226
Total liabilities		**503,575**	542,869
Total equity and liabilities		**558,255**	585,965

The financial statements on pages 22 to 70 were approved by the Board of Directors and authorised for issue on 22 March 2013.

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 2012

Year ended 31 December 2012	**Balance at 1 January 2012 £'000**	**Total Comprehensive Income for the year £'000**	**Purchase of Own Shares £'000**	**Total attributable to equity holders £'000**
Called up share capital	**5**	**-**	**-**	**5**
Share premium account	**1,237**	**-**	**-**	**1,237**
Capital redemption reserve	**1,021**	**-**	**-**	**1,021**
Own shares	**(6)**	**-**	**(3)**	**(9)**
Retained earnings	**40,839**	**11,587**	**-**	**52,426**
Total shareholders' equity	**43,096**	**11,587**	**(3)**	**54,680**

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

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 A ordinary shares and 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 2012

	Notes	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Cash generated from operations	30	**1,300**	10,148
Interest received		**5,613**	6,209
Dividends received		**245**	249
Income taxes (paid)/received		**(4,958)**	980
Net cash from operating activities		**2,200**	17,586
Investing activities			
Purchase of property, plant and equipment		**(311)**	(57)
Net cash (used in) investing activities		**(311)**	(57)
Financing activities			
Interest paid on loan notes		**(15,684)**	(1,945)
Preference share dividends paid		**(4,824)**	(4)
Purchase of own shares by ESOP		**(99)**	(4)
Net cash (used in) financing activities		**(20,607)**	(1,953)
Net (decrease)/increase in cash and cash equivalents		**(18,718)**	15,576
Cash and cash equivalents at beginning of the year		**115,228**	99,378
Effect of exchange rate fluctuations on cash and cash equivalents		**(724)**	274
Cash and cash equivalents at end of the year	20	**95,786**	115,228

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 2012

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 European Union, 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 2012. 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") during the year have been considered and are deemed not relevant to these financial statements

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 IFRS 7 ("Financial Instruments Disclosures");
(ii) IFRS 9 ("Financial Instruments");
(iii) IFRS 10 ("Consolidated Financial Statements");
(iv) IFRS 12 ("Disclosure of involvement with other entities"); and
(v) 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 syndicates") which are managed by the Group's managing agent subsidiary.

The Group recognises its proportion of all the transactions undertaken by the syndicates in which it participates 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 Group's managing agent subsidiary and submitted to Lloyd's, with any adjustments in respect of IFRS determined by 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. Note 4 details the key risk factors impacting management estimates.

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.

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.

(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.

(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 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.

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

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 syndicate participation rights ("participation rights") is capitalised at cost in the Consolidated Statement of Financial Position. The cost in respect of 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.

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

j) *Property, plant and equipment*

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset and included in the Consolidated Statement of Comprehensive Income. 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 Consolidated Statement of Changes 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 Investor Loan Notes and Manager Loan Notes in Cathedral Capital (Investments) Limited and A ordinary shares, 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 Investor Loan Notes and Manager Loan Notes and Preference shares are deducted from the Group's borrowings, and the A ordinary shares and B ordinary shares held by the ESOP are presented as a reserve and deducted against equity shareholders' funds. Any profits arising on the sale of such shares by the ESOP are credited to this reserve.

n) *Leased assets*

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

o) *Borrowings*

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

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

Costs arising on the issue of loan notes are charged to the Consolidated Statement of Comprehensive Income over the period of the loan notes. The loan notes payable are shown on the Consolidated Statement of Financial Position, net of any unamortised cost. Borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the period in which they are incurred.

p) *Retirement benefit costs*

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

q) *Provisions*

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

r) *Equity share capital*

The Group classifies its ordinary shares as equity instruments. An equity instrument is any contract which evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognised as the proceeds of issue, net of any direct issue costs.

4 Risk disclosure

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

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

The Group only underwrites on the syndicates ("the syndicates") managed by its managing agency subsidiary.

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

4.1 Insurance risk

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

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

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

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

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

Notes to the Financial Statements
For the year ended 31 December 2012

continued

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:

	2012 £'000	2012 %	2011 £'000	2011 %
Non-marine	**80,901**	**41.9**	85,622	46.0
Direct property	**62,493**	**32.4**	54,583	29.4
Aviation	**16,609**	**8.6**	16,907	9.1
Cargo	**28,297**	**14.6**	24,118	13.0
Contingency	**3,358**	**1.7**	3,809	2.0
Satellite	**1,625**	**0.8**	815	0.4
FTC	**(21)**	**-**	97	0.1
Marine	**-**	**-**	(14)	-
	193,262	**100.0**	185,937	100.0
RITC adjustment*	**4**		-	
	193,266		185,937	

* 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 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 syndicates can be affected by several factors and these can impact the Group.

The 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 syndicates.

4.1.3 Underwriting

The syndicates have a defined event risk appetite. Best efforts are made to restrict the maximum gross and net loss that the 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 70% of capacity gross. This is when applying rates of exchange used for planning purposes. The syndicates model various loss scenarios and also prepare prescribed RDS which seek to analyse and quantify their exposures to certain specified events, and the syndicates endeavour to ensure that their potential loss exposures remain within Franchise Board guidelines. During 2012, Lloyd's amended these guidelines to measure maximum RDS exposures as a percentage of both Gross Net Premium (GNP) and ECA, however, internally the syndicates continue to manage RDS exposure against capacity.

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 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 syndicates are of a well tested nature. More crucially, the approach taken to risk management is heavily exposure driven. The 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 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 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 syndicates also purchase reinsurance programmes that are structured so as to limit the exposure to any single reinsurer.

c) Frequency of major loss

The syndicates are vulnerable to a high frequency of major loss.

The major defences the 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 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 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 syndicates' 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 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 syndicates' own performance.

Other controls

In addition to the above, other controls in place to mitigate the key underwriting risks of the syndicates are set out below:

Each 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 syndicates.

All risks underwritten by the 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 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 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 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 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 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 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 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 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 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 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 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 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 syndicates, the Group uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The 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, catastrophe losses are known soon after an event occurs. Therefore, projections are able to be undertaken using underwriter judgement, market share analysis and comparison to the rest of the market.

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

(ii) Changes in assumptions and sensitivity analysis

The broad assumptions used in respect of the 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 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; and

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

If the provision for net oustanding claims deteriorated by 1%, the impact would equate to pre tax decrease on net assets of £1,525,000 (2011: £1,648,000).

The loss development table that follows provides information about historical claims development for the 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 2012 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	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
1 year	50%	89%	156%	28%	40%	74%	40%	64%	81%	55%
2 years	29%	76%	121%	36%	46%	70%	52%	92%	76%	
3 years	27%	76%	116%	36%	47%	70%	49%	93%		
4 years	26%	73%	117%	36%	46%	67%	47%			
5 years	26%	73%	117%	35%	45%	66%				
6 years	25%	73%	117%	35%	45%					
7 years	25%	73%	117%	34%						
8 years	25%	73%	116%							
9 years	25%	72%								
10 years	25%									

			Underwriting Year							
Net	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
1 year	52%	70%	87%	39%	58%	66%	53%	76%	86%	63%
2 years	33%	55%	72%	45%	57%	60%	58%	80%	77%	
3 years	29%	56%	66%	46%	57%	60%	52%	77%		
4 years	29%	53%	66%	44%	55%	56%	49%			
5 years	28%	53%	66%	44%	54%	55%				
6 years	28%	52%	66%	43%	53%					
7 years	28%	52%	65%	42%						
8 years	28%	52%	63%							
9 years	27%	51%								
10 years	27%									

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

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 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 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 £1,933,000 to the unearned premium provision (2011: £1,859,000).

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.

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 syndicates and reduced the amounts due from reinsurers and reinsurers' share of insurance liabilities for this. Where the 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 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 syndicates' 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 syndicates only.

At 31 December 2012	**A++ to A- £'000**	**B++ to B- £'000**	**F £'000**	**Unrated £'000**	**Total £'000**
Financial investments	**245,805**	**3,894**	**-**	**8,829**	**258,528**
Insurance receivables	**51,238**	**171**	**-**	**10,778**	**62,187**
Reinsurance assets	**75,414**	**1,432**	**-**	**16,266**	**93,112**
Cash and cash equivalents	**95,527**	**-**	**-**	**259**	**95,786**
	467,984	**5,497**	**-**	**36,132**	**509,613**

At 31 December 2011	A++ to A- £'000	B++ to B- £'000	F £'000	Unrated £'000	Total £'000
Financial investments (reclassified)	236,388	1,958	-	7,239	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
	497,138	2,304	2,533	31,988	533,963

Historically, credit ratings for financial investments have been based on ratings available from Standard and Poor's. During 2012, the approach was updated to include ratings from Standard & Poor's but in the event that they did not rate a specific investment, then either Moody's or Fitch were used instead depending on which agency/agencies rated the investment.

Some of the unrated reinsurance assets are fully collateralised in trust funds circa £10.0 million (2011: circa £8.0 million). Also, a large element of the reinsurance assets relating to the Group's share of 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 2012 £'000	Group 31 December 2011 £'000
3 to 6 months past due	**335**	476
6 to 9 months past due	**493**	(281)
Greater than 9 months past due	**1,129**	847
	1,957	1,042

Notes to the Financial Statements
For the year ended 31 December 2012

continued

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 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. Furthermore, the 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 2012, the Group had £17.2 million of cash available for use (2011: £24.4 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 2012	**< 1 year £'000**	**1-3 years £'000**	**4-5 years £'000**	**> 5 years £'000**	**Total £'000**
Debt securities	**81,539**	**138,893**	**11,264**	**8,532**	**240,228**
Cash and cash equivalents	**95,786**	**-**	**-**	**-**	**95,786**
Borrowings	**-**	**(112,394)**	**(46,566)**	**-**	**(158,960)**
Gross provision for claims outstanding	**(98,514)**	**(107,396)**	**(27,409)**	**(7,902)**	**(241,221)**
Claims outstanding recoverable from reinsurers	**30,238**	**39,586**	**15,768**	**3,160**	**88,752**
	109,049	**(41,311)**	**(46,943)**	**3,790**	**24,585**

At 31 December 2011	< 1 year £'000	1-3 years £'000	4-5 years £'000	> 5 years £'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

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 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 and 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 2012	31 December 2011
Debt Securities	**0.9%**	1.2%
Cash and cash equivalents	**0.5%**	0.9%
Borrowings	**7.5%**	7.6%

A change in market interest rates of one percentage point would equate to a pre tax movement on net assets/profits of £4,025,000 (2011: £3,591,000). 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 £883,000 (2011: £724,000).

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 2012

continued

The table below shows the currency split of the group's assets and liabilities.

As at 31 December 2012	**STG £'000**	**EUR in conv. £'000**	**USD in conv. £'000**	**CAD in conv. £'000**	**Total in conv. £'000**
Assets					
Property, plant and equipment	**340**	**-**	**-**	**-**	**340**
Intangible assets	**23,234**	**-**	**-**	**-**	**23,234**
Reinsurers' share of technical provisions	**31,371**	**2,122**	**59,054**	**565**	**93,112**
Financial investments	**49,143**	**19,524**	**177,566**	**12,295**	**258,528**
Deferred acquisition costs	**2,383**	**435**	**8,432**	**1,141**	**12,391**
Deferred tex asset	**1,309**	**-**	**-**	**-**	**1,309**
Prepayments and accrued income	**1,520**	**182**	**580**	**-**	**2,282**
Trade and other receivables	**24,697**	**4,177**	**41,000**	**1,399**	**71,273**
Cash and cash equivalents	**50,368**	**5,317**	**33,672**	**6,429**	**95,786**
Total assets	**184,365**	**31,757**	**320,304**	**21,829**	**558,255**
Liabilities					
Borrowings	**112,394**	**8,963**	**34,011**	**-**	**155,368**
Insurance contracts	**76,621**	**19,286**	**194,277**	**12,609**	**302,793**
Provision for other liabilities and charges	**4,907**	**-**	**-**	**-**	**4,907**
Deferred tax liabilities	**15,550**	**-**	**-**	**-**	**15,550**
Trade and other payables	**9,025**	**509**	**13,776**	**130**	**23,440**
Current tax liabilities	**582**	**-**	**-**	**-**	**582**
Accruals and deferred income	**840**	**43**	**52**	**-**	**935**
Total liabilities	**219,919**	**28,801**	**242,116**	**12,739**	**503,575**
Net (liabilities)/assets	**(35,554)**	**2,956**	**78,188**	**9,090**	**54,680**
Impact of 10% currency movement:*	**-**	**296**	**7,819**	**909**	**9,024**

As at 31 December 2011	STG £'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
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
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 (liabilities)/assets	(37,617)	6,880	66,917	6,916	43,096
Impact of 10% currency movement:*	-	688	6,692	692	8,072

* 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 three main reportable segments to the Group. These are as follows:

- Syndicates, being those syndicates managed by the Cathedral Group - specifically, Syndicate 2010 and Syndicate 3010;
- 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 2012				
	Syndicates £'000	Corporate Funds £'000	Corporate Other £'000	Elimination £'000	Total £'000
Gross premiums written	193,262	-	-	-	193,262
Underwriting:					
Net earned premiums	145,067	-	-	-	145,067
Net claims incurred	(74,162)	-	-	-	(74,162)
Underwriting expenses	(33,021)	-	-	-	(33,021)
Underwriting result	37,884	-	-	-	37,884
Other income and expenses:					
Fees and commission income	-	-	3,389	(1,615)	1,774
Investment return	2,140	3,858	-	-	5,998
Other income	-	-	43	-	43
Operating expenses	(12,746)	(471)	(3,006)	1,615	(14,608)
Exchange gains/(losses)	(2,623)	-	(3,549)	-	(6,172)
Finance costs	(14,508)	(1,993)	6,113	-	(10,388)
Profit before tax	10,147	1,394	2,990	-	14,531
Income tax (expense)	(2,054)	(283)	(607)	-	(2,944)
Profit after tax	8,093	1,111	2,383	-	11,587
Combined ratio	82.7%	N/A	N/A	N/A	83.5%
Total assets	-	192,121	39,262	-	231,383
Total liabilities	-	-	(176,703)	-	(176,703)
Net assets/(liabilities)	-	192,121	(137,441)	-	54,680
Capital expenditure	-	-	311	-	311

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 2012

continued

5 Segmental Reporting *continued*

	For the year ended 31 December 2011				
	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)
Profit/(loss) before tax	150	(2,448)	(4,263)	(24)	(6,585)
Income tax (expense)/credit	(61)	1,003	1,749	10	2,701
Profit/(loss) after tax	89	(1,445)	(2,514)	(14)	(3,884)
Combined ratio	103.2%	N/A	N/A	N/A	103.1%
Total assets	-	181,269	48,102	-	229,371
Total liabilities	-	-	(186,275)	-	(186,275)
Net assets/(liabilities)	-	181,269	(138,173)	-	43,096
Capital expenditure	-	-	57	-	57

All revenues for each reportable segment are from external customers, with the exception of £1,615,000 (2011: £1,592,000) of sales received by Corporate Other which are from syndicates.

Corporate Other also includes depreciation and amortisation of £122,000 (2011: £200,000) and impairment of £210,000 (2011: £nil).

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

5 Segmental Reporting *continued*

Reconciliation of reportable segments to Financial Statements

					For the year ended 31 December 2012
	Per total Reportable Segments £'000	**Adjustment for RITC premiums £'000**	**Syndicate assets and liabilities £'000**	**Gross up adustments £'000**	**Per total Group Accounts £'000**
Gross premiums written	**193,262**	**4**	**-**	**-**	**193,266**
Underwriting:					
Net earned premiums	**145,067**	**4**	**-**	**-**	**145,071**
Net claims incurred	**(74,162)**	**(4)**	**-**	**-**	**(74,166)**
Underwriting expenses	**(33,021)**	**-**	**-**	**-**	**(33,021)**
Underwriting result	**37,884**	**-**	**-**	**-**	**37,884**
Other income and expenses:					
Fees and commission income	**1,774**	**-**	**-**	**-**	**1,774**
Investment return	**5,998**	**-**	**-**	**-**	**5,998**
Other income	**43**	**-**	**-**	**-**	**43**
Operating expenses	**(14,608)**	**-**	**-**	**-**	**(14,608)**
Exchange gains	**(6,172)**	**-**	**-**	**-**	**(6,172)**
Finance costs	**(10,388)**	**-**	**-**	**-**	**(10,388)**
Profit before tax	**14,531**	**-**	**-**	**-**	**14,531**
Income tax (expense)	**(2,944)**	**-**	**-**	**-**	**(2,944)**
Profit after tax	**11,587**	**-**	**-**	**-**	**11,587**
Total assets	**231,383**	**-**	**324,073**	**2,799**	**558,255**
Total liabilities	**(176,703)**	**-**	**(324,073)**	**(2,799)**	**(503,575)**
Net assets	**54,680**	**-**	**-**	**-**	**54,680**

					For the year ended 31 December 2011
	Per total Reportable Segments £'000	Adjustment for RITC premiums £'000	Syndicate assets and liabilities £'000		Per total Group Accounts £'000
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 credit	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

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 2012 or the previous year ended 31 December 2011.

6 Fees and commission income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Managing agency fees	**957**	940
Profit commission	**817**	2,825
	1,774	3,765

7 Investment return

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Syndicate investments		
Investment income - interest	**2,599**	3,354
Realised investment (losses)	**(349)**	(884)
Net investment return on syndicate investments	**2,250**	2,470
Funds at Lloyd's		
Investment income - interest	**2,588**	2,498
Investment income - dividends	**244**	258
Realised investment (losses)	**(416)**	(306)
Net fair value gains/(losses) on assets at fair value through the Consolidated Statement of Comprehensive Income	**1,047**	(538)
Net investment return on funds at Lloyd's investments	**3,463**	1,912
Cash and other investments		
Net investment return on cash and other investments	**285**	292
Net investment return	**5,998**	4,674

8 Other operating expenses

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Syndicate operating expenses	**6,184**	6,274
Names' personal expenses on Lloyd's syndicates	**1,521**	1,783
Corporate expenses	**6,903**	2,310
	14,608	10,367

9 Net foreign exchange losses/(gains)

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Retranslation of underwriting balances	**541**	(489)
Exchange loss/(gain) to maintain non-monetary assets and liabilities at historical rates of exchange	**2,082**	(1,443)
Exchange (gain)/loss on long-term loan notes	**(2,000)**	228
Retranslation of other corporate balances	**5,549**	(627)
	6,172	(2,331)

Notes to the Financial Statements
For the year ended 31 December 2012

continued

10 Finance costs

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest expense on:		
Unsecured Floating Rate Subordinated Notes	**1,897**	1,924
Investor and Manager Loan Notes	**6,894**	6,900
Other	**1**	-
Effective interest rate method adjustment	**(817)**	1,042
Dividends on Preference shares	**2,413**	2,415
	10,388	12,281

Unsecured Floating Rate Subordinated Notes are measured at amortised cost.

11 Profit/(loss) on ordinary activies before taxation

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
The profit/(loss) on ordinary activities before taxation is stated after charging:		
Operating lease charges - rent	**44**	37
Operating lease charges - other	**3**	3
Depreciation of tangible fixed assets	**122**	200
Impairment of tangible fixed assets	**210**	-
Fees payable to the auditor for:		
Audit of the Company's annual accounts	**12**	12
Audit of the Company's subsidiaries' annual accounts	**90**	88
Technical and actuarial support	**2**	4
Taxation services	**32**	27
Employee services	**3**	3
Internal review	**10**	4

12 Employees

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
The aggregate payroll costs borne by the Corporate Group were as follows:		
Salaries	**4,970**	1,087
Social security costs	**688**	156
Pension costs under defined contribution plans	**113**	100
	5,771	1,343

The average monthly number of people (excluding non-executive directors) employed by the Group during the year was 60 (2011: 56). Of this, 34 were dedicated underwriting and claims (2011: 32) with the remainder of employees involved in operations, administration, actuarial 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 expense/(credit)

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
(a) Analysis of expense/(credit) in the year		
Current tax		
Corporation tax at 24.5% (2011: 26.5%)	**4,099**	3,429
Adjustments in respect of previous years	**(563)**	(664)
Overseas tax	**313**	469
Withholding tax	**24**	24
Other tax	**246**	-
Total current tax expense	**4,119**	3,258
Deferred taxation		
Underwriting profits	**(2,322)**	(5,721)
Investment losses	**71**	(15)
Temporary differences on accelerated capital allowances	**(42)**	(19)
Adjustments in respect of previous years	**141**	(38)
Change in tax rates	**(1,276)**	(924)
Change in claims equalisation reserve	**2,255**	1,263
Other temporary differences	**(2)**	(505)
Total deferred tax credit	**(1,175)**	(5,959)
Tax expense/(credit)	**2,944**	(2,701)
(b) Factors affecting the tax charge for the year		
Profit/(loss) on ordinary activities before tax	**14,531**	(6,585)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	**3,560**	(1,745)
Expenses not deductible for tax purposes	**591**	641
Change in tax rates	**(1,276)**	(1,286)
Investment income received net of tax	**(60)**	(68)
Investment income not taxable	**(32)**	(33)
Overseas tax	**313**	469
Withholding tax	**24**	24
Prior period adjustments	**(176)**	(703)
Total tax expense/(credit)	**2,944**	(2,701)

14 Earnings/(loss) per share

	Year ended 31 December 2012	Year ended 31 December 2011
The basic earnings/(loss) per share is calculated as follows:		
Profit/(loss) for the year (£'000)	**11,587**	(3,884)
Basic and diluted weighted average number of shares (no.)*	**1,098,425**	1,229,507
Basic and diluted earnings/(loss) per share (£)	**10.55**	(3.16)

* Note that the weighted average number of shares excludes the shares (751 and 12,212 A Ordinary and B Ordinary Shares respectively) 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 2012 £'000	Total 2011 £'000
Cost						
At 1 January	**29**	**943**	**569**	**210**	**1,751**	1,705
Additions	**-**	**309**	**2**	**-**	**311**	57
Disposals	**-**	**-**	**-**	**-**	**-**	(11)
At 31 December	**29**	**1,252**	**571**	**210**	**2,062**	1,751
Depreciation and impairment						
At 1 January	**29**	**810**	**551**	**-**	**1,390**	1,201
Charge for the year	**-**	**116**	**6**	**-**	**122**	200
Disposals	**-**	**-**	**-**	**-**	**-**	(11)
Impairment	**-**	**-**	**-**	**210**	**210**	-
At 31 December	**29**	**926**	**557**	**210**	**1,722**	1,390
Net book value						
At 31 December	**-**	**326**	**14**	**-**	**340**	361
At 1 January	**-**	**133**	**18**	**210**	**361**	504

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 2012	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 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

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 2012	Managed Syndicate £'000	Syndicate Management £'000	Total £'000
Goodwill	**-**	**300**	**300**
Syndicate capacity	**22,934**	**-**	**22,934**

As at 31 December 2011	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 2012 Market value £'000	31 December 2012 Cost £'000	31 December 2011 Market value £'000	31 December 2011 Cost £'000
Corporate				
Shares and other variable yield securities	**6,886**	**6,110**	5,265	4,779
Alternative investments	**1,942**	**1,296**	1,973	1,415
Debt and other fixed income securities	**141,991**	**141,501**	117,602	117,783
Deposits held with credit institutions	**9,472**	**9,472**	9,591	9,591
Total investments - Corporate	**160,291**	**158,379**	134,431	133,568
Syndicate participations				
Debt securities and other fixed interest securities	**98,237**	**111,390**	111,154	111,390
Total investments - Syndicate participations	**98,237**	**111,390**	111,154	111,390
Group financial investments	**258,528**	**269,769**	245,585	244,958

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, £150,819,000 (2011: £124,840,000) 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 £150,819,000 (2011: £124,840,000) 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 2012 £'000	31 December 2011 £'000
Accrued income - investments	**897**	1,039
Accrued income - underwriting	**817**	5,087
Prepayments	**568**	413
	2,282	6,539

Accrued income - underwriting is in respect of profit commission receivable from Syndicate 2010 by the Group's managing agency subsidiary.

19 Trade and other receivables

	31 December 2012 £'000	31 December 2011 £'000
Arising out of direct insurance operations	**10,491**	10,196
Arising out of reinsurance operations	**51,696**	55,793
Trade receivables	**4,864**	-
Tax recoverable	**563**	664
Amounts owed by syndicates	**2,660**	2,362
Other receivables	**999**	1,145
	71,273	70,160

Of the amounts due from managed syndicates, £nil (2011: £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 2012 £'000	31 December 2011 £'000
Cash and cash equivalents consist of:		
Cash at bank and in hand	**66,055**	78,659
Short term investments	**29,731**	36,569
	95,786	115,228
Cash and cash equivalents consist of:		
Cash and cash equivalents held by syndicates	**63,957**	68,390
Cash and cash equivalents held within funds at Lloyd's	**14,384**	22,142
Cash and cash equivalents held by ESOP	**255**	327
Cash and cash equivalents available for use by the Group	**17,190**	24,369
	95,786	115,228

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 2012 £'000	31 December 2011 £'000
Unsecured Floating Rate Subordinated Notes	**42,974**	45,792
Preference shares	**37,461**	37,493
Loan Notes	**74,933**	74,997
	155,368	158,282

The carrying amount disclosed above reasonably approximates to fair values at year end. These borrowings exclude Preference Shares and Loan Notes held by the ESOP.

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 2012 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 2012 was £6,894,000 (2011: £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 2012 was £2,413,000 (2011: £2,415,000).

Facilities

The corporate Group had no bank borrowing facilities. The 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 liabilities and reinsurance assets

	31 December 2012 £'000	31 December 2011 £'000
Gross		
Claims outstanding	**241,221**	267,713
Provision for unearned premiums	**61,572**	58,864
	302,793	326,577
Recoverable from reinsurers		
Claims outstanding	**88,752**	102,876
Provision for unearned premiums	**4,360**	4,285
	93,112	107,161
Net	**209,681**	219,416

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 £'000	Provision for unearned premiums £'000	Total 2012 £'000	Total 2011 £'000
Gross insurance liabilities				
Provision at 1 January	**267,713**	**58,864**	**326,577**	274,684
Additional provisions made in the year	**100,917**	**56,624**	**157,541**	220,597
Amounts used in the year	**(108,550)**	**(54,494)**	**(163,044)**	(146,966)
Unused amount reversed during the year	**(10,297)**	**-**	**(10,297)**	(13,604)
Exchange differences	**(8,562)**	**578**	**(7,984)**	(8,134)
Provision at 31 December	**241,221**	**61,572**	**302,793**	326,577

	Claims outstanding £'000	Provision for unearned premiums £'000	Total 2012 £'000	Total 2011 £'000
Reinsurance assets				
Provision at 1 January	**102,876**	**4,285**	**107,161**	62,215
Additional provisions made in the year	**26,179**	**4,383**	**30,562**	73,391
Amounts used in the year	**(36,982)**	**(4,487)**	**(41,469)**	(27,605)
Unused amount reversed during the year	**-**	**-**	**-**	(462)
Exchange differences	**(3,321)**	**179**	**(3,142)**	(378)
Provision at 31 December	**88,752**	**4,360**	**93,112**	107,161
Net	**152,469**	**57,212**	**209,681**	219,416

22.2 Movement in deferred acquisition costs

	31 December 2012 £'000	31 December 2011 £'000
Provision at 1 January	**11,444**	12,687
Additional provisions made in the year	**11,154**	10,240
Amounts used in the year	**(10,207)**	(11,483)
Provision at 31 December	**12,391**	11,444

23 Provisions for other liabilities

	31 December 2012 £'000	31 December 2011 £'000
Provision in respect of profit sharing scheme		
Provision at 1 January	**588**	3,337
Charge for the year	**4,907**	562
Utilised in the year	**(588)**	(3,311)
Provision at 31 December	**4,907**	588

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 13.8%) which would be payable.

Any distributions made to the Directors of the Company have been included in the Directors emolument table on page 66. 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 2013.

24 Provision for deferred tax

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

	31 December 2012 £'000	31 December 2011 £'000
Declared underwriting (profits)	**(1,998)**	(9,515)
Annually accounted losses	**1,076**	6,071
Unrealised investment gains	**(330)**	(264)
Accelerated capital allowances	**78**	39
Tax losses carried forward	**155**	143
Claims equalisation reserve	**(7,771)**	(6,116)
Other temporary differences	**(5,451)**	(5,774)
Provision for deferred tax	**(14,241)**	(15,416)
Reflected in the balance sheet as follows:		
Deferred tax assets	**1,309**	6,253
Deferred tax liabilities	**(15,550)**	(21,669)
	(14,241)	(15,416)
Provision for deferred tax at start of year	**(15,416)**	**(21,375)**
Deferred tax credit in Consolidated Statement of Comprehensive Income for year	**1,175**	**5,959**
Provision for deferred tax at end of year	**(14,241)**	**(15,416)**

Unprovided deferred tax assets for the Group were £nil at 31 December 2012 (31 December 2011: £nil).

All deferred tax assets are considered to be recoverable.

25 Trade and other payables

	31 December 2012 £'000	31 December 2011 £'000
Amounts due within one year:		
Arising out of direct insurance operations	**1,107**	1,614
Arising out of reinsurance operations	**18,898**	19,400
Other taxes and social security costs	**214**	209
Trade creditors	**3,220**	2,506
Interest payable - loan notes	**-**	6,864
Dividends payable - preference shares	**-**	2,411
Other creditors	**1**	1
	23,440	33,005

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 (2011: £1,400). This amount is held in a specific bank account for those shareholders.

26 Share capital

	31 December 2012 Authorised allotted issued and fully paid	31 December 2011 Authorised allotted issued and fully paid
	Number	Number
Number:		
A ordinary shares of 0.1p each	**702,290**	702,290
B ordinary shares of 1p each	**58,343**	58,343
B1 ordinary shares of 1p each	**128,342**	128,342
Ordinary shares of 1p each	**222,243**	222,243

	£'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**	2
	5	5

Following the share reorganisation in 2011, the voting rights of the shares are 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.

Notes to the Financial Statements
For the year ended 31 December 2012

continued

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 2012 Number**	31 December 2011 Number
A ordinary shares of 0.1p each		
At the beginning of the year	**702,290**	702,290
Movement in year	**-**	-
At the end of the year	**702,343**	702,290
B ordinary shares of 1p each		
At the beginning of the year	**58,343**	65,695
Converted to Deferred B shares of 1p each	**-**	(7,352)
At the end of the year	**58,343**	58,343
B1 ordinary shares of 1p each		
At the beginning of the year	**128,342**	144,515
Converted to Deferred B1 shares of 1p each	**-**	(16,173)
At the end of the year	**128,342**	128,342
Ordinary shares of 1p each		
At the beginning of the year	**222,243**	337,500
Converted to Deferred shares of 1p each	**-**	(115,257)
At the end of the year	**222,243**	222,243
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 2012 Number	31 December 2011 Number
9.2% Manager Loan Notes in Cathedral Capital (Investments) Limited	**1,304,524**	1,304,524
9.2% Investor Loan Notes in Cathedral Capital (Investments) Limited	**64,469**	-
6.44% Preference shares of £1 each in Cathedral Capital Limited	**684,374**	652,162
A ordinary shares in Cathedral Capital Limited	**751**	-
B ordinary shares in Cathedral Capital Limited	**12,212**	12,212

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 before elimination) are as follows:

	31 December 2012 £'000	31 December 2011 £'000
Consolidated Statement of Comprehensive Income		
Investment income on shares	**170**	162
Other interest	**4**	3
Sundry Expenses	**(26)**	(1)
Tax on investment income	**(270)**	(24)
Total (loss)/profit	**(122)**	140
Consolidated Statement of Financial Position		
Investments *	**2,063**	1,963
Accrued interest & deferred income	**-**	162
Cash	**255**	327
Less liabilities	**(12)**	(24)
Net assets	**2,306**	2,428
ESOP funds	**2,306**	2,428
Reconciliation of ESOP funds		
ESOP funds at 1 January	**2,428**	2,288
(Loss)/profit arising in ESOP during year	**(122)**	140
ESOP funds at 31 December	**2,306**	2,428

*Valued at cost to the Group.

28 Capital commitments

The Group had no capital commitments at 31 December 2012 (2011: £nil).

29 Operating leases

	Group 31 December 2012 £'000	Group 31 December 2011 £'000
Future minimum lease payments under non-cancellable operating leases:		
Land & buildings:		
Within one year	**396**	439
In the second to fifth years inclusive	**990**	1,538
Other:		
Within one year	**14**	17
In the second to fifth years inclusive	**1**	15
	1,401	2,009

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 profit/(loss) to cash generated from operations

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Profit/(loss) before taxation	**14,531**	(6,585)
Adjustments for:		
Depreciation	**122**	200
Impairment	**210**	-
Decrease/(increase) in debtors & accrued income	**2,901**	(5,802)
Change in underwriting balances	**(10,682)**	8,190
Purchase of investments	**(262,921)**	(218,018)
Proceeds from disposal of investments	**240,290**	223,658
Unrealised investment (gains)/losses	**(699)**	1,422
Exchange revaluation	**9,111**	(1,755)
(Decrease)/increase in creditors	**3,766**	2,959
Interest expense	**10,387**	12,281
Interest receivable	**(5,472)**	(6,144)
Dividends receivable	**(244)**	(258)
Cash generated from operations	**1,300**	10,148

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 2012 and 31 December 2011 (according to the register of Directors' interests) are set out below:

		31 December 2012			31 December 2011	
	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	**41,084**	**82,181**	**-**	36,530	73,071	-

The Cathedral Group has an ESOP in which all full time employees are potential beneficiaries. As such, all Directors who are full time employees of Cathedral Group have a potential interest in the shares (and other assets) held by the ESOP. Details of the Preference Shares, Manager Loan Notes, Investor Loan Notes, A Ordinary Shares 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 2011: 63% 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 managing agency 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.

Notes to the Financial Statements
For the year ended 31 December 2012

continued

The interests of the ESOP at 31 December 2012 and 31 December 2011 are:

	Year ended 31 December 2012	Year ended 31 December 2011
	Number	Number
Cathedral Capital Limited		
A Ordinary shares	**751**	-
B Ordinary shares	**12,212**	12,212
Preference £1 shares	**684,374**	652,162
	£	£
Cathedral Capital (Investments) Limited		
Investor Loan Notes	**64,469**	-
Manager Loan Notes	**1,304,524**	1,304,524

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 2012 Total £'000	31 December 2011 Total £'000
E E Patrick	**60**	**4**	**-**	**64**	63
J A Lynch	**175**	**1**	**27**	**203**	199
P D Scales	**175**	**3**	**28**	**206**	204
	410	**8**	**55**	**473**	466

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

Alchemy Partners (Guernsey) Limited received a fee of £71,000 (2011: £68,000) 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 2012 £'000	Year ended 31 December 2011 £'000
Key management compensation		
Salaries and other short-term employee benefits	**993**	986
Post-employment benefits	**110**	107
	1,103	1,093

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 2012, these items were de minimis (2011: 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 Lloyd's will be entitled to require the subsidiary to cease or reduce its underwriting.

(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, and there has been no change in the group's policies in managing capital since the prior year.

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

The Group's corporate member, which now only underwrites on syndicates at Lloyd's that are managed by the Group's managing agency subsidiary, 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.

The capital framework at Lloyd's requires each managing agent in the market to calculate the capital requirement for each syndicate they manage. Despite the continuing uncertainty over the start date of Solvency II (a proposed EU-wide solvency II and risk management regime that is intended to apply to all EU insurers) the FSA indicated that it would allow firms to use Solvency II models under an enhanced ICA regime known as ICA+. Solvency II internal models and the ultimate Solvency Capital Requirement ("uSCR") were used at Lloyd's during 2012 to determine capital for the 2013 year of account. This approach is similar to but not the same as the old ICA calculation and will also apply in 2013 for the 2014 year of account.

The uSCR of each syndicate at Lloyd's is regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's has the discretion to take into account other factors at member level to uplift the calculated uSCR (including the need to maintain the market's overall security rating). This produces a Syndicate Economic Capital Assessment ("ECA"). To achieve this Lloyd's applied until 2012, a market-wide loading of 35% to arrive at the Economic Capital Assessment ("ECA"). For the 2013 year Lloyd's loading was based on the final uplift applied to the 2012 mid-year Coming-into-Line exercise.

Each uSCR 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 2012, the Group's funds at Lloyd's amounted to £170.1 million, which was in excess of its capital requirements of £137.8 million. 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 2012 £'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	-	-	-	-	340	340
Intangible assets	-	-	-	-	23,234	23,234
Reinsurers' share of technical provisions	-	-	-	93,112	-	93,112
Financial investments	-	-	258,528	-	-	258,528
Deferred acquisition costs	-	-	-	12,391	-	12,391
Deferred tax assets	-	-	-	-	1,309	1,309
Prepayments and accrued income	897	-	-	-	1,385	2,282
Trade and other receivables	-	71,273	-	-	-	71,273
Cash and cash equivalents	-	95,786	-	-	-	95,786
Total assets	**897**	**167,059**	**258,528**	**105,503**	**26,268**	**558,255**

£'000	Amortised cost	Financial liabilities	Insurance contracts	Non-financial liabilities	Total
Liabilities					
Borrowings	42,974	112,394	-	-	155,368
Insurance contracts	-	-	302,793	-	302,793
Provision for other liabilities and charges	-	-	-	4,907	4,907
Deferred tax liabilities	-	-	-	15,550	15,550
Trade and other payables	-	-	-	23,440	23,440
Current tax liabilities	-	-	-	582	582
Accruals and deferred income	-	2	-	933	935
Total liabilities	**42,974**	**112,396**	**302,793**	**45,412**	**503,575**

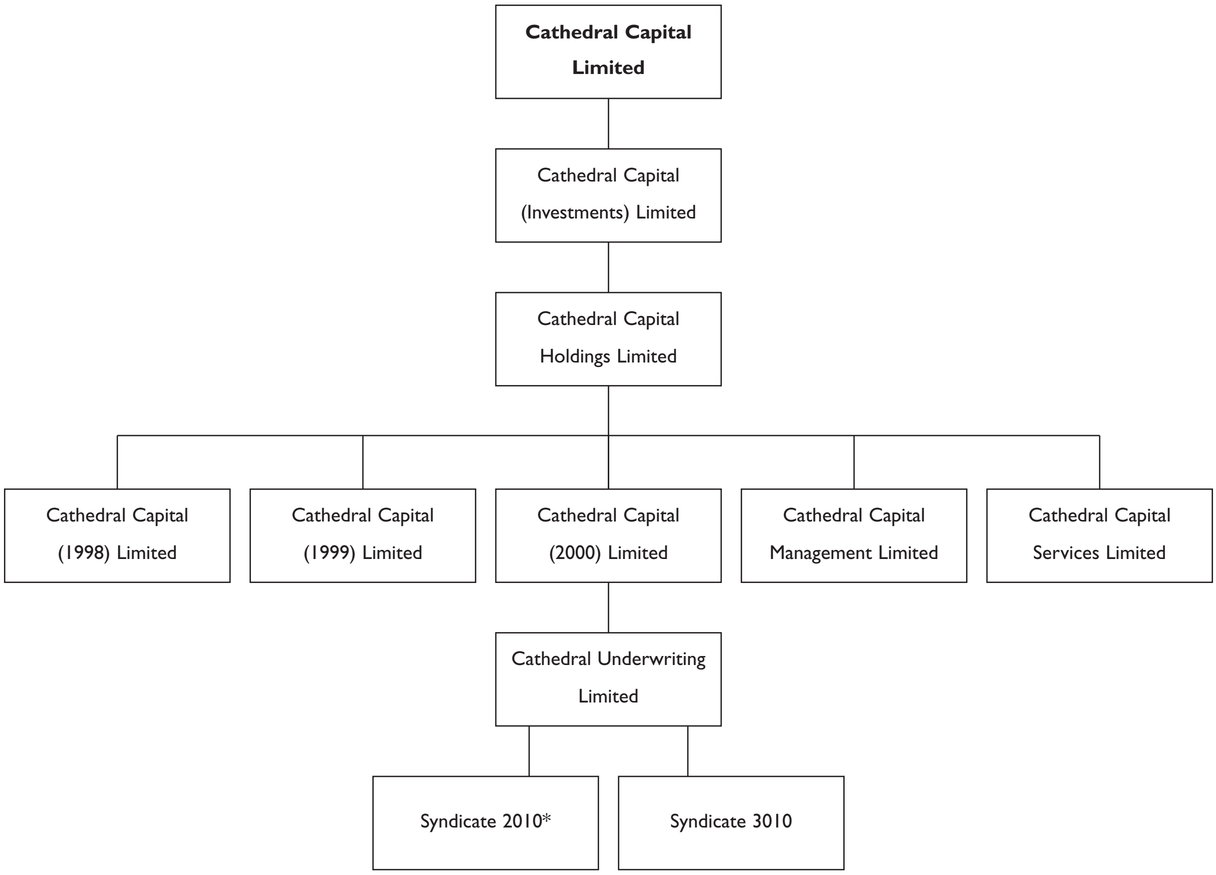
Notes to the Financial Statements
For the year ended 31 December 2012
continued

34 Categories of financial assets and liabilities *continued*

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

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
22 March 2013

CATHEDRAL
CAPITAL LIMITED

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 2012 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 Members 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012;
- 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 2012.

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
22 March 2013

CATHEDRAL
CAPITAL LIMITED

Parent Company Balance Sheet
As at 31 December 2012

	Notes	**31 December 2012 £'000**	31 December 2011 £'000
Assets			
Investment in subsidiary undertaking	5	**40,408**	40,408
		40,408	40,408
Trade and other receivables	6	**6,056**	5,981
Prepayments and accrued income		**1**	-
Cash at bank and in hand		**-**	1
Total assets		**46,465**	46,390
Equity			
Called up share capital	9	**5**	5
Share premium	10	**1,237**	1,237
Capital redemption reserve	10	**1,021**	1,021
Profit and loss reserve	10	**5,988**	3,445
Total shareholders' equity	11	**8,251**	5,708
Liabilities			
Borrowings	7	**38,145**	38,145
Trade and other payables	8	**41**	2,502
Accruals and deferred income		**28**	35
Total liabilities		**38,214**	40,682
Total equity and liabilities		**46,465**	46,390

The financial statements on pages 76 to 83 were approved by the Board of Directors and authorised for issue on 22 March 2013 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 83 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 provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

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.

Notes to the Financial Statements
For the year ended 31 December 2012

continued

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

The profit dealt with in the accounts of the Company (as prepared under UK GAAP) was £2,543,000 (2011: loss of £2,504,000). 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 2012 £'000	31 December 2011 £'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 2012 £'000	31 December 2011 £'000
Amounts owed by Subsidiary undertakings	**6,056**	5,981

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 2012 £'000	31 December 2011 £'000
Preference shares	**38,145**	38,145

The carrying amount disclosed above reasonably approximates to fair values at year end. All preference shares are classified as financial liabilities.

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 2012 was £2,457,000 (2011: £2,457,000).

8 Trade and other payables

	31 December 2012 £'000	31 December 2011 £'000
Amounts due within one year:		
Trade creditors	**41**	49
Dividends payable - preference shares	**-**	2,453
	41	2,502

All trade and other payables are classified as non-financial liabilities.

Notes to the Financial Statements
For the year ended 31 December 2012

continued

9 Share capital

	31 December 2012 Authorised allotted issued and fully paid	31 December 2011 Authorised allotted issued and fully paid
	Number	Number
Number:		
A ordinary shares of 0.1p each	**702,290**	702,290
B ordinary shares of 1p each	**58,343**	58,343
B1 ordinary shares of 1p each	**128,342**	128,342
Ordinary shares of 1p each	**222,243**	222,243

	£'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**	2
	5	5

Following the share reorganisation in 2011, the voting rights of the shares are 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 2012 Number**	31 December 2011 Number
A ordinary shares of 0.1p each		
At the beginning of the year	**702,290**	702,290
Movement in year	**-**	-
At the end of the year	**702,290**	702,290
B ordinary shares of 1p each		
At the beginning of the year	**58,343**	65,695
Converted to Deferred B shares of 1p each	**-**	(7,352)
At the end of the year	**58,343**	58,343
B1 ordinary shares of 1p each		
At the beginning of the year	**128,342**	144,515
Converted to Deferred B1 shares of 1p each	**-**	(16,173)
At the end of the year	**128,342**	128,342
Ordinary shares of 1p each		
At the beginning of the year	**222,243**	337,500
Converted to Deferred shares of 1p each	**-**	(115,257)
At the end of the year	**222,243**	222,243
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 2012 £'000	Profit for the year £'000	Total attributable to shareholders £'000
Called-up share capital	**5**	**-**	**5**
Share premium	**1,237**	**-**	**1,237**
Capital redemption reserve	**1,021**	**-**	**1,021**
Retained earnings	**3,445**	**2,543**	**5,988**
Equity shareholders' funds	**5,708**	**2,543**	**8,251**

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 2012 and 31 December 2011 is distributable.

11 Reconciliation of total shareholders' equity

	31 December 2012 £'000	31 December 2011 £'000
Total recognised gains/(losses) for the year	**2,543**	(2,504)
Opening shareholders' equity	**5,708**	8,212
Closing shareholders' equity	**8,251**	5,708

The Company had no capital commitments at 31 December 2012 (2011: £nil).

12 Directors' emoluments

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

	31 December 2012 £'000	31 December 2011 £'000
Emoluments	**14**	20
Pension costs	**2**	2
Directors fees	**77**	68
Total directors' emoluments	**93**	90

13 Parent Company Risk Disclosures

The business of the Company is managing its investments in subsidiaries. Its risks are considered to be the same as those in the operations of the Group itself and full details of the risk management policies are given in Note 4 of the Group accounts.

Financial assets other than investments in subsidiaries consist of amounts due from subsidiaries. As at the balance sheet date, these receivable amounts were neither past due nor impaired.

Financial liabilities owed by the Company are largely in respect of long-term borrowings (details of which are provided in Note 7 of the Parent Company accounts and Note 21 of the Group accounts).

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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