CATHEDRAL CAPITAL (1998) LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2011

Registered No. 3402448

CATHEDRAL CAPITAL (1998) LIMITED

CONTENTS

CATHEDRAL CAPITAL (1998) LIMITED

DIRECTORS AND ADVISORS

Directors	A C Beardon P J Dixon P D Scales J A Lynch
Company Secretary	P J Dixon
Auditors	Mazars LLP Tower Bridge House, St Katharine's Way, London, E1W 1DD
Members Agent	Hampden Agencies Ltd 85 Gracechurch Street London EC3V 0AA
Bankers	Barclays Bank PLC 1 Churchill Place London E14 5HP
Company Number	3402448
Registered Office	5th Floor Fitzwilliam House 10 St Mary Axe London EC3A 8BF

CATHEDRAL CAPITAL (1998) LIMITED

REPORT OF THE DIRECTORS

The Directors present herewith their report, together with the audited accounts of the Company for the year ended 31 December 2011

Holding Company

Cathedral Capital Holdings Limited is the immediate parent company of the Company

Company Registration Number

The Company registration number is 3402448

Review of the Business

The Company is authorised by the Council of Lloyd's to operate as a Corporate Member of Lloyd's and 1998 was its first underwriting year of account The Company has underwritten the following capacity for the past three years of account

2011 Underwriting Year of Account	£232,310,471
2010 Underwriting Year of Account	£232,309,782
2009 Underwriting Year of Account	£203,403,431

For the 2012 underwriting year of account, the Company will underwrite £232,310,477 of capacity, of which £202,310,477 of capacity will be allocated to Syndicate 2010 which currently specialises in non-marine and aviation reinsurance, direct and facultative property and contingency insurance and £30 million will be allocated to Syndicate 3010 which currently specialises in marine cargo and has a small quota share agreement with Syndicate 2010 Syndicate 2010 and Syndicate 3010 are managed by Cathedral Underwriting Limited, another Group company The Directors intend that, subject to market conditions, the Company will continue for the foreseeable future to underwrite as a Corporate Member at Lloyd's

As at 31 December 2011, the Company's funds at Lloyd's included £146,982,775 in cash and investments which were provided by Cathedral Capital Holdings Limited

Principal risks to the Business

A detailed description of the principal risks to the business is set out in Note 3

Results and Dividends

The results attributable to the shareholder for the year are shown on page 9 During the year, no interim dividend was paid (2010 £20,000,000)

All syndicates on which the Company participated for the 2009, 2010 and 2011 years of account are annually accounted and their contributions to the Company's result have been included in these accounts

Results and Dividends (continued)

The 2011 calendar year result was affected by sıgnıficant large loss experıence, ıncludıng earthquakes ın New Zealand and ın Japan, tornadoes ın the US, and floods ın Thaıland Investment returns remaıned low gıven the current low ınterest rate envıronment

There was a favourable run-off of the reserves establıshed at the prevıous year-end for losses that had occurred prıor to that date whıch had a posıtıve contrıbutıon to the result durıng the year

No capacıty was sold ın the year (2010 no capacıty was sold)

Directors

The Directors who served durıng the year are shown on page 2

Informatıon on Dırector's ınterests ın transactıons ıs shown ın Note 19 on page 31

Directors' Responsibilities

The Dırectors are responsıble for preparıng the Dırectors' Report and the financıal statements ın accordance wıth applıcable law and regulatıons

Company law requıres the Dırectors to prepare financıal statements for each financıal year Under that law the Dırectors have elected to prepare the financıal statements ın accordance with Unıted Kıngdom Generally Accepted Accountıng Practıce (Unıted Kıngdom Accountıng Standards and applıcable law) Under company law the Dırectors must not approve the financıal statements unless they are satısfied that they gıve a true and faır vıew of the state of affaırs of the Company and of the profit or loss of the Company for that perıod In preparıng these financıal statements, the Dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make judgements and estimates that are reasonable and prudent,
- state whether applıcable UK Accountıng Standards have been followed, subject to any materıal departures dısclosed and explaıned ın the financıal statements, and
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınappropriate to presume that the Company wıll contınue ın busıness

The Dırectors are responsıble for keepıng adequate accountıng records that are suffıcıent to show and explaın the Company's transactıons and dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the Company and enable them to ensure that the financıal statements comply wıth the Companıes Act 2006 They are also responsıble for safeguardıng the assets of the Company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

Directors' Responsibilities (continued)

Directors' and Officers' Insurance

Cathedral Capital Limited has, in accordance with the provisions of its articles, purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and all of its subsidiary companies All Directors and Officers of the Company are covered by this insurance

Going Concern

After making reasonable enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the accounts

Disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow Directors, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

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

By order of the Board

P J Dixon
20 March 2012

CATHEDRAL CAPITAL (1998) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CATHEDRAL CAPITAL (1998) LIMITED

We have audited the financial statements of Cathedral Capital (1998) Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and 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 pages 4 and 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- 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 financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CATHEDRAL CAPITAL (1998) LIMITED (CONTINUED)

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

Andrew Heffron (Senior Statutory Auditor)
for and on behalf of Mazars LLP, Chartered Accountants (Statutory auditor)
Mazars LLP
Tower Bridge House
St Katherine's Way
London
E1W 1DD
20 March 2012

CATHEDRAL CAPITAL (1998) LIMITED

Profit and Loss Account
Technical Account - General Business
For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Earned premiums, net of reinsurance:			
Gross premiums written	2	**185,937**	182,784
Outward reinsurance premiums	2	**(49,688)**	(47,673)
Net premiums written		**136,249**	135,111
Change in the provision for unearned premiums:			
Gross amount	2	**2,921**	5,280
Reinsurers' share	2	**(654)**	1,140
Earned premiums, net of reinsurance		**138,516**	141,531
Allocated investment return transferred from the non-technical account		**2,349**	2,508
Claims paid:			
Gross amount	2 & 4	**(111,067)**	(84,313)
Reinsurers' share	2	**25,866**	20,386
		(85,201)	(63,927)
Change in the provisions for claims:			
Gross amount	2 & 4	**(62,843)**	(38,513)
Reinsurers' share	2	**46,145**	8,019
		(16,698)	(30,494)
Claims incurred, net of reinsurance	4	**(101,899)**	(94,421)
Net operating expenses	5	**(40,919)**	(38,495)
Balance transferred to the non-technical account		**(1,953)**	11,123

The Notes on pages 11 to 32 form an integral part of these accounts

CATHEDRAL CAPITAL (1998) LIMITED

Profit and Loss Account
Non-Technical Account
For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £000
Balance on the technical account - general business		**(1,953)**	11,123
Investment return	6	**2,511**	2,716
Allocated investment return transferred to the technical account - general business		**(2,349)**	(2,508)
Other income		**6**	3
Other charges, including value adjustments	7	**(2,013)**	(4,092)
(Loss) / profit on ordinary activities before tax		**(3,798)**	7,242
Tax credit / (charge) on (loss) / profit on ordinary activities	8	**1,924**	(2,048)
(Loss) / profit on ordinary activities after tax		**(1,874)**	5,194

All activities derive from continuing operations

Statement of Total Recognised Gains and Losses

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £000
(Loss) / profit for the year	**(1,874)**	5,194
Currency translation differences	**1,029**	1,230
Tax on currency translation differences	**(273)**	(344)
Total gains and losses recognised since last financial statements	**(1,118)**	6,080

The Company paid no dividends during the year (2010 £20,000,000) as set out in Note 9

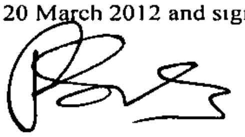
The Notes on pages 11 to 32 form an integral part of these accounts.

CATHEDRAL CAPITAL (1998) LIMITED

Cathedral Capital (1998) Limited
Balance Sheet
As at 31 December 2011

	Notes	31 December 2011 Total £'000	31 December 2010 Total £'000
Intangible assets	11	-	-
Fixed Asset Investments:			
Financial Investments	10	147,932	161,898
		147,932	161,898
Reinsurers' Share of Technical Provisions			
Claims outstanding		102,876	57,112
Unearned premiums		4,425	5,032
		107,301	62,144
Debtors:			
Arising out of direct insurance operations			
- due from policy holders		10,196	13,159
Arising out of reinsurance operations		55,793	46,696
Other	12	25,551	8,128
		91,540	67,983
Other Assets:			
Cash at bank and in hand		31,611	31,453
Deferred tax assets	14	6,483	-
Other		-	645
		38,094	32,098
Prepayments and Accrued Income	13	358	413
Deferred acquisition costs		11,703	12,577
Total Assets		396,928	337,113
Capital and Reserves:			
Called up share capital	16	-	-
Profit and loss account	17	28,843	29,961
Equity Shareholder's Funds	18	28,843	29,961
Technical Provisions.			
Claims outstanding - gross		267,713	211,329
Unearned premiums		60,314	62,781
		328,027	274,110
Provisions for other risks and charges			
Provision for deferred taxation	14	15,631	14,935
		15,631	14,935
Creditors:			
Arising from direct insurance operations		1,614	1,377
Arising from reinsurance operations		19,400	13,879
Other creditors	15	2,815	2,267
		23,829	17,523
Accruals and Deferred Income		598	584
Total Liabilities & Equity		396,928	337,113

The financial statements on pages 8 to 32 were approved by the Board of Directors and authorised for issue on 20 March 2012 and signed on its behalf by



P D Scales - Director

The Notes on pages 11 to 32 form an integral part of these accounts

CATHEDRAL CAPITAL (1998) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1 BASIS OF PREPARATION OF ACCOUNTS AND ACCOUNTING POLICIES

I BASIS OF PREPARATION OF ACCOUNTS

a) Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards

The accounts have been prepared in accordance with Schedule 3 of Statutory Instrument 2008 No 410 The Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008

II ACCOUNTING POLICIES - SYNDICATES

a) Recognition of insurance transactions

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

The Company recognises its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ("the syndicates") within the Company's Technical Account – General Business Similarly, the Company's proportion of the syndicates' assets and liabilities has been reflected in its Balance Sheet This proportion is calculated by reference to the Company's participation as a percentage of each syndicate's total capacity for each year of account

Syndicate assets are held subject to the trust deeds for the benefit of the Company's insurance creditors

The financial information on these transactions, assets and liabilities of the syndicates is based on returns prepared by the managing agent of each syndicate and submitted to Lloyd's Information for syndicates managed by the Cathedral Group is determined by the Company's fellow managing agent subsidiary However, for other syndicates on which the Company previously participated, such information was provided by managing agents outside of the Cathedral group

b) Basis of accounting for underwriting results

For syndicates managed by the Group and certain external syndicates supported by the Company, the Company's share of the technical results is presented on an annual accounting basis The main accounting policies under the annual accounting basis are set out below

(i) Premiums

Gross written premiums represent premiums on business incepting during the period together with estimates for pipeline premiums and adjustments to premiums written in previous accounting periods All premiums are gross of commission payable to intermediaries

Earned premiums represent premiums written adjusted for the change in the provision for unearned premiums

Outwards reinsurance premiums are accounted for on an earned basis to match the premiums for the related inwards reinsurance business

The provision for unearned premiums represents that part of gross premiums written and the reinsurers' share that is estimated to be earned after the balance sheet date

(ii) Claims

A provision is made for claims incurred during the period, whether reported prior to the balance sheet date or not A provision is also made for claims handling expenses This is included within technical provisions in the Balance Sheet

With respect to syndicates in run-off, the provision for claims is increased as appropriate by the Directors to the extent that further losses are anticipated on those syndicates Any such additional provision is determined by the Directors

In deciding whether any such additional provision is necessary, syndicate participations for each year have been considered in aggregate as each year's Lloyd's underwriting is managed together

(iii) Reinsurance to close

To the extent that the Company participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the Company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid

Where the Company 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 Technical Account - General Business as either gross premiums written or reinsurance premiums payable as appropriate

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

c) Investments

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 at that date

d) Investment income

Investment income comprises interest receivable and dividends received plus realised gains on the disposal of investments Realised gains and losses arise from the difference between proceeds and cost The realised gains reported by syndicates are net of any realised losses.

All investment income net of realised losses arising on syndicate participations is recognised in the Company's Technical Account – General Business, as an integral part of the Company's underwriting business

e) Investment expenses and charges

Investment expenses and charges comprise investment management expenses

f) Net operating expenses

Operating expenses have been charged to the underwriting year for which they were incurred These include the Company's share of syndicate operating expenses, the remuneration payable to managing agents and the direct costs of membership of Lloyd's Personal expenses are included in the Technical Account – General Business, in the year in which the underwriting result is accounted for

g) Foreign currencies

Transactions in foreign currencies other than sterling, US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed Transactions in US dollars, Canadian dollars and Euros are converted at the average rates of exchange in the period All assets / liabilities in currencies other than sterling are translated at the rate of exchange ruling at 31 December Exchange differences arising on translation are dealt with in the Statement of Total Recognised Gains & Losses

h) Taxation

The Company is taxed on its share of the underwriting results declared by syndicates and for tax purposes these are deemed to accrue evenly over the calendar year in which they are declared

HM Revenue & Customs determines the taxable results of individual syndicates on the basis of computations submitted by the relevant managing agent At the date of approval of these accounts, none of the syndicate taxable results have been agreed Any adjustments that may be necessary to the tax provisions established by the Company as a result of HM Revenue & Customs agreement of individual syndicate taxable results will be reflected in the accounts of subsequent periods

III ACCOUNTING POLICIES - CORPORATE

a) Expenses

All expenses are accounted for on an accruals basis and are charged through the Non-Technical Account

b) Foreign currencies

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates as at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end date Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Non-Technical Account

c) Taxation

Items of income/gain and expenditure/loss are recognised and assessable to corporation tax in the same period, after adjustment in accordance with tax legislation

d) Syndicate participation rights

The cost of participation rights is capitalised and amortised in equal annual instalments over three years, with amortisation commencing at the start of the Company's first underwriting year on the syndicate

If, at any time, the Directors become aware of a permanent diminution in the value of the Company's right to participate on a syndicate, the asset will be written down accordingly If a syndicate participation is sold then any related costs are offset against the disposal proceeds and any gain/loss is taken to the Non-Technical Account in the same accounting period

e) Deferred taxation

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 and associates 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

CATHEDRAL CAPITAL (1998) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2011

2 Segmental Information - year ended 31 December 2011

	Gross Premiums Written £'000	Gross Premiums Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Business:						
Accident & Health	-	-	-	-	(1)	(1)
Motor - third party liability	79	82	(134)	(71)	(31)	(154)
Motor - other classes	426	436	(94)	(45)	(70)	227
Marine, Aviation & Transport	12,195	13,223	(9,975)	(4,593)	1,699	354
Fire and other Damage to Property	41,183	42,916	(22,104)	(12,077)	(9,059)	(324)
Third Party Liability	(403)	10	(108)	(122)	57	(163)
Credit and Suretyship	3,773	3,646	(2,191)	(885)	775	1,345
Total Direct	57,253	60,313	(34,606)	(17,793)	(6,630)	1,284
Reinsurance Business						
Reinsurance Acceptances	128,684	128,545	(139,344)	(23,126)	28,339	(5,586)
Reinsurance to Close	-	-	40	-	(40)	-
Total Reinsurance	128,684	128,545	(139,304)	(23,126)	28,299	(5,586)
Total	185,937	188,858	(173,910)	(40,919)	21,669	(4,302)

Segmental Information - year ended 31 December 2010

	Gross Premiums Written £'000	Gross Premiums Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Business						
Accident & Health	-	-	9	-	-	9
Motor - third party liability	122	135	(152)	(61)	(9)	(87)
Motor - other classes	326	323	(288)	(55)	(9)	(29)
Marine, Aviation & Transport	13,394	14,427	(7,734)	(3,983)	(829)	1,881
Fire and other Damage to Property	41,013	42,102	(16,739)	(11,197)	(9,730)	4,436
Third Party Liability	323	547	(231)	(470)	(208)	(362)
Credit and Suretyship	3,314	3,489	(1,837)	(874)	(765)	13
Total Direct	58,492	61,023	(26,972)	(16,640)	(11,550)	5,861
Reinsurance Business						
Reinsurance Acceptances	123,301	126,050	(94 266)	(21,855)	(7 175)	2 754
Reinsurance to Close	991	991	(1,588)	-	597	-
Total Reinsurance	124 292	127,041	(95,854)	(21,855)	(6,578)	2,754
Total	182 784	188,064	(122,826)	(38,495)	(18,128)	8,615

All direct business is written in the United Kingdom

3 Risk disclosure

The Company 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, and
- Market risk

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

Since December 2010, the Company no longer writes on syndicates managed by external managing agents and so the Company has no risks remaining with respect to these syndicates
The sections below outline the Company's risk appetite and explain how it defines and manages each category of risk This is in respect of its managed syndicates only

3.1 Insurance risk

The Company'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 Company's ability to trade going 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 Company 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 is 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 Company has developed its insurance underwriting strategy so as to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks in an attempt to reduce the variability of the expected outcome. However, it should be recognised that much of the business written by the Company 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

3 1 1 Diversification across classes of business

The Company's underwriting covers various classes of business which, to some extent, have different exposure profiles and therefore provides an element of diversification to the Company.

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

3 1 2 Frequency and severity of claims

The frequency and severity of claims in respect of the managed syndicates can be affected by several factors and these can impact the Company

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

The catastrophe nature of the accounts is managed through the syndicates' 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 managing agent

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's managing agent models various loss scenarios and also runs specific realistic disaster scenarios ("RDS") in accordance with Lloyd's Franchise guidelines to enable it to monitor the exposure at a gross and net level for the managed syndicates

3 1 3 Underwriting risk

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

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

a) Accumulative loss including unknown / unexpected accumulations

The business written by the managed syndicates is short tail in nature and, whilst the US Terror Attacks in 2001 showed that short tail classes are not immune from unknown / unexpected accumulations, the threat of this occurring is probably more pronounced in the liability fields By and large the insurances and reinsurances provided by the managed syndicates are of a well tested nature More crucially, the approach taken to risk management is heavily exposure driven The managed syndicates continually seek to model their portfolio of accounts in order to identify accumulations and to monitor the exposures of the syndicates, and the whole process is supported by sophisticated bespoke internal and external modelling systems Finally, to ensure the maximum depth of reinsurance coverage, all accounts other than FTC have purchased separate reinsurance programmes

b) Risk of extreme losses

Even ignoring apocalyptical type losses (e.g massive meteorite strike), crippling losses of circa US $50 billion could have a major destabilising effect on the insurance industry as a whole Whilst the reinsurance writings for the managed syndicates (unlike direct insurance) provide policyholders with defined cover by way of both limits and number of reinstatements, the development of the direct and facultative property account and the marine cargo account gives rise to very large assured values which are vulnerable to failures in PML assumptions Also, the managed syndicates could be vulnerable to significant failure amongst their own reinsurers

The key controls rest on the strict recording of aggregate exposures and modelling work carried out on these numbers utilising various risk modelling systems and approaches The managed syndicates also purchase reinsurance programmes that are structured so as to limit the exposure to any single reinsurer

c) Frequency of major loss

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

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

The direct and facultative property account and the marine cargo account are also more vulnerable to loss frequency, although this is mitigated by modulating line size by attachment point, geographical spread of risks and a separate reinsurance programme

d) Wording issues
The coverages provided by the managed syndicates may be extended in circumstances where either the wording used does not reflect the underwriters' intentions or where courts decide the wordings used provide wider coverage than intended.

Despite this risk, most coverages utilised are fairly standard Slip checking has always been part of the underwriting process Furthermore, the Group's managing agency subsidiary's independent review director reviews a sample of risks written and as part of his review looks at wordings to identify inconsistencies between slips and wordings Contract certainty and pre-bind checks further mitigates this risk

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

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

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

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

A risk summary report is generated daily, setting out all new risks and any changes to existing risks, which is reviewed and signed off by the relevant class underwriter The independent review director of the Group's managing agent subsidiary also reviews a sample of all risks underwritten by the managed syndicates

All risks underwritten by the managed syndicates are modelled in a timely fashion with underlying exposure information being recorded This output is used to build up aggregates by class of business, broad risk types and geographical location Aggregate reports by class of business and geographical zone are presented to the managed syndicates' board monthly and these are monitored against those that had been expected per the managed syndicates business plans Aggregation systems are also used for the other accounts to monitor exposures

3 1 4 Reinsurance risk

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

a) Inappropriate reinsurance programme / gaps

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

Also, if following the occurrence of major losses, the reinsurance programmes do not respond or provide that which was assumed, then there could be significant financial consequences to the managed syndicates It is emphasised that the amount of reinsurance cover which the managed syndicates purchase have finite limits which may not be sufficient to contain all loss activity

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

b) Collapse of the retrocession market

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

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

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

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

3 1 5 Reserving risk
Reserves include both claims liabilities and provisions for unearned premiums

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

When estimating claims liabilities, significant reserving judgements are required to be made, particularly in respect of the ultimate cost of major catastrophes, contentious or complex claims, reinsurance recoverables and liability awards

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

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

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

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

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

(ii) Changes in assumptions and sensitivity analysis
The broad assumptions used in respect of the managed syndicates have not significantly changed during the year

(iii) Sensitivity analysis - sensitivity of claims liabilities
When reviewing the claims liability projections in respect of the managed syndicates, the Company 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 Company has sought to consider all potential losses and reviews / follows up such losses on a regular basis

b) Provision for unearned premiums
(i) Process used to decide on assumptions
With respect to the managed syndicates, the provision for unearned premiums is determined at an individual policy level and is either based on a straightforward time basis or, where appropriate, weighted towards where the exposure is believed to fall For example, insurance policies protecting windstorms in the Florida region of the USA will tend to be earned later in the calendar year as that is when the hurricane season will occur

(ii) Changes in assumptions and sensitivity analysis
There have been no changes in assumptions or sensitivity analyses for determining the provision for unearned premiums in respect of the managed syndicates

(iii) Sensitivity analysis - sensitivity of provision for unearned premiums
The Company believes that the only significant sensitivity relates to the estimate of underwriters as to the underlying exposure of the book of business (of the managed syndicates) and how this is applied to the figures. This is not believed to be significant to the account

3.2 Credit risk

The Company 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 Company is exposed to credit risk are·

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

With respect to the managed syndicates, the Company's fellow managing agency subsidiary's reinsurance and broker security committee has established guidelines on its exposure to a single counterparty These guidelines are regularly reviewed by the committee and adjusted as appropriate by the managing agency subsidiary's board.

Reinsurance is used to manage insurance risk, specifically catastrophe losses This does not, however, discharge the Company's liability to its assureds. If a reinsurer fails to pay a claim for any reason, the Company remains liable for payment to the policyholder The creditworthiness of reinsurers is considered on a continuous basis by the Company's fellow managing agency subsidiary by reviewing credit grades provided by rating agencies and other publicly available financial information An external consultant is also employed by the Company's fellow managing agency subsidiary to assist in assessing and evaluating reinsurers

At the year-end, the Company has quantified the credit risk to the managed syndicates and reduced the amounts due from reinsurers and reinsurers' share of insurance liabilities for this Where the managed syndicates have any legal right of off-set, this is assumed in the calculation of credit risk

The Company also has exposure to credit risk on its investments and cash holdings, whereby an issuer default results in the Company losing all or part of the value of a financial instrument

With respect to the managed syndicates, all funds are held in either cash or short-dated fixed interest securities (either government or high-quality investment grade corporate bonds) Fixed interest managers are employed and their performance is regularly monitored by the managing agency subsidiary's syndicate investment committee Detailed requirements regarding asset diversification and concentration limits are set out in the investment mandate given to the external investment managers

3.3 Liquidity risk

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

Claims arising from insurance contracts are settled by the syndicates using their own funds Where insufficient liquid funds exist, the syndicates can cash call the Names supporting them and can ultimately draw down from the Names' funds at Lloyd's With respect to the managed syndicates, the funds are held in cash or in short-term, liquid stocks which are able to be converted to cash within a few days It is believed that this is also substantially true for the syndicates managed by other agents Furthermore, the managed syndicates have banking catastrophe facilities available to them

The Company has no corporate cash or investments Any surplus funds not held in fund's at Lloyd's are held by the Group Treasury function

3.4 Market risks

3 4 1 Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the Company This can arise where the Company 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 managed syndicates are managed with capital protection as a prime objective. As such, the portfolio durations are limited by the investment guidelines to a level designed to limit the downside risk due to rising bond yields to a level not deemed significant

3 4 2 Equity price risk

The Company holds no equity investments

3 4 3 Currency risk

The syndicates on which the Company participates hold a proportion of their assets and liabilities in US Dollars, Canadian dollars and Euros

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

Syndicate underwriting profits and losses are currently only capable of being distributed in either US dollars or sterling and so the Company is affected to some degree by movements in the US dollar This is further compounded by the fact that any underwriting profits are normally only paid out once a year into members reserves at the distribution date although any release of funds is subject to Lloyd's distribution tests The Company does not currently enter into any currency deals to mitigate this currency risk

4 Claims Incurred, Net of Reinsurance

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Gross:		
2000 Year of Account	-	(557)
2008 Year of Account	-	646
2009 Year of Account	(13,623)	50,801
2010 Year of Account	92,436	71,936
2011 Year of Account	95,097	-
	173,910	122,826
Reinsurance:		
2008 Year of Account	-	(1,725)
2009 Year of Account	455	(10,584)
2010 Year of Account	(44,973)	(16,096)
2011 Year of Account	(27,493)	-
	(72,011)	(28,405)
Net claims incurred	101,899	94,421

5 Net Operating Expenses

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Acquisition costs	31,368	30,998
Administrative expenses	5,667	5,552
Loss / (gain) on exchange	486	(1,501)
Names' personal expenses on Lloyd's syndicates	3,398	3,446
	40,919	38,495

6 Investment return

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Investment income	3,516	3,696
Realised losses on investments	(884)	(865)
Investment expenses and charges	(121)	(115)
	2,511	2,716

CATHEDRAL CAPITAL (1998) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2011

7 Other charges

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Lloyd's charges	1	1
Salaries and related costs	268	230
Profit sharing scheme (including Employer NI)	562	2,509
Auditors' remuneration - for audit services	27	22
Auditors' remuneration - for non audit services	7	12
Amortisation of syndicate participations	-	525
Fee for use of Funds at Lloyd's	1,053	740
Other	95	53
	2,013	4,092

Auditors' remuneration includes fees charged in respect of Cathedral Capital (1999) Limited and Cathedral Capital Management Limited

The Group operates a profit sharing scheme from which all executive Directors and full time employees of the Group can benefit The size of this profit related pool created under this scheme is determined annually and is equal to 15 per cent of the consolidated Group profit before tax and amortisation (including any impairment charges) and before the interest charge on Manager and Investor Loan Notes issued by Cathedral Capital (Investments) Limited and dividends on the preference shares issued by Cathedral Captial Limited All distributions from this scheme are entirely at the discretion of the Board of Cathedral Capital Limited, following recommendations made by the Group's Remuneration Committee The amount set out above (which includes an amount for employer national insurance at either 12 8 per cent or 13 8 per cent depending on the prevailing rate) has been allocated as an accrued expense to this Company in the period and some of this may be paid to staff during 2012

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

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Emoluments	58,523	549,097
Pension costs	9,464	9,040
	67,987	558,137

Highest-paid director

The above amounts for the remuneration include the following in respect of the highest paid director

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Emoluments	17,500	201,702
Pension costs	2,684	2,260
	20,184	203,962

8 Taxation

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
(a) Analysis of charge in year		
Current tax		
UK corporation tax on profit in the year at 26 5% (2010 28%)	2,114	1,399
Overseas tax	469	174
Adjustments in respect of prior years	(663)	(2,139)
Amount paid to a fellow subsidiary in respect of tax saved by group relief		
- relating to prior years	74	(1,135)
- relating to current year	2,142	2,329
Total current tax charge (Note 8(c))	4,136	628
Deferred tax		
Origination and reversal of timing differences (see Note 14)	(6,060)	1,420
Total deferred tax	(6,060)	1,420
Tax (credit) / charge on profit on ordinary activities	(1,924)	2,048

(b) Tax on recognised gains and losses not included in the profit and loss account

UK corporation tax at 26 5% (2010 28%)		
Deferred tax charge (see Note 14)	273	344

(c) Factors affecting tax (credit) / charge for the year

(Loss) / profit on ordinary activities before tax	(3,798)	7,242
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010. 28%)	(1,007)	2,028
Expenses not deductible for tax purposes	-	-
Timing differences	5,263	1,700
Adjustments in respect of prior years.		
- Corporation tax	(663)	(2,139)
- Amount paid to a fellow subsidiary in respect of tax saved by group	74	(1,135)
Overseas tax	469	174
	4,136	628

9 Dividends

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
No interim dividend for the year ended 31 December 2011 (2010 £10,000,000 per share)	-	20,000

10 Financial investments

	31 December 2011 £'000	31 December 2010 £'000
Shares and other variable yield securities	**30,039**	23,059
Debt securities and other fixed interest securities	**111,303**	133,319
Participations in investment pools	**6,530**	5,461
Deposits with credit institutions	**60**	59
	147,932	161,898

11 Intangible assets

	31 December 2011 £'000	31 December 2010 £'000
Cost at 1 January	**4,841**	4,841
Additions in the year	-	-
Disposal of capacity	-	-
Balance 31 December	**4,841**	4,841
Amortisation at 1 January	**4,841**	4,316
Provided during the year	-	525
Amortisation at 31 December	**4,841**	4,841
Net book value at 31 December	-	-
Net book value at 1 January	-	525

Intangible assets are the purchase costs of the Company's participations in certain Lloyd's syndicates This is solely in respect of Syndicate 2010

12 Other Debtors

	31 December 2011 £'000	31 December 2010 £'000
Corporation tax recoverable	**664**	828
Amounts owed by group companies	**23,774**	6,975
Other debtors	**1,113**	325
	25,551	8,128

13 Prepayments and accrued income

	31 December 2011 £'000	31 December 2010 £'000
Prepayments	**358**	411
Accrued income	**-**	2
	358	413

14 Deferred tax

Deferred tax relates to the following

	31 December 2011 £'000	31 December 2010 £'000
Declared underwriting profits	**(9,515)**	(5,884)
Claims equalisation reserve	**(6,116)**	(5,301)
Underwriting losses / (profits) not yet recognised for tax	**6,334**	(3,757)
Other timing differences	**149**	7
	(9,148)	(14,935)
Reflected in the balance sheet as follows		
Defered tax assets	**6,483**	-
Deferred tax liabilities	**(15,631)**	(14,935)
Deferred tax net	**(9,148)**	(14,935)

Reconciliation of deferred tax:

	31 December 2011 £'000	31 December 2010 £'000
Opening balance as of 1 January	**(14,935)**	(13,171)
Deferred tax charge in profit and loss account for year	**6,060**	(1,420)
Deferred tax charge in statement of total recognised gains and losses for year	**(273)**	(344)
Closing balance as at 31 December	**(9,148)**	(14,935)

CATHEDRAL CAPITAL (1998) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2011

15 Other creditors

	31 December 2011 £'000	31 December 2010 £'000
Corporation tax payable	**517**	-
Due to managing agent within one year	**2,296**	2,225
Other creditors	**2**	42
	2,815	2,267

16 Share Capital

	31 December 2011 £	31 December 2010 £
Allotted, issued and fully paid		
2 ordinary shares of £1	**2**	2

17 Profit and loss account

	31 December 2011 £'000
Balance as at 1 January	**29,961**
(Loss) after tax	**(1,874)**
Currency translation differences	**1,029**
Tax on currency translation differences	**(273)**
Dividends	-
Balance as at 31 December	**28,843**

18 Movement in Equity Shareholder's Funds

	31 December 2011 £'000	31 December 2010 £'000
Opening equity shareholder's funds	**29,961**	43,881
Total recognised (losses) / gains for the financial year	**(1,118)**	6,080
Dividends	-	(20,000)
Closing equity shareholder's funds	**28,843**	29,961

19 Related parties transactions

(i) Transactions with other entities in the Cathedral Group

The Directors have taken advantage of the exemption under FRS8 which does not require disclosure of transactions with other group companies, where the parent company prepares consolidated accounts which are publicly available

(ii) Directors interest in transactions

During the year, the Directors and their families received dividends on the Preference shares issued by Cathedral Capital Limited at 6 44% per annum and interest on their Manager Loan Notes issued by Cathedral Capital (Investments) Limited at 9 2% per annum

The Preference shares and Manager Loan Notes held by the Directors and their families at 31 December (according to the registers of Directors' interests) were as follows·

	31 December 2011		31 December 2010	
	Preference £1 shares number	**Manager Loan Notes £**	Preference £1 shares number	Manager Loan Notes £
A C Beardon	**238,154**	**476,383**	238,154	476,383
P J Dixon	**86,287**	**172,601**	86,287	172,601
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

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

The ESOP also received dividends on the Preference shares and interest on the Manager Loan Notes. The ESOP holdings of "B" ordinary shares and Preference shares of Cathedral Capital Limited and Manager Loan Notes of Cathedral Capital (Investments) Limited at 31 December were as follows

	Cathedral Capital Limited		**Cathedral Capital (Investments) Limited**
	Ordinary share number	**Preference £1 share number**	**Manager Loan Notes £**
At 31 December 2011	**12,212**	**652,162**	**1,304,524**
At 31 December 2010	13,723	651,084	1,302,367

20 Contingent liabilities

With effect from 1 January 1998, the Company participates on insurance business written by Lloyd's syndicates As a result of this participation, the Company is exposed to claims arising on insurance business written by those syndicates

If the Company fails to meet any of its Lloyd's obligations, after having called on the Group under its guarantees, then

(a) Lloyd's will be entitled to require the Company to cease or reduce its underwriting, and / or

(b) Having regard to the fact that the Central Fund or the New Central Fund may be applied to discharge the obligations of the defaulting corporate member subsidiary, Lloyd's will be entitled to require the other corporate member subsidiary to contribute to the Central Fund or New Central Fund up to the amount of its net profits held from time to time in its Premium Trust Funds sufficient to reimburse the Central Fund or the New Central Fund in full for any payment made on behalf of the defaulting member

21 Ultimate parent undertaking

The immediate parent company is Cathedral Capital Holdings Limited and the ultimate parent company is Cathedral Capital Limited Both companies are registered in England & Wales