

Annual Report

31 December 2000

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Chairman's Statement

In my last statement, I spoke about our need to take Cathedral forward from a passive investment business into a more dynamic trading group capable of delivering value to its shareholders. As you will all be aware we have completely transformed our business over the last twelve months to deliver the business plan outlined to shareholders at the last Annual General Meeting.

As such I feel it is appropriate that we change the way in which we report to you and would direct you to the Chief Executive's Report for a synopsis of the trading structure, operations and strategy of the Group.

I would remind shareholders that Cathedral started life as a conversion vehicle. The results we are reporting here are therefore largely reflective of the closing 1998 year of account results and the provisions we have made in respect of the outcome of the 1999 and 2000 years of account of those syndicates in which our corporate name subsidiaries participated.

In spite of the fact that our 1998 underwriting return outperformed that of the Lloyd's market as a whole by a considerable margin, our overall result has been adversely affected by the market conditions of the past three years and we are accordingly reporting a loss of £1,035,000 (1999: a loss of £1,672,000). The operating loss per share was 6 pence (1999: loss of 12.1 pence). Our diluted net tangible assets per share at the year end were 63.4 pence as against 80.9 pence at the previous year end.

In response to a number of queries from shareholders I am pleased to report the Directors have received advice from the Company's advisors to the effect that in their view the Company is deemed to be a qualifying company, for capital gains tax purposes, and its shares may accordingly qualify for business asset taper relief depending upon individual shareholder's circumstances. Shareholders should take their own advice on the availability of business asset taper relief in the light of their own circumstances. I would also remind any shareholder who wishes to buy or sell Cathedral shares that the first internal share transfer market will take place during the two weeks immediately preceding our forthcoming Annual General Meeting, which will be held on 28 June 2001.

The change of direction in our business demanded changes to our Board structure. To that end we have appointed a number of Executive Directors and two new Non-Executive Directors. John Inledon and Giles Berkeley both stood down from the Board last year; both were founder Directors of the Company and I would like formally to record my appreciation for their help and valuable advice over the past three years. Furthermore, I intend to step down as Non-Executive Chairman of the Company at the Annual General Meeting and will propose Elvin Patrick to succeed me as Executive Chairman. I intend to remain on the Board as a Non-Executive Director.

As many of you will know, Elvin was responsible for building the Bankside Group into one of the largest and most successful multi-line underwriting agency operations at Lloyd's. At this stage in our development, to have as our Executive Chairman a person with Elvin's track record who is also actively engaged in our core business will provide the added impetus to maximise your Company's growth potential. He will take the chair with my enthusiastic support and that of all of my Board colleagues.

Before finally passing over the chair to Elvin I would like to acknowledge the efforts of everyone involved with the Company since its inception in 1997. I sincerely believe that we now have an executive team whose skill, commitment and professionalism will prove to be of great value to shareholders in years to come. I have greatly enjoyed my four years as Chairman and I know that you will be in good hands.

Paul Gillham

Chairman

18 April 2001

Chief Executive Officer's Report

The last twelve months has seen a transformation of our business to an active trading Group. We have acquired a managing agency, set up a substantial new syndicate, successfully raised additional capital and significantly increased the scope of our underwriting activities to coincide with the long awaited market up-turn.

Each of these aspects warrant individual attention, but first and foremost the most obvious difference to your business is that it now has a well resourced management team. The team has experience of successfully running substantially larger businesses than Cathedral in its present form and it is our aim to build your business through the up-cycle. The team we have includes high quality underwriters who have demonstrated their capabilities by achieving the ambitious targets set out in the business plan, but more of this later.

It is our plan to use this platform to develop Cathedral's businesses by recruiting further high calibre underwriters and expanding the capital base of the business; all assuming the right quality people become available and appropriate trading conditions. We will also be actively exploring various types of non-risk carrying ventures to complement our direct exposure to underwriting. The following gives some more detail as to how we have placed ourselves to date, which I hope will give some flavour as to how we see our business developing.

Syndicate 2010

In November 2000, Cathedral syndicate 2010 received Lloyd's approval to commence trading for the 2001 underwriting year of account. The business plan aimed to establish a market leading syndicate – initially focused on non-marine and aviation reinsurance – and build a strong commercial franchise based upon consistent, technically sound underwriting and customer service. The underwriting team comprises active underwriter Elvin Patrick, John Hamblin, Mark Wilson and Richard Williams.

Syndicate 2010 attracted strong and diverse support for its first trading year. The syndicate's 2001 account underwriting capacity is approximately £81 million, £20 million of which is provided by Cathedral's own corporate members. A further £18.7 million of capacity is provided by two corporate members which are wholly owned by two insurance industry shareholders in Cathedral Capital PLC. The balance derives from all four Lloyd's members' agencies and a Lloyd's names' conversion vehicle. Accordingly, the Cathedral Group has a direct interest in approximately 25% of the business and results of syndicate 2010 for the 2001 underwriting year. In respect of the balance, the Group's managing agency subsidiary acting as agent for third party principals receives a management fee and is entitled to profit commission.

For the 2001 account, syndicate 2010's two major areas of operation are non-marine and aviation reinsurance, with an overall premium income target of £50-55 million, net of brokerage. The syndicate is on track to meet this target and had written approximately £31.5 million premium income by the end of the first quarter 2001. Market conditions in the syndicate's chosen areas of operation are generally on an improving trend, which gives the prospect of a satisfactory outcome for the syndicate's first trading year. Furthermore a substantial reinsurance programme is in place to give protection in the event of major accumulative losses. However, neither of these factors can remove the significant volatility inherent in the business written by the syndicate and it will not be until the end of 2002 before all the major elements of the business written for the 2001 underwriting year are substantially off risk.

The extent of support given by capital providers, placing brokers and their clients and reinsurers means that we have made very substantial progress in our initial aim to establish for syndicate 2010 a credible business franchise within Lloyd's. We now intend to build and develop that franchise. We will look to enhance and diversify our underwriting capabilities through the recruitment of

Chief Executive Officer's Report

continued

additional underwriters who combine strong technical underwriting credentials with the proven ability to produce and lead business. Over time this should help to improve the scale, consistency and quality of our earnings.

Cathedral's underwriting arrangements

The changes in the operating structure have accompanied a fundamental change in the manner in which our own underwriting exposure is structured for the 2001 year of account.

The first significant change is that the overall quantum of our underwriting capacity committed to the Lloyd's market has increased from approximately £13.8 million to £40.5 million. This reflects not only the additional capital at our disposal on which to underwrite, but more importantly an improvement in the market conditions in which we trade.

Secondly, the structure of our underwriting portfolio has significantly altered from a fairly even line structure over 18 syndicates. Now, half our underwriting is deployed on syndicate 2010 and the remainder on a spread of 11 syndicates that complement rather than duplicate the areas in which 2010 trades. Where a syndicate was removed from the portfolio for the 2001 year of account, such action was typically taken due to the inherent similarity of business to Cathedral's own syndicate 2010. Additional capacity was acquired on syndicates which we consider carry a realistic prospect of profitability and whose accounts do not directly clash with 2010's. No third party syndicates were added to the portfolio.

The thought process behind this move is two-fold; primarily we wish to support our own business as we believe the timing for entry into the market is favourable, equally we wish to manage the exposures we are running to our balance sheet as effectively as possible. Our third party participations produce a diversification of risk which also results in a considerably more advantageous capital requirement than would apply were we to support 2010 in isolation.

A list of our underwriting arrangements for the 2001 year of account can be found on pages 50 and 51.

Group underwriting for the 1998 to 2000 years of account

For syndicates managed by external managing agents, all classes of insurance business written are accounted for on a three year funded basis because it is the basis most similar to that followed by the syndicates. The nature of the information managing agents can make available is currently insufficient for the Group to make reliable estimates of the necessary technical provisions on an annual basis of accounting.

Going forward, for syndicates managed by the Group, all classes of insurance business written will be accounted for on an annual accounting basis.

1998 Year of Account:

Lloyd's has declared a loss of £1 billion (approximately 10% of capacity) for the 1998 year of account. Although Cathedral's spread portfolio has outperformed the market, it has produced a loss of 5.6% (before advisor's fees), with just 12 of the 30 supported syndicates declaring a profit.

Although disappointing, these figures come as no surprise – Cathedral's previous advisor, Wren, had predicted a market loss of at least £1 billion over a year ago. In comparison, the mid-point of managing agents' estimates twelve months ago suggested a market loss in the region of £650 million.

We retain substantial reserves in respect of the two 'open' 1998 accounts, namely syndicate 990 (XL Brockbank Underwriting Limited) and syndicate 1093 (Commodore Underwriting Agency Limited).

1999 Year of Account:

As rating levels continued to reduce, the 1999 account was impacted by the second heaviest claims burden ever from natural and man-made disasters. The insurance industry was affected globally and as a consequence the Lloyd's market will produce another substantial loss, exceeding that of 1998. The latest forecast is for a loss of some £1.1 billion, based on the mid-point of managing agents' estimates. This compares to a forecast loss of £800 million made by managing agents just six months previously. We anticipate further deterioration prior to closure and we have therefore again established reserves that we consider sufficiently robust to contain the inevitable future deterioration in current market forecasts. For the 1999 year of account, Cathedral's provisions represent a deficit of 15% of allocated capacity. This is in spite of the fact that based on the mid-points of managing agents forecasts at 31 December 2000, Cathedral's estimated result stands at a loss approaching 8% compared to the market's forecast loss of 11%.

2000 Year of Account:

Overall rating levels showed no improvement for the 2000 year of account, although the loss experience was relatively benign. We consider it prudent to establish provisions, allowing for a loss approaching 5% of allocated capacity (approximately £690,000). Managing agents are not required to produce their first estimates for the outcome of the 2000 year until August 2001.

Investments

Our Investment Managers have performed admirably during the year. Although the equity portfolio had a degree of exposure to a number of volatile sectors, profits were taken early in the year, with some proceeds being recycled into "old economy" sectors. The stance throughout the year was generally defensive, with a focus on equities offering strong income contribution to the overall return on the portfolio. There was a positive return for the combined equity and bond portfolio (excluding uninvested cash and income) of 3.4% for the year as a whole. This compares with the major global equity markets which by the end of the year were standing substantially lower: the FTSE 350 and FTSE 100 had fallen 8.5% and 10.1% respectively; in the US the S&P 500 had fallen 10.1% and the Nasdaq 39.3%. Our investment managers will continue to focus their efforts on companies with strong balance sheets and visible earnings which should emerge from the current environment in better shape than before.

Shareholders should be aware that the majority of the Company's funds, from the conversion exercise and our capital raising, have remained invested in cash and as such have not been as affected by the continued first quarter fall in world-wide stock markets.

Corporate Strategy

Since the restructuring of our Group we have made significant progress in delivering the business plan set out at the Extraordinary General Meeting. However, we view this very much as the first stage of the Group's development.

It is obvious that we have the management resource to run a substantially larger business with a greater breadth of activity. Equally obvious is that market dislocations are now gathering pace and genuine opportunities should develop in the coming months and years.

It is our firm intention to grow our business over the life of the Group, but it would be a waste of potential if we were to trade down in terms of quality to chase short-term growth.

Chief Executive Officer's Report

continued

As practical barriers to entry to new operations into Lloyd's increase and operational constraints place those trading for large organisations under pressure from management and stock analysts, our timing of entering the market as an independent is looking very good.

We fully intend to capitalise on our timing and the market position that we have built in this short time and look forward to reporting our progress as the Group develops. In the meantime it only remains to thank all shareholders for their support in allowing us to transform our business into a trading entity that can hopefully produce significant value.

Peter Scales

Chief Executive Officer

18 April 2001

Directors and Advisors

Chairman	P M Gillham*
Directors	R W Bailey* (appointed 9 November 2000) E S Hochberg* (appointed 18 December 2000) L A Holder (appointed 1 November 2000) J A Lynch (appointed 1 November 2000) A S Minns* E E Patrick P D Scales A I G C South J M P Welman* *Non-Executive Director
Company Secretary	J A Lynch (appointed 18 December 2000)
Auditors	Mazars Neville Russell 24 Bevis Marks London EC3A 7NR
Bankers	Barclays Bank PLC PO Box 544 54 Lombard Street London EC3V 9EX
Company Number	3372107
Registered Office	51 Eastcheap London EC3M 1JP
Trading Office	Room 917 Lloyd's One Lime Street London EC3M 7HA
Investment Manager	Close Private Asset Management Limited 12 Appold Street London EC2A 2AW

Directors of the Company

Paul Gillham (Born 1931) – Chairman

After gaining a degree at Cambridge University, Paul Gillham joined Unilever in 1958. He became executive chairman of Keith Prowse Group (1970 to 1980), and of a textile manufacturing and marketing group (1984 to 1992). An underwriting member since 1979, he resigned as an unlimited Name in 1997 and converted his capital under Cathedral's first conversion offer. He served as a non-executive director of Wren Underwriting Agencies Limited from March 1993 to December 1997.

Lawrence Holder (Born 1959)

After gaining a law degree at Manchester University in 1981 and being called to the bar in 1982, Lawrence Holder joined the Corporation of Lloyd's in 1983, subsequently joining Bankside Underwriting Agencies Limited in 1985. He was the managing director of Bankside Syndicates Limited from 1990 to 1999 and group company secretary from 1986 to 1999. He was then deputy managing director of Limit Underwriting Limited until joining Cathedral. An underwriting member since 1989, he resigned as an unlimited name in 1998. He serves on a number of Lloyd's bodies including the FSA's Lloyd's Panel. He is Managing Director of Cathedral Underwriting Limited and Deputy Executive Chairman of Cathedral Capital PLC.

John Lynch (Born 1965)

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. He was finance director of both Wren Underwriting Agencies Limited and Wren Capital Management Limited. He was company secretary and group financial controller of BRIT Insurance Holdings PLC from September 1999 until October 2000. He is Chief Financial Officer of Cathedral Capital PLC.

Elvin Patrick (Born 1944)

After gaining a Master 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 (latterly 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. An underwriting member since 1980, he resigned as an unlimited Name in 1998. He is Active Underwriter of syndicate 2010.

Peter Scales (Born 1964)

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 and the Senior Executive Officer of Wren Capital Management Limited. He is Chief Executive Officer of the Enlarged Group.

Anthony South (Born 1943)

Anthony South joined Dashwood Underwriting Agencies Limited in 1971 and helped to build up the agency in its formative years. He was appointed as a director of Wren Underwriting Agencies Limited in 1989 (chairman from 1996-2000), a director of Wren Holdings Limited from 1993 and chairman of Wren Lloyd's Advisers Limited from 1994 until his resignation in November 2000. He was involved in the original placement of one of the first Lloyd's listed corporate capital vehicles subsequently to become Wren Limited of which he was an executive director. An underwriting member since 1976, he resigned as an unlimited Name in 1997 and converted his capital under Cathedral's first conversion offer. He is Non-Executive Chairman of Cathedral Underwriting Limited and Cathedral Capital Management Limited.

Robert Bailey (Born 1934)

Robert Bailey joined NYMAGIC Inc. in June 1999 and became chairman and chief executive officer of that company in December 1999. Previously he was senior vice president of the reinsurance intermediary AON Re, Inc.; President and chief operating officer of the reinsurance intermediary BEP International; and president and chief operating officer of the reinsurance intermediary Nelson Hurst and Bailey and its predecessor companies. He began his insurance career in 1959 with Chubb.

Edward Hochberg (Born 1967)

Edward Hochberg is Senior Vice President-Financial Products for PMA Re, a unit of PMA Capital Corporation; in this capacity, he has responsibility for PMA Re's non-traditional underwriting unit. He has held this position since October 1998. Prior to serving in this capacity, he was Vice President-Finance for PMA Re and PMA Capital Corporation, where he was responsible for the corporate finance and accounting functions. Additionally, he was heavily involved in several special transactions for the PMA companies, outwards reinsurance buying, and the development of non-traditional products for PMA Re. He was previously an audit manager with Deloitte & Touche, LLP in Philadelphia, where he served several insurance industry clients. He has a BS in Economics from the Wharton School of the University of Pennsylvania.

Anthony Minns (Born 1947)

After gaining a law degree at Bristol University, Tony Minns qualified as a Barrister. In August 1974 he joined Morgan Grenfell specialising in mergers and acquisitions, tax and executive pay. In 1984 he joined Bank of America International Limited and in 1986 left to co-found his own company MM&K Limited establishing three teams which covered private client management, senior executive pay and corporate finance. He sold his interest in the company in 1996. He now runs a private client business Pavilion Angel Investors Limited. An underwriting member since 1985, he resigned as an unlimited Name in 1997 and converted his capital under Cathedral's first conversion offer.

Jo Welman (Born 1958)

After graduating in economics from Exeter University in 1979, Jo Welman joined Baring Brothers where he managed several large segregated UK and US public company pension funds and the Barings UK Smaller Companies Unit Trust. In 1989 he was recruited by Rea Brothers to become the managing director of their investment management activities. He resigned as a director of the Rea Brothers Group plc when the banking group was acquired by Close Brothers in August 1999. He is now chairman of BRIT Insurance Holdings PLC and non-executive chairman of the Close FTSE 100 Investment Trust plc. He is also a non-executive director of several private and public companies.

Report of the Directors

The Directors present their report and the audited accounts for the year ended 31 December 2000.

Change of Registered Office

During the year, the Company changed its registered office to 51 Eastcheap, London EC3M 1JP.

Principal Activity and Review of the Business

The Company was originally set up as a Names Conversion Vehicle, with two subsidiaries both authorised by the Council of Lloyd's to operate as corporate underwriting members of Lloyd's. During the year, the Company acquired Cathedral Underwriting Limited (formerly MMO Underwriting Agency Limited), Cathedral Capital Services Limited (formerly Pilotscope Services Limited) and Cathedral Capital Management Limited (formerly Wren Capital Management Limited). Accordingly, now included within the Group are a Lloyd's managing agency, an employment company, a SFA registered advisory company and two corporate members, both of which are underwriting at Lloyd's for the 2001 year of account.

The principal business of Cathedral Underwriting Limited is that of a Lloyd's managing agency which manages a reinsurance orientated syndicate with capacity of circa £81 million for the 2001 year of account. The company also manages a marine syndicate, which has been placed in run-off, having ceased underwriting at the end of the 2000 year of account.

When it was acquired, Cathedral Capital Services Limited had the benefit of a number of employment contracts with underwriters and management staff who now operate and manage the Lloyd's managing agency and other businesses within the Group. Cathedral Capital Services Limited together with Cathedral Underwriting Limited are the joint employing companies within the Group.

Cathedral Capital Management Limited advises the Group on its underwriting participations and is authorised by the SFA to advise third party clients on their insurance activities.

The Group's two corporate members underwrite in aggregate circa £40 million of capacity for the 2001 year of account. Of this capacity, £20 million supports syndicate 2010, which is managed by Cathedral Underwriting Limited.

A detailed review of the activities and results of the Group is included in the Chairman's Statement and Chief Executive Officer's Report.

Results and Dividends

The results attributable to shareholders for the year and the transfer from reserves are shown on page 19.

There have been a number of changes to the accounting policies, that were adopted by the Group in prior years, as a result of the Group changing to a trading entity. In addition a number of new accounting policies have also been adopted by the Group. Details of these policies are set out in Note 1 to the Financial Statements.

In October 2000, those B shareholders who first made their funds at Lloyd's (£7.2 million) inter-available for the 1998 year of account paid up their Loan Stock Notes in full and received A convertible ordinary shares. The Group's funds at Lloyd's, which were predominately provided by way of inter-available funds, are now substantially provided in the form of cash and investments. The B shareholders who first made their funds at Lloyd's (£0.81 million) inter-available for the 1999 year of account will be required to convert their Loan Stock Notes later this year.

The Directors do not intend to declare a dividend for the year (1999: £nil).

Future Developments

Details of future plans for the Group are set out in the Chairman's Statement and Chief Executive Officer's Report on pages 2 to 6.

Share Capital

At an Extraordinary General Meeting of Cathedral Capital PLC held on 19 October 2000 a number of special resolutions were passed that changed the authorised and issued share capital of the Company. The following resolutions were passed:

The issued 5,825,241 A ordinary shares of 25p were re-designated as A convertible ordinary shares of 25p each;

8,050,076 A ordinary shares of 25p each, which were authorised but not yet issued, were re-designated as C convertible ordinary shares of 25p each;

20,000 A ordinary Shares of 25p each, which were authorised but not issued, were re-designated as 5,000,000,000 deferred shares of 0.0001p each; and

The balance of the authorised A ordinary shares, comprising of 386,104,683 A ordinary shares of 25p each, were re-designated as A convertible ordinary shares of 25p each.

The following authorised but unissued shares were issued during the period:

On 19 October 2000, 7,200,000 A convertible ordinary 25p shares were issued to the Loan Stock holders who converted under the first inter-availability offer in 1997. These shares were valued at £1 per share;

On 1 November 2000, 7,363,507 C convertible ordinary 25p shares were issued in consideration for all the B ordinary £1 shares of Cathedral Capital Services Limited;

On 1 November 2000, 253,492 A convertible ordinary 25p shares were issued in consideration for all the issued A ordinary £1 shares in Cathedral Capital Services Limited;

On 9 November 2000, 1,841,942 A convertible ordinary 25p shares were issued to MMO EU Limited in consideration for the entire issued share capital of Cathedral Underwriting Limited;

On 9 November 2000, 1,598,118 A convertible ordinary 25p shares were issued to MMO EU Limited in consideration for the provision of a five year funding agreement to syndicate 2010; and

On 13 December 2000, 12,253,720 A convertible ordinary 25p Shares were issued to all of those shareholders who subscribed to the Offer of Cathedral Capital PLC as per the prospectus dated 21 August 2000. These shares were all issued at £1 each.

Directors

The Directors who held office at the year end are shown on page 7. This includes all those Directors who were appointed during the year. Messrs Berkeley and Incedon both resigned during the year.

Directors' Interest in Transactions

Messrs Scales, Lynch, Holder and Patrick all had an interest in the Company's acquisition of Cathedral Capital Services Limited, which was completed on 1 November 2000. All of these were shareholders and employees of Cathedral Capital Services Limited.

Mr Scales sold 100 B ordinary £1 shares in Cathedral Capital Services Limited to the Company for the consideration of 736,351 C convertible ordinary 25 pence shares in the Company, at an equivalent value of 44 pence per share. He did not participate in the Board's deliberations concerning the acquisition of Cathedral Capital Services Limited;

Report of the Directors

continued

Mr Lynch sold 100 B ordinary £1 shares in Cathedral Capital Services Limited to the Company for the consideration of 736,351 C convertible ordinary 25 pence shares in the Company, at an equivalent value of 44 pence per share. He did not participate in the Board's deliberations concerning the acquisition of Cathedral Capital Services Limited as he was not appointed a Director of the Company until 1 November 2000;

Mr Holder sold 100 B ordinary £1 shares in Cathedral Capital Services Limited to the Company for the consideration of 736,351 C convertible ordinary 25 pence shares in the Company, at an equivalent value of 44 pence per share. He did not participate in the Board's deliberations concerning the acquisition of Cathedral Capital Services Limited as he was not appointed a Director of the Company until 1 November 2000; and

Mr Patrick sold 100 B ordinary £1 shares in Cathedral Capital Services Limited to the Company for the consideration of 736,351 C convertible ordinary 25 pence shares in the Company, at an equivalent value of 44 pence per share. Mr Patrick also sold 253,492 A ordinary £1 shares in Cathedral Capital Services Limited to the Company for the consideration of 253,492 A convertible ordinary 25 pence shares in the Company, at an equivalent value of 44 pence per share. He did not participate in the Board's deliberations concerning the acquisition of Cathedral Capital Services Limited.

Mr Bailey was interested in the Group's acquisition of Cathedral Underwriting Limited, which was completed on 9 November 2000. He was the chairman and a shareholder of NYMAGIC Inc., the ultimate parent company of MMO EU Limited, the company which sold Cathedral Underwriting Limited to the Group. The nature of his interest is as follows:

MMO EU Limited sold 960,001 ordinary A £1 shares and 3,500 ordinary B £0.01 shares in Cathedral Underwriting Limited to the Group for the consideration of 1,841,942 A convertible ordinary 25p shares in the Company, at an equivalent value of 44 pence per share. He did not participate in the Board's deliberations concerning the acquisition of Cathedral Capital Services Limited as he was not appointed a Director of the Company until 9 November 2000; and

1,598,118 A convertible ordinary 25p shares in the Company were issued to MMO EU Limited in consideration for MMO UK Limited entering into a five-year funding agreement to syndicate 2010. These shares were issued at an equivalent value of 25 pence per share.

A number of Directors were interested in various contracts entered into by the Group during the year.

Messrs South and Scales were directors of BRIT Group Services Limited. Messrs Berkeley and Lynch were, and Mr Welman is, an employee of that company. BRIT Group Services Limited was the immediate holding company of Wren Underwriting Agencies Limited, the Group's members' agent for the 2000 year of account. Wren Underwriting Agencies Limited was paid circa £90,000 during the year to 31 December 2000 under the terms of this contract.

The Company entered into a contract with Cathedral Capital Management Limited, prior to its acquisition by the Group, under the terms of which the Company paid £25,000 to Cathedral Capital Management Limited. Messrs South and Scales were directors of BRIT Group Services Limited, Messrs Berkeley and Lynch were, and Mr Welman is, an employee of that company. BRIT Group Services Limited was the immediate holding company of Cathedral Capital Management Limited at that time.

Mr Minns advised the independent Directors of the Company on the acquisitions, by the Company, of Cathedral Capital Services Limited, Cathedral Capital Management Limited and Cathedral Underwriting Limited, and also on the capital restructuring of the Company. He received a fee of £30,000 with respect to this advice.

The Company entered into an agreement to underlease, dated 16 August 2000, between BRIT Group Services Limited, Wren Underwriting Agencies Limited and the Company in respect of the premises occupied by the Group on 9th Floor of Lloyd's 1986 building. Mr South was a director of BRIT Group Services Limited, Messrs Berkeley and Lynch were, and Mr Welman is, an employee of that company.

MMO UK Limited, a wholly owned subsidiary of the NYMAGIC group, has entered into a managing agency agreement with Cathedral Underwriting Limited. Under the terms of this agreement Cathedral Underwriting Limited receives a fee of 0.65 percent of capacity and a profit commission of 17.5 percent. In addition there is a run-off fee of £75,000 payable in respect of syndicate 1265. Mr Bailey is interested in this contract through his shareholding and chairmanship of NYMAGIC Inc.

PMA Re Corporate Capital Limited has entered into a managing agency agreement with Cathedral Underwriting Limited. Under the terms of this agreement Cathedral Underwriting Limited receives a fee of 0.65 percent of capacity and a profit commission of 17.5 percent. Mr Hochberg is a director of PMA Re Corporate Capital Limited.

Directors' Interests

The interests of the Directors and their families in the share capital and loan stock of the Company are set out below:

	31 December 2000		31 December 1999*		
	A Convertible Ordinary Shares	C Convertible Ordinary Shares	A Ordinary Shares	B Ordinary Shares	Loan Stock
P M Gillham	822,056	–	123,556	138	690,000
R W Bailey	–	–	–	–	–
G R Berkeley	–	–	13,687	5	25,000
E S Hochberg	–	–	–	–	–
L A Holder	–	736,351	–	–	–
J D Incedon	–	–	90,280	30	150,000
J A Lynch	1,500	736,351	1,500	–	–
A S Minns	155,280	–	21,780	16	80,000
E E Patrick	2,253,492	736,351	–	–	–
P D Scales	10,000	736,351	10,000	–	–
A I G C South	154,402	–	23,902	15	75,000
J M P Welman	–	–	–	–	–

*holding at 31 December 1999 or at date of appointment if later.

The NYMAGIC group is the beneficial holder of 3,740,060 A convertible ordinary 25 pence shares in the Company. Mr Bailey has an interest in these shares through his shareholding in the NYMAGIC group.

The PMA group is the beneficial holder of 10,000,000 A convertible ordinary 25 pence shares in the Company. Mr Hochberg has an interest in these shares through his shareholding in the PMA group.

All of the Directors' interests are unchanged at the date of this report.

Report of the Directors

continued

Directors' Remuneration

Amounts earned by Directors during the year ended 31 December 2000 were as follows:

	31 December 2000				31 December
	Fees & Salaries £'000	Benefits in kind £'000	Pension £'000	Total £'000	1999 Total £'000
P M Gillham	8	–	–	8	5
L A Holder	18	2	3	23	–
J A Lynch	18	2	2	22	–
E E Patrick	18	2	8	28	–
P D Scales	18	2	3	23	–
A I G C South	6	1	2	9	–
R W Bailey	–	–	–	–	–
E S Hochberg	–	–	–	–	–
A S Minns	8	–	–	8	–
J M P Welman	–	–	–	–	–
G R Berkeley	10	–	–	10	–
J D Incedon	5	–	–	5	5
	109	9	18	136	10

Related Parties

PMA Insurance Capital Inc. is a related party of the Company through its shareholding and its Director on the Board of the Company. This Company acquired circa 27% of the Cathedral Group through the open offer for shares in 2000. NYMAGIC Inc., and its subsidiary company MMO EU Limited, are both deemed to be related parties to the Company through their shareholdings and NYMAGIC Inc.'s right to appoint a Director to the Board of the Company.

Approved Share Option Scheme 2000 ("the approved scheme")

The approved scheme is a discretionary share option scheme, which was approved on 14 February 2001 by the Inland Revenue under Paragraph 1, Schedule 9 of the Income and Corporation Taxes Act 1988. Options may only be granted within certain periods and no option can be granted more than ten years after the date of adoption of the approved scheme.

The Board will determine the price payable for each share under an option at the time of grant of the option. So long as the Company remains unquoted, the Share Valuation Division of the Inland Revenue will agree the price of an option in advance on the grant date (or such other day as may be agreed with the Inland Revenue). The aggregate market value of the shares (determined at the time of grant of the option) which may be acquired in pursuance of options granted to a person other than of the approved scheme may not exceed £30,000.

Options granted under the approved scheme may only be exercised within certain qualifying periods, such periods not to commence prior to three years after the grant of the options. Options cannot be exercised after ten years from the date of grant of the option.

Share Transfer Market

At the Extraordinary General Meeting of the Company held on 19 October 2000, shareholders approved, by special resolution, the Rules of the Cathedral Capital PLC Share Transfer Market.

This share transfer market will be in operation for the two weeks immediately preceding the Annual General Meeting. Clyde & Co have agreed to administer the market on behalf of the Company. All purchase and sale applications must be returned to Clyde & Co, the Company's legal advisors, by the close of business on 27 June 2001. The results of this market will be notified to shareholders at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held on 28 June 2001 at The City of London Club, 19 Old Broad Street, London EC2N 1DS.

All Directors offer themselves for election at the first General Meeting following their appointment. Accordingly, Robert Bailey, Edward Hochberg, Lawrence Holder and John Lynch, all of whom were appointed Directors of the Company during the year, retire and offer themselves for election at the same meeting.

Employee Involvement

The Company is committed to involve 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.

Disabled Employees

It is the Group's policy to give full consideration to suitable applications for employment by disabled persons.

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 appropriate.

Creditors Payment Policy

It is the Company's policy to settle all expenses on a timely basis in the ordinary course of business. At 31 December 2000, other creditors of the Company had an average 5 days (1999: 5 days) outstanding.

Donations

During the year the Group made no charitable donations (1999: £nil).

Auditors

Mazars Neville Russell, who replaced Littlejohn Fraser as auditors of the Company during the year, have expressed their willingness to continue in office and a resolution will be proposed at the forthcoming Annual General Meeting to re-appoint them as auditors of the Company.

Going Concern

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

Report of the Directors

continued

Directors' Responsibilities

The Directors are required by law to prepare accounts, which give a true and fair view of the state of affairs of the Company at the end of the financial period and of the profit and loss of the Company for the period. The accounts must be prepared in compliance with the requirements of the Companies Act 1985 and with applicable Accounting Standards. In addition, the Directors are required:

- to select suitable accounting policies and apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to state whether applicable Accounting Standards have been followed; and
- to prepare accounts on a going concern basis unless it is inappropriate to assume the Company will continue in business.

The Directors confirm that the accounts comply with these requirements.

The Directors are also responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

John Lynch

Company Secretary

18 April 2001

Report of the Auditors

Independent Auditors' Report to the Shareholders of Cathedral Capital PLC

We have audited the financial statements of Cathedral Capital PLC for the year ended 31 December 2000 which comprise primary financial statements such as the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the Chairman's Statement, the Chief Executive Officer's Report and the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2000 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

MAZARS NEVILLE RUSSELL

Chartered Accountants and Registered auditors

24 Bevis Marks, London EC3A 7NR

18 April 2001

**Consolidated Profit and Loss Account
Technical Account – General Business
For the year ended 31 December 2000**

	Notes	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 (Restated) £'000
Earned premiums, net of reinsurance:			
Gross premiums written	3	20,553	22,144
Outward reinsurance premiums		(4,001)	(3,519)
Net premiums written		16,552	18,625
Allocated investment return transferred from the non-technical account		1,146	123
Claims paid:			
Gross amount	3	(10,818)	(5,190)
Reinsurers' share		4,013	1,835
		(6,805)	(3,355)
Change in the provisions for claims:			
Gross amount	3	(11,837)	(20,300)
Reinsurers' share		2,541	6,636
		(9,296)	(13,664)
Claims incurred, net of reinsurance		(16,101)	(17,019)
Net operating expenses	4	(3,803)	(3,545)
Balance transferred to the non-technical account		(2,206)	(1,816)

The notes on pages 24 to 48 form part of these accounts.

Consolidated Profit and Loss Account
Non-Technical Account
For the year ended 31 December 2000

	Notes	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 (Restated) £'000
Balance on technical account for general business		(2,206)	(1,816)
Net investment return	5	1,644	248
Allocated investment return transferred to the technical account for general business	6	(1,146)	(123)
Fees	7	38	–
Other income	8	167	214
Other expenses		(862)	(63)
Loss on ordinary activities before tax:		(2,365)	(1,540)
Continuing operations – ongoing		(2,168)	(1,540)
– acquisitions		(197)	–
Tax credit/(charge) on loss on ordinary activities	12	1,330	(132)
Loss on ordinary activities after tax		(1,035)	(1,672)
Dividends		–	–
Transfer from reserves		(1,035)	(1,672)
Basic earnings per share	14	(8.8p)	(28.7p)
Diluted earnings per share	14	(5.7p)	(12.2p)
Operating earnings per share (diluted)	14	(6.0p)	(12.1p)

The inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is deemed not to be a departure from the unmodified historical cost basis of accounting. Accordingly a separate note of historical cost profits and losses is not given.

No Statement of Total Recognised Gains and Losses is provided as there were no recognised gains or losses during the period, other than the loss for the period.

The notes on pages 24 to 48 form part of these accounts.

Consolidated Balance Sheet
As at 31 December 2000

	Notes	As at 31 December 2000			As at 31 December 1999		
		Corporate £'000	Syndicate £'000	Total £'000	Corporate (Restated) £'000	Syndicate (Restated) £'000	Total (Restated) £'000
Intangible assets:							
Syndicate participations	15	1,305	–	1,305	1,235	–	1,235
Goodwill	15	3,246	–	3,246	–	–	–
Negative goodwill	15	(43)	–	(43)	–	–	–
		4,508	–	4,508	1,235	–	1,235
Investments:							
Financial investments	16	2,786	11,020	13,806	2,893	4,000	6,893
Deposits with Ceding Undertakings		–	13	13	–	7	7
		2,786	11,033	13,819	2,893	4,007	6,900
Reinsurers' share of technical provisions:							
Claims outstanding		–	7,775	7,775	–	7,344	7,344
Debtors:							
Arising out of direct insurance operations		–	4,696	4,696	–	3,511	3,511
Arising out of reinsurance operations		–	12,486	12,486	–	10,022	10,022
Other	18	1,468	536	2,004	3	268	271
		1,468	17,718	19,186	3	13,801	13,804
Other Assets:							
Tangible assets	19	342	–	342	–	–	–
Cash at bank and in hand		20,959	2,382	23,341	2,210	534	2,744
Other		–	773	773	–	267	267
		21,301	3,155	24,456	2,210	801	3,011
Prepayments and accrued income	20	1,934	119	2,053	6	59	65
Total assets		31,997	39,800	71,797	6,347	26,012	32,359

The notes on pages 24 to 48 form part of these accounts.

Consolidated Balance Sheet As at 31 December 2000

continued

	Notes	As at 31 December 2000			As at 31 December 1999		
		Corporate £'000	Syndicate £'000	Total £'000	Corporate (Restated) £'000	Syndicate (Restated) £'000	Total (Restated) £'000
Capital and reserves:							
Called up share capital	22	9,084	–	9,084	1,457	–	1,457
Share premium	23	19,145	–	19,145	4,336	–	4,336
Merger reserve	23	1,447	–	1,447	–	–	–
Profit and loss reserve	23	(2,476)	–	(2,476)	(1,441)	–	(1,441)
Equity shareholders' funds	24	27,200	–	27,200	4,352	–	4,352
Technical provisions:							
Claims outstanding – gross		–	37,131	37,131	–	23,755	23,755
Provision for losses foreseen on open years		–	3,283	3,283	–	1,833	1,833
		–	40,414	40,414	–	25,588	25,588
Provisions for other risks and charges:							
Provision for deferred taxation		–	–	–	–	–	–
Other provisions		–	–	–	–	–	–
		–	–	–	–	–	–
Creditors:							
Arising out of direct insurance operations		–	637	637	–	350	350
Arising out of reinsurance operations		–	1,632	1,632	–	1,189	1,189
Other creditors	21	4,504	(2,971)	1,533	1,950	(1,172)	778
		4,504	(702)	3,802	1,950	367	2,317
Accruals and deferred income		293	88	381	45	57	102
Total liabilities		31,997	39,800	71,797	6,347	26,012	32,359

The notes on pages 24 to 48 form part of these accounts.

**Company Balance Sheet
As at 31 December 2000**

	Notes	31 December 2000 £'000	31 December 1999 £'000
Fixed asset investments:			
Listed investments	16	2,786	2,893
Investments in subsidiary undertakings	17	2,014	–
		4,800	2,893
Current assets:			
Debtors	18	3,480	972
Prepayments and accrued income	20	530	6
Cash at bank		20,223	2,210
		24,233	3,188
Creditors: Amounts falling due within one year			
Creditors	21	(171)	–
Accruals and deferred income		(167)	(45)
		(338)	(45)
Net current assets		23,895	3,143
Total assets less current liabilities		28,695	6,036
Provisions		–	(67)
Net assets		28,695	5,969
Capital and reserves:			
Called-up share capital	22	9,084	1,457
Share premium	23	19,145	4,336
Profit and loss reserve	23	466	158
Investment Revaluation Reserve	23	–	18
Equity shareholders' funds	24	28,695	5,969

The financial statements on pages 18 to 48 were approved by the Board of Directors on 18 April 2001 and signed on its behalf by:

Peter Scales

Chief Executive Officer

John Lynch

Chief Financial Officer

The notes on pages 24 to 48 form part of these accounts.

Consolidated Cash Flow Statement For the year ended 31 December 2000

	Notes	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 (Restated) £'000
Net cash inflow from operating activities	29	(513)	208
Returns on investment and servicing of finance:			
Interest paid		-	-
Taxation:			
Corporation tax paid		(153)	(194)
Capital expenditure:			
Purchase of syndicate capacity		(542)	(222)
Purchase of tangible fixed assets		(337)	-
Proceeds from disposal of syndicate capacity		323	514
Proceeds from disposal of tangible fixed assets		-	-
Total capital expenditure		(556)	292
Acquisitions and disposals:			
Acquisition of Cathedral Underwriting Limited		(147)	-
Net cash acquired with Cathedral Underwriting Limited		533	-
Acquisition of Cathedral Capital Services Limited		(198)	-
Net cash acquired with Cathedral Capital Services Limited		101	-
Acquisition of Cathedral Capital Holdings Limited		(2)	-
Total acquisition and disposals		287	-
Financing:			
Issue of shares in respect of conversion loan notes		7,200	-
Issue of shares in respect of rights issue		12,253	-
Total financing		19,453	-
Increase in cash in the period		18,518	306
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings		1,663	(31)
Net portfolio investments	32	16,855	337
Increase in cash in the period		18,518	306

The consolidated cashflow statement excludes syndicate cashflows and cash held within Lloyd's premium trust funds by syndicates on behalf of the Group's underwriting subsidiaries.

The notes on pages 24 to 48 form part of these accounts.

Notes to the Financial Statements For the year ended 31 December 2000

I Basis of Preparation of Financial Statements and Accounting Policies

I Basis of Preparation of Financial Statements

a) Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified by the revaluation of investments.

The financial statements of the Group have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Businesses issued by the Association of British Insurers in November 1998 (the "ABI SORP") have been adopted.

The balance sheet of the Company has been prepared in accordance with Schedule 4 to the Companies Act 1985. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act.

b) Change in accounting policy – unrealised gains on investments

In adopting the recommendations of the ABI SORP, the Group now books the movement in unrealised gains/losses on investments to the profit and loss account rather than to the investment revaluation reserve. The prior year results have been restated to reflect this.

c) Change in accounting policy – treatment of tax credits on dividend income

In previous years, the Group has accounted for dividend income gross of tax credits with the tax credits disclosed within tax. Following the introduction of Financial Reporting Standard 16 – "Current Tax", the Group now accounts for dividend income net of tax credits. The prior year results have been restated to reflect this.

d) Re-presentation of financial statements – recognising underwriting losses on the balance sheet

In prior years, any underwriting losses on open years have only been included on the syndicate balance sheet. As this is an expected liability to the Group, such losses are now booked to the corporate balance sheet. A corresponding debtor is booked to the syndicate balance sheet reflecting the funds payable from the corporate members to pay for the losses. There is no impact on the Consolidated Balance Sheet. The comparative figures at 31 December 1999 have been re-presented in a consistent manner.

e) 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 members for the year ended 31 December 2000.

Companies acquired during the year, as set out in note 26, have been included in the Group's accounts using the acquisition method of accounting. Accordingly, the Group's profit and loss account and cashflow statement include the results and cashflows of those companies from the date of acquisition.

There are some new accounting policies for the Enlarged Group in addition to those previously adopted by Cathedral Capital PLC. These accounting policies are explained below.

II Accounting Policies – Syndicates

a) Recognition of insurance transactions

Preparing accounts in accordance with Section 255 of, and Schedule 9A to, the Act has meant the Group recognises its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ("the syndicates").

For each such syndicate, the Group's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the Group's Technical Account. Similarly, the Group's proportion of the syndicate's assets and liabilities has been reflected in its balance sheet (under the column heading 'syndicate'). Syndicate assets are held subject to the trust deeds for the benefit of the Group's insurance creditors.

The proportion referred to above is calculated by reference to the Group's participation as a percentage of the syndicate's total capacity.

For the 2000 and prior years of account, the Group has delegated sole management and control of its underwriting through each syndicate to its members' agent who dealt with the managing agent of the syndicate ("the managing agent"). The managing agents of the syndicates are therefore responsible for determining the insurance transactions to be recognised by the Group. The only exception to this rule is the level of provision for outstanding claims on the open years of account of syndicates. These provisions are determined by the Directors.

For the 2001 and subsequent years of account, advice on the Group's syndicate participations will be provided by the Group's advisory company.

b) Sources of data

The financial information used to compile the Consolidated Technical Account and the syndicate column of the Consolidated Balance Sheet is based on returns prepared for this purpose by the managing agents of the syndicates ("the returns"). These returns have been audited by the syndicate auditors and are based on the audited syndicate returns submitted to Lloyd's and the audited annual reports to syndicate members. This base data has been adjusted as necessary to reflect the differences in preparation between syndicate annual reports and financial statements in accordance with Schedule 9A to the Companies Act 1985.

The format of the returns has been established by Lloyd's and Lloyd's is responsible for collating the data at a syndicate level and analysing it into the Group's corporate members' results. The returns cover the twelve months to 31 December 2000 with the comparative period including the returns for the twelve months to 31 December 1999. No adjustment has been made to the returns to reflect the fact that the Group's comparative accounting period for the nine months to 31 December 1999 was not of the same length as that covered by the returns.

c) Basis of accounting for underwriting results

For syndicates managed by external managing agents, all classes of insurance business written are accounted for on a three year funded basis because it is the basis most similar to that followed by the syndicates. The nature of the information managing agents can make available is currently insufficient for the Group to make reliable estimates of the necessary technical provisions on an annual basis of accounting. Under the three year funded basis followed by the Group, the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period ('the underwriting year') is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Profits are only recognised when declared by the syndicate for the year of account after thirty-six months.

If an underwriting year is expected to make a loss, the loss is recognised as soon as it is foreseen by increasing the technical provision to make it sufficient to meet present liabilities and anticipated future claims and expenses.

d) Premiums

Premiums written comprise the total premiums receivable for the whole period of cover provided by the contracts incepting during the financial year, together with any adjustments relating to the prior year. Premiums are shown gross of commission payable to intermediaries but exclude insurance premium tax.

Notes to the Financial Statements For the year ended 31 December 2000

continued

Gross premiums written by a syndicate may also include the reinsurance of other syndicates on which the Group participates. No adjustments have been made to gross premiums written or outward reinsurance premiums (or to gross and reinsurers' claims) to remove this intersyndicate reinsurance as there is insufficient information available.

e) Claims incurred

Claims incurred include the costs of claims handling expenses but are net of recoverable amounts arising out of subrogation or salvage. Claims incurred comprise amounts paid or provided in respect of claims occurring during the current year, together with the amount by which settlement or reassessment of claims from prior years differs from the provision at the beginning of the year.

f) Provision for claims

Provision is made for claims incurred but not paid in respect of events up to 31 December of the appropriate year. The provision includes the amounts required to ensure that no profit is recognised before the end of the third year under the three year funded basis of accounting.

The provision is increased as appropriate by the Directors to the extent that deficits are anticipated on underwriting years at the twelve and twenty-four months stage or on underwriting years not closed at the thirty-six months stage at the balance sheet date.

This additional provision is determined by Directors following discussions with the Group's advisory company.

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.

g) 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.

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 technical account 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.

h) 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.

i) 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 Group's Technical Account, as an integral part of the Group's underwriting business.

j) *Investment expenses and charges*

Investment expenses and charges comprise investment management expenses.

k) *Net operating expenses*

Operating expenses have been charged to the underwriting year for which they were incurred. These include the Group'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 Profit and Loss Account in the year in which the underwriting result is accounted for.

l) *Foreign currencies*

Transactions in foreign currencies other than sterling, US dollars and Canadian dollars are translated at the rate of exchange ruling at the date the transaction is process. Unless otherwise stated transactions in US dollars and Canadian dollars and 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 technical account.

m) *Taxation*

The Group 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.

The Inland Revenue 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, none of the syndicate taxable results have been agreed. Any adjustments that may be necessary to the tax provisions established by the Group as a result of Inland Revenue agreement of individual syndicate taxable results will be reflected in the financial statements of subsequent periods.

Following new legislation, the underwriting result for tax purposes will be adjusted to reflect discounting of reserves. This will apply to underwriting results declared from 2001 onwards and will increase the tax charge accordingly.

III Accounting Policies – Corporate

a) *Investment income and expenses*

Dividends and interest on listed investments (net of any related tax credits) are taken into account by reference to the date the security becomes 'ex-dividend'.

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 current profit and loss account.

b) *Agency income*

Agency fees are recognised in the period to which the fee relates. Profit commission is recognised on an annual accounting basis.

c) *Other income*

Other income includes:

Gains made on disposal of syndicate participation rights (net of related costs); and

Amounts charged to managed syndicates in respect of depreciation arising on fixed assets used by those syndicates.

Notes to the Financial Statements For the year ended 31 December 2000

continued

d) *Expenses*

All expenses are accounted for on an accruals basis. Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost or proceeds of the investment.

e) *Leased assets*

Rentals in respect of assets held under operating leases are charged to the profit and loss account as incurred.

f) *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 Profit and Loss Account.

g) *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.

h) *Investments*

The value of fixed asset investments is stated in the financial statements on the following basis:

Listed investments are stated at closing middle market price on recognised stock exchanges; and

Unlisted investments and subsidiary undertakings are stated at cost or Director's valuation.

i) *Goodwill*

Goodwill arising on the acquisition of companies or businesses is capitalised and amortised on a straight line basis over the period which, in the Directors' opinion, is its useful economic life.

j) *Syndicate participation rights*

Where the Group has purchased the right to participate on syndicates, the cost is capitalised and amortised in equal annual instalments over three years. Amortisation commences at the end of the third year from the start of the Group's first underwriting year on the syndicate.

If, at any time, the Director's become aware of a permanent diminution in the value of the Group'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 Profit and Loss Account in the same accounting period.

k) *Deferred taxation*

Deferred tax is provided in respect of the tax effect of all timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future, at the rates of tax expected to apply when the timing differences reverse. One such timing difference is that between when underwriting results are reported for accounting purposes and when they are declared for tax purposes. Another such timing difference is that between when unrealised investment gains/losses are reported for accounting purposes and when they are declared for tax purposes.

l) *Tangible fixed assets*

Tangible fixed assets are stated at cost. Depreciation is calculated so as to write off the cost over their estimated useful economic lives on a straight line basis. The estimated useful economic lives are as follows:

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

m) *Investment revaluation reserve*

Increases and decreases in the valuation of investments held at the year-end are charged to this reserve in the Company to the extent that the reserve remains positive. Any further decreases are charged to the Non-Technical Profit and Loss Account.

2 Profit & Loss Account

	Year ended 31 December 2000			Nine months ended 31 December 1999 (restated) £'000
	Ongoing operations	Acquired operations	Total	
	£'000	£'000	£'000	
Balance on technical account for general business	(2,206)	–	(2,206)	(1,816)
Net investment return	1,639	5	1,644	248
Allocated investment return transferred to the technical account for general business	(1,146)	–	(1,146)	(123)
Fees	–	38	38	–
Other income	167	–	167	214
Other expenses	(622)	(240)	(862)	(63)
Loss on ordinary activities before tax	(2,168)	(197)	(2,365)	(1,540)

Acquired operations consists of the results of Cathedral Underwriting Limited from 9 November 2000 and Cathedral Capital Services Limited (incorporating Cathedral Capital Management Limited) from 1 November 2000. All items in the technical account formed part of the ongoing operations of the Group.

Notes to the Financial Statements
For the year ended 31 December 2000

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3 Segmental Information

(i) Underwriting

	Year ended 31 December 2000				
	Gross Premiums Written £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Business:					
Accident & Health	478	(655)	(128)	63	(242)
Motor – third party liability	1,276	(1,643)	(294)	43	(618)
Motor – other classes	1,409	(1,688)	(358)	(9)	(646)
Marine, Aviation & Transport	1,362	(741)	(279)	(362)	(20)
Fire and other Damage to Property	2,360	(2,803)	(589)	418	(614)
Third Party Liability	4,228	(3,908)	(1,093)	69	(704)
Credit and Suretyship	235	(188)	(52)	8	3
Legal Expenses	51	(37)	(13)	(1)	–
Other	240	(9)	(130)	(26)	75
Total Direct	11,639	(11,672)	(2,936)	203	(2,766)
Reinsurance Business:					
Reinsurances Acceptances	4,503	(5,172)	(990)	319	(1,340)
Reinsurance to Close	4,411	(5,811)	–	2,154	754
Total Reinsurance	8,914	(10,983)	(990)	2,473	(586)
Total	20,553	(22,655)	(3,926)	2,676	(3,352)

Included in gross claims incurred is total reinsurance to close payable of £8,166,530.

	Nine months ended 31 December 1999				
	Gross Premiums Written £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Business:					
Accident & Health	474	(391)	(158)	32	(43)
Motor – third party liability	1,012	(952)	(195)	(1)	(136)
Motor – other classes	1,404	(1,313)	(338)	(36)	(283)
Marine, Aviation & Transport	1,548	(2,429)	(344)	621	(604)
Fire and other Damage to Property	1,943	(2,487)	(548)	608	(484)
Third Party Liability	3,186	(2,787)	(813)	379	(35)
Credit and Suretyship	127	(168)	(31)	46	(26)
Legal Expenses	32	(26)	(10)	5	1
Other	180	(216)	(45)	71	(10)
Total Direct	9,906	(10,769)	(2,482)	1,725	(1,620)
Reinsurance Business:					
Reinsurances Acceptances	4,366	(4,617)	(1,063)	901	(413)
Reinsurance to Close	7,872	(10,104)	–	2,326	94
Total Reinsurance	12,238	(14,721)	(1,063)	3,227	(319)
Total	22,144	(25,490)	(3,545)	4,952	(1,939)

Included in gross claims incurred is total reinsurance to close payable of £nil.

	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 £'000
Gross premiums in respect of direct business written in:		
United Kingdom	12,201	8,989
Other EU Member States	152	17
Rest of World	(714)	900
	11,639	9,906

Notes to the Financial Statements
For the year ended 31 December 2000

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(ii) *Movement in provisions for losses foreseen on open years for the year ended 31 December 2000*

	Balance at 1 January £'000	Amounts Utilised £'000	Additional Provisions £'000	Balance at 31 December £'000
1998 Year of Account	963	(753)	115	325
1999 Year of Account	870	–	1,401	2,271
2000 Year of Account	–	–	687	687
Total	1,833	(753)	2,203	3,283

4 Net operating expenses

	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 £'000
Acquisition costs	3,074	2,610
Administrative expenses	813	635
(Profit)/loss on exchange	(545)	(67)
Names' personal expenses on Lloyd's syndicates	461	367
Total	3,803	3,545

5 Net investment return

	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 (restated) £'000
Investment return on underwriting investments:		
Investment income	821	177
Realised investment gains/(losses)	169	(68)
Investment expenses	(18)	(3)
Net investment return on underwriting investments	972	106
Investment return on other investments:		
Investment income	576	152
Realised gains/(losses)	239	28
Unrealised gains/(losses)	(114)	(19)
Investment management fees	(29)	(19)
Interest payable	–	–
Net investment return on other investments	672	142
Net investment return	1,644	248

6 Investment return transferred to technical account

The transfer to the technical account represents the estimated long-term rate of return applied to the funds at Lloyd's supporting the underwriting and the actual investment return of the syndicates on which the Group participated during the year.

	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 £'000
Long term rate of return applied to funds at Lloyd's	174	17
Actual investment return on syndicate underwriting	972	106
Investment return transferred to technical account	1,146	123

Funds at Lloyd's

The average funds at Lloyd's balance was as follows:

Cash	3,477	349
Comparison of actual rate of return to long term rate of return:		
Long term rate of return	174	17
Actual rate of return	234	–
Effect of short term fluctuations over the period	60	(17)
The following long-term rates of return (annualised) were used:		
Cash	5.0%	5.0%

7 Fees

	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 £'000
Managing agency fees	38	–

8 Other income

	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 £'000
Profit on sale of syndicate capacity	15	195
Charge to managed syndicates for use of fixed assets	152	–
Other income	–	19
	167	214

Notes to the Financial Statements For the year ended 31 December 2000

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9 Expenses

	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 £'000
Loss on ordinary activities before taxation is stated after charging:		
Operating lease charges – rent	5	–
Depreciation of tangible fixed assets	161	–
Amortisation of goodwill	54	–
Amortisation of syndicate capacity	164	–
Auditors' remuneration:		
Audit services	27	12
Other services	20	–

10 Employees

	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 £'000
The aggregate payroll costs borne by the Group were as follows:		
Salaries	106	–
Social security costs	12	–
Pension costs	18	–
	136	–

The average number of people (excluding Non-Executive Directors) employed by the Group during the year was 4 (31 December 1999: None). As at 31 December 2000, the number of people (excluding Non-Executive Directors) employed by the Group was 26.

11 Directors' Emoluments

Details, for each Director, of remuneration and pension entitlements are set out on page 14.

12 Tax on loss on ordinary activities

	Year ended 31 December 2000 £'000	Nine months ended 31 December 1999 (restated) £'000
Corporation tax at 30%	98	131
Deferred tax:		
underwriting losses	(1,264)	–
unrealised investment gains/(losses)	(29)	–
timing differences on losses	(135)	–
Overseas tax	–	1
Tax (credit)/charge	(1,330)	132

13 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £308,630 (31 December 1999: £39,001). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account for the Company has been included in these financial statements.

Notes to the Financial Statements For the year ended 31 December 2000

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14 Earnings per share

	Year ended 31 December 2000	Nine months ended 31 December 1999 (restated)
The basic earnings per share is calculated as follows:		
Loss for the period (£'000)	(1,035)	(1,672)
Basic weighted average number of shares (no.)	11,810,701	5,825,241
Basic earnings per share (p)	(8.8)	(28.7)
The diluted earnings per share is calculated as follows:		
Loss for the period (£'000)	(1,035)	(1,672)
Basic weighted average number of shares (no.)	11,810,701	5,825,241
Weighted average convertible loan notes (no.)*	6,238,008	7,935,000
Diluted weighted average number of shares (no.)	18,048,709	13,760,241
Diluted earnings per share (p)	(5.7)	(12.2)
The operating earnings per share – diluted – is calculated as follows:		
Loss for the period (£'000)	(1,035)	(1,672)
Short term fluctuations in investment return (£'000)	(60)	17
Tax effect of short term fluctuations in investment return (£'000)	18	(5)
Operating loss for the period (£'000)	(1,077)	(1,660)
Diluted weighted average number of shares (no.)	18,048,709	13,760,241
Operating earnings per share – diluted (p)	(6.0)	(12.1)

*The nil paid convertible loan notes have been included as the convertible loan note holders provided funds through interavailability which contributed to the loss in the period.

All classes of shares are equally entitled to any profits arising in the Group. Consequently, no separate earnings per share has been calculated for each class of share.

15 Intangible assets

	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 January 2000	1,235	–	1,235
Additions in the period	542	3,257	3,799
Proceeds from disposal during the period	(323)	–	(323)
Profit/(Loss) on disposals during the period	15	–	15
Cost at 31 December 2000	1,469	3,257	4,726
Amortisation at 1 January 2000	–	–	–
Provided during the period	164	54	218
Amortisation at 31 December 2000	164	54	218
Net book value at 31 December 2000	1,305	3,203	4,508
Net book value at 1 January 2000	1,235	–	1,235

16 Financial investments

i) Corporate (Group and Company)

	31 December 2000 £'000	31 December 1999 £'000
Shares and other variable yield securities	1,749	1,512
Debt and other fixed income securities	1,037	1,381
Total investments	2,786	2,893

The historical cost of investments was £2,882,904 for the Group and Company (31 December 1999: £2,874,954). All investments are listed on recognised stock exchanges.

ii) Syndicate participations

	31 December 2000 £'000	31 December 1999 £'000
Shares and other variable yield securities	638	250
Debt securities and other fixed interest securities	9,229	3,079
Participation in investment pools	227	–
Loans guaranteed by mortgage	51	–
Deposits with credit institutions	808	480
Other investments	67	191
	11,020	4,000

Notes to the Financial Statements For the year ended 31 December 2000

continued

17 Investments in subsidiary undertakings

	31 December 2000 £'000
Cost	
At 1 January 2000	–
Additions during the year	2,014
At 31 December 2000	2,014

Additions during the year include the acquisition of Cathedral Capital Services Limited and Cathedral Capital Holdings Limited. Details of acquisitions are given in note 26.

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 (1998) Limited	Lloyd's corporate member	100%	
Cathedral Capital (1999) Limited	Lloyd's corporate member	100%	
Cathedral Capital Management Limited	Advisory company regulated by the SFA	100%	
Cathedral Capital Services Limited	Employment company	100%	
Cathedral Capital Holdings Limited	Intermediate holding company	100%*	
Cathedral Underwriting Limited	Lloyd's managing agent		100%

*Cathedral Capital PLC owns 100% of the economic interest of Cathedral Capital Holdings Limited.

All companies are registered and operate in England.

18 Debtors

	Group 31 December 2000 £'000	Group 31 December 1999 £'000	Company 31 December 2000 £'000	Company 31 December 1999 £'000
Trade debtors	263	–	–	–
Amounts owed by managed syndicates	760	–	–	–
Amounts owed by group undertakings	–	–	3,324	969
Tax recoverable	1	–	–	–
Other debtors	444	3	156	3
	1,468	3	3,480	972

No amounts are due after more than one year (31 December 1999: £nil).

19 Tangible fixed assets

	Leasehold Improvements £'000	Computers & other equipment £'000	Furniture, fixtures & fittings £'000	Total £'000
Cost:				
At 1 January 2000	-	-	-	-
Acquired	14	301	11	326
Additions	-	276	61	337
Disposals	(14)	(60)	(11)	(85)
At 31 December 2000	-	517	61	578
Depreciation:				
At 1 January 2000	-	-	-	-
Acquired	13	137	10	160
Charge for the period	1	158	2	161
Disposals	(14)	(60)	(11)	(85)
At 31 December 2000	-	235	1	236
Net book value:				
At 31 December 2000	-	282	60	342
At 1 January 2000	-	-	-	-

20 Prepayments and accrued income

	Group 31 December 2000 £'000	Group 31 December 1999 £'000	Company 31 December 2000 £'000	Company 31 December 1999 £'000
Accrued income	251	6	251	6
Deferred tax asset	1,428	-	29	-
Deferred expenditure	243	-	243	-
Prepayments	12	-	7	-
	1,934	6	530	6

Deferred expenditure includes consideration issued for a five year funding agreement for syndicate 2010. This asset is amortised on a straight line basis over the period the Group derives benefit from such funding up to a maximum of five years.

Notes to the Financial Statements For the year ended 31 December 2000

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The movement in the deferred tax asset for the Group is represented by:

	1 January 2000 £'000	Movement £'000	31 December 2000 £'000
Declared underwriting losses	–	279	279
Provisions for future underwriting losses	–	985	985
Deferred tax on unrealised gains/loss on investments	–	29	29
Other timing differences	–	135	135
	–	1,428	1,428

Unprovided deferred tax assets amounted to £nil at 31 December 2000 (31 December 1999: £544,566).

The Company had a deferred tax asset at 31 December 2000 of £28,694 (31 December 1999: £nil) in respect of unrealised losses on investments. The Company had an unprovided deferred tax asset of £nil at 31 December 2000 (31 December 1999: unprovided deferred tax liability of £5,343).

21 Other creditors

	Group 31 December 2000 £'000	Group 31 December 1999 £'000	Company 31 December 2000 £'000	Company 31 December 1999 £'000
UK Corporation tax	142	117	171	–
Other taxes and social security costs	69	–	–	–
Trade creditors	4,282	1,833	–	–
Finance leases	11	–	–	–
	4,504	1,950	171	–

Group trade creditors include underwriting losses payable to Lloyd's, of which £3,282,375 (31 December 1999: £1,833,032) is due after more than one year.

22 Share capital

	31 December 2000 Authorised	31 December 1999	31 December 2000 Allotted issued and fully paid	31 December 1999 Allotted issued and fully paid
	No. '000	No. '000	No. '000	No. '000
Number:				
A ordinary shares of 25p each	–	400,000	–	5,825
A convertible ordinary shares of 25p each	391,930	–	28,973	–
B ordinary shares of 25p each	20	20	–	2
C convertible ordinary shares of 25p each	8,050	–	7,364	–
Deferred shares of 0.0001p each	5,000,000	–	–	–
	£'000	£'000	£'000	£'000
Nominal value:				
A ordinary shares of 25p each	–	100,000	–	1,457
A convertible ordinary shares of 25p each	97,982	–	7,243	–
B ordinary shares of 25p each	5	5	–	–
C convertible ordinary shares of 25p each	2,013	–	1,841	–
Deferred shares of 0.0001p each	5	–	–	–
	100,005	100,005	9,084	1,457

At an Extraordinary General Meeting of Cathedral Capital PLC held on 19 October 2000 a number of special resolutions were passed that changed the authorised and issued share capital of the Company. The resolutions resulted in the following changes to the capital structure:

1. The issued 5,825,241 A ordinary shares of 25p were redesignated as A convertible ordinary shares of 25p each;
2. 8,050,076 A ordinary shares of 25p each which were authorised but not yet issued were redesignated as C convertible ordinary shares of 25p each;
3. 20,000 A ordinary shares of 25p each that were authorised but not issued were redesignated as 5,000,000,000 deferred shares of 0.0001p each; and
4. The balance of the authorised A ordinary shares of 25p each, comprising 386,104,683, were redesignated as a A convertible ordinary shares of 25p each.

The following authorised but unissued shares were issued during the period:

1. On 19 October 2000, 7,200,000 A convertible ordinary 25p shares were issued to the Loan Stock Noteholders who converted under the first interavailability offer in 1997. These shares were valued at £1 per share;
2. On 1 November 2000, 7,363,507 C convertible ordinary 25p shares were issued in consideration for all the B ordinary £1 shares of Cathedral Capital Services Limited;
3. On 1 November 2000, 253,492 A convertible ordinary 25p shares were issued in consideration for all the issued A ordinary £1 Shares in Cathedral Capital Services Limited;
4. On 9 November 2000, 1,841,942 A convertible ordinary 25p shares were issued to MMO EU Limited in consideration for the entire issued share capital of Cathedral Underwriting Limited;
5. On 9 November 2000, 1,598,118 A convertible ordinary 25p shares were issued to MMO EU Limited in consideration for the provision of a five year funding agreement to syndicate 2010; and
6. On 13 December 2000, 12,253,720 A convertible ordinary 25p shares were issued to all of those shareholders who subscribed to the Offer of Cathedral Capital PLC as per the prospectus dated 21 August 2000. These shares were all issued at £1 each.

Notes to the Financial Statements For the year ended 31 December 2000

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23 Reserves

Movements in reserves for the year ended 31 December 2000

	Share premium reserve £'000	Merger reserve £'000	Profit and loss reserve £'000	Investment revaluation reserve £'000	Total £'000
Group:					
Balance at 1 January 2000, as previously stated	4,336	–	(1,459)	18	2,895
Prior year adjustment:					
Change in accounting policy – unrealised investment gains	–	–	18	(18)	–
Balance at 1 January 2000, as restated	4,336	–	(1,441)	–	2,895
Rights issue	9,190	–	–	–	9,190
Conversion of loan notes	5,400	–	–	–	5,400
Acquisition of Cathedral Underwriting Limited	350	–	–	–	350
Acquisition of Cathedral Capital Services Limited	–	1,447	–	–	1,447
Less share issue expenses	(131)	–	–	–	(131)
Loss for the period	–	–	(1,035)	–	(1,035)
At 31 December 2000	19,145	1,447	(2,476)	–	18,116

The loss for the period ended 31 December 2000 without the change in accounting policy would have amounted to £1,016,952. The effect of the change in accounting policy was to increase the loss by £17,811 (31 December 1999: increase the loss by £19,436).

	Share premium reserve £'000	Profit and loss reserve £'000	Investment revaluation reserve £'000	Total £'000
Company:				
Balance at 1 January 2000	4,336	158	18	4,512
Rights issue	9,190	–	–	9,190
Conversion of loan notes	5,400	–	–	5,400
Acquisition of Cathedral Underwriting Limited	350	–	–	350
Acquisition of Cathedral Capital Services Limited	–	–	–	–
Less share issue expenses	(131)	–	–	(131)
Profit/(loss) for the period	–	308	–	308
Movement in market value of investments	–	–	(18)	(18)
At 31 December 2000	19,145	466	–	19,611

The Company has taken advantage of merger relief under Section 131 of the Companies Act 1985 and has recorded the value of the shares issued in respect of the acquisition of Cathedral Capital Services Limited at nominal value.

24 Reconciliation of shareholders' funds

	Group 31 December 2000 £'000	Group 31 December 1999 £'000	Company 31 December 2000 £'000	Company 31 December 1999 £'000
Total recognised gains/(losses) for the period	(1,035)	(1,672)	308	39
Issue of shares	23,883	–	22,436	–
Movement in unrealised gains on investments	–	–	(18)	(19)
Total movements during the period	22,848	(1,672)	22,726	20
Opening shareholders' funds	4,352	6,024	5,969	5,949
Closing shareholders' funds	27,200	4,352	28,695	5,969

25 Net tangible assets per share

	31 December 2000 £'000	31 December 1999 £'000
Undiluted:		
Net assets	27,200	4,352
Less intangible assets	(4,508)	(1,235)
Net tangible assets	22,692	3,117
Basic number of shares at 31 December (no.)	36,336,020	5,825,241
Net tangible assets per share – undiluted (p)	62.5p	53.5p
	£'000	£'000
Diluted:		
Net tangible assets (as above)	22,692	3,117
Add amounts due in respect of convertible loan notes	809	8,009
Net tangible assets after conversion of loan notes	23,501	11,126
Basic number of shares at 31 December (no.)	36,336,020	5,825,241
Add shares to be issued on conversion of loan notes (no.)	735,000	7,935,000
Diluted number of shares at 31 December (no.)	37,071,020	13,760,241
Net tangible assets per share – diluted (p)	63.4p	80.9p

Notes to the Financial Statements For the year ended 31 December 2000

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26 Acquisitions

During the period, the Group acquired the following:

(i) *Cathedral Capital Services Limited*

On 31 October 2000, the Company acquired the entire issued share capital of Cathedral Capital Services Limited. The transaction has been accounted for as an acquisition.

The goodwill arising in respect of the acquisition of Cathedral Capital Services Limited is as follows:

	£'000
Total consideration	3,351
Expenses capitalised in respect of the acquisition	67
Net assets acquired	(119)
Goodwill capitalised	3,299
Amortisation in the period	(55)
Goodwill carried forward	3,244

The consideration consisted of the issue of 7,363,507 C convertible ordinary shares and 253,492 A convertible ordinary shares in Cathedral Capital PLC valued at 44p per share.

The net assets of Cathedral Capital Services Limited and its subsidiary, Cathedral Capital Management Limited, were as follows:

	£'000
Fixed assets	15
Debtors	198
Cash	101
Less current liabilities	(195)
	119

No fair value adjustments were required to be made to the assets of the Cathedral Capital Services Limited group.

The loss after tax for the Cathedral Capital Services Limited group from 16 June 2000 (its date of incorporation) to 1 November 2000 (the date of acquisition) was as follows:

	£'000
Income	–
Expenses	(135)
(Loss) before tax	(135)
Tax	–
(Loss) after tax	(135)

(ii) *Cathedral Underwriting Limited*

On 9 November 2000, the Group acquired the entire issued share capital of Cathedral Underwriting Limited. The transaction has been accounted for as an acquisition.

The goodwill arising in respect of the acquisition of Cathedral Underwriting Limited is as follows:

	£'000
Total consideration	810
Expenses capitalised in respect of the acquisition	147
Net assets acquired	(1,001)
Goodwill capitalised	(44)
Amortisation in the period	1
Goodwill carried forward	(43)

The consideration consisted of the issue of 1,841,942 A convertible ordinary shares in Cathedral Capital PLC valued at 44p each.

The net assets of Cathedral Underwriting Limited were as follows:

	£'000
Fixed assets	151
Cash	533
Debtors & prepayments	407
Less current liabilities	(90)
	1,001

No fair value adjustments were required to be made to the assets of Cathedral Underwriting Limited.

The loss after tax for Cathedral Underwriting Limited from 1 January 2000 (the beginning of its accounting period) to 9 November 2000 (the date of acquisition) and for the year ended 31 December 1999 (being its previous accounting period) was as follows:

	1 January 2000 to 9 November 2000 £'000	Year ended 31 December 1999 £'000
Income	105	617
Expenses	(963)	(404)
(Loss)/profit before tax	(858)	213
Tax credit/(charge)	59	(65)
(Loss)/profit after tax	(799)	148

27 Capital commitments

There were no capital commitments at 31 December 2000.

Notes to the Financial Statements For the year ended 31 December 2000

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28 Operating leases

	31 December 2000 £'000	31 December 1999 £'000
Annual commitments of the Group under operating leases which expire:		
Land & buildings:		
between two and five years	31	–
Other:		
between two and five years	3	–
	34	–

The Company had no annual commitments under operating leases.

29 Reconciliation of operating loss to net cash inflow from operating activities

	31 December 2000 £'000	31 December 1999 (restated) £'000
Loss before tax on ordinary activities	(2,365)	(1,540)
Depreciation of fixed assets	161	–
Amortisation of goodwill	54	–
Amortisation of syndicate capacity	164	–
(Profit) on sale of syndicate capacity	(15)	(195)
(Increase)/decrease in debtors & accrued income	(960)	85
Increase/(decrease) in creditors	2,572	1,867
Realised and unrealised investment gains	(124)	(9)
Net cash (outflow)/inflow from operating activities	(513)	208

Following the change in accounting policy relating to unrealised (gains)/losses on investments, the comparative cash flow statement and notes have been restated in order to be consistent with that of an insurance group.

30 Movement in opening and closing portfolio investments, net of financing

	31 December 2000 £'000	31 December 1999 £'000
Net cash inflow/(outflow) for the year	1,663	(31)
Cashflow – portfolio investments	16,855	337
Movement arising from cashflows	18,518	306
Changes in market value of investments	124	9
Total movement in portfolio investments, net of financing	18,642	315
Portfolio at 1 January	5,103	4,788
Portfolio at 31 December	23,745	5,103

31 Movement in cash and portfolio investments

	1 January 2000 £'000	Cash flow £'000	Changes to Market value £'000	31 December 2000 £'000
Cash at bank and in hand	1,860	1,663	–	3,523
Deposits with credit institutions	350	17,086	–	17,436
Total cash	2,210	18,749	–	20,959
Shares	1,512	96	140	1,748
Fixed income investments	1,381	(327)	(16)	1,038
Total portfolio investments	2,893	(231)	124	2,786
Total cash and portfolio investments	5,103	18,518	124	23,745

Deposits with credit institutions relates to cash balances held as funds at Lloyd's.

32 Net cash inflow on portfolio investments

	Year ended 31 December 2000			Nine months ended 31 December 1999		
	Purchases £'000	Sales £'000	Net cash flow £'000	Purchases £'000	Sales £'000	Net cash flow £'000
Deposits with credit institutions	–	–	17,086	–	–	–
Shares and other variable yield securities	1,370	1,274	96	1,580	1,233	347
Fixed income investments	–	327	(327)	180	190	(10)
	1,370	1,601	16,855	1,760	1,423	337

33 Pensions

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

Notes to the Financial Statements For the year ended 31 December 2000

continued

34 Related party transactions

(i) *Interests in contracts*

Certain Directors were interested in contracts entered into by the Cathedral Group and the nature of these interests are shown in the Report of the Directors on pages 12 to 13.

(ii) *Interests in transactions*

Certain Directors were interested in transactions between Cathedral Capital PLC and other Group companies and the nature of these interests are set out in the Report of the Directors on pages 11 to 12.

35 Contingent liabilities

(i) *Non Payment of Conversion Loan Stock*

The Company has issued £808,500 of nil paid convertible loan stock (2001) ("2001 Loan Stock") to Names who made funds interavailable to the Group. There will be a mandatory payment up, and conversion of, the 2001 Loan Stock no later than 31 October 2001. It is possible that some Names may be unable to meet the obligations, under the Convertible Loan Stock (2001) Deed, which they have to the Group.

(ii) *Lloyd's*

As explained in Note 1 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 either of the corporate member subsidiaries fails to meet any of their Lloyd's obligations, after having called on the Group under its guarantees, then:

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Cathedral Capital PLC will be held at the City of London Club, 19 Old Broad Street, London EC2N 1DS on Thursday 28 June 2001 at 4.00 pm for the following purposes:

1. To receive and consider the audited accounts for the financial year ended 31 December 2000 and the Reports of the Directors and the Auditors thereon.
2. To elect Robert Bailey as a Director of the Company.
3. To elect Edward Hochberg as a Director of the Company.
4. To elect Lawrence Holder as a Director of the Company.
5. To elect John Lynch as a Director of the Company.
6. To appoint the Auditors and authorise the Directors to determine the remuneration of the Auditors.

By order of the Board

John Lynch

Company Secretary

Registered office:

51 Eastcheap, London EC3M 1JP

18 April 2001

Notes

1. Only the holders of A convertible ordinary shares of 25p each, C convertible ordinary shares of 25p each and B ordinary shares of 25p each are entitled to attend the meeting and vote.
2. A member entitled to attend and vote may appoint a proxy or proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company.
3. A form of proxy is provided. Shareholders must ensure that they complete the correctly coloured proxy card; A convertible ordinary shareholders must complete the white proxy card; B ordinary shareholders must complete the blue proxy card; and C convertible ordinary shareholders must complete the green proxy card. To be effective, a form of proxy must be completed, executed and (together with the original or a notarially certified copy of any power of attorney or other authority under which it is executed) lodged at the Company's trading office at Room 917, Lloyd's, One Lime Street, London EC3M 7HA not later than 48 hours before the time of the meeting. Deposit of a completed form of proxy will not preclude a member from attending the meeting and voting in person.

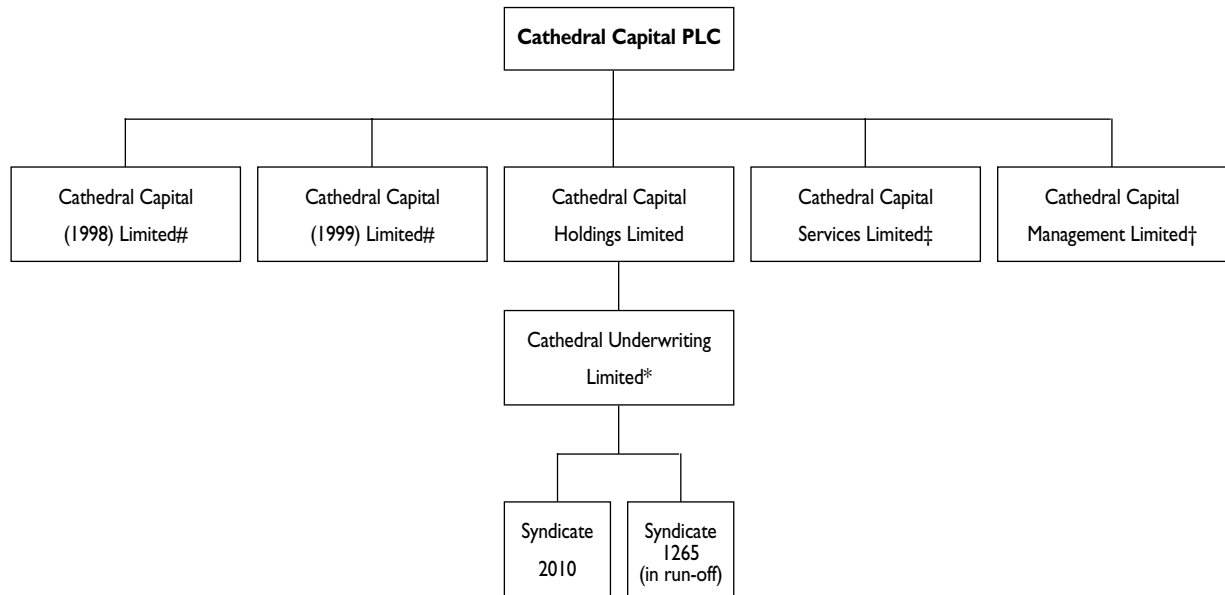
Capacity by Class and Syndicate – 2001 Year of Account

Class	Syndicate	Underwriter	Managing Agent	Cathedral Capital (1998) Limited £	Cathedral Capital (1999) Limited £	Combined Share £	Percentage of Portfolio %
Marine	609	Dandridge	Atrium Underwriters Ltd.	650,000	100,000	750,000	1.85
				650,000	100,000	750,000	1.85
Non-Marine	318	Pritchard	Limit Underwriting Ltd.	911,250	101,250	1,012,500	2.50
	386	Wallace	Limit Underwriting Ltd.	1,350,000	150,000	1,500,000	3.71
	570	Marsh	Atrium Underwriters Ltd.	585,200	79,800	665,000	1.64
	623	Beazley	Beazley Furlonge Ltd.	1,476,373	129,375	1,605,748	3.97
	807	Mathers	R.J. Kiln & Co. Ltd.	450,000	50,000	500,000	1.24
	2010	Patrick	Cathedral Underwriting Ltd.	20,000,000	–	20,000,000	49.44
				24,772,823	510,425	25,283,248	62.50
Motor	980	Neal	Ensign Managing Agency Ltd.	7,595,000	165,523	7,760,523	19.18
	1202	Sams	Wren Syndicates Management Ltd.	881,848	135,669	1,017,517	2.52
				8,476,848	301,192	8,778,040	21.70
Aviation	800	Clapham	Wren Syndicates Management Ltd.	1,235,000	210,000	1,445,000	3.57
				1,235,000	210,000	1,445,000	3.57
Composite	382	Walker	Hardy (Underwriting Agencies) Ltd.	650,000	50,000	700,000	1.73
	510	Rendall	R.J. Kiln & Co. Ltd.	2,850,000	650,000	3,500,000	8.65
				3,500,000	700,000	4,200,000	10.38
				38,634,671	1,821,617	40,456,288	100.00

Allocation by Managing Agent

Managing Agent	£	%
Cathedral Underwriting Ltd.	20,000,000	49.44
Ensign Managing Agency Ltd.	7,760,523	19.18
R.J. Kiln & Co. Ltd.	4,000,000	9.89
Limit Underwriting Ltd.	2,512,500	6.21
Wren Syndicates Management Ltd.	2,462,517	6.09
Beazley Furlonge Ltd.	1,605,748	3.97
Atrium Underwriters Ltd.	1,415,000	3.49
Hardy (Underwriting Agencies) Ltd.	700,000	1.73
	40,456,288	100.00

Cathedral Group Corporate Structure



Key:

*Lloyd's Managing Agency

‡SFA Advisory Company

#Corporate Underwriting Name at Lloyd's

‡Formerly Pilotscope Services Limited

Share Transfer Market 2001:

14 June to 27 June

1 November to 14 November

Financial Timetable 2001:

Annual Accounts to shareholders May

Annual General Meeting June

Conversion of Loan Notes September

Interim Accounts to shareholders October

Financial year end December

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