

Annual Report

31 December 2001

Contents

	Page
Chairman's Statement	2
Chief Executive Officer's Report	3
Directors and Advisors	7
Directors of the Company	8
Report of the Directors	10
Consolidated Profit and Loss Account Technical Account – General Business	16
Consolidated Profit and Loss Account Non-Technical Account	17
Consolidated Balance Sheet	18
Company Balance Sheet	20
Consolidated Cash Flow Statement	21
Notes to the Financial Statements	22
Report of the Independent Auditors	49
Underwriting Participations for 2002 underwriting year of account	50
Group Structure	51

Chairman's Statement

This is my first report to shareholders since my appointment as chairman at the last Annual General Meeting. Firstly, on behalf of the shareholders and the Board, I would like to thank Paul Gillham for his able stewardship of the Company from its launch to its subsequent transformation into the current trading business. I am delighted that Paul agreed to remain with us as a non-executive director of the Board.

We set up Syndicate 2010 new for the 2001 account in order to become a managing agent as well as being a passive investor in other syndicates. The underwriting team was already well experienced in the reinsurance business and so the syndicate, with an £81 million stamp capacity, quickly built a business specialising in aviation reinsurance and property reinsurance. John Hamblin replaced me as the active underwriter of the Syndicate on 30 November 2001. John and I have worked together since 1984 and your syndicate could not be in better hands.

The U.S. Terror Attacks in September fully tested the ability of the team to manage their exposures and time will show that they passed that test with flying colours. We are now trading for the 2002 year of account in a vastly improved underwriting environment constrained only by our size.

Unfortunately, we are reporting a loss of £2,277,000 (2000: loss of £1,035,000) for the year. This substantially results from annually accounting the results of syndicate 2010; we hope to see this result reversing over the next 24 months as we come off risk on the remaining elements of the account. The result equates to an operating loss per share of 5.7 pence (2000: loss of 6.0 pence). Our diluted net tangible assets per share at the year end were 58.7 pence as against 63.4 pence the previous year end.

There are special threats to and opportunities for Cathedral because of the turbulence in worldwide markets arising from the fact that recent events are having drastic consequences following years of hyper-competitive loss making activity. We have therefore retained Lazard (an investment bank) to assist in a review of the Company's strategic options and to advise us accordingly.

You have an immensely strong and capable management and they are to be congratulated for having guided your company so well through a period which has been extremely challenging for the whole industry.

E E Patrick

Chairman

7 May 2002

Chief Executive Officer's Report

Introduction/Overview

Following our hard work to transform the Cathedral business into what we have today, there are substantial positives to take from our first full year of operation. It is however, the appalling events of 11 September that dominate this report, not just from the human, financial or even company perspective, but from the fact that one day has changed the landscape of the global risk transfer market in which we operate.

Cathedral's principal business unit, Syndicate 2010, majors in the two central areas affected by the U.S. Terrorist Attacks of 11 September ("USTA"), namely aviation reinsurance and property reinsurance. However our underwriters had carefully constructed their books of business and have a net USTA loss estimated to be 10%-15% of capacity taken in isolation from the rest of the book (the balance of which looks profitable). Bearing in mind this one loss aggregates both our core business areas, this result has added to the market perception of the Cathedral business.

For 2002 we have increased the capacity of Syndicate 2010. We are writing more income to our own balance sheet and our principal trading areas are extremely buoyant. More detail on the Syndicate follows later in this report.

At an industry level the new capital deployed since the last quarter 2001 in response to USTA exceeds \$25 billion. This is a staggering amount, but is ultimately not going to be sufficient to replace that taken out of the industry as a consequence of that day, let alone the significant erosion of capital from other causes. Some capital has been deployed in new operations in Bermuda. Although varying in capability and quality, this new market place has generally secured substantial business, which brokers have redirected from the London, European and domestic US markets. Equally, however, many have fallen substantially short of their targets upon which capital was raised and in many cases the business is not in a shape or format originally envisaged.

This new capital has certainly slowed momentum in what still remains an attractively priced market and increases pressure to shorten the length of this cycle in the more commodotised classes. However, at the same time many industry players continue to increase estimates of their USTA losses and there remain a number of significant issues unresolved more than six months on. It is only when cash starts to flow through the system in large volumes, which has yet to occur, that the true damage will become apparent, which could in itself act as a countermeasure to the pressures new capital brings. Add to this an environment where investment returns are low and where non-USTA issues ranging from asbestos and hi-tech D&O and E&O to the general attrition caused by unreserved or inadequately reserved claims activity arising from the parlous, but still highly active, accident years 1998-2000 and one has a recipe for a market that should regain its upwards momentum. For this reason we look to 2002 and beyond with some optimism.

Cathedral Syndicate 2010

The year to 31 December 2001 represents Syndicate 2010's first full year of trading.

Syndicate 2010's underwriting capacity at Lloyd's for the 2001 underwriting year was approximately £81 million, of which £20 million was provided by Cathedral Group companies.

The syndicate's account is made up of two main pillars, those of aviation reinsurance and property reinsurance. Although market conditions in 2001 were improving, there was still an abundance of capacity in both classes. However, Syndicate 2010 has not been regarded as a new venture by customers and brokers but as a continuation and renewal of an existing book of business. This enabled the syndicate to build both books of business based on long standing relationships with clients and not on pricing considerations alone. The result has been a high quality portfolio with a population of clients who value continuity and a consistency of approach, borne out by the large number of lead positions which the syndicate has been able to adopt in its first year.

The 2001 calendar year has been dominated by the USTA loss. The consequent insured losses encompass a large number of different classes of business, many of which were regarded prior to this as "non-correlating risks" that is to say, non-accumulating. The extreme nature of this claim has led to a range of insurers reassessing their approach to risk, leading to some significant repositioning in the market place.

Chief Executive Officer's Report

continued

There is still much subjectivity involved in an assessment of gross and net exposures to USTA, which only time will finally resolve. However, the syndicate has projected its loss, taking what is thought to be a conservative position on the portfolio. Cathedral's share of 2010's result for the 2001 calendar year, on an annual accounting basis, has been assessed as a deficit of £1.7 million. This is far from an unsatisfactory situation in the circumstances, particularly given that the annual basis of accounting recognises expenses more quickly than premium earnings, although any potential benefit of this disparity as it unwinds will only be seen in future reporting periods. Furthermore, whilst the US wind season was relatively benign, 2001 did see a number of other sizeable losses, including the Tamil Tiger attack on Colombo Airport, Tropical Storm Allison and the Missouri hail storms.

Many businesses are posting much larger losses due to USTA and some are having liquidity problems because of the gross pre-settlement funding arrangements required by US regulators. However, the Cathedral underwriters have carefully managed the exposures and the syndicate remains within reinsurance coverage. It has also secured a credit line from some existing Cathedral shareholders which, together with the syndicate's own assets, enabled it to meet the US gross funding regulatory requirements at the 100% level. Many established businesses have not been so fortunate.

The capacity of the syndicate increased to £96 million for 2002, as capacity was pre-empted in anticipation of improving market conditions.

Terms, conditions and pricing all improved on the syndicate's inwards business, in some cases spectacularly.

Review of results of spread capacity

Overall, the result of our spread capacity contributes only the smallest of losses to our results at 31 December 2001, in spite of the assessed impact of USTA. This is due to the robustness of the provisioning undertaken last year and the quality of the portfolio.

1998 Year of Account (in run-off)

We are pleased to report that syndicate 990, managed by XL London Market Limited, has closed its 1998 year of account at 31 December 2001 with only a modest deterioration in the 36 month result and well within the reserves we established last year. The other Cathedral supported syndicate that was left 'open' at 31 December 2000, syndicate 1093 (Commodore Underwriting Agency Limited), remains unclosed at 48 months. However, over the past 12 months the result has improved and we remain confident the provision established to cover the run-off is robust.

1999 Year of Account

Although Cathedral's portfolio again significantly outperformed the market, it nonetheless produced a loss of 8.1% (after advisor's fees). As we predicted last year, the market result deteriorated (by approximately 9%) during the final 12 months, producing an overall loss of approximately 20%. Cathedral's position however improved slightly during the same period and, having made provision for a loss of 15% of capacity, a surplus exists. This surplus has been eroded to an extent by the need to retain reserves in respect of the two 'open' 1999 accounts; syndicate 37 (Ockham Personal Insurance Agency Limited) and syndicate 1093 (Commodore Underwriting Agency Limited).

2000 Year of Account

Although rating levels showed little real improvement, the 2000 year itself was one with a relatively benign loss experience. Insured losses due to man-made disasters and natural catastrophes totalled \$10.6 billion, just one-third of the previous year's total. We reported in last year's Annual Report that provisions had been established to cater for a loss approaching 5% of Cathedral's 2000 allocated capacity. Subsequent events (including USTA losses which affect the 2000 account) have led us to revise this figure to 13%, with most of the additional

funding being covered by the redundancy in 1999's reserves. Cathedral's final result will be significantly affected by the performance of one particular syndicate (340, St Paul Syndicate Management Limited), an aviation reinsurance specialist that, post USTA, is set to produce a loss on mid-point exceeding £0.6 million for our share. As a result, although Cathedral's loss estimate currently stands at 6.5% (£0.9 million), based on the mid-point of the latest available managing agents forecasts, it has been deemed prudent to cater for significant deterioration in these accounts.

2001 Year of Account

The USTA have caused the insurance industry its largest ever losses, obliterating the impact of the gains made in an improved rating environment. Cathedral's third party participations for the 2001 year totalled £20.5 million, with 50% of its capacity deployed on syndicates with no significant (net or gross) USTA exposure. At this stage we believe that profits derived from these syndicates, together with the profitable business from other syndicates exposed to the USTA will be sufficient to return an overall profit to the non-aligned portfolio, assuming that no future significant loss events occur that affect the 2001 underwriting year.

Investment return

Throughout 2001, the investment markets saw significant falls, with the FTSE 350 showing a negative total return of 12.7% and the UK Gilts All Markets Index falling by 3.1%. Cathedral adopted a very defensive and highly liquid investment policy, generating a corporate return on cash and investments of 3.7% over the 12 month period. In the circumstances, we believe this investment return was satisfactory.

Results

The Group result is a loss of £2.3 million (2000: £1 million). This result comprises a mixture of the underwriting results of our spread portfolio calculated on a Lloyd's three year basis, the result of our own share of Syndicate 2010 calculated on an annual UK GAAP basis and the operating costs and revenue of the Group.

The results can be summarised as follows:

	31 December 2001	31 December 2000
Summary profit & loss account		
Result from Syndicate 2010 (annual accounting)	(1,697)	–
Result on spread capacity (3 year accounting)	(14)	(2,380)
Corporate investment return	874	672
Corporate other income	885	205
Corporate expenses	(2,396)	(862)
(Loss) before tax	(2,348)	(2,365)
Tax credit	71	1,330
(Loss) after tax	(2,277)	(1,035)

This excludes the application of the long term rate of investment return applied to the funds at Lloyd's in the technical account.

Cathedral's overall underwriting portfolio has changed structure significantly over our open year position. The fundamental difference is that, for the 2001 account, the premium income limit was significantly increased and half our underwriting committed to Syndicate 2010. This structure has remained in place albeit at a higher limit for 2002 to take account of significantly improved trading conditions.

Chief Executive Officer's Report

continued

The Syndicate 2010 result reflects our annually accounted share of the syndicate result after one year. This reflects all current notified claims and provision for incurred but not reported claims, but only premiums that are earned to date, since a significant proportion of our book remains on risk at the year end.

Strategy/Conclusion

Our strategy to build and develop our business into a rising and hopefully profitable market has been seriously re-examined post USTA. As Cathedral, our franchise has survived the sternest of possible tests in its first year and come out of this with the potential to grow and flourish against a new set of threats and opportunities.

Once again the Lloyd's market has funded its losses, but still attracts negative attention from its competitors, the rating agencies and the press. This, together with a substantial fund raising exercise in Bermuda, has led to a redistribution of business in some areas and major opportunities in others.

We find ourselves specialising in two core accounts with substantial barriers to entry that have the potential for Cathedral to leverage its position in a good market. The time appears propitious to move the business on to the next stage of its development.

To this extent your board has engaged Lazard to review the strategic options available to the Company.

Peter Scales

Chief Executive Officer

7 May 2002

Directors and Advisors

Chairman	E E Patrick
Directors	R W Bailey* P M Gillham* E S Hochberg* L A Holder J A Lynch A S Minns* P D Scales A I G C South J M P Welman* *Non-Executive Director
Company Secretary	J A Lynch
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	9th Floor 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

Elvin Patrick (Born 1944) – Chairman

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 was Active Underwriter of syndicate 2010 until 30 November 2001.

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 served 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.

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 Cathedral Capital PLC.

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.

Paul Gillham (Born 1931)

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.

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 2001.

Registered Office

The Company's registered office is 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 2000, the Company acquired Cathedral Underwriting Limited, Cathedral Capital Services Limited and Cathedral Capital Management Limited. Accordingly, the Group comprises a Lloyd's managing agency, a service company, an FSA registered advisory company and two corporate members, both of which were 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 Syndicate 2010, a reinsurance orientated syndicate, with capacity of circa £95.8 million for the 2002 year of account (£81.1 million for the 2001 year of account). The company also manages an inherited 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 joint employing companies within the Group.

Cathedral Capital Management Limited advises the Group on its underwriting participations and advises third party clients on their insurance activities. It is regulated by the FSA.

The Group's two corporate members underwrote in aggregate circa £40 million of capacity for the 2001 year of account. Of this capacity, £20 million supported Syndicate 2010, which is managed by Cathedral Underwriting Limited. For the 2002 year of account, the Group is only underwriting through a single corporate member and has a premium limit of circa £46 million of which £22.5 million supports Syndicate 2010.

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 17.

Details of the accounting policies adopted by the Group for the year are set out in Note 1 to the Financial Statements.

During October/November 2001, most of the B shareholders who first made their funds at Lloyd's (£0.81 million) inter-available for the 1999 year of account paid up their Loan Stock Notes in full and received A convertible ordinary shares. At the date of this report, there is only one loan stockholder who has not settled his liability with the Company. The amount outstanding is £70,000. The Group's funds at Lloyd's are provided in the form of cash and investments, all of which are managed by Close Private Asset Management Limited.

The Directors do not intend to declare a dividend for the year (2000: £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

During October/November 2001 515,000 A convertible ordinary 25p shares were issued to the Loan Stock holders who converted under the second inter-availability offer. These shares were valued at £1.10 per share.

Directors

The Directors who held office at the year end are shown on page 7. Mr Gillham was replaced as Chairman on 28 June 2001 by Mr Patrick and remained on the Board as a non-executive director.

Directors' Interests in Transactions

As disclosed in last year's Annual Report, 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 for Syndicate 2010. These shares were issued at an equivalent value of 25 pence per share. As a result of defaulting on this agreement for the 2001 year of account, by not providing the full capacity as per the agreement, MMO EU Limited gifted 625,600 A convertible ordinary shares to the Group's Employee Share Ownership Plan. MMO UK Limited has now given notice to Syndicate 2010 that it is unable to honour this funding agreement to provide capacity to Syndicate 2010 for the 2002 underwriting year of account. Mr Bailey is the chairman and a shareholder of NYMAGIC Inc., the ultimate parent company of MMO EU Limited.

MMO UK 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 per cent of capacity (being £59,333) and a profit commission of 17.5 per cent in respect of Syndicate 2010 (being £nil for the 2001 calendar year). MMO UK Limited also pay a run-off fee of £75,000 to Cathedral Underwriting Limited in respect of syndicate 1265, which ceased at the end of 2000, and on which it was the sole capital provider. Mr Bailey is a director of MMO UK Limited.

NYMAGIC, Inc., has entered into agreements with Cathedral Capital Services Limited and Cathedral Capital Management Limited, and paid fees in 2001 of £45,000 and £20,000 respectively. Mr Bailey is the chairman and a shareholder of NYMAGIC, Inc.

PMA Capital Insurance Company entered into agreements with Cathedral Capital Services Limited and Cathedral Capital Management Limited, and paid fees in 2001 of £45,000 and £20,000 respectively. PMA Capital Insurance Company is part of the PMA 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.

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 per cent of capacity (being £62,809) and a profit commission of 17.5 per cent (being £nil for the 2001 calendar year). Mr Hochberg is a director of PMA Re Corporate Capital Limited.

Report of the Directors

continued

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 2001		31 December 2000	
	A Convertible Ordinary Shares	C Convertible Ordinary Shares	A Ordinary Shares	C Convertible Ordinary Shares
E E Patrick	2,253,492	818,168	2,253,492	736,351
R W Bailey	–	–	–	–
P M Gillham	822,056	–	822,056	–
E S Hochberg	–	–	–	–
L A Holder	–	818,168	–	736,351
J A Lynch	1,500	818,168	1,500	736,351
A S Minns	155,280	–	155,280	–
P D Scales	10,000	818,168	10,000	736,351
A I G C South	154,402	–	154,402	–
J M P Welman	–	–	–	–

The NYMAGIC Group is the beneficial holder of 3,114,460 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 as at the date of this report.

Directors' Remuneration

Amounts earned by Directors during the year ended 31 December 2001 were as follows:

	31 December 2001				31 December
	Fees & Salaries £'000	Benefits in kind £'000	Pension £'000	Total £'000	2000 Total £'000
E E Patrick	118	1	29	148	28
L A Holder	118	1	19	138	23
J A Lynch	145	1	17	163	22
P D Scales	173	1	19	193	23
A I G C South	76	1	27	104	9
R W Bailey	–	–	–	–	–
P M Gillham	18	–	–	18	8
E S Hochberg	–	–	–	–	–
A S Minns	20	–	–	20	8
J M P Welman	20	–	–	20	–
	688	5	111	804	121

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

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.

Report of the Directors

continued

Options granted during the year were as follows:

No. of Option Holders	Date of grant of options	Amount of shares under option	Exercise price	Date from which exercisable	Expiry date of options
14	18 April 2001	455,238	63p	18 April 2004	17 April 2011

One option holder ceased to be employed by the Group in October 2001 and his options over 47,619 shares lapsed at that date.

No directors of the Company were option holders at 31 December 2001.

Cathedral Capital Employee Share Ownership Plan ("ESOP")

This plan has been set up for the benefit of all employees in the Group. There are 677,771 A convertible ordinary shares held in the plan though to date no grants have been made to any employees under the terms of the plan. Although the Group only has de facto control of the ESOP, the Group is required under Urgent Issues Task Force (UITF) Abstract 13 to account for the assets of the ESOP as if they belong to the Group. Consequently, they appear as an asset in both the Group and Company balance sheet.

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 has 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 24 June 2002. 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 Tuesday 25 June 2002 at the City of London Club, 19 Old Broad Street, London EC2N 1DS.

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 applicable.

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 2001, other creditors of the Company had an average 5 days (2000: 5 days) outstanding.

Donations

During the year the Group made a charitable donation of £1,595 (2000: £nil).

Auditors

Mazars Neville Russell 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.

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 and the Group at the end of the financial year and of the profit and loss of the Group 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 make 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 Group 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

7 May 2002

**Consolidated Profit and Loss Account
Technical Account – General Business
For the year ended 31 December 2001**

	Notes	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Earned premiums, net of reinsurance:			
Gross premiums written	3	54,824	20,553
Outward reinsurance premiums		(15,730)	(4,001)
Net premiums written		39,094	16,552
Change in the provision for unearned premiums:			
Gross amount		(4,869)	–
Reinsurer's share		546	–
Earned premiums, net of reinsurance		34,771	16,552
Allocated investment return transferred from the non-technical account		1,936	1,146
Claims paid:			
Gross amount	3	(14,054)	(10,818)
Reinsurers' share		4,797	4,013
		(9,257)	(6,805)
Change in the provisions for claims:			
Gross amount	3	(47,607)	(11,837)
Reinsurers' share		28,204	2,541
		(19,403)	(9,296)
Claims incurred, net of reinsurance		(28,660)	(16,101)
Net operating expenses	4	(8,918)	(3,803)
Balance transferred to the non-technical account		(871)	(2,206)

A more detailed analysis of the technical account is given in note 2.

The notes on pages 22 to 48 form part of these accounts.

Consolidated Profit and Loss Account
Non-Technical Account
For the year ended 31 December 2001

	Notes	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Balance on technical account for general business		(871)	(2,206)
Net investment return	5	1,970	1,644
Allocated investment return transferred to the technical account for general business	6	(1,936)	(1,146)
Fees	7	612	38
Other income	8	273	167
Other expenses		(2,396)	(862)
Loss on ordinary activities before tax	9	(2,348)	(2,365)
Tax credit/(charge) on loss on ordinary activities	12	71	1,330
Loss on ordinary activities after tax		(2,277)	(1,035)
Dividends		-	-
Transfer from reserves		(2,277)	(1,035)
Basic earnings per share	14	(6.2p)	(8.8p)
Diluted earnings per share	14	(6.1p)	(5.7p)
Operating earnings per share (diluted)	14	(5.7p)	(6.0p)

All activities derive from continuing operations.

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 year, other than the loss for the year.

The notes on pages 22 to 48 form part of these accounts.

Consolidated Balance Sheet
As at 31 December 2001

	Notes	31 December 2001 £'000	31 December 2000 £'000
Intangible assets:			
Syndicate participations	15	994	1,305
Goodwill	15	2,917	3,246
Negative goodwill	15	(24)	(43)
		3,887	4,508
Investments:			
Financial investments	16	27,775	13,806
Deposits with Ceding Undertakings		37	13
Own shares	18	159	–
		27,971	13,819
Reinsurers' share of technical provisions:			
Provision for unearned premiums		546	–
Claims outstanding		34,730	7,775
		35,276	7,775
Debtors:			
Arising out of direct insurance operations		11,689	4,696
Arising out of reinsurance operations		19,946	12,486
Other	19	954	2,004
		32,589	19,186
Other Assets:			
Tangible assets	20	486	342
Cash at bank and in hand		22,203	23,341
Other		1,590	773
		24,279	24,456
Prepayments and accrued income	21	2,587	2,053
Total assets		126,589	71,797

A more detailed analysis of the balance sheet is given in note 29.

The notes on pages 22 to 48 form part of these accounts.

Consolidated Balance Sheet As at 31 December 2001

continued

	Notes	31 December 2001 £'000	31 December 2000 £'000
Capital and reserves:			
Called up share capital	23	9,213	9,084
Share premium	24	19,569	19,145
Merger reserve	24	1,447	1,447
Profit and loss reserve	24	(4,753)	(2,476)
Equity shareholders' funds		25,476	27,200
Technical provisions:			
Claims outstanding – gross		78,167	37,131
Provision for losses foreseen on open years		2,191	3,283
Provision for unearned premiums		4,869	–
		85,227	40,414
Provisions for other risks and charges:			
Provision for deferred taxation		–	–
Other provisions		–	–
		–	–
Creditors:			
Arising out of direct insurance operations		1,255	637
Arising out of reinsurance operations		8,975	1,632
Other creditors	22	5,079	1,533
		15,309	3,802
Accruals and deferred income		577	381
Total liabilities		126,589	71,797

A more detailed analysis of the balance sheet is given in note 29.

The notes on pages 22 to 48 form part of these accounts.

Company Balance Sheet
As at 31 December 2001

	Notes	31 December 2001 £'000	31 December 2000 £'000
Fixed asset investments:			
Listed investments	16	8,936	2,786
Investments in subsidiary undertakings	17	2,014	2,014
Own shares	18	159	–
		11,109	4,800
Current assets:			
Debtors	19	4,199	3,480
Prepayments and accrued income	21	387	530
Cash at bank		13,340	20,223
		17,926	24,233
Creditors: Amounts falling due within one year			
Creditors	22	(80)	(171)
Accruals and deferred income		(107)	(167)
		(187)	(338)
Net current assets		17,739	23,895
Net assets		28,848	28,695
Capital and reserves:			
Called-up share capital	23	9,213	9,084
Share premium	24	19,569	19,145
Profit and loss reserve	24	66	466
Equity shareholders' funds		28,848	28,695

The financial statements on pages 16 to 48 were approved by the Board of Directors on 7 May 2002 and signed on its behalf by:

Peter Scales

Chief Executive Officer

John Lynch

Chief Financial Officer

The notes on pages 22 to 48 form part of these accounts.

Consolidated Cash Flow Statement For the year ended 31 December 2001

	Notes	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Net cash (outflow) from operating activities	30	(850)	(513)
Returns on investment and servicing of finance:			
Interest paid		-	-
Taxation:			
Corporation tax paid		(26)	(153)
Capital expenditure:			
Purchase of syndicate capacity		(58)	(542)
Purchase of tangible fixed assets		(256)	(337)
Proceeds from disposal of syndicate capacity		168	323
Proceeds from disposal of tangible fixed assets		-	-
Total capital expenditure		(146)	(556)
Acquisitions and disposals:			
Acquisition of Cathedral Underwriting Limited		(31)	(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		(31)	287
Financing:			
Issue of shares in respect of conversion loan notes		566	7,200
Issue of shares in respect of rights issue		-	12,253
Total financing		566	19,453
(Decrease)/increase in cash in the period		(487)	18,518
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings		(2,633)	1,663
Net portfolio investments	33	2,146	16,855
(Decrease)/increase in cash in the period		(487)	18,518

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 22 to 48 form part of these accounts.

Notes to the Financial Statements For the year ended 31 December 2001

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) 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 2001.

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. 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 deals 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 is provided by the Group's advisory company.

b) Basis of accounting for underwriting results of syndicates managed by the Group

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

(i) Premiums

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

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

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

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

(ii) **Claims**

A provision is made for claims incurred during the period, whether reported prior to the balance sheet date or not. A provision is also made for claims handling expenses. A provision for unexpired risks is made when it is anticipated that unearned premiums will be insufficient to meet future claims and claims settlement expenses of business in force at the period end. No account is taken of future investment income. This is included within technical provisions in the balance sheet.

c) *Basis of accounting for underwriting results of syndicates managed by external managing agents*

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 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.

(i) **Sources of data**

The financial information used to compile the Consolidated Technical Account and the syndicate share 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 accounts in accordance with Schedule 9A to the Companies Act 1985.

The format of the returns has been established by Lloyd's and Lloyd's has also been 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 2001 with the comparative period including the returns for the twelve months to 31 December 2000.

(ii) **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.

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.

Notes to the Financial Statements For the year ended 31 December 2001

continued

(iii) **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.

(iv) **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 month 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.

(v) **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.

d) **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.

e) **Investment return**

Investment return comprises interest receivable and dividends received plus realised gains on the disposal of investments, less investment expenses and charges. 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.

f) **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.

g) *Foreign currencies*

Transactions in foreign currencies other than Sterling, US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in US dollars, Canadian dollars and Euros, 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.

h) *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 fees*

Agency fees are recognised in the period to which the fee relates.

c) *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.

d) *Leased assets*

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

e) *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.

Notes to the Financial Statements For the year ended 31 December 2001

continued

f) 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.

g) Investments

The value of fixed asset investments are 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.

h) 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. The Directors' estimate of the useful economic life of both the positive and negative goodwill arising is ten years.

i) 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 Directors 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.

j) Deferred taxation

The group has adopted FRS 19 – Accounting for deferred taxation. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Adoption of FRS19 has not resulted in a requirement to restate the comparative figures in these financial statements.

k) 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

l) 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.

m) Employee Share Ownership Plan ("ESOP")

The Company operates an ESOP. The Company has de facto control of the shares held by the ESOP and bears their benefits and risk, and records certain assets and liabilities of the ESOP as its own. Finance costs and administrative expenses are charged as they accrue.

2 Analysis of Technical Account – General Business

	Year ended 31 December 2001			Total £'000	Year ended 31 December 2000 £'000
	Syndicate 2010 100% £'000	Underwritten by the Group 24.7% £'000	Third party syndicates £'000		
Earned premiums, net of reinsurance:					
Gross premiums written	79,562	19,624	35,200	54,824	20,553
Outward reinsurance premiums	(32,246)	(7,953)	(7,777)	(15,730)	(4,001)
Net premiums written	47,316	11,671	27,423	39,094	16,552
Change in the gross provision for unearned premiums	(19,741)	(4,869)	–	(4,869)	–
Change in the provision for unearned premiums, reinsurers' share	2,212	546	–	546	–
Net earned premiums	29,787	7,348	27,423	34,771	16,552
Allocated investment return transferred from the non-technical account*	323	80	1,016	1,096	972
Claims paid:					
Gross amount	(9,822)	(2,423)	(11,631)	(14,054)	(10,818)
Reinsurers' share	2,878	710	4,087	4,797	4,013
	(6,944)	(1,713)	(7,544)	(9,257)	(6,805)
Change in the provision for claims:					
Gross amount	(98,283)	(24,241)	(23,366)	(47,607)	(11,837)
Reinsurers' share	77,546	19,126	9,078	28,204	2,541
	(20,737)	(5,115)	(14,288)	(19,403)	(9,296)
Net claims incurred, net of reinsurance	(27,681)	(6,828)	(21,832)	(28,660)	(16,101)
Net operating expenses	(9,680)	(2,297)	(6,621)	(8,918)	(3,803)
	(7,251)	(1,697)	(14)	(1,711)	(2,380)
Long term rate of investment return applied to funds at Lloyd's				840	174
Balance on technical account, after long term rate of return				(871)	(2,206)

*Excluding long term rate of investment return applied to funds at Lloyd's

The Group manages syndicates 1265 and 2010. Of these, the Group only participates on syndicate 2010. Syndicate 1265 went into run-off at the end of the 2000 year of account and as the Group does not participate on this syndicate its results have been excluded in compiling this note.

The Group's share of the results of syndicate 2010, reported above, are stated before consolidation adjustments and the long term rate of investment return applied to funds at Lloyd's.

The Technical Account for the year ended 31 December 2000 related purely to syndicates managed by external managing agents.

The Group's balance on technical account for the year ended 31 December 2001 has been affected by the events of 11 September 2001 (USTA). In respect of syndicate 2010, Cathedral has publicly announced that it estimates the financial impact of the USTA loss to be between 10 – 15% of capacity for the 2001 year of account (syndicate 2010 capacity being £81m for the 2001 year of account). This is not a prediction of the results as, absent the USTA, Cathedral would now be reasonably optimistic that the 2001 account would be profitable. In respect of the externally managed syndicates, consideration as to the impact of the USTA loss has been taken into account when determining the open year loss provisions, based on the available information from the various managing agents.

Notes to the Financial Statements
For the year ended 31 December 2001

continued

3 Segmental Information

(i) *Underwriting*

	Year ended 31 December 2001					
	Gross Premiums Written £'000	Gross Premiums Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Business:						
Accident & Health	924	924	(870)	(278)	207	(17)
Motor – third party liability	5,751	5,751	(5,022)	(891)	267	105
Motor – other classes	7,469	7,244	(6,372)	(1,183)	202	(109)
Marine, Aviation & Transport	4,923	4,166	(3,655)	(870)	344	(15)
Fire and other Damage to Property	3,317	3,284	(3,093)	(962)	308	(463)
Third Party Liability	5,552	5,375	(4,287)	(1,341)	948	695
Credit and Suretyship	533	533	(574)	(167)	261	53
Legal Expenses	120	120	(97)	(28)	(4)	(9)
Other	111	111	39	(11)	(4)	135
Total Direct	28,700	27,508	(23,931)	(5,731)	2,529	375
Reinsurance Business:						
Reinsurance Acceptances	21,748	18,071	(30,751)	(3,116)	12,090	(3,706)
Reinsurance to Close	4,376	4,376	(6,979)	(91)	3,218	524
Total Reinsurance	26,124	22,447	(37,730)	(3,207)	15,308	(3,182)
Total	54,824	49,955	(61,661)	(8,938)	17,837	(2,807)

	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:					
Reinsurance 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)

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Gross premiums in respect of direct business written in:		
United Kingdom	26,159	12,201
Other EU Member States	(147)	152
Rest of World	2,688	(714)
	28,700	11,639

(ii) *Movement in provisions for losses foreseen on open years for the year ended 31 December 2001*

	Balance at 1 January £'000	Amounts Utilised £'000	Amounts Unused £'000	Additional Provisions £'000	Balance at 31 December £'000
1998 Year of Account	325	(234)	(84)	166	173
1999 Year of Account	2,271	(1,192)	(959)	94	214
2000 Year of Account	687	–	–	1,117	1,804
2001 Year of Account	–	–	–	–	–
Total	3,283	(1,426)	(1,043)	1,377	2,191

Notes to the Financial Statements For the year ended 31 December 2001

continued

4 Net operating expenses

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Acquisition costs	6,780	3,074
Administrative expenses	1,654	813
(Profit)/loss on exchange	(92)	(545)
Names' personal expenses on Lloyd's syndicates	576	461
Total	8,918	3,803

5 Net investment return

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Investment return on underwriting investments:		
Syndicate Investments		
Investment income	1,088	821
Realised investment gains/(losses)	45	169
Investment expenses	(37)	(18)
Net investment return on syndicate investments	1,096	972
Funds at Lloyds		
Investment income	851	234
Realised investment gains/(losses)	(2)	–
Unrealised gains/(losses)	(169)	–
Investment expenses	(45)	–
Net investment return on Funds at Lloyd's investments	635	234
Net investment return on underwriting investments	1,731	1,206
Investment return on cash and other investments:		
Investment income	317	342
Realised (losses)/gains	(4)	239
Unrealised gains/(losses)	(58)	(114)
Investment management fees	(16)	(29)
Interest payable	–	–
Net investment return on cash and other investments	239	438
Net investment return	1,970	1,644

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 2001 £'000	Year ended 31 December 2000 £'000
Long-term rate of return applied to funds at Lloyd's	840	174
Actual investment return on syndicate underwriting	1,096	972
Total long-term rate of return transferred to technical account	1,936	1,146

Funds at Lloyd's

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

Cash	14,639	3,477
Fixed Interest	916	–
Equities	1,040	–

Comparison of actual rate of return to long term rate of return:

Long term rate of return	840	174
Actual rate of return	635	234
Effect of short term fluctuations over the period	(205)	60

The following long term rates of return (annualised) were used:

Cash	5.0%	5.0%
Fixed Interest	5.0%	5.0%
Equities	6.0%	6.0%

7 Fees

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Managing agency fees	472	38
Other fees	140	–
Total	612	38

Notes to the Financial Statements For the year ended 31 December 2001

continued

8 Other income

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
Profit on sale of syndicate capacity	139	15
Charge to managed syndicates for use of fixed assets	72	152
Other income	62	–
	273	167

9 Loss on ordinary activities before taxation

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
The loss on ordinary activities before taxation is stated after charging:		
Operating lease charges – rent	14	5
Depreciation of tangible fixed assets	111	161
Amortisation of goodwill	328	54
Impairment of syndicate capacity	137	–
Amortisation of syndicate capacity	203	164
Auditors' remuneration:		
– Audit services*	51	27
– Other services	67	20

*includes audit fees paid to auditors other than the Company's principal auditors.

10 Employees

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
The aggregate payroll costs borne by the Group were as follows:		
Salaries	737	106
Social security costs	81	12
Pension costs	109	18
	927	136

The average number of people (excluding Non-Executive Directors) employed by the Group during the year was 27 (31 December 2000: 4). As at 31 December 2001, the number of people (excluding Non-Executive Directors) employed by the Group was 30 (31 December 2000: 26).

11 Directors' Emoluments

Details, for each Director, of remuneration and pension entitlements are set out on page 13.

12 Tax on loss on ordinary activities

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
<i>(a) Analysis of charge in the period</i>		
Current tax:		
Corporation tax at 30%	1	113
Adjustments in respect of previous periods	(36)	(15)
Overseas tax	-	-
Total current tax (credit)/charge (note 12(b))	(35)	98
Deferred taxation:		
- underwriting losses	237	(1,264)
- unrealised investment (losses)/gains	(69)	(29)
- timing differences on losses	(204)	(135)
Total deferred tax (credit)/charge	(36)	(1,428)
Tax (credit)/charge	(71)	(1,330)
<i>(b) Factors affecting tax charge for period</i>		
(Loss) on ordinary activities before tax	(2,348)	(2,365)
(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(704)	(710)
Expenses not deductible for tax purposes	181	(4)
Timing differences	(6)	708
Investment income received net of tax	(28)	(12)
Movement in tax losses	557	-
Prior period adjustments	(36)	(15)
Other adjustments	1	131
	(35)	98

(c) Factors that may affect future tax charges

The future tax charge for the Group is dependent on the ability of the Group to utilise tax losses as they become available.

13 Loss attributable to members of the parent company

The loss dealt with in the accounts of the parent company was £400,421 (31 December 2000: profit of £308,630). 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 2001

continued

14 Earnings per share

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000
The basic earnings per share is calculated as follows:		
Loss for the year (£'000)	(2,277)	(1,035)
Basic weighted average number of shares (no.)	36,439,184	11,810,701
Basic earnings per share (p)	(6.2)	(8.8)
The diluted earnings per share is calculated as follows:		
Loss for the year (£'000)	(2,277)	(1,035)
Basic weighted average number of shares (no.)	36,439,184	11,810,701
Weighted average convertible loan notes (no.)*	677,570	6,238,008
Diluted weighted average number of shares (no.)	37,116,754	18,048,709
Diluted earnings per share (p)	(6.1)	(5.7)
The operating earnings per share – diluted – is calculated as follows:		
Loss for the year (£'000)	(2,277)	(1,035)
Short term fluctuations in investment return (£'000)	205	(60)
Tax effect of short term fluctuations in investment return (£'000)	(61)	18
Operating loss for the year (£'000)	(2,133)	(1,077)
Diluted weighted average number of shares (no.)	37,116,754	18,048,709
Operating earnings per share – diluted (p)	(5.7)	(6.0)

*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 year.

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 2001	1,469	3,257	4,726
Additions in the period	58	18	76
Disposals in the period	(177)	–	(177)
Cost at 31 December 2001	1,350	3,275	4,625
Amortisation at 1 January 2001	164	54	218
Provided during the period	203	328	531
Impairment loss in the period	137	–	137
Disposals in the period	(148)	–	(148)
Amortisation at 31 December 2001	356	382	738
Net book value at 31 December 2001	994	2,893	3,887
Net book value at 1 January 2001	1,305	3,203	4,508

16 Financial Investments

The Group's financial investments consist of:

	31 December 2001 Market value £'000	31 December 2001 Cost £'000	31 December 2000 Market value £'000	31 December 2000 Cost £'000
Corporate (Group and Company)	8,936	9,260	2,786	2,883
Syndicate participations	18,839	17,564	11,020	10,760
Group financial investments	27,775	26,824	13,806	13,643
<i>i) Corporate (Group and Company):</i>				
Shares and other variable yield securities	5,114	5,442	1,749	1,804
Debt and other fixed income securities	3,822	3,818	1,037	1,079
Total investments – Group and Company	8,936	9,260	2,786	2,883
<i>ii) Syndicate participations:</i>				
Shares and other variable yield securities	1,583	1,700	638	669
Debt securities and other fixed interest securities	15,360	14,679	9,229	8,931
Participation in investment pools	133	131	227	223
Loans guaranteed by mortgage	50	85	51	53
Deposits with credit institutions	1,713	969	808	819
Other investments	–	–	67	65
Total investments – Syndicate participations	18,839	17,564	11,020	10,760

All corporate investments are listed on recognised stock exchanges.

Notes to the Financial Statements For the year ended 31 December 2001

continued

17 Investments in subsidiary undertakings

	31 December 2001 £'000
Cost	
At 1 January 2001	2,014
Additions during the year	-
At 31 December 2001	2,014

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 FSA	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.

As from 1 January 2002, Cathedral Capital (1999) Limited ceased to underwrite new business at Lloyd's. The company's syndicate participation rights were transferred to Cathedral Capital (1998) Limited for the 2002 year of account.

All companies are registered and operate in England.

18 Own shares

During 2001, an Employee Share Ownership Plan ("ESOP") was set up for the benefit of the employees of the Group. At the end of the period, 677,771 A convertible shares were held in the ESOP. All of these shares had been gifted to the ESOP by shareholders of the Company and these shares are held on the balance sheet at a cost of £158,940. None of these shares have been allocated to the benefit of any specific employees.

19 Debtors

	Group 31 December 2001 £'000	Group 31 December 2000 £'000	Company 31 December 2001 £'000	Company 31 December 2000 £'000
Trade debtors	1,365	263	–	–
Amounts owed by managed syndicates	333	760	–	–
Amounts owed by group undertakings	–	–	4,199	3,324
Tax recoverable	–	1	–	–
Other debtors	34	444	–	156
Other debtors arising on syndicate participations	(778)	536	–	–
	954	2,004	4,199	3,480

Trade debtors consists of cash calls paid in advance to Lloyd's syndicates.

Of the amounts due from managed syndicates, £96,214 (2000: £130,631) is due in more than one year. All remaining debtors are due within one year.

20 Tangible fixed assets

	Computers & other equipment £'000	Furniture, fixtures & fittings £'000	Total £'000
Cost:			
At 1 January 2001	517	61	578
Additions	77	179	256
Disposals	(2)	–	(2)
At 31 December 2001	592	240	832
Depreciation:			
At 1 January 2001	235	1	236
Charge for the year	98	13	111
Disposals	(1)	–	(1)
At 31 December 2001	332	14	346
Net book value:			
At 31 December 2001	260	226	486
At 1 January 2001	282	60	342

Notes to the Financial Statements For the year ended 31 December 2001

continued

21 Prepayments and accrued income

	Group 31 December 2001 £'000	Group 31 December 2000 £'000	Company 31 December 2001 £'000	Company 31 December 2000 £'000
<i>Corporate:</i>				
Accrued income	380	251	380	251
Deferred tax asset	1,464	1,428	1	29
Deferred expenditure	–	243	–	243
Prepayments	43	12	6	7
<i>Syndicate participations:</i>				
Deferred acquisition costs	515	–	–	–
Prepayments and accrued income	185	119	–	–
	2,587	2,053	387	530

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

	31 December 2001 £'000	31 December 2000 £'000
Declared underwriting losses	369	279
Provisions for future underwriting losses	658	985
Deferred tax on unrealised (gains)/losses on investments	98	29
Other timing differences	339	135
Deferred tax asset	1,464	1,428
Deferred tax asset at start of year	1,428	
Deferred tax credit in profit and loss account for year	36	
Deferred tax asset at end of year	1,464	

Potential deferred tax assets of £514,147 have not been recognised at 31 December 2001 (31 December 2000: £nil).

The Company had a deferred tax asset at 31 December 2001 of £1,034 (31 December 2000: £28,694) in respect of unrealised losses on investments.

22 Other creditors

	Group 31 December 2001 £'000	Group 31 December 2000 £'000	Company 31 December 2001 £'000	Company 31 December 2000 £'000
<i>Corporate:</i>				
UK Corporation tax	81	142	80	171
Other taxes and social security costs	78	69	-	-
Trade creditors	5,350	4,282	-	-
Finance leases	-	11	-	-
<i>Syndicate participations:</i>				
Other creditors	(430)	(2,971)	-	-
	5,079	1,533	80	171

Group trade creditors include underwriting losses payable to Lloyd's, of which £3,889,504 (2000: £3,282,375) is due after more than one year.

23 Share capital

	31 December 2001 Authorised No. '000	31 December 2000 No. '000	31 December 2001 Allotted issued and fully paid No. '000	31 December 2000 No. '000
Number:				
A ordinary shares of 25p each	-	-	-	-
A convertible ordinary shares of 25p each	391,930	391,930	29,488	28,973
B ordinary shares of 25p each	20	20	-	-
C convertible ordinary shares of 25p each	8,050	8,050	7,364	7,364
Deferred shares of 0.0001p each	5,000,000	5,000,000	-	-
	£'000	£'000	£'000	£'000
Nominal value:				
A ordinary shares of 25p each	-	-	-	-
A convertible ordinary shares of 25p each	97,982	97,982	7,372	7,243
B ordinary shares of 25p each	5	5	-	-
C convertible ordinary shares of 25p each	2,013	2,013	1,841	1,841
Deferred shares of 0.0001p each	5	5	-	-
	100,005	100,005	9,213	9,084

During the year, 515,000 A convertible ordinary 25p shares were issued to the Loan Stock Noteholders who made their Lloyd's funds interavailable to the Company. These shares were valued at £1.10 per share.

Notes to the Financial Statements For the year ended 31 December 2001

continued

24 Reserves

Movements in reserves for the year ended 31 December 2001

	Share premium reserve £'000	Merger reserve £'000	Profit and loss reserve £'000	Total £'000
Group:				
Balance at 1 January 2001	19,145	1,447	(2,476)	18,116
Conversion of loan notes	437	-	-	437
Share issue expenses	(13)	-	-	(13)
Loss for the year	-	-	(2,277)	(2,277)
At 31 December 2001	19,569	1,447	(4,753)	16,263

	Share premium reserve £'000	Profit and loss reserve £'000	Total £'000
Company:			
Balance at 1 January 2001	19,145	466	19,611
Conversion of loan notes	437	-	437
Share issue expenses	(13)	-	(13)
Loss for the year	-	(400)	(400)
At 31 December 2001	19,569	66	19,635

25 Reconciliation of shareholders' funds

	Group 31 December 2001 £'000	Group 31 December 2000 £'000	Company 31 December 2001 £'000	Company 31 December 2000 £'000
Total recognised gains/(losses) for the year	(2,277)	(1,035)	(400)	308
Issue of shares	553	23,883	553	22,436
Movement in unrealised gains on investments	-	-	-	(18)
Total movements during the year	(1,724)	22,848	153	22,726
Opening shareholders' funds	27,200	4,352	28,695	5,969
Closing shareholders' funds	25,476	27,200	28,848	28,695

26 Net tangible assets per share

	31 December 2001 £'000	31 December 2000 £'000
Undiluted:		
Net assets	25,476	27,200
Less intangible assets	(3,887)	(4,508)
Net tangible assets	21,589	22,692
Basic number of shares at 31 December (no.)	36,851,020	36,336,020
Net tangible assets per share – undiluted (p)	58.6p	62.5p
	£'000	£'000
Diluted:		
Net tangible assets (as above)	21,589	22,692
Add amounts due in respect of convertible loan notes	77	809
Net tangible assets after conversion of loan notes	21,666	23,501
Basic number of shares at 31 December (no.)	36,851,020	36,336,020
Add shares issuable on conversion of loan notes (no.)	70,000	735,000
Diluted number of shares at 31 December (no.)	36,921,020	37,071,020
Net tangible assets per share – diluted (p)	58.7p	63.4p

27 Capital commitments

There were no capital commitments at 31 December 2001 (2000: nil).

28 Operating leases

	31 December 2001 £'000	31 December 2000 £'000
Annual commitments 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.

Notes to the Financial Statements
For the year ended 31 December 2001

continued

29 Analysis of Consolidated Balance Sheet

	At 31 December 2001				
	Syndicate 2010 100% £'000	Syndicate 2010 24.7% £'000	Third party syndicates £'000	Corporate £'000	Total £'000
Intangible assets:					
Syndicate participations	-	-	-	994	994
Goodwill	-	-	-	2,917	2,917
Negative goodwill	-	-	-	(24)	(24)
	-	-	-	3,887	3,887
Investments:					
Financial investments	2,739	675	18,164	8,936	27,775
Deposits with Ceding Undertakings	-	-	37	-	37
Own shares	-	-	-	159	159
	2,739	675	18,201	9,095	27,971
Reinsurers' share of technical provisions:					
Provision for unearned premiums	2,212	546	-	-	546
Claims outstanding	78,430	19,344	15,386	-	34,730
	80,642	19,890	15,386	-	35,276
Debtors:					
Arising out of direct operations	2,503	617	11,072	-	11,689
Arising out of reinsurance operations	27,534	6,790	13,156	-	19,946
Other debtors	524	129	(907)	1,732	954
	30,561	7,536	23,321	1,732	32,589
Other assets:					
Tangible assets	-	-	-	486	486
Cash at bank and in hand	18,530	4,570	3,544	14,089	22,203
Other	-	-	1,590	-	1,590
	18,530	4,570	5,134	14,575	24,279
Prepayments and accrued income:					
Deferred acquisition costs	2,087	515	-	-	515
Prepayments and accrued income	138	36	149	1,887	2,072
Total assets	134,697	33,222	62,191	31,176	126,589

	At 31 December 2001				
	Syndicate 2010 100% £'000	Syndicate 2010 24.7% £'000	Third party syndicates £'000	Corporate £'000	Total £'000
Capital and reserves:					
Called up share capital	-	-	-	9,213	9,213
Share premium	-	-	-	19,569	19,569
Merger reserve	-	-	-	1,447	1,447
Profit and loss reserve	-	-	-	(4,753)	(4,753)
Equity shareholders' funds	-	-	-	25,476	25,476
Technical provisions:					
Claims outstanding – gross	98,283	24,241	53,926	-	78,167
Provision for losses foreseen on open years	-	-	2,191	-	2,191
Provisions for unearned premiums	19,741	4,869	-	-	4,869
	118,024	29,110	56,117	-	85,227
Provisions for other risks and charges:					
Provision for deferred taxation	-	-	-	-	-
Other provisions	-	-	-	-	-
	-	-	-	-	-
Creditors:					
Arising out of direct insurance operations	439	107	1,148	-	1,255
Arising out of reinsurance operations	17,249	4,255	4,720	-	8,975
Other creditors	(1,407)	(257)	(173)	5,509	5,079
	16,281	4,105	5,695	5,509	15,309
Accruals and deferred income	392	7	379	191	577
Total liabilities	134,697	33,222	62,191	31,176	126,589

Notes to the Financial Statements
For the year ended 31 December 2001

continued

	At 31 December 2000		
	Third party syndicates £'000	Corporate £'000	Total £'000
Intangible assets:			
Syndicate participations	–	1,305	1,305
Goodwill	–	3,246	3,246
Negative goodwill	–	(43)	(43)
	–	4,508	4,508
Investments:			
Financial investments	11,020	2,786	13,806
Deposits with Ceding Undertakings	13	–	13
Own shares	–	–	–
	11,033	2,786	13,819
Reinsurers' share of technical provisions:			
Provision for unearned premiums	–	–	–
Claims outstanding	7,775	–	7,775
	7,775	–	7,775
Debtors:			
Arising out of direct operations	4,696	–	4,696
Arising out of reinsurance operations	12,486	–	12,486
Other debtors	536	1,468	2,004
	17,718	1,468	19,186
Other assets:			
Tangible assets	–	342	342
Cash at bank and in hand	2,382	20,959	23,341
Other	773	–	773
	3,155	21,301	24,456
Prepayments and accrued income			
Deferred acquisition costs	–	–	–
Prepayments and accrued income	119	1,934	2,053
Total assets	39,800	31,997	71,797

	At 31 December 2000		
	Third party syndicates £'000	Corporate £'000	Total £'000
Capital and reserves:			
Called up share capital	–	9,084	9,084
Share premium	–	19,145	19,145
Merger reserve	–	1,447	1,447
Profit and loss reserve	–	(2,476)	(2,476)
Equity shareholders' funds	–	27,200	27,200
Technical provisions:			
Claims outstanding – gross	37,131	–	37,131
Provision for losses foreseen on open years	3,283	–	3,283
Provisions for unearned premiums	–	–	–
	40,414	–	40,414
Provisions for other risks and charges:			
Provision for deferred taxation	–	–	–
Other provisions	–	–	–
	–	–	–
Creditors:			
Arising out of direct insurance operations	637	–	637
Arising out of reinsurance operations	1,632	–	1,632
Other creditors	(2,971)	4,504	1,533
	(702)	4,504	3,802
Accruals and deferred income	88	293	381
Total liabilities	39,800	31,997	71,797

Notes to the Financial Statements For the year ended 31 December 2001

continued

30 Reconciliation of operating loss to net cash outflow from operating activities

	31 December 2001 £'000	31 December 2000 £'000
Loss before tax on ordinary activities	(2,348)	(2,365)
Depreciation of fixed assets	111	161
Amortisation of goodwill	328	54
Impairment of syndicate capacity	137	–
Amortisation of syndicate capacity	203	164
(Profit) on sale of syndicate capacity	(139)	(15)
(Increase) in debtors & accrued income	(583)	(960)
Loss on disposal of fixed assets	1	–
Write off of deferred expenditure	243	–
Increase in creditors	964	2,572
Realised and unrealised investment losses/(gains)	233	(124)
Net cash (outflow) from operating activities	(850)	(513)

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

	31 December 2001 £'000	31 December 2000 £'000
Net cash (outflow)/inflow for the year	(2,633)	1,663
Cashflow – portfolio investments	2,146	16,855
Movement arising from cashflows	(487)	18,518
Changes in market value of investments	(233)	124
Total movement in portfolio investments, net of financing	(720)	18,642
Portfolio at 1 January	23,745	5,103
Portfolio at 31 December	23,025	23,745

32 Movement in cash and portfolio investments

	1 January 2001 £'000	Cash flow £'000	Changes to Market value £'000	31 December 2001 £'000
Cash at bank and in hand	3,523	(2,633)	–	890
Deposits with credit institutions	17,436	(4,237)	–	13,199
Total cash	20,959	(6,870)	–	14,089
Shares	1,748	3,636	(270)	5,114
Fixed income investments	1,038	2,747	37	3,822
Total portfolio investments	2,786	6,383	(233)	8,936
Total cash and portfolio investments	23,745	(487)	(233)	23,025

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

33 Net cash inflow on portfolio investments

	Year ended 31 December 2001			Year ended 31 December 2000		
	Purchases £'000	Sales £'000	Net cash flow £'000	Purchases £'000	Sales £'000	Net cash flow £'000
Deposits with credit institutions	–	–	(4,237)	–	–	17,086
Shares and other variable yield securities	4,454	818	3,636	1,370	1,274	96
Fixed income investments	3,763	1,016	2,747	–	327	(327)
	8,217	1,834	2,146	1,370	1,601	16,855

34 Pensions

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

35 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 page 11.

(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 page 11.

Notes to the Financial Statements For the year ended 31 December 2001

continued

36 Contingent liabilities

(i) *Non Payment of Conversion Loan Stock*

At the date of these accounts all convertible loan stock 2001 noteholders have come to an agreement with the Company and all but one had settled their outstanding liability. One loan stock holder who had £77,000 outstanding at 31 December 2001, paid £7,000 of his liability in 2002 and has yet to settle the remaining £70,000 with the Company. The Company may be required to pay £70,000 into the funds at Lloyd's even if this amount is not received.

(ii) *Lloyd's of London*

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 Cathedral Capital (1999) Limited fails to meet any of its Lloyd's obligations, after having called on the Group under its guarantees, then:

- (a) Lloyd's will be entitled to require Cathedral Capital (1998) Limited 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 Cathedral Capital (1999) Limited, Lloyd's will be entitled to require Cathedral Capital (1998) Limited 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 Cathedral Capital (1999) Limited.

In December 2001 the Company agreed for the majority of the funds at Lloyd's of Cathedral Capital (1999) Limited to be made interavailable for the benefit of Cathedral Capital (1998) Limited. As part of that arrangement, the Company agreed to indemnify the Society of Lloyd's against all actions, proceedings, costs, claims and demands made against the Society of Lloyd's in respect of the Society of Lloyd's consenting and entering into this corporate interavailability proposal ("Deed of Indemnity"). The aggregate liability of the Company in respect of such indemnity shall not in any event exceed £258,610 (together with any reasonable costs and expenses incurred by the Society of Lloyd's). On 31 December 2001, as security for the performance of its obligations under the Deed of Indemnity, the Company granted a floating charge over its undertaking and all of its property and assets existing from time to time in favour of the Society of Lloyd's.

Report of the Independent 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 2001 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Balance Sheet of the Company, 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 it.

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 affairs of the Company and the Group as at 31 December 2001 and of the loss of the Group 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

7 May 2002

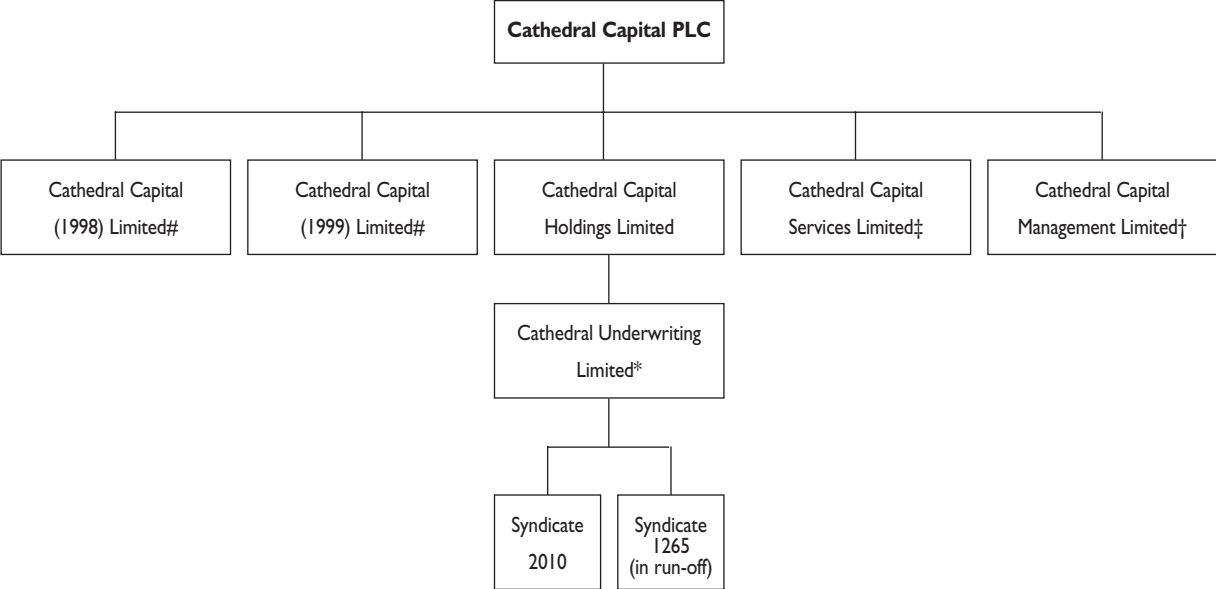
Capacity by Class and Syndicate – 2002 Year of Account

Class	Syndicate	Underwriter	Managing Agent	Share £	Percentage of Portfolio %
Marine	609	Dandridge	Atrium Underwriters Ltd	1,477,500	3.22
Non-Marine	318	Pritchard	Ensign Managing Agency Ltd	1,255,500	2.74
	570	Marsh	Atrium Underwriters Ltd	1,290,103	2.81
	623	Beazley	Beazley Furlonge Ltd	2,866,259	6.24
	807	Mathers	R J Kiln & Co Ltd	750,000	1.63
	2010	Hamblin	Cathedral Underwriting Ltd	22,500,000	49.02
Motor	980	Neal	Ensign Managing Agency Ltd	9,312,627	20.29
Composite	510	Various	R J Kiln & Co Ltd	6,450,000	14.05
				45,901,989	100.00

Allocation by Managing Agent

Managing Agent	£	%	
Cathedral Underwriting Ltd	22,500,000	49.02	
Ensign Managing Agency Ltd	10,568,127	23.02	
R J Kiln & Co Ltd	7,200,000	15.69	
Beazley Furlonge Ltd	2,866,259	6.24	
Atrium Underwriters Ltd	2,767,603	6.03	
		45,901,989	100.00

Cathedral Group Corporate Structure



Key:

- *Lloyd's Managing Agency
- †FSA Advisory Company
- #Corporate Underwriting Name at Lloyd's
- ‡Service Company

Share Transfer Market 2002:

10 June to 24 June

Financial Timetable 2002:

Annual Accounts to shareholders	May
Annual General Meeting	June
Interim Accounts to shareholders	October
Financial year end	December

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