CATHEDRAL
CAPITAL PLC

Annual Report

31 December 2002

Contents

Chairman's Statement

We are reporting a profit of £2,113,000 (2001: restated loss of £2,446,000). This result equates to a profit per share of 5.2 pence (2001: restated loss of 6.6 pence). Our diluted net tangible assets per share at the year end were 64.2 pence as against a restated 58.8 pence the previous year end.

The last 12 months have been critical in your Company's development. The underwriting teams have enhanced their reputations in the specialist areas where they are regarded as market leaders. At the same time we have been able to attract significant new investors both from the industry and the professional investment community.

I am delighted to welcome Jim Stradtner of Century Capital Partners LLC, William Salomon of Hansa Trust PLC and John Shettle of Securitas Capital LLC to join the Board. Their input will be invaluable in developing our business and, in due course, crystallising maximum shareholder value. Robert Bailey has retired, and I would like to extend my thanks to him for his efforts on behalf of the Company.

We still need to grow and diversify, and so we have recruited an additional underwriting team who will join us later in the year. They will add a direct property insurance capability, thus increasing the size of the business without prejudicing our specialist reputation.

It will be obvious that in order to achieve these aims we are going to need more capital, and at the Annual General Meeting I will be seeking support from shareholders to that end.

I hope you will agree that your business is in capable hands; on your behalf I would like to compliment the management on their efforts.

E E Patrick
Chairman
1 May 2003

Chief Executive Officer's Report

Overview

I am pleased to report that this year has been a highly successful one for your Company. We have successfully implemented plans to grow our core business in favourable market conditions, gained substantial additional investor support and returned to profit for the first time since 1999.

Market Conditions

Following the dramatic adjustments across most business lines during the last quarter of 2001, the market place has generally remained firm. 2002 was notable as the first full operating year of the 'new Bermudians' sporting ambitious (now in many cases revised downward) target returns. Under 'normal' market conditions the deployment of such substantial new hungry capital would almost certainly have had serious negative effects across the board. However, many of these new ventures focused on 'big ticket' classes where they hoped to attract enough premiums to service ambitious return models with limited quality underwriting resources. Most targeted on large catastrophe exposed property and casualty programmes that do not directly compete with our own core lines of business. Fortunately they have been fed partly by the withdrawal of a number of substantial industry players. These have put into the market place billions of dollars of premiums needing a home.

The global market place is now delicately poised with pricing and retention levels remaining firm. However, good well-priced risks underwritten by acknowledged leaders are being oversubscribed, in some classes heavily. Clearly customers will resist paying these prices when their business is easily placed. Price pressure will increase as long as the current period of relatively low claims activity continues.

Meanwhile "legacy losses" continue to move through the industry eroding the capital of established players and provoking a management reaction of reducing less mainstream underwriting activities. These factors combined with an uncertain investment outlook make for a prolonged firm market.

As we move through 2003 and toward the 2004 renewals, we believe that the market, absent major losses, will generally come under pressure and split into the two camps of 'haves' and 'have nots'. The 'haves' will be leaders in their classes who add technical expertise and have a trading relationship that the client values. The 'have-nots' will be left to fight for the remainder.

One of the most positive features of this last year is that our underwriting teams have demonstrated that they fit very much into the 'have' camp, by substantially increasing our market share of the business they control in our own specialist segments.

Lloyd's

Perception of the Lloyd's market during the last year by our customers, particularly in America, has dramatically improved as the market's forecasts for 2001 have held firm while many of the major industry players have posted deteriorating positions. Furthermore many insurers and reinsurers have been heavily affected by the continuing increase in legacy losses ranging from asbestos to professional indemnity related claims which are coming home to roost after decades of under-pricing and the savage cost of claim inflation. In the past investment returns have masked these effects but with year on year falling stock markets and historically low interest rates there is no longer anywhere to shelter.

This has led to the complete withdrawal of some major competitors both in the US and London Market and has more importantly constrained the operations of many others. Rating agencies have downgraded large sections of the industry following their initial action against Lloyd's post September 11. Lloyd's stock is rising across the board with brokers and customers and of course this directly helps our underwriting teams.

Cathedral Syndicate 2010

The first trading year, 2001, will have a final income boosted to approximately 90% of Premium Income Limit (£81m) by reinstatement and additional premiums resulting from our involvement in the events of September 11. Absent this, our first year income would have been approximately £53 million.

Our 2001 year of account exposures remain as we suggested immediately after September 11. We have been able to reduce the overall forecast deficit further as uncertainties have been resolved and the balance of the account has run-off well over the last twelve months. At this stage we are expecting an underwriting profit and overall small deficit (due to running and start up expenses) at the 36 month stage. In the context of our first trading year this is an excellent result.

Moving into 2002 we increased our Premium Income Limit from £81 million to £96 million and strengthened both our Property and Aviation underwriting teams. The market place saw a step change in both classes and we began to expand our books of business in an extremely favourable trading environment. At this stage we expect our final income to reach approximately 85% of the enlarged capacity. Thus far our claims activity has been light.

Competition and credible leaders dropped away in both of our core areas during early 2002 leaving our market influence substantially greater than our actual market share. We addressed this major opportunity by putting in place additional capital and substantially increasing the size of the Syndicate for the January 2003 renewals.

For 2003 we increased the Syndicate Premium Income Limit to £160million. Our underwriters have worked hard and effectively to deliver our business plan. At the time of writing 2003 has started well, but it is early days yet.

We have recently recruited a new underwriting team which will be joining us later in the year in order to build a worldwide Direct and Facultative property account. It is hoped that this will develop in a similar manner to our other core business units. This particular market is also enjoying buoyant trading conditions.

We hope that the new underwriting team will expand the Cathedral brand into the direct market place while the Syndicate remains a tightly focused operation that punches above its weight in its selected trading areas. The Syndicate's planned Premium Income Limit for 2004 is likely to be in excess of £200 million.

Third Party Syndicates

Since launching Syndicate 2010 for 2001 we have balanced the risk to our own balance sheet (via our corporate member of Lloyd's) through the use of a selective portfolio of syndicates managed outside Cathedral.

The logic for this is two-fold:

(i) Firstly, it offers a variety of exposures to our balance sheet which minimise clash with our core business lines. This theory was vindicated during 2001, where our spread portfolio had a relatively small exposure to September 11 and as such looks likely to produce a surplus when the overall market shows a substantial deficit; and

(ii) Secondly, Lloyd's has a Risk Assessed Capital system that determines capital requirements for members of Lloyd's depending on the business mix of the Syndicate(s) supported by the underlying corporate member. In isolation Syndicate 2010 is highly focused in two disciplines and as such would attract a capital requirement of approximately £1 for each £1 of Premium Income Limit. By contrast our corporate member's Premium Income Limit is allocated approximately 50% to Syndicate 2010, with the remainder allocated to other syndicates. This attracts a capital requirement of approximately £1 for £2.50 of Premium Income Limit.

Over the longer term the use of third party syndicates is likely to reduce as a proportion of our Group's underwriting as our own syndicate diversifies. However, while the market remains buoyant and we have access to quality underwriters that specialise in areas that complement our business we will continue to do so. Once that situation looks likely to change, the review of our position will be a priority.

Financial Review

2002 saw the return of the Group to profit on the back of a strong underwriting performance. This was highly commendable in the light of the disappointing investment return in the year. The Group also successfully completed a capital raise in the year, which added new funds of circa £28.8 million.

The Group has changed its accounting policy in respect of the results of certain of the third-party portfolio syndicates that it supports such that it annually accounts the results of these syndicates rather than accounting for them on a three year funded basis. Certain of the syndicates that we support have elected not to supply the information we require that would enable us to annually account the results so these continue to be included in the results on a three year funded basis. Similarly we have elected not to alter the accounting policy with respect to third-party syndicates that we do not support into 2003, as the information is not readily available. This change has resulted in the restatement of last year's comparatives and certain prior year adjustments.

The profit before tax for the year was £2.45 million (2001: restated loss of £2.59 million) and this is derived as follows:

	Underwriting Managed £'000	Underwriting External £'000	Underwriting Total £'000	Corporate £'000	Total £'000
Technical result	2,775	696	3,471	–	3,471
Net Investment return	229	1,054	1,283	(625)	658
Fees, commissions and other income	–	–	–	1,552	1,552
Other expenses	–	–	–	(2,465)	(2,465)
Amortisations	–	(440)	(440)	(327)	(767)
Profit before tax	3,004	1,310	4,314	(1,865)	2,449

The underwriting results included in the technical account have reflected fully the improvement in the combined ratio as follows during the calendar year:

	31 December 2002	31 December 2001
Claims ratio	68.9%	83.8%
Expense ratio	23.3%	26.4%
Total ratio	92.2%	110.2%

Chief Executive Officer's Report

continued

The ratios of Syndicate 2010's underwriting year on year have also mirrored this improvement:

	31 December 2002	31 December 2001
Claims ratio	**57.7%**	92.9%
Expense ratio	**24.1%**	31.3%
Total ratio	**81.8%**	124.2%

The investment return has been calculated using the long-term rate of investment return with an adjustment for short-term fluctuations in arriving at operating profit. The long-term rate of return is only applied to the funds at Lloyd's that support the underwriting activities of the Group. These rates of return are based on our expectation of returns over the investment cycle. The actual total return for the year was a loss of £805,000 which equates to a negative return of 3.2%. The relevant figures for the year ended 31 December 2002 are set out below:

	Average funds at Lloyd's £'000	Long-term rate of return %	Actual return %
Equities	7,066	6.0	(21.8)
Fixed Interest	4,221	5.0	8.0
Cash	14,026	5.0	2.8

The Earnings Per Share (fully diluted) were 5.2 pence (2001: restated loss per share of 6.6 pence).

Dividend Policy

In the short to medium term the Group will maintain its policy not to pay dividends. We aim to retain earnings and raise additional capital during 2003 sufficient to support an expanding business in an advantageous trading environment.

Balance Sheet

The balance sheet of the Group was significantly strengthened during the year by the successful capital raise that closed in November 2002. Approximately £28.8 million was raised of which £27.2 million was in respect of A Convertible ordinary shares and £1.6 million in respect of Series A Convertible Unsecured Loan Notes 2002 – 2006. In addition the Group obtained a £5 million Letter of Credit to support the Group's underwriting activities into 2003.

The funds at Lloyd's of the Group have increased substantially in the period with the equity element remaining relatively constant. An analysis of the funds at Lloyd's, excluding the £5 million letter of credit obtained to support our 2003 underwriting, is set out below:

	31 December 2002		31 December 2001	
	£'000	%	£'000	%
Equities	**7,659**	**16.2**	3,535	17.2
Fixed Interest	**4,305**	**9.1**	3,822	18.6
Cash	**35,246**	**74.7**	13,199	64.2
	47,210	**100.0**	20,556	100.0

At the year end the Group had an additional £1.75 million (2001: £2.47 million) of working capital which was not committed to supporting its underwriting activities.

The Group Investment Committee has overall responsibility for the management of the cash and investments of the Group. At the year end approximately 75% of the corporate funds were held in cash. All corporate funds are held in sterling and any foreign exchange currency matching occurs at Syndicate and not corporate level.

The net assets of the Group stood at circa £53.7 million (2001 restated: £25.3 million) at the year end. This amount includes circa £3.0 million (2001 restated: £3.6 million) relating to intangibles, being goodwill and cost of syndicate participations. This equates to Net Tangible Assets per share of 64.2 pence (2001 restated: 58.8 pence).

Strategy

Our business has truly found its feet. Customers and competitors know Cathedral as a major brand in our specialist areas. At the 2003 renewal season we took our market share in these areas to nearer its 'natural level' and we have substantially increased our underwriting for our own balance sheet. The achievement of these key objectives was facilitated by a successful capital raising exercise which brought in new investors both from the industry and the professional investment community.

Trading conditions remain favourable and our brand is enhanced. We aim to press on developing our core accounts and we are in the process of adding a 'third leg' to Syndicate 2010. This will bring diversity to our business and will be developed as a focused specialist unit to sit beside the existing two. It is complementary in nature and dovetails well into the infrastructure we already have in place. We are planning to increase the premiums written within Syndicate 2010 by approximately 50% for 2004.

We shall be asking shareholders' permission at the forthcoming Annual General Meeting ("AGM") to free up share capital that can be subscribed for by new or existing investors, so that we can raise sufficient capital to service the growth in our business which is moving in a highly satisfactory manner. We have acquired a new underwriting team that we believe can ably assist in this task and we will be taking more underwriting exposure to our balance sheet in the current good trading conditions. You will be receiving your AGM Notice shortly where we set out in more detail the rationale for our strategy. Your support of the resolutions will allow us to progress this plan.

Our aim has always been to build a quality business, as shareholder value surely follows. We believe we are moving well along that road, and we thank shareholders new and old for their patience.

Peter Scales
Chief Executive Officer
1 May 2003

CATHEDRAL
CAPITAL PLC

Directors and Advisors

Chairman	E E Patrick(1)(2)
Directors – Executive	L A Holder(2) J A Lynch(2) P D Scales(2) A I G C South
Directors – Non-Executive	R W Bailey (Resigned 12 July 2002) P M Gillham† E S Hochberg† A S Minns†(3) W H Salomon† (Appointed 7 November 2002) J F Shettle† (Appointed 4 March 2003) J B Stradtner† (Appointed 7 November 2002) J M P Welman†
	†Member of the Audit, Remuneration and Nomination Committees (1)Member of the Remuneration and Nomination Committees (2)Member of the Executive Management Committee (3)Senior Independent Director
Company Secretary	J A Lynch
Auditors	Mazars 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

After gaining a Masters in Business Administration from Cranfield, Elvin Patrick joined Edward Bates, merchant bankers in 1973 where he specialised in mergers and acquisitions, Stock Exchange practice and Balance Sheet Reorganisations, before joining the Lloyd's market in 1974. In 1981, he joined Stenhouse (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. He was Active Underwriter of syndicate 2010 until 30 November 2001.

Lawrence Holder

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. 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. He is also a non-executive director of Ensign Managing Agency Limited.

John Lynch

After gaining a degree in commerce from University College Cork, Ireland in 1988, John Lynch joined Robson Rhodes and qualified as a chartered accountant in 1992. After spending two years in industry he joined Finsbury Asset Management Limited and became head of accounting and administration for institutional investment clients. Since 1994 he has also been involved in the structuring of capital entities in Lloyd's. He joined Wren Limited as Company Secretary and Head of Finance in January 1999. Following the acquisition of Wren Limited by Brit Insurance Holdings PLC, he was Company Secretary and group financial controller from September 1999 until October 2000. He is Chief Financial Officer of Cathedral Capital PLC and Finance Director of Cathedral Capital Management Limited.

Peter Scales

After gaining a degree in Economics and Geography at University College, London, Peter Scales joined Bankside Underwriting Agencies Limited in 1986. In 1991, he joined Wren Underwriting Agencies Limited as an analyst. He was appointed a director of Wren Underwriting Agencies Limited in 1993 and managing director of Wren Lloyd's Advisers Limited in 1994. He was involved in the original placement of one of Lloyd's first listed corporate capital vehicles, subsequently to become Wren Limited, of which he was an executive director. Following the acquisition of Wren Limited by Brit Insurance Holdings PLC, he was director of capital management. He is Chief Executive Officer of Cathedral Capital PLC and is the Senior Executive Officer of Cathedral Capital Management Limited.

Anthony South

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. He is also a non-executive director of Anton Private Capital Limited.

Directors of the Company

continued

Paul Gillham

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

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 Officer for PMA Re and PMA Capital Corporation, where he was responsible for the corporate finance and accounting functions. 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, a Certified Public Accountant and a Chartered Property and Casualty Underwriter.

Anthony Minns

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 is now a director of a number of private trading companies and an AIM Listed company. An underwriting member since 1985, he resigned as an unlimited Name in 1997 and converted his capital under Cathedral's first conversion offer.

William Salomon

William Salomon is managing partner of Hansa Capital Limited, Deputy Chairman of Ocean Wilsons Holdings Limited and a Director of Hansa Trust plc. He was previously Chairman of Rea Brothers Group plc and subsequently Vice Chairman of Close Asset Management Holdings Limited, and is and has been a director of a number of other investment and trading companies, both private and quoted.

John F. Shettle

John F. Shettle is a Senior Managing Director of Securitas Capital LLC in New York. He joined Securitas Capital in 1998 and has a background of over 20 years in senior management positions in the property/casualty and insurance-related services industry. Prior to joining Securitas, Mr Shettle spent 15 years at AVEMCO Corporation, a NYSE-listed insurance holding company where he served as President and CEO. He earned a B.A. degree from Washington & Lee University and an Executive MBA from the Sellinger School of Business, Loyola College of Maryland.

James B Stradtner

James B. Stradtner is President of Century Merchant Bankers LLC, the Baltimore based subsidiary of Century Capital Management Inc, of Boston. Mr Stradtner is a Managing Director of Century Capital Management and chairman of the Investment Committee of the Private Equity Group. He joined Century in 1996 after 21 years with Alex, Brown & Sons Incorporated where he was a General Partner and a Managing Director. Mr Stradtner headed the Insurance Investment Banking Group at Alex, Brown & Sons. He earned a B.S. from the University of Maryland and an LLB from the University of Maryland School of Law. Mr Stradtner is a Chartered Financial Analyst and a member of the Baltimore Security Analysts Society, National Economists Club, the Association of Insurance and Financial Analysts and the Maryland Bar Association. He is President and a Member of the Board of Directors of the Legal Mutual Liability Insurance Society of Maryland.

Jo Welman

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 Unit Trusts. 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 when he became Chairman of Brit Insurance Holdings PLC ("Brit"). He resigned in September 2002 although he remains a non-executive director of Brit and non-executive chairman of the Close FTSE 100 Investment Trust plc. He is also a non-executive director of several other private and public companies.

Report of the Directors

The Directors present their report and the audited accounts for the year ended 31 December 2002.

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, in 1997, which enabled Names with unlimited liability to convert to limited liability. The 1998 year of account was the first underwriting year in which the Group participated. The Company underwrites at Lloyd's through its corporate member subsidiary.

In late 2000, the Company acquired Cathedral Underwriting Limited, a Lloyd's managing agency, which has the rights to manage Syndicate 2010, which commenced underwriting for the 2001 year of account. At the same time, the Company also acquired Cathedral Capital Services Limited, a service company, and Cathedral Capital Management Limited, an FSA registered advisory company.

The principal business of Cathedral Underwriting Limited is that of a Lloyd's managing agency which manages Syndicate 2010, a syndicate currently specialising in non-marine and aviation reinsurance, with capacity of circa £160 million for the 2003 year of account (£95.8 million for the 2002 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. This company is authorised and regulated by the FSA and Lloyd's.

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 corporate member underwrote circa £45 million of capacity for the 2002 year of account (2001: £40 million, prior to 2002 the Group underwrote through two corporate member subsidiaries). Of this capacity, £22.5 million supported Syndicate 2010 (2001: £20 million), which is managed by Cathedral Underwriting Limited. For the 2003 year of account, the Group has a premium limit of circa £135 million of which £68 million supports Syndicate 2010, with the remainder supporting a selected number of external third party syndicates.

A more 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 to reserves are shown on page 21.

Details of the accounting policies adopted by the Group for the year are set out in Note 1 to the Financial Statements. Changes in accounting policies relating to the underwriting results of certain syndicates and amortisation of syndicate participation rights are also set out in Note 1.

The Directors do not intend to declare a dividend for the year (2001: £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 7.

Share Capital

On 27 November 2002, 41,883,624 A Convertible ordinary shares of 25 pence were issued in connection with the Information Memorandum dated 17 July 2002.

On 9 April 2003, 1,000,000 A Convertible ordinary shares of 25 pence were issued for non-cash consideration. A Section 103, of the Companies Act 1985, report has been obtained from our Auditors which places a value of 71.7 pence per share on this consideration.

Convertible Debt

As part of the offering in 2002, a loan instrument was created and £1,604,621.20 nominal value of A Series Convertible Unsecured Loan Notes 2002-2006 were issued. These notes pay a coupon of 6% per annum and are convertible, at a future formulated value, into A Convertible ordinary 25 pence shares.

Directors

The Directors who held office at the year end are shown on page 8. Mr Shettle was appointed a non-executive Director on 4 March 2003.

Directors' Interest in Transactions

PMA Capital Insurance Company entered into agreements with Cathedral Capital Services Limited and Cathedral Capital Management Limited, and paid fees in 2002 of £45,000 and £20,000 respectively. PMA Capital Insurance Company is part of PMA Capital Corporation, the group which is the beneficial holder of 23,630,770 A Convertible ordinary shares of 25 pence in the Company. Mr Hochberg has an interest in these shares through his shareholding in the PMA Capital Corporation.

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% of capacity (being £77,726) and a profit commission of 17.5 per cent (being £nil for the 2002 calendar year). Mr Hochberg is a director of PMA Re Corporate Capital Limited.

Since the year end, the Company has acquired an income share in PMA Re Corporate Capital Limited. This share entitles the Company to 30 per cent of the aggregate post tax profits of PMA Re Corporate Capital Limited in return for the Company indemnifying PMA Capital Insurance Company and PMA Re Corporate Capital Limited for any post tax losses in excess of £300,000 incurred by PMA Re Corporate Capital Limited. The Company's funds at Lloyd's comprise approximately £8.9 million which is used to support both the underwriting activities of PMA Re Corporate Capital Limited, for the 2001 and 2002 underwriting years, and the underwriting activities of the Group. Mr Hochberg has an interest in this transaction through his shareholding in the PMA Capital Corporation and his directorship of PMA Re Corporate Capital Limited.

One of the expenses of the issue of shares in November 2002 was a US$25,000 fee paid to Century Capital Partners III, L.P. Fund, as a contribution to the legal fees incurred by that fund. Mr Stradtner has an interest in this transaction as he has a beneficial interest in the General Partner which is invested in this Fund.

Mr Salomon has entered into a client agreement with Cathedral Capital Management Limited. Under the terms of this agreement Cathedral Capital Management Limited receives a fee of £4,000 per annum and is entitled to a profit commission of 3%. Ascension Limited has entered into a client agreement with Cathedral Capital Management Limited. Under the terms of this agreement Cathedral Capital Management Limited receives a fee of £8,000 per annum and is entitled to a profit commission of 3%. Mr Salomon is also interested in this transaction as he is a director of Ascension Limited and a director and shareholder of its ultimate holding company. Since Mr Salomon has been appointed a director of the Company, fees of £667 and £1,333 respectively have been paid under these agreements.

Report of the Directors

continued

MMO UK Limited pays a run-off fee of £75,000 to Cathedral Underwriting Limited in respect of Syndicate 1265, which ceased at the end of 2000, and in which it was the sole capital provider. Mr Bailey was a director of MMO UK Limited. NYMAGIC Inc., has entered into an agreement with Cathedral Capital Services Limited and paid a fee of £45,000 in 2002. Mr Bailey was the Chairman and a shareholder of NYMAGIC Inc.

Directors' Interests

	31 December 2002		31 December 2001	
	A Convertible ordinary Shares	C Convertible ordinary Shares	A Convertible ordinary Shares	C Convertible ordinary Shares
E E Patrick	**2,253,492**	**818,168**	2,253,492	818,168
P M Gillham	**478,088**	**–**	478,088	–
E S Hochberg	**–**	**–**	–	–
L A Holder	**153,845**	**818,168**	–	818,168
J A Lynch	**185,000**	**818,168**	1,500	818,168
A S Minns	**155,280**	**–**	155,280	–
W H Salomon	**–**	**–**	–	–
P D Scales	**210,000**	**818,168**	10,000	818,168
J F Shettle Jr	**–**	**–**	–	–
A I G C South	**180,000**	**–**	154,402	–
J B Stradtner	**–**	**–**	–	–
J P M Welman	**–**	**–**	–	–

Both the A Convertible and C Convertible ordinary shares have a 25 pence nominal value per share.

Mr Hochberg is a shareholder of PMA Capital Corporation which is the holding company of PMA Capital Insurance Company which is interested in 23,630,770 A Convertible ordinary shares of the Company.

Deutsche Bank Nominees (Jersey) Ltd (1993) and Deutsche Bank Nominees (Jersey) Ltd (1994) are each interested in 769,230 A Convertible ordinary shares of the Company. Mr Salomon has a beneficial interest in one of these Trusts. Mr Salomon is a director and shareholder of Hansa Trust PLC which is interested in 6,153,000 A Convertible ordinary shares of the Company.

Mr Stradtner has a beneficial interest in the General Partner which is invested in the Century Capital Partners III, L.P. fund. The Century Capital Partners III, L.P. fund is interested in 6,921,099 A Convertible ordinary shares of the Company.

The NYMAGIC Group was the beneficial holder of 2,814,460 A Convertible ordinary shares at the year end. Mr Bailey had an interest in these shares through his shareholding in the NYMAGIC Group. Since the year end, Securitas Capital L.P. has acquired the 2,814,460 shareholding of the NYMAGIC Group.

No director has any interest in either the Employee Share Ownership Plan or the Approved Share Option Scheme 2000 of the Company.

Directors' Remuneration

Amounts earned by Directors during the year ended 31 December 2002 were as follows:

	31 December 2002				31 December 2001
	Fees & Salaries £'000	Benefits in kind £'000	Pension £'000	Total £'000	Total £'000
E E Patrick	**148**	**1**	**26**	**175**	148
P M Gillham	**15**	**–**	**–**	**15**	18
E S Hochberg	**–**	**–**	**–**	**–**	–
L A Holder	**148**	**1**	**19**	**168**	138
J A Lynch	**148**	**1**	**19**	**168**	163
A S Minns	**20**	**–**	**–**	**20**	20
W H Salomon	**2**	**–**	**–**	**2**	–
P D Scales	**148**	**1**	**19**	**168**	193
A I G C South	**76**	**1**	**25**	**102**	104
J B Stradtner	**2**	**–**	**–**	**2**	–
J P M Welman	**20**	**–**	**–**	**20**	20
	727	**5**	**108**	**840**	804

Mr Hochberg has elected to receive his fee by way of expense allowance. Mr Hochberg is entitled to an expense allowance of £20,000 per annum and in 2002 received an allowance of £1,667.

Mr Shettle received no remuneration in 2002 as he was not appointed a director until after the year end. Mr Bailey received no remuneration as a director.

The Group operates a profit sharing scheme from which all executive directors and employees of the Group can benefit. The size of this profit related pool created under this scheme is determined annually and is equal to 15 per cent of the consolidated Group pre tax and pre amortisation profits. Any distribution from this scheme is entirely at the discretion of the Board. The amounts received, from this scheme, by the executive directors have been included within the Fees and Salaries disclosed above.

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

Related Parties

PMA Capital Insurance Company held 27 per cent of share capital until the open offer in November closed when their shareholding increased to 29.9 per cent. Since the period end, their shareholding has fallen to 29.6 per cent through the issue of 1,000,000 A Ordinary Convertible ordinary shares on 9 April 2003.

NYMAGIC ceased to be related and Mr Bailey resigned from the Board on 12 July 2002.

Both Hansa Trust PLC and Century Capital Partners III, L.P. each have a right to appoint a director to the Board.

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 Corporate Taxes Act 1988. Options may only be granted, over the A Convertible ordinary shares of the Company, 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.

Options granted are 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
13	18 April 2001	425,238	63p	18 April 2004	17 April 2011
10	27 November 2002	207,611	65p	27 November 2005	26 November 2012
Total		632,849			

Two option holders granted options on 18 April 2001 and one option holder granted options on 27 November 2002 have ceased to be employed by the Company. Their options over 77,619 and 7,692 shares respectively lapsed at the time they ceased to be employees of the Group.

No directors of the Company were option holders at the year end.

Cathedral Capital Employee Share Ownership Plan ("ESOP")

This plan has been set up for the benefit of all employees in the Group. At 31 December 2002, there were 851,924 A Convertible ordinary shares held in the plan. During 2002, certain of the employees acquired 125,847 of the shares under deferred consideration terms. This gave rise to a £50,339 profit in the ESOP, further details of which are set out in note 18. Since the year end, an employee has acquired 50,000 of the ESOP shares under deferred consideration terms. Although the Company only has de facto control of the ESOP, the Company is required under Urgent Issues Task Force (UITF) Abstract 13 to account for the assets of the ESOP as if they belong to the Company. Consequently, they appear as an asset in both the Group and Company balance sheet.

Grants under this plan have been made, and details are as listed below:

No of participants	Date of grant of shares	Price per share	Amount of shares
3	27 November 2002	65p	125,847
1	10 January 2003	65p	50,000

These shares have been acquired by the participants on a deferred consideration basis with one-third of the consideration payable on 27 November 2004 and the remaining two-thirds on 27 November 2005.

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, the Company's legal advisor, has agreed to administer the market on behalf of the Company. All purchase and sale applications must be returned to Clyde & Co by the close of business on 4 June 2003 at which time the share transfer market will close. The results of this market will be notified to shareholders at the Annual General Meeting.

Any shareholders who wish to participate in the share transfer market can obtain the relevant documentation from the Secretary of the Company at the Company's Trading Office.

Corporate Governance

The Group Board ("the Board") comprises executive and non-executive directors and meetings are held quarterly or at such other intervals as may be determined by the Board to discuss corporate business, with further meetings to consider Lloyd's related matters as required by Lloyd's or the FSA. Additional ad hoc meetings are convened as required. As provided in the Articles of Association, the quorum for Board meetings is two.

The highest level of authority in the Group lies with the Board. However, under the Articles of Association, the Board may delegate any of its powers, authorities and discretion to committees. The Board has appointed the following committees, the powers of which are set out in their respective terms of reference:

(i) Executive Management Committee;
(ii) Audit Committee;
(iii) Remuneration Committee; and
(iv) Nomination Committee.

(i) Executive Management Committee

The Executive Management Committee is appointed by the Board on the nomination of the Executive Chairman. The Committee comprises the executive directors and selected senior management and underwriters. The Executive Chairman is the Chairman and the Group Compliance Director is Secretary of this Committee.

The Committee is the primary vehicle for day-to-day management of the Group. It has delegated authority from the Board to make such decisions and authorise such acts as are decided by the Committee to be necessary to manage and control the Group's affairs, subject to a schedule of the matters which require the prior approval of the Board or such other Board committees as the Board may from time to time determine. It meets at least quarterly.

(ii) Audit Committee

The Audit Committee comprises all the non-executive directors of Cathedral Capital PLC. The Senior Independent Director is Chairman of this Committee. The quorum for Committee meetings is three, and all meetings are held at the trading offices of the Group unless the Board agree otherwise. The Committee reports to the Board at least once a year.

The main responsibilities of the Committee include a review of the accounting policies and the financial statements, an evaluation of the effectiveness of internal controls, monitoring compliance with statutory requirements for financial reporting and the appointment and fees of external auditors. The Committee meets with the Company's external auditors and receives a report from them at least once a year.

Report of the Directors

continued

(iii) Remuneration Committee

The Board approves membership of the Remuneration Committee, which comprises all non-executive directors together with Executive Chairman of Cathedral Capital PLC or his alternate, the Chief Executive Officer. The Senior Independent Director is Chairman of this Committee. The quorum for Committee meetings is three, one of whom shall be the Executive Chairman or his alternate the Chief Executive Officer. The Committee meets at least once a year and reports to the Board.

The Committee ensures that salary, benefit and incentive levels throughout the Group are sufficiently competitive to attract and retain staff, particularly those holding key positions of responsibility. The Committee agrees the remuneration of the Group Chairman (and if he is not also the Executive Chairman, the Executive Chairman) Group Chief Executive and other executive directors of the Board, together with that of senior executives having basic salaries of £100,000 and above.

(iv) Nomination Committee

The Board approves membership of the Nomination Committee, which comprises all non-executive directors, together with the Executive Chairman of Cathedral Capital PLC or his alternate, the Chief Executive Officer. The Senior Independent Director is Chairman of this Committee. The Committee meets at least once a year.

The Committee is responsible for nominating candidates for the approval of the Board to fill vacancies on the Board of Directors and also for assessing the independence, objectivity and suitability of all non-executive directors, at least annually, and any candidates who are proposed to act as non-executive directors.

Annual General Meeting

The Annual General Meeting of the Company will be held on Thursday 5 June 2003 at the City of London Club, in the Main Dining Room, 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. The Company had 17 days purchases (2001: 5 days purchases) outstanding at 31 December 2002, based on the average daily amount invoiced by suppliers during the year.

Donations

During the year the Group made a charitable donation of £2,500 (2001: £1,595).

Auditors

The Group's auditors, Mazars Neville Russell, changed their name to Mazars on 1 September 2002. Mazars 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:

(i) to make suitable accounting policies and apply them consistently;

(ii) to make judgements and estimates that are reasonable and prudent;

(iii) to state whether applicable Accounting Standards have been followed; and

(iv) 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
1 May 2003

CATHEDRAL
CAPITAL PLC

Consolidated Profit and Loss Account
Technical Account – General Business
For the year ended 31 December 2002

	Notes	Year ended 31 December 2002 £'000	Year ended 31 December 2001 (Restated) £'000
Earned premiums, net of reinsurance:			
Gross premiums written	3	**63,120**	54,063
Outward reinsurance premiums		**(15,885)**	(15,543)
Net premiums written		**47,235**	38,520
Change in the provision for unearned premiums:			
Gross amount		**(4,482)**	(11,754)
Reinsurers' share		**1,506**	2,324
Earned premiums, net of reinsurance		**44,259**	29,090
Allocated investment return transferred from the non-technical account		**2,619**	1,936
Claims paid:			
Gross amount	3	**(19,345)**	(14,054)
Reinsurers' share		**7,789**	4,797
		(11,556)	(9,257)
Change in the provisions for claims:			
Gross amount	3	**(24,447)**	(42,576)
Reinsurers' share		**5,500**	27,469
		(18,947)	(15,107)
Claims incurred, net of reinsurance		**(30,503)**	(24,364)
Net operating expenses	4	**(10,285)**	(7,682)
Balance transferred to the non-technical account		**6,090**	(1,020)

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

The notes on pages 26 to 53 form part of these accounts.

Consolidated Profit and Loss Account
Non-Technical Account
For the year ended 31 December 2002

	Notes	Year ended 31 December 2002 £'000	Year ended 31 December 2001 (Restated) £'000
Balance on technical account for general business		**6,090**	(1,020)
Net investment return	5	**658**	1,970
Allocated investment return transferred to the technical account for general business	6	**(2,619)**	(1,936)
Fees and profit commission	8	**1,362**	612
Other income	7	**190**	273
Other expenses		**(3,232)**	(2,489)
Profit/(loss) on ordinary activities before tax	9	**2,449**	(2,590)
Tax (charge)/credit on profit/(loss) on ordinary activities	12	**(336)**	144
Profit/(loss) on ordinary activities after tax		**2,113**	(2,446)
Dividends		**–**	–
Retained profit/(loss) for the financial year		**2,113**	(2,446)
Basic earnings per share	14	**5.2p**	(6.7p)
Diluted earnings per share	14	**5.2p**	(6.6p)
Operating earnings per share (diluted)	14	**8.8p**	(6.2p)

All activities derive from continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

	Notes	Year ended 31 December 2002 £'000	Year ended 31 December 2001 (Restated) £'000
Profit/(loss) for the year		**2,113**	(2,446)
Prior year adjustment	25	**(218)**	
Total gains and losses recognised since last annual report		**1,895**	

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.

The notes on pages 26 to 53 form part of these accounts.

CATHEDRAL
CAPITAL PLC

Consolidated Balance Sheet
As at 31 December 2002

	Notes	31 December 2002 £'000	31 December 2001 (Restated) £'000
Intangible assets:			
Syndicate participations	15	**483**	722
Goodwill	15	**2,587**	2,917
Negative goodwill	15	**(21)**	(24)
		3,049	3,615
Investments:			
Financial investments	16	**41,271**	27,775
Deposits with ceding undertakings		**38**	37
Own shares	18	**129**	159
		41,438	27,971
Reinsurers' share of technical provisions:			
Provision for unearned premiums		**4,181**	1,551
Claims outstanding		**39,228**	35,096
		43,409	36,647
Debtors:			
Arising out of direct insurance operations		**10,780**	11,324
Arising out of reinsurance operations		**27,388**	19,652
Other	19	**5,969**	954
		44,137	31,930
Other assets:			
Tangible assets	20	**332**	486
Cash at bank and in hand		**44,411**	22,213
Other		**2,088**	1,590
		46,831	24,289
Prepayments and accrued income	21	**8,495**	3,603
Total assets		**187,359**	128,055

A more detailed analysis of the balance sheet is given in note 37.

The notes on pages 26 to 53 form part of these accounts.

Consolidated Balance Sheet
As at 31 December 2002

continued

	Notes	31 December 2002 £'000	31 December 2001 (Restated) £'000
Capital and reserves:			
Called up share capital	24	**19,701**	9,213
Share premium	25	**35,363**	19,569
Merger reserve	25	**1,447**	1,447
Profit and loss reserve	25	**(2,858)**	(4,971)
Equity shareholders' funds		**53,653**	25,258
Technical provisions:			
Claims outstanding – gross		**94,084**	70,964
Provision for losses foreseen on open years		**413**	1,945
Provision for unearned premiums		**18,618**	12,676
		113,115	85,585
Provisions for other risks and charges:			
Provision for deferred taxation		**–**	–
Other provisions	22	**645**	–
		645	–
Creditors:			
Arising out of direct insurance operations		**937**	1,255
Arising out of reinsurance operations		**10,294**	9,804
Other creditors	23	**6,987**	5,653
		18,218	16,712
Accruals and deferred income		**1,728**	500
Total liabilities		**187,359**	128,055

A more detailed analysis of the balance sheet is given in note 37.

The notes on pages 26 to 53 form part of these accounts.

CATHEDRAL
CAPITAL PLC

Company Balance Sheet
As at 31 December 2002

	Notes	31 December 2002 £'000	31 December 2001 £'000
Fixed asset investments:			
Listed investments	16	**12,100**	8,936
Investments in subsidiary undertakings	17	**2,014**	2,014
Own shares	18	**129**	159
		14,243	11,109
Current assets:			
Debtors	19	**5,420**	4,199
Prepayments and accrued income	21	**1,199**	387
Cash at bank		**35,352**	13,340
		41,971	17,926
Creditors: Amounts falling due within one year			
Creditors	23	**(1,779)**	(80)
Accruals and deferred income		**(171)**	(107)
		(1,950)	(187)
Net current assets		**40,021**	17,739
Net assets		**54,264**	28,848
Capital and reserves:			
Called-up share capital	24	**19,701**	9,213
Share premium	25	**35,363**	19,569
Profit and loss reserve	25	**(800)**	66
Equity shareholders' funds		**54,264**	28,848

The financial statements on pages 20 to 53 were approved by the Board of Directors on 1 May 2003 and signed on its behalf by:

Peter Scales

Chief Executive Officer

John Lynch

Chief Financial Officer

The notes on pages 26 to 53 form part of these accounts.

Consolidated Cash Flow Statement
For the year ended 31 December 2002

	Notes	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Net cash inflow/(outflow) from operating activities	30	**1,540**	(850)
Returns on investment and servicing of finance:			
Interest paid		**–**	–
Taxation:			
Corporation tax paid		**(3)**	(26)
Capital expenditure:			
Purchase of syndicate capacity	15	**(201)**	(58)
Purchase of tangible fixed assets		**(19)**	(256)
Proceeds from disposal of syndicate capacity		**–**	168
Total capital expenditure		**(220)**	(146)
Acquisitions and disposals:			
Acquisition of Cathedral Underwriting Limited		**–**	(31)
Total acquisitions and disposals		**–**	(31)
Financing:			
Issue of shares in respect of conversion loan notes		**77**	566
Issue of shares in respect of rights issue		**26,205**	–
Total financing		**26,282**	566
Increase/(decrease) in cash in the period		**27,599**	(487)
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings		**720**	(2,633)
Net portfolio investments	33	**26,879**	2,146
Increase/(decrease) in cash in the period		**27,599**	(487)

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 26 to 53 form part of these accounts.

Notes to the Financial Statements
For the year ended 31 December 2002

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 certain investments.

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

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

b) Change in accounting policy – underwriting results of syndicates managed by certain external managing agents

In previous years, all syndicates on which the Group participated which were managed by external managing agents were accounted for on a funded (three-year) basis. This was due to insufficient information being available for the Group to make reliable estimates of the necessary technical provisions on an annual basis of accounting. Since then, sufficient information has been made available by certain agents and, consequently, the Group has prepared its accounts for those specific syndicates on an annual accounting basis. Prior year results have been restated to reflect this.

c) Change in accounting policy – amortisation of syndicate participation rights for certain syndicates

In previous years, the cost of syndicate participation rights were amortised in equal annual instalments over three years, commencing at the end of the third year from the start of the Group's first underwriting year on the syndicate. This was to match the cost of the participation to the recognition of the underwriting results on a three year basis. Following the change in accounting policy in respect of underwriting results of syndicates managed by certain external managing agents (note 1b) the cost of syndicate participation rights for those syndicates managed by certain external managing agents is amortised in equal annual instalments over three years commencing at the start of the Group's first underwriting year on the syndicate. Prior year results have been restated to reflect this change in accounting policy.

d) 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 2002.

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 and certain external managing agents*

For syndicates managed by the Group and certain external managing agents, 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. Estimates are based on managing agents' estimates of the exposures of the underlying business written.

(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.

Claims provisions are estimated based on managing agents expectations and internal projections using known data.

(iii) Deferred acquisition costs

Acquisition costs represent commission and other expenses arising from the conclusion of insurance contracts. They are deferred over the period in which the related premiums are earned.

(iv) Sources of data

The financial information used to compile the annual accounting information used in the Consolidated Technical Account and the syndicate share of the Consolidated Balance Sheet is based on returns prepared by the managing agents of the syndicates and submitted to Lloyd's.

c) *Basis of accounting for underwriting results of syndicates managed by external managing agents where annual accounting information is unavailable*

For syndicates managed by external managing agents where annual accounting information is unavailable, 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 these managing agents 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 2002 with the comparative period including the returns for the twelve months to 31 December 2001.

(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.

(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.

Notes to the Financial Statements
For the year ended 31 December 2002

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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 previous 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.

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 is stated in the financial statements on the following basis:

(i) Listed investments are stated at closing middle market price on recognised stock exchanges; and
(ii) 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

For those syndicates managed by external managing agents where annual accounting information is unavailable and 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.

For those syndicates whose underwriting results are accounted for by the Group on an annual basis of accounting, the cost of participation rights is capitalised and amortised in equal annual instalments over three years, with amortisation commencing at 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 Consolidated Non-Technical Profit and Loss Account in the same accounting period.

j) 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.

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:

(i)	Computer and other equipment	3 years
(ii)	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 Consolidated 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 risks, and records the assets and liabilities of the ESOP as its own. Finance costs and administrative expenses are charged as they accrue.

CATHEDRAL CAPITAL PLC

Notes to the Financial Statements
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2 Analysis of Technical Account – General Business

	Year ended 31 December 2002					
	Syndicate 2010 Year of account: 2001 whole account £'000	Syndicate 2010 Year of account: 2002 whole account £'000	Cathedral's share of Syndicate 2010 Year of account: 2001 24.7% £'000	Cathedral's share of Syndicate 2010 Year of account: 2002 23.5% £'000	Total £'000	Year ended 31 December 2001 Total £'000
Earned premiums, net of reinsurance:						
Gross premiums written	4,456	91,123	1,099	21,415	22,514	19,624
Outward reinsurance premiums	(3,009)	(26,462)	(742)	(6,219)	(6,961)	(7,953)
Net premiums written	1,447	64,661	357	15,196	15,553	11,671
Change in the gross provision for unearned premiums:						
Gross amount	18,052	(23,164)	4,452	(5,444)	(992)	(4,869)
Reinsurers' share	(2,004)	5,191	(494)	1,220	726	546
Earned premiums, net of reinsurance	17,495	46,688	4,315	10,972	15,287	7,348
Allocated investment return transferred from the non-technical account*	745	194	184	45	229	80
Claims paid:						
Gross amount	(17,726)	(3,802)	(4,372)	(893)	(5,265)	(2,423)
Reinsurers' share	12,116	373	2,988	88	3,076	710
	(5,610)	(3,429)	(1,384)	(805)	(2,189)	(1,713)
Change in the provisions for claims:						
Gross amount	7,070	(27,495)	1,744	(6,462)	(4,718)	(24,241)
Reinsurers' share	(11,647)	4,076	(2,873)	958	(1,915)	19,126
	(4,577)	(23,419)	(1,129)	(5,504)	(6,633)	(5,115)
Claims incurred, net of reinsurance	(10,187)	(26,848)	(2,513)	(6,309)	(8,822)	(6,828)
Net operating expenses**	(3,080)	(14,451)	(759)	(2,931)	(3,690)	(2,297)
	4,973	5,583	1,227	1,777	3,004	(1,697)

*Excluding long term rate of investment return

**After adjusting for intergroup transactions

	Year ended 31 December 2002				
	Managed Syndicate 2010 £'000	External managed syndicates Annually accounted £'000	Fund accounted £'000	Total £'000	Year ended 31 December 2001 (Restated) £'000
Earned premiums, net of reinsurance:					
Gross premiums written	**22,514**	**38,940**	**1,666**	**63,120**	54,063
Outward reinsurance premiums	**(6,961)**	**(7,582)**	**(1,342)**	**(15,885)**	(15,543)
Net premiums written	**15,553**	**31,358**	**324**	**47,235**	38,520
Change in the provision for unearned premiums:					
Gross amount	**(992)**	**(3,490)**	**–**	**(4,482)**	(11,754)
Reinsurers' share	**726**	**780**	**–**	**1,506**	2,324
Earned premiums, net of reinsurance	**15,287**	**28,648**	**324**	**44,259**	29,090
Allocated investment return transferred from the non-technical account*	**229**	**544**	**510**	**1,283**	1,096
Claims paid:					
Gross amount	**(5,265)**	**(8,606)**	**(5,474)**	**(19,345)**	(14,054)
Reinsurers' share	**3,076**	**2,985**	**1,728**	**7,789**	4,797
	(2,189)	**(5,621)**	**(3,746)**	**(11,556)**	(9,257)
Change in the provisions for claims:					
Gross amount	**(4,718)**	**(24,573)**	**4,844**	**(24,447)**	(42,576)
Reinsurers' share	**(1,915)**	**8,146**	**(731)**	**5,500**	27,469
	(6,633)	**(16,427)**	**4,113**	**(18,947)**	(15,107)
Claims incurred, net of reinsurance	**(8,822)**	**(22,048)**	**367**	**(30,503)**	(24,364)
Net operating expenses**	**(3,690)**	**(5,821)**	**(774)**	**(10,285)**	(7,682)
	3,004	**1,323**	**427**	**4,754**	(1,860)
Long term rate of investment return				**1,336**	840
Balance on technical account, after long term rate of return				**6,090**	(1,020)

*Excluding long term rate of investment return

**After adjusting for intergroup transactions

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 restatement of the allocated investment return using the long term rate of return.

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

CATHEDRAL CAPITAL PLC

Notes to the Financial Statements
For the year ended 31 December 2002

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3 Segmental Information

(i) Underwriting

	Gross Premiums Written £'000	Gross Premiums Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
						Year ended 31 December 2002
Direct Business:						
Accident & Health	950	880	(518)	(284)	(28)	50
Motor – third party liability	1,822	1,705	(1,021)	(354)	(191)	139
Motor – other classes	12,556	11,654	(7,902)	(1,938)	(757)	1,057
Marine, Aviation & Transport	4,515	3,749	(3,195)	(891)	(223)	(560)
Fire and other Damage to Property	6,344	5,071	(3,394)	(1,504)	(155)	18
Third Party Liability	3,370	2,899	(716)	(847)	(611)	725
Credit and Suretyship	156	156	136	(45)	(116)	131
Legal Expenses	20	20	(17)	(8)	(6)	(11)
Other	377	399	(321)	(135)	(395)	(452)
Total Direct	30,110	26,533	(16,948)	(6,006)	(2,482)	1,097
Reinsurance Business:						
Reinsurance Acceptances	22,815	21,910	(10,781)	(4,235)	(5,075)	1,819
Reinsurance to Close	10,195	10,195	(16,063)	(44)	6,467	555
Total Reinsurance	33,010	32,105	(26,844)	(4,279)	1,392	2,374
Total	63,120	58,638	(43,792)	(10,285)	(1,090)	3,471

	Gross Premiums Written £'000	Gross Premiums Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
						Year ended 31 December 2001 (Restated)
Direct Business:						
Accident & Health	911	783	(799)	(240)	221	(35)
Motor – third party liability	5,671	4,871	(4,612)	(768)	285	(224)
Motor – other classes	7,365	6,135	(5,852)	(1,019)	216	(520)
Marine, Aviation & Transport	4,855	3,528	(3,357)	(749)	368	(210)
Fire and other Damage to Property	3,271	2,781	(2,841)	(828)	329	(559)
Third Party Liability	5,475	4,552	(3,937)	(1,155)	1,013	473
Credit and Suretyship	526	451	(527)	(144)	279	59
Legal Expenses	118	102	(89)	(25)	(4)	(16)
Other	110	95	36	9	(24)	116
Total Direct	28,302	23,298	(21,978)	(4,919)	2,683	(916)
Reinsurance Business:						
Reinsurance Acceptances	21,446	15,305	(28,242)	(2,685)	12,924	(2,698)
Reinsurance to Close	4,315	3,706	(6,410)	(78)	3,440	658
Total Reinsurance	25,761	19,011	(34,652)	(2,763)	16,364	(2,040)
Total	54,063	42,309	(56,630)	(7,682)	19,047	(2,956)

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 (Restated) £'000
Gross premiums in respect of direct business written in:		
United Kingdom	**33,020**	25,761
Other EU Member States	**6**	(147)
Rest of World	**(2,916)**	2,688
	30,110	28,302

(ii) Movement in provisions for losses foreseen on open years for the year ended 31 December 2002

	Balance at 1 January (Restated) £'000	**Amounts Utilised £'000**	**Amounts Unused £'000**	**Additional Provisions £'000**	**Balance at 31 December £'000**
1998 Year of Account	**173**	**–**	**(112)**	**–**	**61**
1999 Year of Account	**214**	**(49)**	**(64)**	**–**	**101**
2000 Year of Account	**1,558**	**(932)**	**(375)**	**–**	**251**
2001 Year of Account	**–**	**–**	**–**	**–**	**–**
2002 Year of Account	**–**	**–**	**–**	**–**	**–**
Total	**1,945**	**(981)**	**(551)**	**–**	**413**

Notes to the Financial Statements
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4 Net operating expenses

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 (Restated) £'000
Acquisition costs	**6,519**	5,833
Administrative expenses	**2,000**	1,495
Loss/(profit) on exchange	**1,058**	(68)
Names' personal expenses on Lloyd's syndicates	**708**	422
Total	**10,285**	7,682

5 Net investment return

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Investment return on underwriting investments:		
Syndicate Investments		
Investment income	**1,383**	1,088
Realised investment (losses)/gains	**(63)**	45
Investment expenses	**(37)**	(37)
Net investment return on syndicate investments	**1,283**	1,096
Funds at Lloyd's		
Investment income	**1,022**	851
Realised investment losses	**(215)**	(2)
Unrealised losses	**(1,518)**	(169)
Investment expenses	**(94)**	(45)
Net investment return on Funds at Lloyd's investments	**(805)**	635
Net investment return on underwriting investments	**478**	1,731
Investment return on cash and other investments:		
Investment income	**126**	317
Realised losses	**(67)**	(4)
Unrealised gains/(losses)	**132**	(58)
Investment management fees	**–**	(16)
Interest payable	**(11)**	–
Net investment return on other investments	**180**	239
Net investment return	**658**	1,970

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 2002 £'000	Year ended 31 December 2001 £'000
Long-term rate of return applied to funds at Lloyd's	**1,336**	840
Actual investment return on syndicate underwriting	**1,283**	1,096
Total long-term rate of return transferred to Consolidated Technical Account	**2,619**	1,936
Funds at Lloyd's		
The average funds at Lloyd's balance was as follows:		
Cash	**14,026**	14,639
Fixed Interest	**4,221**	916
Equities	**7,066**	1,040
Comparison of actual rate of return to long term rate of return:		
Long term rate of return	**1,336**	840
Actual rate of return	**(805)**	635
Effect of short term fluctuations over the period	**(2,141)**	(205)
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 Other income

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Profit on sale of syndicate capacity	**–**	139
Charge to managed syndicates for use of fixed assets	**125**	72
Profit arising within the ESOP	**50**	–
Other income	**15**	62
	190	273

The profit within the ESOP arose on the sale of shares during the year at greater than book value. Although the Company only has de facto control of the shares, its profit has been recognised in the Company's accounts in accordance with Urgent Issues Task Force (UITF) Abstract 13.

Notes to the Financial Statements
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8 Fees and profit commission

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Managing agency fees	**551**	472
Profit commission	**681**	–
Other fees	**130**	140
	1,362	612

9 Profit/(loss) on ordinary activies before taxation

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 (Restated) £'000
The profit/(loss) on ordinary activities before taxation is stated after charging:		
Operating lease charges – rent	**79**	14
Depreciation of tangible fixed assets	**173**	112
Amortisation of goodwill	**327**	328
Amortisation of syndicate capacity	**440**	433
Auditors' remuneration:		
– Audit services paid to Mazars	**31**	36
– Audit services paid to other auditors	**16**	15
– Other services	**90**	67

In addition, Mazars received a further £114,000 of fees relating to the capital raising during the year, which have been treated as issue costs rather than charged to the profit and loss account.

10 Employees

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
The aggregate payroll costs borne by the Group were as follows:		
Salaries	**1,539**	737
Social security costs	**144**	81
Pension costs	**111**	109
	1,794	927

The average number of people (excluding Non-Executive Directors) employed by the Group during the year was 30 (31 December 2001: 27). As at 31 December 2002, the number of people (excluding Non-Executive Directors) employed by the Group was 31 (31 December 2001: 30).

11 Directors' Emoluments

Details, for each Director, of remuneration and pension entitlements are set out on page 15.

12 Tax on profit/(loss) on ordinary activities

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 (Restated) £'000
(a) Analysis of charge in the period		
Current tax:		
Corporation tax at 30%	**9**	1
Adjustments in respect of previous periods	**–**	(36)
Overseas tax	**–**	–
Total current tax charge/(credit) (note 12(b))	**9**	(35)
Deferred taxation:		
– underwriting losses	**1,439**	192
– unrealised investment losses	**(423)**	(69)
– timing differences on accelerated capital allowances	**(14)**	–
– additional tax losses	**(557)**	(204)
– other timing differences	**(118)**	(28)
Total deferred tax charge/(credit)	**327**	(109)
Tax charge/(credit)	**336**	(144)
(b) Factors affecting tax charge for period		
Profit/(loss) on ordinary activities before tax	**2,449**	(2,590)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**735**	(777)
Expenses not deductible for tax purposes	**132**	181
Timing differences	**(1,256)**	67
Investment income received net of tax	**(96)**	(28)
Income not taxable	**(15)**	–
Movement in tax losses	**507**	557
Other taxes	**2**	–
Prior period adjustments	**–**	(36)
Other adjustments	**–**	1
Total current tax charge/(credit)	**9**	(35)

(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 £866,064 (31 December 2001: loss of £400,421), which included a profit arising in the ESOP of £50,339 (see note 18).

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.

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14 Earnings per share

	Year ended 31 December 2002	Year ended 31 December 2001 (Restated)
The basic earnings per share is calculated as follows:		
Profit/(loss) for the year (£'000)	**2,113**	(2,446)
Basic weighted average number of shares (no.)	**40,788,755**	36,439,184
Basic earnings per share (p)	**5.2**	(6.7)
The diluted earnings per share is calculated as follows:		
Profit/(loss) for the year (£'000)	**2,113**	(2,446)
Basic weighted average number of shares (no.)	**40,788,755**	36,439,184
Weighted average convertible loan notes (no.)*	**37,129**	677,570
Diluted weighted average number of shares (no.)	**40,825,884**	37,116,754
Diluted earnings per share (p)	**5.2**	(6.6)
The operating earnings per share – diluted – is calculated as follows:		
Profit/(loss) for the year (£'000)	**2,113**	(2,446)
Short term fluctuations in investment return (£'000)	**2,141**	205
Tax effect of short term fluctuations in investment return (£'000)	**(642)**	(61)
Operating profit/(loss) for the year (£'000)	**3,612**	(2,302)
Diluted weighted average number of shares (no.)	**40,825,884**	37,116,754
Operating earnings per share – diluted (p)	**8.8**	(6.2)

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

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

15 Intangible assets

	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 January 2002 (restated)	**1,315**	**3,275**	**4,590**
Purchases in the period	**201**	**–**	**201**
Disposals in the period	**(286)**	**–**	**(286)**
Cost at 31 December 2002	**1,230**	**3,275**	**4,505**
Amortisation at 1 January 2002 (restated)	**593**	**382**	**975**
Provided during the period	**440**	**327**	**767**
Impairment loss in the period	**–**	**–**	**–**
Disposals in the period	**(286)**	**–**	**(286)**
Amortisation at 31 December 2002	**747**	**709**	**1,456**
Net book value at 31 December 2002	**483**	**2,566**	**3,049**
Net book value at 1 January 2002 (restated)	**722**	**2,893**	**3,615**

16 Financial Investments

The Group's financial investments consist of:

	31 December 2002 Market value £'000	**31 December 2002 Cost £'000**	31 December 2001 Market value £'000	31 December 2001 Cost £'000
Corporate (Group and Company)	**12,100**	**13,810**	8,936	9,260
Syndicate participations	**29,171**	**28,874**	18,839	17,564
Group financial investments	**41,271**	**42,684**	27,775	26,824
i) Corporate (Group and Company):				
Shares and other variable yield securities	**7,795**	**9,530**	5,114	5,442
Debt and other fixed income securities	**4,305**	**4,280**	3,822	3,818
Total investments – Group and Company	**12,100**	**13,810**	8,936	9,260
ii) Syndicate participations:				
Shares and other variable yield securities	**1,649**	**4,059**	1,583	1,700
Debt securities and other fixed interest securities	**24,998**	**22,647**	15,360	14,679
Participation in investment pools	**–**	**–**	133	131
Loans guaranteed by mortgage	**23**	**23**	50	85
Other loans	**61**	**83**	–	–
Deposits with credit institutions	**2,202**	**1,824**	1,713	969
Other investments	**238**	**238**	–	–
Total investments – Syndicate participations	**29,171**	**28,874**	18,839	17,564

All corporate investments are listed on recognised stock exchanges.

Notes to the Financial Statements
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17 Investments in subsidiary undertakings

	31 December 2002 £'000
Cost	
At 1 January 2002	**2,014**
Additions during the year	**–**
At 31 December 2002	**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.

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 2002, 851,924 A Convertible ordinary shares were held in the ESOP. During 2002, 125,847 of the A Convertible ordinary shares were acquired by certain employees of the Group at 65p per share. This sale gave rise to a profit in the ESOP of £50,339 as set out in note 7. A further 50,000 A Convertible ordinary shares were acquired by an employee after the year end.

Although the Group only has de facto control of the ESOP, the Group is required under (UITF) Abstract 13 to account for the assets of the ESOP as if they belong to the Group. Consequently, the assets and liabilities, income and expenses of the ESOP appear in both the Group and Company accounts.

The income and expenses, assets and liabilities of the ESOP (as included within the Group and Company accounts) are as follows:

	31 December 2002 £'000	31 December 2001 £'000
Profit & Loss Account		
Profit on sale of shares	**50**	–
Balance Sheet		
Investments*	**129**	159
Debtors	**82**	–
Net assets	**211**	159
ESOP funds	**211**	159
Reconciliation of ESOP funds		
ESOP funds at 1 January	**159**	
Profit arising in ESOP during the year	**50**	
Expenses incurred and added to cost of investments	**2**	
ESOP funds at 31 December	**211**	

*Valued at lower of cost and directors' valuation

19 Other debtors

	Group 31 December 2002 £'000	Group 31 December 2001 £'000	Company 31 December 2002 £'000	Company 31 December 2001 £'000
Trade debtors	**56**	1,365	**52**	–
Amounts owed by managed syndicates	**160**	333	**–**	–
Amounts owed by group undertakings	**–**	–	**5,286**	4,199
Debtors within the ESOP	**82**	–	**82**	–
Other debtors	**22**	34	**–**	–
Other debtors arising on syndicate participations	**5,649**	(778)	**–**	–
	5,969	954	**5,420**	4,199

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

Of the amounts due from managed syndicates, £nil (2001: £96,214) is due in more than one year.

Debtors within the ESOP are as set out in note 18, and are due in more than one year.

Notes to the Financial Statements
For the year ended 31 December 2002

continued

20 Tangible fixed assets

	Computers & other equipment £'000	Furniture, fixtures & fittings £'000	Total £'000
Cost:			
At 1 January 2002	**592**	**240**	**832**
Additions	**47**	**(28)**	**19**
Disposals	**–**	**–**	**–**
At 31 December 2002	**639**	**212**	**851**
Depreciation:			
At 1 January 2002	**332**	**14**	**346**
Charge for the year	**131**	**42**	**173**
Disposals	**–**	**–**	**–**
At 31 December 2002	**463**	**56**	**519**
Net book value:			
At 31 December 2002	**176**	**156**	**332**
At 1 January 2002	**260**	**226**	**486**

21 Prepayments and accrued income

	Group 31 December 2002 £'000	Group 31 December 2001 (Restated) £'000	**Company 31 December 2002 £'000**	Company 31 December 2001 £'000
Corporate:				
Accrued income – investments	**397**	380	**397**	380
Accrued income – underwriting	**3,419**	–	**–**	–
Deferred tax asset	**1,230**	1,557	**657**	1
Prepayments	**216**	966	**145**	6
Syndicate participations:				
Deferred acquisition costs	**2,880**	515	**–**	–
Prepayments and accrued income	**353**	185	**–**	–
	8,495	3,603	**1,199**	387

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

	31 December 2002 £'000	31 December 2001 (Restated) £'000
Declared underwriting losses	**360**	369
Annually accounted (profits)/losses	**(884)**	12
Provisions for future underwriting losses	**124**	658
Deferred tax on unrealised losses on investments	**521**	98
Accelerated capital allowances	**14**	–
Tax losses carried forward	**896**	339
Other timing differences	**199**	81
Deferred tax asset	**1,230**	1,557

Deferred tax asset at start of year	**1,557**
Deferred tax charge in profit and loss account for year	**(327)**
Deferred tax asset at end of year	**1,230**

Unprovided deferred tax assets amounted to £107,000 at 31 December 2002 (31 December 2001: £514,147).

The Company had a deferred tax asset at 31 December 2002 of £656,535 (31 December 2001: £1,034) in respect of unrealised losses on investments and tax losses carried forward. The Company had an unprovided deferred tax asset of £nil at 31 December 2002 (31 December 2001: Unprovided deferred tax liability of £nil).

22 Provisions for other risks and charges

	Provision in respect of profit sharing scheme £'000
Provision at 1 January 2002	–
Charge for the year	645
Provision at 31 December 2002	645

The Group operates a profit sharing scheme from which all executive directors and employees of the Group can benefit. The size of this profit related pool created under this scheme is determined annually and is equal to 15 per cent of the consolidated Group pre-tax and pre-amortisation profits. Any distributions from this scheme is entirely at the discretion of the Board. The provision includes an estimate of employer's National Insurance which would be payable. Approximately £637,000 of this provision will be paid during 2003 with the remainder to be paid in later years.

Notes to the Financial Statements
For the year ended 31 December 2002

continued

23 Other creditors

	Group 31 December 2002 £'000	Group 31 December 2001 £'000	**Company 31 December 2002 £'000**	Company 31 December 2001 £'000
Corporate:				
UK Corporation tax	**87**	81	**86**	80
Other taxes and social security costs	**85**	78	**–**	–
Trade creditors	**1,308**	5,389	**152**	–
Convertible loan notes	**1,542**	–	**1,541**	–
Syndicate participations:				
Other creditors	**3,965**	105	**–**	–
	6,987	5,653	**1,779**	80

Group trade creditors include underwriting losses payable to Lloyd's, of which £413,970 (2001: £3,889,504) is due after more than one year.

As part of the offering in 2002, a loan instrument was created and £1,604,621.20 nominal value of A Series Convertible Unsecured Loan Notes 2002-2006 were issued. These notes pay a coupon of 6% per annum and are convertible at a future value into A Convertible ordinary shares of 25 pence each.

24 Share capital

	31 December 2002	31 December 2001	**31 December 2002**	31 December 2001
	Authorised		Allotted issued and fully paid	
	No. '000	No. '000	**No. '000**	No. '000
Number:				
A Convertible ordinary shares of 25p each	**391,930**	391,930	**71,441**	29,488
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 Convertible ordinary shares of 25p each	**97,982**	97,982	**17,860**	7,372
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	**19,701**	9,213

During the year, 70,000 A Convertible ordinary shares of 25 pence 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. In addition, a further 41,883,624 A Convertible ordinary shares of 25 pence were issued under the placing agreement on 27 November 2002, at a price of 65 pence per share. On 9 April 2003, 1,000,000 A Convertible ordinary shares of 25 pence were issued for non-cash consideration. A Section 103, of the Companies Act 1985, report has been obtained from our Auditors which places a value of 71.7 pence per share on this consideration.

25 Reserves

Movements in reserves for the year ended 31 December 2002

	Share premium reserve £'000	Merger reserve £'000	Profit and loss reserve £'000	Total £'000
Group:				
Balance at 1 January 2002	19,569	1,447	(4,753)	16,263
Prior year adjustment				
– Changes in accounting policy – annual accounting of certain spread syndicates and amortisation of syndicate participations	–	–	(218)	(218)
Balance at 1 January 2002, as restated	19,569	1,447	(4,971)	16,045
Conversion of loan notes	60	–	–	60
Issue of shares	16,754	–	–	16,754
Share issue expenses	(1,020)	–	–	(1,020)
Profit for the year	–	–	2,113	2,113
At 31 December 2002	35,363	1,447	(2,858)	33,952

The profit for the year ended 31 December 2002 without the changes in accounting policy would have amounted to £1,592,000. The effect of the change in accounting policy was to increase the profit after tax by £521,000 (31 December 2001: increase the loss after tax by £169,000).

	Share premium reserve £'000	Profit and loss reserve £'000	Total £'000
Company:			
Balance at 1 January 2002	19,569	66	19,635
Conversion of loan notes	60	–	60
Issue of shares	16,754	–	16,754
Share issue expenses	(1,020)	–	(1,020)
Loss for the year	–	(866)	(866)
At 31 December 2002	35,363	(800)	34,563

Of the profit and loss reserve of the Company:

	31 December 2002 £'000	31 December 2001 £'000
Distributable reserves	(850)	66
Undistributable reserves	50	–
	(800)	66

The undistributable reserves relate to the cumulative profits of the ESOP recognised in the Company's accounts (see note 18).

Notes to the Financial Statements
For the year ended 31 December 2002

continued

26 Reconciliation of shareholders' funds

	Group 31 December 2002 £'000	Group 31 December 2001 (Restated) £'000	**Company 31 December 2002 £'000**	Company 31 December 2001 £'000
Total recognised gains/(losses) for the year	**2,113**	(2,446)	**(866)**	(400)
Issue of shares	**26,282**	553	**26,282**	553
Total movements during the year	**28,395**	(1,893)	**25,416**	153
Opening shareholders' funds (restated)	**25,258**	27,151	**28,848**	28,695
Closing shareholders' funds	**53,653**	25,258	**54,264**	28,848

27 Net tangible assets per share

	31 December 2002 £'000	31 December 2001 (Restated) £'000
Undiluted:		
Net assets	**53,653**	25,258
Less intangible assets	**(3,049)**	(3,615)
Net tangible assets	**50,604**	21,643
Basic number of shares at 31 December (no.)	**78,804,644**	36,851,020
Net tangible assets per share – undiluted (p)	**64.2p**	58.7p
	£'000	£'000
Diluted:		
Net tangible assets (as above)	**50,604**	21,643
Add amounts due in respect of convertible loan notes	**–**	77
Add amounts potentially due in respect of share options	**268**	–
Net tangible assets after conversion of loan notes	**50,872**	21,720
Basic number of shares at 31 December (no.)	**78,804,644**	36,851,020
Add shares issuable on conversion of loan notes (no.)	**–**	70,000
Add potential dilutive shares in respect of share options (no.)	**425,238**	–
Diluted number of shares at 31 December (no.)	**79,229,882**	36,921,020
Net tangible assets per share – diluted (p)	**64.2p**	58.8p

28 Capital commitments

There were no capital commitments at 31 December 2002 (2001: nil).

29 Operating leases

	31 December 2002 £'000	31 December 2001 £'000
Annual commitments under operating leases which expire:		
Land & buildings:		
between two and five years	**305**	–
	305	–

The Company had no annual commitments under operating leases.

30 Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	31 December 2002 £'000	31 December 2001 (Restated) £'000
Profit/(loss) before tax on ordinary activities	**2,449**	(2,590)
Depreciation of fixed assets	**173**	111
Amortisation of goodwill	**327**	328
Amortisation of syndicate capacity	**440**	433
(Profit) on sale of syndicate capacity	**–**	(139)
(Increase) in debtors & accrued income	**(2,115)**	(583)
Loss on disposal of fixed assets	**–**	1
Write off of deferred expenditure	**–**	243
Profit arising on ESOP and expenses borne by group	**(52)**	–
Interest payable	**11**	–
(Decrease)/increase in creditors	**(1,361)**	1,113
Realised and unrealised investment losses	**1,668**	233
Net cash inflow/(outflow) from operating activities	**1,540**	(850)

Notes to the Financial Statements
For the year ended 31 December 2002

continued

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

	31 December 2002 £'000	31 December 2001 £'000
Net cash inflow/(outflow) for the year	**720**	(2,633)
Cashflow – portfolio investments	**26,879**	2,146
Movement arising from cashflows	**27,599**	(487)
Changes in market value of investments	**(1,668)**	(233)
Total movement in portfolio investments, net of financing	**25,931**	(720)
Portfolio at 1 January	**23,025**	23,745
Portfolio at 31 December	**48,956**	23,025

32 Movement in cash and portfolio investments

	1 January 2002 £'000	Cash flow £'000	Changes to Market value £'000	31 December 2002 £'000
Cash at bank and in hand	**890**	**720**	**–**	**1,610**
Deposits with credit institutions	**13,199**	**22,047**	**–**	**35,246**
Total cash	**14,089**	**22,767**	**–**	**36,856**
Shares	**5,114**	**4,398**	**(1,717)**	**7,795**
Fixed income investments	**3,822**	**434**	**49**	**4,305**
Total portfolio investments	**8,936**	**4,832**	**(1,668)**	**12,100**
Total cash and portfolio investments	**23,025**	**27,599**	**(1,668)**	**48,956**

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 2002			Year ended 31 December 2001		
	Purchases £'000	Sales £'000	Net cash flow £'000	Purchases £'000	Sales £'000	Net cash flow £'000
Deposits with credit institutions	**–**	**–**	**22,047**	–	–	(4,237)
Shares and other variable yield securities	**7,833**	**3,435**	**4,398**	4,454	818	3,636
Fixed income investments	**1,862**	**1,428**	**434**	3,763	1,016	2,747
	9,695	**4,863**	**26,879**	8,217	1,834	2,146

34 Pensions

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

35 Related party transactions

Certain Directors were interested in contracts and transactions entered into by the Cathedral Group and the nature of these interests are shown in the Report of the Directors on pages 13 to 15.

36 Contingent liabilities

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

(a) Lloyd's will be entitled to require the other subsidiary to cease or reduce its underwriting; and/or

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

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). 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.

In November 2002, the Company agreed to provide £8,860,001 funds at Lloyd's to PMA Re Corporate Capital Limited (a related Group company). These funds at Lloyd's were then made interavailable to 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 ("Supplemental Deed of Indemnity"). The aggregate liability of the Company in respect of such indemnity shall not in any event exceed £8,860,001 (together with any reasonable costs and expenses incurred by the Society of Lloyd's). As security for the performance of its obligations under the Supplemental Deed of Indemnity, the Company granted a further 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.

Notes to the Financial Statements
For the year ended 31 December 2002

continued

37 Analysis of Consolidated Balance Sheet

	Managed Syndicate 2010 £'000	External managed syndicates Annually accounted £'000	Fund accounted £'000	Corporate £'000	31 December 2002 Total £'000	31 December 2001 Total (Restated) £'000
Intangible assets:						
Syndicate participations	–	–	–	483	483	722
Goodwill	–	–	–	2,587	2,587	2,917
Negative goodwill	–	–	–	(21)	(21)	(24)
	–	–	–	3,049	3,049	3,615
Investments:						
Financial investments	6,993	12,077	10,101	12,100	41,271	27,775
Deposits with ceding undertakings	–	29	9	–	38	37
Own shares	–	–	–	129	129	159
	6,993	12,106	10,110	12,229	41,438	27,971
Reinsurers' share of technical provisions:						
Provision for unearned premiums	1,228	2,953	–	–	4,181	1,551
Claims outstanding	15,467	12,319	11,442	–	39,228	35,096
	16,695	15,272	11,442	–	43,409	36,647
Debtors:						
Arising out of direct operations	171	8,887	1,722	–	10,780	11,324
Arising out of reinsurance operations	10,809	10,409	6,170	–	27,388	19,652
Other debtors	66	5,404	179	320	5,969	954
	11,046	24,700	8,071	320	44,137	31,930
Other assets:						
Tangible assets	–	–	–	332	332	486
Cash at bank and in hand	3,072	2,366	2,117	36,856	44,411	22,213
Other	313	767	1,008	–	2,088	1,590
	3,385	3,133	3,125	37,188	46,831	24,289
Prepayments and accrued income:						
Deferred acquisition costs	650	2,230	–	–	2,880	515
Prepayments and accrued income	62	164	127	5,262	5,615	3,088
Total assets	38,831	57,605	32,875	58,048	187,359	128,055

	Managed Syndicate 2010 £'000	External managed syndicates Annually accounted £'000	Fund accounted £'000	Corporate £'000	31 December 2002 Total £'000	31 December 2001 Total (Restated) £'000
Capital and reserves:						
Called up share capital	–	–	–	19,701	19,701	9,213
Share premium	–	–	–	35,363	35,363	19,569
Merger reserve	–	–	–	1,447	1,447	1,447
Profit and loss reserve	–	–	–	(2,858)	(2,858)	(4,971)
Equity shareholders' funds	–	–	–	53,653	53,653	25,258
Technical provisions:						
Claims outstanding – gross	26,714	36,605	30,765	–	94,084	70,964
Provision for losses foreseen on open years	–	–	413	–	413	1,945
Provisions for unearned premiums	5,489	13,129	–	–	18,618	12,676
	32,203	49,734	31,178	–	113,115	85,585
Provisions for other risks and charges:						
Provision for deferred taxation	–	–	–	–	–	–
Other provisions	–	–	–	645	645	–
	–	–	–	645	645	–
Creditors:						
Arising out of direct insurance operations	25	534	378	–	937	1,255
Arising out of reinsurance operations	4,521	4,746	1,027	–	10,294	9,804
Other creditors	1,922	1,787	256	3,022	6,987	5,653
	6,468	7,067	1,661	3,022	18,218	16,712
Accruals and deferred income	160	804	36	728	1,728	500
Total liabilities	38,831	57,605	32,875	58,048	187,359	128,055

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 2002 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.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

MAZARS

Chartered Accountants and Registered auditors

24 Bevis Marks, London EC3A 7NR

1 May 2003

Capacity by Class and Syndicate – 2003 Year of Account

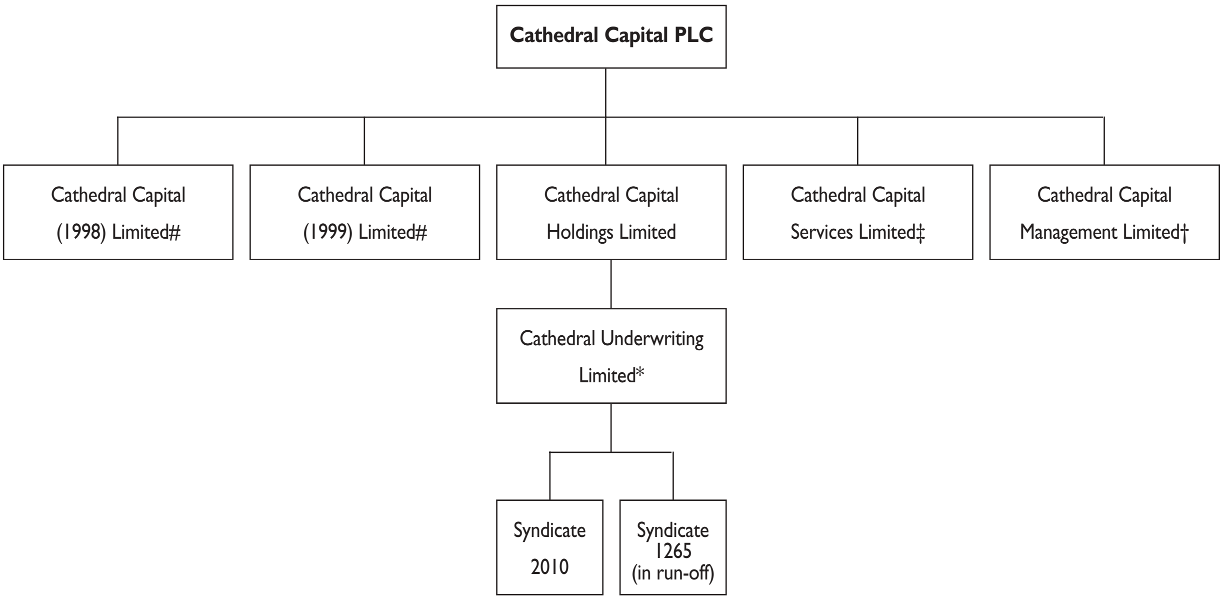
Class	Syndicate	Underwriter	Managing Agent	Share £	Percentage of Portfolio %
Marine	609	Dandridge	Atrium Underwriters Ltd	1,809,065	1.34
Non-Marine	318	Pritchard	Ensign Managing Agency Ltd	2,474,097	1.84
	570	Marsh	Atrium Underwriters Ltd	1,639,166	1.22
	623	Beazley	Beazley Furlonge Ltd	30,000,000	22.28
	2010	Hamblin	Cathedral Underwriting Ltd	67,953,745	50.46
Motor	980	Neal	Ensign Managing Agency Ltd	22,749,942	16.90
Composite	510	Various	R J Kiln & Co Ltd	8,030,250	5.96
				134,656,265	100.00

Allocation by Managing Agent

Managing Agent	£	%
Cathedral Underwriting Ltd	67,953,745	50.46
Beazley Furlonge Ltd	30,000,000	22.28
Ensign Managing Agency Ltd	25,224,039	18.74
R J Kiln & Co Ltd	8,030,250	5.96
Atrium Underwriters Ltd	3,448,231	2.56
	134,656,265	100.00

CATHEDRAL CAPITAL PLC

Group Structure



Key:

*Lloyd's Managing Agency

†FSA Advisory Company

#Corporate Underwriting Name at Lloyd's

‡Service Company

Share Transfer Market 2003:

22 May to 4 June

Financial Timetable 2003:

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

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