CATHEDRAL
CAPITAL PLC

Annual Report

31 December 2004

Contents

	Page
Chairman's Statement	2
Chief Executive Officer's Report	3
Report of the Directors	16
Directors of the Company	24
Directors and Advisors	26
Report of the Independent Auditors	27
Consolidated Profit and Loss Account Technical Account – General Business	28
Consolidated Profit and Loss Account Non-Technical Account	29
Consolidated Balance Sheet	30
Company Balance Sheet	32
Consolidated Cash Flow Statement	33
Notes to the Financial Statements	34
Group Structure	65
Notice of Annual General Meeting	66

CATHEDRAL
CAPITAL PLC

Chairman's Statement

I am delighted to report a profit after tax of £12.2 million (2003 restated: £8.7 million), a return on equity of 20.3%. This result equates to a diluted earnings per share of 16.2 pence (2003 restated: 11.1 pence). Our diluted net tangible assets per share at the year end were 90.8 pence as against a restated 72.3 pence at the previous year end.

The year was newsworthy for two reasons, one domestic and one environmental. Our friends at PMA Capital Insurance Company ("PMA"), who had supported us unstintingly since the beginning of our managing agency adventure, underwent a major restructuring. Their 29.6% holding of A Convertible Ordinary 25p shares ("A shares") in this company was no longer strategically appropriate for them. They decided that they should divest themselves of it and worked closely with Peter Scales to achieve that without causing disruption for our Company.

The PMA shares were disposed of in two tranches. Firstly, we bought in 6,849,644 A shares (9.5% of the A shares then in issue) and immediately cancelled them, a move which clearly benefits the other shareholders. The remaining 16,781,126 A shares were acquired mostly by other existing shareholders, with a small number taken up by newcomers. Many of the staff also participated

This represented a significant re-balancing of the share register. We now have 240 A shareholders, of which the largest is Century Capital Partners III LP, with 12.8% of the A shares.

The other notable feature of the year was the record number of hurricanes and typhoons making landfall in America and Asia. A detailed description appears in the Syndicate 2010 accounts which you should have already received – suffice to say that two of our first four years of operation as a catastrophe reinsurance specialist were probably more demanding than any others in recent history. The fact that your underwriting team has still made profits every year speaks for itself.

As regulation becomes more intrusive and more onerous each year the overall management of the business becomes more demanding. The team is up to it, but it would be wrong to suggest that life is more uplifting as a result.

You will see in Peter Scales's report that the new direct property insurance part of the underwriting business is now up and running on a fully-manned basis with the welcome arrival of Richard Wood.

The share transfer market will be in operation for the two weeks (16 May 2005 to 30 May 2005 inclusive) immediately preceeding the Annual General Meeting. Clyde & Co, the Company's legal advisor, will administer the market on behalf of the Company, and all purchase and sale applications must be returned to them by the close of business on 30 May 2005 at which time the share transfer market will close. The results of this market will be notified to shareholders at the Annual General Meeting.

Finally, other than to remark on and thank the team for the high quality of the business they have built, it only remains for me to express our thanks to the management of PMA for their support. We appreciate the fact that they achieved value for their exit but also went out of their way to be helpful as we set about re-balancing the share register, thus benefiting all the other shareholders.

Elvin Patrick
Chairman
21 April 2005

Chief Executive Officer's Report

Overview

In a record year for natural catastrophe losses we are proud to announce after tax profits of just over £12 million. We have again been tested as a business and emerged with an enhanced reputation. Our future earnings stream looks very promising and trading prospects remain good.

Market

The first half of 2004 was one of the quietest ever for natural catastrophe losses, and the second half was the most costly. On a macro level, investment returns were still low and claims activity of any note had been subdued since 9/11. The entry of billons of dollars of new capital to the market place without anyone leaving directly as a result of 9/11 followed by two good years in the bank seemed a prognosis for a general easing at best and wide scale underwriting lunacy at worst.

However, during the last two years the legacy of casualty business, particularly that written from the late 1990's to date, has eaten into what should have been outstanding returns for the industry. During this period many companies, including the bulk of the domestic US reinsurance market, have been overwhelmed and forced to withdraw from the market place. Many of the larger international players have also suffered a dilution of results and have rapidly shuffled the offending business units into the discontinued operations column. This year the most notable faller has been Converium, which closed its North American operation and has been downgraded in Europe to an extent where its group business flow has been seriously impaired.

The constant drip feed of bad news and subsequent withdrawals, which show no sign of abating, held the market place together for the first half of 2004 with only the larger direct commercial property risks suffering a marked softening of rates.

The third quarter saw four major hurricanes making landfall in the United States and a number of typhoons causing loss of life and property in Japan. If one excludes 9/11 then this has been the first serious set of losses to jolt the catastrophe reinsurance market since 1992.

A significant proportion of the capacity in the catastrophe market comes from companies formed since 1992, many of which have made catastrophe underwriting an activity in which they set great store by their use of modelling techniques and actuarial analysis to price risk and manage exposures. It transpires that relied on in extremis, the models were not always able to predict the likely exposures that many carriers had, nor did the actuaries correctly price the business to reflect a frequency of medium size losses in the same place. As a consequence many of the more machine based underwriting units found themselves over exposed without suitable reinsurance and assumed larger net losses than foreseen in their business plans.

Had direct writers in the US and Japan not borne the brunt of the losses through high retentions, typical of a well priced phase in the business cycle, matters could have been much worse. Direct writers in both Japan and Florida have to yet to renew or are in the process of renewing their outward reinsurance arrangements, which should attract premium hikes to payback the reinsurers. Although larger in terms of human life the tsunami on 26 December 2004 had little effect on the industry.

The mariners suffered an expensive year not least as a consequence of Hurricane Ivan as it came inland via the Gulf of Mexico oil and gas fields. Once again the aviation industry had a relatively quiet year with no incidents of note reaching the reinsurance market.

Generally speaking, while catastrophe losses to the market in 2004 did not damage the overall capital base of the industry, they severely damaged prospective earnings from an attractively priced year. Many companies are reporting combined ratios close to 100% notwithstanding

Chief Executive Officer's Report

continued

the fact that a significant proportion of their exposures are in immature casualty business where they can take a view as to how they expect future claims to unfold over years to come when booking the year end result. Moreover a good proportion of profits declared were derived from investment income rather than underwriting results.

Although there was no immediate reaction to the third quarter losses in some direct lines, the reinsurance markets held reasonably firm coming into the year end. Those who had demonstrated that they could add up their own exposures and had not surprised their reinsurers had coverage renewed on a reasonable basis. Those who lacked aggregate control had a harder and more expensive time. With the reinsurance market holding the line, the direct market also got through the year end on the basis of a modest reduction in rate, with maintenance of terms and conditions. Even the much contested large direct property business that had been suffering the largest pressures began to level off, with only the odd insane interlude.

2004 shows that both the direct and reinsurance markets were relatively well priced since they were able to deal with a series of events of this magnitude without impairing the industry capital base. However, the result could have been very different if one of the storms had made landfall in, rather than adjacent to New Orleans, Tampa or Miami. It was a closer run race than many were prepared to admit.

Despite the damage still being caused to the industry, it is the casualty classes that are again under most pressure and giving way on terms and conditions as a result of their crowded market place. The participants will not know the pricing adequacy, or lack thereof, of these lines for some time to come.

It is also interesting to see the class of 2001 Bermudians announcing special dividends and stock buy backs in order to allow original investors to make an exit. One might suspect that this process is being driven more by the original private equity investors rather than the management. In theory the removal of this capital may help to take some froth out what looks likely to be a competitive market place, but it also places an emphasis on having reserved the liability business written over the last three years adequately, since they will then have less capital to deal with the eventual claims.

Assuming that in the round 2005 business will renew at or near 2004 levels then 2005 has the ingredients to be another promising underwriting year. However, I am doubtful that I will be reporting a fourth 'better than expected' renewal season this time next year!

On a wider note Elliot Spitzer, Attorney General of New York, has been engaged with the broking community and some very high profile industry players on the subject of alleged 'bid rigging' and more widely, broker remuneration and certain types of finite reinsurance that does not involve genuine transfer of risk between parties. The impact of these investigations will be far reaching and will no doubt completely rewrite the basis on which brokers are remunerated and probably impact our own acquisition costs in the long term. Refreshingly the alleged 'bid-rigging' practices do not seem prevalent in the London Market but I am sure that the FSA will be looking into the whole issue of broker remuneration which will require some changes to our trading arrangements to achieve a suitable and transparent solution.

Lloyd's

2004 was a good year for participants in the Lloyd's market. The building of central fund resources since 2001 has been recognised by A.M Best and the market received an upgrade, back to its historic level of 'A' from 'A-'. This was one of few major upgrades issued during the year and contrasted with continuing rating agency pressure on many major U.S, Bermudian and European companies still attempting to deal with unrelenting deteriorations in their casualty portfolios. More importantly it put Lloyd's on an equal or advantageous grade to most of the new Bermudians, so that Lloyd's became an increasingly attractive option to brokers looking to replace markets that had withdrawn from London as well as place new business.

Despite the year closing on a really disappointing note with Lloyd's losing the arbitration for the Central Fund reinsurance of years 1998-2001 at a cost of £250 million, the rating agencies have been swift to reaffirm the market's improved rating.

Inside Lloyd's, the work of the Franchise Board continues and has been bolstered by an expansion in size of a central 'risk management' function. Clearly the development of both functions has gone down well with the rating agencies and a lot has been made of the benefits they may bring to in attempting to 'manage out' the worst extremes of volatility in our market place.

However, as a practitioner this can have a slightly different feel. It is essential that our business and market place should be well regulated and Lloyd's centrally must be confident that the underwriting businesses are well run but, equally, businesses that demonstrate that they can effectively manage the unexpected, have good controls and produce excellent management data do need to retain some room in which to trade.

Our traders, compliance and analytical teams are devoting more time to produce additional information over and above our existing comprehensive compliance and control systems at the request of the centre without receiving any meaningful feedback. This is more a frustration than a problem and a sign of the times, but I am becoming concerned the 'controls' the franchise and risk management areas are developing may in future inhibit the competitive advantage our underwriters have in order to fit into their preordained themes.

An example is the ambiguous franchise guidelines regarding risk retention and the use of reinsurance which has the potential to become a straitjacket. The intention is admirable but as good quality reinsurance becomes available at an attractive price, precluding Lloyd's from its responsible use when our competitors may benefit is akin to sending us to fight with one hand tied behind our back. I fail to see how putting the entire market at a competitive disadvantage enhances the risk management environment.

It is part of our culture to develop the most comprehensive and effective management checks and systems. However, a regulator who is getting closer to micro managing parts of our business will not necessarily contribute to the raising of standards of our business or the market. Call us old fashioned, but we run our business to make profits and take pride in the service we are able to provide to our clients.

Lloyd's is still is a good place for us to trade at present, but we are extremely keen to ensure it stays that way with a balance of comprehensive regulation, appropriate risk management and the commercial considerations that have driven this market for 300 years.

Syndicate 2010

Syndicate 2010 is the engine that powers Cathedral. As the business has developed Syndicate 2010 has become larger.

Syndicate 2010 commenced underwriting for 2001 with a capacity of £81 million, underwriting a property reinsurance and aviation reinsurance account. The property reinsurance account is skewed toward North American regional companies with typical income bases of $25-$50 million, particularly in the North-east and Mid-west. These companies tend to write in anything from single counties to adjoining States, generally insuring household, farm and light commercial business. The book is relatively rural and has an inherent geographical spread of exposure that differs in profile from reinsuring the large US stock companies. The book has been developed and written by John Hamblin and the team over the last 18 years. Cathedral is acknowledged as a leading market.

Similarly, the aviation reinsurance account has been underwritten by underwriters at Cathedral since 1974 by both Elvin Patrick and John Hamblin, prior to Richard Williams, in their previous home. Cathedral writes a reinsurance account of primary airline insurers at a level, typically above $500 million, but is also able to offer lead expertise on reinsurance of clients' war, general aviation and space business. As such Cathedral is one of a small handful of markets worldwide acknowledged as leaders in this specialist business.

Chief Executive Officer's Report

continued

In our first year of trading these two accounts were simultaneously affected by the terrorist attacks in New York. Despite this the underwriters managed to produce a highly creditable profit, albeit small. Syndicate 2010 increased in size for 2002 and 2003 on the back of a growing business in favourable trading conditions. During 2003 the Syndicate added a third major line of business in direct and facultative property insurance. This covers the insurance of large commercial properties world wide with, again, a focus on the first world and the U.S. in particular. In order to maintain the style in which we run Cathedral, we took on Simon King a respected market leader, to build an account. Simon and his team have received good support from the market and have latterly been joined by another market leader, Richard Wood. Our direct and facultative team is now a significant player in this arena.

Syndicate 2010 is now a genuinely three cornered portfolio and in each corner we are a respected leading market. Although we may consider exploring ancillary lines within property or aviation insurance or reinsurance, we presently have no plans to move outside them. Nor are we planning to add on any number of small unrelated accounts, a strategy likely to become vogue as competition increases. It is hoped that this will save future years' reports from being dominated by a burgeoning discontinued operations section. Any regular reader would not be surprised to learn that we enjoy the benefits of a legacy free business and are not currently considering moving into the casualty market!

The Syndicate capacity has remained at £200 million for 2005 largely because growth has been accommodated by a falling dollar, our main trading currency against our sterling denominated stamp capacity. The growth in calendar year gross premiums written is analysed in the table below.

Class of business	**31 December 2004 £'000**	31 December 2003 £'000
Non marine reinsurance	**78,271**	69,881
Direct & facultative property	**48,484**	12,263
Aviation & Satellite	**50,310**	50,351
Other, including Fire, Theft & Collision	**14,260**	10,968
Total	**191,325**	143,463

(Gross premium written includes brokerage of £30,956,000 (2003: £19,536,000)).

It is possible that with Richard Wood on board and some opportunities in some of our specialist classes we may elect to push the capacity on in a small way for 2006.

The 2002 year has closed with a profit on a Lloyd's basis of 20.2%. 2003, given an unremarkable "run-off" of the remaining risks, is likely to exceed this return. 2004, although still very much on risk, has successfully weathered the highly active hurricane season and the team are confident of a decent profit.

Year of Account	Capacity £'000	Previous Forecast Range	Current Forecast Range
2003	159,969	15% – 20%	17.5 % – 22.5%
2004	199,661	–	5% – 12.5%

The details on how this affects the group can be found in the financial review below. As usual, I would commend John Hamblin's report in the Syndicate 2010 Report & Accounts which you should have received in March.

Once again our underwriting team has successfully dealt with a set of circumstances in its core trading areas which have caused much of the industry to wave goodbye to its previously projected annual earnings. This is no accident.

We deploy serious resource in risk modelling and have sophisticated IT, underwriting and management systems, but ultimately the application of our underwriters' experience and an attitude that we assume the worst will happen have been the major contributors to our results. Management simply dictating rate of return targets then relying heavily on actuarial modelled output doesn't always seem to produce the same results.

Underwriting Portfolio of Externally Managed Syndicates

Our third party portfolio, although not the imperative of our business has again produced another very acceptable return to sit alongside that of Syndicate 2010. The portfolio serves two purposes; the first is to utilise other Lloyd's syndicates engaged in complementary business lines to produce profits for us in lines of business in which we are not expert ourselves, the second is that these participations have to date diversified the exposures of our corporate underwriting member and as such have mitigated the capital charge Syndicate 2010 would attract if supported in isolation.

You will recall that we adopt an active management policy over our third party portfolio and that over time, as Syndicate 2010 diversifies its own activities, the third party portfolio is becoming a reducing proportion of the Group's underwriting. Moving into 2005, we made a strategic move to cease support for UK Motor business. This class has served us very well, but the more difficult trading prospects in this area made for an easy decision.

Initially we had decided to leave this participation fallow, but the extraordinary consequences of reducing underwriting on Lloyd's risk based capital model and the opportunities to take advantage of market payback following the catastrophe activity in the third quarter have led us to replace much of the lost motor business with property business by way of increased support of Syndicate 2010 and a third party syndicate.

More on the capitalisation issues we have to deal with later, but suffice to say our overall plan continues to be an increase in emphasis on the deployment of our capital behind Syndicate 2010.

Class	Syndicate	Underwriter	Managing Agent	Share £	Percentage of Portfolio %
Marine	609	Dandridge	Atrium Underwriters Ltd	2,430,942	1.4
Non-Marine	318	Pritchard	Beaufort Underwriting Agency Ltd	12,522,524	7.0
	623	Beazley	Beazley Furlonge Ltd	25,000,000	14.1
	2010	Hamblin	Cathedral Underwriting Ltd	107,725,388	60.6
Composite	510	Various	R J Kiln & Co Ltd	30,090,399	16.9
				177,769,253	100.0

Financial Review

The accounting policies adopted by the Group together with any changes in accounting policies, from one year to the next, are set out in Note 1 to the Financial Statements.

Chief Executive Officer's Report

continued

The only change in accounting policy during the year was the adoption of UITF 38, which deals with the purchase of the Company's own shares. The shares held in the Employee Share Ownership Plan were previously included as an asset on the balance sheet but now in accordance with UITF 38 are deducted from the Equity shareholders' funds. In addition, any profit/loss of the ESOP will also be netted off the cost of shares rather than being recognised in the Group Profit and Loss account.

Profit and Loss Account

2004 was another outstanding year for the Group with profits after tax increasing, year on year, by 40% to £12.2 million. This equates to a return on equity of 20.3% up from 16.3% the previous year. Cathedral's managing agency subsidiary continued with the strategy of broadening the underwriting account of Syndicate 2010. Syndicate 2010 again made a significant contribution to the results of the Group and an analysis of the profit is as follows:

	Underwriting				
	Managed £'000	External £'000	Total £'000	Corporate £'000	Total £'000
Gross Written Premium	93,388	106,353	199,741	–	199,741
Net Earned Premium	54,075	85,331	139,406	–	139,406
Technical Result*	11,109	2,336	13,445	–	13,445
Net Investment Return	578	1,941	2,519	1,992	4,511
Fees, Commissions and other income	–	–	–	6,473	6,473
Other expenses**	–	–	–	(5,502)	(5,502)
Amortisation	(583)	(433)	(1,016)	(328)	(1,344)
Profit before tax	11,104	3,844	14,948	2,635	17,583
Tax	(3,330)	(1,154)	(4,484)	(865)	(5,349)
Profit after tax	7,774	2,690	10,464	1,770	12,234
Earnings per share***	10.3p	3.6p	13.9p	2.3p	16.2p
Return on Equity****	12.9%	4.5%	17.3%	2.9%	20.3%

* Excluding investment return transferred to the Technical Account

** Other expenses include an amount relating to the staff bonus pool which has been charged in full against the Corporate activities

*** Earnings per share is fully diluted

**** Return on equity is based on profit after tax divided by opening shareholders' funds as adjusted for new/cancelled equity

For the 2004 underwriting year of account the stamp capacity of Cathedral syndicate 2010 was increased to £200 million (2003: £160 million), and the Group through its corporate member subsidiary provided 48.6% (2003: 42.5%) of the capacity. For the 2005 underwriting year of account the stamp capacity has been maintained at £200 million and Cathedral now provides 54% of the capacity.

Under annual accounting, the insurance and reinsurance contracts underwritten by both Syndicate 2010 and each external syndicate supported by the Group's corporate member subsidiary are earned over the life of the policy, normally commencing at the inception of the policy. The earnings profile adopted is intended to reflect the underlying exposure of each policy. Thus net earned premiums during 2004 comprise premiums on policies incepting during the year together with estimates for pipeline premiums and adjustments to premiums on policies incepting in previous accounting periods. Accordingly, at the year end we had net unearned premiums of circa £67.6 million (2003: £44.8 million) on the balance sheet.

Despite experiencing the worst year for insured catastrophes in history, 2004, the underwriting team have again distinguished themselves with only a modest deterioration in the claims ratio of Syndicate 2010 from that of 2003. The strict financial and other controls under which the syndicate operates led to an improvement in the expense ratio in the same period. The combined ratio for Syndicate 2010 is as set out below:

Syndicate 2010	**31 December 2004**	31 December 2003	31 December 2002
Claims ratio	**44.1%**	40.7%	57.7%
Expense ratio	**31.3%**	34.2%	27.3%
Combined ratio	**75.4%**	74.9%	85.0%

This is an excellent result given the predominantly short-tail nature of the account and will compare favourably with the combined ratio of virtually any other syndicate or company writing a similar account. The combined ratio of the Group, after taking account of the managed and external underwriting together with the non-underwriting operations of the Group are as set out below:

Cathedral Group	**31 December 2004**	31 December 2003	31 December 2002
Claims ratio	**64.8%**	57.8%	68.9%
Expense ratio	**25.8%**	31.6%	27.0%
Combined ratio	**90.6%**	89.4%	95.9%

The Group's expense ratio includes the Group's share of Syndicate 2010 and external syndicate expenses together with the other corporate expenses, including the staff profit-related pay which is based on the annual profitability of the Group, net of non-underwriting income (excluding investment return) and fees incurred by the Group. An analysis of this expense ratio is set out below:

Cathedral Group	**31 December 2004**	31 December 2003	31 December 2002
Expense ratio:			
Syndicate 2010	**11.6%**	11.6%	8.3%
External syndicates	**14.0%**	16.7%	14.9%
Corporate	**(2.5%)**	0.1%	2.3%
	23.1%	28.4%	25.5%
Staff profit-related pay	**2.7%**	3.2%	1.5%
Total expense ratio	**25.8%**	31.6%	27.0%

We continue to keep a tight rein on expenses with the main internal expenditure of the Group being payroll costs, before profit related pay, and IT which account for 33% of aggregate expenses. We continue to believe that the business benefits from employing and retaining highly

Chief Executive Officer's Report

continued

skilled people and "cutting edge" IT and to this end we have significantly enhanced the modelling capability of the Group during the year. We provide a work environment which challenges our staff on a daily basis while enabling them to fulfil their career aspirations. This of course has led to other skilled and motivated people aspiring to join Cathedral.

Investment Strategy and Return

The investment strategy of the Cathedral Group, with respect to its funds at Lloyd's, is designed to preserve the capital of the group, which is significantly deployed to support our underwriting activities. At this stage of the insurance cycle our risk exposure is strongly tilted towards our underwriting and not to the volatility of the investment and financial markets. We reduced the volatility of the investment portfolio during the year by further reducing our exposure to equities. Our return reflects our current appetite for investment risk, though this may change in the future when the insurance cycle softens and we reduce our underwriting exposure.

The investment return has been calculated using the long-term rate of investment return with an adjustment for short-term fluctuations in arriving at the 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 expectations of returns over the investment cycle. The actual return for the year was a profit of £2,158,000 which equates to a return of 4.3%. The split of the return is set out below:

	Average funds at Lloyd's £'000	Long-term rate of return %	Actual return %	Actual return £'000
Equities	4,500	6.0	4.1	183
Fixed Interest	4,052	5.0	4.9	198
Alternative Protected	5,135	5.5	7.5	385
Cash	36,730	5.0	3.8	1,392
Total	50,417	5.1	4.3	2,158

The funds of Syndicate 2010 have been held in cash or short dated securities throughout 2004. This is in line with the investment policy adopted with respect to the syndicate funds, which is designed to balance liquidity, security and investment risk so as to enable the syndicate to meet its commitments when they fall due. To that end the US Dollar funds were invested in instruments with an average duration of 2 years throughout the year. The funds of all the other major currencies (Canadian Dollars, Euros and Sterling) were held in cash until October 2004 when a proportion of these funds were placed under the management of an external investment manager with an investment mandate similar to that of the US Dollar funds. The short-tail catastrophe nature of our underwriting accounts does not tend to lend itself to a longer duration.

Taxation

Due to Lloyd's divestment rules, which were designed to ensure that Brokers do not own shares in and thereby control Lloyd's managing agents, there are currently two corporation tax groups within the Cathedral Group. The managing agency subsidiary, which is in its own corporation tax group separate from the other trading companies of the Group, is now in a significant corporate tax paying position with a substantial proportion of this bill arising as a result of early recognition of open year profit commission under FRS 5. We will explore avenues during the current year to see if we can find a solution that would enable all Cathedral companies to be within the same corporation tax group.

Earnings Per Share

The earnings per share (fully diluted) were 16.2 pence (2003 restated: 11.1 pence). This improvement reflects the strength and quality of our underlying business which we hope is now of a size that will enable us to continue delivering good returns even in a market place which is becoming more competitive.

Dividend Policy

It is intended to maintain the policy of not paying any dividends in the short to medium term. Substantially all of the retained earnings will be retained by the Group to support our expanding underwriting business and to take advantage of any opportunities that may arise to acquire additional capacity on Syndicate 2010.

Balance Sheet

The balance sheet included within the financial statements consolidates the Group's share of Syndicate assets and liabilities with other directly held corporate assets. The balance sheet is analysed below showing the Group's interest in Syndicate 2010 and external syndicates at 31 December 2004 as one line item:

	31 December 2004 £'000	31 December 2003 £'000
Intangible assets	**4,069**	5,181
Tangible fixed assets	**180**	259
Group assets used as funds at Lloyd's	**55,019**	49,383
Other investments and cash balances	**7,270**	(324)
Interest in Syndicate 2010	**17,814**	8,918
Interest in external syndicates	**6,864**	3,905
Convertible/subordinated Loan Notes	**(14,836)**	(1,558)
Net other assets/(liabilities)	**(6,684)**	(3,302)
	69,696	62,462
Own shares (ESOP)	**(949)**	(30)
Equity Shareholders' funds	**68,747**	62,432

Included within intangible assets is the carrying value of the purchased syndicate capacity of £2,159,000 (2003: £2,943,000). This is currently amortised over 3 years commencing at the start of the Group's first underwriting year on the syndicate.

The funds at Lloyd's of the Group have been conservatively invested in the year with a significant reduction in equity exposure. In addition to the Group's own funds, we have obtained Letters of Credit for £35 million (£21 million at the last year end) to support the Group's underwriting activities for 2005. An analysis of the Group's cash and investments held in its funds at Lloyd's is set out over the page:

Chief Executive Officer's Report

continued

	31 December 2004 £'000	%	31 December 2003 £'000	%
Equities	**2,794**	**5.1**	6,062	12.3
Fixed Interest	**1,255**	**2.3**	4,041	8.2
Principal Protected	**5,122**	**9.3**	4,886	9.9
Cash	**45,848**	**83.3**	34,394	69.6
	55,019	**100.0**	49,383	100.0

An analysis of the Group's interest in Syndicate 2010 and the external syndicates are set out below:

	31 December 2004		31 December 2003	
	2010 £'000	External £'000	2010 £'000	External £'000
Cash and investments	**46,259**	**76,883**	24,324	52,651
Debtors – insurance and reinsurance	**36,918**	**40,867**	22,611	35,204
Net technical provisions	**(64,250)**	**(111,312)**	(36,872)	(84,035)
Creditors-insurance and reinsurance	**(9,508)**	**(10,046)**	(5,345)	(10,032)
Other net assets	**8,395**	**10,472**	4,200	10,117
Group's interest	**17,814**	**6,864**	8,918	3,905

We issued £1,604,621.20 nominal value of A convertible Unsecured Loan Notes as part of our capital raise in 2002 and during the latter part of 2004 the Company issued two Floating Rate Subordinated Loan Notes Due 2034. The Euro (€12,000,000) Notes were issued on 18 November 2004 at a variable interest rate equal to the rate for three month deposits in Euro plus a margin of 3.75 per cent. per annum. The United States Dollar ($10,000,000) Notes were issued on 26 November 2004 at a variable interest rate equal to the rate for three month deposits in United States Dollars plus a margin of 3.75 per cent. per annum. The Floating Rate Subordinated Loan Notes are redeemable, in whole or in part, by the Company at any interest payment date falling on or after 5 years from the date of the issue of the Notes. The Floating Rate Subordinated Loan Notes were listed on the Irish Stock Exchange on 12 January 2005.

The year end gearing ratio stood at 21.6% (2003: 2.5%). We do not consider this to be excessive given the strong pipeline earning stream on business we have already written. We may consider further issues of these types of instrument in the current financial year depending on the capital requirement of the Group and the pricing of the Notes. The attraction of these instruments as opposed to traditional sources of banking finance is that we are able to continue to manage and develop the business without having to worry about overly restrictive bank covenants that in today's world come hand in hand with banking finance. Equally a Group of our size appears to suffer for the sins of others when speaking to banks about any sources of financing, as they do not appear to be able to distinguish between good and bad businesses. The result is often a proposal containing covenants and terms on an unacceptable basis to a business such as ours.

The net assets of the Group stood at circa £68.7 million (2003 restated: £62.4 million) at the end of the year. This is after a share buy back programme that utilised circa £5 million of distributable reserves. This also includes approximately £4.1 million (2003: circa £5.2 million) of intangibles, being goodwill and the cost of syndicate participations. This equates to diluted net tangible assets per share of 90.8 pence, excluding own shares held in the ESOP (2003 restated: 72.3 pence per share).

Foreign Exchange

To date, neither Syndicate 2010 nor the Group have entered into any contracts to hedge their foreign currency exposure to non-sterling currencies.

Within Syndicate 2010, our managing agency subsidiary attempts to match assets and liabilities by currency. Due to the short-tail and catastrophe nature of the account it is not considered prudent to enter into any hedge arrangements prior to the underwriting accounts coming substantially off risk. Under the proposed new capital regime at Lloyd's early profit releases by syndicates to capital providers, prior to the closure of a year of account are possible. It is likely that any such releases by Syndicate 2010 will be made in original currencies, to the extent that the Lloyd's system permits, and not converted to sterling which should enable the capital providers to enter into their own hedging arrangements.

It is only during the latter part of 2004 that there has been a substantial build up in foreign currency cash on the Group Balance Sheet. This has arisen primarily from the Euro and US Dollar funds received from the issue of the Floating Rate Subordinated Loan Notes. There is of course also a Euro and US Dollar liability on the Balance Sheet in respect of these outstanding Loan Notes. However, going forward I would expect our underwriting profits to be distributed in original currency such that the foreign currency cash balances could increase substantially.

The foreign currency position of the Group and Syndicate 2010 is kept under constant review and it is possible that at some stage in the future hedging transactions will be entered into on their behalf.

Capital Provision

The capital framework, at Lloyd's, is currently undergoing a process of change such that Lloyd's and the FSA require each regulated company (managing agent) in the market to calculate the capital requirement for each syndicate they manage, a process called Individual Capital Assessment ("ICA"). The ICA is calibrated at a confidence level of 99.5% over a twelve month time horizon, though the confidence level could be lower if the ICA covers a period longer than twelve months. Cathedral submitted its initial ICA for Syndicate 2010 in November 2004 and work has commenced on the ICA to be submitted with regard to the 2006 underwriting year of account.

Lloyd's have stated that the FSA have made it clear that the ICA of each syndicate will be regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's will have discretion to take into account other 'operational' factors when setting a member's capital level, i.e. Lloyd's financial strength rating. This will be the Economic Capital Requirement of the market.

The ICA system will, in due course, replace the Risk Based Capital ("RBC") model currently employed by Lloyd's to determine the capitalisation of the market. RBC is effectively a black box to which we have no access and assesses capital requirements at corporate member level after assessing each syndicate using market data and applying some discount for corporate members such as ours that have a portfolio of participations. Without rehearsing the underlying issues, RBC has been pernicious toward specialist underwriting units such as ours. It is presented in a complex and opaque manner that results in capital ratios that are inconsistent between syndicates and with the aims of the franchise board.

In discussions last year, Lloyd's conceded that this result was not as intended but was unwilling to do anything about it. In order to deal with our increased funds at Lloyd's requirement we issued the two 'Trust Preferred Notes' which are discussed above in the financial review.

It is unlikely that the ICA will fully replace RBC for the 2006 year of account but it should hopefully be fully on stream for the 2007 year of account. We would hope that as Lloyd's accepts the ICA as an adequate capitalisation mechanism for the market that the capital requirement

Chief Executive Officer's Report

continued

of the Syndicate 2010 should ease as the ICA is based on more syndicate specific data while the RBC is based on market wide data, which should be to our benefit.

The fact that the capital issue is being overhauled by Lloyd's and the FSA is essential for the continuing health of the market place. The RBC system made it difficult to attract new investors, precluded many entrepreneurial start up operations and would eventually have had any specialist operation worth their salt familiarising themselves with the location of the exit door.

The process starting this year will involve a major upheaval for regulators and market participants and it is far from clear what the final outcome and indeed capital requirement for our business may be. However, even if we gain no short term relief under the system, it should give us far more opportunity to plan our future capital requirements effectively and explain to potential investors what the future capital landscape may look like. That would be progress indeed.

Another development of the new capital regime is that annual accounting profits, to the extent that they are earned, should be allowed as solvency capital and will be available to support underwriting from 1 January 2006. Lloyd's are in the process of reviewing their capital release tests to coincide with the switch to Annual Accounting and we would expect this to lead to early releases of capital to Cathedral, prior to closure at thirty six months.

As the capitalisation process sorts itself out over the next year or so, we are hopeful that we will be in no worse a position than we are now. However we are not expecting results in a financial sense during this year and will have this matter very high on our own agenda, both to establish a reasonable capital requirement and effectively finance it.

Notwithstanding these changes we will continue to plan how to run our business from the underwriting perspective according to the opportunities available and organise a capital solution behind it.

Strategy

The reference point for any discussion on strategy must be an analysis of how we are doing in the context of the industry. We are still a small, young and maturing business. One of our greatest challenges is to convince our investors, both current and future, that the assumptions upon which our business is planned and run over a period of time are both realistic and robust.

2004 was a good "benchmarking" exercise for the reinsurance industry with an unforeseen frequency of catastrophe loss in the U.S and Japan that the actuaries had not quantified, the modellers hadn't modelled and those running their businesses by relying solely on those tools had not reinsured adequately.

Syndicate 2010 is affected on both the property reinsurance and direct property portfolio as one would expect from a specialist writer. Although many contracts for the year are still on risk, we believe that we will finish the year on or below the net loss ratios in our business plan for a 'normal' year.

The production of a 75% combined ratio by Syndicate 2010 for 2004 without the bolster of a substantial casualty book, neatly endorses that we have a comparatively robust business model. The fact that we can make our forecast earnings when the unforeseen does happen, when others use the unforeseen to explain why they haven't, shows we have a high quality business.

For 2006, it is possible that we will edge the syndicate capacity upwards and if capacity becomes available at reasonable cost, we would like to further increase the share of 2010's underwriting that comes to Cathedral's balance sheet. A consequence of this action could be a further increase in funds we are required to place at Lloyd's. If this increase looks to extend beyond the resources we can currently deploy we will consider varying financing options; these may require your consent.

It is unlikely at this stage of the cycle that Syndicate 2010 will diversify beyond its three core areas, as there seems little to gain unless we were to completely change the game and move into a substantially larger structure. We pride ourselves on doing what we do well, we are confident that we can effectively trade now and through a more competitive market environment and we are comfortable being among a small minority of businesses who do have not current or future legacy issues. Moving into the multi-line middle ground is not a place where we wish to be.

Changing nothing is always an interesting, but in this case appropriate, strategy call. We are accreting assets rapidly as the profits from our substantially increased underwriting since 2003 are starting to transfer to our balance sheet and our reputation is growing with the performance of our team. We now have a wide enough base to withstand market softening, yet are focussed enough not to slip on the banana skin of non core business that seems to feature in most stories of industry woe. We find ourselves in the fortunate position that, to quote our Chairman, 'we are dealing with tactics not strategy'.

It has been an excellent year for the company which can wholly be attributed to the efforts of the entire Cathedral team. For this I would like to extend my thanks on behalf of all shareholders.

Peter Scales
Chief Executive Officer
21 April 2005

CATHEDRAL
CAPITAL PLC

Report of the Directors

The Directors present their report and the audited accounts for the year ended 31 December 2004.

Registered Office

The Company's registered office is 9th Floor, Lloyd's, One Lime Street, London EC3M 7HA.

Principal Activity and Review of the Business

The Company was originally set up in 1997 as a Names' Conversion vehicle 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 Cathedral Capital (1998) Limited.

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, an employment 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 and direct and facultative property, with capacity of around £200 million for the 2004 year of account (£160 million for the 2003 year of account). Syndicate 2010 has just closed its second underwriting year, 2002 year of account, with a profit. The company has also managed an inherited marine syndicate, which had previously been placed in run-off, having ceased underwriting at the end of the 2000 year of account. This syndicate has now been reinsured to close into an external syndicate with effect from 31 December 2004. Cathedral Underwriting Limited 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 during the year also advised a number of third party clients on their insurance activities. It is authorised and regulated by the FSA.

The Group's corporate member underwrote approximately £182 million of capacity for the 2004 year of account (2003: £135 million). Of this capacity, £97 million supported Syndicate 2010 (2003: £68 million). For the 2005 year of account, the Group supports capacity of circa £178 million of which £108 million supports Syndicate 2010, with the remainder supporting a select number of external third party syndicates.

A more detailed review of the activities and results of the Group are included in the Chairman's Statement and Chief Executive Officer's Report on pages 2 to 15.

Results and Dividends

The results attributable to shareholders for the year and the transfer to reserves are shown on page 29.

Details of the accounting policies adopted by the Group for the year are set out in Note 1 to the Financial Statements, together with the changes to these policies from prior years.

The Directors do not intend to declare a dividend for the year (2003: £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 15.

Share Capital

During 2004 PMA Capital Insurance Company disposed of its holding of 23,630,770 A Convertible Ordinary 25p shares of the Company which equated to a shareholding of 29.6% in the Company. These shares were acquired for the most part by existing shareholders, including some Directors of the Company, and some new shareholders. However as part of this transaction the Company bought back and immedtiately cancelled, at 73 pence per share, 6,849,644 A Convertible Ordinary 25p shares which equated to 8.6 % of the total shares then in issue.

Significant Shareholders

The shareholders who held in excess of 5% of the issued share capital at the year end and at the date of this report are set out below:

	Number of shares held	Percentage of shares held
Century Capital Partners III, LP	8,404,660	11.5%
Hansa Trust Plc	6,153,000	8.4%
Houston Casualty Company	5,924,652	8.1%
Walsham Investment Limited	5,300,000	7.3%
Argonaut Group*	5,000,000	6.9%

*the Argonaut shareholding is split between two different companies within the Argonaut Group

Convertible Debt

As part of the capital raise in 2002, a loan instrument was created and £1,604,621.20 nominal value of A Convertible Unsecured Loan Notes was issued. These notes pay a coupon of 6% per annum and are convertible, at a future value, into A Convertible Ordinary 25p shares of the Company.

Directors

The Directors who held office at the year-end and who are still in office at the date of this report are shown on page 26.

Report of the Directors

continued

Directors' Interests in Shares

	31 December 2004		31 December 2003	
	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	–
L A Holder	**200,000**	**818,168**	153,845	818,168
J A Lynch	**250,000**	**818,168**	185,000	818,168
A S Minns	**155,280**	**–**	155,280	–
W H Salomon	**–**	**–**	–	–
P D Scales	**250,000**	**818,168**	210,000	818,168
A I G C South	**275,000**	**–**	250,000	–
J B Stradtner	**–**	**–**	–	–
J P M Welman	**–**	**–**	–	–

Mr Gillham's wife is the beneficial holder of 343,968 A Convertible Ordinary 25p shares of the Company. Mr Gillham also has a beneficial interest in 55,000 A Convertible Ordinary 25p shares of the Company held in the name of Lion Nominees Limited.

Mr Minns' Pension Fund is the beneficial holder of 70,000 A Convertible Ordinary 25p shares of the Company.

Deutsche Bank Nominees (Jersey) Ltd (1993) and Deutsche Bank Nominees (Jersey) Ltd (1994) are each interested in 1,450,750 A Convertible Ordinary 25p shares of the Company. Mr Salomon has a beneficial interest in one of these Trusts. Mr Salomon is a director of both Hansa Trust PLC and Ocean Wilson (Investment) Limited, which are respectively interested in 6,153,000 and 1,363,041 A Convertible Ordinary 25p shares of the Company.

Mr Stradtner has a beneficial interest in the General Partner, which is interested in the Century Capital Partners III, L.P. fund. The Century Capital Partners III, L.P. fund is interested in 8,404,660 A Convertible Ordinary 25p shares of the Company.

Mr Welman is a non-executive director of The Equity Partnership Investment Company PLC which has a beneficial interest in 342,465 A Convertible Ordinary 25p shares of the Company.

All executive Directors have a potential interest in the Employee Share Ownership Plan as all Cathedral employees are beneficiaries of the ESOP. No Director has been granted options from the Approved Share Option Scheme 2000 of the Company at the year-end or at the date of this report.

Directors' Remuneration

Amounts earned by Directors during the year ended 31 December 2004 were as follows:

	31 December 2004				31 December 2003
	Fees & Salaries £'000	Benefits in kind £'000	Pension £'000	Total £'000	Total £'000
E E Patrick	**341**	**1**	**35**	**377**	272
P M Gillham	**20**	**–**	**–**	**20**	20
L A Holder	**341**	**1**	**20**	**362**	257
J A Lynch	**341**	**1**	**20**	**362**	257
A S Minns	**20**	**–**	**–**	**20**	20
W H Salomon	**20**	**–**	**–**	**20**	20
P D Scales	**341**	**1**	**20**	**362**	257
A I G C South	**106**	**1**	**27**	**134**	123
J B Stradtner	**–**	**–**	**–**	**–**	20
J P M Welman	**20**	**–**	**–**	**20**	20
	1,550	**5**	**122**	**1,677**	1,266

For the year ended 31 December 2004 Mr Stradtner elected to receive his Director's fee by way of expense allowance. Mr Stradtner is entitled to an expense allowance of £20,000 per annum and for 2004 claimed an expense allowance of £17,731.

The Group operates a profit sharing scheme from which all executive Directors and employees of the Group can benefit. The size of the profit related pool created under this scheme is determined annually and is equal to 15 per cent of the consolidated Group pre tax and pre amortisation profits. All distributions from this scheme are entirely at the discretion of the Board. The amounts allocated or paid, from this scheme, to the executive Directors have been included within the Fees and Salaries disclosed above. The amount of the profit sharing scheme is set out in detail in note 22.

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

Related Parties

Details of related parties and any related party transactions can be found in Note 37.

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 (16 May 2005 to 30 May 2005 inclusive) 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 30 May 2005 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 market can obtain the relevant documentation from the Secretary of the Company at the Company's Registered Office.

Corporate Governance

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 of the Committee and the Group's compliance director is secretary of the 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 the 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 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 Group's external auditors and receives a report from them at least once a year.

The Group has established a Risk Management Committee, which sits as a Committee within the Group's managing agency subsidiary. This Committee comprises a number of executive Directors of this Company and senior managers and underwriters of the managing agency. This Committee, though primarily determining and monitoring risks and controls within the regulated business of the managing agency, will also evaluate risks and controls throughout the rest of the Group. This Committee will report formally to the Audit Committee at least annually.

(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 the 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.

Any proposals by executives for distributions to staff, including those to executive Directors, from the profit sharing scheme are discussed by the Executive Chairman of the Company and the Committee. The aggregate amount and timing of any payments are agreed by the Committee. The rationale for any distributions to executive Directors and senior executives having basic salaries of £100,000 and above are explained to and agreed by the Committee. The Committee has agreed the proposed distributions to the executive Directors from the profit sharing scheme that have been included in the Director Remuneration table set out earlier in this report.

(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 the 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 of any candidates who are proposed to act as non-executive Directors.

Independent Directors

The non-executive Directors considered the independence of each non-executive Director on behalf of the Board. It was considered that Messrs Gillham, Minns, Salomon, Stradtner and Wellman were and remained independent. It was recognised that Messrs Salomon and Stradtner were directors and/or partners of entities interested in significant shareholdings in the Company but it was not considered that these relationships had prejudiced their independence.

Annual General Meeting

The Annual General Meeting of the Company will be held at 4.30 p.m. on Tuesday 31 May 2005 at the City Club, 19 Old Broad Street, London EC2N 1DS. A separate notice convening this meeting will be circulated to shareholders.

Report of the Directors

continued

Employee Involvement

Details of employees and their remuneration are included in Note 10.

The Group's employment practices and procedures are designed to attract and retain high calibre ambitious individuals. The work environment and culture is designed to enable motivated individuals to hone their skills in order to achieve their career goals and appropriate training, both internal and external, is provided to ensure that this occurs in a timely manner. 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. Employees are also regularly updated on the financial performance of the Group.

Most employees have an interest in the shares of the company either through a direct personal shareholding or from grants of shares under the Approved Share Option scheme 2002 or the Employee Share Ownership Plan. It is intended that this equity involvement will continue to be expanded in the future.

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 55 days purchases (2003: 0 days purchases) outstanding at 31 December 2004, based on the average daily amount invoiced by suppliers during the year. An invoice was received on 31 December 2004 which distorted the purchase days outstanding at the year end.

Donations

The Group made no charitable donations during the year (2003: £nil). No political donations were made during the year (2003: £nil).

Auditors

Mazars LLP succeeded Mazars as independent auditors of the Company during the year. Mazars LLP 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

21 April 2005

Directors of the Company

Elvin Patrick

After gaining a Masters in Business Administration from Cranfield, Elvin Patrick joined Edward Bates, merchant bankers, 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 (which became Limit/Bankside) as underwriter of marine syndicate 566 until 1997. From 1989-1999 he was Chairman of Bankside Underwriting Agencies Limited and in 1998/99, Chief Executive Officer of Limit PLC. He has held numerous positions at Lloyd's including Deputy Chairman in 1998, a member of the Lloyd's Regulatory Review Board in 1997 and a member of the Lloyd's Rowland Task Force in 1991. He was Active Underwriter of syndicate 2010 until 30 November 2001. He is Executive Chairman of Cathedral Capital PLC.

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.

John Lynch

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

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 Beaufort Managing Agency Limited and chairman of the Lloyd's Market Association's Risk Management Committee.

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 a number of private trading companies.

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. He was non-executive chairman of the Company from its inception in 1997 until the date of the Annual General Meeting in 2001.

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. An underwriting member since 1985, he resigned as an unlimited Name in 1997 and converted his capital under Cathedral's first conversion offer. He is the Senior Independent Director of Cathedral Capital PLC.

William Salomon

William Salomon gained a law degree at Cambridge and was subsequently called to the bar. He is a partner of Hansa Capital Partners LLP, 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. He is a German and British citizen.

James Stradtner

James 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 and 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. He is a member of the board of directors of Asset Allocation and Management LLC and has been a director of several private and quoted companies.

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 remained a non-executive director of Brit until 27 May 2004. He is non-executive director of The Equity Partnership Investment Company PLC and chairman of EPIC Investment Partners.

CATHEDRAL
CAPITAL PLC

Directors and Advisors

Chairman	E E Patrick[1][2]
Directors	P M Gillham*†
	L A Holder[2]
	J A Lynch[2]
	A S Minns*†[3]
	W H Salomon*†
	P D Scales[2]
	A I G C South
	J B Stradtner*†
	J M P Welman*†
	*Non-Executive Director
	†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 LLP 24 Bevis Marks London EC3A 7NR
Bankers	Barclays Bank PLC PO Box 544 54 Lombard Street London EC3V 9EX
Company Number	3372107
Registered Office	9th Floor Lloyd's One Lime Street London EC3M 7HA
Investment Manager	Close Private Asset Management Limited 12 Appold Street London EC2A 2AW
	Investec Investment Management Limited 2 Gresham Street London EC2V 7QP

Report of the Independent Auditors

Independent Auditors' Report to the Members of Cathedral Capital PLC

We have audited the financial statements of Cathedral Capital PLC for the year ended 31 December 2004 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, 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 conversion, 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 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 other information contained in the Annual Report and consider whether it is consisent with the audited financial statements. The other information comprises only the Directors's Report, the Chairman's Statement and the Chief Executive Officer's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 affairs of the Company and the Group as at 31 December 2004 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 LLP

Chartered Accountants and Registered auditors

24 Bevis Marks, London EC3A 7NR

21 April 2005

Consolidated Profit and Loss Account
Technical Account – General Business
For the year ended 31 December 2004

	Notes	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Earned premiums, net of reinsurance:			
Gross premiums written	3	**199,741**	139,934
Outward reinsurance premiums		**(35,715)**	(28,396)
Net premiums written		**164,026**	111,538
Change in the provision for unearned premiums:			
Gross amount		**(24,735)**	(36,033)
Reinsurers' share		**115**	4,462
Earned premiums, net of reinsurance		**139,406**	79,967
Allocated investment return transferred from the non-technical account		**5,111**	4,121
Claims paid:			
Gross amount	3	**(47,441)**	(29,518)
Reinsurers' share		**13,016**	10,658
		(34,425)	(18,860)
Change in the provisions for claims:			
Gross amount	3	**(95,422)**	(38,551)
Reinsurers' share		**39,547**	11,183
		(55,875)	(27,368)
Claims incurred, net of reinsurance		**(90,300)**	(46,228)
Net operating expenses	4	**(35,661)**	(22,682)
Balance transferred to the non-technical account		**18,556**	15,178

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

The notes on pages 34 to 64 form part of these accounts.

Consolidated Profit and Loss Account
Non-Technical Account
For the year ended 31 December 2004

	Notes	Year ended 31 December 2004 £'000	Year ended 31 December 2003 (Restated) £'000
Balance on technical account for general business		**18,556**	15,178
Net investment return	5	**4,511**	4,198
Allocated investment return transferred to the technical account for general business	6	**(5,111)**	(4,121)
Fees and profit commission	8	**5,392**	2,452
Other income	7	**1,081**	155
Other expenses		**(6,846)**	(5,236)
Profit on ordinary activities before tax	9	**17,583**	12,626
Tax charge on profit on ordinary activities	12	**(5,349)**	(3,877)
Profit on ordinary activities after tax		**12,234**	8,749
Dividends		**–**	–
Retained profit for the financial year		**12,234**	8,749
Basic earnings per share	14	**16.3p**	11.1p
Diluted earnings per share	14	**16.2p**	11.1p
Operating earnings per share (diluted)	14	**16.6p**	11.0p

All activities derive from continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

	Notes	Year ended 31 December 2004 £'000	Year ended 31 December 2003 (Restated) £'000
Profit for the year		**12,234**	8,749
Prior year adjustment	25	**(92)**	
Total gains and losses recognised since last annual report		**12,142**	

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 34 to 64 form part of these accounts.

CATHEDRAL
CAPITAL PLC

Consolidated Balance Sheet
As at 31 December 2004

	Notes	31 December 2004 £'000	31 December 2003 (Restated) £'000
Intangible assets:			
Syndicate participations	15	**2,159**	2,943
Goodwill	15	**1,926**	2,256
Negative goodwill	15	**(16)**	(18)
		4,069	5,181
Investments:			
Financial investments	16	**102,486**	76,235
Deposits with ceding undertakings		**34**	35
		102,520	76,270
Reinsurers' share of technical provisions:			
Provision for unearned premiums		**8,000**	8,659
Claims outstanding		**69,121**	45,671
		77,121	54,330
Debtors:			
Arising out of direct insurance operations		**32,898**	19,673
Arising out of reinsurance operations		**43,040**	36,238
Other	18	**2,162**	2,187
		78,100	58,098
Other assets:			
Tangible assets	19	**180**	259
Cash at bank and in hand		**82,912**	51,059
Other		**6,966**	6,298
		90,058	57,616
Prepayments and accrued income	20	**23,501**	14,101
Total assets		**375,369**	265,596

A more detailed analysis of the balance sheet is given in note 35.

The notes on pages 34 to 64 form part of these accounts.

Consolidated Balance Sheet
As at 31 December 2004

continued

	Notes	31 December 2004 £'000	31 December 2003 (Restated) £'000
Capital and reserves:			
Called up share capital	24	**18,239**	19,951
Share premium	25	**35,801**	35,801
Capital redemption reserve	25	**1,713**	–
Merger reserve	25	**1,447**	1,447
Profit and loss reserve	25	**12,496**	5,263
Equity shareholders' funds before own shares		**69,696**	62,462
Own shares	25, 26	**(949)**	(30)
Equity shareholders' funds		**68,747**	62,432
Technical provisions:			
Claims outstanding – gross		**176,780**	121,542
Provision for losses foreseen on open years		**277**	243
Provision for unearned premiums		**75,626**	53,452
Other technical provisions		**1,218**	327
		253,901	175,564
Provisions for other risks and charges:			
Provision for deferred taxation	21	**6,586**	2,310
Other provisions	22	**5,000**	2,545
		11,586	4,855
Creditors:			
Arising out of direct insurance operations		**112**	948
Arising out of reinsurance operations		**14,956**	11,059
Other creditors	23	**22,689**	8,602
		37,757	20,609
Accruals and deferred income		**3,378**	2,136
Total liabilities		**375,369**	265,596

A more detailed analysis of the balance sheet is given in note 35.

The notes on pages 34 to 64 form part of these accounts.

CATHEDRAL
CAPITAL PLC

Company Balance Sheet
As at 31 December 2004

	Notes	**31 December 2004 £'000**	31 December 2003 (Restated) £'000
Fixed asset investments:			
Listed investments	16	**9,188**	15,004
Investments in subsidiary undertakings	17	**2,014**	2,014
		11,202	17,018
Current assets:			
Debtors	18	**18,070**	7,799
Cash at bank		**42,117**	33,456
Prepayments and accrued income	20	**5,371**	5,919
		65,558	47,174
Creditors: Amounts falling due within one year			
Creditors	23	**(414)**	(1,359)
Accruals and deferred income		**(204)**	(128)
		(618)	(1,487)
Net current assets		**64,940**	45,687
Creditors: Amounts falling due after one year	23	**(14,836)**	(1,558)
Net assets		**61,306**	61,147
Capital and reserves:			
Called-up share capital	24	**18,239**	19,951
Share premium	25	**35,801**	35,801
Capital redemption reserve	25	**1,713**	–
Investment revaluation reserve	25	**421**	71
Profit and loss reserve	25	**6,081**	5,354
Equity shareholders' funds before own shares		**62,255**	61,177
Own shares	25, 26	**(949)**	(30)
Equity shareholders' funds		**61,306**	61,147

The financial statements on pages 28 to 64 were approved by the Board of Directors on 21 April 2005 and signed on its behalf by:

Peter Scales
Chief Executive Officer

John Lynch
Chief Financial Officer

The notes on pages 34 to 64 form part of these accounts.

Consolidated Cash Flow Statement
For the year ended 31 December 2004

	Notes	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Net cash inflow from operating activities	31	**5,544**	1,331
Returns on investment and servicing of finance:			
Interest paid		**(149)**	(106)
Taxation:			
Corporation tax paid		**(418)**	(4)
Capital expenditure:			
Purchase of syndicate capacity		**(260)**	(2,790)
Purchase of tangible fixed assets		**(39)**	(106)
Proceeds from disposal of syndicate capacity		**994**	–
Total capital expenditure		**695**	(2,896)
Financing:			
Purchase of own shares		**(5,000)**	–
Purchase of own shares by ESOP		**(1,321)**	–
Sale of own shares by ESOP		**299**	–
Other issues of shares		**–**	688
Increase in loans		**13,268**	–
Total financing		**7,246**	688
Increase/(decrease) in cash in the period		**12,918**	(987)
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings		**7,593**	(1,949)
Net portfolio investments	34	**5,325**	962
Increase/(decrease) in cash in the period		**12,918**	(987)

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

The notes on pages 34 to 64 form part of these accounts.

Notes to the Financial Statements
For the year ended 31 December 2004

1 Basis of Preparation of Financial Statements and Accounting Policies

I BASIS OF PREPARATION OF FINANCIAL STATEMENTS

a) Basis of preparation

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

The financial statements of the Group have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Businesses issued by the Association of British Insurers in November 2003 (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 – recognition of own shares

In previous years, Cathedral Capital PLC shares which were owned by the Employee Share Ownership Plan ("ESOP") were recognised as an asset on the balance sheet at the lower of cost or market value. All assets and liabilities of the ESOP were also recognised on the balance sheet, as the Company had de facto control of the ESOP. In addition, any profits arising in the ESOP were also recognised in the profit and loss account of the Company.

Following the release of Urgent Issues Task Force (UITF) Abstract 38 "Accounting for ESOP Trusts", Cathedral Capital PLC shares which are owned by the ESOP are presented as a reserve and deducted against shareholders' funds. At the same time, any profits in the ESOP are credited to this reserve. However, all assets and liabilities of the ESOP are still recognised on the balance sheet.

The financial impact of this change in accounting policy is set out in more detail in note 25. Prior year results have been restated to reflect this change in accounting policy.

c) 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 2004.

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 Consolidated Technical Profit and Loss 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 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 Profit and Loss 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.

Notes to the Financial Statements
For the year ended 31 December 2004

continued

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 managing agents can make available is insufficient for the Group to make reliable estimates of the necessary technical provisions on an annual accounting basis. 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 Profit and Loss 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 2004 with the comparative period including the returns for the twelve months to 31 December 2003.

(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 Consolidated Technical Profit and Loss 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 Consolidated Technical Profit and Loss 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 Consolidated 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. For syndicates whose results are annually accounted, transactions in US dollars, Canadian dollars and Euros are converted at the average rate of exchange in the period. For all other syndicates, transactions in US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at 31 December. All assets/liabilities in currencies other than Sterling are translated at the rate of exchange ruling at 31 December. Exchange differences arising on translation are dealt with in the Consolidated Technical Profit and Loss Account.

h) *Taxation*

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

The Inland Revenue determines the taxable results of individual syndicates on the basis of computations submitted by the managing agent. At the date of approval of these financial statements, none of the syndicate taxable results have been agreed. Any adjustments that may be necessary to the tax provisions established by the Group as a result of Inland Revenue agreement of individual syndicate taxable results will be reflected in the financial statements of subsequent periods.

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

III ACCOUNTING POLICIES – CORPORATE

a) Reinsurance premiums paid by the Group

Premiums paid by the Group for reinsurance protection are included within outwards reinsurance premiums written in the Consolidated Technical Profit and Loss Account. These premiums are accounted for on an earned basis to match the premiums for the related inwards reinsurance business. The unearned element of the reinsurance premiums are included on the Consolidated Balance Sheet as reinsurers' share of technical provisions – unearned premiums.

b) Investment income and expenses

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

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the Consolidated Non-Technical Profit and Loss Account.

c) Agency fees

Managing agency fees are recognised in line with the activity to which the fees relate.

d) Expenses

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

e) Leased assets

Rentals in respect of assets held under operating leases are charged to the Consolidated Non-Technical Profit and Loss Account as incurred.

f) Foreign currencies

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

g) Taxation

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

h) Investments

The value of fixed asset investments are 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 Directors' valuation.

i) Goodwill

Goodwill arising on the acquisition of companies or businesses is capitalised and amortised on a straight line basis over the period which, in the Directors' opinion, is its useful economic life. The Directors' estimate of the useful economic life of both the positive and negative goodwill arising is ten years.

j) Syndicate participation rights

The cost of participation rights is capitalised and amortised in equal annual instalments over three years, with amortisation commencing at the start of the 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.

k) 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.

l) Tangible fixed assets

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

(i)	Computer and other equipment	3 years
(ii)	Furniture, fixtures and fittings	5 years

m) Investment revaluation reserve

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

n) Employee Share Ownership Plan ("ESOP")

The Company operates an ESOP. The Company has de facto control of the shares held by the ESOP and bears their benefits and risk, and records certain assets and liabilities of the ESOP as its own. Finance costs and administrative expenses are charged as they accrue. The cost of the shares held by the ESOP are presented as a reserve and deducted against equity shareholders' funds. Any profits arising on the sale of shares by the ESOP are credited to this reserve.

o) Issue costs on loan notes

Costs arising on the issue of loan notes are charged to the Consolidated Non-Technical Profit and Loss Account over the period of the loan notes. The loan notes payable are shown on the Balance Sheet of both the Company and the Group, net of any unamortised cost.

CATHEDRAL
CAPITAL PLC

Notes to the Financial Statements
For the year ended 31 December 2004

continued

2 Analysis of Technical Account – General Business

	Year ended 31 December 2004						
	Syndicate 2010 Year of account:			Cathedral's share of Syndicate 2010 Year of account:			
	2002 100% £'000	2003 100% £'000	2004 100% £'000	2002 23.5% £'000	2003 42.5% £'000	2004 48.6% £'000	Total £'000
Earned premiums, net of reinsurance:							
Gross premiums written	(1,262)	(1,735)	194,322	(297)	(737)	94,422	93,388
Outward reinsurance premiums	(190)	(1,354)	(42,351)	(45)	(1,171)	(21,069)	(22,285)
Net premiums written	(1,452)	(3,089)	151,971	(342)	(1,908)	73,353	71,103
Change in the gross provision for unearned premiums	283	40,976	(73,816)	67	17,406	(35,868)	(18,395)
Change in the provision for unearned premiums, reinsurers' share	–	(5,102)	6,890	–	(2,167)	3,534	1,367
Net earned premiums	(1,169)	32,785	85,045	(275)	13,331	41,019	54,075
Allocated investment return transferred from the non-technical account*	438	612	442	103	260	215	578
Claims paid:							
Gross amount	(10,917)	(11,209)	(33,790)	(2,566)	(4,762)	(16,419)	(23,747)
Reinsurers' share	3,056	1,748	14,037	718	742	6,821	8,281
	(7,861)	(9,461)	(19,753)	(1,848)	(4,020)	(9,598)	(15,466)
Change in the provisions for claims:							
Gross amount	17,506	17,908	(73,182)	4,114	7,607	(35,559)	(23,838)
Reinsurers' share	(3,121)	(6,752)	33,211	(733)	(2,868)	16,137	12,536
	14,385	11,156	(39,971)	3,381	4,739	(19,422)	(11,302)
Net claims incurred, net of reinsurance	6,524	1,695	(59,724)	1,533	719	(29,020)	(26,768)
Net operating expenses**	(1,941)	(12,038)	(26,459)	(314)	(4,017)	(11,867)	(16,198)
	3,852	23,054	(696)	1,047	10,293	347	11,687

*Excluding long term rate of investment return

**After adjusting for intergroup transactions

	Year ended 31 December 2004				Year ended 31 December 2003
	Managed Syndicate 2010 £'000	External managed syndicates Annually accounted £'000	External managed syndicates Fund accounted £'000	Total £'000	Total £'000
Earned premiums, net of reinsurance:					
Gross premiums written	**93,388**	**106,211**	**142**	**199,741**	139,934
Outward reinsurance premiums	**(22,285)**	**(13,282)**	**(148)**	**(35,715)**	(28,396)
Net premiums written	**71,103**	**92,929**	**(6)**	**164,026**	111,538
Change in the gross provision for unearned premiums	**(18,395)**	**(6,340)**	**–**	**(24,735)**	(36,033)
Change in the provision for unearned premiums, reinsurers' share	**1,367**	**(1,252)**	**–**	**115**	4,462
Net earned premiums	**54,075**	**85,337**	**(6)**	**139,406**	79,967
Allocated investment return transferred from the non-technical account*	**578**	**1,929**	**12**	**2,519**	1,542
Claims paid:					
Gross amount	**(23,747)**	**(23,399)**	**(295)**	**(47,441)**	(29,518)
Reinsurers' share	**8,281**	**4,580**	**155**	**13,016**	10,658
	(15,466)	**(18,819)**	**(140)**	**(34,425)**	(18,860)
Change in the provisions for claims:					
Gross amount	**(23,838)**	**(72,093)**	**509**	**(95,422)**	(38,551)
Reinsurers' share	**12,536**	**27,378**	**(367)**	**39,547**	11,183
	(11,302)	**(44,715)**	**142**	**(55,875)**	(27,368)
Net claims incurred, net of reinsurance	**(26,768)**	**(63,534)**	**2**	**(90,300)**	(46,228)
Net operating expenses**	**(16,198)**	**(19,558)**	**95**	**(35,661)**	(22,682)
	11,687	**4,174**	**103**	**15,964**	12,599
Long term rate of investment return				**2,592**	2,579
Balance on technical account, after long term rate of return				**18,556**	15,178

*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 was put into run-off at the end of the 2000 year of account and as the Group has never participated on this syndicate and its results have been excluded in compiling this note.

The Group's share of the results of Syndicate 2010, reported above, are stated before restatement of the allocated investment return using the long term rate of return.

Notes to the Financial Statements
For the year ended 31 December 2004

continued

3 Segmental Information

(i) Underwriting

	Year ended 31 December 2004					
	Gross Premiums Written £'000	Gross Premiums Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Business:						
Accident & Health	741	877	(480)	(294)	(6)	97
Motor – third party liability	3,729	3,657	(2,672)	(720)	62	327
Motor – other classes	31,444	28,478	(21,736)	(6,135)	315	922
Marine, Aviation & Transport	11,794	10,325	(5,522)	(2,797)	(575)	1,431
Fire and other Damage to Property	32,085	24,790	(17,912)	(7,118)	1,268	1,028
Third Party Liability	20,491	18,729	(13,938)	(4,994)	(735)	(938)
Credit and Suretyship	–	–	–	–	–	–
Legal Expenses	–	–	–	–	–	–
Other	344	378	(219)	(37)	(39)	83
Total Direct	100,628	87,234	(62,479)	(22,095)	290	2,950
Reinsurance Business:						
Reinsurance Acceptances	79,424	68,083	(38,772)	(13,566)	(5,029)	10,716
Reinsurance to Close	19,689	19,689	(41,612)	–	21,702	(221)
Total Reinsurance	99,113	87,772	(80,384)	(13,566)	16,673	10,495
Total	199,741	175,006	(142,863)	(35,661)	16,963	13,445

	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 2003
Direct Business:						
Accident & Health	806	773	(419)	(251)	(13)	90
Motor – third party liability	3,781	2,780	(2,203)	(603)	(12)	(38)
Motor – other classes	25,837	18,054	(12,963)	(3,772)	(406)	913
Marine, Aviation & Transport	11,624	8,477	(2,092)	(2,439)	(1,644)	2,302
Fire and other Damage to Property	19,866	11,950	(4,693)	(3,286)	(1,658)	2,313
Third Party Liability	18,341	9,375	(8,641)	(2,769)	1,206	(829)
Credit and Suretyship	5	5	(32)	(8)	3	(32)
Legal Expenses	7	7	(8)	(3)	(3)	(7)
Other	405	410	(163)	(47)	(105)	95
Total Direct	80,672	51,831	(31,214)	(13,178)	(2,632)	4,807
Reinsurance Business:						
Reinsurance Acceptances	51,364	44,172	(23,775)	(9,460)	(4,823)	6,114
Reinsurance to Close	7,898	7,898	(13,080)	(44)	5,362	136
Total Reinsurance	59,262	52,070	(36,855)	(9,504)	539	6,250
Total	139,934	103,901	(68,069)	(22,682)	(2,093)	11,057

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Gross premiums in respect of direct business written in:		
United Kingdom	**100,628**	92,860
Other EU Member States	**–**	(38)
Rest of World	**–**	(10)
	100,628	92,812

(ii) Movement in provisions for losses foreseen on open years for the year ended 31 December 2004

	Balance at 1 January £'000	**Amounts Utilised £'000**	**Amounts Unused £'000**	**Additional Provisions £'000**	**Balance at 31 December £'000**
1999 Year of Account	**32**	**7**	**–**	**–**	**39**
2000 Year of Account	**211**	**48**	**(21)**	**–**	**238**
Total	**243**	**55**	**(21)**	**–**	**277**

Notes to the Financial Statements
For the year ended 31 December 2004

continued

4 Net operating expenses

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Acquisition costs	**26,193**	16,122
Administrative expenses	**3,360**	2,359
Loss on exchange	**1,012**	1,795
Names' personal expenses on Lloyd's syndicates	**5,096**	2,406
Total	**35,661**	22,682

5 Net investment return

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Investment return on underwriting investments:		
Syndicate Investments		
Investment income	**2,985**	2,187
Realised investment losses	**(410)**	(571)
Investment expenses	**(56)**	(74)
Net investment return on syndicate investments	**2,519**	1,542
Funds at Lloyd's		
Investment income	**1,925**	1,715
Realised investment losses	**(3)**	(681)
Unrealised gains	**315**	1,794
Investment expenses	**(79)**	(91)
Net investment return on funds at Lloyd's investments	**2,158**	2,737
Net investment return on underwriting investments	**4,677**	4,279
Investment return on cash and other investments:		
Investment income	**83**	55
Realised gains/(losses)	**1**	(9)
Unrealised gains/(losses)	**–**	(14)
Interest payable	**(250)**	(113)
Net investment return on other investments	**(166)**	(81)
Net investment return	**4,511**	4,198

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 2004 £'000	Year ended 31 December 2003 £'000
Long term rate of return applied to funds at Lloyd's	**2,592**	2,579
Actual investment return on syndicate underwriting	**2,519**	1,542
Total long term rate of return transferred to Consolidated Technical Account	**5,111**	4,121
Funds at Lloyd's		
The average funds at Lloyd's balance was as follows:		
Cash	**36,730**	34,492
Fixed interest	**4,052**	4,267
Equities	**4,500**	7,286
Alternative investments	**5,135**	3,701
Comparison of actual rate of return to long term rate of return:		
Long term rate of return	**2,592**	2,579
Actual rate of return	**2,158**	2,737
Effect of short term fluctuations over the period	**(434)**	158
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%
Alternative investments	**5.5%**	5.5%

7 Other income

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 (Restated) £'000
Profit on sale of syndicate capacity	**966**	–
Charge to managed syndicates for use of fixed assets	**100**	140
Other income	**15**	15
	1,081	155

Notes to the Financial Statements
For the year ended 31 December 2004

continued

8 Fees and profit commission

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Managing agency fees	**715**	639
Profit commission	**4,567**	1,703
Other fees	**110**	110
	5,392	2,452

9 Profit on ordinary activies before taxation

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
The profit on ordinary activities before taxation is stated after charging:		
Operating lease charges – rent	**50**	68
Depreciation of tangible fixed assets	**118**	179
Amortisation of goodwill	**328**	328
Amortisation of syndicate capacity	**1,016**	330
Auditors' remuneration:		
– Audit services paid to Mazars LLP	**57**	34
– Audit services paid to other auditors	**6**	15
– Other services	**40**	101

In addition, Mazars LLP received a further £1,000 of fees relating to the issue of the Floating Rate Subordinated Loan Notes during the year, which have been treated as issue costs and will be charged to the profit and loss account as interest over five years.

10 Employees

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
The aggregate payroll costs borne by the Group were as follows:		
Salaries	**3,944**	2,874
Social security costs	**504**	364
Pension costs	**91**	103
	4,539	3,341

The average number of people (excluding non-executive Directors) employed by the Group during the year was 39 (31 December 2003: 33), of which 19 were engaged in underwriting activities and 20 in administration (31 December 2003: 14 in underwriting activities and 19 in administration). As at 31 December 2004, the actual number of people (excluding non-executive Directors) employed by the Group was 41 (31 December 2003: 38).

11 Directors' Emoluments

Details, for each Director, of remuneration and pension entitlements are set out on page 19.

12 Tax on profit on ordinary activities

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 (Restated) £'000
(a) Analysis of charge in the period		
Current tax:		
Corporation tax at 30%	**1,066**	85
Adjustments in respect of previous periods	**–**	–
Overseas tax	**7**	4
Total current tax charge (note 12(b))	**1,073**	89
Deferred taxation:		
– underwriting losses	**4,565**	4,139
– investment losses	**79**	263
– timing differences on accelerated capital allowances	**(6)**	(16)
– additional tax losses	**(23)**	(486)
– other timing differences	**(339)**	(112)
Total deferred tax charge	**4,276**	3,788
Tax charge	**5,349**	3,877
(b) Factors affecting tax charge for period		
Profit on ordinary activities before tax	**17,583**	12,626
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**5,275**	3,788
Expenses not deductible for tax purposes	**122**	182
Timing differences	**(4,327)**	(4,274)
Investment income received net of tax	**(86)**	(101)
Movement in tax losses	**83**	376
Overseas tax	**7**	4
Prior period adjustments	**(1)**	114
Total current tax charge	**1,073**	89

(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.

Notes to the Financial Statements
For the year ended 31 December 2004

continued

13 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £5,728,000 (31 December 2003: restated profit of £6,204,000).

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.

14 Earnings per share

	Year ended 31 December 2004	Year ended 31 December 2003 (Restated)
The basic earnings per share is calculated as follows:		
Profit for the year (£'000)	**12,234**	8,749
Basic weighted average number of shares (no.)*	**75,161,544**	78,782,186
Basic earnings per share (p)	**16.3**	11.1
The diluted earnings per share is calculated as follows:		
Profit for the year (£'000)	**12,234**	8,749
Basic weighted average number of shares (no.)	**75,161,544**	78,782,186
Dilutive potential ordinary shares	**148,148**	34,733
Diluted weighted average number of shares (no.)	**75,309,692**	78,816,919
Diluted earnings per share (p)	**16.2**	11.1
The operating earnings per share – diluted – is calculated as follows:		
Profit for the year (£'000)	**12,234**	8,749
Short term fluctuations in investment return (£'000)	**434**	(158)
Tax effect of short term fluctuations in investment return (£'000)	**(130)**	47
Operating profit for the year (£'000)	**12,538**	8,638
Diluted weighted average number of shares (no.)	**75,309,692**	78,816,919
Operating earnings per share – diluted (p)	**16.6**	11.0

Dilutive potential ordinary shares are those share options granted to employees where the exercise price is less than the average net tangible assets per share during the year.

*Note that the weighted average number of shares has been restated to exclude the shares held by the ESOP, in accordance with UITF Abstract 38.

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 2004	**3,952**	**3,275**	**7,227**
Purchases in the year	**260**	**–**	**260**
Disposals in the year	**(544)**	**–**	**(544)**
Cost at 31 December 2004	**3,668**	**3,275**	**6,943**
Amortisation at 1 January 2004	**1,009**	**1,037**	**2,046**
Provided during the year	**1,016**	**328**	**1,344**
Disposals in the year	**(516)**	**–**	**(516)**
Amortisation at 31 December 2004	**1,509**	**1,365**	**2,874**
Net book value at 31 December 2004	**2,159**	**1,910**	**4,069**
Net book value at 1 January 2004	**2,943**	**2,238**	**5,181**

16 Financial Investments

	31 December 2004 Market value £'000	**31 December 2004 Cost £'000**	31 December 2003 Market value £'000	31 December 2003 Cost £'000
Corporate (Group and Company)	**9,188**	**8,802**	15,004	14,934
Syndicate participations	**93,298**	**93,692**	61,231	61,762
Group financial investments	**102,486**	**102,494**	76,235	76,696
i) Corporate (Group and Company):				
Shares and other variable yield securities	**2,811**	**2,939**	6,077	6,191
Alternative investments	**5,122**	**4,606**	4,886	4,654
Debt and other fixed income securities	**1,255**	**1,257**	4,041	4,089
Total investments – Group and Company	**9,188**	**8,802**	15,004	14,934
ii) Syndicate participations:				
Shares and other variable yield securities	**6,148**	**7,815**	518	749
Debt securities and other fixed interest securities	**85,846**	**84,573**	41,263	41,357
Loans guaranteed by mortgage	**–**	**–**	4	4
Deposits with credit institutions	**1,019**	**1,019**	19,109	19,315
Other investments	**285**	**285**	337	337
Total investments – Syndicate participations	**93,298**	**93,692**	61,231	61,762

All corporate investments are listed on recognised stock exchanges.

Alternative investments are investments which are characterised by a significant degree of capital protection.

Notes to the Financial Statements
For the year ended 31 December 2004

continued

17 Investments in subsidiary undertakings

	31 December 2004 £'000
Cost	
At 1 January 2004	**2,014**
Additions during the year	**–**
At 31 December 2004	**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 Debtors

	Group 31 December 2004 £'000	Group 31 December 2003 £'000	Company 31 December 2004 £'000	Company 31 December 2003 £'000
Trade debtors	**4**	–	**–**	–
Amounts owed by managed syndicates	**47**	124	**–**	–
Amounts owed by group undertakings	**–**	–	**17,830**	7,668
Debtors within the ESOP	**234**	131	**234**	131
Other debtors	**30**	28	**6**	–
Other debtors arising on syndicate participations	**1,847**	1,904	**–**	–
	2,162	2,187	**18,070**	7,799

Debtors within the ESOP are as set out in note 26. Of this balance, £92,000 is due in more than one year (2003: £93,000).

19 Tangible fixed assets

	Computers & other equipment £'000	Furniture, fixtures & fittings £'000	Total £'000
Cost:			
At 1 January 2004	**696**	**261**	**957**
Additions in the year	**37**	**2**	**39**
Disposals in the year	**(226)**	**–**	**(226)**
At 31 December 2004	**507**	**263**	**770**
Depreciation:			
At 1 January 2004	**600**	**98**	**698**
Charge for the year	**66**	**52**	**118**
Disposals in the year	**(226)**	**–**	**(226)**
At 31 December 2004	**440**	**150**	**590**
Net book value:			
At 31 December 2004	**67**	**113**	**180**
At 1 January 2004	**96**	**163**	**259**

20 Prepayments and accrued income

	Group 31 December 2004 £'000	Group 31 December 2003 £'000	**Company 31 December 2004 £'000**	Company 31 December 2003 £'000
Corporate:				
Accrued income – investments	**25**	618	**5,045**	5,618
Accrued income – underwriting	**32,950**	16,398	**–**	–
Deferred tax asset	**–**	–	**307**	281
Deferred acquisition costs	**386**	–	**–**	–
Prepayments	**57**	117	**19**	20
Syndicate participations:				
Deferred acquisition costs	**13,933**	9,350	**–**	–
Prepayments and accrued income	**(23,850)**	(12,382)	**–**	–
	23,501	14,101	**5,371**	5,919

Accrued income – underwriting is in respect of annual accounting profits and is net of early profit releases received from Lloyd's of £4,994,000 (2003: £1,655,000).

Notes to the Financial Statements
For the year ended 31 December 2004

continued

21 Provision for deferred tax

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

	31 December 2004 £'000	31 December 2003 £'000
Declared underwriting profits	**2,765**	502
Annually accounted profits	**6,218**	3,900
Provisions for future underwriting losses	**(83)**	(67)
Deferred tax on investment (gains)/losses	**(179)**	(258)
Accelerated capital allowances	**(36)**	(30)
Tax losses carried forward	**(1,449)**	(1,426)
Other timing differences	**(650)**	(311)
Provision for deferred tax	**6,586**	2,310

Provision for deferred tax at start of year	**2,310**
Deferred tax charge in profit and loss account for year	**4,276**
Provision for deferred tax at end of year	**6,586**

Unprovided deferred tax assets amounted to £nil at 31 December 2004 (31 December 2003: £19,401).

The Company had a deferred tax asset at 31 December 2004 of £307,000 (31 December 2003: £281,000) in respect of unrealised losses on investments and tax losses carried forward. The Company had no unprovided deferred tax assets at 31 December 2004 (31 December 2003: Unprovided deferred tax asset of £nil).

22 Provisions for other risks and charges

	Provision in respect of profit sharing scheme £'000
Provision at 1 January 2004	2,545
Additional provision	3,855
Utilised in the year	(1,400)
Provision at 31 December 2004	5,000

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. All distributions from this scheme are entirely at the discretion of the Board. The provision includes an estimate of employer's National Insurance (at 12.8 per cent) which would be payable.

23 Other creditors

	Group 31 December 2004 £'000	Group 31 December 2003 £'000	**Company 31 December 2004 £'000**	Company 31 December 2003 £'000
Corporate: amounts falling due within one year:				
UK Corporation tax	**827**	172	**312**	64
Other taxes and social security costs	**123**	120	**–**	–
Bank overdraft	**–**	1,295	**–**	1,295
Trade creditors	**628**	474	**102**	–
Corporate: amounts falling due after one year:				
Trade creditors	**1,789**	1,613	**–**	–
Convertible loan notes	**1,576**	1,558	**1,576**	1,558
Long term loans	**13,260**	–	**13,260**	–
Syndicate participations:				
Other creditors	**4,486**	3,370	**–**	–
	22,689	8,602	**15,250**	2,917

Group trade creditors include underwriting losses (both for the run-off syndicates and annual accounting losses on open years).

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 25p shares.

During 2004, two Floating Rate Subordinated Notes Due 2034 were issued by the Company. Both Notes are unsecured and were listed on the Irish Stock Exchange effective from 12 January 2005.

(i) Euro 12,000,000 Floating Rate Subordinated Notes were issued on 18 November 2004 and pay interest at a variable interest rate equal to the rate for three month deposits in euro plus a margin of 3.75% per annum. The Company can redeem the euro notes in whole or in part, from time to time, on any interest payment date falling on or after 31 December 2009.

(ii) US$ 10,000,000 Floating Rate Subordinated Notes were issued on 26 November 2004 and pay interest at a variable interest rate equal to the rate for three months deposits in US Dollars plus a margin of 3.75% per annum. The Company can redeem these US Dollar Notes in whole or in part, from time to time, on any interest payment falling on or after 15 December 2009.

The amount of interest charged during 2004 in respect of both Subordinated Notes was £93,000.

Notes to the Financial Statements
For the year ended 31 December 2004

continued

24 Share capital

	31 December 2004	31 December 2003	31 December 2004	31 December 2003
	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	**65,591**	72,441
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	**16,398**	18,110
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	**18,239**	19,951

During the year, 6,849,644 A Convertible Ordinary 25p shares were purchased by the Company at 73.0 pence per share and immediately cancelled.

25 Reserves

Movements in reserves for the year ended 31 December 2004

	Share premium reserve £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss reserve £'000	Own shares £'000	Total £'000
Group:						
Balance at 1 January 2004	35,801	–	1,447	5,325	–	42,573
Prior year adjustment:						
– Changes in accounting policy – accounting for Own Shares	–	–	–	(62)	(30)	(92)
Balance at 1 January 2004, as restated	35,801	–	1,447	5,263	(30)	42,481
Share buy-back	–	1,713	–	(5,001)	–	(3,288)
Profit for the year	–	–	–	12,234	–	12,234
Net shares purchased by ESOP	–	–	–	–	(919)	(919)
At 31 December 2004	35,801	1,713	1,447	12,496	(949)	50,508

The Group profit for the year ended 31 December 2004 without the changes in accounting policy would have amounted to £12,326,000. The effect of the change in accounting policy was to decrease the profit after tax by £92,000 (31 December 2003: decrease the profit after tax by £12,000).

	Share premium reserve £'000	Capital redemption reserve £'000	Investment revaluation reserve £'000	Profit and loss reserve £'000	Own shares £'000	Total £'000
Company:						
Balance at 1 January 2004	35,801	–	71	5,416	–	41,288
Prior year adjustment:						
– Changes in accounting policy – accounting for Own Shares	–	–	–	(62)	(30)	(92)
Balance at 1 January 2004, as restated	35,801	–	71	5,354	(30)	41,196
Share buy-back	–	1,713	–	(5,001)	–	(3,288)
Increase in unrealised gains on investments	–	–	350	–	–	350
Profit for the year	–	–	–	5,728	–	5,728
Net shares purchased by ESOP	–	–	–	–	(919)	(919)
At 31 December 2004	35,801	1,713	421	6,081	(949)	43,067

The Company profit for the year ended 31 December 2004 without the changes in accounting policy would have amounted to £5,820,000. The effect of the change in accounting policy was to decrease the profit after tax by £92,000 (31 December 2003: decrease the profit after tax by £12,000).

26 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 2004, 1,952,377 A Convertible Ordinary 25p shares were held in the ESOP (2003: 701,924 A Convertible Ordinary 25p shares). During the year, the ESOP purchased 1,800,453 A Convertible Ordinary 25p shares. It also sold 550,000 A Convertible Ordinary 25p Shares during 2004 giving rise to a profit in the ESOP of £92,000 (2003: £12,000). Details of the shares disposed of by the ESOP are set out in Note 37.

Although the Group only has de facto control of the ESOP, the Group is required under Urgent Issues Task Force (UITF) Abstract 38 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 2004 £'000	31 December 2003 £'000
Profit & Loss Account		
Profit on sale of shares	**92**	12
Balance Sheet		
Cost of investments in the Company	**1,103**	92
Debtors	**234**	131
Less liabilities	**(1,022)**	–
Net assets	**315**	223
ESOP funds	**315**	223
Reconciliation of ESOP funds		
ESOP funds at 1 January	**223**	
Profit arising in ESOP during period	**92**	
Expenses incurred and added to cost of investments	**–**	
ESOP funds at 31 December	**315**	

Following the issue of Urgent Issues Task Force (UITF) Abstract 38 "Accounting for ESOP Trusts", any Cathedral shares owned by the ESOP are presented as a reserve and deducted against shareholder funds, rather than being shown as an asset on the balance sheet. In addition, any profits arising in the ESOP are no longer recognised as profits of the group but are, instead, credited to the Own share reserve.

27 Reconciliation of shareholders' funds

	Group 31 December 2004 £'000	Group 31 December 2003 (Restated) £'000	Company 31 December 2004 £'000	Company 31 December 2003 (Restated) £'000
Total recognised gains for the year	**12,234**	8,749	**6,078**	6,275
Issue of shares	**–**	688	**–**	688
Share buy-back	**(5,000)**	–	**(5,000)**	–
Net shares purchased by ESOP	**(919)**	–	**(919)**	–
Total movements during the year	**6,315**	9,437	**159**	6,963
Opening shareholders' funds (restated)	**62,432**	52,995	**61,147**	54,184
Closing shareholders' funds	**68,747**	62,432	**61,306**	61,147

28 Net tangible assets per share

	31 December 2004 £'000	31 December 2003 (Restated) £'000
Undiluted:		
Net assets	**68,747**	62,432
Less intangible assets	**(4,069)**	(5,181)
Net tangible assets	**64,678**	57,251
Basic number of shares at 31 December (no.)*	**71,002,623**	79,102,720
Net tangible assets per share – undiluted (p)	**91.1p**	72.4p
	£'000	£'000
Diluted:		
Net tangible assets (as above)	**64,678**	57,251
Add amounts potentially due in respect of share options	**460**	420
Net tangible assets after conversion of loan notes	**65,138**	57,671
Basic number of shares at 31 December (no.)*	**71,002,623**	79,102,720
Add potential dilutive shares in respect of share options (no.)	**708,560**	657,657
Diluted number of shares at 31 December (no.)	**71,711,183**	79,760,377
Net tangible assets per share – diluted (p)	**90.8p**	72.3p

*Net of 1,952,377 A Convertible Ordinary 25p shares held in ESOP (2003: 701,924 A Convertible Ordinary 25p shares).

The net tangible assets per share, before the deduction of the Own shares reserve and assuming all shares are in issue and not held by the ESOP, is 90.0p per share undiluted (2003: 71.8p per share) and 89.7p per share diluted (2003: 71.7 per share).

CATHEDRAL
CAPITAL PLC

Notes to the Financial Statements
For the year ended 31 December 2004

continued

29 Capital commitments

There were no capital commitments at 31 December 2004 (2003: £nil).

30 Operating leases

	31 December 2004 £'000	31 December 2003 £'000
Annual commitments under operating leases which expire:		
Land & buildings:		
during years two and five	**305**	305
	305	305

The Company had no annual commitments under operating leases.

31 Reconciliation of operating profit to net cash inflow from operating activities

	31 December 2004 £'000	31 December 2003 (Restated) £'000
Profit before tax on ordinary activities	**17,583**	12,626
Depreciation of fixed assets	**118**	179
Amortisation of goodwill	**328**	328
Amortisation of syndicate capacity	**1,016**	330
(Profit) on sale of syndicate capacity	**(966)**	–
(Increase) in debtors & accrued income	**(16,317)**	(13,746)
Increase in ESOP debtors	**103**	50
Interest payable	**250**	113
Increase in creditors	**3,758**	2,541
Foreign exchange revaluations	**(16)**	–
Realised and unrealised investment (gains)	**(313)**	(1,090)
Net cash inflow from operating activities	**5,544**	1,331

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

	31 December 2004 £'000	31 December 2003 £'000
Net cash inflow/(outflow) for the year	**7,593**	(1,949)
Cashflow – portfolio investments	**5,325**	962
Movement arising from cashflows	**12,918**	(987)
Changes in market value of investments	**313**	1,090
Total movement in portfolio investments, net of financing	**13,231**	103
Portfolio at 1 January	**49,059**	48,956
Portfolio at 31 December	**62,290**	49,059

33 Movement in cash and portfolio investments

	1 January 2004 £'000	Cash flow £'000	Changes to Market value £'000	31 December 2004 £'000
Cash at bank and in hand	**956**	**6,298**	**–**	**7,254**
Bank overdrafts	**(1,295)**	**1,295**	**–**	**–**
Deposits with credit institutions	**34,394**	**11,454**	**–**	**45,848**
Total cash	**34,055**	**19,047**	**–**	**53,102**
Shares and other variable yield securities	**6,077**	**(3,280)**	**14**	**2,811**
Fixed income investments	**4,041**	**(2,777)**	**(9)**	**1,255**
Alternative investments	**4,886**	**(72)**	**308**	**5,122**
Total portfolio investments	**15,004**	**(6,129)**	**313**	**9,188**
Total cash and portfolio investments	**49,059**	**12,918**	**313**	**62,290**

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

34 Net cash inflow on portfolio investments

	Year ended 31 December 2004			Year ended 31 December 2003		
	Purchases £'000	Sales £'000	Net cash flow £'000	Purchases £'000	Sales £'000	Net cash flow £'000
Deposits with credit institutions	**–**	**–**	**11,454**	–	–	(852)
Shares and other variable yield securities	**3,371**	**6,651**	**(3,280)**	3,935	4,840	(905)
Fixed income investments	**1,546**	**4,323**	**(2,777)**	1,498	1,718	(220)
Alternative investments	**303**	**375**	**(72)**	3,454	515	2,939
	5,220	**11,349**	**5,325**	8,887	7,073	962

CATHEDRAL
CAPITAL PLC

Notes to the Financial Statements
For the year ended 31 December 2004

continued

35 Analysis of Consolidated Balance Sheet

	Managed Syndicate 2010 £'000	External managed syndicates Annually accounted £'000	External managed syndicates Fund accounted £'000	Corporate £'000	31 December 2004 Total £'000	31 December 2003 Total (Restated) £'000
Intangible assets:						
Syndicate participations	–	–	–	2,159	2,159	2,943
Goodwill	–	–	–	1,926	1,926	2,256
Negative goodwill	–	–	–	(16)	(16)	(18)
	–	–	–	4,069	4,069	5,181
Investments:						
Financial investments	27,514	65,295	489	9,188	102,486	76,235
Deposits with ceding undertakings	–	34	–	–	34	35
	27,514	65,329	489	9,188	102,520	76,270
Reinsurers' share of technical provisions:						
Provision for unearned premiums	3,221	4,779	–	–	8,000	8,659
Claims outstanding	33,046	34,871	1,204	–	69,121	45,671
	36,267	39,650	1,204	–	77,121	54,330
Debtors:						
Arising out of direct operations	14,940	17,958	–	–	32,898	19,673
Arising out of reinsurance operations	21,460	21,555	25	–	43,040	36,238
Other debtors	518	1,320	9	315	2,162	2,187
	36,918	40,833	34	315	78,100	58,098
Other assets:						
Tangible assets	–	–	–	180	180	259
Cash at bank and in hand	18,745	10,906	159	53,102	82,912	51,059
Other	1,329	5,628	9	–	6,966	6,298
	20,074	16,534	168	53,282	90,058	57,616
Prepayments and accrued income:						
Deferred acquisition costs	6,818	7,115	–	–	13,933	9,350
Prepayments and accrued income	(17,472)	(6,389)	11	33,418	9,568	4,751
Total assets	110,119	163,072	1,906	100,272	375,369	265,596

	Managed Syndicate 2010 £'000	External managed syndicates Annually accounted £'000	Fund accounted £'000	Corporate £'000	31 December 2004 Total £'000	31 December 2003 Total (Restated) £'000
Capital and reserves:						
Called up share capital	–	–	–	18,239	18,239	19,951
Share premium	–	–	–	35,801	35,801	35,801
Capital redemption reserve	–	–	–	1,713	1,713	–
Merger reserve	–	–	–	1,447	1,447	1,447
Profit and loss reserve	–	–	–	12,496	12,496	5,263
Equity shareholders' funds before own shares	–	–	–	69,696	69,696	62,462
Own shares	–	–	–	(949)	(949)	(30)
Equity shareholders' funds	–	–	–	68,747	68,747	62,432
Technical provisions:						
Claims outstanding – gross	64,622	110,323	1,835	–	176,780	121,542
Provision for losses foreseen on open years	–	–	277	–	277	243
Provisions for unearned premiums	35,895	39,731	–	–	75,626	53,452
Other technical provisions	–	–	–	1,218	1,218	327
	100,517	150,054	2,112	1,218	253,901	175,564
Provisions for other risks and charges:						
Provision for deferred taxation	–	–	–	6,586	6,586	2,310
Other provisions	–	–	–	5,000	5,000	2,545
	–	–	–	11,586	11,586	4,855
Creditors:						
Arising out of direct insurance operations	7	104	1	–	112	948
Arising out of reinsurance operations	9,424	5,515	17	–	14,956	11,059
Other creditors	77	4,634	(225)	18,203	22,689	8,602
	9,508	10,253	(207)	18,203	37,757	20,609
Accruals and deferred income	94	2,765	1	518	3,378	2,136
Total liabilities	110,119	163,072	1,906	100,272	375,369	265,596

Notes to the Financial Statements
For the year ended 31 December 2004

continued

36 Pensions

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

37 Related parties

(i) Directors' Interest in Transactions

Mr Salomon has entered into a client agreement with Cathedral Capital Management Limited. Under the terms of this agreement Cathedral Capital Management Limited received a fee of £4,000 (2003: £4,000) and is entitled to a profit commission of 3 per cent. Ascension Limited has entered into a client agreement with Cathedral Capital Management Limited. Under the terms of this agreement Cathedral Capital Management Limited received a fee of £8,000 (2003: £8,000) and is entitled to a profit commission of 3 per cent. Mr Salomon is also interested in this agreement as he is a director of Ascension Limited and a director and shareholder of its ultimate holding company. Mr South is interested in this agreement also as he is a director of Ascension Limited.

Gralenno Limited has entered into a client agreement with Cathedral Capital Management Limited. Under the terms of this agreement Cathedral Capital Management Limited received a fee of £8,000 (2003: £2,000) and is entitled to a profit commission of 3 per cent. Mr South is interested in this agreement as he is a director of Gralenno Limited.

On 28 June 2004 the Group entered into a funds at Lloyd's Provider Deed and Indemnity with The Equity Partnership Investment Company PLC under which that company made a £5 million Letter of Credit available to Cathedral Capital (1998) Limited for use in its funds at Lloyd's. Cathedral Capital (1998) Limited pays a coupon of 5 per cent per annum under the terms of this deed. During the period Cathedral Capital (1998) Limited paid a coupon of £127,910. Mr Welman through his non-executive directorship of The Equity Partnership Investment Company PLC is interested in this transaction.

Mr Holder is a non executive director of Beaufort Underwriting Agency Limited and the Group receives £15,000 of fees from that company in respect of Mr Holder's directorship.

(ii) Directors' Interests in shares

	31 December 2004		31 December 2003	
	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	–
L A Holder	**200,000**	**818,168**	153,845	818,168
J A Lynch	**250,000**	**818,168**	185,000	818,168
A S Minns	**155,280**	**–**	155,280	–
W H Salomon	**–**	**–**	–	–
P D Scales	**250,000**	**818,168**	210,000	818,168
A I G C South	**275,000**	**–**	250,000	–
J B Stradtner	**–**	**–**	–	–
J P M Welman	**–**	**–**	–	–

Mr Gillham's wife is the beneficial holder of 343,968 A Convertible Ordinary 25p shares of the Company. Mr Gillham also has a beneficial interest in 55,000 A Convertible Ordinary 25p Shares of the Company held in the name of Lion Nominees Limited.

Mr Minns' Pension Fund is the beneficial holder of 70,000 A Convertible Ordinary 25p shares of the Company.

Deutsche Bank Nominees (Jersey) Ltd (1993) and Deutsche Bank Nominees (Jersey) Ltd (1994) are each interested in 1,450,750 A Convertible Ordinary 25p shares of the Company. Mr Salomon has a beneficial interest in one of these Trusts. Mr Salomon is a director of both Hansa Trust PLC and Ocean Wilson (Investment) Limited, which are respectively interested in 6,153,000 and 1,363,041 A Convertible Ordinary 25p 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 8,404,660 A Convertible Ordinary 25p shares of the Company.

Mr Welman is a non-executive director of The Equity Partnership Investment Company PLC which has a beneficial interest in 342,465 A Convertible Ordinary 25p shares of the Company.

All executive Directors have a potential interest in the Employee Share Ownership Plan as all Cathedral employees are beneficiaries of the ESOP. No director has been granted any options from the Approved Share Option Scheme 2000 at the year-end or by the date of this report.

(iii) Other

Century Capital Partners III, L.P. has a 11.5% interest in the share capital of the Company and has been approved as a controller of the Group's managing agency subsidiary by both Lloyd's and the Financial Services Authority.

Both Hansa Trust PLC and Century Capital Management each have a right to appoint a Director to the Board.

Incentive Plans

There are two schemes details of which are set out below. None of the non-executive Directors have any interest in either scheme.

(i) 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 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 and outstanding from the approved scheme are as follows:

Number of Option Holders	Date of grant of options	Number of shares under option	Exercise price	Date from which exercisable	Expiry date of options
12	18 April 2001	395,238	63p	18 April 2004	17 April 2011
9	27 November 2002	199,919	65p	27 November 2005	26 November 2012
3	7 July 2003	24,808	68p	7 July 2006	6 July 2013
6	16 June 2004	88,595	73p	16 June 2007	15 June 2014
		708,560			

(ii) Cathedral Capital Employee Share Ownership Plan ("ESOP")

This ESOP has been set up for the benefit of all employees in the Group. The objective of the ESOP is to help and encourage the holding of shares by beneficiaries or for their benefit. The ESOP is established as an employees' share scheme within Section 743 of the Companies Act 1985.

During 2004 the Company provided a loan to the ESOP to enable it to acquire additional A Convertible Ordinary 25p shares in the Company and at 31 December 2004, there were 1,952,377 A Convertible Ordinary 25p shares (31 December 2003: 701,924 A Convertible Ordinary 25p shares) held in the plan.

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

Number of participants	Date of grant of shares	Price per share	Number of shares
3	27 November 2002	65p	125,847
1	10 January 2003	65p	50,000
1	4 July 2003	68p	25,000
1	4 July 2003	0p	75,000
1	16 June 2004	73p	50,000
1	8 July 2004	0p	350,000
1	8 July 2004	73p	150,000

38 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:

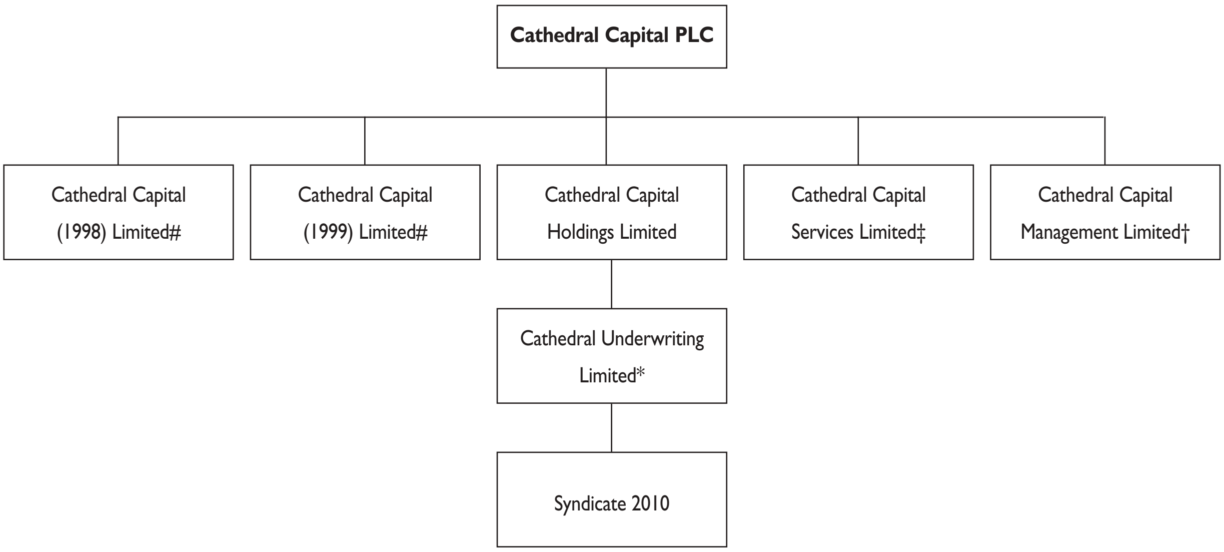
(a) Lloyd's will be entitled to require the other subsidiary to cease or reduce its underwriting; and/or

(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 2001, the Company entered into arrangements to make the majority of funds at Lloyd's of Cathedral Capital (1999) Limited interavailable to Cathedral Capital (1998) Limited. This arrangement included the provision of an indemnity for £258,610 in favour of the Society of Lloyd's and was secured by a floating charge over the Company's undertaking and all of its property and assets existing from time to time. During the year, and following the purchase of an Exeat policy by Cathedral Capital (1999) Limited, the interavailable funds were transferred from the funds at Lloyd's of Cathedral Capital (1999) Limited to those of Cathedral Capital (1998) Limited. At the same time, the indemnity in favour of the Society of Lloyd's was released and on 24 January 2005 the Society of Lloyd's ceased to have a floating charge over the undertaking and all the property and assets of the Company in respect of this interavailable arrangement.

In November 2002, the Company agreed to provide £8,860,001 funds at Lloyd's to PMA Re Corporate Capital Limited (which was at that time 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.

Group Structure



Key:

*Lloyd's Managing Agency

†FSA Advisory Company

#Corporate Underwriting Name at Lloyd's

‡Employment Company

Share Transfer Market 2005:

16 May to 30 May

Financial Timetable 2005:

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

CATHEDRAL
CAPITAL PLC

Company Number: 3772107

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Cathedral Capital PLC will be held at the City Club, 19 Old Broad Street, London EC2N 1DS on Tuesday 31 May 2005, at 4.30 pm for the following purposes:

Ordinary Business

1. To receive and consider the audited accounts for the financial year ended 31 December 2004 and the Reports of the Directors and the Auditors thereon.

2. To reappoint Mazars LLP as the Auditors of the Company and authorise the Directors to determine their remuneration.

Special Business

3. That Mr Paul Gillham, who has attained the age of 70 years, be and is hereby reappointed a Director of the Company. The biography of Mr Gillham is on the facing page. (Special notice to propose this resolution has been received).

By order of the Board

John Lynch
Company Secretary
Registered Office:
9th Floor, Lloyd's, One Lime Street, London EC3M 7HA

21 April 2005

Notes

1. Only the holders of A Convertible Ordinary shares of 25p each and C Convertible Ordinary shares of 25p each are entitled to attend the meeting and vote.

2. A member entitled to attend and vote may appoint a proxy or proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company.

3. A form of proxy is provided. To be effective, a form of proxy must be completed, executed and (together with the original or a notarially certified copy of any power of attorney or other authority under which it is executed) lodged at the Company's registered office at 9th Floor, Lloyds, One Lime Street, London EC3M 7HA not later than 48 hours before the time of the meeting. Deposit of a completed form of proxy will not preclude a member from attending the meeting and voting in person.

Paul Gillham *(Born 1931)*

After gaining a degree at Cambridge University, Paul Gillham joined Unilever in 1958. He became executive chairman of Keith Prowse Group (1970 to 1980), and of a textile manufacturing and marketing group (1984 to 1992). An underwriting member since 1979, he resigned as an unlimited Name in 1997 and converted his capital under Cathedral's first conversion offer. He served as a non-executive director of Wren Underwriting Agencies Limited from March 1993 to December 1997. He was non-executive chairman of the Company from its inception in 1997 until the date of the Annual General Meeting in 2001.

Produced by Stephen Duke Ltd (020) 7422 0040 (9517)

CATHEDRAL
CAPITAL PLC

9th Floor
Lloyd's
1 Lime Street
London EC3M 7HA
United Kingdom

Tel: +44(0)20 7170 9000
Fax: +44(0)20 7170 9001
e-mail enquiries: info@cathedralcapital.com