



## Cathedral Capital PLC ✓

("the Company")

(incorporated with limited liability in England and Wales under  
the Companies Act 1985 with registered number 3372107) £

### OFFER FOR SUBSCRIPTION AND CONVERSION

#### Comprising

Up to 15 million A Shares in the Company to be subscribed in full in cash at £1 per share or for syndicate capacity, by Friday 19 September 1997.

Up to 4,000 Units, each comprising £5,000 of Convertible Loan Stock to be subscribed nil paid and 1 B Share to be subscribed in full in cash at 50p per share, by Friday 19 September 1997. The Convertible Loan Stock is subject to mandatory payment up and conversion to A Shares by no later than 31 October 2000 and will not bear interest.

The subscription list will open at 9am on Friday 29 August 1997 and close at 12pm on Friday 19 September 1997 unless extended prior to that date (provided that the Offer may not be extended beyond Friday 3 October 1997 without the consent of Lloyd's).

The Offer will lapse and no A Shares or Units will be issued unless applications are received in time for a minimum of 250,000 A Shares to be subscribed in cash, and sufficient subscriptions of A Shares and/or Units are received to enable the Company to underwrite insurance business at Lloyd's (subject to admission as a corporate member of Lloyd's) with an overall premium limit of £5 million. Subject thereto, the number of A Shares and/or Units to be issued will be determined by the Directors.

**This prospectus and the accompanying application form is important and requires your immediate attention. If you are in doubt about the contents of this prospectus and the accompanying application form, you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities. Potential investors who are underwriting members of Lloyd's should consult their members' agent or Lloyd's adviser about the contents of this document particularly in respect of Part II of this document containing information on Lloyd's interavailability arrangements.**

A copy of this prospectus, which has been drawn up in accordance with the Public Offers of Securities Regulations 1995, has been delivered for registration to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of those Regulations. ✓

This document has been prepared in accordance with Lloyd's requirements. Lloyd's has not, however, authorised the contents of, and is not responsible for, this document or any part of it.

The Directors of the Company, whose names appear at page 7, accept responsibility for the information contained in this prospectus. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document and the accompanying application form has been approved for issue for the purposes of section 57 of the Financial Services Act 1986 by Littlejohn Frazer, a firm authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business. Littlejohn Frazer will not regard any person other than the Company as its client or be responsible to any person other than the Company for providing the protections afforded to customers of authorised persons under the Financial Services Act 1986 or for providing advice in relation to the Offer to which this document relates. Nothing contained in this document and the accompanying application form should be regarded as giving legal, investment or other advice to any person.

No application has been made for the A Shares or Units of the Company now in issue or being issued to be listed or otherwise dealt in on any recognised investment exchange or other securities market, and accordingly the attention of potential investors is drawn to the risk warning contained in Part II section 4.3 of this document. The Directors will attempt to assist shareholders who wish to dispose of shares. The Directors may in the future make an application for a public listing or Alternative Investment Market quotation, if they believe such action to be in the interests of shareholders in the circumstances at the relevant time.

The Offer referred to in this document is not being made, directly or indirectly, in or into any country or territory outside the United Kingdom and this document, together with the application form, is not being and must not be copied or distributed to any person resident in any country or territory outside the United Kingdom without the prior consent of the Conversion Official. At the date of posting such consent has not been sought or obtained. In particular, this document must not be copied or distributed to any person resident in or with an address in Canada or the United States, including territories, possessions and areas subject to its jurisdiction. Any such distribution is likely to result in a violation of the laws of those jurisdictions.

## RISK WARNING

Potential investors should read this document and the accompanying application form carefully and consult their professional advisers before deciding to invest. Investment in the Company will involve risks principally arising from its participation in the Lloyd's insurance market. Insurance underwriting may result in losses which could exhaust the Company's assets supporting underwriting and result in the loss by investors of the whole of their investment and either the loss of their interavailable Funds at Lloyd's or a liability to pay up the whole of any unpaid Loan Stock.

Interavailability, explained further at paragraph 2.1 on page 9, creates an additional source of risk, in that Funds at Lloyd's made interavailable to the Company by a Name may be eroded by the personal underwriting losses arising from the underwriting of other Names concerned. In that case, each Name concerned will be liable to provide replacement funds to the Company. Failure by any such Name to provide replacement funds may impair the Company's ability and his own ability to underwrite. A Name may, if Lloyd's so exercises its discretion, be obliged to indemnify Lloyd's as trustee of the interavailable trust deeds required to be entered into in respect of any amount of interavailable Funds at Lloyd's applied in discharging the Name's own liabilities. Any profit derived from the underwriting activities of the Name is charged as security for the indemnity and assigned to the trustee. Whilst it is customary to refer to interavailable Funds at Lloyd's, in practice it is the Name's Lloyd's deposit which is made interavailable and references to interavailable Funds at Lloyd's should be construed accordingly.

As explained at paragraph 4.1.13 on pages 41 and 42, a Name participating in an interavailability arrangement may need to provide more additional assets to prove solvency than if he had remained as an individual Name.

The attention of Names subscribing for Units, and accordingly making Funds at Lloyd's interavailable to the Company, is drawn to the following facts:

- (a) the Company may not be a qualifying successor vehicle due to the level of investment anticipated from potential investors other than converting Names. **In this event guarantees or letters of credit secured upon a Name's principal private residence will not be acceptable as interavailable Funds at Lloyd's.**
- (b) **Names will be liable to pay up their Loan Stock in full by no later than 31 October 2000, whether or not their Funds at Lloyd's have been released by that date.**
- (c) If any part of a Name's Funds at Lloyd's is provided by a guarantee or letter of credit, the consent of the issuer will be required in order for it to be made interavailable.
- (d) The transfer of syndicate capacity to the Company under this Offer will constitute a disposal for capital gains tax purposes and therefore could give rise to a capital gains tax liability. This is referred to further at paragraph 3.1.2 on page 33.

Action may be taken against Loan Stock holders who fail to pay up their Loan Stock when due. Failure to comply may also lead to the forfeiture of Units comprising Convertible Loan Stock and B Shares. In such circumstances defaulting Loan Stock holders will not be entitled to participate in any underwriting profits of the 1998 and subsequent years of account. Failure by Loan Stock holders to comply with their obligations may also impair the Company's ability to underwrite.

The attention of potential investors is also drawn to the risk factors set out in Part II section 4 of this document.

Names and other potential investors are under no obligation to accept this Offer. This prospectus and application form should be ignored in the event that a Name or other potential investor decides not to accept the Offer.

*Unless extended, the latest time for receipt of applications under this Offer is 12 pm on Friday 19 September 1997. The procedure for application is set out in the enclosed application form.*

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Cathedral Capital Plc has been formed to give investors the opportunity to participate in the Lloyd's market through the underwriting of its corporate member subsidiary and in complementary investments within the insurance sector. The following information should be read in conjunction with the full text of this prospectus, from which it is derived. For convenience, certain terms and expressions used in this prospectus are defined at pages 58-60.

### KEY POINTS

- Opportunity to underwrite with limited liability on highly selective portfolio of non-life Lloyd's syndicates combined with complementary investment strategy that aims to capitalise on insurance related investment opportunities
- Specialist institutional investor to make cash investment
- Ability to use certain existing Funds at Lloyd's to support future underwriting through interavailability
- Benefits of Wren Underwriting Agencies Limited's proven track record of syndicate selection
- Benefits of Rea Brothers (Investment Management) Limited's proven track record of investment management
- Chairman and deputy chairman of Wren Underwriting Agencies Limited to transfer underwriting to and invest in Company
- Start up costs to be borne by Wren Underwriting Agencies Limited and no application fee for investors
- Desire of Directors to seek market quotation for Company's shares at appropriate time
- Names need not resign as individual members, ie may convert part only of their non-life underwriting and continue to underwrite as individual members
- Any profits (or losses) of 1997 and prior years of account to be retained by Names

### EXPECTED TIMETABLE

- |   |                                  |
|---|----------------------------------|
| ● Subscription list opens   | 9am on Friday 29 August 1997     |
| ● Date as of which Funds at Lloyd's valued  | 31 August 1997                   |
| ● Date by which completed application forms and payment for shares must be received | 12pm on Friday 19 September 1997 |
| ● Date by which Names will be notified of capacity which is not accepted            | Monday 22 September 1997         |
| ● Date of last capacity auction   | 23/24 September 1997             |
| ● Announcement of accepted applications   | Friday 26 September 1997         |

Applications should be made using the enclosed application form which contains instructions on how to apply.

**DIRECTORS AND ADVISERS**

*Directors*

P M Gillham (Chairman)  
G R Berkeley  
J D Incledon  
P D Scales  
A I G C South  
J M P Welman  
all of Aldermān's House  
Alderman's Walk  
London EC2M 3XR

*Company Secretary*

Finsbury Asset Management Limited,  
Alderman's House  
Alderman's Walk  
London EC2M 3XR

*Registered Office*

Alderman's House  
Alderman's Walk  
London EC2M 3XR

*Lloyd's Sponsor and Auditors*

Littlejohn Frazer  
1 Park Place  
Canary Wharf  
London E14 4HJ

*Members' Agent*

Wren Underwriting Agencies Limited  
12 Arthur Street  
London EC4R 9AB

*Solicitors*

Eversheds  
Senator House  
85 Queen Victoria Street  
London EC4V 4JL

*Investment Manager*

Rea Brothers (Investment Management) Limited  
Alderman's House  
Alderman's Walk  
London EC2M 3XR

*Bankers and Custodians*

Bank of Scotland Plc  
38 Threadneedle Street  
London EC2P 2EH

## PART I

### 1 EXECUTIVE SUMMARY

Cathedral Capital PLC has been formed to give investors the opportunity to participate in the Lloyd's market through the underwriting of its corporate member subsidiary and in complementary investments within the insurance sector.

Cathedral Capital PLC will participate in underwriting at Lloyd's with limited liability through its subsidiary, Cathedral Capital (1998) Limited. Cathedral Capital (1998) Limited will be a corporate member of Lloyd's underwriting (subject to admission) with effect from the 1998 year of account, and offers existing Names the opportunity to convert to limited liability through a process known as interavailability. Interavailability is described at page 9 and at Part II of this document. Funds at Lloyd's made interavailable to the Company pursuant to this Offer will support the underwriting of Cathedral Capital (1998) Limited.

Cathedral Capital PLC may in future years establish additional subsidiaries to underwrite as corporate members at Lloyd's, to offer Names the opportunity to convert to limited liability underwriting with effect from the 1999 or subsequent years of account.

Investors in Cathedral Capital PLC will participate in the results of Cathedral Capital (1998) Limited and any future such subsidiaries, as well as in any other insurance investments of Cathedral Capital PLC, in accordance with the provisions referred to in this document.

Cathedral Capital PLC has received a commitment from an institutional investor to subscribe for shares in cash. This should significantly enhance funds available to Cathedral Capital PLC to invest in a portfolio of investments within the insurance market.

Cathedral Capital PLC will issue Shares and Units which may be applied for in accordance with the procedures set out on the application form. Existing Names will receive nil-paid Convertible Loan Stock in Cathedral Capital PLC in return for making all or part of their existing Funds at Lloyd's interavailable to Cathedral Capital (1998) Limited and Shares in Cathedral Capital PLC for transferring their existing syndicate participations to Cathedral Capital (1998) Limited. Names and other potential investors may also subscribe for Shares in Cathedral Capital PLC in cash. Details of the Loan Stock and Shares are at Section 7 of this Part I.

Cathedral Capital (1998) Limited has appointed Wren Underwriting Agencies Limited as its members' agent. Wren has a proven track record and will provide Cathedral Capital (1998) Limited with advice and recommendations on a portfolio of initially 25 to 35 syndicates on which to underwrite in 1998.

Cathedral Capital PLC has appointed Rea Brothers (Investment Management) Limited as its investment manager, to advise on the portfolio of fixed interest and equity investments and complementary investments within the insurance sector. The Rea Brothers group has extensive experience of investing corporate funds within the Lloyd's and insurance companies markets.

Cathedral Capital PLC is not listed. After the Conversion Date (in the year 2000), and once a sufficient trading record has been established, the Directors may seek a listing for its securities on a recognised Investment Exchange or the Alternative Investment Market, if the Directors consider it to be in the interests of shareholders at that time. The Lloyd's Sponsors' comments on the viability of such a listing are contained in a letter to the Company, the text of which is reproduced at Appendix 2.

References in this document to the Company are to Cathedral Capital PLC and/or Cathedral Capital (1998) Limited and (where the context permits) any additional subsidiaries, as the context requires.



## 2. THE COMPANY

### 2.1 Cathedral Capital PLC

The Company proposes to issue securities which will allow investors the opportunity to participate in the business of underwriting insurance at Lloyd's and to invest in other insurance related activities.

Potential investors in the Company have the following options:-

- (a) if they are Names, to make their Funds at Lloyd's interavailable to the Company in exchange for nil paid Convertible Loan Stock, to be paid up in full by the Conversion Date and converted to A Shares, and to transfer Qualifying Capacity to the Company in exchange for A Shares;
- (b) if they are Names, to transfer Qualifying Capacity to the Company in exchange for A Shares, without making their Funds at Lloyd's interavailable; and
- (c) to subscribe for A Shares in cash.

Further details of the Securities being offered are at section 7 of this Part I.

Interavailability is the term used by Lloyd's to describe the process which allows a Name to use his existing Funds at Lloyd's to support both his personal underwriting prior to 1998 and the future underwriting of a successor vehicle. The Name's future capacity is assigned to the successor vehicle and the Name continues to receive profits or pay losses in respect of the years of account prior to 1998. Under such an arrangement the Funds at Lloyd's of the Name are not transferred to the successor vehicle, but remain in the ultimate ownership of the Name. Whilst it is customary to refer to interavailable Funds at Lloyd's, in practice it is the Name's Lloyd's deposit which is made interavailable.

Due to the anticipated level of cash investment, the Company may not be a qualifying successor vehicle. Unless the Company is a qualifying successor vehicle, Funds at Lloyd's supported by guarantees or letters of credit secured on a principal private residence cannot be used to support the Company's underwriting by interavailability.

Subject to this, Names may make either the whole or part of their Funds at Lloyd's interavailable, to support the future underwriting of a successor vehicle. The Company requires Funds at Lloyd's to be made interavailable in multiples of £5,000.

The Company's cash resources beyond its Funds at Lloyd's requirements will be split between a fixed interest portfolio, which should generate income to meet running expenses of the Company, UK equities to provide asset growth, and special situation investments within the insurance market.

Following publication in April 1997 by Lloyd's of the document entitled 'Strengthening Lloyd's Chain of Security: A Review' the Council of Lloyd's has made a number of changes to the capital requirements of individual unlimited liability Names, which will bring their Funds at Lloyd's more into line with those of corporate capital providers who currently have a minimum Funds at Lloyd's requirement of 50% of capacity. The differential between underwriting as an individual Name or as a limited liability member will therefore reduce, and becomes less of a disincentive to those Names considering conversion to limited liability underwriting.

Lloyd's is also considering proposals for the 1999 year of account that individual members' Funds at Lloyd's be increased to 50% of their overall premium limit, or perhaps a higher figure according to the risk assessment process. The proposal is linked to the wider proposal that the New Central Fund should be available to meet the insurance liabilities of individual Lloyd's members to policy holders, in circumstances where all

their Funds at Lloyd's and any New Special Reserve Funds have already been used for that purpose but before their personal wealth is drawn on by Lloyd's. The proposal would not remove individual Names' unlimited liability status which would remain as sole traders.

Names using the interavailability arrangements will need to offer the Company an amount of syndicate capacity which is at least twice the amount of Funds at Lloyd's made interavailable. Names may if they wish offer all their syndicate capacity to the Company. The Company will issue A Shares for capacity which it accepts. The number of A Shares issued will depend on the valuation of such capacity. This valuation will be carried out by Littlejohn Frazer, on the basis set out at Section 7.3 of this Part I.

Wren will, if so requested by a Wren Name, sell capacity which the Company decides not to accept. Wren will not charge a fee for this service. The proceeds of such sale will either be remitted to the Company on the Name's behalf to subscribe for additional A Shares or returned to the Name.

The table below summarises the revised requirements for individual members which will be effective for the 1998 and subsequent years of account.

Membership requirements	1998	1999	2000	2001	2002
<i>Individual members</i>					
Minimum Funds at Lloyd's requirement	32½%	35%	40%	40%	40%
Other personal wealth (OPW) requirement	7½%	10%	10%	10%	10%
†Minimum capital requirement	40%	45%	50%	50%	50%
‡Minimum total means (Funds at Lloyds + OPW) for members permitted to show means of less than £250,000	£150,000	£200,000	£250,000	£300,000	£350,000
‡Minimum total means (Funds at Lloyds + OPW) for members with means of than £250,000 or more	£250,000	£250,000	£250,000	£300,000	£350,000

†All members will be risk assessed with effect from 1 January 1998.

‡Members unable or unwilling to meet the new means requirements will instead be required to show minimum Funds at Lloyd's of 50%.

There are no changes to corporate members' capital requirements, which will be risk assessed, as set out in 'Strengthening Lloyd's Chain of Security: A Review' document.

*Note:* the percentage figures in the above table relate to premium income limit. The £ signs have been added to the original source for the purpose of clarity.

*Source:* Lloyd's market bulletin dated 3 June 1997.

In addition, a further feature of the new Funds at Lloyd's requirement is that all members (both individual and corporate) will be subject to a risk assessment from the 1998 year of account which could have the effect of increasing the minimum capital requirement ratios stated above.

In light of the above changes, together with other factors, the Directors believe that over the short term members may require a choice of ways in which to invest at Lloyd's.

The Directors believe that a number of Names consider limited liability to be desirable, but are concerned about the potential costs of conversion to their own individual limited liability vehicle. The costs of conversion can be mitigated by Names assigning their collective syndicate capacity to a single company.

A number of routes for conversion have been made available by Lloyd's. This document is concerned only with the interavailability route.

The Directors intend investment in the Company to be long term, since there will be no immediate market for the Company's securities unless a listing for the Company is obtained. It is the Directors' intention to seek a stock market listing or quotation on the Alternative Investment Market for the Company following the Conversion Date and once the Company has an established track record, if they consider this to be in the best interests of the shareholders at that time and if conditions permit.

## **2.2 Institutional Investor**

The Benfield and Rea Investment Trust Plc ("BRIT") has agreed to invest up to £2 million in the Company, to subscribe for up to 2 million A Shares. Such investment may be reduced to ensure that BRIT does not have a majority shareholding. BRIT is a company which pursues investment opportunities in the insurance sector and underwrites directly at Lloyd's through its six corporate member subsidiaries. Wren acts as members' agent to each of the subsidiaries. Further details of the proposed investment are at Part III Section 5.

Any controlling shareholding (as defined at Part III Section 8) by BRIT will require the consent of Lloyd's.

## **2.3 The Directors**

The Directors, each of whom is non-executive, are as follows:-

### *Gillham, Paul Maurice (Age 65) - Chairman*

After gaining a degree at Cambridge University, Paul Gillham joined Unilever in 1958. He became executive chairman of Keith Prowse Group (1970 to 1980), and of a textile manufacturing and marketing group (1984 to 1992). An underwriting member since 1979, he was appointed a non-executive director of Wren in March 1993.

### *Berkeley, Giles Robert (Age 38)*

After gaining a degree at Durham University, Giles Berkeley became a marine broker with Bain Dawes Plc in 1981 before joining Wren in 1988. He was appointed a director of Wren in 1992, a director of Wren Lloyd's Advisers Limited in 1994, and deputy chairman of Wren in 1996. He has been an underwriting member since 1984.

### *Incedon, John David (Age 59)*

After gaining a Master in Business Administration degree from Harvard University, John Incedon spent 4 years based in New York working in management consultancy with an international accounting firm, prior to becoming a founding director of the venture capital affiliate of N M Rothschild & Sons in 1969. In 1972, he founded IDJ Limited, by whom he remains employed. IDJ Limited is a corporate finance firm regulated by the Securities and Futures Authority. He has served as a director of listed and privately held companies in the United States of America and in Europe for over 15 years. He has been an underwriting member since 1981.

### *Scales, Peter David (Age 33)*

After gaining a degree at University College London, Peter Scales joined Bankside Underwriting Agencies Limited in 1986 which he left in 1989 to join Mocatta Dashwood Members' Agency Limited. After the agency was taken over by the Octavian

Group, he left to join Wren in 1991. He was appointed a director of Wren in 1993, a director of Wren Lloyd's Advisers Limited in 1994, becoming managing director in 1996, and a director of Wren Holdings Group Plc in December 1996.

*South, Anthony Ian Godfrey Charles (Age 54)*

Anthony South joined Dashwood Underwriting Agencies Limited in 1971 and helped to build up the agency in its formative years. He became a director of Wren in 1989 and is currently its chairman. He was appointed a director of Wren Holdings Limited in 1993, a director and Chairman of Wren Lloyd's Advisers Limited in 1994, and a director of Wren Holdings Group Plc in 1995. He has been an underwriting member since 1976.

*Welman, Jo Mark Pole (Age 39)*

After gaining a degree from Exeter University in 1979 Jo Welman joined Baring Brothers where he was involved with the management of several large segregated UK and US public company pension funds and two authorised unit trusts. In 1989 he was recruited by Rea Brothers to become Managing Director of Rea Brothers (Investment Management) Ltd. He is a member of the Asset Management Committee of the London Investment Banking Association, as well as being a non executive director of Contra-Cyclical Investment Trust PLC. He is also a director of The Benfield & Rea Investment Trust Plc, and London Town Plc.

### **3. WREN UNDERWRITING AGENCIES LIMITED**

Wren will be appointed as the Company's members' agent. Under the terms of the standard members' agent's agreement, Wren will provide syndicate analysis and portfolio recommendations and carry out the general Lloyd's administration of the Company. Wren's fees and profit commission entitlement will be as set out at Section 9 of this Part I. Wren will also provide advice in respect of the Lloyd's syndicate capacity auctions and will provide the facility for the Company to trade in them.

Wren was formed in 1986 in order to acquire the businesses of several underwriting agency companies and commenced trading on 1 January 1987. From this point, Wren operated as a combined agent, managing a number of syndicates and acting as members' agent.

In 1992 the managing agency function was transferred to Wren Syndicate Management Limited, allowing Wren to operate as an independent members' agency, as a subsidiary of group holding company Wren Holdings Limited. In 1995 a management buy-out of Wren Holdings Limited was undertaken, following which Wren Holdings Group Plc became Wren's ultimate holding company.

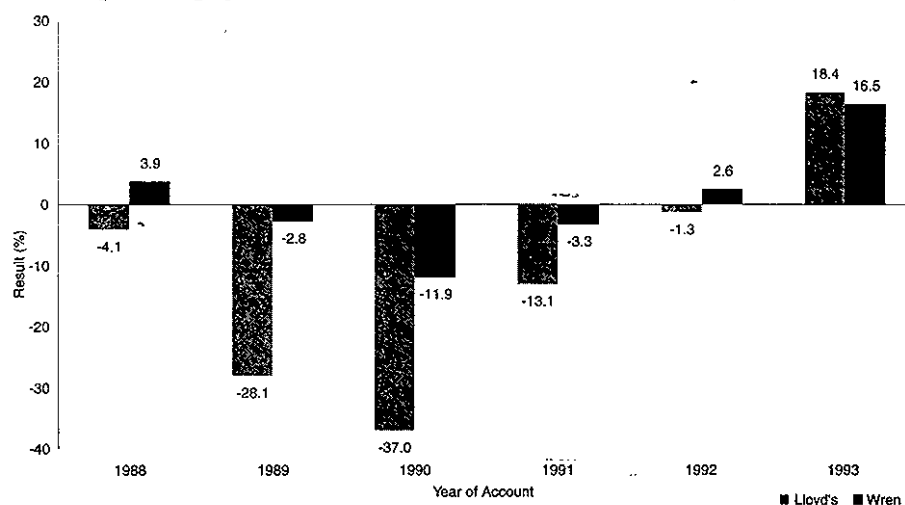
On 30 December 1996, BRIT acquired a 25.1% shareholding in Wren Holdings Group Plc and Finsbury Underwriting Investment Trust Plc. acquired a 15% shareholding.

Wren currently acts for 441 members who underwrite capacity of approximately £392m. This consists of some £183m of individual Names' capacity and approximately £209m of corporate capacity which includes approximately £6m of individual Names' limited liability vehicles.

Wren supports 69 syndicates for the 1997 year of account. The Company intends to support only a limited number of syndicates, consisting of between 25 and 35 of the syndicates supported currently by Wren.

As demonstrated in the performance graph and table overleaf, over the recent difficult period in Lloyd's history Wren has consistently achieved some of the best results for its Names.

*WUAL comparative performance 1988-1993 (as at 31 December 1995)*



Note: For 1988 and 1989, personal expenses include members' agents' fees and profit commission. For 1990 to 1993, personal expenses exclude members' agents' fees and profit commission.

Source: Financial Intelligence & Research Ltd.

*Ranking of Members' Agents' performance 1988 to 1993 with a gross capacity of greater than £100 million for the 1997 year of account\**

	1997 Capacity £'000	Average pre-tax result after personal expenses† as at 31.12.95						Six year simple average	Rank
		1988 %	1989 %	1990 %	1991 %	1992 %	1993 %		
Market average		-4.1	-28.1	-37.0	-13.1	-1.3	18.4	-10.9	
Roberts & Hiscox	277,917	0.9	-4.5	-6.3	-2.6	3.3	20.2	1.8	1
<b>Wren U/w Agencies</b>	<b>391,871</b>	<b>3.9</b>	<b>-2.8</b>	<b>-11.9</b>	<b>-3.3</b>	<b>2.6</b>	<b>16.5</b>	<b>0.8</b>	<b>2</b>
Stace Barr Wellington	605,809	3.1	-11.4	-15.8	-5.9	2.0	22.7	-0.9	3
Murray Lawrence									
Members	350,521	3.9	-14.5	-19.8	-7.3	2.8	18.5	-2.7	4
Cox Tudsbery & Wills	291,946	1.0	-15.9	-15.7	-8.8	0.4	18.4	-3.5	5
LRG Cater Allen	134,542	2.5	-8.6	-28.4	-6.9	-1.2	19.3	-3.9	6
Bankside	274,917	3.1	-19.6	-25.2	-10.7	-2.9	26.1	-4.9	7
Minories	360,922	-2.8	-20.4	-26.8	-8.4	-0.9	19.5	-6.6	8
Willis Faber & Dumas	431,053	-10.4	-18.6	-21.3	-9.9	1.3	18.0	-6.8	9
Stewart	208,151	-1.0	-28.8	-22.2	-12.2	0.1	19.7	-7.4	10
Sedgwick Oakwood	607,737	-0.3	-20.2	-33.0	-14.0	-1.0	15.1	-8.9	11
Harrison Brothers	162,296	-1.1	-16.0	-44.9	-13.7	0.3	20.6	-9.1	12
Richmond	239,950	0.5	-20.0	-41.2	-13.9	-2.0	14.3	-10.4	13

**Notes:**

\*Due to mergers, the equivalent statistics are not available for the following five members' agents who also have capacity in excess of £100m for the 1997 year:- Anton Jardine / Christie Brockbank Shipton / Falcon / Kiln Cotesworth / Murray Lawrence (Underwriting Agents). Average results history of merged agents relates to the successor agent only.

†For 1988 to 1989, personal expenses include members' agents' fees and profit commission. For 1990 to 1993, personal expenses exclude members' agents' fees and profit commission.

Source: Financial Intelligence & Research Ltd

The above analysis illustrates the historical returns which were obtained on the syndicate portfolios managed by Wren during the period concerned. It should not be inferred that the results of the Company, underwriting on a selected portfolio of 25 to 35 syndicates, will be the same, especially in the current highly competitive market conditions. Further, the Company may adjust its proposals to meet changes in conditions or circumstances.

#### 4. UNDERWRITING STRATEGY

Wren endeavours to focus on underwriters who it believes have the ability to trade in poor market conditions, adopt a conservative reserving policy, are prudent reinsurance purchasers, and have a willingness to reduce written income in weakening markets. In support of this policy, last year, in response to worsening trading conditions, Wren took the step of reducing by 20% the allocated capacity of each of its MAPA members. Funds allocated to underwriting by the Company may not be fully utilised in underwriting in conditions where the Directors do not consider this appropriate.

The Company will not underwrite life business and accordingly capacity on life syndicates will not be accepted from Names who convert. Names with capacity on life syndicates who wish to convert should consult their members' agent.

#### 5. REA BROTHERS (INVESTMENT MANAGEMENT) LIMITED ("REA BROTHERS")

The Company's investments will be managed by Rea Brothers. Rea Brothers is a wholly owned subsidiary of Rea Brothers Plc, a listed merchant bank founded in 1919. The Rea Brothers group currently has over £1 billion under discretionary management, of which more than 20% is represented by corporate funds invested at Lloyd's or in the insurance sector. These funds include the Finsbury Underwriting Investment Trust, a Lloyd's corporate vehicle, which has shown an increase in net asset value of 41.2% over the three years to 31 March 1997, compared with an increase of 35.5% in the FTSE 350 Index over the same period.

Rea Brothers are also the investment managers for BRIT. Since its launch in November 1995, the net asset value of the trust has increased by 21.9%.

#### 6. INVESTMENT POLICY

The Company's funds may be invested as follows:-

##### *6.1 Fixed interest portfolio*

The Company may invest a proportion of its funds in a fixed interest portfolio so that the interest generated will meet the running expenses of the Company. The Directors may decide to provide a covenant and charge to Lloyd's over the fixed interest portfolio, should the Company have insufficient interavailable Funds at Lloyd's to support its capacity.

##### *6.2 UK equity portfolio*

As soon as the Company has sufficient paid up capital invested in fixed interest investments to meet its running costs, the Directors intend to invest in UK shares to provide an asset base with potential for growth.

##### *6.3 Special Situations*

The Directors intend to invest in specialist Lloyd's and insurance company related investments, of which a significant proportion may be unquoted, as suitable opportunities arise.

The Directors believe that the expected changes to the Lloyd's capital base over the next few years are likely to present investment opportunities. Whilst it is difficult to be precise as to the exact scope of these investments, it is anticipated that they may include the following:

#### *Acquisitions of Private Corporate Members*

These vehicles are generally owned by Lloyd's Names who underwrote personally to a high level, accumulating a good quality underwriting portfolio from which they selected their better syndicates for the corporate member which had an increased Funds at Lloyd's to capacity ratio.

The Directors anticipate that opportunities may arise to acquire some of these vehicles as the market increasingly shifts towards a capital base comprising larger corporate vehicles.

#### *Smaller Dedicated Vehicles*

It may be possible to invest directly in selected dedicated vehicles. Investments in these types of company may contain some interest in the managing agency, with the consequent potential for future capital gain. Such investments may also bring an income flow from the current open years.

The Directors would also give consideration to investing in new vehicles.

The proportional split between the fixed interest portfolio, equity portfolio and special situations investments, and the amount of non-interavailable Funds at Lloyd's, will be dependant on the overall balance between cash subscriptions, interavailable Funds at Lloyd's and capacity resulting from this Offer.

If the Company has insufficient Funds at Lloyd's to support the capacity it wishes to underwrite, it is likely that any additional Funds at Lloyd's will be provided by way of covenant and charge as described at paragraph 6.1, ie that Cathedral Capital PLC would create a first fixed and floating charge in favour of Lloyd's over its fixed interest portfolio. Should the Directors consider the level of any additional Funds at Lloyd's to be sufficiently low to make a covenant and charge uneconomic, a proportion of the Company's funds may be held in trust to support underwriting.

#### *Interavailable Funds*

During the interavailability period, the Funds at Lloyd's which are made interavailable by Names will, subject to Lloyd's requirements, remain under the control of the relevant Names. However, any changes to the composition of the Names' interavailable funds should be notified to the Company within seven days, as these changes may impact upon the balance of the investments underlying the Company's Funds at Lloyd's.

## **7. THE SECURITIES**

### **7.1 Classes of Security**

Two classes of security are offered: A Shares of 25p each offered at £1 and Units of Conversion Stock each comprising £5,000 in nominal value of Convertible Loan Stock issued nil paid and one B Share of 25p offered at 50p. The Convertible Loan Stock is subject to mandatory payment up and conversion to A Shares by no later than 31 October 2000 and will not bear interest.

## *7.2 Methods of Subscription*

Names and (in respect of cash subscriptions) other investors to whom an Offer is made may subscribe for A Shares or Units of Conversion Stock by one or more of the following options:

### *7.2.1 Interavailability*

Names may subscribe for Units of Conversion Stock. For each Unit of Conversion Stock a Name must make interavailable to the Company £5,000 of Funds at Lloyd's, and must subscribe in cash for one B Share at a price of 50p.

By subscribing for Conversion Stock, Names undertake to pay up their unpaid Convertible Loan Stock in full by the Conversion Date (no later than 31 October 2000), and to maintain interavailable Funds at Lloyd's equivalent to the amounts unpaid on their Convertible Loan Stock. Further details of the Convertible Loan Stock are at Part III Section 3.

In addition, Names subscribing for Units of Conversion Stock must offer to assign to the Company a minimum of £10,000 of capacity for each Unit. From the syndicate capacity offered the Company will select Qualifying Capacity, for which A Shares will be issued.

Wren Names may if they wish authorise Wren to sell at auction on their behalf any capacity the Company does not accept (which will include all life capacity), and to remit the proceeds to the Company on their behalf to subscribe for further A Shares. Wren will not charge a fee for this service.

Each Unit will, when fully paid, convert to 5,000 A Shares in accordance with the provisions explained at Part III Section 3.4.

A winding up fee will be payable by converting Wren Names to Wren, in accordance with the terms of their existing standard members' agent's agreements.

### *7.2.2 Capacity*

Investors may subscribe for A Shares at a price of £1 per Share by assigning a minimum of £10,000 in aggregate of Qualifying Capacity to the Company. Qualifying Capacity will be valued in accordance with paragraph 7.3 of this Section 7. Names will be issued with one A Share for each £1 in value of Qualifying Capacity assigned.

### *7.2.3 Cash*

Investors may subscribe for A Shares in cash at a price of £1 per Share.

The Directors reserve the right to reject or scale down any application where they consider it to be in the interests of the Company. A list of capacity which is likely to be acceptable is available for inspection at the Company's registered office. The Directors reserve the right to limit the amount of capacity on any particular syndicate and to accept other capacity where they consider that it would enhance the Company's overall portfolio.



### *7.3 Valuation of capacity*

Qualifying Capacity is syndicate capacity which is considered acceptable by the Directors for assignment to the Company, taking account of both the capacity itself and the Company's overall portfolio. Names will be notified by Monday 22 September 1997 if they have offered capacity to the Company which is not accepted as Qualifying Capacity.

Syndicate capacity will be valued by Littlejohn Frazer within seven days of the Offer closing, taking account of weighted values achieved at auction during 1997, together with any other factors they consider relevant.

### *7.4 Income*

The Securities will carry the following rights to income:

#### *7.4.1 Conversion Stock*

Names making Funds at Lloyd's interavailable to the Company will continue to receive any investment income or gains derived from those funds directly rather than through the Company.

Accordingly, the B Shares, and the A Shares into which they convert at the Conversion Date will not participate in the investment income or gains generated on funds held directly by the Company prior to conversion.

Convertible Loan Stock will not carry any right to interest. The Convertible Loan Stock will, provided it is fully paid, convert automatically to A Shares at the Conversion Date. Convertible Loan Stock will be deemed paid up in the circumstances specified at Section 7.5 of this Part I.

Under the three year accounting system at Lloyd's, underwriting profits from the 1998 year of account will not be ascertained until after the end of the interavailability period, by which time all Convertible Loan Stock will have become due for payment in full and for conversion, together with its associated B Shares, into A Shares. Accordingly, the B Shares will not carry any dividend rights. If the Lloyd's three year accounting system is changed, no underwriting profits will be distributed by way of dividend until after the Conversion Date.

#### *7.4.2 A Shares*

##### *Investment income and gains*

The holders of A Shares will be entitled to receive any dividends of investment income and gains generated by funds held directly by the Company. The B Shares (and any A Shares derived from the conversion of B Shares) will not receive such dividends on investment income and gains generated prior to their conversion.

##### *Underwriting Profits*

The holders of A Shares will be entitled to receive any underwriting profits of the Company distributed by way of dividend. Such dividends will be divided

between shareholders in accordance with funds made available to the Company in respect of the year of account on which the profit has arisen. Accordingly, an A Share holder will participate in underwriting profits distributed by way of dividend in accordance with the formula

$$\frac{X}{Y} \times Z$$

where:

X = the number of shares held by that A Share holder at the Record Date, to the extent such shares (or any securities from which they are derived) were in issue at the coming-into-line date of the year of account on which the profits being distributed have arisen ("the relevant coming-into-line date").

Y = the aggregate of the number of A Shares in issue at the relevant coming-into-line date and 5,000 times the number of B Shares in issue at the relevant coming-into-line date.

Z = the amount resolved to be distributed in respect of the underwriting profits of the Company arising on a year of account.

Accordingly, underwriting profits distributed in respect of a year of account will be paid only to those shareholders whose Shares (including B Shares which have since converted) were in issue during the applicable year of account, and not to subsequent investors in the Company.

#### *Other income*

Any profits distributed by way of dividend other than investment income and gains or underwriting profits will be paid to those shareholders on the register at the Record Date, in accordance with the number of Shares held by them at that date, multiplied by 5,000 in respect of the B Shares.

#### *7.4.3 Dividend Adjustments*

The Directors, following consultation with the Auditors, will adjust the first dividends payable out of underwriting profits, to compensate holders of A Shares who suffer a reduction in the amount of any distribution of investment income or gains generated on funds held by the Company caused by general expenses of the Company, so that the burden of these expenses is shared equitably between all shareholders.

#### *7.5 The Loan Stock*

Until the Conversion Date (or earlier deemed payment up) Names who subscribe for Convertible Loan Stock are obliged to maintain interavailable Funds at Lloyd's of £5,000 per Unit. A Name's obligation to maintain interavailable Funds at Lloyd's is reduced by £5,000 for every £5,000 in nominal value by which his Convertible Loan Stock is deemed paid up.

Names are obliged to pay up their Convertible Loan Stock in full on the Conversion Date. Accordingly, by no later than 31 October 2000 Names will be obliged to pay the Company £5,000 in cash for every Unit held by them. Action may be taken against Loan Stock

holders who fail to meet this obligation in respect of any Unit. Failure to comply may also lead to unpaid Loan Stock comprised within such Unit being forfeited. The B Shares comprised within such Unit will not convert to A Shares and will not therefore participate in the underwriting profits of the Company for the 1998 to 2000 years of account.

A Name's default in paying up Convertible Loan Stock comprised within a Unit will not affect other Units in respect of which he is not in default.

In the event of a Relevant Loss which exceeds the Company's closed year profits (if any) and non-interavailable Funds at Lloyd's, Lloyd's will apply the interavailable Funds at Lloyd's to meet the loss. A Relevant Loss is a loss on the closure prior to the Conversion Date of an underwriting year of account in which the Company has participated, or a cash call made on the Company prior to the Conversion Date in respect of an underwriting year of account which has not been closed.

In the circumstances referred to above, the Company will request Lloyd's to apply the interavailable Funds at Lloyd's of Convertible Loan Stock holders in their Due Proportions, less any amounts already deemed paid thereon.

A Convertible Loan Stock holder's Due Proportion is such proportion as his Convertible Loan Stock in issue at the coming-into-line date of the year of account on which the Relevant Loss arose (the "relevant coming-into-line date") bears to the convertible loan stock in issue at the time of the call to the extent such convertible loan stock was in issue at the relevant coming-into-line date, in each case at their nominal values.

Convertible Loan Stock will be deemed called if and to the extent that interavailable Funds at Lloyd's of a loan stock holder are applied by Lloyd's to meet a Relevant Loss. Such loan stock will be deemed paid up to the extent and for so long only as amounts comprised in the Specified Fund (being that part of the applicable trust fund of the Name made interavailable to support the Company's underwriting) are not repaid by the Company and accredited to the Specified Fund.

To the extent that the Loan Stock is paid up (other than on a deemed payment up to meet a Relevant Loss), the Company will provide alternative security in respect of its own underwriting. Consequently, the funds of a Name resigning from Lloyd's in 1997 should, under current regulations, be capable of release to the Name on conversion if he has no run-off accounts at that date, except to the extent that payments have been made to meet a Relevant Loss and not replaced by the Company.

Names whose Funds at Lloyd's are provided by way of guarantee or letter of credit will not be able to utilise released Funds at Lloyd's to pay up their loan stock, since it must be paid up in cash. However, the assets supporting a Name's guarantee or letter of credit should be released to him in the circumstances described above, subject to the requirements of the provider of the letter of credit or guarantee.

Further details of the Convertible Loan Stock are at Part III Section 3.

#### *7.6 Applications for securities*

Details of how to apply for securities are set out in the enclosed application form.

The Directors reserve the right to require further information in respect of any application for A Shares and/or Units, and to reject or scale down any such application as they may in their absolute discretion determine and without providing any reason for their determination.

### *7.7 Voting rights*

A Shares will carry one vote each. B Shares will carry 5,000 votes each until the Conversion Date and will thereafter carry no rights to vote at general meetings of the Company.

### *7.8 Transfers*

Convertible Loan Stock may only be transferred with its associated B Share. No shares may be transferred without the approval of the Directors.

### *7.9 Order of Application of Losses*

If the Company incurs a Relevant Loss it is likely that it will be set-off by Lloyd's in the following order:

7.9.1 first, against the Company's closed year profits, if any;

7.9.2 secondly, against the Company's own Funds at Lloyd's not made interavailable; and

7.9.3 thirdly, against the interavailable Funds at Lloyd's.

In the event that a Relevant Loss exceeds the Company's own funds as described at paragraphs 7.9.1 and 7.9.2, the Company will request Lloyd's to apply the interavailable Funds at Lloyd's so that each stock holder pays his Due Proportion of such loss only, less any amounts deemed paid on his Convertible Loan Stock. A stock holder's Due Proportion of a Relevant Loss is as specified at paragraph 7.5.

The Company covenants to Lloyd's to apply any future underwriting profits in making good the amount of such losses met from the interavailable Funds, where required to do so by Lloyd's, and its future underwriting profits are charged as security for this covenant.

Payments by the Company to make good interavailable Funds applied to meet its underwriting losses will form part of the Names' Specified Funds, and as such will be exposed to the risk of Names' underwriting and in Names' ultimate beneficial ownership.

Should the Company not make good any interavailable Funds applied to meet its underwriting losses, the Company may be obliged to reduce the level of its underwriting or to cease underwriting altogether. In addition, a Name may have to provide additional assets (which will not be exposed to the risk of the Company's underwriting) to meet solvency in respect of his own open and run-off years of account.

## **8. DIVIDEND POLICY**

The Company intends to distribute by way of dividend substantially all of its profits available for distribution, subject to the retention of adequate reserves and the possible retention of investment income and gains to utilise for identified investment opportunities.

## 9. THE COMPANY'S UNDERWRITING COSTS

The Company will incur the following charges in relation to its underwriting:-

### *9.1 Annual Fee payable to Wren*

0.65% of allocated capacity (which is the fee rate charged currently by Wren to its MAPA Names, a higher fee being charged to bespoke Names).

### *9.2 Profit Commission payable to Wren*

5% of the Company's underwriting profits, calculated in accordance with the standard members' agent's agreement.

### *9.3 Winding up fee payable to Wren*

An amount equal to the annual fee payable to Wren in respect of the last year's underwriting of the Company.

### *9.4 Managing Agents' charges*

Managing agents charge annual fees and profit commissions to members writing on their syndicates. Rates for such fees and profit commissions vary.

### *9.5 Lloyd's subscription*

Members' subscriptions to Lloyd's are charged at a maximum rate of 0.7% of Overall Premium Limit for the 1997 year of account and will be charged at a maximum rate of 0.5% of Allocated Premium Limit for the 1998 year of account. This charge is the same for both corporate and individual members.

### *9.6 Lloyd's Central Fund Contributions*

Contributions to the Lloyd's Central Fund for 1997 are at a rate of 0.6% of Overall Premium Limit for individual members and 1.5% of Overall Premium Limit for corporate members. The contribution rates for 1998 will be 1.0 % of Overall Premium Limit for individual members and 1.5% of Overall Premium Limit for corporate members. Lloyd's proposes that the differential between individual and corporate members' contribution rates should eventually be aligned.

## 10. COMPANY ADMINISTRATION

Finsbury Asset Management Limited, the Company secretary, will provide secretarial and administrative services to the Company for an annual fee, payable quarterly in arrears (together with any VAT) of 0.1% of the Company's total assets up to £35 million and 0.05% of the Company's total assets thereafter, subject to a minimum fee of £30,000 per annum. The terms of the contract between the Company and Finsbury Asset Management Limited are referred to further at Part III Section 12. Finsbury Asset Management Limited is a subsidiary of Rea Brothers Group Plc.

**11. INVESTMENT  
MANAGEMENT**

The Company's investments will be managed by Rea Brothers (Investment Management) Limited who will charge fees at a rate of:-

Fixed Interest/Cash	0.5% (plus VAT) of portfolio valuation per annum
Equities	0.75% (plus VAT) of portfolio valuation per annum

The terms of the contract between the Company and Rea Brothers (Investment Management) Limited are referred to further at Part III Section 12.

**12. SET-UP COSTS**

The Company's set up costs, which are estimated to be in the region of £100,000, will be borne by Wren and will not be met from funds raised pursuant to this Offer.

## PART II

### 1. INTERAVAILABILITY

#### 1.1 General

Names will be able to convert their future underwriting to the Company, either in whole or in part, using the interavailability arrangements approved by Lloyd's on 26 March 1997.

Interavailability as implemented for the 1996 year of account for the first time allows a Name to use his existing Funds at Lloyd's to support both his pre-conversion open years of account as well as the future underwriting of the successor vehicle.

Interavailability arrangements have the following key features:

- the Funds at Lloyd's of the Name are made available to support the successor vehicle's participation at Lloyd's whilst also supporting the pre-conversion open years of the converting Name;
- the Name's future capacity is assigned to the successor vehicle; and
- the Name continues to receive profits or pay losses in respect of the pre-conversion years.

Under interavailable schemes, the Funds at Lloyd's of the Name are not transferred to the successor vehicle and neither are they released to the converting Name. Instead, the Name makes part or all of the Funds at Lloyd's available to support the successor vehicle for underwriting purposes during what is known as the "interavailable period".

Assuming that all of the pre-conversion years close at the end of the third year, then a Name's Funds at Lloyd's are required to be held in trust by Lloyd's in this manner for three years. This means that, in effect, a Name's funds are held back in trust by Lloyd's for the same period as they would have been had the Name simply sold future capacity rights at the auction and waited for all of the naturally open years to close. However, Funds at Lloyd's made interavailable will not be released back to the Name until substitute security acceptable to Lloyd's has been provided in respect of the successor vehicle's underwriting and only if not previously drawn down on.

Whilst it is customary to refer to interavailable Funds at Lloyd's, in practice it is the Lloyd's deposit which is made interavailable. It is not possible to make assets in a Name's personal reserve interavailable, although, with certain exceptions, they can be transferred into the Lloyd's deposit and subsequently made interavailable if necessary. The rules governing the operation of the Special Reserve Fund also do not permit the transfer of assets for these purposes and assets in the Special Reserve Fund cannot be made interavailable.

Names who wish to convert their underwriting to the Company must subscribe for the Convertible Loan Stock and Shares described in this document. Such Names who take this option should be aware of the following.

Each Name will enter into an agreement with the Company, and Lloyd's, and execute a trust deed which will allow all or part of his current Funds at Lloyd's to be used as security for the Company's underwriting activities as from the 1998 year of account. If all the Name's Funds at Lloyd's are made interavailable to the Company, then the Name will cease to underwrite new business for his own account as at close of business on 31 December 1997. Alternatively, a Name may wish to make interavailable to the Company only part of his Funds at Lloyd's.

The Name will also be required to make, through his members' agent, participation nominations under clause 11A.2 of the standard form managing agent's agreement, to transfer to the Company rights to syndicate participations for the 1998 year of account.

The Funds at Lloyd's made available to support the Company's underwriting through the interavailability arrangements will continue, subject to the trusts on which they are held, to be the property of the Name, as will any investment income generated by those funds.

A Name's interavailable Funds at Lloyd's will provide security for the Company's underwriting liabilities. Any losses suffered by the Company in respect of the 1998 and subsequent underwriting years of account will be met by the Company's own resources and the interavailable funds. Should the Company's own resources, including amounts to be paid up on loan stock and interavailable funds, not be sufficient to extinguish its underwriting losses, then these losses will not, after exhaustion of the interavailable funds, become a liability of the Name (or of any other shareholder of the Company).

Effectively, the liability of the Name to meet such losses will be limited to his investment in the share capital of the Company and either any Funds at Lloyd's made available to support the Company's underwriting or a liability to pay up the loan stock issued to him. If the Company's Funds at Lloyd's are not replenished the Company will be obliged to reduce its underwriting limit for the following year, or cease underwriting altogether. In addition, if a Name's personal underwriting has not by then been fully wound up, there is a potential liability to replace his own Funds at Lloyd's which were made interavailable to the Company. The rules on the order of payment from the Company are designed to minimise this risk.

Under the interavailable trust deeds, the Name may, if Lloyd's so requires, be obliged to pay Lloyd's as trustee in respect of any amount of interavailable Funds at Lloyd's applied in discharging the Name's own liabilities and any profit derived from the underwriting activities of the Name is charged as security for the covenant and assigned to the trustee.

The Name must remain a member of Lloyd's until each year of account of each syndicate of which he was a member has been closed by reinsurance to close, and he has fulfilled all his Lloyd's obligations.

The Funds at Lloyd's to be made available to the Company will provide security for the underwriting liabilities incurred by the Company as well as those incurred by the Name and accordingly, the Name will not be able to withdraw his interavailable deposit, even once each year of account of each syndicate of which he was a member has been closed by reinsurance to close, unless and until substitute security acceptable to the Society has been provided in respect of open years of the Company.

If the interavailable deposit provided by another Name is reduced and the Company sustains a loss or receives a cash call, a Name may bear a disproportionate share of that loss or cash call. The interavailable deposit of another Name may be reduced either due to any part of the interavailable deposit being applied in discharging that Name's own liabilities or due to a fall in the value of any investments comprised within that deposit.

Any losses from previous years' underwriting of the Name will not be available for set-off by the Company under its vertical deficit clauses (in the standard members' agent's agreement) in calculating profit commission due to relevant agents.

A Name who participates on a MAPA and wishes to convert part only of his MAPA capacity to the Company may not be able to continue to participate on that MAPA.



Unless the relevant managing agent has agreed otherwise in writing, a Name who is a member of a syndicate for the 1997 year of account, who has not given notice (under clause 11.5 of the standard managing agent's agreement) by the last date for giving such notice, being 30 September 1997:

- a. will be a member of the provisional syndicate for the 1998 year of account; and
- b. is or will be liable to pay an annual fee for the 1998 year of account on the basis of his members' syndicate premium limit with which he is entitled to participate on the syndicate for the 1998 year of account if the Company does not go ahead and the Name is unable to dispose of his participation on that syndicate through the auction process.

The range of assets acceptable as Funds at Lloyd's is more restricted, and the proportion of the Name's Funds at Lloyd's which may be constituted by particular investments is lower, in the case of a corporate member than in the case of an individual member. Subject to certain exceptions, a qualifying successor vehicle will be permitted to maintain as Funds at Lloyd's those assets which were comprised in the Name's Lloyd's deposit for a transitional period expiring on the date by which Funds at Lloyd's must be in place for the 2000 year of account (the year 2000 coming-into-line date). However, if less than 75% of the Company's Funds at Lloyd's are provided by Names who convert it will not be a qualifying successor vehicle, and will be subject to the investment and other requirements of Lloyd's applicable to corporate members generally, without the modifications applicable to qualifying successor vehicles. In view of the level of investment proposed by BRIT, the Company may not be a qualifying successor vehicle.

Qualifying successor vehicles are only required to comply with the investment criteria applicable to corporate members generally in respect of any additional or replacement assets provided as Funds at Lloyd's after the year 2000 coming-into-line date (likely to be 31 October 1999) for the first year of account in respect of which the Funds at Lloyd's are made interavailable and in respect of all their Funds at Lloyd's after the expiry of the transitional period, which may mean making extra Funds at Lloyd's available at the year 2000 coming-into-line date.

Letters of credit and guarantees secured upon principal private residences may not comprise part of a corporate member's Funds at Lloyd's unless it is a qualifying successor vehicle, in which event such LOCs and guarantees will be acceptable as Funds at Lloyd's for a five year period from the commencement of the Corporate Member's membership of Lloyd's. However, such guarantees or letters of credit provided by members who die during the period will cease immediately to be available to support underwriting and will have to be substituted. Further, it is not possible to increase the value of any such letters of credit or guarantees. If the Company is not a qualifying successor vehicle, extra Funds at Lloyd's will need to be made available at the outset for those Names who wish to make Funds at Lloyd's interavailable to the Company and who use letters of credit and guarantees secured upon principal private residences to support their current Lloyd's underwriting.

Names who transfer their underwriting to the Company using the interavailability arrangements should be aware that:

- a. the maximum amount of premium income permitted for a corporate member for a given amount of Funds at Lloyd's is currently lower than that permitted for a member who is an individual; and

- b. credit will not be given to the Company for closed year tax recoverables, nor for the PTF cash releases. Accordingly, Names will not be allowed to use these funds to support their application for the Company's Convertible Loan Stock.

If the Company is a qualifying successor vehicle its permission to underwrite will be granted for an initial period of five years. Permission to underwrite thereafter will be conditional upon its meeting the requirements applicable to corporate members at that time. If it is not a qualifying successor vehicle permission will not be limited to an initial five year period, and the Company will be subject to the requirements applicable to corporate members generally from the outset.

The permission of the Company to underwrite may be withdrawn if its Funds at Lloyd's fall below 85% of the value used to calculate its overall premium limit for a current year of account.

The Company will be required to prepare accounts under Schedule 9A rather than Schedule 4 of the Act and would not be permitted to take advantage of the exemptions from accounting requirements under the Companies Acts even if it qualified as a "small" or "medium" sized company. Accounting under Schedule 9A - effectively as an insurance company - will have cost implications for the Company because the Company will be required to extrapolate its net aggregate position from the various syndicates on which it operates.

The distribution of any capital of the Company which would no longer be required as Funds at Lloyd's should it cease or reduce its underwriting may be protracted and complicated and Names and other potential investors should discuss the matter with their legal and tax advisers.

The level of contributions to the New Central Fund payable by a corporate member is higher than is payable by an individual member. Further details of the Company's Lloyd's costs are at Part I Section 9.

## **1.2 Conditions**

For Names to take advantage of the interavailability arrangements all the relevant requirements set out in the Conversion Rules must be satisfied, including (without prejudice to the generality of the foregoing) the following:

### *Conditions relating to the interavailability arrangements*

1. The Company must have been admitted as a member in the year of account in which the invitation to participate in the interavailability arrangements is made.
2. The Company must be a newly incorporated member which has been granted permission to underwrite but has not accepted any business with an inception date earlier than 1 January 1998.

### *Conditions relating to participants (Names)*

1. Each Name must have met each and every request for funds duly made.
2. Each Name must be in compliance with all applicable requirements of the Council relating to solvency.

3. Each Name must have Funds at Lloyd's to the value of at least £100,000 at the coming-into-line date (being 31 October 1997), or where he does not, has shown means, including Funds at Lloyd's, of at least £100,000. (The Name is not required to make Funds at Lloyd's to this value interavailable). Names underwriting in 1997 on nominal means may also be permitted by Lloyd's to convert. Such Names should consult their members' agents as to whether they meet Lloyd's criteria.
4. The documents specified below, in prescribed form and duly executed by each of the parties thereto other than Lloyd's, must be delivered to Lloyd's.

#### *Completion documents*

1. In respect of each Name, a Request to Lloyd's.
2. In respect of each Name, a cheque for £1 made payable to Lloyd's (in its capacity as trustee).
3. In respect of each Name who has undertaken to make interavailable a Lloyd's deposit comprising a letter of credit or guarantee, a Deed of Variation duly executed by Lloyd's and the issuer of the letter of credit or guarantee and (where applicable) a Deed of Application duly executed by the Name. Further documentation may be required in respect of deposits held under an Old Style Security and Trust Deed.
4. In respect of each Name who is to make interavailable a Lloyd's deposit comprising cash and investments:
  - a. a Deed of Release, Advance and Resettlement; and
  - b. a Deposit Trust Deed (General Interavailability) duly executed by that Name.
5. A form of consent to the transfer of Personal Reserve Funds duly executed by the members' agent, where applicable.

Lloyd's must be satisfied that the requirements for its entering into the deeds referred to above are met.

#### **1.3 Documentation**

A brief description of the deeds and documentation referred to above is set out below:

**Request to Lloyd's** - This document constitutes the formal request to Lloyd's for consent to the implementation of the interavailability arrangements in relation to the Company.

The following documents are required where liquid deposits (ie deposits comprising cash and securities) are being made interavailable:

- **Deed of Release, Advance and Resettlement.** Under this deed Lloyd's releases the deposit from all the provisions of the existing Deposit Trust Deed of the Name concerned and transfers the deposit to a new Deposit Trust Deed (General Interavailability).
- **Deposit Trust Deed (General Interavailability).** This deed allows the Name's deposit to be made interavailable so that it provides security for liabilities arising

from the past unlimited liability underwriting of the Name, together with the future limited liability underwriting of a successor vehicle. Under the Deposit Trust Deed (General Interavailability) the Name covenants that he will, if Lloyd's so exercises its discretion, pay Lloyd's as trustee in respect of any amount of the deposit applied in discharging the Name's own liabilities. Any future profit derived from underwriting activities of the Name is charged as security for the indemnity and assigned to the trustee.

- Deed of Adherence. The trustees of the Deposit Trust Deed (General Interavailability) are given power to enter into Deeds of Adherence to create a separate pool of funds (a Specified Fund) to support the underwriting of successor vehicles provided that the Name has requested this in writing and that no Deed of Adherence has already been executed in respect of such successor vehicle. Any assets not forming part of a Specified Fund form the Unappropriated Trust Fund which is held for the benefit of the Name's Lloyd's creditors in the same way that his deposit would have been held had he not entered into the interavailability arrangement. If at any time the successor vehicle is no longer required to maintain Funds at Lloyd's, or it has provided alternative security, then the Specified Fund ceases to exist and the property in it is added back to the Unappropriated Trust Fund. If, in addition, the Name is also at the same time no longer required to maintain Funds at Lloyd's, then the assets can be returned to him. A Name can make different parts of his deposit interavailable to different successor vehicles but will need to enter into separate Deeds of Adherence with each such vehicle.

The following documents are required where guarantees or letters of credit held subject to the terms of a New Style Security and Trust Deed are being made interavailable:

- Deed of Application. Under this deed the Society as trustee, at the request of the Name, amends the terms of the trust. The amended terms will allow the trust fund to be made interavailable to support the future underwriting of the Company as well as liabilities arising from the Name's past underwriting.
- Deed of Adherence. The trustees are given power to enter into Deeds of Adherence to set funds aside to support the specific successor vehicles. Comments made in relation to the Deed of Adherence for liquid deposits apply similarly.
- Deed of Variation. Under this deed the issuer of the guarantee or letter of credit acknowledges the variations contained in the Deed of Application and that the guarantee or letter of credit is now supporting the future underwriting of the Company as well as liabilities from the Name's past underwriting.

The New Style Security and Trust deed came into effect from 1 January 1990. Names may have signed new style deeds during the latter part of 1989 to take effect from 1 January 1990.

The following documents are required where guarantees or letters of credit held subject to the terms of an Old Style Security and Trust Deed are being made interavailable:

- Deed of Release, Revocation and Substitution. Under this deed Lloyd's will release the deposit from all the provisions of the existing Security and Trust Deed of the Name concerned and the Name will transfer the guarantee to a new Security and Trust Deed (Interavailable).

- New Security and Trust Deed (Interavailable). This deed is established to receive the guarantee or letter of credit released to the Name from the Old Style Security and Trust Deed. The new Security and Trust Deed (Interavailable) will allow the Trust Fund to be made interavailable to support the future underwriting of the Company as well as the Name's past and future liabilities from his past underwriting.
- Deed of Adherence. The comments made in relation to guarantees or letters of credit held subject to the New Style Security and Trust Deeds apply similarly.
- Deed of Variation. Under this deed, the issuer of the guarantee or letter of credit acknowledges that it has become held on terms under which it will now support the future underwriting of the Company as well as the Name's liabilities from his past underwriting.

The documents, other than the Request to Lloyd's, may be signed on the Name's behalf by any of the Directors, under the power of attorney contained within the application form. The Request to Lloyd's will need to be signed by each converting Name and is also contained within the application form.

#### *1.4 Interavailable guarantees or letters of credit*

##### *General*

Guarantees or letters of credit cannot be made interavailable without the consent of the issuer. At the end of 1996, there was a broad measure of acceptance of interavailability arrangements amongst the banks - although subject always to individual review at branch level. Whilst some insurance companies also consented to their guarantees or letters of credit being made interavailable, others felt that they required more time to consider the implications of such proposals or that they would not permit guarantees or letters of credit to be made interavailable. Names should be aware that such consent may not be forthcoming.

##### *Guarantees or letters of credit secured on private residences*

As stated previously, it may be that the Company will not be a qualifying successor vehicle, and accordingly that guarantees or letters of credit secured on principal private residences may not form part of its Funds at Lloyd's. However if the Company is a qualifying successor vehicle, Names should note that where a guarantee or letter of credit is secured on a principal private residence held in joint names, the issuer will require that any third party with an interest in the property (for example the spouse) receives independent legal advice in respect of the changes in the terms of the guarantee. It is, therefore, important in those circumstances that Names considering applying for Convertible Loan Stock and B Shares inform the issuers of any guarantees or letters of credit that may be made interavailable as early in the process as possible, so that they can establish the requirements which apply to them.

### 1.5 Order of set-off - Names

Cash calls, closed years losses and open and run-off year deficits for Names on personal underwriting up to and, if applicable, beyond the end of the 1997 year of account will be set-off in the following order:

	Cash calls, called closed years' losses and run-off deficiencies	Open years' deficiencies, uncalled closed years' losses and run-off deficiencies
Run-off year surplus		1
Closed year profits	1	2
Special Reserve Fund	2	3
Personal Reserve Fund not made interavailable	3	4
Names' wealth outside Lloyd's	4	5
Funds at Lloyd's - not made interavailable	5	6
Funds at Lloyd's - interavailable	6	7

As demonstrated by the above table, interavailable Funds at Lloyd's will be utilised to meet a Name's underwriting losses only once all other funds referred to in the table above have been utilised.

### 1.6 Order of set-off - the Company

Cash calls, closed years losses and open and run-off year deficits for the Company will generally be set-off in the following order:

	Cash calls, called closed years' losses and run-off deficiencies	Open years' deficiencies, uncalled closed years' losses and run-off deficiencies
Run-off year surplus	N/A	1
Closed year profits	1	2
Funds at Lloyd's - corporate	2	3
Funds at Lloyd's - interavailable	3	4

As demonstrated by the above table, interavailable Funds at Lloyd's will be utilised to meet the Company's underwriting losses only once all other funds referred to in the table have been utilised.

## 2. LLOYD'S

### 2.1 Structure

Lloyd's is an insurance market, not an insurance company. Members of Lloyd's participate in the Lloyd's insurance market in groups of members known as syndicates. Each syndicate is run by a managing agent, which employs an active underwriter to accept insurance business on the syndicate's behalf.

Until 1994, all members of Lloyd's underwrote insurance business with unlimited personal liability. In 1993, Lloyd's introduced new rules which, with effect from 1 January 1994, allowed investors for the first time in Lloyd's history to participate in a corporate body underwriting at Lloyd's with shareholders' liability limited to the amount of their investment. Limited liability capital, which has become known as corporate capital, provided £1.6 billion of premium capacity in Lloyd's 1994 underwriting year of

account, equivalent to 15% of Lloyd's overall capacity in that year. By the 1997 account that had increased to just over £4.5 billion equivalent to approximately 44% of total underwriting capacity.

## 2.2 Trading record and prospects

Lloyd's operates a three year accounting system. Lloyd's most recent declared results are, therefore, in respect of the 1994 underwriting year. While significant losses were incurred in the years up to and including 1992, the Lloyd's market returned to overall profitability in 1993 as follows:

Year	Underwriting profit/loss million £	Net profit/loss pre-tax million £
1989	(1,902)	(2,063)
1990	(2,418)	(2,319)
1991	(1,993)	(2,048)
1992	(824)	(1,193)
1993	670	225
1994	1,662	1,095

Source: Lloyd's Global Results 1996

## 2.3 Reconstruction and Renewal Proposals (R&R)

Following the losses incurred in the years shown above, Lloyd's faced certain difficult financial challenges, including those arising from the 1992 and prior year results, the rising amounts then owed by Names, the inability or unwillingness of some Names to meet their obligations and the strain faced by the Central Fund on its resources. Lloyd's also sought to address further pressing issues including the widespread litigation involving Names and the need to change its basis of trading in the USA.

To maintain confidence in Lloyd's, the Council of Lloyd's believed there was a need to reconstruct finances, maintain solvency and resolve the problems of the past.

Proposals to these ends were put forward by the Council of Lloyd's in May 1995. On 15 July 1996, R&R received the support of members of Lloyd's, when they voted overwhelmingly in favour of the special contributions to R&R by members underwriting for the 1993, 1994 and 1995 years of account. On 4 September 1996 the Chairman of Lloyd's announced that, due to the level of acceptances of the Settlement Offer which had been put to Names, the Settlement itself and the reinsurance to close 1992 and prior year business into Equitas were unconditional in all respects. The main features of R&R are set out below.

## 2.4 Equitas and prior year losses

Equitas Reinsurance Limited ("Equitas") was created as a centralised reinsurance company to accept by way of reinsurance the general insurance run-off business attributable to 1992 and prior years from both closed and open syndicate years of account ("old years' liabilities"). On 29 March 1996 it received conditional authorisation

from the Department of Trade and Industry (DTI) to reinsure the old years' liabilities. That authorisation became unconditional in September 1996. This has allowed Lloyd's to provide Names with "Finality", the term used by Lloyd's to describe a final reckoning of their 1992 and prior liabilities and the opportunity for Names to resign from Lloyd's, subject to regulatory consent and once all outstanding demands have been paid, including the final Equitas premium and any prior uncalled losses and unpaid calls. "Finality" has involved the provision of undertakings:

- 2.4.1 from agents, that the settlement constitutes a full and final discharge of obligations under agency agreements and that no further demands will be made;
- 2.4.2 from Equitas, that, on payment of the final Equitas premium, there will be no liability for further payment; and
- 2.4.3 from Lloyd's, that the settlement discharges all obligations to Lloyd's and that no further demands will be made.

It is not within the power of Lloyd's to grant Names an absolute release from their liabilities. There will still be a residual risk for Names in the event of failure of Equitas. Equitas will not produce any financial returns for Names. Further details are contained in the Settlement Offer Document dated 30 July 1996, a copy of which is available for inspection at the Company's registered office.

## **2.5 Building the New Lloyd's**

In association with the implementation of the Equitas proposals, Lloyd's recognised the need to build a strong market for the future. It has introduced further initiatives as follows:

- 2.5.1 reforming the capital structure by introducing in 1995 a system for trading in syndicate capacity by auction, developing arrangements for individual Names to underwrite with limited liability and liberalising rules governing corporate capital;
- 2.5.2 creating a new Central Fund to provide security in support of policies allocated to 1993 and subsequent years of account;
- 2.5.3 restructuring the basis upon which Lloyd's trades in the USA, by the creation of two new trust funds for the ongoing business in the United States.

## **3. TAXATION**

### **3.1 Tax implications of converting**

#### **3.1.1 Interavailable deposit**

The conversion of a Name's Lloyd's deposit into an interavailable form using Lloyd's prescribed interavailable trust deeds should not result in a charge to capital gains tax on the Name. During the period of interavailability any income and gains arising on the interavailable deposit will be assessed on the Name personally.

It is envisaged that, when the Name's own Lloyd's liabilities have been discharged or otherwise dealt with, what remains of the interavailable deposit will revert back to the Name. There will be a disposal for capital gains tax purposes if the Name sells these assets.



### *3.1.2 Transfer of syndicate capacity*

The transfer of syndicate capacity, either under a whole account or partial account scheme, will constitute a disposal for capital gains tax purposes and therefore could give rise to a capital gains tax liability. Whether there is a liability in practice will depend not only on the value attributed to the capacity under the particular conversion scheme but also the Name's individual circumstances, for example the availability of annual exemptions.

It is possible that certain Names in certain circumstances may be entitled to retirement relief against certain chargeable capital gains arising on the transfer of syndicate participations.

If a Name who has attained 50 years of age and has been underwriting for more than one year makes a "material disposal" of business assets, retirement relief may operate to relieve all or part of the capital gain arising. Syndicate participations are chargeable business assets for this purpose. The maximum relief can only be obtained if the qualifying conditions have been satisfied for a full ten year period. Underwriting for non-working Names has only been classed as a trading activity since 1993. For qualifying periods of less than ten years the relief is scaled down pro-rata. It may be possible to aggregate earlier business activities that have been carried on within that ten year period to increase the qualifying period.

An individual is entitled to only one maximum amount of retirement relief but this can be spread over any number of disposals. It is a mandatory relief and, if due, may affect the availability of the relief in respect of other business activities carried on by the Name.

Any Name who meets the qualifying conditions will need to examine his own particular circumstances and take independent professional advice.

### *3.1.3 Pre-conversion profits*

A conventional interavailability scheme does not involve the assignment to the Company of any syndicate profits emerging in respect of the pre-conversion underwriting of the Name. All such profits will be distributed to the Name in the normal way and he will be taxed on them in accordance with the normal taxation principles applying to unlimited liability Names. A Name should be able to set brought forward Lloyd's underwriting tax losses against any such profits in respect of the pre-conversion years.

### *3.1.4 Reinsurance of the pre-conversion years*

Interavailability does not involve any element of reinsurance and therefore does not constitute a disposal of a business for tax purposes. Consequently, there is no transfer of the business and a Name's losses incurred from direct underwriting cannot be carried forward and set against income derived from the Company for the purpose of section 386 Taxes Act 1988.

### *3.1.5 VAT*

Where a Name makes a deposit interavailable to the Company, the transaction should not give rise to a VAT liability.

### *3.1.6 Death*

No Inheritance Tax charge should arise when the deposit is made interavailable. If a Name dies whilst his deposit is interavailable, the assets included in the deposit will be treated as part of his estate. Business property relief ("BPR") may be available in respect of the deposit if the normal conditions (for example, that the size of the deposit is reasonable in relation to the business underwritten by the Name), are satisfied. Unquoted shares in the Company should qualify for 100% BPR. Property will not qualify for BPR unless it was owned by the deceased throughout the two years immediately preceding his death, although assets may be treated as replacement property and so qualify for BPR immediately or after a shorter period. Lloyd's is in discussions with the Inland Revenue how the replacement property rules apply in practice.

### *3.1.7 Special Reserve Fund*

Names will continue to be able to make transfers from their pre-conversion profits to their Special Reserve Funds. Names will be subject to income tax on the full amounts released from their Special Reserve Funds when those funds are closed.

## *3.2 Taxation of the Company*

### *3.2.1 Corporation Tax*

Legislation covering corporate members at Lloyd's was introduced by sections 219 to 230 Finance Act 1994 which applied from 1 January 1994. The UK tax treatment of the Company falls within the scope of this legislation.

The current rate of corporation tax charged in the UK on UK companies from 1 April 1997 is between 21% and 31% depending upon the level of taxable profits.

Lloyd's has negotiated a US tax regime - referred to as the Closing Agreement - to apply to all corporate members of Lloyd's with the Internal Revenue Service. This closing agreement provides the basis on which corporate members are liable to US tax in respect of their Lloyd's activities and contains rules for computing their US taxable profits or losses.

The Company will also be liable to US and Canadian taxes on its underwriting activities in those jurisdictions. Part or all of such taxes suffered by the Company may be used as a tax credit against the Company's UK corporation tax liabilities on its underwriting profits' tax under the Closing Agreement with the government of the United States.

### *3.2.2 Chargeable Gains*

Names, depending upon their personal circumstances, are liable to taxation in respect of capital gains arising from the sale or other disposal of their Shares and/or Convertible Loan Stock in the Company.

### *3.2.3 Taxation of dividends and distributions*

The Company will be required to make an advance payment of corporation tax (ACT) shortly after any distribution is made. The current rate of ACT is 20% of the gross distribution or 25% of the dividend payment. Subject to certain restrictions ACT is available for offset against the Company's mainstream liability to Corporation Tax for the year in which the distribution is made and future years or past-years up to a maximum of six years.

Individual shareholders resident in the UK will be liable to Income Tax on the amount of the dividend or other distributions received plus the related tax credit (gross dividend). Such shareholders who are liable to Income Tax at the higher rate (currently 40%) will have a further liability to tax, currently equal to 20% of the gross dividend. Tax credit on dividends will be cut from 20% to 10% from 6 April 1999. From this date share holders with no tax liability will not be entitled to a refund of the tax credit, individuals whose income falls within the lower, or basic rate tax credit will satisfy any liability to tax on dividends received (as is the case at present). Individuals who are chargeable to the higher rate will be liable to tax at 32.5% on their dividend income (this will compensate for the reduction in the tax credit so that the net income after additional tax payable as a result of any dividend is unchanged from the current situation).

### *3.2.4 Inheritance Tax - Business Property Relief (BPR)*

Holdings of shares in unquoted trading companies, including successor vehicles such as the Company, may qualify for 100% BPR.

## *3.3 Principal difference between taxation of individual and corporate members*

### *3.3.1 Corporate members*

A corporate member will be liable to Corporation Tax on its taxable income and gains after deducting expenses of management. In the event that management expenses exceed taxable income (trading loss) in any account period, the excess can no longer be set against its franked investment income (ie dividend income from UK resident companies) in such a way so as to generate repayment of tax credits attributable to that franked investment income. Trading losses from 1 April 1997 can be carried back and set-off against taxable income during the last year. This carry back can result in a refund of corporation tax previously paid. Any loss still unrelieved can be carried forward and off-set against any future taxable profits generated by the same trade.

Profits or losses arising directly from syndicate participation are treated as accruing equally over the underwriting year in which they are declared (ie profits for 1998 will be declared in 2001 at the earliest, if the three year accounting system is retained).

On the payment of dividends or other distributions a Corporate Member will have to pay ACT to the extent that its liability to ACT is not franked by tax credits in relation to its own dividend income from UK companies. The current rate of ACT is 25% of the dividend declared.

The Inland Revenue has not made provision for special reserves for corporate members equivalent to those applicable to individual members or equalisation reserves available to insurance companies.

### *3.3.2 Individual Names*

Names are subject to UK Income Tax on their taxable underwriting results by reference to the tax year in which the syndicate results are released to Names (ie the result for 1998 is due to be released in the summer of 2001 and will be taxable in the tax year 2001/2002, assuming the 3 year accounting system remains).

Lloyd's results are treated as earned income and a Name may have to pay National Insurance Contributions on their Lloyd's result depending on their personal circumstances.

Any loss suffered by a Name from their Lloyd's underwriting can be set-off against a Name's other income in the year of assessment and then against other income of the Name in the previous year of assessment. Losses still not relieved can then be set-off against capital gains of the same year of assessment in which the loss is suffered and against capital gains in the previous years of assessment.

Losses unrelieved can be carried forward and set against future income from Lloyd's underwriting.

There are additional provisions for losses arising during a Name's first four years of membership and for losses arising to resigning Names.

Provided the appropriate administrative requirements are met, individual Names may establish a tax-free reserve by transferring into the new style special reserve funds up to 50% of each year's aggregate syndicate profits. The fund has an upper monetary limit equivalent to 50% of the Name's Overall Premium Limit.

Withdrawals from the fund are mandatory to meet cash calls or to pay syndicate losses or on the Name's resignation or death. All sums released from the fund are taxable as trading receipts for the corresponding underwriting year.

Assets held in the new style special reserve fund will be exempt from income and capital gains tax.

### *3.3.3 Adjustment of Syndicate Profits*

The Inland Revenue may adjust for tax purposes the profits of the syndicates through which Lloyd's members underwrite. The Inland Revenue has recently indicated its intention of seeking to discount the reinsurance to close premium of certain syndicates.

**The above statements are intended only as a general guide to current law and practice for Names and other potential investors, who should consult an appropriate professional adviser.**

#### 4. RISK FACTORS

##### *4.1 Underwriting Risks*

The nature of the insurance business carried on at Lloyd's, the regulatory environment under which the Company will operate and the financial and other problems arising from the past years' losses at Lloyd's mean the underwriting activities of the Company, in common with other members of Lloyd's, will be subject to a number of risk factors. The following list of risk factors is not intended to be exhaustive, but to highlight certain areas which may be pertinent:

###### *4.1.1 Solvency of Lloyd's*

Lloyd's has passed its annual solvency test as at 31 December 1995. If circumstances did cause Lloyd's to fail its annual solvency test in future, the Department of Trade and Industry and overseas regulatory authorities would have wide statutory powers to supervise and curtail continued underwriting. The extent to which these powers are exercised would depend on the relevant circumstances.

###### *4.1.2 Changes at Lloyd's*

The last few years have seen considerable changes at Lloyd's particularly with regard to the composition and character of its capital base. It is likely that continuing change will remain a feature of the Lloyd's capital base for the foreseeable future. Names and other investors should bear in mind that any decision to convert to limited liability now will necessarily be made without the benefit of knowing what the effect of these changes may be and without definitive knowledge of what the future structure of the Lloyd's capital base will be. Members should seek advice from their Members' Agent if they have concerns in this regard.

###### *4.1.3 "Old years" problems*

Lloyd's has introduced measures to protect members joining in 1994 and subsequently from long tail liabilities including, in particular, asbestosis and environmental liabilities. These measures include a requirement (imposed by byelaw and under the standard managing agent's agreement in respect of 1994 and subsequent years of account) that a managing agent must not, on behalf of a syndicate member, accept a reinsurance to close contract if that contract reinsures (directly or solely through one or more intermediate reinsurance to close contracts) any liability for a Lloyd's policy allocated to the 1992 and prior years of account.

However, the measures put in place by Lloyd's are not sufficient to supply total protection against exposure to all potential liabilities arising from "old years" problems. First, a member would be exposed if a reinsurance policy allocated to the 1993 or any subsequent year of account of a syndicate which the member joined had provided reinsurance cover to an insurer in respect of risks incurred in 1992 or prior years. Secondly, members could be exposed through an obligation, in certain circumstances, to pay contributions to the Central Fund or as a result of certain requirements imposed in certain jurisdictions to maintain local deposits,

each of which is available in the last resort to meet liabilities on any Lloyd's policy written in the relevant jurisdiction.

In its original business plan, published in 1993, Lloyd's proposed that liabilities in respect of claims on policies originally allocated to the 1985 or prior years of account should be reinsured into a newly established insurance company. In the Reconstruction and Renewal proposals, Lloyd's revised this concept to embrace liabilities allocated to the 1992 and prior years of account, which would be reinsured into Equitas as described above. One of the objectives stated by Lloyd's for the Equitas proposal is thereby to create a more secure "firebreak" between the old years' problems and the future Lloyd's market. However, despite the implementation of R&R, there remains a residual risk for members that should Equitas fail, members and Lloyd's itself would be exposed once more to the risk of claims and the liabilities described in Chapter 11 of the Settlement Offer Document published by Lloyd's in July 1996.

#### *4.1.4 Special levies into the Central Fund*

Special Central Fund contributions recommended by the Council of Lloyd's as being reasonable and in the interests of Lloyd's as a whole may be imposed on the members underwriting in any year with the approval of the majority vote of the members affected (with voting rights proportionate to the liability to pay contributions).

A new Central Fund was established by Lloyd's during 1996. Its use is at the discretion of the Council. Its principal purpose is to support Lloyd's policies allocated to the 1993 year of account and beyond. £200 million of this fund comprises undertakings to pay up to a specified sum called by the Council without any requirement for a vote at the time of the call if there is a need to support the security of a Lloyd's policy allocated to 1993 or a later year of account.

#### *4.1.5 Litigation*

There has been a range of litigation affecting Lloyd's itself or concerning members' acceptance of membership and/or the conduct of their underwriting business at Lloyd's. The claims against Lloyd's itself have been rigorously opposed, thus far successfully, but may result in Lloyd's suffering financial loss and certain claims are continuing to be litigated despite R&R. A number of actions against agents have been successful. Most of these actions will have been settled by R&R, but Names who did not accept the Settlement Offer which forms a fundamental part of R&R are free to pursue their claims and it is possible that a number of members' agents and managing agents will continue to be involved in litigation, thus raising the possibility of insolvent liquidation of agents.

#### *4.1.6 Reduced investment income*

The creation of Equitas will result in the loss of investment income, particularly for syndicates with long-tail liabilities which previously had large reserves. Reserves in respect of 1992 and prior liabilities have been effectively transferred

into Equitas along with the liabilities. This may have a material impact on the profitability of a number of syndicates for the years of account immediately following the creation of Equitas.

Further, Lloyd's underwriting can be in currencies other than sterling. Therefore, the Company may be subject to currency fluctuations which will have an additional impact upon profitability.

#### *4.1.7 Underwriting risks*

The Company will be exposed to underwriting insurance risks at Lloyd's. This may lead to the Company incurring underwriting losses. The insurance and reinsurance underwriting industry is a cyclical one which may result in volatility in the results of the Company.

The Company may be a member of a syndicate which goes into run-off in respect of a year of account, in which event some or all of the funds in the Company's Premiums Trust Funds could not be released to the Company. Underwriting losses suffered by the Company could exceed its Funds at Lloyd's supporting its underwriting and its other assets. In that event, the Company would have to cease underwriting unless funds were made available to it from elsewhere. In this case all the Company's assets supporting the underwriting would have to be applied to meet underwriting losses. Although Names and other investors may lose the value of their investment in the Company and the funds made interavailable, they would, unlike unlimited liability members of Lloyd's, have no further liabilities in respect of the underwriting losses of the Company. If interavailable funds are applied for the benefit of the Company and not replenished by the Company, there may be an adverse effect on the solvency of the Name in respect of his personal underwriting if it has not been fully wound up.

The insurance markets in which Lloyd's operates may, in any year, suffer from overcapacity, in which case it is likely that premium rates will fall. These are the current market conditions. It is conceivable that there will be a significant reduction in the total capital committed to Lloyd's by traditional Names underwriting on an unlimited liability basis. To the extent that this capital outflow is not compensated for by the introduction of further corporate capital, it may result in some syndicates being unable to secure sufficient underwriting capacity in order to continue trading, forcing the managing agents of such syndicates to place their open years of account into run-off.

#### *4.1.8 Withdrawal of Funds at Lloyd's*

Although Names will be able to cease underwriting, or reduce the level of business written by them in any year of account, they will not be able to withdraw all their Funds at Lloyd's or funds forming part of their Premiums Trust Funds, which have not been made available to the Company through interavailability, until permitted by Lloyd's. Lloyd's imposes significant restrictions on the withdrawal of Funds at Lloyd's in order to ensure that no funds are withdrawn without adequate provision being made for potential liabilities. In

practice, this may cause considerable delay between any reduction in the level of business written by Names being matched by a reduction in the Company's required Funds at Lloyd's.

#### *4.1.9 Powers of the Council of Lloyd's*

The Council of Lloyd's has wide discretionary powers to regulate the Lloyd's market and its members. For example, the ratio which a member's Allocated Premium Income bears to its Funds at Lloyd's and/or the amount and form of security required by Lloyd's may be varied. Subscriptions may be increased and, as demonstrated in recent years, Lloyd's has power to raise special levies.

#### *4.1.10 Control of Corporate Members*

A person may not be a "controller" of a corporate member without the prior written consent of the Council. This term is defined at Part III Section 8. In summary, a controller is a person who alone or together with connected persons holds 10% or more of the economic or voting rights of a corporate member whether directly or indirectly, or in accordance with whose directions the directors of a corporate member are accustomed to act. The consent of the Council is also required to any increase by a controller of its interest in a corporate member by reference to further thresholds of 20%, 33%, 50% and a shareholding such that the corporate member becomes its subsidiary. Controllers are obliged to give undertakings inter alia that they will submit to Lloyd's jurisdiction and provide such information as Lloyd's requires. Lloyd's will examine the reputation and financial standing of controllers to ensure they meet its "fit and proper" requirements.

In addition to the undertakings described above, Lloyd's also retains the right to ask for financial guarantees, letters of support or subordination undertakings from controllers of corporate members, although it is understood that this right has not been enforced to date.

#### *4.1.11 Risk based capital requirements*

Lloyd's has introduced draft proposals on risk based capital requirements for corporate members. These may reduce the overall premium limit of a corporate member because of the potential requirement that, in certain circumstances, corporate members provide Funds at Lloyd's in excess of the basic 50% Funds at Lloyd's ratio.

#### *4.1.12 Overseas deposits and Premiums Trust Funds*

Regulatory authorities in a number of jurisdictions require the maintenance of local deposits for policyholder protection. In addition, a significant proportion of members' total Premiums Trust Funds are held in overseas jurisdictions. Such local deposits and Premiums Trust Funds might be frozen or, in the last resort, applied to meet liabilities on Lloyd's policies relating to the relevant jurisdiction, including policies relating to the 1992 and prior years of account.



#### 4.1.13 Solvency

There may be initial solvency strain on the Company. As a new Lloyd's member, under the present rules the Company will receive no underwriting profits from syndicate participation until, at the earliest, the middle of the year 2001. Meanwhile, the Company's solvency position will be calculated, at each year-end, to ensure that it continues to have sufficient assets to meet its share of the liabilities of the syndicates on which it participates. Liabilities are determined for this purpose either on the basis of the managing agent's estimate of outstanding claims and claims incurred but not reported (IBNR) or, if greater, on the basis of reserving percentages derived from market-wide data. These percentages inevitably take no account of differences in the profitability of particular syndicates. A solvency margin will also be added. During the period before underwriting profits are distributed, the Company may become liable to pay cash calls.

These factors together with any cash calls which may be made by a managing agent could result in the Company's initial Funds at Lloyd's and hence underwriting capacity coming under pressure during the initial years of membership, particularly where the Company may have written business near the limit of its Overall Premium Limit. During the period before underwriting profits are distributed, the Company may become liable to pay cash calls. Assuming the Company starts underwriting in 1998, the first year of account for which its underwriting capacity (in the absence of a cash call) may be subject to adjustment as a result of these factors would in normal circumstances be the 2000 year of account.

In March of this year the DTI introduced a new minimum solvency margin for individual members which will first take effect for the 31 December 1997 solvency calculation. Under the new requirements, Lloyd's will have to demonstrate that each member has sufficient assets to meet his liability plus a solvency margin. This margin is calculated individually for each member, broadly as the greater of 16% of his total annum premium income or 23% of his average claims incurred over a three year period. All Names will be required to meet this new solvency margin whether or not they become converting Names.

Interavailable Funds at Lloyd's will not be credited to converting Names for the purposes of their annual solvency test as they will be credited to the successor vehicle and cannot be counted more than once for solvency purposes. Converting Names will therefore be solvent or in deficit on the strength of their pre-1998 underwriting results and any other, non-interavailable Funds at Lloyd's which they retain.

The new member level solvency margin will increase the possibility that a converting Name's pre-conversion solvency statement may show a deficit. Lloyd's is developing a mechanism whereby a Name entering into a conversion scheme may receive a solvency credit, based on his interavailable Funds at Lloyd's to cover that part of his shortfall generated by the new margin. The notional credit will correspondingly reduce the successor vehicle's assets for the purpose of the solvency test. Where the credit is allowed it will not be deemed to reduce the successors vehicle's Funds at Lloyd's for coming into line purposes. However, in the circumstance where a Name requires additional funds to cover a shortfall (other than one generated solely by the new solvency margin) Lloyd's may draw

down on his interavailable Funds at Lloyd's. In such circumstances the Funds at Lloyd's of the successor vehicle will also be reduced which will impact on its future underwriting. Names covenant to the Company to maintain their interavailable Funds at Lloyd's during the Interavailability Period, under the Loan Stock Deed.

#### *4.1.14 Winding-up*

The winding-up of the Company will require the consent of the Council. Even if such consent were to be granted, any such winding-up would be likely to be a lengthy process as the Council might not permit the release of any Funds at Lloyd's if the Company was subject to any solvency "earmarkings" or if it was participating in any run-off accounts.

#### *4.2 Risks associated with interavailability*

If the interavailable Funds at Lloyd's provided by another Name who has made funds available to the Company using the interavailability arrangements are reduced, and the Company then sustains a loss or receives a cash call, a Name who has made Funds at Lloyd's interavailable to the Company may bear a disproportionate share of that loss or cash call. The interavailable Funds at Lloyd's of a Name may be reduced either due to any part of their interavailable Funds at Lloyd's being applied in discharging that Name's own liabilities or due to a fall in the value of any investments comprised within those interavailable Funds at Lloyd's. In addition, a Name covenants to pay Lloyd's, if it so requires as trustee, an amount in respect of any interavailable Funds at Lloyd's applied in discharging the Name's own liabilities. Any profit derived from the underwriting activities of the Name is charged as security for this covenant and assigned to the trustee.

If at any time any of the Funds at Lloyd's of a Name which are made interavailable to the Company are required to meet Lloyd's solvency requirements for the Name concerned, the amount of funds interavailable to the Company may be reduced. This could affect the Company's ability to underwrite.

Names who make Funds at Lloyd's interavailable must remain members of Lloyd's until each year of account of each syndicate on which they have participated as an individual name has been closed by reinsurance to close.

The Funds at Lloyd's to be made interavailable by a Name to the Company will provide security for the underwriting liabilities incurred by the Company and, accordingly, the Name concerned will not be able to withdraw his interavailable Funds at Lloyd's, even once each year of account of each syndicate of which he was a member has been closed by reinsurance to close, unless and until substitute security acceptable to Lloyd's has been provided in respect of open years of the Company, or all the Company's open years and run-off accounts have themselves been closed by reinsurance to close.

A Name who is a member of a syndicate for the 1997 year of account and who has not given notice to terminate the managing agent's agreement by the 30 September notice date will be a member of the provisional syndicate for the 1998 year of account.

Although the participation can be transferred to the Company, if the Company does not underwrite as a corporate member for any reason, the Name will become liable to pay managing agents' annual fees for the 1998 year of account based on his prospective syndicate capacities unless the managing agents concerned agree otherwise.

If a Name has given notice to leave a syndicate for the 1998 year of account, that Name may not be able to transfer his underwriting to the Company without the relevant managing agent's approval.

Individual Names wishing to convert from unlimited to limited liability for the 1998 year of account should be aware that they will not be able to convert capacity acquired at auction in 1997 without managing agents' consent. Names interested in accepting the Offer are recommended to discuss the position with their Members' Agent before participating in any 1997 auction.

The Company's funds may be applied to meet underwriting losses prior to the Conversion Date. In these circumstances, the Company may be required to reduce the level of its underwriting, or even cease underwriting altogether.

To the extent that losses prior to the Conversion Date fall on the interavailable Funds at Lloyd's of the Company, the Company may be required by Lloyd's to make good such Funds from any future underwriting profits. Any replacement funds are likely to be exposed to the Name's underwriting and will be in the ultimate beneficial ownership of the Name. To the extent the Company does not make good such funds, Names will suffer a reduced investment income (since their deposits will be reduced) and may need to provide additional assets to prove solvency in respect of their own open and run-off years. The Company may also be obliged to reduce or cease its underwriting for the next year. Since Relevant Losses will be borne first by the Company's non-interavailable Funds at Lloyd's and closed year underwriting profits (if any), and not from the interavailable Funds at Lloyd's, the return to A Share holders will be more adversely affected than if such losses had been met by all investors.

Names should be aware that if they intend to offer an existing bank or insurance company guarantee or letter of credit as all or part of Funds at Lloyd's to be made interavailable to the Company, consent will need to be obtained from the bank or institution concerned. The required consent may not be forthcoming or may take a period of time to obtain. This may result in applications being rejected without applicants having sufficient time to sell capacity. The transfer of syndicate capacity to the Company will constitute a disposal for capital gains tax purposes and may give rise to a tax liability.

#### ***4.3 Unquoted Investment***

There is no recognised market for the Company's Shares or Convertible Loan Stock. Accordingly, it may be difficult for Names and other potential investors to sell their Shares or Convertible Loan Stock. The value of unquoted securities will go down as well as up. Investment in unquoted securities carries greater risk than investment in quoted securities.

#### *4.4 Unpaid Loan Stock*

Holders of unpaid or partly paid Convertible Loan Stock will be personally liable to pay up amounts unpaid on their loan stock.

#### *4.5 Company Investments*

The value of the Company's investments may go down as well as up. Factors which adversely affect the Company's underwriting at Lloyd's may adversely affect its other investments, in particular those in the insurance market. The Company's investments in unquoted securities will carry an increased level of risk and it may be difficult for the Company to realise such investments.

#### *4.6 Death of Converting Name*

Estate protection policies may not permit Funds at Lloyd's to be withdrawn once the Funds have been made interavailable.

Names should consult their members' agents for further information regarding the effect of conversion on their estate protection policy.

Interavailable Funds at Lloyd's provided by guarantee or letter of credit secured upon a principal private residence will not be available to support the Company's underwriting in the event of the death of the relevant Name and will need to be replaced.

## PART III

### STATUTORY AND GENERAL INFORMATION

#### *1. The Company*

- 1.1 The Company was incorporated in England and Wales under the Companies Act 1985 ("the Act") on 16 May 1997 with the name Publicmain Plc as a public company limited by shares with registered number 3372107. On 24 July 1997 the Company changed its name to Cathedral Capital PLC.
- 1.2 The Company's registered office and principal place of business is at Alderman's House, Alderman's Walk, London EC2M 3XR.
- 1.3 The Company is the holding company of its wholly owned subsidiary, Cathedral Capital (1998) Limited.
- 1.4 The Company will apply to the Registrar of Companies for a certificate under Section 117 of the Act to enable it to commence business once the Offer has closed, provided the minimum subscription has been achieved, or become unconditional.

#### *2. Share Capital*

- 2.1 The Company was incorporated with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each of which two were issued nil paid to the subscribers to the Memorandum of Association.
- 2.2 On 21 July 1997 one subscriber share was transferred to each of Anthony South and Peter Scales.
- 2.3 By special resolution dated Friday 22 August 1997 each existing ordinary share of £1 each was sub-divided and redesignated as four ordinary A Shares of 25p each, and the capital of the Company was increased from £50,000 to £100,005,000 by the creation of an additional 399,800,000 ordinary A Shares of 25p each and 20,000 ordinary B Shares of 25p each.
- 2.4 The Directors have been generally and unconditionally authorised to allot up to £100,005,000 in nominal amount of relevant securities for the period of five years from Friday 22 August 1997 as if the restrictions imposed by Section 89(1) of the Act did not apply.
- 2.5 Save as disclosed in this document:
  - 2.5.1 no share or loan capital of the Company has been issued or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash; and
  - 2.5.2 no commission, discount, brokerage or other special terms have been granted by the Company, or are now proposed, in connection with the issue or sale of any of its share or loan capital, and no share or loan capital is under option or is agreed conditionally or unconditionally to be put under option.

#### *3. Particulars of the Loan Stock*

The Convertible Loan Stock will be constituted by a Convertible Loan Stock (2000) Deed which will contain provisions, inter alia, to the following effect:

### 3.1 *Form and status*

The Convertible Loan Stock will be issued nil paid in registered form in amounts or multiples of £5,000. Each £5,000 of Convertible Loan Stock will be issued in conjunction with a B Share to form a Unit of Conversion Stock of the Company. The Convertible Loan Stock is subject to mandatory payment up and conversion to A Shares by no later than 31 October 2000 and will not bear interest. The Convertible Loan Stock will constitute unsecured obligations of the Company to the extent of the amounts paid up thereon. The Convertible Loan Stock (2000) Deed does not contain any restrictions on the borrowing, charging or disposal of assets by the Company. The Company will be entitled to create further unsecured loan stock, forming a single issue with the Convertible Loan Stock or otherwise, at any time.

### 3.2 *Interest*

No interest will be payable on Convertible Loan Stock.

### 3.3 *Repayment of Convertible Loan Stock*

3.3.1 Any Convertible Loan Stock which is fully or partly paid will become immediately repayable if:

- a) an order is made or an effective resolution is passed for the winding-up of the Company (other than for the purposes of amalgamation, reconstruction or reorganisation);
- b) a receiver, administrator or other similar official is appointed in respect of the whole or any substantial part of the undertaking of the Company;
- c) the Company ceases or threatens to cease to carry on business (other than for the purposes of amalgamation, reconstruction or reorganisation); or
- d) the Company is unable to pay its debts within Section 123(1) of the Insolvency Act 1986.

3.3.2 Unless previously converted or cancelled, Convertible Loan Stock will be redeemed on the later of 31 December 2000 or the date on which it is fully paid.

### 3.4 *Conversion*

Each £5,000 in nominal amount of Convertible Loan Stock will convert together with its associated B Share into 5,000 A Shares credited as fully paid on the Conversion Date provided it is fully paid or deemed fully paid.

### 3.5 *Payment*

- 3.5.1 Names holding nil paid or partly paid Convertible Loan Stock will be liable to pay up in full the whole of their holding of such stock on the Conversion Date.
- 3.5.2 In the event of a Relevant Loss which is to be met from interavailable funds, ie which exceeds the Company's closed year profits (if any) and non-interavailable Funds at Lloyd's, the Company will request Lloyd's to apply the interavailable Funds at Lloyd's of Convertible Loan Stock holders in their Due Proportion, less any amounts already paid thereon.

A Loan Stock holder's Due Proportion is such proportion as his Convertible Loan Stock in issue at the coming-into-line date of the year of account on which the Relevant Loss arose ("the relevant coming-into-line date") bears to the convertible loan stock in issue at the time of the call to the extent such convertible loan stock was in issue at the relevant coming-into-line date, in each case at their nominal values.

- 3.5.3 The Convertible Loan Stock will be deemed called if and to the extent that the interavailable Funds at Lloyd's of a Loan Stock holder are applied to meet a Relevant Loss. Subject thereto, the Company will not call any Convertible Loan Stock prior to the Conversion Date except in the event of default as specified at paragraph 3.7. The Company reserves the right to postpone or cancel any such call or not to make any such call.
- 3.5.4 The Convertible Loan Stock deemed called pursuant to the provisions set out at paragraph 3.5.3 will be deemed paid up to the extent and for so long only as amounts comprised in the Specified Fund and applied by Lloyd's to meet a Relevant Loss are not replaced by the Company and accredited to the Specified Fund.

### 3.6 *Funds at Lloyd's*

Names holding Convertible Loan Stock which is not fully paid are required to provide and maintain Funds at Lloyd's to support the underwriting of the Company of an amount equal to the Convertible Loan Stock held by them which is not fully paid. The Company may call up any Convertible Loan Stock which is not fully paid at any time if a Name defaults in his obligation to maintain such Funds at Lloyd's.

### 3.7 *Default*

If a Name defaults in his obligation to pay up in full any of the Convertible Loan Stock comprised within a Unit, the Company may take action against him and may forfeit the unpaid or partly paid Convertible Loan Stock within that Unit. The B Shares comprised within that Unit will not convert to A Shares and will not therefore participate in the underwriting profits of the Company for the 1998 to 2000 years of account.

A Name's default in paying up Convertible Loan Stock comprised within a Unit will not affect other Units in respect of which he is not in default except as stated at 3.6 above.

**3.8**      *Cancellation*

Any Convertible Loan Stock repaid or converted will be cancelled and will not be available for re-issue but the Company reserves the right to issue further loan capital, forming a single issue with the Convertible Loan Stock or otherwise.

**3.9**      *Modification*

The rights of holders of Convertible Loan Stock are subject to modification by the Company with the sanction of an extraordinary resolution of the holders of the Convertible Loan Stock, passed by a majority of not less than 75% of votes cast by such holders. The Company will be entitled to modify the Convertible Loan Stock Deed without the sanction of an extraordinary resolution of stock holders if the only purpose of the modification is to allow the Convertible Loan Stock to be tradeable on CREST.

**3.10**     *Transfer*

Convertible Loan Stock is transferable with the consent of the Directors as part of a transfer of a Unit.

**3.11**     *Notification*

Holders of Convertible Loan Stock are obliged to notify the Company within seven days of any changes to the composition of the interavailable fund.

**3.12**     *Governing Law*

The Convertible Loan Stock (2000) Deed is governed by and construed in accordance with English law.

**4. Lloyd's Membership**

An application for corporate membership of Lloyd's by the subsidiary of the Company was submitted on 29 July 1997 and is under consideration. The Directors see no reason why this application should be refused.

**5. Subscription by BRIT**

BRIT has agreed to subscribe for an aggregate of up to 2 million A Shares under the Offer. The proportion which this holding will represent of the Company's issued share capital following the Offer will not be known until after all applications to subscribe for Shares have been received under the Offer although the subscription will be reduced if



necessary to ensure that it does not constitute a majority shareholding. However, if the total number of Shares issued under the Offer is 6 million, the holding of BRIT will represent 33.3% of the Company's issued share capital and if the total number of Shares issued under the Offer is 10 million such holding will represent 20% of the Company's issued share capital.

Under Rule 9 of the City Code on Takeovers and Mergers ("the City Code"), when a person acquires shares in a company which is the subject to the City Code and such shares, when taken together with shares held or acquired by persons acting in concert with it, carry 30 per cent or more of the voting rights, such persons or group would normally be obliged to make a general offer to all other shareholders for the remaining equity shares in the capital of that company.

The Panel has agreed to waive any requirement for BRIT to make a general offer under Rule 9 of the City Code where such obligation would otherwise have arisen as a result of its subscription under the Offer.

Investors should, however, note that the City Code will apply to any subsequent acquisition of A Shares in the Company by BRIT. In addition to the restrictions referred to above, Rule 9 of the City Code also provides that where any person, or a group of persons acting in concert, holds not less than 30% but not more than 50% of a company's voting rights and such persons, or any person acting in concert with them, acquires, in any period of 12 months, additional shares carrying more than 1% of the voting rights, such a person will be required to make a general offer to the shareholders of that company.

#### **6. Directors' and Other Interests**

6.1 As at the date of this document the holdings of A Shares in cash and Units of Conversion Stock of the Directors are:

	A Shares	Conversion Units
Peter Scales	4	Nil
Anthony South	4	Nil

The following Directors have indicated an intention to apply for the following A Shares in cash and to subscribe for Loan Stock (ie to make interavailable the following Funds at Lloyd's):

	A Shares	Funds at Lloyd's (£)
Paul Gillham	10,000	300,000
Giles Berkeley	10,000	25,000
John Incedon	10,000	100,000
Peter Scales	10,000	Nil
Anthony South	10,000	75,000

Peter Scales is not an underwriting member at Lloyd's.

The following directors of Wren have indicated an intention to apply for the following A Shares in cash and to subscribe for Loan Stock (ie to make interavailable the following Funds at Lloyd's):

	A Shares	Funds at Lloyd's (£)
Raymond Bissett	5,000	Nil
Nicholas Haydon	10,000	50,000
Michael Jackson	5,000	Nil

Michael Jackson is not an underwriting member at Lloyd's.

Other directors and staff within the Wren Group may also apply to subscribe for A Shares in cash.

Any of the above may also subscribe A Shares for Qualifying Capacity, but the amount of such shares cannot be quantified at this time.

The directors of the Company and Wren are entitled to apply for A Shares and Units on the same basis and on the same terms as other persons to whom this Offer is made.

6.2 Save as stated at 6.1, no Director has an interest in the capital of the Company which is required to be entered in the Register maintained under Section 325 of the Act and no person connected with any Director (within the meaning of Section 346 of the Act) has an interest in the capital of the Company.

6.3 The aggregate emoluments of the Directors from the Company for the period to 31 December 1998 are estimated to be £3,000.

6.4 No loan or guarantee has been granted or provided by the Company to or for the benefit of any Director.

6.5 Wren will be appointed as the Company's members' agent and in turn Wren will sub contract certain functions to Wren Lloyd's Advisers Limited ("WLA"). Wren Syndicates Management Limited ("WSM") manages five syndicates at Lloyd's and it is the intention that Wren will place capacity of the Company on one or more of these syndicates. Wren, WLA and WSM are subsidiary companies of Wren Holdings Ltd ("WHL") which in turn is owned by the ultimate holding company, Wren Holdings Group Plc ("WHG"). A.I.G.C. South, P.D. Scales and G.R. Berkeley are executive directors of Wren and WLA. A.I.G.C. South and P.D. Scales are executive directors of WHG. P.M. Gillham is a non executive director of Wren. A.I.G.C. South, G.R. Berkeley, P.M. Gillham, and J.D. Incedon are currently underwriting members of Lloyd's through Wren.

BRIT has a 25.1% shareholding in WHG and Finsbury Underwriting Investment Trust Plc ("FUIT") has a 15% shareholding. BRIT has a 14.45 % shareholding in FUIT. A.I.G.C. South has a 0.3% shareholding in BRIT and a 0.7% shareholding in FUIT.

The corporate member subsidiaries of FUIT and BRIT have appointed Wren as their members' agent.

Rea Brothers (Investment Management) Limited ("RBIM") acts as investment manager and company secretary of BRIT.

J.A.V. Townsend is a non-executive director of WHG and also a director of Finsbury Asset Management Limited ("FAM"), Rea Brothers (Investment Management) Ltd and other subsidiary companies of Rea Brothers Group Plc.

J.M.P. Welman is a director of Rea Brothers (Investment Management) Limited, FAM, their ultimate holding company Rea Brothers Group Plc and other subsidiaries within the Rea Brothers group. He is also a director of BRIT and Contra-Cyclical Investment Limited, both clients of RBIM, and of a number of subsidiaries of BRIT.

6.6 None of the Directors has a service contract with the Company. Save as disclosed in this document, no Director has any further material interest in the Company or its subsidiary or in any contract entered into by the Company or its subsidiary.

## 7. Memorandum and Articles of Association

- 7.1 The objects of the Company are set out in Clause 4 of the Company's Memorandum of Association which is available for inspection at the address specified in 14 below. The principal object includes the carrying on of the business of holding controlling and other interests in companies, including in particular those engaged in the businesses of underwriting membership of Lloyd's and of insurance generally.
- 7.2 The Articles of Association of the Company contain provisions, inter alia, to the following effect:

### 7.2.1 Voting

Subject to the provisions of the Act and any rights or restrictions attached to Shares, at any general meeting, every holder of A or B Shares who (being an individual) is present in person or by proxy or (being a company) is present by representative has one vote and on a poll every holder of A Shares who is present in person, by representative or by proxy has one vote for every A Share held by him and every holder of B Shares who is present in person, by representative or by proxy has for every B Share held by him 5,000 votes prior to the Conversion Date and no votes after the Conversion Date. Resolutions will be decided on a show of hands unless a poll is duly demanded.

Where the holder of any shares, or any other person appearing to be interested in those shares, fails to comply within the prescribed period with any notice pursuant to Section 212 of the Act, those shares will not confer on their holder any rights to attend and vote at any general meeting of the Company or at any separate meeting of the holders of any class of shares in the Company or to exercise other rights conferred by membership in relation to the meeting.

### 7.2.2 Dividends

- a) The Company may by ordinary resolution declare dividends to be paid to members according to their respective rights in the profits of the Company, but which may not exceed the amount recommended by the board. The board may pay interim dividends.
- b) The B Shares (and any A Shares derived from the conversion of B Shares) will not participate in any dividends on investment income and gains generated prior to their conversion. The holders of the A Shares will be entitled to receive any dividends of investment income and gains generated on funds held directly by the Company, in accordance with the formula:

$$\frac{P}{Q} \times R$$

where:

P = the number of A Shares held by a shareholder at the Record Date which were in issue at the start of the Relevant Period

Q = the number of A Shares in issue at the start of the Relevant Period

R = the amount resolved to be distributed to shareholders on the register at the Record Date in respect of investment income and gains generated during the Relevant Period.

For the purpose of the above formula, the Relevant Period will be the period during which the investment income and gains distributed to shareholders were generated.

- c) The holders of A Shares will be entitled to share in any underwriting profits of the Company distributed by way of dividend in accordance with the formula:

$$\frac{X}{Y} \times Z$$

where:

X = the number of A Shares held by that A Share holder at the Record Date, to the extent such shares (or any securities from which they are derived) were in issue at the coming-into-line date of the year of account on which the profits being distributed have arisen (for the purpose of this formula "the relevant coming-into-line date")

Y = the aggregate of the number of A Shares in issue at the relevant coming-into-line date and 5,000 times the number of B Shares in issue at the relevant coming-into-line date

Z = the amount resolved to be distributed in respect of the underwriting profits of the Company arising on a year of account.

- d) Any profits distributed by way of dividend other than investment income and gains or underwriting profits will be distributed to A and B Share holders in accordance with the numbers of shares held by them, multiplied by 5000 in respect of B Share holders.
- e) The first dividends payable out of the underwriting profits of the Company will be adjusted to compensate those shareholders who suffer a reduction in distributable profits attributable to the general expenses of the Company, so that the burden of those general expenses is shared equitably between all shareholders.
- f) The Directors may, if authorised by an ordinary resolution of the Company, direct that payment of a dividend may be satisfied in whole or in part by the distribution of specific assets and in particular of paid up shares or debentures in another company.

### 7.2.3 *Conversion of Shares*

B Shares may only be issued in conjunction with convertible loan stock of the Company to form units of conversion stock. Each such unit will convert into A Shares in accordance with the terms of the loan stock deed created from time to time constituting such loan stock.

The Convertible Loan Stock (2000) Deed provides that each Unit will convert automatically into 5,000 A Shares at the Conversion Date, provided it is fully paid.

#### 7.2.4 *Return of Capital on a Winding-Up*

On a winding-up or other return of capital of the Company, the capital and assets available for distribution will be divided amongst the members in proportion to the amounts paid up on the shares.

#### 7.2.5 *Variation of Rights*

- Subject to the provisions of the Act, the rights attached to a class of shares may be varied either with the consent in writing of the holders of three quarters of the nominal amount of the issued shares of the relevant class, or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the Shares of that class. The necessary quorum at such a meeting is two people present in person holding or representing by proxy at least one-third in nominal value of the issued shares of the class or, if adjourned, the quorum at the adjourned meeting is one person present or by proxy holding shares of the class.

#### 7.2.6 *Transferability*

B Shares may only be transferred together with the convertible loan stock comprised in the same Unit. The Directors may in their absolute discretion refuse to register the transfer of any share.

#### 7.2.7 *Pre-emption*

The Articles of Association confer no rights of pre-emption on the issue or transfer of securities.

#### 7.2.8 *Directors*

Unless otherwise determined by ordinary resolution of the Company, the number of Directors shall be not less than two. There is no maximum number.

#### 7.2.9 *Borrowing Powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its property and assets and uncalled capital and, subject to the Act, to issue debentures and other securities.

#### 7.2.10 *Purchase of Own Shares*

The Company may, subject to the Act, purchase any of its shares (including redeemable shares).

### 8. *Limitations on Shareholdings*

8.1 A person may not be a controller of a corporate member without the prior written consent of Lloyd's. A controller is:

- 8.1.1 a person who, either alone or with any connected person or persons, is entitled to exercise, or to control the exercise of, 10% or more of the voting power at any general meeting of a corporate member or of another body corporate of which it is a subsidiary undertaking; or

- 8.1.2 a person in accordance with whose directions or instructions, either alone or with those of any connected person or persons, the directors of a corporate member are accustomed to act; or
- 8.1.3 any person who, either alone or with any connected person or persons, holds such part of the share capital of a corporate member or of the parent undertaking of a corporate member as would, if the whole of the income of the corporate member or the parent undertaking were in fact distributed among its shareholders, entitle him to receive 10% or more of the amount so distributed; or
- 8.1.4 any person who, either alone or with any connected person or persons, has such rights as would, in the event of a winding-up of a corporate member or of the parent undertaking of a corporate member or in any other circumstance, entitle him to receive 10% or more of the assets of a corporate member or the parent undertaking available for distribution among its shareholders.

'Subsidiary undertaking' and 'parent undertaking' have the respective meanings given in section 258 of the Act.

- 8.2 A corporate member must, so far as it is able, procure that no person who is a controller shall acquire a notifiable holding in the corporate member unless:
  - 8.2.1 that person has given notice to Lloyd's stating that he intends to acquire a notifiable holding in the corporate member and containing such particulars as Lloyd's may require; and
  - 8.2.2 either Lloyd's has, before the expiry of the period of three months beginning with the date of service of the notice (or of such longer period beginning with that date as Lloyd's may, before the expiry of the three month period, notify to him), notified him in writing that there is no objection to his proposed acquisition or that period has expired without Lloyd's having served a written notice of objection.

A notifiable holding is voting rights or shares which, if acquired by any person, will result in his becoming a 10% controller, a 20% controller, a 33% controller, a 50% controller or a majority controller.

A 10% controller is a controller in whose case the percentage referred to at paragraph 8.1 above is 10% or more but less than 20%; a 20% controller is a controller in whose case the percentage is 20% or more but less than 33%; a 33% controller is a controller in whose case that percentage is 33% or more but less than 50%; a 50% controller is a controller in whose case that percentage is 50%; and a majority controller is a controller whose shareholding is such that the corporate member is its subsidiary undertaking.

- 8.3 A connected person for this purpose is, in relation to any person
  - 8.3.1 any person who is party to any agreement, arrangement or understanding with them involving mutual obligations, understandings or expectations with regard to the retention or disposal of any shares in a body corporate or to the exercise of any voting power conferred by the shares or to any other influence arising from the shares;

- 8.3.2 any person whom they control;
- 8.3.3 where they are a body corporate, any trustee of their pension funds;
- 8.3.4 where they are a body corporate, their directors and their directors' associates;
- 8.3.5 where they are an individual, their associates.
- 8.4 An associate for this purpose is, in relation to any person:
  - 8.4.1 their spouse, and children (including step-children and adopted children) under the age of 18 years;
  - 8.4.2 any body corporate of which they or their spouse are a director;
  - 8.4.3 their employer, employee or partner of their spouse's employer, employee or partner; and
  - 8.4.4 any body corporate of which they or their spouse, alone or with any other connected person, have control.

#### **9. Indebtedness**

At the date of this prospectus, save as disclosed herein, the Company has no loan capital (whether outstanding or created but unissued), term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase or finance lease commitments, mortgages, charges, guarantees or other contingent liabilities.

#### **10. Minimum Subscription**

The following table sets out the minimum amount which, in the opinion of the Directors, must be raised by the issue of Shares under the Offer, in order to provide the sums required to be provided in respect of each of the following:

a) Purchase price of any property	£	nil
b) Preliminary expenses payable by the Company	£	nil
c) Repayment of money borrowed	£	nil
d) Working Capital		£250,000
		<b>£250,000</b>

### *11. Investment Limitations*

To the extent that the Company's investments form part of its Funds at Lloyd's, its investment portfolio will be managed to comply with applicable Lloyd's rules relating to the investment of Funds at Lloyd's.

### *12. Material Contracts*

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and are, or may be, material:

- 12.1 A letter agreement dated 22 August 1997 between Wren and the Company agreeing, subject to Lloyd's approving the Company as a corporate member, to enter into a standard form members' agent's agreement. The letter sets out the details of the fee arrangements which have been agreed with the Company, which are referred to at Part I Section 9.
- 12.2 A letter agreement dated 26 August 1997 between the Company, Rea Brothers and Finsbury Asset Management Limited ("FAM") agreeing, subject to the Company receiving cash subscriptions pursuant to the Offer of not less than £2 million and to obtaining a certificate pursuant to Section 117 of the Act, to enter into an agreement in the form or substantially the form attached to the letter pursuant to which Rea Brothers will provide investment management services and FAM will provide administrative and secretarial services to the Company. The fee arrangements set out in the agreement are referred to at Part I Sections 10 and 11. The notice period set out in the agreement is 12 months' notice to expire not before 31 March 1999.
- 12.3 A letter dated 26 August 1997 from BRIT to the Company agreeing, subject to the issue of the Prospectus, to subscribe in cash pursuant to the Offer for (i) 2 million A Shares or, if lower, (ii) the maximum number of A shares that it may subscribe without thereby becoming the Company's holding company.

### *13. General*

- 13.1 The Company is not engaged in any legal or arbitration proceedings nor, so far as the Directors are aware, are any such proceedings pending or threatened against the Company.
- 13.2 Financial Intelligence and Research Ltd have given and have not withdrawn their written consent to the inclusion in this prospectus of the graph and table at page 13.
- 13.3 Littlejohn Frazer have given and have not withdrawn their written consent to the issue of this prospectus with the inclusion in this prospectus of their reports in the form and context in which they are included.
- 13.4 Save as described in this document, there has been no significant change in the trading or financial position of the Company or its subsidiary since incorporation.
- 13.5 The expenses of and incidental to the Offer are estimated to amount to £100,000 (exclusive of VAT) and are payable by Wren.
- 13.6 The total gross cash proceeds, assuming subscription of 2.5 million A Shares, expected to be raised by the Offer are £2.5 million and the expected net proceeds, assuming full subscription as aforesaid, after deduction of the expenses of the Offer are £2.5 million.



#### *14. Documents Available For Inspection*

Copies of the following documents will be available for inspection at the registered office of the Company at Alderman's House, Alderman's Walk, London EC2M 4XR during usual business hours on any week day (Saturdays and public holidays excepted) until closure of this Offer:

- 14.1 the Memorandum and Articles of Association of the Company;
- 14.2 the material contracts referred to in Part III Section 12 ;
- 14.3 the letters from Littlejohn Frazer set out at Part III Appendices 1 & 2;
- 14.4 the consent letter from Financial Intelligence and Research Ltd referred to in Part III Section 13.2;
- 14.5 the consent letter from Littlejohn Frazer referred to in Part III paragraph 13.3;
- 14.6 this Prospectus;
- 14.7 the Convertible Loan Stock (2000) Deed;
- 14.8 the Interavailable Trust Deeds, being the Deed of Application, Deed of Release, Advance and Resettlement, Deposit Trust Deed (General Interavailability), Deeds of Variation, Deeds of Adherence, Deed of Release, Revocation and Substitution and Security and Trust Deed (Interavailable);
- 14.9 the "Conditions and Requirements applicable to Conversion and Related Arrangements" dated 26 March 1997;
- 14.10 "Conversion: a Guide" published by Lloyd's dated 3 April 1997;
- 14.11 "Corporate participation at Lloyd's, 2nd edition", published by Lloyd's dated 30 April 1997;
- 14.12 the "Settlement Information Document" dated 20 June 1996;
- 14.13 the "Settlement Offer Document dated 30 July 1996;
- 14.14 the market bulletin entitled "Strengthening Lloyd's Chain of Security" dated 3 June 1997;
- 14.15 the market bulletin entitled "New Solvency Test Regime - an Update" dated 4 July 1997; and
- 14.16 the list of syndicates which the Company proposes to support.

## PART IV

### DEFINITIONS AND GLOSSARY

In this prospectus the following interpretations will apply unless the context requires otherwise:

<i>"the Act"</i>	the Companies Act 1985, as amended
<i>"Allocated Premium Income" or</i>	
<i>"Allocated Premium Limit"</i>	the OPL allocated by a member to syndicates
<i>"A Share"</i>	an A ordinary share of 25p in the capital of the Company
<i>"auction"</i>	the Lloyd's syndicate capacity auction
<i>"Auditors"</i>	the auditors from time to time of the Company
<i>"B Share"</i>	a B ordinary share of 25p in the capital of the Company
<i>"coming-into-line-date"</i>	the date prescribed by Lloyd's by which a member's Funds at Lloyd's must be in place in respect of its following year's underwriting, currently 31 October
<i>"Company"</i>	Cathedral Capital PLC and/or its subsidiary Cathedral Capital (1998) and (where the context permits) any additional subsidiaries, as the context requires
<i>"Conversion Date"</i>	31 October 2000 or, if earlier, the year 2001 coming-into-line-date
<i>"Conversion Official"</i>	the officer or employee of Lloyd's authorised by Lloyd's to discharge the duties and functions attributed to the officer under the Conversion Rules
<i>"Conversion Rules"</i>	the "Conditions and Requirements applicable to Conversion and Related Arrangements" approved by Lloyd's on 26 March 1997
<i>"Convertible Loan Stock"</i>	the Convertible Loan Stock to be issued pursuant to the Offer described in this prospectus
<i>"convertible loan stock"</i>	the Convertible Loan Stock and any other convertible loan stock created or to be created by the Company or the amount issued and outstanding as the case may be
<i>"corporate member"</i>	a corporate member of Lloyd's
<i>"Directors"</i>	the directors of the Company
<i>"Equitas"</i>	the company into which liabilities to pay claims on general business insurance policies allocated to the 1992 and prior years of account have been reinsured
<i>"Funds at Lloyd's"</i>	funds held in trust to support a member's underwriting at Lloyd's

<i>"interavailability period"</i>	the period during which a Name's Funds at Lloyd's are made available to support the underwriting of the Company whilst also supporting the pre-conversion open years of the Name
<i>"Loan Stock"</i>	Convertible Loan Stock
<i>"managing agent"</i>	an underwriting agent responsible for managing a syndicate and, amongst other things, employing the active underwriter
<i>"managing agent's agreement"</i>	an agreement between a member and a managing agent in the form prescribed by the Agency Agreements Byelaw (No.8 of 1988)
<i>"MAPA"</i>	a "Members' Agent's Pooling Arrangement" which pools capacity so that the Names participating in the arrangement share pro rata in participations across a spread of syndicates
<i>"member" or "Name"</i>	unless the context requires otherwise, an underwriting member of Lloyd's
<i>"member's agent"</i>	an underwriting agent appointed by a member to provide services in relation to his underwriting business and affairs at Lloyd's
<i>"New Central Fund"</i>	a fund established as part of Reconstruction and Renewal pursuant to the New Central Fund Byelaw (No. 23 of 1996) as amended, financed by contributions from all members and administered by Lloyd's
<i>"Offer"</i>	the offer for subscription of A Shares and Units described in this prospectus
<i>"OPL" or "overall premium limit"</i>	the premium limit that determines the maximum amount of business a member may underwrite for a year of account
<i>"partial account conversion"</i>	conversion of part only of a Name's underwriting
<i>"participation nomination"</i>	a nomination of a member to underwrite on a syndicate for a succeeding year in substitution for an existing member, in accordance with clause 11A.2 of the managing agent's agreement
<i>"PTF" or "Premiums Trust Fund"</i>	trust funds into which all premiums received by managing agents on behalf of a member are placed, which are available for the payment of reinsurance premiums, claims, syndicate and other expenses
<i>"Qualifying Capacity"</i>	syndicate capacity accepted by the Directors for transfer to the Company as specified at Part I Section 7.3

<i>"qualifying successor vehicle"</i>	a successor vehicle under which not less than 75% of the Funds at Lloyd's of the successor vehicle are provided directly or indirectly by members converting their underwriting to the successor vehicle
<i>"Reconstruction and Renewal" or "R &amp; R"</i>	the plan for the reconstruction and renewal of Lloyd's described in the Settlement Information Document dated 20 June 1996
<i>"Record Date"</i>	the date determined by the Directors in respect of a dividend
<i>"reinsurance to close" or "RITC"</i>	a reinsurance agreement under which underwriting members who are members of a syndicate for a year of account to be closed are reinsured by underwriting members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business underwritten by the reinsured syndicate
<i>"Relevant Loss"</i>	a loss on the closure prior to the Conversion Date of an underwriting year of account in which the Company has participated, or a cash call made on the Company prior to the Conversion Date in respect of an underwriting year of account which has not been closed
<i>"run-off account"</i>	a year of account of a syndicate which was not closed at its usual date for closure by reinsurance to close and which has yet to be so closed
<i>"Share"</i>	an A Share and/or a B Share, as the context requires
<i>"Specified Fund"</i>	that part of a Name's deposit which is made interavailable to a successor corporate member
<i>"successor vehicle"</i>	in relation to an interavailability arrangement, the body in whose favour a participation nomination is made or to which the Funds at Lloyd's of another member are made interavailable
<i>"syndicate"</i>	a member or group of members for whose account a managing agent accepts insurance business at Lloyd's
<i>"syndicate capacity"</i>	the overall premium limit of a member allocated to a syndicate
<i>"Unit" or "Unit of Conversion Stock"</i>	£5,000 in nominal value of Convertible Loan Stock together with one B Share
<i>"Wren"</i>	Wren Underwriting Agencies Limited, which is to be appointed as the Company's members' agent

APPENDIX 1

*Accountant's Report on Company*

The following is the text of a letter from Littlejohn Frazer

28 August 1997

The Directors  
Cathedral Capital PLC  
Alderman's House  
Alderman's Walk  
London  
EC3M 3XR

Dear Sirs

**Prospectus dated 28 August 1997 ("the Prospectus")**

We report that Cathedral Capital PLC ("the Company") was incorporated on 16 May 1997. Since that date no financial statements of the Company have been prepared and no dividends have been declared or paid.

No transactions have occurred since incorporation other than the transfer of subscriber shares on 21 July 1997 as described at Part III section 2 of the Prospectus and the execution of material contracts as described in Part III section 12 of the Prospectus.

Yours faithfully



Littlejohn Frazer

APPENDIX 2

*Lloyd's Sponsor's Statement on Intentions for Future Listing*

The following is the text of a letter from Littlejohn Frazer:

28 August 1997

The Directors  
Cathedral Capital Plc  
Alderman's House  
Alderman's Walk  
London  
EC2M 3XR

Dear Sirs

**Prospectus dated 28 August 1997 ("the Prospectus")**

On pages 2 and 8 respectively of the Prospectus you have stated

"No application has been made for the A shares or Units of the Company now in issue or being issued to be listed or otherwise dealt in on any recognised investment exchange or other securities market, and accordingly the attention of potential investors is drawn to the risk warning contained in Part II Section 4.3 of this document. The Directors will attempt to assist shareholders who wish to dispose of shares. The Directors may in the future make an application for a public listing or Alternative Investment Market quotation, if they believe such action to be in the interests of shareholders in the circumstances at the relevant time".

"Cathedral Capital Plc is not listed. After the Conversion Date (in the year 2000), and once a sufficient trading record has been established, the Directors may seek a listing for its securities on a recognised Investment Exchange or the Alternative Investment Market, if the Directors consider it to be in the interests of shareholders at that time."

For the Company's shares to be listed on a recognised investment exchange or to be quoted on the Alternative Investment Market, the Company must comply with certain requirements. These will include the requirement to have audited accounts covering the last three years, to have carried on a revenue earning and profitable business, to have had stable management with appropriate expertise and experience throughout the period and to be of a size appropriate to a company whose shares are to be publicly quoted or listed. This is not intended to be an exhaustive list, but to highlight certain areas which may be pertinent.

Provided the Company complies with and meets the requirements in place at the relevant time before a public listing of its shares or a quotation on the Alternative Investment Market we are aware of no reason why the Company should not seek such a listing or quote.

Yours faithfully



Littlejohn Frazer

## APPENDIX 3

*Terms and Conditions of Offer and Application**1. Period*

- 1.1 The Offer will be open for acceptance from Friday 29 August 1997 until 12 noon on Friday 19 September 1997.
- 1.2 The Company may extend the Offer period at any time prior to 12 noon on Friday 19 September 1997.
- 1.3 The Company reserves the right to close the Offer prior to 12 noon on Friday 19 September 1997, but not earlier than 21 days after the posting of this prospectus.

*2. Minimum Subscription*

- 2.1 The Offer will lapse and no A Shares or Units will be issued unless applications are received for a minimum of 250,000 A Shares to be subscribed in cash and sufficient subscriptions of A Shares and/or Units are received to enable the Company to underwrite insurance business at Lloyd's (subject to admission as a corporate member of Lloyd's) with an overall premium limit of £5 million on or prior to Friday 19 September 1997 (or such later date, not being later than Friday 3 October 1997, as the Company may agree).
- 2.2 The minimum subscription for A Shares for cash is £1,000 and thereafter subscriptions must be in multiples of £500.
- 2.3 The minimum subscription for Units is one (i.e. £5,000 of Funds at Lloyd's).
- 2.4 Names applying for Units must offer to assign to the Company a minimum of £10,000 in amount of syndicate capacity for each Unit (i.e. a minimum of £10,000 of capacity). A Shares will be issued in exchange for Qualifying Capacity.
- 2.5 The minimum subscription for A Shares for Qualifying Capacity is £10,000 unless Units are also being subscribed for.

*3. Basis of Allocation*

- 3.1 The Directors reserve the right to reject any application for A Shares or Units in whole or in part or to scale down any application, in particular where applicants and connected persons may as a result of their application become controllers of the Company (for the definitions of a controller and connected person see Part III section 8). If the Offer is oversubscribed by applications which the Company wishes to accept they will be scaled down pro-rata.
- 3.2 No A Shares will be issued in exchange for syndicate capacity which is not Qualifying Capacity.
- 3.3 The Company reserves the right to present cheques upon receipt by the Company, and to retain documents of title and surplus application monies pending clearance of successful applicants' cheques. If the Offer lapses, or if an application is accepted for fewer A or B Shares than the number

applied for, the application monies or the balance of the application monies will be returned without interest by post at the applicant's risk.

4. *Applications*

4.1 Applications must be made using the enclosed application form. Subject to acceptance the application will constitute a contract between the applicant and the Company, conditional upon the Company becoming a corporate member of Lloyd's.

4.2 By completing and delivering an application form you (the applicant):

4.2.1 offer to subscribe for the number of A Shares specified in your application form (or such smaller number for which the application is accepted) at £1 per Share in cash subject to the prospectus, these terms and conditions and the Memorandum and Articles of Association of the Company;

4.2.2 offer to subscribe for A Shares at a price of £1 per Share in exchange for the syndicate capacity which you offer for transfer to the Company specified in your application form (or such smaller amount as is determined by the Company as Qualifying Capacity and accepted), the value of such Qualifying Capacity to be as specified in a valuation report prepared by the Auditors in accordance with s.103 of the Act which will be sent to you prior to allotment, subject to the prospectus, these terms and conditions and the Memorandum and Articles of Association of the Company;

4.2.3 offer to subscribe for one B Share for each Unit specified in your application form (or such smaller number of Units for which the application is accepted) at 50p per Share in cash, subject to the prospectus, these terms and conditions and the Memorandum and Articles of Association of the Company, and for the amount of Convertible Loan Stock comprised within the number of such Units (or such smaller number of Units for which the application is accepted) and agree to make interavailable to the Company Funds at Lloyd's of £5000 per Unit and to accept the Convertible Loan Stock on and subject to the prospectus, these terms and conditions and the terms of the Convertible Loan Stock (2000) Deed;

4.2.4 undertake, in respect of applications for Convertible Loan Stock, that you will meet your obligations to pay up Convertible Loan Stock at the Conversion Date, and confirm that you accept and understand the consequences of default;

4.2.5 warrant, in respect of syndicate capacity offered to the Company, that you have the right to assign it to the Company and to nominate the Company as your successor in relation thereto;

4.2.6 if Box C of the application form is ticked, authorise Wren to sell any of your surplus syndicate capacity and remit the proceeds to the Company on your behalf to subscribe for additional A Shares at £1 per Share, subject as stated at paragraph 4.2.1 of these terms and conditions;



- 4.2.7 if Box E of the application form is ticked, authorise Wren to sell any of your surplus syndicate capacity and remit the proceeds to you without interest by post at your risk;
- 4.2.8 authorise the Company to send certificates for the number of Shares and/or the amount of Convertible Loan Stock for which your application is accepted, and/or a crossed cheque for any monies returnable, by post to your address as set out in your application form and to procure that your name is placed in the Register of members of the Company in respect of such Shares and/or the Register of Convertible Loan Stock holders of the Company in respect of such Convertible Loan Stock;
- 4.2.9 warrant that your remittance will be in the correct amount for your full application and will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive a certificate for the Shares applied for or to enjoy or receive any rights or distributions in respect of such Shares unless and until you make payment in cleared funds for such Shares and such payment is accepted by the Company. Any such acceptance will be at the Company's discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation and that, at any time prior to unconditional acceptance by the Company of such late payment in respect of such Shares the Company may (without prejudice to any other rights) treat the agreement to allot such Shares as void and may allot Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Shares (other than return of such late payment);
- 4.2.10 agree that any documents of title and any monies returnable to you may be retained pending clearance of your remittance and that such monies will not bear interest;
- 4.2.11 agree that all applications, acceptances of applications and contracts resulting therefrom will be governed by and construed in accordance with English law and that you submit to the exclusive jurisdiction of the English courts and irrevocably waive any objection to any action or proceedings being brought in those courts or any claim that any such action or proceeding has been brought in an inconvenient forum;
- 4.2.12 warrant that, if you sign the application form on behalf of another party or on behalf of a corporation, you have due authority to do so and such person or corporation will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions and undertake to enclose your duly authorised power of attorney or a copy thereof;
- 4.2.13 agree that all documents in connection with the Offer and any returned monies will be sent at your risk and may be sent by post to you at your address as set out in the application form;

- 4.2.14 agree that, having had the opportunity to read the prospectus, you will be deemed to have had notice of all information and representations concerning the Company contained therein;
- 4.2.15 confirm that in making such application you are not relying on any information or representation in relation to the Company other than those contained in the prospectus and you accordingly agree that no person responsible solely or jointly for the prospectus or any part thereof will have any liability for any such information or representation;
- 4.2.16 confirm that you have reviewed the restrictions and observed the requirements contained in paragraphs 5 and 6 below and represent and warrant as provided therein;
- 4.2.17 warrant that you are not under the age of 18; that, if you are applying for Convertible Loan Stock you are an underwriting member of Lloyd's; and that the confirmation made in the application form concerning connected persons is accurate;
- 4.2.18 agree to provide the Company with any information which it may request in connection with your application, and to sign all deeds, documents and undertakings which may be required of you in order to give effect to the contract, to assign or otherwise deal with your syndicate underwriting capacity offered and detailed in the application form, to make your Funds at Lloyd's interavailable (where offered by you) and generally to permit the Company to be a corporate member of Lloyd's;
- 4.2.19 where you are applying for Convertible Loan Stock, authorise your members' agent to supply information to the Company in relation to your underwriting affairs at Lloyd's;
- 4.2.20 warrant that, in connect with your application, you have observed the laws of all requisite territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in the Company acting in breach of the regulatory or legal requirements of any territory in connection with the Offer or your application;
- 4.2.21 agree that your application for Shares and, where applicable, for Convertible Loan Stock is irrevocable;
- 4.2.22 represent that you are not accepting the invitation comprised in the Offer from within the United States of America, its territories or possessions, any State of the United States of America or the District of Columbia (the "United States") or on behalf of anyone within the United States; and
- 4.2.23 warrant that as a Name you have met each and every request for funds duly made; that you are in compliance with all applicable requirements of Lloyd's relating to solvency; and that you will have

Funds at Lloyd's to the value of at least £100,000 at the 1998 coming-into-line date (being 31 October 1997) or where you do not, will be able to show means, including Funds at Lloyd's, of at least £100,000 or that you are a Name on nominal means in respect of whom dispensation from the requirement to show means of £100,000 has been granted.

5. No person receiving a copy of the prospectus or any application form in any territory other than the UK may treat the same as constituting an invitation or offer to him, nor should he in any event use such application form unless, in the relevant territory, such an offer or invitation could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the UK wishing to make an application hereunder to satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other formalities requiring to be observed in such territory, and paying any issue, transfer or other taxes required to be paid in such territory.
6. The Shares and the Convertible Loan Stock have not been, nor will be registered under the United States Securities Act 1933 (the "Securities Act") and may not be offered or sold within the United States.
7. The application form includes the power of attorney and Request to Lloyd's in respect of the matters stated at Part II section 1.3 of this prospectus. These should be executed where indicated by each converting Name.
8. The right is reserved to treat as valid any application not in full compliance with these terms and conditions or not in all respects completed or delivered in accordance with the instructions on the application form.
9. Save where the context requires otherwise, terms defined in the prospectus bear the same meaning when used in these terms and conditions and in the application form.
10. If the value of the Shares applied for in cash exceeds £10,000, payment should be made by means of a UK clearing bank cheque drawn by the person named in Section 1 of your application form on an account in his or her name. If this is not practicable and you use a cheque drawn by a third party or a building society cheque or bankers' draft, you should write the name, address and date of birth of the person named in Section 1 on the back of the cheque or bankers' draft and (a) if a building society cheque or bankers' draft is used, the building society or bank must also endorse on the cheque or draft the name and account number of the person whose account is being debited; or (b) if a cheque is drawn by a third party, you must ensure that one of the following documents is enclosed with the form: a certified copy of your passport or driving licence or a recent original bank or building society statement or utility bill in your name. A copy passport or driving licence should be certified by a solicitor or bank. Original documents will be returned by post at your own risk. The Company may waive any of the conditions in appropriate circumstances at its discretion.

## APPLICATION FOR SECURITIES AND AUTHORITY

### SECTION 1

*Personal Details*

Forename(s) (in full): \_\_\_\_\_

Surname: \_\_\_\_\_

Address (in full): \_\_\_\_\_

\_\_\_\_\_

Members Agent (if applicable): \_\_\_\_\_

Lloyd's membership number (if applicable): \_\_\_\_\_

Tel: Daytime \_\_\_\_\_ Tel: Evenings \_\_\_\_\_

### SECTION 2

*Application for A Shares in cash*

Please enter the number of A Shares you wish to subscribe for in cash at a price of £1 per share.  BOX A

*Note:* Minimum number of A Shares for cash subscribers must be 1,000 thereafter in multiples of 500.

### SECTION 3

*Application for A Shares in exchange for Qualifying Capacity*

Please enter here the total Syndicate Capacity you wish to offer to the Company. The Company will determine which is Qualifying Syndicate Capacity. Names using the Interavailability route to invest in the Company, must offer to the Company Syndicate Capacity equal to at least twice their FAL being made interavailable, ie twice the amount in Box F.  BOX B  
Please also complete  
Section 6

*Notes:*

1. Minimum capacity must be £10,000.
2. You may if you wish offer a higher amount up to your total capacity in box B and Section 6.
3. You will be allocated such numbers of A Shares at £1 per share as equal in value your Qualifying Capacity. Qualifying Capacity will be valued in accordance with paragraph 7.3 of Part I.

Please tick either Box C, D or E below to indicate what you wish to do with any surplus Syndicate Capacity not accepted by the Company

I authorise Wren Underwriting Agencies Limited to sell my surplus Syndicate Capacity and use the proceeds to subscribe on my behalf for additional A Shares in the Company.  BOX C

I wish to retain the Syndicate Capacity that the Company does not accept.  BOX D

I authorise Wren Underwriting Agencies Limited to sell any surplus Syndicate Capacity and remit any proceeds after expenses to me.  BOX E

*Note:* Syndicate Capacity is a Name's 1997 Syndicate Capacity subject to any pre-emption or de-emption.

**IF YOU HAVE ANY QUERIES WITH THIS APPLICATION FORM PLEASE CONTACT GILES BERKELEY OR STEPHEN MURPHY ON 0171-929 2627**

#### SECTION 4

##### *Application for Units of Convertible Loan Stock by making use of the Interavailable provisions*

Please enter the amount of Funds at Lloyd's (FAL) to be made interavailable.

£

BOX F

Please also complete  
Section 6

*Note:* Minimum FAL must be £5,000. Thereafter in multiples of £5,000.

Please enter the number of B Shares you must subscribe for. *Note:* The number of B Shares is the amount in Box F above divided by 5,000.

BOX G

Names must also offer to the Company Syndicate Capacity equal to at least twice the amount of FAL being made interavailable by completing Section 3 of this Application Form.

Names must also execute the Request to Lloyd's and Power of Attorney at Section 7.

#### SECTION 5

##### *Declaration*

I hereby confirm that I have read and understood the information contained in the prospectus of which this Application Form is a part. I now apply subject to and upon terms and conditions set out in the document for the securities indicated in Section 2, 3, and 4 as appropriate and agree that my application is irrevocable.

I agree to assign the Syndicate Capacity shown in Box B to the Company (or any lesser amount accepted by the Company) and irrevocably authorise the Company to nominate Cathedral Capital (1998) Ltd to underwrite in substitution for me from the 1998 year of account.

I agree to make FAL shown in Box F interavailable to the Company or any lesser amount if my application is scaled down. These FAL are made interavailable to the Company in accordance with the information contained within this prospectus.

I agree to accept any shares or units allotted to me subject to the Memorandum and Articles of Association of the Company and the Loan Stock Deed and authorise the Company to enter my name in the registers of members and of loan stock holders.

I have completed section 7 where applicable.

I enclose a cheque for the amount shown in Box H made payable to Cathedral Capital plc.

Total cheque required

Number in Box A  $\times$  £1  
Number in Box G  $\times$  50p  
Total

£

BOX H

**Confirmation:** Please refer carefully to the definitions of "connected person", "controller" and "associates" on pages 53 to 55 of the Prospectus before you give this confirmation. The Company is required by Lloyd's to analyse and submit details of its controllers. This information is important to that analysis.

\*I confirm there are no person(s) connected with me applying for shares in the Company.

\*I confirm the only person(s) connected with me applying for shares in the Company are set out below.

Connected persons

Signed

Date

\* Delete as appropriate

**IF YOU HAVE ANY QUERIES WITH THIS APPLICATION FORM PLEASE  
CONTACT GILES BERKELEY OR STEPHEN MURPHY ON 0171-929 2627**

The completed application form, together with your cheque should be returned using the enclosed reply paid envelope

SECTION 6

*Syndicate Capacity*

Syndicate No

Capacity to  
be assigned

£

Total must equal amount entered in Box B.

*Funds at Lloyd's (FAL) to be made interavailable*

Details of FAL

Value

£

Total must equal amount entered in Box E.

IF YOU HAVE ANY QUERIES WITH THIS APPLICATION FORM PLEASE  
CONTACT GILES BERKELEY OR STEPHEN MURPHY ON 0171-929 2627

**SECTION 7**

***Request to Lloyd's and Power of Attorney***

I confirm that I wish to make all or part of my Lloyd's deposit available to support the underwriting of Cathedral Capital (1998) Limited and therefore request the trustee to execute, in respect of Cathedral Capital (1998) Limited, a Deed of Adherence in the form attached to the applicable interavailability deed executed by me or on my behalf. I further confirm that I regard this arrangement and the execution of the Deed of Adherence to be for my benefit. I also confirm that:

- (i) I have taken appropriate professional advice to the extent necessary to enable me to form a proper understanding of the arrangement;
- (ii) I have read and understood the Prospectus dated 28 August 1997 issued by Cathedral Capital PLC; and
- (iii) I am aware of the risks associated with my entering into this arrangement as set out in the Prospectus.

I acknowledge that neither the Society of Lloyd's nor any of its officers or employees has any responsibility for the provision of, and has not given, any investment, legal, taxation or other advice to myself in respect of this arrangement.

I hereby appoint each of the directors of Cathedral Capital PLC jointly and severally as my Attorney for me and in my name and on my behalf to do and execute on my behalf all or any acts, deeds and things as I may be required by the Council of Lloyd's (including its delegates or persons by whom it acts) to do or execute or as my Attorney shall in his absolute discretion consider desirable or necessary in order to implement the acceptance by me of the offer for subscription and conversion set out in the Prospectus ("the Invitation").

In particular and without prejudice to the generality of the above paragraph, my Attorney shall have power and authority:

- (i) to nominate in writing, or otherwise as the case may be, Cathedral Capital (1998) Limited to underwrite as a member of a managed syndicate for the year of account following that in which the nomination is made, in substitution for me either wholly or as so specified, as the case may be;
- (ii) to execute such deeds and to sign, make, provide, attest, authorise or certify all such documents, including but not limited to those from among the documents referred to in the Schedule hereto, as may be required by the Council of Lloyd's (including its delegates or persons by whom it acts) or as my Attorney shall in his absolute discretion deem necessary, expedient or desirable to implement the acceptance by me of the Invitation;
- (iii) to make any arrangements and give any such instructions to any third party (including any relevant trustee or any financial institution which has issued any asset as part of my Funds at Lloyd's) to enable my Funds at Lloyd's to be released or made available to support the underwriting at Lloyd's of Cathedral Capital (1998) Limited or to be returned in whole or in part to me; and
- (iv) to do any other act or thing in relation to the acceptance by me of the Invitation which would be in my power to do personally.

I hereby ratify and agree to ratify and confirm from time to time and at all times everything that my Attorney shall lawfully do or cause to be done by virtue of and in accordance with this Power of Attorney including in such ratification and confirmation everything that shall lawfully be done between the time of the revocation of this Power of Attorney and the time of such revocation becoming known to my Attorney.

I agree to indemnify and keep indemnified my Attorney from and against all demands, claims, losses, costs and expenses which may be brought against or incurred by him as a result of acting in pursuance of this Power of Attorney.

This Power of Attorney shall be irrevocable until and shall expire on 31 December 1998.

This Power of Attorney is governed by and shall be proved and construed in accordance with the laws of England and I hereby irrevocably and unconditionally submit for the purposes of and in connection with this Power of Attorney to the exclusive jurisdiction of the English Courts.

***Schedule***

Notice of Provision of Lloyd's Deposit, Deed of Release, Advance and Resettlement, Individual Name: Lloyd's Deposit Trust Deed (General Intervailability), Deed of Application, Deed of Adherence, Deed of Release, Revocation and Substitution, Security and Trust Deed (Interavailable), Form of Consent to Transfer of Personal Reserves, Deed of Variation.

Signed and delivered as a deed by:

Print Name

Signature

Date

In the presence of:

Name of witness

Signature

**Important: each Name must sign in the presence of a witness who must also sign and print his or her name where indicated.**