CATHEDRAL

SYNDICATE 2010
MMX

Annual Report
31 December 2001

Contents

CATHEDRAL
SYNDICATE 2010

Chairman and Director of Underwriting's Statement

Syndicate 2010 commenced underwriting a little over a year ago with a stamp capacity of £81 million and an initial business plan focused on non-marine and aviation reinsurance. The market in which the syndicate started to trade whilst highly competitive, was an improving one. The damage caused by the soft market conditions which characterised the second half of the 1990's was becoming increasingly visible in deteriorating results and some major insolvencies, which in turn had given rise to long overdue corrections in terms, conditions and prices. Against this background our underwriters proved highly successful in developing our account and established major leading positions in their specialist disciplines.

The year is dominated by the appalling events of 11 September.

As Cathedral Syndicate 2010 specialises in aviation and property reinsurance, so the resulting losses fall directly into our core business areas. We estimate that the net claim from the events of 11 September taken completely in isolation will worsen the 2001 account result by approximately 10-15% of capacity. This is not a forecast of the result because absent this we would now have been reasonably optimistic that the year would be profitable, although it is worth emphasising that considerable elements of the account remain on risk and will do so for some time to come. Other businesses are posting much larger numbers and in some cases have liquidity problems because of the pre-settlement gross funding arrangements required by US regulators. However, the underwriters have carefully managed our exposures and we remain within reinsurance coverage. We have also secured a credit line from some existing Cathedral Capital Plc shareholders which, together with the syndicate's own assets, enables us to meet the US gross funding regulatory requirements at the 100% level . This means that for the time being at least we are able to avoid making a cash call on members of the syndicate; many established businesses have not been so fortunate.

As already described, even before 11 September, the market was improving following poor underwriting and investment returns over an extended period. In the immediate aftermath, capacity was withdrawn from many classes and line sizes reduced as the insurance and reinsurance industries paused to consider how to assess and manage their risk exposures. For a short period, it appeared that truly hard market conditions would inevitably follow. However, this development has been somewhat arrested by two crucial factors. Firstly, the arrival of large blocks of new underwriting capital, mostly positioned in Bermuda, introduced a forceful brake on the market. Secondly, the sheer scale and complexity of the losses arising from the events of 11 September has meant that relatively little cash has actually changed hands. Only when this starts to occur on a large scale will the full extent of the damage wrought become visible.

For 2002, Syndicate 2010 increased its capacity to approximately £96 million. This increase was not on the same scale as some others, as we had some short-term apprehensions as to the likely degree of improvement in market conditions which we were likely to see. When the market kicks again, as we expect it will, then we will look to increase capacity further. In the meantime we can look to achieve good utilisation against capacity.

The consequences of the events of 11 September will be profound, even though the full effect on the industry remains hidden. Risks thought to be uncorrelated turned out not to be so, and the extent to which they can accumulate has taken the industry by surprise. As more elements of the loss become visible we expect to see a genuine reassessment of risk-taking attitudes in the market place. Furthermore, the serious issues which faced the industry before 11 September, ranging from asbestos and pollution through D&O and E&O have not gone away. There will, therefore, be great opportunities for us although it would be naïve to imagine that the market will not still be extremely competitive.

As a business we have made huge strides in our first year and have delivered the business plan in exceptionally turbulent times. This is a tribute to our whole management and underwriting team, and in particular, our three senior underwriters, John Hamblin, Richard Williams and Mark Wilson, who together have built a strong and resilient business from scratch in a little over twelve months. John has now taken over as active underwriter of the syndicate, succeeding the second named signatory below. You could not wish for a more experienced and capable steward.

Finally, it would be remiss not to thank our capital providers who enabled Syndicate 2010 to launch for the 2001 account and have supported our capacity growth for 2002. We look to repay your confidence.

A I G C South
Chairman
21 March 2002

E E Patrick
Director of Underwriting

Underwriter's Report

Elvin Patrick was the active underwriter for Syndicate 2010 from its inception for the 2001 account until 30 November 2001 when he was succeeded by John Hamblin.

2001 account

The 2001 account represents Syndicate 2010's first year of trading. There have been less challenging years to start a reinsurance syndicate but despite 11 September, there have been many positive aspects to the year.

Syndicate 2010's capacity for the 2001 underwriting year was approximately £81 million. At year end rates of exchange we expect our capacity utilisation to increase to more than 90% of capacity, as reinstatement premiums and additional premiums particularly will substantially boost our signed income which stood at some £48 million at 31 December 2001.

The syndicate's account is made up of two main pillars, those of aviation and non-marine reinsurance. In both categories the account written was in line with that envisaged in our business plan. Although market conditions were improving, there was still an abundance of capacity in both classes. However, Syndicate 2010 has not been regarded as a new venture by customers and brokers but as a new home for an established underwriting team. This enabled the syndicate to build both books of business based on long standing relationships with clients and not on pricing considerations alone. The result has been a high quality portfolio with a population of clients who value continuity and a consistency of approach, borne out by the large number of lead positions we have been able to adopt in our first year.

The non-marine account is built around a core book comprising catastrophe reinsurances of regional North American companies. These companies generally write in a tightly defined geographical area. Their underlying accounts are largely made up of domestic properties, cars and small commercial risks. Where we write accounts with more nationwide exposures, these tend to protect more specialist companies writing the likes of churches, agricultural risks, farms or similar risks which are spread by their nature. These companies have proved very loyal and continue to value their relationships with London underwriters.

The syndicate also writes an international book which is largely focused on companies in the developed nations, Europe, Australia and Japan. We do write in other areas of the world, but competitive issues to date have kept these exposures more modest.

Often, hand in hand with the catastrophe programme, comes the risk excess programme. This protects companies from exposure to large individual risk losses. We have built a more modest portfolio of this business which encompasses US national as well as regional and international cedents.

We do also write a small book of retrocessional business, which is reinsurance of other reinsurers. There are no spiral exposures in this account as these were eliminated from this business in the early 1990's.

The aviation account is built around a core book which protects companies or other Lloyd's syndicates who protect airlines or major aviation manufacturers against catastrophic loss. We have again been very successful in establishing ourselves as a major leader in the market in a very short space of time. Virtually all leads that have come to us have been at the client's request. In general this core account requires a market loss of $500 million or more to involve us to any material degree, but we will accept business at lower levels if the price is attractive, which to date has rarely been the case. Again we have a small amount of retrocessional business which, as with non-marine, contains no spiral exposure.

We are also involved in the aviation war market and the general aviation (light aircraft) market.

We have continued our long involvement with the SATEC space consortium by assuming the lead for 2001.

World Trade Center/11 September 2001 and general loss development

2001 has been dominated by the "events of 11 September". Our industry was at the heart of this loss, suffering a huge financial loss as well as enormous loss of life in New York itself. This loss encompasses a large number of different classes of business, many of which were regarded prior to 11 September as "non-correlating risk" – that is to say non-accumulating. The extreme nature of this claim has led to a range of insurance companies reassessing their approach to risk, leading to some significant repositioning in the market place.

For our part we are affected both through our aviation and our non-marine books, the latter particularly through our risk excess account.

We have projected our loss taking what we think is a conservative position for our portfolio, but it must be emphasised from the outset that there is still much subjectivity involved in any assessment of gross and net exposures to the events of 11 September which only time will fully resolve. There will be years of legal wrangling over this loss and there is still considerable uncertainty over the number of "events" which occurred. Despite this I would expect the property loss to be settled one way or the other before we close the account. The aviation reserves are based on policy limits in respect of the airlines whose aircrafts were the instruments of the destruction of the Twin Towers in New York. In respect of those that crashed into the Pentagon and in Pennsylvania, we have provided for what we believe are very cautious underlying reserves.

We currently assess our gross exposure to the events of 11 September to be approximately equal to our capacity, applying year-end rates of exchange. Taking account of reinstatement premiums receivable by us from reinsureds and those payable by us to our reinsurers, and after making an assessment of future bad and doubtful debt, we currently assess the net impact of 11 September taken in isolation to be in the order of 10-15% on capacity. This is not a prediction of the result as, absent the events of 11 September, we would now be reasonably optimistic that the 2001 account would be profitable. The US wind season proved benign, and our involvement in other notable losses to date which affect our account, such as tropical storm Allison (June 2001) and the Tamil Tiger attack on Colombo Airport (July 2001) are not such as to threaten overall profitability. However, it must also be stressed that it will not be until December 2002 that risks bound to the 2001 underwriting year will be substantially off risk (see also comments below in respect of the 2002 account).

2002 account

The capacity of the syndicate increased to approximately £96 million, as we pre-empted capacity in anticipation of improving market conditions. Our business plan focuses on our existing business areas and by the end of February 2002 our written income was nearly £50 million, applying year end rates of exchange.

Although terms, conditions and pricing did indeed improve, in some cases spectacularly, there was, as in 1994, a large amount of capital raised by both established and new companies in the wake of the World Trade loss. Much of this is in tax free environments and was not fully deployed at the year end. The world market therefore did not, unlike 1994, suffer from a shortage of capacity in the catastrophe market, as this was where many of the new entrants chose to focus.

In the event, the renewal of the account progressed satisfactorily at year end. We saw rates rise across all classes of business, particularly on our aviation and property risk excess accounts. Our non-marine catastrophe book (in contrast to our risk excess and retrocessional account) was largely unaffected by World Trade but still saw higher rates and larger deductibles. It is safe to say that the catastrophe market was rising before 11 September but the events of that day gave impetus to a market already moving in the right direction. Terrorism has largely been excluded from commercial property risks since 11 September, but only as they renew. This leaves a degree of "run off" exposure which affects the 2001 account, although the bulk of this will expire at 30 June with the balance coming off at year end 2002. As expected, our own reinsurance costs increased, as did our deductibles. We have fully placed our 2002 non-marine programme. Our core aviation programme renews in July 2002 and we likewise expect higher prices and deductibles.

Underwriter's Report

continued

Future prospects

Whilst appearing to regain its composure since 11 September there are considerable upheavals occurring in the insurance and reinsurance industry which we believe will give rise to considerable opportunities. The aviation market is a particular example. Coverage for third party liability arising from acts of terrorism has been substantially reduced by primary insurers, normally to US$50 million. The exposures in excess of this amount have not gone away and, in order that airlines can fly, in many instances have had to be assumed by governments worldwide on a temporary basis. Moves to form more permanent government backed terrorist pools or for the airlines themselves to form mutual carriers have yet to bear fruit. Furthermore, the full effects of the withdrawal post 11 September of substantial amounts of Japanese underwriting capacity which was previously deployed through a US based underwriting agency has yet to become clear. Overall, it is likely that considerable opportunities will develop in the aviation field for reinsurers who can respond constructively to their clients needs. We believe we are particularly well resourced in this area.

On an industry level the new capital deployed since the last quarter of 2001 in response to 11 September is probably more than US$25 billion. This is a staggering amount but ultimately not sufficient to replace that taken out of the industry as a consequence of the loss which is estimated to be more than US$50 billion. Much has been deployed in new operations in Bermuda. Although varying in capability and quality, this new market place has generally secured substantial business where brokers have redirected business from the London, European and domestic US markets. Equally, almost all have fallen well short of their targets upon which capital was raised and in some cases the business is not in the shape or format originally envisaged.

This has certainly slowed momentum in what still remains a reasonably attractively priced market (certainly compared to the late 1990's) and increases pressure on shortening how long this current up-cycle will last in the more commoditised classes. However, at the same time many industry players continue to increase estimates of their Word Trade/11 September losses and there remains a large number of significant issues unresolved six months on. It is only when cash starts to flow through the system in large volumes that the true damage will become apparent. This alone should act as a countermeasure to the pressures new capital brings. Add to this an environment where investment returns are low and where other issues such as asbestos, hi-tech D&O and E&O continue to weaken even those balance sheets that will not be subject to post Enron reassessment by their auditors and one has a recipe for a market which in time will regain its upwards momentum. For this reason we look to 2002 and beyond with measured optimism.

Description of business and methods of acceptance

The syndicate's main business areas are non-marine and aviation reinsurance. On the non-marine side, the account written includes US and international property catastrophe reinsurance (with a particular emphasis on US regional catastrophe) US and international retrocession and US and international risk excess. On the aviation side, the major account written comprises general excess of loss protections covering direct aviation insurers. Other classes written include satellite insurance, satellite excess of loss, general aviation excess of loss, hull war excess of loss and aviation hull and liability, generally written by way of quota share or risk excess.

In addition, for 2001 (and renewed for 2002) the syndicate participated in a co-insurance arrangement with Ensign Motor Syndicate 980. This arrangement generates non-accumulating sterling income to the syndicate at a time when the UK motor market (and particularly the UK commercial motor market in which Syndicate 980 specialises) is in a relatively strong phase.

The syndicate's original business plan for the 2001 account had envisaged a marine reinsurance account being written. Conditions in the marine reinsurance market did not prove sufficiently acceptable for the syndicate to write more than a small number of individual risks.

Description of business and methods of acceptance *continued*

For the 2002 account, Syndicate 2010 intends to remain heavily focused on its core non-marine and aviation business areas, although it will continue to seek opportunities in areas viewed as complementary, including marine reinsurance, direct and facultative property and motor. Over time, and it is possible that this may be during the course of 2002, the syndicate may seek to broaden its underwriting activities, which may involve the recruitment of new underwriters.

Other than in respect of the direct satellite account, the majority of which emanates via a binding authority granted to Satec Srl, it is not the syndicate's normal policy to underwrite binding authorities. The syndicate does, however, underwrite a number of lineslips most of which are led by the syndicate.

Analysis of account

The account can be broken down into the following broad categories expressed as a percentage of gross and net written premium income:

	2001 account @ 12 months Gross %	Net %
Non-marine	**45**	**42**
Aviation	**42**	**45**
Satellite	**9**	**8**
Motor	**3**	**4**
Marine	**1**	**1**
Total	**100**	**100**

An analysis of the gross written premium income as at 31 December 2001 by reference to the risk categories stipulated in the EU Insurance Directive is as follows:

	2001 account @ 12 months %
Direct	
Marine aviation and transport	**11**
Third party liability	**2**
Fire and other damage to property	**1**
Motor	**3**
Reinsurance	
Specific inwards XL	**14**
Whole account XL	**69**
Total	**100**

Underwriter's Report

continued

Analysis of account *continued*

An analysis of the gross written premium income as at 31 December 2001 by reference to Lloyd's risk codes is as follows:

Lloyd's risk code	Description	2001 account @ 12 months %
XP	Non-marine property pecuniary loss – direct whole account excess of loss	32
XY	Aviation whole account excess of loss, including war (excluding excess of loss on excess of loss)	30
XC	Per risk excess of loss property/pecuniary loss reinsurance	7
X3	Non-marine property/pecuniary loss – retrocession	5
SC	Space risks, launch and commissioning period	5
H	Hulls of aircraft, including spares and loss of use and war (excluding war only risks, space risks and ACV)	5
CX	Space risk, launch, commissioning and transponder operating	3
MK	UK motor vehicle comprehensive	3
RX	Hulls of aircraft, war and/or confiscation risks only	3
X1	Aviation excess of loss on excess of loss	2
L	Aircraft operators and owners legal liability (aircraft, helicopters, balloons etc)	2
AW	Hulls of aircraft (excluding ACV) war and/or confiscation risks only	1
	Various other risk codes	2
	Total	**100**

An analysis of the gross written premium income by currency as at 31 December 2001 is as follows:

	2001 account @ 12 months %
US Dollars	**82**
Sterling including convertibles	**17**
Canadian Dollars	**1**
Total	**100**

Analysis of account *continued*

An analysis of the gross written premium income as at 31 December 2001 by business acceptance method is as follows:

	2001 account @ 12 months Written %
Facultative	**1**
Binding authority/lineslip	**9**
Co-insurance (Ensign motor 980)	**3**
Treaty	**79**
Quota share	**8**
Total	**100**

Reinsurance protection

The non-marine portfolio is protected by separate catastrophe and risk excess programmes. OLW (original loss warranty) and proportional treaties are also employed.

On the aviation account, separate excess of loss protections are purchased by the main reinsurance account, the general aviation account and the war accounts. As with the non-marine account, OLW and proportional treaties are also employed.

Every effort is made to ensure that the security from which cover is purchased is of good quality, but it must be emphasised that even the most scrupulous approach in this area does not obviate the potential for reinsurance failure to occur.

The table below analyses reinsurance premiums between those payable to Lloyd's syndicates and those to insurance companies.

	2001 account %
Lloyd's syndicates	**14**
UK authorised companies	**31**
EU companies (excluding those authorised in the UK)	**37**
Other companies	**18**
Total	**100**

Premium income

The syndicate's gross premium income is monitored against the syndicate's gross capacity. For this purpose, Lloyd's regulations stipulate that premium income is calculated using the rates of exchange fixed at the beginning of each year of account, whereas for accounts purposes the rates of exchange ruling at the balance sheet date are used. Applying premium income monitoring rates of exchange, the actual and forecast levels of premium income, expressed as percentages of gross capacity are as follows:

2001 account forecast @ 36 months	84%
2001 account actual @ 12 months	66%

Underwriter's Report

continued

Concluding comments

My thanks go to my underwriting colleagues, Mark Wilson and Richard Williams and all the syndicate staff led by Maria Patterson who have not only worked extremely hard in starting the syndicate and setting up systems but were tireless in their efforts following the World Trade disaster to ensure a prompt service to clients and our reinsurers. My thanks also go to Elvin Patrick around whom the Syndicate 2010 underwriting and management team formed and who together have used their collective experience and relationships to build a highly worthwhile business in such a short timescale.

J C Hamblin

Active Underwriter

21 March 2002

Managing Agent's Report
At 31 December 2001

Introduction

The directors of Cathedral Underwriting Limited, the managing agent for Syndicate 2010, present the first Annual Report for the Syndicate at 31 December 2001, together with both the Chairman and Director of Underwriting's Statement and the Underwriter's Report. The Syndicate commenced trading for the 2001 underwriting year of account.

The Managing Agent

Cathedral Underwriting Limited (previously named MMO Underwriting Agency Limited) has been the managing agent of Syndicate 2010 since its commencement. Cathedral Underwriting Limited was acquired by the Cathedral Group on 9 November 2000.

Cathedral Underwriting Limited acts as managing agent for the following syndicates:

Syndicate	Principal class of business	Active underwriter	2001 capacity £'000
2010	Non marine and aviation reinsurance	E E Patrick to 30 November 2001	
		J C Hamblin from 30 November 2001	81,088
1265	Direct marine	P D Morey	Last year of account 2000

The ultimate parent company of Cathedral Underwriting Limited is Cathedral Capital Plc.

Further information on the managing agency is shown in the disclosure of interests statement on page 26.

Multiple syndicates consent

The Council of Lloyd's, on 16 January 2001, granted consent under paragraph 6(1) of the Multiple Syndicates Byelaw to permit the active underwriter and the underwriting team from Syndicate 2010 to act concurrently for Syndicate 1265 in respect of the run-off of the latter's open years.

Registered office/accounting records

The registered office and principle place of business of Cathedral Underwriting Limited are at 9th Floor, Lloyd's, One Lime Street, London EC3M 7HA. Telephone 020 7170 9000; Fax 020 7170 9001; E-mail info@cathedralcapital.com. The accounting records are kept at the registered office.

Directors and their participations in Syndicate 2010

None of the directors of Cathedral Underwriting Limited participate directly as Names on the syndicate. They do, however, own shares in the parent company, Cathedral Capital Plc, which owns 100% interest in the corporate member Cathedral Capital (1998) Ltd which had a £20 million participation in Syndicate 2010 for the 2001 year of account.

Managing Agent's Report
At 31 December 2001

continued

The directors who served during the reporting period were as follows:

A I G C South	Chairman
J M G Andrews	Non-executive Director
D C Grainger	Compliance Director
J C Hamblin	Appointed 30 November 2001 and Active Underwriter from that date
L A Holder	Managing Director
J A Lynch	Finance Director
E E Patrick	Underwriting Director (Active Underwriter until 30 November 2001)
P D Scales	Executive Director
J P Tilling	Independent Review Director
P D Morey	Active Underwriter 1265 (Resigned 23 January 2001)

Active underwriter

John Hamblin, who was appointed active underwriter from 30 November 2001, joined the syndicate on 1 January 2001 as a deputy underwriter. John had previously been active underwriter to Syndicate 566 which underwrote a similar book of business. Elvin Patrick was the active underwriter until 30 November 2001.

Management of Syndicate 2010

The board of Cathedral Underwriting Limited is ultimately responsible for the management of the syndicate and has delegated responsibilities for its day-to-day management to a syndicate management board consisting of senior management and underwriting representatives of Syndicate 2010 together with representatives of the agency board.

Members' Agents

The following members agent provided more than 20% of the syndicate's allocated capacity for the 2001 and 2002 years of account:

	2001 account		2002 account	
Name of agent	£'000	%	£'000	%
Hampden Agencies Ltd	£33,349	41.1	£40,791	42.6

Cathedral Capital (1998) Ltd, an incorporated member of Lloyd's and a Cathedral Group company, provided £20 million and £22.5 million respectively of the capacity to Syndicate 2010 for the 2001 and 2002 years of account through Hampden Agencies Ltd.

Capacity by member type

	2001 account		2002 account	
	£'000	%	£'000	%
Syndicate allocated capacity attributable to:				
Corporate members	56,761	70.0	59,091	61.7
External members	22,957	28.3	34,805	36.3
Working members (none of whom are employed by managing agency)	1,370	1.7	1,945	2.0
	81,088	100.0	95,841	100.0

Investment policy

The Syndicate funds were managed on a day-to-day basis throughout the period by an investment committee in accordance with the policy and terms of reference agreed by the Board of Cathedral Underwriting Limited.

The 2001 year of account was the first underwriting year of Syndicate 2010 and as such the investment policy adopted was designed to provide sufficient liquidity to ensure that the syndicate was able to meet its commitments as they fell due. To that end the funds of the syndicate were retained in cash throughout the period, with the exception of a US Treasury Bill, of circa US$4 million, purchased in late December 2001.

The total investment returns achieved for calendar year 2001 are set out in note 6 to these accounts. These returns were achieved against a background of falling interest rates in both the United Kingdom and United States.

Investment Strategy

The investment strategy for both Sterling and Canadian dollars, in the coming year, is likely to be similar to that followed during 2001 with any surplus resources being held in very short dated liquid instruments.

On 4 March 2002 the managing agency entered into an investment agreement with Aberdeen Fund Managers Limited for them to manage the US dollar resources, which will be predominantly held in the Credit for Reinsurance Trust Fund, of the syndicate. The investment policy adopted is designed to ensure that appropriate levels of liquidity, security and investment risk are achieved. These funds will be invested in instruments which will have an average duration of 2 years. The Merrill Lynch 1 to 3 year government index has been selected as the appropriate measurement against which the performance of the investment managers should be measured.

Stock Lending

The managing agency has not entered into any stock lending arrangements on behalf of the syndicate.

Financial information in respect of the Managing Agent

	2001 account £m	2000 account £m	1999 account £m	1998 account £m	1997 account £m
Aggregate allocated capacity of all managed syndicates	**81.1**	20.0	15.0	15.0	–

	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000	Year ended 31 December 1998 £'000	15 months ended 31 December 1997 £'000
Fee income	**602**	110	82	82	197
Expenses, net of recharges to managed syndicates	**(496)**	(1,103)	(404)	(163)	(252)
	106	(993)	(322)	(81)	(55)
Retained profit commission	**–**	–	476	789	–
Other income, net of related expenses	**145**	39	59	36	99
Profit/(loss) before tax	**251**	(954)	213	744	44
Net assets	**1,217**	1,041	1,800	1,652	293

Managing Agent's Report
At 31 December 2001

continued

Related Parties Byelaw (No 2 of 1986) as amended

Outwards reinsurance:

The Council of Lloyd's has granted consent under paragraph 3(b) of the byelaw to the placement of up to 10% of outwards reinsurance premiums with a related company, and 20% in aggregate with two or more related companies.

In respect of the 2001 account, an aviation quota share was purchased in which PMA Capital Insurance Company Inc, USA, a related company, underwrote a 66.66% line. The total premiums ceded at 31 December 2001 were £212,966, being 1.1% of the syndicate's signed outwards reinsurance premiums.

Reinsurance résumé

Reinsurance résumés summarising the reinsurance programmes protecting the 2001 year of account, together with an explanation of the basis on which reinsurance security is assessed have been approved by the directors of the managing agent and are available for inspection by members at the registered office.

Sub contracted functions

The managing agent has sub-contracted the following functions:

Investment management:	Aberdeen Asset Management Limited
Software support:	Insurance Technology Solutions Limited

Aberdeen Asset Management Limited were appointed investment managers of the Credit for Reinsurance Trust Fund, of Syndicate 2010, on 4 March 2002.

Actuaries

Lane Clark and Peacock acted as reporting actuaries to the syndicate for the period under review.

Errors and omissions insurance

In light of the uncommercial terms available, no errors and omissions insurance has been purchased for the period under review. The matter continues to be kept under review by the Board.

Names Annual General Meeting Notice

In line with the conditions and requirements prescribed under paragraph 2(3) of the Syndicate Meetings Byelaw, notice is hereby given that the managing agent does not propose to hold an annual general meeting of member of the syndicate.

The syndicate auditors were Mazars Neville Russell, who have signified their willingness to continue in office. It is the intention of the managing agent to re-appoint the syndicate auditors in accordance with the Lloyd's regulations for the year commencing 1 May 2002.

Names have until Friday 26 April 2002 to advise the compliance officer of Cathedral Underwriting Limited of any objections in relation to this notice.

By order of the Board

L A Holder
Managing Director
Cathedral Underwriting Limited
9th Floor
Lloyd's
One Lime Street
London EC3M 7HA

21 March 2002

Report of the Independent Auditors to the Members of Syndicate 2010

To the Members of Syndicate 2010

We have audited the Annual Report on pages 17 to 26, which has been prepared in accordance with Lloyd's Syndicate Accounting Rules and the accounting policies set out in Note 2 to the Annual Report.

Respective responsibilities of the managing agent and auditors

As described on page 17 the managing agent is responsible for the preparation of the Annual Report. Our responsibility is to audit the Annual Report in accordance with the relevant requirements established by Lloyd's Byelaws, United Kingdom Auditing Standards and by our profession's ethical guidance.

We report to you our opinion as to whether the Annual Report gives a true and fair view of the result of any closed year and has been properly prepared in accordance with Lloyd's Syndicate Accounting Rules. We also report to you if, in our opinion, the managing agent's and underwriter's reports are not consistent with that Annual Report, if the managing agent has not kept proper accounting records in respect of the Syndicate, if the managing agent has not established and maintained the systems and procedures necessary to enable it to comply with the Disclosure of Interests requirements of the Lloyd's Syndicate Accounting Rules, if the Annual Report is not in agreement with the accounting records and if we have not received all the information and explanations we require for our audit.

We read the other information attached to the Annual Report and consider whether it is consistent with the audited Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Report. Our responsibilities do not extend to any other information.

Basis of opinion

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

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

Opinion

In our opinion, the Annual Report has been properly prepared in accordance with Lloyd's Syndicate Accounting Rules.

MAZARS NEVILLE RUSSELL

CHARTERED ACCOUNTANTS

And Registered Auditors

24 Bevis Marks

London EC3A 7NR

21 March 2002

Statement of Managing Agent's Responsibilities

The Syndicate Accounting Byelaw (No 18 of 1994) requires the managing agent to prepare an annual report for each syndicate managed by it at 31 December each year.

The managing agency must prepare the annual report in accordance with the Lloyd's Syndicate Accounting Rules so as to give a true and fair view of the closed year result.

In preparing the annual report, the managing agent is required to:

a) select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and the reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;

b) make judgements and estimates that are reasonable and prudent;

c) take into account income and charges relating to a closed year of account in the underwriting account prepared in respect of that year of account, without regard to the date of receipt or payment; and

d) follow applicable accounting standards, subject to any material departures disclosed and explained in the annual report.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the annual report complies with the Lloyd's Syndicate Accounting Rules. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

L A Holder

Managing Director

Cathedral Underwriting Limited

21 March 2002

2001 Underwriting Account at end of First Year
At 31 December 2001

	Notes	2001 account at 12 months £'000
Syndicate allocated capacity		**81,088**
Gross premiums written (net of brokerage)		**48,032**
Outwards reinsurance premiums		**(18,733)**
Net premiums		**29,299**
Reinsurance to close premiums received from earlier years of account		**–**
		29,299
Gross claims paid		**(9,822)**
Reinsurers' share		**2,878**
Net claims		**(6,944)**
Balance on technical account before profit on exchange and syndicate operating expenses		**22,355**
Profit on exchange		**(15)**
Syndicate operating expenses	3	**(2,537)**
Balance on technical account		**19,803**
Investment income	5	**322**
Investment expenses and charges		**–**
Investment gains less losses		**1**
Balance on open year	10	**20,126**

The notes on pages 20 to 26 form part of these accounts.

Balance Sheet
At 31 December 2001

	Notes	2001 £'000
ASSETS		
Investments	7	**2,739**
Debtors	8	**8,873**
Other assets		
Cash at bank and in hand		**18,395**
Overseas deposits	9	**135**
Prepayments and accrued income		**138**
Total assets		**30,280**
LIABILITIES		
Balance on open 2001 year of account	10	**18,324**
Creditors	11	**11,782**
Accruals and deferred income		**174**
Total liabilities		**30,280**

This annual report was approved by the Board of Directors on 21 March 2002.

L A Holder
Managing Director
Cathedral Underwriting Limited

J C Hamblin
Active Underwriter

The notes on pages 20 to 26 form part of these accounts.

Notes to the Accounts
For the year ended 31 December 2001

1 Basis of preparation of the annual report

This annual report has been prepared in accordance with the Lloyd's Syndicate Accounting Rules.

2 Accounting Policies

Underwriting transactions

Gross premiums are allocated to years of account on the basis of the inception date of the policy, and are stated net of commission and brokerage. Reinsurance premiums paid to purchase policies which give reinsurance protection are charged to the same year of account as the risks being protected. Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

Closed years of account

The underwriting account includes transactions processed through LPSO up to the balance sheet date together with an estimate of premiums due but not received. Premiums due to reinsurers are recognised in order to match reinsurance transactions with the related gross premium amounts. Recoveries due from reinsurers are included in order to match reinsurance transactions with the related gross claim amounts.

Open years of account

The underwriting account includes transactions processed through LPSO up to the balance sheet date together with an estimate of inwards reinstatement premium on paid claims, material outstanding reinsurance premiums and recoveries due to and from quota share reinsurers and claims settlement expenses. No recognition is made of any underwriting losses that may arise on open years of account.

Reinsurance to close

Normally, each year of account is kept open for three years, at the end of which it is closed by reinsurance into the next year of account of the syndicate. The premium for this reinsurance to close is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein. Ultimate net claims settlements are estimated by the use of statistical projections based on previous claims history and by case-by-case reviews of notified losses.

Investments

Investments are stated at their mid-market values ruling at the balance sheet date, including an amount to reflect interest earned but not received at that date. The cost of syndicate investments is deemed to be the aggregate of:

(i) the value at which those elements of the investment portfolio still held at the current balance sheet date were held at the beginning of the year, that is, at the previous balance sheet value; and

(ii) the cost of any new assets acquired during the year and held at the current balance sheet date.

Overseas deposits

Overseas deposits are stated at the market value ruling at the balance sheet date. The cost of investments held within these deposits is determined either on the same basis as for syndicate investments or on the basis of notification received from Lloyd's.

Foreign currency translation

The syndicate maintains four separate currency funds of Sterling, United States dollars, Canadian dollars and Euros. Items expressed in United States dollars, Canadian dollars and Euros are translated to Sterling at the rates of exchange ruling at the balance sheet date. Transactions during the year in other overseas currencies are expressed in Sterling at the rates advised by Lloyd's. "Calendar year movements" shown in the underwriting accounts include exchange differences on retranslating brought forward cumulative information.

It is the intention of Cathedral Underwriting Limited that the aggregate amount of United States dollar results for a closed year of account should continue to be reported to members in that currency. Consequently, any profit or loss arising after 31 December in respect of those reported amounts will be the personal responsibility of underwriting members of that closed year. Where Canadian dollars or Euros are bought or released to liquidate a closed year of account after 31 December, any profit or loss arising therefrom will be allocated to the year of account into which the liabilities of the closed year will have been reinsured. Where United States dollars, Canadian dollars or Euros are bought or sold in respect of an open year of account, any profit or loss arising is reflected in the underwriting account prepared for that year of account as at the end of the calendar year in which the transaction occurs.

The rates of exchange at the balance sheet date for Euros, United States dollars and Canadian dollars were 1.63, 1.46 and 2.32 respectively.

Investment return

The investment return comprises investment income and investment gains, less losses, and is net of investment expenses and charges. The returns arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account. The returns on overseas deposits are allocated to the year of account as notified by Lloyd's.

Taxation

No provision has been made for United Kingdom taxation on the net underwriting result and investment return. The result for any closed year, net of personal expenses, is accounted to the Members' Services Unit ("MSU") of the Corporation of the Lloyd's on behalf of underwriting members.

Under the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income, including capital appreciation, of the syndicate. Furthermore, all UK basic rate income tax (currently at 22%) deducted from syndicate investment income is recoverable by the managing agents; therefore, the distribution made to members is gross of tax.

It remains the responsibility of members to agree their personal UK tax liabilities, including any liability to higher rate tax, or in the case of corporate members, their corporation tax liabilities, with the Inland Revenue.

The syndicate is required to fund on account assessments of United States dollar and Canadian dollar source income and these amounts are then recovered by reimbursement from the MSU. At the balance sheet date such syndicate fundings are included within sundry debtors. The final assessments are charged direct to underwriting members by the MSU. It is the personal responsibility of members who are resident in the United States or Canada for taxation purposes to agree and settle their United States and Canadian federal tax liabilities.

Syndicate operating expenses

Where expenses are incurred by the managing agent or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

Where expenses are incurred jointly by the managing agency and the syndicates they are apportioned as follows:

Salaries and related costs – according to the time of each individual spent on syndicate matters
Accomodation costs – according to the time of each individual spent on syndicate matters
Other costs – as appropriate in each case

CATHEDRAL
SYNDICATE 2010

Notes to the Accounts
For the year ended 31 December 2001

continued

3 Syndicate operating expenses

	2001 account at 12 months £'000
Salaries and related costs	1,078
Costs of accommodation	67
Auditor's remuneration	51
Computer costs	174
Communication, stationery & printing	39
Interest payable	70
Premium levy	431
Travel & entertainment	42
Legal & professional	43
Overseas operating expenses	29
Regulatory levy	95
Charges relating to usage of fixed assets	51
Irrecoverable VAT	40
Syndicate set up costs	241
Other expenses	123
	2,574
Contribution from quota share reinsurers	(37)
	2,537

These expenses include expenses recharged from the managing agency in accordance with the basis of allocation as set out on page 21. The remuneration of the active underwriter during calendar year 2001, charged to the syndicate operating expenses, was as follows:

Salary	208
Employers' pension contributions	19
Other benefits	3
	230

4 Balance on technical account - Bad and doubtful debts

Amounts written off or provided against recoveries due from reinsurers have been charged in arriving at the balance on technical account for each underwriting account as follows:

	2001 account at 12 months £'000
Amounts written off	–
Provision for bad debts	18
Total bad and doubtful debts	18

5 Investment income

	2001 account at 12 months £'000
Investment income receivable	**322**
Accrued interest	**–**
Total investment income	**322**

6 Calendar year investment yield

	2001 account at 12 months £'000
Average amount of syndicate funds available for investment during the year	**10,013**
Investment return	
Calendar year investment yield	**3.2%**
Analysis of investment yield by currency:	
Sterling	**2.7%**
Euro	**2.7%**
US Dollars	**3.3%**
Canadian Dollars	**4.7%**

The total investment return comprised of £322,000 of investment income and £1,000 of investment gain.

7 Financial investments

	2001 account at 12 months	
	Cost £'000	Market value £'000
Debt securities and other fixed – income securities	**2,738**	**2,739**

CATHEDRAL
SYNDICATE 2010

Notes to the Accounts
For the year ended 31 December 2001

continued

8 Debtors

	2001 account at 12 months £'000
Amounts due within one year:	
Arising out of direct insurance operations:	
Lloyd's central accounting balance	–
Other	–
Arising out of reinsurance operations:	
Lloyd's central accounting balance	7,426
Reinsurance claims accruals	884
Reinstatement premium inwards accruals	40
Deferred set up costs	521
Other debtors	2
Total debtors	8,873

No amounts were due after one year.

9 Overseas deposits

	2001 account at 12 months £'000
South African Trust Funds	13
Australian Trust Funds	42
Canadian Marginal Fund	80
	135

10 Balance on open years of account

	2001 account at 12 months £'000
Balance on open 2001 year of account at 12 months	20,126
Personal expenses	(1,802)
Open year of account balance after personal expenses	18,324

11 Creditors

	2001 account at 12 months £'000
Amounts due within one year:	
Arising out of direct insurance operations:	
Lloyd's central accounting balance	–
Arising out of reinsurance operations:	
Lloyd's central accounting balance	**5,304**
Reinsurance premium accruals	**445**
Other	**189**
Amount due to managing agent in respect of expenses	**90**
Loans	**5,651**
Other creditors	**103**
Total creditors	**11,782**

In order to cover funding requirements due to the World Trade Centre loss, loans were obtained from three shareholders of the ultimate parent company, Cathedral Capital Plc. The amounts shown above represent the balance of the loans at 31 December 2001.

12 Particulars of business written

Geographical origin of gross premium (direct business only):	2001 account at 12 months £'000
UK	**2,713**
Other EU	**146**
Other	**1,300**

Type of business:	Note	Marine Aviation & Transport £'000	Motor £'000	Fire & Other Damage to Property £'000	Reinsurance Whole Account £'000	Reinsurance Specific Inwards £'000	Other £'000	Total £'000
2001 account at 12 months								
Gross premium written		3,073	1,867	422	35,565	6,980	125	48,032
Gross claims paid		382	159	133	5,372	3,776	–	9,822
Gross operating expenses	1	165	100	23	1,906	374	6	2,574
Reinsurance balance	2	(1,717)	(126)	(80)	(14,135)	237	(34)	(15,855)
Average rate of commission	3	6.73%	11.25%	13.85%	11.29%	11.37%	9.71%	11.04%

Notes

1 Gross operating expenses have been allocated to class groups in proportion to their respective gross premium income.

2 The reinsurance balance comprises reinsurance recoveries received less outwards reinsurance premium paid.

3 Commission is paid in line with normal commercial practice, dependent on the type of risk concerned.

Disclosure of Interest Statement

Directors' shareholdings

The ultimate parent company of Cathedral Underwriting Limited is Cathedral Capital Plc. PMA Capital Insurance Company Inc, USA ("PMACIC") has a 27% interest in Cathedral Capital Plc and is therefore deemed to be a controller of the managing agency and has been approved by Lloyd's as such.

The interests of the directors of Cathedral Underwriting Limited in office as at 31 December 2001 and their families in the share capital of Cathedral Capital Plc were as follows:

	"A" Convertible Ordinary		"C" Convertible Ordinary	
	31 December 2001	31 December 2000*	31 December 2001	31 December 2000*
J M Andrews	**25,000**	25,000	**–**	–
D C Grainger	**–**	–	**613,625**	552,263
J C Hamblin	**–**	–	**818,168**	736,351
L A Holder	**–**	–	**818,168**	736,351
J A Lynch	**1,500**	1,500	**818,168**	736,351
E E Patrick	**2,253,492**	2,253,492	**818,168**	736,351
P D Morey	**–**	–	**–**	–
P D Scales	**10,000**	10,000	**818,168**	736,351
A I G C South	**154,402**	154,402	**–**	–
J P Tilling	**5,000**	5,000	**–**	–

*holding at 31 December 2000 or date of appointment if later.

None of the directors have been granted any options under the Cathedral Capital Approved Share Option Scheme.

Disclosure of interests

Cathedral Capital Plc's participation in managed syndicates at 31 December 2001 was through a wholly owned subsidiary company. Cathedral Capital (1998) Limited, a Lloyd's corporate member and subsidiary of Cathedral Capital Plc, provides the following underwriting capacity:

	Allocated capacity	
Syndicate	2001 account	2002 account
2010	£20 million	£22.5 million

Related parties transactions and arrangements

There have been no related party transactions and/or arrangements concerning the members of the syndicate, in which Cathedral Underwriting Limited or any related party had a material interest other than disclosed in the managing agents report, page 14.

To facilitate in the funding of the CRTF following the events of 11 September, the syndicate has been in receipt of loans from PMACIC and two other shareholders of Cathedral Capital Plc totalling £2 million and US$5.33 million. These loans are repayable in 2002. The managing agency is currently in discussions with the lenders to extend the repayment date of these facilities. The rate of interest payable this period is 2% over Base rate on the sterling loan and 1.25% over US$ LIBOR rate at the time of taking out these loans.

Other disclosures

The managing agency Board have adopted and approved an expense allocation policy which governs all expenses recharged by the managing agency to any managed syndicates. Details of the expenses recharged to Syndicate 2010 can be found in note 3 to these accounts.

Produced by Stephen Duke Ltd (020) 7422 0040 (7672)

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