CATHEDRAL

SYNDICATE 2010
MMX

Annual Report
31 December 2002

Contents

Chairman and Director of Underwriting's Statement

Syndicate 2010 has now entered its third year of trading. Since commencing on 1 January 2001, the syndicate's underwriting capacity has nearly doubled from £81 million, while the world in which the syndicate trades has changed dramatically following the events of 11 September 2001, a general economic downturn and turmoil in stock markets worldwide.

You will see from John Hamblin's underwriter's report that our view of the result of the 2001 account has improved and our mid-point assessment of the result for the year is a loss of 5% on capacity after personal expenses. Given that 2001 was the start-up year of a reinsurance operation which specialises in non-marine property and aviation reinsurance we believe that this is a good result.

The 2002 year is showing a much better claims position than 2001 although it should be remembered that a significant amount of business is still on risk. We are optimistic, and expect that a good profit will be made.

For the 2003 account, Syndicate 2010 increased its capacity to approximately £160 million from £96 million. It was able to do this due to strong support from third party capital providers (the Names) and a successful capital raising exercise by Cathedral itself which enabled the group's corporate underwriting member to participate fully in the syndicate pre-emption. This created a syndicate of a size better able to allow our underwriters to maintain a leading position in their speciality markets.

The 2002/2003 renewal season is now behind us. Rates and conditions have remained firm and the levels of business written to date are largely in line with our 2003 business plan.

This was the first full year-end for the new Bermudian markets which have been established since September 2001. They undoubtedly provide unhealthy levels of capacity in some areas. Fortunately, the impact of this new capital has been offset by failures, withdrawals and retrenchments in the more established markets, where severe reserve deficiencies continue to surface.

There are specific reasons why the syndicate has fared well during the renewal season. Firstly, the relative perception of Lloyd's by brokers and clients has improved over the past twelve months, while confidence in the rest of the global underwriting market has been seriously damaged. Secondly, in our core business areas we have significant lead positions in a world which is polarising into the 'haves' and 'have nots'. We are fortunate to fall in the former camp as we are seen to add value through our ability to price and lead risks. Thirdly, we seek to be a reliable and consistent provider of core reinsurance programmes to long-term clients. We have a strong renewal account and we value our clients as we believe they do us.

None of this means that the markets in which we operate are not highly competitive. There is ample supporting capacity for good risks sanely priced by respectable lead markets, and the more premium there is on the slip in absolute terms the more this can translate into pressure on signings.

The key question then is what happens next? There will be continuing volatility in the insurance and reinsurance markets for the foreseeable future and in particular:

(i) reserving and cashflow issues will continue to afflict carriers worldwide; actual and potential outward reinsurance failures will continue to be a major feature of the trading environment;

(ii) the threat of, or actual further terrorist attacks and/or major conflict in the Middle East will add a climate of uncertainty and volatility which will affect all aspects of our business;

(iii) the new entrants will seek to deploy their capital more fully and are likely to become more price-competitive; and

(iv) there will be considerable opportunities for businesses which are seen to be professionally managed, offering good service and reliability to their clients.

Although we see considerable turbulence ahead, we also foresee considerable opportunities for Syndicate 2010. This may involve the recruitment of new underwriters and some diversification of the business classes we write. Nevertheless we will continue to focus on non-commodity specialist business lines where we have the ability to lead and price risk.

The founding underwriting team of John Hamblin, Mark Wilson and Richard Williams have now been joined by Nick Destro on the non-marine side and Dan Warburg on aviation. They have made a highly professional start in a volatile market-place and have been helped to do so by the agency management, whose long experience has paid handsome dividends.

A I G C South
Chairman
21 March 2003

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 represented Syndicate 2010's first year of trading.

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 nearly 90% of capacity, as reinstatement premiums and additional premiums particularly will substantially boost our signed income which stood at nearly £53 million at 31 December 2002.

The last twelve months have proved relatively benign in respect of loss developments affecting the 2001 underwriting year. The non-marine account essentially came off risk in the first six months of 2002, with little significant loss activity since year end 2001. Likewise, the core aviation reinsurance account, which was heavily on risk throughout the course of 2002, ran-off smoothly during the year. The aviation account in particular also benefited from sharply increased premiums which were imposed as a surcharge by airline insurers following 11 September 2001. We in turn receive a share of these premiums, as reinsurers.

The most significant reserving issues facing the syndicate this year-end inevitably relate to the US terrorist attacks ("USTA") of 11 September 2001. This is so for both the non-marine and aviation accounts. There still remain many issues relative to the claims relating to USTA which are to be resolved from the perspective of insurers and reinsurers, not least the number of 'events' which have occurred. However, at the gross level our view of the impact of USTA claims on our account has remained stable over the past twelve months (non-marine marginally down, aviation marginally up). Furthermore, Syndicate 2010 has had a strategy of purchasing separate reinsurance programmes for both the non-marine and aviation accounts which in this loss scenario gives us sufficient vertical and sideways cover to cater for the foreseeable variables. Therefore this year-end, as at last, our assessment of the net impact on USTA claims on the account remains in the 10-15% of capacity range, taking account of what we believe is a robust provision for bad and doubtful debt on reinsurance recoveries.

The only other specific reserving issue of note affecting the 2001 underwriting year relates to the satellite account. We have lowered our profit expectations here to provide additional provisions in respect of a series of satellites which have developed defects whilst in orbit.

Overall then, the past twelve months have left our view of the effect of USTA claims on the account largely unchanged, but our view of the performance of the balance of the account is somewhat better. We have now improved our forecast result for the year to a loss of 2½ – 7½% of capacity, after personal expenses.

2002 account

For the 2002 account, capacity increased to nearly £96 million. At year end rates of exchange we expect utilisation to reach approximately 85% of capacity. As at 31 December 2002 gross signed income stood at nearly £68 million or 71% of capacity.

Underwriting conditions in 2002 were good. The syndicate saw rate increases and improved conditions across all the classes of business in which we are involved. This was most marked for non-marine risk excess and aviation catastrophe reinsurance business. In the latter case, the market shift on the inwards book to "losses occurring during" cover from "losses occurring on risks attaching" has had the additional bonus of significantly shortening the tail on this part of the account compared to previous years. The non-marine risk excess account saw significant "payback" premiums paid by clients who had had USTA losses. Our international and US catastrophe account was almost unaffected by such losses but still achieved good increases in line with a general market rally.

2002 account *continued*

To date, the loss experience is good. There was a run of losses in Europe as storms and flooding swept across Continental Europe during late summer and autumn. This is not a major area of involvement for us and whilst the syndicate picked up some claims advices, these are now drifting downwards. The $1.8 billion Cat 63 (flooding, hail, tornadoes and windstorms in Kentucky in May 2002) will produce a loss to the syndicate in the order of $1.5 million gross. Meanwhile, the US hurricane season was one designed to lose underwriters' sleep rather than money. Hurricane Lilli which hit the coast of Louisiana in the autumn will cost the syndicate about $1 million gross. Beyond this, there is little other than unexceptional general attrition. If the loss experience on the non-marine account was generally benign, the aviation account was even more so. Only the satellite account experienced any notable action, with the loss in the final quarter of 2002 of the Astra 1K satellite which is likely to produce gross claims to us of some $3.7 million (some $2.5 million net).

If there is any disappointment with the year as it looks at present, this relates only to our net income which is unlikely to exceed fifty-five percent of capacity.

The 2002 account clearly looks profitable, even at this early stage, although any major catastrophe losses in the first half of 2003 still have the potential to dampen this.

2003 account

We increased capacity for 2003 to £160 million.

The year end renewal season went well, with increased premiums continuing across most lines, albeit at lower levels than in 2002. This is gratifying given the amount of new capital which was rapidly deployed into London and Bermuda following the September 2001 attacks. We also managed to increase our participations in many programmes. We were able to do this due to large reductions in capacity in the US domestic reinsurance market which is now ravaged by years of under reserving of long tail liability claims and lack of investment income. As I write we are on target to deliver our business plan and are satisfied with pricing levels and the showing of business.

Terrorism and Terrorist Risk Insurance Act ("TRIA")

The terrorism issue has been dominant since 11 September 2001. Our own reinsurances have excluded terrorism since 2002.

For the non-marine account, exclusions were imposed in 2002 on our inwards book for all accounts exposed to commercial property risks. Write-backs for personal lines were allowed in the US, but given our exposure profile, which is largely rural and suburban, the modelled potential loss is modest. In November 2002 the US government passed TRIA which in essence requires direct insurers to offer terrorist cover but then gives them substantial terrorist coverage backed by the US government after a retention based on their commercial property and casualty premium income. This Act is imperfect in a number of ways not the least of which is that it took so long to produce and many aspects of its interpretation and operation remain unclear even though it is now in force. However, it does offer a way forward for companies to offer terrorism coverage to their client base.

TRIA only directly affects the syndicate on the satellite account, and even here to a very limited degree. Whilst we do not have exposure to direct insurance risks on our non-marine account and therefore are not directly exposed to the effects or benefits of TRIA, our client companies are. We have offered limited commercial terrorist write-back to a handful of clients where we judge the exposures to be remote. During 2002 we wrote a small number of terrorism specific policies to existing clients, all of which are claim free. Only a few of these have been renewed following the passing of TRIA.

Underwriter's Report

continued

Terrorism and Terrorist Risk Insurance Act ("TRIA") *continued*

The aviation account has had its exposure dramatically reduced by the market's imposition on the original policies of a limit of $50 million for third party property exposures caused by terrorist acts. We are still covering the passengers in such an event as we always have. We do have a war account which protects hulls of aircraft but this continues to be modest relative to the overall business. Clearly challenges and opportunities will arise with the war in the Gulf and we will continue to take those opportunities as they arise.

Future prospects

This market is one of the most interesting and challenging I have seen in years. A number of major companies both in Europe and in the US are in serious trouble. Years of under-reserving, pursuit of market share for its own sake and almost no investment income have taken a heavy toll. Many large stock companies in America have imposed moratoria on new business in some states and are cutting back exposures in others. This has been to the benefit of the regional companies that we reinsure who are increasing rates on all lines, as well as writing new business.

We also expect continuing withdrawals of reinsurers in Europe and the US for very much the same reasons. As world stock markets have continued to plummet through the early part of 2003, pressure on capital for a number of major players has become acute. We believe that this will help to maintain a firm market for longer than has been the norm in the past. The analysts who pushed these companies for growth in the soft market are now helping to keep them more disciplined during this cycle. Any hint of rate reductions or push for increased market share is now greeted by those same analysts with scepticism rather than enthusiasm. Rating agencies are also playing their part with savage down-grades of even the largest and most well thought of insurers.

We need to be constantly vigilant in identifying and exploiting new opportunities as other markets constantly reposition. Your underwriters relish the challenge.

Description of business and methods of acceptance

The syndicate's account is currently made up of two main pillars, those of aviation and non-marine reinsurance. Since its inception for the 2001 underwriting year, 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 has enabled the syndicate to build both books of business based on long standing relationships with clients and not on pricing considerations alone.

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 includes US national as well as regional and international cedents.

Description of business and methods of acceptance *continued*

We 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 insurers of 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 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. We believe opportunities will increase in this area as will the degree of our involvement. 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, and renewing our involvements for 2002 and 2003. The syndicate also writes satellite excess of loss.

For 2001 (and renewed in 2002) the syndicate participated in a co-insurance arrangement with Ensign Motor Syndicate 980. This arrangement generates non-accumulating sterling 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. This may be renewed in 2003 and beyond.

For 2002 (and renewed in 2003) the syndicate wrote a quota share treaty of Syndicate 318 which writes direct and facultative property and direct aviation (concentrating on non major airlines).

The syndicate's original business plan envisaged a marine reinsurance account being written. To date, the size of this account has been modest as conditions have not proved sufficiently acceptable for the syndicate to develop this area of business to any material degree.

For the 2003 account, Syndicate 2010 intends to retain a focus on its core non-marine and aviation business areas, although it will continue to seek opportunities in areas viewed as complementary, including marine reinsurance and direct and facultative property. This may lead to a broadening of underwriting activities in 2004, including the recruitment of new underwriters.

Analysis of account

An analysis of the written premium income as at 31 December 2002 by broad category is as follows:

	2002 account @ 12 months		2001 account @ 24 months	
	Gross %	**Net %**	Gross %	Net %
Non-marine	**50**	**48**	45	39
Aviation	**39**	**38**	42	47
Satellite	**5**	**6**	8	7
Motor	**3**	**4**	4	6
Marine	**–**	**–**	1	1
Other	**3**	**4**	–	–
Total	**100**	**100**	100	100

Underwriter's Report

continued

Analysis of account *continued*

An analysis of the gross written premium income as at 31 December 2002 by reference to the risk categories stipulated in the EU Insurance Directive is as follows:

	2002 account @ 12 months %	2001 account @ 24 months %
Direct		
Marine aviation and transport	**11**	10
Third party liability	**3**	1
Fire and other damage to property	**3**	1
Motor	**3**	4
Reinsurance		
Specific inwards XL	**16**	15
Whole account XL	**64**	69
Total	**100**	100

An analysis of the gross written premium income as at 31 December 2002 by reference to Lloyd's risk codes is as follows:

Lloyd's risk code	Description	2002 account @ 12 months %	2001 account @ 24 months %
XP	Non-marine property pecuniary loss – direct whole account excess of loss	**34**	30
XY	Aviation whole account excess of loss, including war (excluding excess of loss on excess of loss)	**25**	30
XC	Per risk excess of loss property/pecuniary loss	**10**	8
X3	Non-marine property/pecuniary loss – retrocession	**4**	6
SC	Space risks, launch and commissioning period	**4**	5
H	Hulls of aircraft, including spares and loss of use and war (excluding war only risks, space risks and ACV)	**6**	4
CX	Space risk, launch, commissioning and transponder operating	**1**	3
MK	UK motor vehicle comprehensive	**3**	4
RX	Hulls of aircraft, war and/or confiscation risks only	**3**	3
X1	Aviation excess of loss on excess of loss	**1**	2
L	Aircraft operators and owners legal liability (aircraft, helicopters, balloons etc)	**3**	1
AW	Hulls of aircraft (excluding ACV) war and/or confiscation risks only	**1**	2
	Other risk codes	**5**	2
	Total	**100**	100

Analysis of account *continued*

An analysis of the gross written premium income by currency as at 31 December 2002 is as follows:

	2002 account @ 12 months %	2001 account @ 24 months %
US Dollars	**77**	79
Sterling including convertibles	**21**	19
Canadian Dollars	**2**	2
Total	**100**	100

An analysis of the gross written premium income as at 31 December 2002 by business acceptance method is as follows:

	2002 account @ 12 months Written %	2001 account @ 24 months Written %
Facultative	**1**	–
Binding authority/lineslip	**5**	8
Co-insurance (Ensign motor 980)	**3**	4
Treaty	**79**	81
Quota share	**12**	7
Total	**100**	100

Reinsurance protection

The non-marine portfolio is protected by separate catastrophe and risk excess programmes. Original loss warranty ("OLW") 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.

Underwriter's Report

continued

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

	2002 account @ 12 months %	2001 account @ 24 months %
Lloyd's syndicates	**27**	14
UK authorised companies	**37**	52
EU companies (excluding those authorised in the UK)	**10**	20
Other companies	**26**	14
Total	**100**	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 signed @ 24 months	64%
2001 account forecast @ 36 months	86%
2002 account signed @ 12 months	73%
2002 account forecast @ 36 months	88%

Concluding comments

My thanks go to my underwriting colleagues, Mark Wilson, Richard Williams, Nick Destro and Dan Warburg, and all the syndicate staff led by Maria Williams for their support and hard work throughout the year.

J C Hamblin

Active Underwriter

21 March 2003

Managing Agent's Report
At 31 December 2002

Introduction

The directors of Cathedral Underwriting Limited, the managing agency for Syndicate 2010, present the Annual Report for the Syndicate at 31 December 2002, 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 is the managing agent of Syndicate 2010. It also acts as managing agent for run-off Syndicate 1265.

Syndicate	Principal class of business	Active underwriter	2003 capacity £'000
2010	Non marine and aviation reinsurance	J C Hamblin	**160,054**
1265	Direct marine	P D Morey	**–**

The last year of account for Syndicate 1265 was 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 31.

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) Limited which has a £20 million, £22.5 million and £67.9 million participation in Syndicate 2010 for the 2001, 2002 and 2003 years of account respectively.

Managing Agent's Report
At 31 December 2002

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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	Director (appointed 30 November 2001)
L A Holder	Managing Director
J A Lynch	Finance Director
P D Morey	Director (resigned 23 January 2001)
E E Patrick	Director of Underwriting
P D Scales	Executive Director
J P Tilling	Independent Review Director

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 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, 2002 and 2003 years of account:

	2003 account		2002 account		2001 account	
Name of agent	**£'000**	**%**	£'000	%	£'000	%
Hampden Agencies Limited	**£94,961**	**59.3**	£40,791	42.6	£33,349	41.1

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Cathedral Group company, provided £20 million, £22.5 million and £67.9 million respectively of the capacity to Syndicate 2010 for the 2001, 2002 and 2003 years of account through Hampden Agencies Limited.

Capacity by member type

	2003 account		2002 account		2001 account	
	£'000	**%**	£'000	%	£'000	%
Syndicate allocated capacity attributable to:						
Corporate members	**103,549**	**64.7**	59,091	61.7	56,761	70.0
External members	**54,007**	**33.7**	34,703	36.3	22,957	28.3
Working members (none of whom are employed by managing agency)	**2,498**	**1.6**	1,945	2.0	1,370	1.7
	160,054	**100.0**	95,739	100.0	81,088	100.0

2001 Account

A reconciliation between the forecast 2001 year of account result before personal expenses and the open year of account balance, as shown in the underwriting account, as at 31 December 2002 is shown below.

	£,000
Open year of account before personal expenses 2001 as at 31 December 2002	**15,932**
Estimated future liabilities and underwriting accruals for the 2001 year of account as at 31 December 2002	**(17,447)**
Estimated 2001 year of account result after 24 months as at 31 December 2002	**(1,515)**
Estimated movement of non-underwriting items during the third year	**(739)**
Forecast result for the 2001 year of account after 36 months	**(2,254)**
Expressed in a range as a percentage of capacity (before personal expenses)	**(0.3%) – (5.3%)**
Expressed in a range as a percentage of capacity (after personal expenses)	**(2.5%) – (7.5%)**

This forecast has been based on the following assumptions:

(i) inherent volatility in claims development will not give rise to actual ultimate claims which are materially divergent from expectations. In particular, there will be no significant distortion in the incidence of major or attritional losses or in the ability of the syndicate's reinsurers to respond to potential reinsurance recoveries;

(ii) there is no material change in our assessment of the gross and net impact of the events of 11 September 2001 on the account;

(iii) no material changes occur in estimates as to ultimate income levels and future reinsurance costs;

(iv) there will be no further material reinsurance failure;

(v) there will be no significant changes in regulatory or legislative policies which will affect the activities of the syndicate; and

(vi) interest, inflation and exchange rates will not differ significantly from those taken into account in the forecast.

Managing Agent's Report
At 31 December 2002

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Investment policy

The syndicate funds are 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 investment committee appointed Aberdeen Asset Managers Limited (Aberdeen) as investment managers of the Credit For Reinsurance Trust Fund during 2002 as a majority of the US dollar funds were held in this trust fund. Since the year end their mandate has been extended such that they now manage certain of the funds held in the Lloyd's Dollar Trust Fund.

The investment policy adopted with respect to the syndicate funds is designed to provide sufficient liquidity, security, investment risk and to enable the syndicate to meet its commitments as and when they fall due. To that end the dollar funds, managed by Aberdeen, are invested in instruments which have an average duration of 2 years while all the funds of the other major currencies were held in cash throughout the period. The Merrill Lynch 1 to 3 year government index has been selected as the appropriate measurement against which the performance of the investment manager should be measured.

Investment performance

Sterling, Euro and Canadian dollar syndicate funds were held in cash throughout the period.

In respect of US Dollar funds, most analysts began the year convinced that economic fundamentals would improve significantly from the previous year. Unfortunately, that enthusiasm quickly evaporated as corporate accounting scandals, defaults, profit warnings and the threat of a Middle East conflict began to emerge. Economic activity was bolstered by the historic increase in government spending and accelerated by substantial tax rebates. However, as an economic bounce began to develop around mid-year, the financial markets, both domestically and internationally were then faced with the uncertainty of an Iraq war, which consequently pushed up the price of oil by over 50% before the year end. The Federal Reserve endeavoured to retain confidence and restrain the fall in the stock markets by cutting interest rates in December to a post war low of 1.25%. Overall the equity market suffered another miserable performance – The S&P 500 fell by nearly 22% for the year – and bond yields declined to their lowest levels for over 40 years.

The majority of the syndicate's US Dollar funds are held in the Credit for Reinsurance Trust Fund which were invested in a mixture of US Treasuries, Agencies and very high quality corporate credit bonds with a rating of no less than single "A". Portfolio duration was around neutral against a benchmark of approximately two years. Performance exceeded Money Market returns significantly but was below benchmark primarily due to reinvestment of new funds into lower yields in a scenario where US bonds appreciated in value throughout most of the year.

The returns achieved by currency are as set out in note 6 to these accounts.

Investment strategy

The investment strategy for Sterling, Euro and Canadian dollar syndicate funds, in the coming year, is likely to be similar to that followed during 2002 with any surplus resources being held in very short dated liquid instruments. An investment manager may be appointed if the funds are of a size sufficient to justify that appointment.

In respect of the US Dollar funds, we expect calendar year 2003 to be in two distinctive parts. The first half will be dominated by Iraq. Consequently, sovereign and investment grade credit should continue to be well supported, but how well these assets perform will be largely

Investment strategy *continued*

dependent on whether the conflict with Iraq is short or protracted. In the second half of the year, assuming the Iraq issue has been resolved, we expect economic fundamentals to come into play. The low cost of borrowings, low inflation and massive government expenditure should trigger a substantial rise in economic activity leading to healthier corporate profits and stronger balance sheets with the inevitable rise in interest rates and bond yields. Our strategy in the first half of the year will be to seek full investment in government backed securities and high quality corporate bonds with duration around neutral but we expect to become defensive once we begin to see a solution to the Iraq issue with a bias towards sovereign debt and a reduction in the duration of the portfolio.

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

	2002 account £m	2001 account £m	2000 account £m	1999 account £m	1998 account £m
Aggregate allocated capacity of all managed syndicates	**95.7**	81.1	20.0	15.0	15.0

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000	Year ended 31 December 1998 £'000
Fee income	**697**	602	110	82	82
Expenses, net of recharges to managed syndicates	**(661)**	(496)	(1,103)	(404)	(163)
	36	106	(993)	(322)	(81)
Retained profit commission	**–**	–	–	476	789
Other income, net of related expenses	**57**	145	39	59	36
Profit/(loss) before tax	**93**	251	(954)	213	744
Net assets	**1,287**	1,217	1,041	1,800	1,652

Cathedral Underwriting Limited became a member of the Cathedral Group in November 2000.

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 2002 were £194,171, being 0.9% of the syndicate's signed outwards reinsurance premiums at year end rates.

There were no related party transactions during the course of 2002.

Managing Agent's Report
At 31 December 2002

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Reinsurance résumés

Reinsurance résumés summarising the reinsurance programmes protecting the 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 Managers Limited
Software support:	Insurance Technology Solutions Limited

Aberdeen Asset Managers Limited are investment managers of the Credit for Reinsurance Trust Fund and the Lloyd's Dollar Trust Fund, of Syndicate 2010.

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 the member of the syndicate.

The syndicate auditors were Mazars (formerly 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 2003.

Names have until Monday 21 April 2003 to advise the compliance officer of Cathedral Underwriting Limited (address as below) 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 2003

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 18 to 31, 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.

This report is made solely to the members of the syndicate, as a body, in accordance with Section 14 of the Syndicate Accounting Byelaw (no. 18 of 1994). Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate members as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of the managing agent and auditors

As described on page 18, 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 and United Kingdom Auditing Standards.

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 the 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
CHARTERED ACCOUNTANTS
and Registered Auditors

24 Bevis Marks
London EC3A 7NR

21 March 2003

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 Agent

Cathedral Underwriting Limited is the managing agent of Syndicate 2010. It also acts as managing agent for run-off Syndicate 1265.

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

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

(i) 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 any 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;

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

(iii) 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

(iv) 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 2003

2001 Underwriting Account at end of Second Year
At 31 December 2002

	Notes	2001 account @ 12 months £'000	Calendar year movement £'000	**2001 account @ 24 months £'000**
Syndicate allocated capacity		81,088		**81,088**
Gross premiums written (net of brokerage)		48,032	4,726	**52,758**
Outwards reinsurance premiums		(18,733)	(2,950)	**(21,683)**
Net premiums		29,299	1,776	**31,075**
Reinsurance to close premiums received from earlier years of account		–	–	**–**
		29,299	1,776	**31,075**
Gross claims paid		(9,822)	(17,240)	**(27,062)**
Reinsurers' share		2,878	11,848	**14,726**
Net claims		(6,944)	(5,392)	**(12,336)**
Balance on technical account before profit/(loss) on exchange and syndicate operating expenses		22,355	(3,616)	**18,739**
Profit/(loss) on exchange		(15)	(28)	**(43)**
Syndicate operating expenses	3	(2,537)	(1,269)	**(3,806)**
Balance on technical account		19,803	(4,913)	**14,890**
Investment income	5	322	556	**878**
Investment expenses and charges		–	(17)	**(17)**
Investment gains less losses		1	180	**181**
Balance on open year	10	20,126	(4,194)	**15,932**

The notes on pages 22 to 31 form part of these accounts.

CATHEDRAL
SYNDICATE 2010

2002 Underwriting Account at end of First Year
At 31 December 2002

	Notes	2002 account @ 12 months £'000	2001 account at 12 months £'000
Syndicate allocated capacity		**95,739**	81,088
Gross premiums written (net of brokerage)		**67,921**	48,032
Outwards reinsurance premiums		**(25,201)**	(18,733)
Net premiums		**42,720**	29,299
Reinsurance to close premiums received from earlier years of account		**–**	–
		42,720	29,299
Gross claims paid		**(3,931)**	(9,822)
Reinsurers' share		**373**	2,878
Net claims		**(3,558)**	(6,944)
Balance on technical account before profit/(loss) on exchange and syndicate operating expenses		**39,162**	22,355
Profit/(loss) on exchange		**(6)**	(15)
Syndicate operating expenses	3	**(3,457)**	(2,537)
Balance on technical account		**35,699**	19,803
Investment income	5	**175**	322
Investment expenses and charges		**(3)**	–
Investment gains less losses		**22**	1
Balance on open year	10	**35,893**	20,126

The notes on pages 22 to 31 form part of these accounts.

Balance Sheet
At 31 December 2002

	Notes	2002 £'000	2001 £'000
ASSETS			
Investments	7	**28,949**	2,739
Debtors	8	**15,577**	8,873
Other assets			
Cash at bank and in hand		**12,915**	18,395
Overseas deposits	9	**749**	135
Prepayments and accrued income		**263**	138
Total assets		**58,453**	30,280
LIABILITIES			
Balance on open 2001 year of account	10	**14,132**	18,324
Balance on open 2002 year of account	10	**33,561**	–
Creditors	11	**10,572**	11,782
Accruals and deferred income		**188**	174
Total liabilities		**58,453**	30,280

This annual report was approved by the Board of Directors on 21 March 2003.

L A Holder
Managing Director
Cathedral Underwriting Limited

J C Hamblin
Active Underwriter

The notes on pages 22 to 31 form part of these accounts.

Notes to the Accounts
For the year ended 31 December 2002

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 normally allocated to years of account on the basis of the inception date of the policy, as this is a similar basis to 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 material outstanding reinsurance premiums and recoveries due to and from 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, subjective judgements 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 investments 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 1.53, 1.61 and 2.54 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:

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

Insurance debtors and creditors

The amounts shown in Notes 8 and 11 include the totals of all the syndicate's outstanding debit and credit transactions as processed by the LPSO; no account has been taken of any offsets that may be applicable in calculating the net amounts due between the syndicate and each of its counterpart insurers, reinsurers or intermediaries as appropriate.

Notes to the Accounts
For the year ended 31 December 2002

continued

3 Syndicate operating expenses

	2001 account @ 12 months £'000	Calendar year movement £'000	**2001 account @ 24 months £'000**
Salaries and related costs	1,078	502	**1,580**
Costs of accommodation	67	32	**99**
Auditor's remuneration	51	5	**56**
Computer costs	174	85	**259**
Communication, stationery and printing	39	9	**48**
Interest payable	70	284	**354**
Premium levy	431	258	**689**
Travel and entertainment	42	3	**45**
Legal and professional	43	69	**112**
Overseas operating expenses	29	73	**102**
Regulatory levy	95	–	**95**
Charges relating to usage of fixed assets	51	(39)	**12**
Irrecoverable VAT	40	11	**51**
Syndicate set up costs	241	–	**241**
Other expenses	123	(10)	**113**
	2,574	1,282	**3,856**
Contribution from quota share reinsurers	(37)	(13)	**(50)**
	2,537	1,269	**3,806**

3 Syndicate operating expenses *continued*

	2002 account @ 12 months £'000	2001 account @ 12 months £'000
Salaries and related costs	**1,339**	1,078
Costs of accommodation	**254**	67
Auditor's remuneration	**44**	51
Computer costs	**279**	174
Communication, stationery and printing	**32**	39
Interest payable	**5**	70
Premium levy	**1,089**	431
Travel and entertainment	**66**	42
Legal and professional	**53**	43
Overseas operating expenses	**26**	29
Regulatory levy	**112**	95
Charges relating to usage of fixed assets	**20**	51
Irrecoverable VAT	**35**	40
Syndicate set up costs	**144**	241
Other expenses	**73**	123
	3,571	2,574
Contribution from quota share reinsurers	**(114)**	(37)
	3,457	2,537

These expenses include expenses recharged from the managing agency in accordance with the basis of allocation as set out on page 23.

The remuneration of the active underwriter during each calendar year, charged to the syndicate operating expenses, was as follows:

	2002 £'000	2001 £'000
Salary	**197**	208
Employers' pension contributions	**18**	19
Other benefits	**3**	3
	218	230

Notes to the Accounts
For the year ended 31 December 2002

continued

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 @ 12 months £'000	Calendar year movement £'000	**2001 account @ 24 months £'000**
Amounts written off	–	–	**–**
Provision for bad debts	18	257	**275**
Total bad and doubtful debts	18	257	**275**

	2002 account @ 12 months £'000	2001 account @ 12 months £'000
Amounts written off	**–**	–
Provision for bad debts	**5**	18
Total bad and doubtful debts	**5**	18

5 Investment income

	2001 account @ 12 months £'000	Calendar year movement £'000	**2001 account @ 24 months £'000**
Investment income receivable	322	473	**795**
Accrued interest	–	83	**83**
Total investment income	322	556	**878**

	2002 account @ 12 months £'000	2001 account @ 12 months £'000
Investment income receivable	**166**	322
Accrued interest	**9**	–
Total investment income	**175**	322

6 Calendar year investment yield

	31 December 2002 £'000	31 December 2001 £'000
Average amount of syndicate funds available for investment during the year	**30,492**	10,013
Investment return	**958**	323
Calendar year investment yield	**3.1%**	3.2%
Analysis of investment yield by currency:		
Sterling	**2.9%**	2.7%
Euro	**2.6%**	2.7%
US Dollars	**3.2%**	3.3%
Canadian Dollars	**2.8%**	4.7%

The total investment return comprised of £756,000 (2001: £322,000) of investment income and £202,000 (2001: £1,000) of investment gain.

7 Financial investments

	31 December 2002		31 December 2001	
	Cost £'000	Market value £'000	Cost £'000	Market value £'000
Debt securities and other fixed – income securities	**28,665**	**28,949**	2,738	2,739

8 Debtors

	31 December 2002 £'000	31 December 2001 £'000
Amounts due within one year:		
Arising out of reinsurance operations:		
Lloyd's central accounting balance	**11,345**	7,426
Reinsurance claims accruals	**3,416**	884
Reinstatement premium inwards accruals	**–**	40
Outstanding claims advances	**536**	–
Deferred set up costs	**278**	521
Other debtors	**2**	2
Total debtors	**15,577**	8,873

No amounts were due after one year.

Notes to the Accounts
For the year ended 31 December 2002

continued

9 Overseas deposits

	31 December 2002 £'000	31 December 2001 £'000
South African Trust Funds	**18**	13
Australian Trust Funds	**215**	42
Additional Securities Ltd	**11**	–
Deposits with US Reinsurance Trust Funds	**307**	–
Canadian Marginal Fund	**198**	80
	749	135

10 Balance on open years of account

	2001 account @ 24 months £'000
Balance on open year of account at 24 months	**15,932**
Personal expenses	**(1,800)**
Open year of account balance after personal expenses	**14,132**

	2002 account @ 12 months £'000	2001 account @ 12 months £'000
Balance on open year of account at 12 months	**35,893**	20,126
Personal expenses	**(2,332)**	(1,802)
Open year of account balance after personal expenses	**33,561**	18,324

11 Creditors

	31 December 2002 £'000	31 December 2001 £'000
Amounts due within one year:		
Arising out of reinsurance operations:		
Lloyd's central accounting balance	**4,496**	5,304
Reinsurance premium accruals	**1,797**	445
Outstanding claims advances	**3,607**	–
Other	**569**	189
Amount due to managing agent in respect of expenses	**66**	90
Loans*	**–**	5,651
Other creditors	**37**	103
Total creditors	**10,572**	11,782

*In order to cover funding requirements due to USTA losses, loans were obtained from three shareholders of the ultimate parent company, Cathedral Capital PLC. These loans were repaid during 2002.

12 Particulars of business written

Geographical origin of gross premium (direct business only):	2002 account at 12 months £'000	2001 account at 24 months £'000	2001 account at 12 months £'000
UK	**2,171**	2,950	2,713
Other EU	**204**	162	146
Other	**1,491**	1,521	1,300

Type of business:	Note	Accident & Health £'000	Third Party Liability £'000	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 @ 24 months										
Gross premium written		–	709	5,013	2,201	512	36,262	8,057	4	52,758
Gross claims paid		–	153	1,674	756	239	12,199	12,041	–	27,062
Gross operating expenses	1	–	52	366	161	37	2,651	589	–	3,856
Reinsurance balance	2	–	(40)	(1,526)	(156)	(73)	(9,116)	3,954	–	(6,957)
Average rate of commission	3	–	8.03%	6.68%	11.25%	13.28%	11.52%	12.04%	10.00%	11.09%

Notes to the Accounts
For the year ended 31 December 2002

continued

12 Particulars of business written *continued*

	Note	Accident & Health £'000	Third Party Liability £'000	Marine Aviation & Transport £'000	Motor £'000	Fire & Other Damage to Property £'000	Reinsurance Whole Account £'000	Reinsurance Specific Inwards £'000	Other £'000	Total £'000
2002 account @ 12 months										
Gross premium written		187	215	3,700	2,120	1,845	47,718	12,136	–	67,921
Gross claims paid		–	11	14	188	466	3,210	42	–	3,931
Gross operating expenses	1	10	11	195	111	97	2,509	638	–	3,571
Reinsurance balance	2	–	(175)	(1,069)	(143)	(62)	(19,881)	(3,498)	–	(24,828)
Average rate of commission	3	0.32%	11.89%	7.34%	11.25%	18.81%	11.90%	12.01%	–	11.84%

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 29.9% 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 and their families in the share capital of Cathedral Capital PLC were as follows:

	"A" Convertible Ordinary 31 December 2002	"A" Convertible Ordinary 31 December 2001	"C" Convertible Ordinary 31 December 2002	"C" Convertible Ordinary 31 December 2001
J M Andrews	**200,000**	25,000	**–**	–
D C Grainger	**–**	–	**613,625**	613,625
J C Hamblin	**200,000**	–	**818,168**	818,168
L A Holder	**153,845**	–	**818,168**	818,168
J A Lynch	**185,000**	1,500	**818,168**	818,168
E E Patrick	**2,253,492**	2,253,492	**818,168**	818,168
P D Scales	**210,000**	10,000	**818,168**	818,168
A I G C South	**180,000**	154,402	**–**	–
J P Tilling	**17,500**	5,000	**–**	–

Mr Morey had no interest in the share capital of Cathedral Capital PLC.

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 2002 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:

Syndicate	Allocated capacity 2003 account	Allocated capacity 2002 account	Allocated capacity 2001 account
2010	£67.9 million	£22.5 million	£20.0 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 15.

Certain directors are also directors of other Lloyd's managing agents. Transactions exist between syndicate 2010 and certain syndicates managed by those other agents which have been entered into in the normal course of business on a commercial arms length basis.

To facilitate in the funding of the CRTF following the events of 11 September 2001, the syndicate was in receipt of loans from PMACIC and two other shareholders of Cathedral Capital PLC totalling £2 million and US$5.33 million. These loans were repaid in 2002. The rate of interest paid was 2% over Base rate on the sterling loan and 1.25% over US$ 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. The basis of apportionment of expenses to Syndicate 2010 is set out in note 2 to these accounts. 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 (8107)

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