CATHEDRAL

SYNDICATE 2010
MMX

Annual Report
31 December 2003

Contents

Chairman and Director of Underwriting's Statement

We are pleased to report that the 2001 account, which is Syndicate 2010's first year, has closed with a small profit.

The 2002 account is now largely off risk. We believe that in twelve months time we should be able to declare a worthwhile profit, although the ultimate result in sterling terms will depend on the vagaries of the pound/dollar rate of exchange.

The 2003 account is still on risk. However, the loss ratios on the 2003 account to date are encouraging and we are optimistic that this year will also prove profitable. Our business mix in this year begins to reflect a more diversified account for Syndicate 2010, following the introduction in the second half of the year of a direct and facultative property account, headed by Simon King who joined our underwriting team in September. For 2004, we expect this account to develop into a full 'third leg' alongside our established property treaty and aviation accounts.

As you will see from John Hamblin's underwriter's report, the 2003/2004 renewal season proved better than some had feared. Although many of the shorter tail areas of the market are off their peak, deductibles and terms have generally held firm and on most historical perspectives, underwriting conditions remain good. Why is this, given the history of the industry to take any sign of resurgent profitability as a signal to leap over the precipice?

The factors in play are many and varied and most of the themes have been well rehearsed elsewhere. Reserving issues continue to afflict insurance carriers worldwide and even where this is not so, there is much work to be done to rebuild weakened balance sheets (and with them rating agency and client confidence). Whilst, as expected, many of the newer entrants are deploying their capital more fully and are becoming more price competitive, they too face significant issues of their own. These relate to distribution and market access, over-stretched infrastructures and last, but by no means least, acceptability to sceptical clients. Add to all this the scant prospect of meaningful investment returns and a sufficiency of large losses in the system to add a frisson of fear (2003 for instance was the third-worst year in a decade for US property catastrophe losses) and the overall result is a market where greed has not been able to take hold. Furthermore, most of these factors will not disappear overnight so there is good reason to believe that no freefall in the market is likely to occur in the short to medium term, although this is far from saying that it will not be competitive and volatile. Within the wider market, Lloyd's continues to be seen to be in much better shape relative to the competition than was the case only a few years ago. We directly benefit both from this, and the worldwide licences and distribution network to which Lloyd's gives us access.

Syndicate 2010 is now a well established business and the account enjoys a high lead and renewal content. When we started the syndicate, we did so with a simple aim; to provide good returns to our capital providers by being a reliable and consistent provider of core insurance products to long-term clients, offering professional levels of service. In particular, we intended to focus on non-commodity areas where we had the ability to price and lead risk. These aims and intentions have conditioned our approach to date and remain as valid now as they were then. They will continue to condition our approach to the 2004 year of account and beyond.

Finally, we will return to the syndicate's 2001 account result. To produce a positive result in the first trading year of a syndicate is never easy. To do this with a business plan focused on non-marine property and aviation reinsurance in a year such as 2001 is something for which John Hamblin, Richard Williams, Mark Wilson and the rest of our underwriting and management team may justifiably be proud.

A I G C South
Chairman
19 March 2004

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.

I am very pleased to report that the year has closed with a profit of nearly £2 million, before personal expenses. For a natural name with standard personal expenses, this equates to a profit of approximately 0.7% of capacity, before members' agency fees. Given that the year produced the largest catastrophe loss in history which involved both of our core accounts for that year, it is satisfying to produce a positive result.

Syndicate 2010's capacity for the 2001 underwriting year was £81 million. At year-end rates of exchange our capacity utilisation based on signed income was 69% of capacity, but this will continue to be boosted by significant reinstatement and additional premiums generated as a result of the September 11th terrorist attacks in the USA ("9/11"). We expect ultimate gross premium to reach over 80% of capacity.

2001 presented many challenges for us in our first year, starting with the need to raise capital as well as funding and managing the start up of a new business. Even without 9/11, the year suffered three of the largest US catastrophe losses in history. Cashflow management was therefore crucial, particularly given the requirements of the US Credit for Reinsurance Trust Fund which requires us to fund our gross exposures to US assureds, without the ability to take credit for our own reinsurances.

At the beginning of the year we achieved a well balanced portfolio thanks to terrific support from both brokers and from long standing clients, many of whom transferred the lead position on their programmes to us to maintain the continuity of our business relationships. The energy and experience of the entire staff enabled us to get up and running with remarkably few hitches and we established sound underwriting, compliance and accounting systems in a very short period of time.

During the early part of the year we were affected in the US by a very large hail storm in the St Louis area and by Tropical Storm Allison in Houston. Otherwise the year was reasonable, except for a higher than average loss experience in the upper Midwest of America. Aviation losses were lower than average and overall, absent 9/11, the year would have produced an acceptable profit for our first year.

The 9/11 attacks brought together enormous losses in lines of business which many in the industry had not contemplated could accumulate. Property, aviation, liability of all types, personal accident, specie and life businesses were all affected. Having set out our stall in the property and aviation catastrophe lines we certainly accepted that the two accounts could clash, but the deliberate targeting of a number of aircraft at the centre of major buildings was unimaginable and the destruction was truly catastrophic.

This time last year I wrote to you regarding the reserving of this loss. The majority of our property exposure has now been paid and recovered from our reinsurers. Our ultimate property loss has gently edged down over the past year, increasing our level of comfort with where it will finally top out. We have always reserved our World Trade Center loss at the noted loss plus substantial reserves for unreported losses.

The 9/11 aviation losses have produced almost no payments at all to date and the year has benefited from substantial additional premiums generated by the surcharges imposed by airline insurers after the loss, which were in part passed on to us. There is some suggestion that the US government compensation scheme may reduce the airlines' liabilities, but we have reserved this loss at full policy limits for the aircraft

Underwriter's Report

continued

2001 account *continued*

involved. We have also created additional reserves to reflect possible involvement from the likes of airports, security companies and manufacturers. There is still a substantial portion of our gross reserve which will be recoverable from our reinsurers and we have established reserves for bad debt in case of default.

The past twelve months has seen the 2001 account run-off smoothly. Other than 9/11 and bad and doubtful debt there are few other remaining specific reserving issues as the additional provisions we mentioned last year for our satellite account were not, in the end, required. The account is inherently short tail and we therefore consider that the reserves we have established for future claims are robust.

2002 account

The capacity for the 2002 account increased to nearly £96 million. We expect the gross income to reach some 80% of capacity at year-end rates of exchange. As at December 2003 gross signed income stood at £72.6 million or 76% of capacity.

As you would expect following the events of 2001, underwriting conditions were good. Rate and deductible increases were evident across all areas of our book. This was particularly marked in the property risk excess and aviation accounts, where the bulk of our 9/11 losses had come from, as clients "paid back" their reinsurers. We also saw improving terms across the spectrum of the account, as the world market readjusted and the soft market ended.

The year commenced with no general shortage of capacity except perhaps for terrorism, a situation which was "resolved" in the US by the introduction of the Terrorism Risk Insurance Act ("TRIA") in the latter part of the year. Despite this we saw a large influx of capital deployed in Bermuda as well as into the London company market and at Lloyd's. The real demand for this capacity actually came as companies in the US and Europe began to fold under the weight of their legacy losses coupled with a lack of investment income and the effects of plummeting stock markets. The gap was quickly filled by the new capacity with Lloyd's benefiting by increasing its market share in reinsurance for the first time in a long while.

From a loss perspective 2002 was not entirely without incident. There were several storms and floods across Central and Northern Europe during the summer. We picked up some losses but reserves have continued to reduce through the year. Hail and tornadoes in Kentucky as well as Hurricane Lilli caused some loss but otherwise there was little else of particular note.

Aviation was exceptional in so far as there are almost no losses of any kind to report. The satellite account saw one notable loss in the failure of Astra 1K producing net claims to us of about £1.4 million.

We are currently forecasting a profit of between 12.5% and 17.5% of capacity on the year, despite the weakness of the dollar, the currency in which most of our profits are made.

2003 account

The syndicate's capacity increased to £160 million. We expect the gross income to reach about £115 million or over 70% of capacity at year-end rates of exchange. This equates to some 80% of capacity at premium income monitoring rates of exchange. As at December 2003 our gross signed income stood at £85 million or 53% of capacity, using year-end rates of exchange.

2003 consolidated much of the good work done in 2002. The increased shares available on North American business due to the demise of much of the US domestic reinsurance market during the year helped terms and pricing to remain strong. Underlying this was organic growth in the smaller companies which make up much of our US portfolio. As larger companies cut back or simply disappear the local agents have

2003 account *continued*

been turning to their regional companies for capacity. This has meant quite a number of our clients have been spending more on reinsurance to protect their expanded accounts.

The 2003 calendar year was more claims active than 2002 with the largest hail and tornado system in many years hitting the US Midwestern states in May. We also saw a large hail storm in Texas and Hurricane Isabel in September and a series of fires in California during October. Despite these losses, the year has performed very well and is currently comparing favourably to 2002. On the international side there were no losses of note to report with the possible exception of a typhoon in Korea in the autumn where our involvement is modest.

The aviation reinsurance market continued to be very strong through 2003 with the collapse of some very significant competition and with a general shortage of expertise in the class available in the world market. The year has been remarkable for another low loss incidence, comparable with that of 1986.

The satellite market saw fewer launches in 2003 than in 2002 and as in other areas of our business we saw a number of competitors leave the market. This has created a very strong pricing environment. Through our involvement in SATEC we stand to benefit from what is likely to be a genuinely hard market.

I said in last year's report that we would be seeking to expand our business in areas which complement our current core accounts. To this end we have been joined by Simon King and Rob Anglaret, respectively in September and July 2003. Simon was formerly director of commercial property at Faraday and Rob worked alongside him there. They write a broad based direct and facultative property account and commercial motor fire theft and collision business ("FTC").

Our new team has been very well received both by brokers and their clients who value dealing with an independent Lloyd's operation such as ours. Simon and Rob share the same values as the rest of the Cathedral team and they have already established Cathedral as a leading market for commercial property business at Lloyd's.

The 2003 account remains heavily on risk, but based on developments to date, we expect the year to be profitable.

2004 account

We increased our capacity to £200 million.

The renewal season for the non-marine treaty accounts passed off without the softening predicted by some. Large gaps in the bigger property reinsurance programmes were filled - capacity in this line being in abundance. On our core US regional account, pricing held firm and the book has been renewed with rates and terms still at least as good as 2003 in most cases and in many cases better. The international accounts also held up well in the main areas in which we are active, but in some of the more peripheral areas wholesale price reductions were seen as new capital sought to diversify their portfolios.

The aviation industry continues to consolidate both at the level of the airlines themselves and among the insurers who service them. This has meant that the number of insurers has fallen as some capital providers deploy their capital into what they regard as more attractive avenues of business. The effect on us is that we have marginally fewer clients than a year ago but continue to have a very healthy book of business, with pricing little different to 2003.

The new property account has developed well with a wealth of opportunities open to us. Whilst prices have eased on the very large accounts as new markets pursue the premium dollar, the smaller business has continued to perform well and rate increases are still obtainable in some cases. Rates are still at very acceptable levels despite some softening from post 9/11 levels.

Underwriter's Report

continued

Future prospects

The syndicate has come a long way in three challenging years. The turmoil in the world insurance market has settled a little since last year, but the industry is not out of the woods yet by any means.

The need for the US government to at the very least extend TRIA will become a burning issue later in the year. A permanent solution along the lines of the UK Pool Re model would be ideal for all parties, but trying to attract the attention of any politician in an election year is not easy. If a solution of some sort is not forthcoming we could see a repeat of 2002 where terrorism exclusions will be re-imposed in the US with all the issues for the US economy which that implies.

Reserve deficiencies caused by the liability legacy of the past have not gone away; they are now denting profits as opposed to exacerbating losses, as they were last year. Although stock markets have recovered somewhat, interest rates are still very low. I expect some continuing fall-out in the industry - many patients often seem to be recovering just before they take a turn for the worse.

The business written by the new capital has been growing at an astonishing rate prior to their public offerings. Most of the new companies are now enthusiastically writing US casualty business which has increased in price and is in plentiful supply. However, the product in most cases remains so flawed that they may be simply writing tomorrow's legacy losses, which will only surface when the original investors are long gone. As Peter Cook once said "I think I've learned from my mistakes and given the opportunity I could repeat them pretty accurately". The question is how many times the insurance industry will be allowed to do this?

Despite the apparent aggression of some of our competitors, much of which is more evident on the larger commodity business than in our specialist areas, the market for our chosen lines continues to be generally good. The loyalty of our clients, who value service as well as price, continues to stand us in good stead. We will continue to seek out like minded, talented individuals to add to our team, where the business they would attract would be a good fit with our appetite for inherently short tail, seasoned business.

Description of business and methods of acceptance

For the 2001 and 2002 underwriting years, the syndicate's account was made up of two pillars, those of aviation and non-marine reinsurance. In 2003, a direct and facultative property account was introduced which it is intended will be developed during 2004.

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 the two original books of business based on long standing relationships with clients and not on pricing considerations alone.

The non-marine reinsurance 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 made these involvements more opportunistic.

Description of business and methods of acceptance *continued*

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.

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 $400-$500 million or more to involve us to any material degree, but we will accept business at lower levels if the price is attractive. Again, we have a small amount of retrocessional business which, as with non-marine, contains no spiral exposure.

We are also a leading aviation war and general aviation (light aircraft) market.

We have continued our long involvement with SATEC, a specialist Venice based underwriting agency to which we delegate underwriting authority to write direct satellite business. 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 generated 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) was in a strong phase. We have reinsured our 2001 account involvement back into Syndicate 980 leaving a very satisfactory profit and intend to do likewise with our 2002 account involvement in due course.

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).

From 2003, the syndicate began writing a direct and facultative property account. The account written covers a broad spectrum of commercial property business with a global spread of business, but with a leaning towards the United States. It falls into three main areas:

(i) Open market business which encompasses the whole range of risk sizes from large complex property schedules down to small single locations;

(ii) Delegated binding authority business which targets smaller property risks principally in the US, Canada, Australia and Europe; and

(iii) Commercial motor truck business for physical damage. This market has been very strong over the last couple of years as markets damaged by liability losses remove themselves from the entire class. This line will not stay good forever because memories are short and the account could well reduce substantially if rates fall too far. Much of this business arises under a consortium arrangement where Syndicate 2010 is joint leader and again has a significant binding authority content.

The syndicate's original business plan envisaged a marine reinsurance account being written. The size of this account has been very modest and it is not a feature of our 2004 business plan.

Underwriter's Report

continued

Description of business and methods of acceptance *continued*

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

Analysis of account

An analysis of the written premium as at 31 December 2003 by broad category is as follows:

	2003 account @ 12 months		2002 account @ 24 months		2001 account @ 36 months	
	Gross %	**Net %**	Gross %	Net %	Gross %	Net %
Non-marine Reinsurance	**49**	**47**	51	51	47	38
Aviation	**31**	**29**	37	34	40	47
Satellite	**4**	**5**	6	6	8	7
Motor	**–**	**–**	3	4	4	7
Marine	**–**	**–**	–	–	1	1
Direct and Facultative Property	**8**	**9**	–	–	–	–
Fire Theft & Collision (FTC)	**6**	**7**	–	–	–	–
Other	**2**	**3**	3	5	–	–
Total	**100**	**100**	100	100	100	100

It is expected that direct and facultative property business, together with FTC will comprise approximately one third of the gross income written for the 2004 account.

An analysis of the gross written premium income as at 31 December 2003 by reference to the risk categories stipulated in the EU Insurance Directive is as follows:

	2003 account @ 12 months %	2002 account @ 24 months %	2001 account @ 36 months %
Direct			
Marine, aviation and transport	**9**	10	9
Third party liability	**3**	3	2
Fire and other damage to property	**12**	4	1
Motor	**4**	3	4
Reinsurance			
Specific inwards XL	**14**	17	15
Whole account XL	**58**	63	69
Total	**100**	100	100

Analysis of account *continued*

An analysis of the gross written premium income as at 31 December 2003 by reference to Lloyd's risk codes is as follows:

Lloyd's risk code	Description	**2003 account @ 12 months %**	2002 account @ 24 months %	2001 account @ 36 months %
XP	Non-marine property pecuniary loss – direct whole account excess of loss	**34**	34	30
XY	Aviation whole account excess of loss, including war (excluding excess of loss on excess of loss)	**19**	24	29
XC	Per risk excess of loss property/pecuniary loss	**10**	11	9
X3	Non-marine property/pecuniary loss - retrocession	**3**	4	7
SC	Space risks, launch and commissioning period	**3**	4	5
H	Hulls of aircraft, including spares and loss of use and war (excluding war only risks, space risks and ACV)	**5**	5	2
HX	XOL Hulls of aircraft, including spares and loss of use (excluding war only risks)	**1**	–	–
CX	Space risk, launch, commissioning and transponder operating	**1**	2	3
DC	Difference in conditions	**1**	–	–
MG	USA and Canada motor vehicle physical damage	**3**	–	–
MK	UK motor vehicle comprehensive	**–**	3	4
PD	All risk physical loss damage no direct ppnl ri	**8**	–	–
RX	Hulls of aircraft, war and/or confiscation risks only	**2**	3	3
XI	Aviation excess of loss on excess of loss	**1**	1	2
L	Aircraft operators and owners legal liability (aircraft, helicopters, balloons etc)	**3**	3	2
AW	Hulls of aircraft (excluding ACV) war and/or confiscation risks only	**1**	1	2
TR	All risk physical or loss damage direct ppnl ri	**2**	3	–
	Other Risk Codes	**3**	2	2
	Total	**100**	100	100

Underwriter's Report

continued

Analysis of account *continued*

An analysis of the gross written premium income by currency as at 31 December 2003 is as follows:

	2003 account @ 12 months %	2002 account @ 24 months %	2001 account @ 36 months %
US Dollars	**75**	73	78
Sterling including convertible currencies	**16**	19	15
Euros	**5**	6	5
Canadian Dollars	**4**	2	2
Total	**100**	100	100

An analysis of the gross written premium income as at 31 December 2003 by business acceptance method is as follows:

	2003 account @ 12 months %	2002 account @ 24 months %	2001 account @ 36 months %
Facultative	**7**	–	–
Binding authority/lineslip	**12**	5	8
Co-insurance (Ensign motor 980)	**–**	3	4
Treaty	**70**	80	82
Quota share	**11**	12	6
Total	**100**	100	100

Reinsurance protection

The non-marine reinsurance 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.

The direct and facultative account has separate catastrophe and risk excess programmes.

Every effort is made to ensure that the security from which cover is purchased is of a 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.

	2003 account @ 12 months %	2002 account @ 24 months %	2001 account @ 36 months %
Lloyd's syndicates	**27**	26	16
UK authorised companies	**31**	33	52
EU companies (excluding those authorised in the UK)	**7**	12	16
Other companies	**35**	29	16
Total	**100**	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 @ 36 months	73%
2002 account signed @ 24 months	84%
2002 account forecast @ 36 months	89%
2003 account signed @ 12 months	61%
2003 account forecast @ 36 months	81%

Concluding comments

A successful syndicate is a team effort. My thanks therefore go to my underwriting colleagues, Mark Wilson and Nick Destro (our non-marine treaty underwriters), Richard Williams and Dan Warburg (our aviation underwriters) and Simon King and Robert Anglaret (our direct and facultative property underwriters), together with the syndicate's entire support team headed by Maria Williams.

J C Hamblin

Active Underwriter

19 March 2004

CATHEDRAL
SYNDICATE 2010

Managing Agent's Report
At 31 December 2003

Introduction

The directors of Cathedral Underwriting Limited, the managing agency for Syndicate 2010, present the Annual Report for the Syndicate at 31 December 2003, 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. Cathedral Underwriting Limited is authorised and regulated by the Financial Services Authority and Lloyd's.

Syndicate	Principal class of business	Active underwriter	2004 capacity £'000
2010	Non marine and aviation reinsurance and direct and facultative property	J C Hamblin	**200,067**
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 39.

Multiple syndicates consent

The Council of Lloyd's, on 16 January 2001, granted consent under paragraph 6(l) 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 year.

Registered office/accounting records

The registered office and principal 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 £22.5 million, £67.9 million and £97 million participation in Syndicate 2010 for the 2002, 2003 and 2004 years of account respectively.

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 in January 2001 as a deputy underwriter. John had previously been active underwriter for Syndicate 566 which underwrote a similar book of business. Elvin Patrick was the underwriter of Syndicate 2010 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 the active underwriter and 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 2002, 2003 and 2004 years of account:

	2004 account		2003 account		2002 account	
Name of agent	**£'000**	**%**	£'000	%	£'000	%
Hampden Agencies Limited	**126,026**	**63.0**	94,961	59.4	40,791	42.6

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Cathedral Group company, provided £22.5 million, £67.9 million and £97 million respectively of the capacity to Syndicate 2010 for the 2002, 2003 and 2004 years of account through Hampden Agencies Limited.

Managing Agent's Report
At 31 December 2003

continued

Capacity by member type

	2004 account £'000	2004 account %	2003 account £'000	2003 account %	2002 account £'000	2002 account %
Syndicate allocated capacity attributable to:						
Corporate members	**138,350**	**69.1**	103,549	64.7	59,091	61.7
External members	**58,966**	**29.5**	53,947	33.7	34,703	36.3
Working members (none of whom are employed by managing agency)	**2,751**	**1.4**	2,473	1.6	1,945	2.0
	200,067	**100.0**	159,969	100.0	95,739	100.0

The analysis of the closed year result by member type is as set out below:

	2001 account £'000	2001 account %
Syndicate allocated capacity attributable to:		
Corporate members	1,383	70.0
External members	559	28.3
Working members (none of whom are employed by managing agency)	33	1.7
	1,975	100.0

2002 Account

A reconciliation between the forecast 2002 year of account result before and after personal expenses and the open year of account balance, as shown in the underwriting account, as at 31 December 2003 is shown below.

	£'000
Open year of account before personal expenses 2002 as at 31 December 2003	**46,644**
Estimated future liabilities and underwriting accruals for the 2002 year of account as at 31 December 2003	**(27,890)**
Estimated 2002 year of account result after 24 months as at 31 December 2003	**18,754**
Estimated movement of non-underwriting items during the third year	**456**
Forecast result for the 2002 year of account after 36 months	**19,210**
Expressed in a range as a percentage of capacity (before personal expenses)	**23% – 17%**
Expressed in a range as a percentage of capacity (after personal expenses)*	**17.5% – 12.5%**

This forecast has been based on the following assumptions:

(i) future claims development will follow an expected pattern. In particular, the incidence or development of major or attritional losses or in the ability of the syndicate's reinsurers to respond to potential reinsurance recoveries will not materially diverge from expectations based on developments to date;

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

(iii) there will be no material reinsurance failure;

2002 Account *continued*

(iv) there will be no material surplus or deficiency arising from the reinsurance to close of the 2001 year of account;

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

(vi) interest, inflation and exchange rates as at 31 December 2004 will not differ significantly from those taken into account in the forecast.

*This assumes that standard personal expenses before members' agency fees, including managing agency fees of 0.65% and profit commission of 17.5%, has been charged to all names on the syndicate for the 2002 year of account. Cathedral Underwriting Limited will not charge profit commission to Cathedral Capital (1998) Limited, a wholly owned fellow subsidiary company within the Cathedral Group, for the 2002 year of account on the closure of that account.

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 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. During 2003 their mandate was extended so that they now also manage certain of the funds held in the US Dollar Lloyd's Deposit Trust Fund.

The investment policy adopted with respect to the syndicate funds is designed to balance liquidity, security and investment risk so as 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 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 manager should be measured.

Investment performance

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

With respect to US dollars, the first half of 2003 was dominated by the pending and eventual conflict in Iraq and the sentiments as to the unpredictable repercussions that this could have on the global financial markets. With the uncertainty of consumer reaction to the war in Iraq and, at the time, disappointing economic data, the Federal Open Market Committee ("FOMC") decided to cut interest rates from 1.25% to 1.00% in the first half of 2003. There was widespread relief when the war in Iraq was swift and the fear of overspilling into neighbouring countries disappeared. Subsequently, bonds and shares strongly rallied but their momentum came to an abrupt halt by mid year when the expected upturn in economic activity failed to materialise. Nevertheless, by the fourth quarter of the year every economic indicator significantly improved and revised back data showed that the economy was in a much stronger position than originally reported. With inflation and interest rates at their lowest levels for over forty years and boosted by the highest public spending programme for over a decade, economic activity began in the US to exceed most commentators' optimistic forecasts.

The fixed income market for both sovereign and corporate debt had a very volatile year. Treasuries and corporate bonds outperformed money market rates whilst equities had their best year for nearly four years. Performance by our investment managers exceeded money market returns but was marginally below the adopted benchmark.

The total investment returns achieved for calendar year 2003 are set out in note 7 to these accounts. Given the constraints of the investment policy pursued, and the fact that syndicate funds grew progressively during the year, the overall investment performance including that of the investment managers, is regarded as satisfactory.

Managing Agent's Report
At 31 December 2003

continued

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 2003 with any surplus resources being held in very short dated liquid instruments. An investment manager for non dollar funds may be appointed if they become of a size sufficient to justify that appointment.

In respect of US dollars, our investment managers write:

> "With the dollar's significant devaluation in the past year making exports more competitive and all other major domestic components in the U.S.A. such as inflation, interest rates and employment expected to remain positive for growth, there is every reason to believe that the strong momentum in economic activity that began in the latter part of 2003 will continue and accelerate in the coming year. The downside is that interest rates at some stage will need to rise to support the dollar and stem the escalation of domestic debt. The dilemma the FOMC is faced with is that whilst hikes in interest rates are inevitable, if they are raised too high and too swiftly they could choke off spending which has been the fuel to economic expansion in recent years.
>
> Treasuries and bonds at the end of 2003 were discounting rate rises of up to 1.5% which we believe are optimistic and expect prices to fall. Our forecast is that economic growth next year will be well above trend at around 5% and that spending and debt are likely to continue their irresponsible upward path. Consequently, we expect base rates to be much higher than are presently priced in the market and this does not bode well for the fixed income market. Our portfolio structure for this coming year will be one of caution and defensive on duration and into mainly high quality assets. We expect higher returns than last year in response to rising yields in both bonds and money market instruments."

Stock lending

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

Foreign Exchange Hedging

The managing agency, in so far as is possible, matches assets and liabilities, by currency, within the syndicate. To date, the managing agency has not entered into any transaction to "hedge" the foreign exchange exposure to the non-sterling (US Dollars, Canadian Dollars or Euro) currencies held within the syndicate's premium trust fund. The managing agency will continue to keep this possibility under review and may at some future date enter into such transactions.

Financial information in respect of the Managing Agent

	2003 account £m	2002 account £m	2001 account £m	2000 account £m	1999 account £m
Aggregate allocated capacity of all managed syndicates	**160.0**	95.7	81.1	20.0	15.0

	Year ended 31 December 2003 Unaudited £'000	Year ended 31 December 2002 (Restated)* Unaudited £'000	Year ended 31 December 2001 £'000	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Fee income	**1,019**	612	602	110	82
Expenses, net of recharges to managed syndicates	**(1,438)**	(661)	(496)	(1,103)	(404)
	(419)	(49)	106	(993)	(322)
Retained profit commission	**1,724**	–	–	–	476
Other income, net of related expenses	**–**	57	145	39	59
Profit/(loss) before tax	**1,305**	8	251	(954)	213
Net assets	**2,168**	1,154	1,217	1,041	1,800

*Restated for the impact of FRS 5 ("Reporting the Substance of Transactions") Application Note G.

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 2003 were £177,318, being 0.8% of the syndicate's signed outwards reinsurance premiums at year end rates.

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 US Dollar Lloyd's Deposit Trust Fund, of Syndicate 2010.

Managing Agent's Report
At 31 December 2003

continued

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 members of the syndicate.

The syndicate auditors were Mazars, 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 2004.

Names have until 19 April 2004 to advise the compliance officer of Cathedral Underwriting Limited at the address below or the Admissions Department at Lloyd's 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

19 March 2004

Report of the Independent Auditors to the Members of Syndicate 2010

We have audited the Annual Report for the year ended 31 December 2003 which comprises the Underwriting Accounts, the Balance Sheet, the Seven Year Summary, the Statement of Managing Agent's Responsibilities, the Disclosure of Interests Statement and related notes. The Annual Report has been prepared in accordance with Lloyd's Syndicate Accounting Rules and the accounting policies set out in Note 2 thereto.

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 in the Statement of Managing Agent's Responsibilities, 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. This other information comprises only the Chairman and Director of Underwriting's Statement. 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 and gives a true and fair view of the profit of the 2001 closed year of account.

MAZARS
CHARTERED ACCOUNTANTS
and Registered Auditors

24 Bevis Marks
London EC3A 7NR

19 March 2004

Statement of Managing Agent's Responsibilities

The Syndicate Accounting Byelaw (No 18 of 1994) requires the managing agent to prepare an annual report and personal and syndicate MAPA accounts 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 agent must prepare the annual report and personal and syndicate MAPA accounts in accordance with the Lloyd's Syndicate Accounting Rules so as to ensure that the net result shown in each underwriting member's personal account and each syndicate MAPA account has been calculated in accordance with the applicable agency agreements, and, where a year of account closes, so as to give a true and fair view of the closed year result.

In preparing the annual report and personal and syndicate MAPA accounts, 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 the 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;

(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 and personal and syndicate MAPA accounts comply 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

19 March 2004

2001 Underwriting Account as closed at end of Third Year
At 31 December 2003

	Notes	2001 account @ 24 months £'000	Calendar year movement £'000	2001 account @ 36 months £'000
Syndicate allocated capacity		**81,088**		**81,088**
Gross premiums written (net of brokerage)		**52,758**	**2,901**	**55,659**
Outwards reinsurance premiums		**(21,683)**	**(1,354)**	**(23,037)**
Net premiums		**31,075**	**1,547**	**32,622**
Gross claims paid		**(27,062)**	**(12,029)**	**(39,091)**
Reinsurers' share		**14,726**	**10,009**	**24,735**
Net claims		**(12,336)**	**(2,020)**	**(14,356)**
		18,739	**(473)**	**18,266**
Reinsurance premiums paid to close the account	3	**–**	**(13,575)**	**(13,575)**
Balance on technical account before profit/(loss) on exchange and syndicate operating expenses		**18,739**	**(14,048)**	**4,691**
Profit/(loss) on exchange		**(43)**	**(14)**	**(57)**
Syndicate operating expenses	4	**(3,806)**	**(122)**	**(3,928)**
Balance on technical account		**14,890**	**(14,184)**	**706**
Investment income	6	**878**	**334**	**1,212**
Investment expenses and charges		**(17)**	**(24)**	**(41)**
Investment gains less losses		**181**	**(83)**	**98**
Profit/(loss) for the closed year of account	8, 12	**15,932**	**(13,957)**	**1,975**

The notes on pages 25 to 37 form part of these accounts.

CATHEDRAL
SYNDICATE 2010

2002 Underwriting Account at end of Second Year
At 31 December 2003

	Notes	2002 account @ 12 months £'000	Calendar year movement £'000	2002 account @ 24 months £'000	2001 account @ 24 months £'000
Syndicate allocated capacity		**95,739**		**95,739**	81,088
Gross premiums written (net of brokerage)		**67,921**	**4,630**	**72,551**	52,758
Outwards reinsurance premiums		**(25,201)**	**472**	**(24,729)**	(21,683)
Net premiums		**42,720**	**5,102**	**47,822**	31,075
Reinsurance to close premiums received from earlier years of account		**–**	**13,575**	**13,575**	–
		42,720	**18,677**	**61,397**	31,075
Gross claims paid		**(3,931)**	**(9,287)**	**(13,218)**	(27,062)
Reinsurers' share		**373**	**1,783**	**2,156**	14,726
Net claims		**(3,558)**	**(7,504)**	**(11,062)**	(12,336)
Balance on technical account before profit/(loss) on exchange and syndicate operating expenses		**39,162**	**11,173**	**50,335**	18,739
Profit/(loss) on exchange		**(6)**	**261**	**255**	(43)
Syndicate operating expenses	4	**(3,457)**	**(993)**	**(4,450)**	(3,806)
Balance on technical account		**35,699**	**10,441**	**46,140**	14,890
Investment income	6	**175**	**360**	**535**	878
Investment expenses and charges		**(3)**	**(16)**	**(19)**	(17)
Investment gains less losses		**22**	**(34)**	**(12)**	181
Balance on open year	13	**35,893**	**10,751**	**46,644**	15,932

The notes on pages 25 to 37 form part of these accounts.

2003 Underwriting Account at end of First Year
At 31 December 2003

	Notes	**2003 account @ 12 months £'000**	2002 account @ 12 months £'000
Syndicate allocated capacity		**159,969**	95,739
Gross premiums written (net of brokerage)		**85,075**	67,921
Outwards reinsurance premiums		**(28,830)**	(25,201)
Net premiums		**56,245**	42,720
Gross claims paid		**(7,567)**	(3,931)
Reinsurers' share		**3,186**	373
Net claims		**(4,381)**	(3,558)
Balance on technical account before profit/(loss) on exchange and syndicate operating expenses		**51,864**	39,162
Profit/(loss) on exchange		**22**	(6)
Syndicate operating expenses	4	**(4,944)**	(3,457)
Balance on technical account		**46,942**	35,699
Investment income	6	**226**	175
Investment expenses and charges		**(9)**	(3)
Investment gains less losses		**(14)**	22
Balance on open year	13	**47,145**	35,893

The notes on pages 25 to 37 form part of these accounts.

CATHEDRAL
SYNDICATE 2010

Balance Sheet
At 31 December 2003

	Notes	2003 £'000	2002 £'000
ASSETS			
Investments	9	**46,588**	28,949
Debtors	10	**16,705**	15,577
Other assets:			
Cash at bank and in hand		**27,706**	12,915
Overseas deposits	11	**2,367**	749
Prepayments and accrued income		**507**	263
Total assets		**93,873**	58,453
LIABILITIES			
Profit/(loss) for the 2001 closed year of account	12	**103**	–
Balance on open 2002 (2001) year of account	13	**42,339**	14,132
Balance on open 2003 (2002) year of account	13	**43,425**	33,561
Creditors	14	**7,806**	10,572
Accruals and deferred income		**200**	188
Total liabilities		**93,873**	58,453

This annual report was approved by the Board of Directors on 19 March 2004.

L A Holder
Managing Director
Cathedral Underwriting Limited

J C Hamblin
Active Underwriter

The notes on pages 25 to 37 form part of these accounts.

Notes to the Accounts
For the year ended 31 December 2003

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.

Notes to the Accounts
For the year ended 31 December 2003

continued

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.

Where foreign currencies 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 1.42, 1.79 and 2.31 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 10 and 14 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.

3 Reinsurance premium payable to close the account

	2001 account @ 36 months £'000
Gross outstanding claims	40,766
Reinsurance recoveries anticipated	(28,016)
Net outstanding claims	12,750
Provision for gross claims incurred but not reported	28,951
Reinsurance recoveries anticipated	(23,505)
Provision for net claims incurred but not reported	5,446
Provision for future inwards gross premiums	(11,476)
Provision for future reinsurance protection	6,855
Provision for net premiums incurred but not reported	(4,621)
Reinsurance premium payable to close the account	13,575

Notes to the Accounts
For the year ended 31 December 2003

continued

4 Syndicate operating expenses

	2001 account @ 24 months £'000	Calendar year movement £'000	2001 account @ 36 months £'000
Salaries and related costs	**1,580**	**–**	**1,580**
Costs of accommodation	**99**	**4**	**103**
Auditor's remuneration:			
audit	**56**	**(7)**	**49**
other services	**2**	**3**	**5**
Computer costs	**259**	**16**	**275**
Communication, stationery and printing	**48**	**1**	**49**
Interest payable	**354**	**17**	**371**
Premium levy	**689**	**85**	**774**
Travel and entertainment	**45**	**1**	**46**
Legal and professional	**110**	**2**	**112**
Overseas operating expenses	**102**	**(25)**	**77**
Regulatory levy	**95**	**1**	**96**
Charges relating to usage of fixed assets	**12**	**2**	**14**
Irrecoverable VAT	**51**	**12**	**63**
Syndicate set up costs	**241**	**–**	**241**
Bank charges	**78**	**12**	**90**
Other expenses	**35**	**(1)**	**34**
	3,856	**123**	**3,979**
Contribution from quota share reinsurers	**(50)**	**(1)**	**(51)**
	3,806	**122**	**3,928**

4 Syndicate operating expenses *continued*

	2002 account @ 12 months £'000	Calendar year movement £'000	2002 account @ 24 months £'000	2001 account @ 24 months £'000
Salaries and related costs	**1,339**	**448**	**1,787**	1,580
Costs of accommodation	**254**	**47**	**301**	99
Auditor's remuneration:				
audit	**44**	**10**	**54**	56
other services	**5**	**1**	**6**	2
Computer costs	**279**	**59**	**338**	259
Communication, stationery and printing	**32**	**5**	**37**	48
Interest payable	**5**	**–**	**5**	354
Premium levy	**1,089**	**333**	**1,422**	689
Travel and entertainment	**66**	**1**	**67**	45
Legal and professional	**48**	**18**	**66**	110
Overseas operating expenses	**26**	**98**	**124**	102
Regulatory levy	**112**	**1**	**113**	95
Charges relating to usage of fixed assets	**20**	**4**	**24**	12
Irrecoverable VAT	**35**	**16**	**51**	51
Syndicate set up costs	**144**	**–**	**144**	241
Bank charges	**42**	**5**	**47**	78
Other expenses	**31**	**11**	**42**	35
	3,571	**1,057**	**4,628**	3,856
Contribution from quota share reinsurers	**(114)**	**(64)**	**(178)**	(50)
	3,457	**993**	**4,450**	3,806

Notes to the Accounts
For the year ended 31 December 2003

continued

4 Syndicate operating expenses *continued*

	2003 account @ 12 months £'000	2002 account @ 12 months £'000
Salaries and related costs	**2,061**	1,339
Costs of accommodation	**400**	254
Auditor's remuneration:		
audit	**59**	44
other services	**5**	5
Computer costs	**412**	279
Communication, stationery and printing	**49**	32
Interest payable	**1**	5
Premium levy	**1,398**	1,089
Travel and entertainment	**100**	66
Legal and professional	**60**	48
Overseas operating expenses	**80**	26
Regulatory levy	**163**	112
Charges relating to usage of fixed assets	**23**	20
Irrecoverable VAT	**39**	35
Syndicate set up costs	**88**	144
Bank charges	**64**	42
Other expenses	**32**	31
	5,034	3,571
Contribution from quota share reinsurers	**(90)**	(114)
	4,944	3,457

These expenses include expenses recharged from the managing agency in accordance with the policy as set out on page 26.

The remuneration of the active underwriter during calendar year 2003 (2002), charged to the syndicate operating expenses, was as follows:

	2003 £'000	2002 £'000
Salary	**213**	197
Employers' pension contributions	**19**	18
Other benefits	**1**	3
	233	218

Start-up expenses

When the syndicate was originally set up for the 2001 year of account a number of start-up expenses were incurred. These expenses were charged over the 2001 to 2003 years of account.

Expenses were also incurred for the recruitment of the direct and facultative team during 2003. These expenses will be charged to the syndicate over the 2003 to 2005 years of account. This expense recharge will be based upon the estimated premium income, generated by this team, to these years of account.

5 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 @ 24 months £'000	Calendar year movement £'000	2001 account @ 36 months £'000
Amounts written off	–	–	–
Provision for bad debts	275	1,773	2,048
Total bad and doubtful debts	275	1,773	2,048

	2002 account @ 12 months £'000	Calendar year movement £'000	2002 account @ 24 months £'000	2001 account @ 24 months £'000
Amounts written off	–	–	–	–
Provision for bad debts	5	51	56	275
Total bad and doubtful debts	5	51	56	275

	2003 account @ 12 months £'000	2002 account @ 12 months £'000
Amounts written off	–	–
Provision for bad debts	48	5
Total bad and doubtful debts	48	5

6 Investment income

	2001 account @ 24 months £'000	Calendar year movement £'000	2001 account @ 36 months £'000
Investment income receivable	795	320	1,115
Accrued interest	83	14	97
Total investment income	878	334	1,212

Notes to the Accounts
For the year ended 31 December 2003

continued

6 Investment income *continued*

	2002 account @ 12 months £'000	Calendar year movement £'000	2002 account @ 24 months £'000	2001 account @ 24 months £'000
Investment income receivable	166	345	511	795
Accrued interest	9	15	24	83
Total investment income	175	360	535	878

	2003 account @ 12 months £'000	2002 account @ 12 months £'000
Investment income receivable	217	166
Accrued interest	9	9
Total investment income	226	175

7 Calendar year investment yield

	31 December 2003 £'000	31 December 2002 £'000
Average amount of syndicate funds available for investment during the year	55,380	30,492
Investment return	880	958
Calendar year investment yield	1.6%	3.1%
Analysis of investment yield by currency:		
Sterling	3.1%	2.9%
Euro	1.8%	2.6%
US Dollars	1.3%	3.2%
Canadian Dollars	3.1%	2.8%

8 Analysis of result by currency

	Currency '000	2001 account @ 36 months £'000
United States dollar 2001 closed year profit @ $1.79	$4,683	2,616
Candian dollar 2001 closed year profit @ C$2.31	C$1,191	515
Sterling 2001 closed year loss (including Euro @ 1.42)		(1,156)
		1,975

All the closed year profit will be distributed in sterling.

9 Financial investments

	31 December 2003 Cost £'000	31 December 2003 Market value £'000	31 December 2002 Cost £'000	31 December 2002 Market value £'000
Debt securities and other fixed-income securities	**27,305**	**27,299**	27,656	27,940
Deposits with approved credit institutions and financial institutions	**18,484**	**18,495**	–	–
Other	**794**	**794**	1,009	1,009
Debt securities and other fixed-income securities	**46,583**	**46,588**	28,665	28,949

10 Debtors

	31 December 2003 £'000	31 December 2002 £'000
Amounts due within one year:		
Arising out of direct insurance operations:		
Lloyd's central accounting balance	**23**	–
Arising out of reinsurance operations:		
Lloyd's central accounting balance	**10,691**	11,345
Reinsurance claims accruals	**5,074**	3,416
Outstanding claims advances	**136**	536
Other	**147**	–
Deferred set up costs	**–**	278
Other debtors	**336**	2
	16,407	15,577
Amounts due after one year:		
Other debtors	**298**	–
Total debtors	**16,705**	15,577

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Notes to the Accounts
For the year ended 31 December 2003

continued

11 Overseas deposits

	31 December 2003 £'000	31 December 2002 £'000
South African Trust Funds	**54**	18
Australian Trust Funds	**1,168**	215
Additional Securities Ltd	**143**	11
Deposits with US Reinsurance Trust Funds	**301**	307
Canadian Marginal Fund	**701**	198
	2,367	749

12 Profit for the closed year of account

	2001 account @ 36 months £'000
Profit for the 2001 closed year of account	**1,975**
Personal expenses	**(1,503)**
	472
Members' agents' fees	**(369)**
Closing year of account profit after personal expenses	**103**

13 Balance on open years of account

	2002 account @ 24 months £'000	2001 account @ 24 months £'000
Balance on open year of account at 24 months	**46,644**	15,932
Personal expenses	**(1,819)**	(1,420)
	44,825	14,512
Members's agents's fees	**(486)**	(380)
Open year of account balance after personal expenses	**44,339**	14,132
Continuous solvency transfer	**(2,000)**	–
Open year of account balance after personal expenses and continuous solvency transfer	**42,339**	14,132

13 Balance on open years of account *continued*

	2003 account @ 12 months £'000	2002 account @ 12 months £'000
Balance on open year of account at 12 months	**47,145**	35,893
Personal expenses	**(3,039)**	(1,820)
	44,106	34,073
Members' agents' fees	**(681)**	(512)
Open year of account balance after personal expenses	**43,425**	33,561

14 Creditors

	31 December 2003 £'000	31 December 2002 £'000
Amounts due within one year:		
Arising out of reinsurance operations:		
Lloyd's central accounting balance	**4,672**	4,496
Reinsurance premium accruals	**2,759**	1,797
Outstanding claims advances	**54**	3,607
Other	**128**	569
Amount due to managing agent in respect of expenses	**193**	66
Other creditors	**–**	37
Total creditors	**7,806**	10,572

Notes to the Accounts
For the year ended 31 December 2003

continued

15 Particulars of business written

Geographical origin of gross premium (direct business only):	2001 account @ 24 months £'000	Calendar year movement £'000	2001 account @ 36 months £'000
UK	**2,950**	**(62)**	**2,888**
Other EU	**162**	**11**	**173**
Other	**1,521**	**(206)**	**1,315**

	2002 account @ 12 months £'000	Calendar year movement £'000	2002 account @ 24 months £'000	2001 account @ 24 months £'000
UK	**2,171**	**486**	**2,657**	2,950
Other EU	**204**	**332**	**536**	162
Other	**1,491**	**24**	**1,515**	1,521

	2003 account @ 12 months £'000	2002 account @ 12 months £'000
UK	**215**	2,171
Other EU	**69**	204
Other	**4,715**	1,491

15 Particulars of business written *continued*

Type of business:	Note	Direct Business: Third Party Liability £'000	Direct Business: Marine Aviation & Transport £'000	Direct Business: Motor £'000	Direct Business: Fire & Other Damage to Property £'000	Reinsurance £'000	Total £'000
2001 account @ 36 months							
Gross premium written		4	2,169	2,203	–	51,283	55,659
Gross claims paid		–	1,142	1,041	–	36,908	39,091
Gross operating expenses	1	–	155	157	–	3,667	3,979
Reinsurance balance	2	–	50	46	–	1,602	1,698
Average rate of commission	3	20.0%	6.0%	11.2%	–	11.1%	10.9%

Type of business:	Note	Direct Business: Third Party Liability £'000	Direct Business: Marine Aviation & Transport £'000	Direct Business: Motor £'000	Direct Business: Fire & Other Damage to Property £'000	Reinsurance £'000	Total £'000
2002 account @ 24 months							
Gross premium written		7	2,169	2,532	–	67,843	72,551
Gross claims paid		–	2,270	792	–	10,156	13,218
Gross operating expenses	1	–	138	162	–	4,328	4,628
Reinsurance balance	2	–	(3,877)	(1,353)	–	(17,343)	(22,573)
Average rate of commission	3	20.0%	6.0%	11.2%	–	11.7%	11.6%

Type of business:	Note	Direct Business: Third Party Liability £'000	Direct Business: Marine Aviation & Transport £'000	Direct Business: Motor £'000	Direct Business: Fire & Other Damage to Property £'000	Reinsurance £'000	Total £'000
2003 account @ 12 months							
Gross premium written		3	2,758	591	1,647	80,076	85,075
Gross claims paid		–	–	46	–	7,521	7,567
Gross operating expenses	1	–	163	35	97	4,739	5,034
Reinsurance balance	2	–	–	(156)	–	(25,488)	(25,644)
Average rate of commission	3	20.0%	6.1%	24.0%	19.1%	12.2%	12.2%

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.

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Seven Year Summary of Results
For the year ended 31 December 2003

	2001
Syndicate allocated capacity	£81.09m
Capacity utilised	68.6%
Number of underwriting members	788
Aggregate net premiums	£32.62m
Net capacity utilised	40.2%
Technical account ratio	1.3%

Results for an illustrative share of £10,000

	£
Gross premiums	6,864
Net premiums	4,023
Reinsurance to close from an earlier account	–
Net claims	(1,770)
Reinsurance to close	(1,674)
Profit/(loss) on exchange	(7)
Syndicate operating expenses	(484)
Balance on technical account	88
Investment income and gains less losses, less expenses and charges	156
Profit/(loss) for closed year of account before personal expenses	244
Illustrative personal expenses for a traditional name:	
Managing agent's salary	(65)
Central Fund contributions	(75)
Lloyd's subscription	(25)
Profit commission	(12)
Total illustrative personal expenses for a traditional name	(177)
Profit on ordinary activities after illustrative managing agent's fee and profit commission and illustrative personal expenses	67
Total of syndicate operating expenses, managing agent's fee and profit commission	561

Disclosure of Interests Statement

Directors' shareholdings

The ultimate parent company of Cathedral Underwriting Limited is Cathedral Capital PLC. PMA Capital Insurance Company Inc, USA ("PMACIC") has a 29.6% 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 2003 and their families in the share capital of Cathedral Capital PLC were as follows:

	31 December 2003		31 December 2002	
	"A" Convertible Ordinary Shares	"C" Convertible Ordinary Shares	"A" Convertible Ordinary Shares	"C" Convertible Ordinary Shares
J M Andrews	**200,000**	**–**	200,000	–
D C Grainger	**–**	**613,625**	–	613,625
J C Hamblin	**200,000**	**818,168**	200,000	818,168
L A Holder	**153,845**	**818,168**	153,845	818,168
J A Lynch	**185,000**	**818,168**	185,000	818,168
E E Patrick	**2,253,492**	**818,168**	2,253,492	818,168
P D Scales	**210,000**	**818,168**	210,000	818,168
A I G C South	**250,000**	**–**	180,000	–
J P Tilling	**17,500**	**–**	17,500	–

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 2003 was through a wholly owned subsidiary company, Cathedral Capital (1998) Limited, a Lloyd's corporate member. Details of its participation on Syndicate 2010 are set out on page 13.

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 17.

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.

Consortium arrangements

For the 2003 account the Syndicate is the joint leader with Syndicate 2001 of the FTC Consortium II (No 9234). The consortium specialises in commercial motor fire, theft and collision business. This consortium arrangement will produce circa 4% of the Syndicate's total premium income for 2003. Risks are allocated between participants on a pre-determined basis (for 2003 50%:50% Syndicates 2001 and 2010 respectively). No fees/commissions are charged by the managing agencies in relation to the operation of the consortium.

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 recharged 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 4 to these accounts.

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