CATHEDRAL

# SYNDICATE 2010
MMX

# Annual Report
## 31 December 2004

# Contents

# Chairman's Statement

As we trade into our fifth year of underwriting I am pleased to report that Syndicate 2010's 2002 account has closed with a good profit of over 20% of capacity, which is slightly in excess of the top end of the profit forecast range issued last year.

On an annual accounting basis, Syndicate 2010's combined ratio is 75% for the calendar year 2004. This is an excellent result for a syndicate which underwrites a predominantly "short tail" account bearing in mind the extraordinary number of catastrophes during 2004.

For the 2003 account we continue to forecast another good profit. Fluctuations in the pound/dollar rate may affect the ultimate result in sterling terms, but as you will see elsewhere, we have raised our banded profit estimate to between 17.5% and 22.5% of capacity.

The 2004 account is still very much on risk, and has already been affected by the frequency of natural catastrophes in the year. Putting aside the Indian Ocean Earthquake/Tsunami which was so devastating in human, if not insured loss terms, 2004 saw unprecedented numbers of typhoons in Japan and other Asian areas, record numbers of hurricanes making landfall in both mainland USA and the Caribbean and record numbers of tornadoes in mainland USA, many of which were triggered by hurricane activity. In a manner of speaking Syndicate 2010 was in the "eye of the storm" given its direct property and property reinsurance specialities. The aviation account was naturally less affected but nevertheless the fact that we can still contemplate another profitable outcome for the year at this very early stage speaks volumes about the underwriting expertise in our three underwriting teams. We must stress, however, that business written into the 2004 account is exposed to losses that occur throughout calendar year 2005.

The catastrophes in the last twelve months have provided a much needed warning to some insurers that there is little margin for slippage in underwriting discipline and to some extent we have benefited from a rather more robust renewal season than might have been anticipated last summer. As you will see from John Hamblin's report, rates have held at levels one might not have expected at this point in the cycle, although the trend is generally downwards. Even so, opportunities still remain for a business of our size and the recent addition of Richard Wood to work alongside Simon King on our direct and facultative book will allow us to "lead" more business in this area while remaining selective. The syndicate continues to develop its business organically in line with our business plan, thus providing consistency for our insurance clients and the prospect of worthwhile returns for our capital providers.

To conclude I would like to pay tribute to John Hamblin, Richard Williams and Mark Wilson, the original underwriters who established the syndicate in 2001 and have built the non-marine and aviation accounts since then, and Simon King who has developed our direct and facultative property account from 2003 onwards. I also thank the rest of the underwriting team along with our management team for producing outstanding results in conditions which have demanded skill and commitment from all concerned.

**A I G C South**

*Chairman*

15 March 2005

# Underwriter's Report

### 2002 account

I am pleased to report that the year has closed with a profit of £25.2 million before personal expenses. For a natural name with standard personal expenses this equates to a profit of 20.2% of capacity before members' agency fees.

The capacity for the 2002 underwriting year was nearly £96 million. The pure year gross signed premium income was some 74% of capacity at year-end rates of exchange.

As I said in last year's report, following the events of 2001, underwriting conditions in all our lines of business were good. It had been a rising market even prior to the September terrorist attacks in the USA ("9/11") but, as a result, strong improvements in rates and deductible levels became evident across all areas of our book. This was particularly marked in the property risk excess and aviation accounts from where the bulk of our 9/11 losses had come, as reinsurers sought "payback" from their clients.

The 2002 year began without the expected shortage of capacity for either insurance or reinsurance with the notable exception of terrorism, where exclusions were imposed across the board. This was "resolved" in the US by the introduction of the Terrorism Risk Insurance Act ("TRIA") in the latter part of the year, although some other governments acted more quickly, and arguably more responsibly, by establishing pools to mitigate their industry's risk.

Despite the world market initially appearing, on the surface at least, to be relatively undamaged by 9/11, we saw record levels of capital deployed in the Bermuda market as well as into the London company market and at Lloyd's. The real capacity crunch then came as companies in the US and Europe began to fold under the weight of their long tail "legacy" losses. Massive historic under-reserving coupled with a lack of investment income, the effects of plummeting stock markets, as well as 9/11 sucking large amounts of short tail dollars out of the system, all took their toll. The gap caused by the departure of these companies 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 throughout the year. Hail and tornadoes in Kentucky as well as Hurricane Lilli also caused some losses but otherwise there was little else of particular note. Our reinsurance programme was not called into play for these events.

The year for aviation was exceptional in so far as there are almost no losses of any kind to report. The satellite account saw one loss of note being the failure of Astra 1K which produced net claims to us of about £1.4 million.

The 2001 year run off has produced a release of nearly £2 million which comes in two pieces. Our non 9/11 related property account claims were settled during the year within noted outstanding advices leaving the provision we established for IBNR (incurred but not reported) claims unutilised. We have therefore released some of this IBNR this year end. Otherwise, on the property side, the World Trade Center loss continues to settle within reserves. As far as the final outcome is concerned, little has changed over the last year, given that two court cases over the original policy wording have produced two separate results for two different groups of insurers. We expect both to be appealed and have therefore maintained the reserving posture we took last year.

On the aviation account there have been some significant developments. The US government fund established to compensate the victims of 9/11 has now closed and has dealt with all but some 100 individuals who will look to insurers for compensation. The immediate impact was to reduce the market's reserves for the Pentagon and Pittsburgh crashes which in turn has freed up reinsurance which can now be applied to the Queens aviation loss in the same year. This gives rise to the bulk of the release from 2001. The remaining passengers and third party

# Underwriter's Report

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### 2002 account *continued*

claimants relating to the North and South Towers of the Trade Center are expected to be addressed during the course of this year. There is also an action by property insurers seeking compensation from the airlines and certain other parties for the property losses they suffered. This case too is expected to be heard during 2005 but is likely to be subject to appeal regardless of who prevails in round one. As a result we have maintained last year end's reserving stance, being policy limits for the two airlines involved in the destruction of the Towers and additional amounts for the security companies, airports and manufacturers.

### 2003 account

The syndicate's capacity increased to £160 million. We expect the gross income to reach about £106 million or over 66% 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 2004 our gross signed income stood at about £100 million or 63% 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 property reinsurance portfolio. As larger companies cut back or simply disappeared the local agents turned to their regional companies for capacity. Our clients saw significant new business and strong rate increases in their portfolios as their larger brethren were forced to come to grips with reality and impose price hikes. This meant that quite a number of our clients spent 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. Despite these losses, the year performed very well and compares favourably to 2002. On the international side the only loss of note was the 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 a general shortage of expertise in the class available in the world market. The year has been remarkable for the low loss incidence, comparable with 1986, although we continued to see fewer players in the airline insurance market as more peripheral participants focused on their core businesses.

The satellite market saw fewer launches in 2003 than in 2002 and, as in other areas of our business, a number of competitors left the market. This created a very strong pricing environment. Through our involvement in Satec we have benefited from what turned out to be a genuinely hard market and a year of very low incidence of loss.

As reported last year, we were joined during the latter part of 2003 by Simon King and Rob Anglaret. Simon was formerly director of property underwriting at Faraday and Rob worked alongside him there. For 2003 they wrote a broad based, commercial, direct and facultative property account, albeit for the relatively short period of the last six months of the year. They also introduced a book of FTC (fire, theft and collision) commercial motor business into the syndicate's account.

The arrivals of Simon and Rob at the syndicate were very well received both by brokers and their clients and they have quickly established themselves and Cathedral as respected participants in their market place.

As a result of the satisfactory development of all areas of the account, we have revised our forecast for the year up to a profit of between 17.50% and 22.50% of capacity.

### 2004 account

We increased our capacity to £200 million. We expect the gross premium income to reach £158 million which is 79% of capacity at year end rates of exchange and 92% of capacity at premium income monitoring rates of exchange. This is in part driven by additional premiums developed from the autumn hurricanes. To date we have booked £118 million which is 59% of capacity at year end rates.

The first half of the year in general was very good with a low frequency of losses in most areas of our business. The property reinsurance account saw almost no losses of note. Despite a near record-breaking number of tornadoes, our US regional book performed extremely well, recording one of its best ever years. Our international account also proved to be a strong performer. The property reinsurance market had remained relatively robust throughout, despite some signs of softening in some of the more peripheral areas. However, with an abundance of capacity in all areas, the stage was set for a more broad softening. This was prevented by a quite extraordinary hurricane season in the United States, the Caribbean and the Pacific which has made 2004 the worst year for insured catastrophes in history. I have written that line, with depressing frequency, over a number of years now!

Four well publicised hurricanes made landfall in the US in the 2004 season being; Hurricane Charley which hit Florida and the Carolinas, Hurricane Frances which hit the Bahamas, Florida and to a lesser extent Georgia, Hurricane Ivan which hit Grenada, Jamaica, the Cayman Islands, Florida and Alabama, as well as other states and finally Hurricane Jeanne which hit the Bahamas and Florida. All these losses made landfall in a six week period at a cost to insurers in excess of $30 billion. With the bulk of loss having been advised to us by year end we have settled these losses very quickly. The total cost to us for the property reinsurance and direct and facultative property accounts combined is around 30% of capacity gross and about 10% of capacity net after reinsurance. We have always managed our aggregates and bought our reinsurance on the expectation of frequency as well as a severity of loss and this proved to have been a sound strategy.

In Japan some 13 typhoons made it the most active season in living memory. Ten of these made landfall, exceeding the previous record in a year by some five times. Thankfully only Songda was of a significant size in reinsurance terms.

The year rounded off with the tragedy of the Tsunami in Asia on Boxing Day. Whilst this loss was enormous in terms of human cost the insured loss is more modest. We do, however, expect some losses and have set aside reserves to cover those we may receive.

The aviation market went through another calendar year without a major catastrophe. The rates held up remarkably well despite the over abundance of capacity with the relatively few leaders of the business, of which we are one, remaining disciplined throughout the year. As I mentioned earlier, the number of clients who are insurers of major airlines and manufacturers continues to fall as the markets consolidate. Fortunately we have a diverse book which includes a population of smaller clients particularly in the "general aviation" (smaller aircraft) area as well as some other niches so we expect the overall account to be stable in size.

The satellite account had more loss activity than in 2003 but a strong rating environment and a continuing shortage of capacity means that we can expect a reasonable return for the year.

The new property account entered its first full year of trading in 2004 and has developed along the lines projected in our business plan. Whilst it was affected by the hurricanes it was also well protected by reinsurance and I have included the impact of the losses in my earlier figure. Rates in many lines fell throughout the year but still remained well above pre 9/11 levels. Crucially, however, terms and conditions generally held. The loss ratios to date are encouraging.

It is too early to say what the outcome of the year will be because large elements of the account will remain on risk throughout calendar year 2005. However, nothing that has occurred to date diminishes my confidence that the year will be other than soundly profitable.

# Underwriter's Report

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## Future prospects

We have maintained capacity at £200 million for the 2005 account. In general the 2005 renewal season went well, despite the fact that most of the main Florida exposed accounts only renew in June. The hurricanes caused most reinsurers to maintain discipline, particularly in the US which is the core of our account. The international market continued to breed pockets of lunacy but overall, despite losing some business on this side, what we did renew was satisfactory. The main Japanese renewals occur in April.

Our aviation book saw a slight decline in rates, but given the lack of any large losses in the last three years the outcome too was a good one. The satellite market continues to be short of capacity and rates are at record levels. Conditions are very tight, with no end to the hard market in sight.

The direct book is seeing competition on large accounts where the absolute premiums are significant. This attracts those who are premium driven to continue to seek volume at the expense of the quality of risk. Accordingly, we find ourselves increasingly moving up larger facultative programmes to avoid inadequately rated primary layers. Nevertheless, terms and conditions generally remain sound and this market is still far removed from that of the late 1990's. The small commercial business has been less price sensitive as, by not providing the sort of volumes that excite the stock analysts, it is less attractive to the large players in the market.

The market in general has continued to be dominated by worsening liability results. Whilst rates have been high in most lines of business, short tail profits have allowed long tail losses to be more easily masked in trading results. Having said that, a number of high profile leaders of major companies have found themselves in the garden during the first quarter of 2005, as the art of reserving US liability losses continues to prove nigh on impossible.

The issue of US terrorism could reappear as the renewal of TRIA seems to be dragging on, as both sides of the House in the US seem to regard it as a political football instead of a very necessary piece of legislation. If it is not renewed exclusions will be reintroduced, in most cases on an automatic basis.

The new businesses which started following 9/11 continue to grow at breakneck pace. Many have been somewhat chastened by the hurricane losses but their ability to adjust the forecasts for liability books which are still young has enabled most of them to report results for 2004 which are mostly in the black. The cynics might suggest that the founders of some of these start ups will be long gone by the time their legacy catches up with their companies which would prove, at least in one respect, an ability to learn from past mistakes.

We have been joined on the direct and facultative account by Richard Wood who was head of direct and facultative property at the Catlin Syndicate. Richard has already attracted additional new sources of business which have been profitable over a number of years. In this way we will continue to pursue the development of our business in areas which are inherently short tail in nature. We have expanded our business in the last eighteen months with our highly worthwhile entrance into the direct property market. Even though the experience of 2005 to date would indicate generally sound underwriting conditions in our existing business areas for the near term at least, any further expansion for the foreseeable future is likely to be far more modest. Given our general antipathy to casualty, any new books are likely to be small and niche in nature and complementary to our existing lines.

## 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 was developed during 2004 to constitute a full third pillar of the syndicate's business.

## Description of business and methods of acceptance *continued*

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 established underwriting teams. This has enabled the syndicate to build its books of business based on long standing relationships with clients and their brokers 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 these exposures are 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.

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 were very successful in establishing ourselves as a major leader in the market in a very short space of time. Virtually all leads that came to us were 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 involved in the aviation war market and the general aviation (light aircraft) market.

We have continued our long involvement with Satec, a Venice based underwriting agency which specialises in satellite business to which we delegate underwriting authority. The syndicate also writes satellite excess of loss.

For 2002 (as for 2001) 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 strong phase. We have reinsured our 2002 account involvement back into Syndicate 980 leaving a satisfactory profit.

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, in which we include an F.T.C. account. The account written covers a broad spectrum of mainly 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

# Underwriter's Report

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### Description of business and methods of acceptance *continued*

(iii) Commercial motor truck business for physical damage. This market has been very strong over the last few years as markets damaged by liability losses removed 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 reduce 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 was not a feature of our 2004 business plan, nor does it feature in our 2005 business plan.

For the 2005 account, Syndicate 2010 intends to retain a focus on its core non-marine reinsurance, aviation and direct and facultative property accounts, although it will continue to seek opportunities in areas viewed as complementary. This may lead to a broadening of underwriting activities in 2005 and beyond.

### Analysis of account

An analysis of the written premium as at 31 December 2004 by broad category is as follows:

| | **2004 account @ 12 months** | | 2003 account @ 24 months | | 2002 account @ 36 months | |
|---|---|---|---|---|---|---|
| | **Gross %** | **Net %** | Gross % | Net % | Gross % | Net % |
| Non-marine reinsurance | **40** | **35** | 51 | 49 | 53 | 54 |
| Aviation | **23** | **23** | 31 | 32 | 36 | 34 |
| Satellite | **4** | **4** | 4 | 4 | 6 | 6 |
| Direct & facultative property | **25** | **27** | 7 | 8 | – | – |
| Fire theft & collision (FTC) | **8** | **11** | 5 | 6 | – | – |
| Motor (Ensign co-insurance) | **–** | **–** | – | – | 3 | 3 |
| Syndicate 318 quota share | **–** | **–** | 2 | 1 | 2 | 3 |
| **Total** | **100** | **100** | 100 | 100 | 100 | 100 |

(Marine business represents approximately 0.2% of written income for both the 2002 and 2003 accounts.)

An analysis of the gross written premium income as at 31 December 2004 by reference to the risk categories stipulated in the EU Insurance Directive is as follows:

| | **2004 account @ 12 months %** | 2003 account @ 24 months % | 2002 account @ 36 months % |
|---|---|---|---|
| **Direct** | | | |
| Marine, aviation and transport | **2** | 3 | 3 |
| Fire and other damage to property | **15** | 5 | – |
| Motor | **5** | 3 | 3 |
| **Reinsurance** | | | |
| Specific inwards and whole account | **78** | 89 | 94 |
| **Total** | **100** | 100 | 100 |

**Analysis of account** *continued*

An analysis of the gross written premium income as at 31 December 2004 by reference to Lloyd's risk codes rounded to the nearest 1% is as follows:

| Lloyd's risk code | Description | **2004 account @ 12 months %** | 2003 account @ 24 months % | 2002 account @ 36 months % |
|---|---|---|---|---|
| XP | Non-marine property pecuniary loss – direct whole account excess of loss | **30** | 36 | 35 |
| XY | Aviation whole account excess of loss, including war (excluding excess of loss on excess of loss) | **13** | 19 | 24 |
| XC | Per risk excess of loss property/pecuniary loss | **7** | 10 | 11 |
| X3 | Non-marine property/pecuniary loss – retrocession | **3** | 4 | 4 |
| SC | Space risks, launch and commissioning period | **3** | 3 | 4 |
| H (inc H2 and H3) | Hulls of aircraft, including spares and loss of use and war (excluding war only risks, space risks and ACV) | **4** | 5 | 5 |
| HX | XOL Hulls of aircraft, including spares and loss of use (excluding war only risks) | **–** | 1 | 1 |
| CX | Space risk, launch, commissioning and transponder operating | **1** | 1 | 2 |
| DC | Difference in conditions | **1** | – | – |
| MG | USA and Canada motor vehicle physical damage | **6** | 3 | – |
| MK | UK motor vehicle comprehensive | **–** | – | 3 |
| PD (inc B2-B5 and P2-P7) | All risk physical loss damage no direct ppnl ri | **23** | 7 | – |
| RX | Hulls of aircraft, war and/or confiscation risks only | **1** | 2 | 3 |
| X1 | Aviation excess of loss on excess of loss | **1** | 1 | 1 |
| L (inc L2 and L3) | Aircraft operators and owners legal liability (aircraft, helicopters, balloons etc) | **2** | 3 | 2 |
| AW | Hulls of aircraft (excluding ACV) war and/or confiscation risks only | **–** | 1 | 1 |
| TR | All risk physical or loss damage direct ppnl ri | **1** | 2 | 2 |
| VL | Legal liability cargo | **1** | – | – |
| AX | Aviation liability XL | **1** | – | – |
| | Other risk codes | **2** | 2 | 2 |
| | **Total** | **100** | 100 | 100 |

For 2004, Lloyd's introduced various new risk codes. Most relevant in respect of the account written by Syndicate 2010 was the division of 'H' (hulls of aircrafts) into H2 (airline hull) and H3 (general aviation hull), the division of 'L' (aircraft legal liability) into L2 (airline liability) and L3 (general aviation liability) and the division of 'PD' (all risk physical damage) into five property binding authority categories (B2-B5) and six

# Underwriter's Report

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## Analysis of account *continued*

property categories (P2-P7). For ease of comparison the 'H', 'L' and 'PD' categories are used in the table above in respect of the 2004 account. The division of business into the new risk code categories and included, as appropriate, in 'H', 'L' and 'PD' above, is as follows:

| Lloyd's risk code | Description | **2004 account @ 12 months %** |
|---|---|---|
| B2 | Physical damage binder for private property in USA | **0.3** |
| B3 | Physical damage binder for commercial property in USA | **3.4** |
| B4 | Physical damage binder for private property ex USA | **–** |
| B5 | Physical damage binder for commercial property ex USA | **5.1** |
| H2 | Airline hull | **1.4** |
| H3 | General aviation hull | **2.4** |
| L2 | Airline liability | **0.8** |
| L3 | General aviation liability | **1.5** |
| P2 | Physical damage for primary layer property in USA | **3.4** |
| P3 | Physical damage for primary layer property ex USA | **4.0** |
| P4 | Physical damage for full value property in USA | **0.3** |
| P5 | Physical damage for full value property ex USA | **0.9** |
| P6 | Physical damage for XS layer property in USA | **3.3** |
| P7 | Physical damage for XS layer property ex USA | **1.8** |
| PD | All risk physical loss damage | **0.7** |

An analysis of the gross written premium income by currency as at 31 December 2004 is as follows:

| | **2004 account @ 12 months %** | 2003 account @ 24 months % | 2002 account @ 36 months % |
|---|---|---|---|
| US Dollars | **71** | 75 | 73 |
| Sterling including convertible currencies | **17** | 15 | 17 |
| Euros | **6** | 6 | 7 |
| Canadian Dollars | **6** | 4 | 3 |
| **Total** | **100** | 100 | 100 |

## **Analysis of account** *continued*

An analysis of the gross written premium income as at 31 December 2004 by business acceptance method is as follows:

| | **2004 account @ 12 months %** | 2003 account @ 24 months % | 2002 account @ 36 months % |
|---|---|---|---|
| Facultative | **15** | 7 | – |
| Binding authority | **19** | 7 | 4 |
| Lineslip | **4** | 4 | 2 |
| Co-insurance (Ensign motor 980) | **–** | – | 3 |
| X.L. Treaty | **55** | 71 | 81 |
| Proportional treaty | **7** | 11 | 10 |
| **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:

| | **2004 account @ 12 months %** | 2003 account @ 24 months % | 2002 account @ 36 months % |
|---|---|---|---|
| Lloyd's syndicates | **34** | 26 | 31 |
| UK authorised companies | **24** | 29 | 32 |
| EU companies (excluding those authorised in the UK) | **6** | 10 | 12 |
| Other companies | **36** | 35 | 25 |
| **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

# Underwriter's Report

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### Premium income *continued*

rates of exchange ruling at the balance sheet date are used. Applying premium income monitoring rates of exchange and year end rates of exchange, the actual and forecast levels of premium income, expressed as percentages of gross capacity are as follows:

| | @ PIM rates % | @ year end rates % |
|---|---|---|
| 2002 account signed @ 36 months | 86 | 74 |
| 2003 account signed @ 24 months | 76 | 63 |
| 2003 account forecast @ 36 months | 80 | 66 |
| 2004 account signed @ 12 months | 69 | 59 |
| 2004 account forecast at 36 months | 92 | 79 |

### 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, Richard Wood and Robert Anglaret (our direct and facultative property underwriters), together with the syndicate's entire support team.

**J C Hamblin**

*Active Underwriter*

15 March 2005

# Managing Agent's Report
# At 31 December 2004

### Introduction

The directors of Cathedral Underwriting Limited, the managing agency for Syndicate 2010, present the Annual Report for the Syndicate at 31 December 2004, together with the Chairman'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. The final year of Syndicate 1265 was closed into Syndicate 1861, managed by Marlborough Underwriting Agency Limited, with effect from 31 December 2004. Cathedral Underwriting Limited is authorised and regulated by the Financial Services Authority and Lloyd's.

| Syndicate | Principal class of business | Active underwriter | 2005 capacity £'000 |
|---|---|---|---|
| 2010 | Non marine and aviation reinsurance | J C Hamblin | 200,067 |
| 1265 | Direct marine | P D Morey | Last year of account 2000 |

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

Further information on the managing agency is shown in the disclosure of interests statement on pages 41 and 42.

### Multiple syndicates consent

The Council of Lloyd's, on 16 January 2001, granted consent under paragraph 6(l)(b) 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 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; Email info@cathedralcapital.com; website www.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 £67.9 million, £97 million, and £107.7 million participation in the 2003, 2004 and 2005 years of account respectively. In addition, one of the directors is a director of a number of corporate names which had, in aggregate, £2.1 million, £2.7 million and £2.0 million participations on the 2003, 2004 and 2005 years of account respectively.

# Managing Agent's Report
# At 31 December 2004

### Directors and their participations in Syndicate 2010 *continued*

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

| | |
|---|---|
| A I G C South | Chairman |
| J M G Andrews | Non-executive Director |
| D C Grainger | Compliance Director |
| J C Hamblin | Director |
| L A Holder | Managing Director |
| J A Lynch | Finance Director |
| E E Patrick | Director |
| P D Scales | 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. He had previously been active underwriter for Syndicate 566.

### 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 2003, 2004 and 2005 years of account.

| | **2005 account** | | 2004 account | | 2003 account | |
|---|---|---|---|---|---|---|
| **Name of agent** | **£'000** | **%** | £'000 | % | £'000 | % |
| Hampden Agencies Limited | **134,625** | **67.3** | 126,026 | 63.0 | 94,961 | 59.3 |

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Cathedral Group company, provided £67.9 million, £97 million and £107.7 million respectively of the capacity to Syndicate 2010 for the 2003, 2004 and 2005 years of account through Hampden Agencies Limited.

### Capacity by member type

| | 2005 account | | 2004 account | | 2003 account | |
|---|---|---|---|---|---|---|
| | **£'000** | **%** | £'000 | % | £'000 | % |
| Syndicate allocated capacity attributable to: | | | | | | |
| Corporate members | **144,252** | **72.1** | 138,350 | 69.3 | 103,549 | 64.7 |
| External members | **53,344** | **26.7** | 58,560 | 29.3 | 53,947 | 33.7 |
| Working members (none of whom are employed by managing agency) | **2,471** | **1.2** | 2,751 | 1.4 | 2,473 | 1.6 |
| | **200,067** | **100.0** | 199,661 | 100.0 | 159,969 | 100.0 |

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

| | 2002 account | |
|---|---|---|
| | £'000 | % |
| Syndicate allocated capacity attributable to: | | |
| Corporate members | 15,568 | 61.7 |
| External members | 9,159 | 36.3 |
| Working members (none of whom are employed by managing agency) | 505 | 2.0 |
| | 25,232 | 100.0 |

### 2003 account

A reconciliation between the forecast 2003 year of account result before personal expenses and the open year of account balance, as shown in the underwriting account, as at 31 December 2004 is shown below.

| | **£'000** |
|---|---|
| Open year of account before personal expenses 2003 as at 31 December 2004 | **68,636** |
| Estimated future liabilities and underwriting accruals for the 2003 year of account | **(27,358)** |
| | **41,278** |
| Estimated movement of non-underwriting items during the third year | **607** |
| Forecast result for the 2003 year of account after 36 months | **41,885** |
| Expressed in a range as a percentage of capacity (before personal expenses) | **28.7% – 23.7%** |
| Expressed in a range as a percentage of capacity (after personal expenses)* | **22.5% – 17.5%** |

This forecast has been based on the following assumptions:

- 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;

### 2003 account *continued*

- No material changes occur in estimates as to ultimate income levels and future reinsurance costs;
- There will be no material reinsurance failure;
- There will be no material surplus or deficiency arising from the reinsurance to close of the 2002 year of account;
- There will be no significant changes in regulatory or legislative policies which will affect the activities of the syndicate; and
- Interest, inflation and exchange rates as at 31 December 2005 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%, is charged to all names on the syndicate for the 2003 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 2003 year of account on closure of that account.

### Investment policy

The Syndicate funds were managed on a day-to-day basis by investment managers who in turn are monitored by an investment committee in accordance with the policy and terms of reference agreed by the Board of Cathedral Underwriting Limited. The investment committee has formal procedures for monitoring investments in line with guidance from Lloyd's.

Aberdeen Fund Managers Limited ("Aberdeen") were the investment managers of the US Dollar Credit For Reinsurance Trust Fund and also certain of the funds held in the US Dollar Lloyd's Deposit Trust Fund until September 2004. In October 2004 the investment committee replaced Aberdeen as investment managers and appointed Credit Agricole Asset Management (UK) Limited ("CAAM") in their place. CAAM's mandate was extended to manage significantly more of the US Dollar Trust funds and also a proportion of both the syndicate's Euro and Canadian Dollar Trust Funds.

The investment policy adopted with respect to the syndicate funds, which did not change when CAAM replaced Aberdeen, 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, were invested in instruments which had an average duration of 2 years while all the funds of the other major currencies were held on deposit in cash throughout the period. The Merrill Lynch 1 to 3 year government index had been selected as the appropriate measurement against which the performance of the investment manager was measured.

The investment objective for CAAM is to invest the Premiums Trust Funds in a manner designed to maximise return within agreed parameters and in line with policies approved by the Board of Cathedral Underwriting Limited. In consideration of this policy, portfolios are predominantly invested in short-term, high quality fixed income securities. CAAM have been instructed to invest for the highest total return consistent with maintaining a high level of liquidity and security and CAAM have discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall portfolio controls the exposure of the investments to volatility. Their performance will be measured against the Merrill Lynch 1-3 year Government Index of the domestic Government bond market for each Trust Fund.

### Investment performance

Sterling funds were held in cash on deposit through the year. Euro and Canadian Dollar syndicate funds were held in cash on deposit throughout the period until October 2004, at which time a proportion of these funds were placed under the management of CAAM.

## **Investment performance** *continued*

As expected investment returns in 2004 were low, particularly in US Dollars, following a year of increased economic activity, rising bond yields and monetary tightening. Fed Funds in the U.S. and Base Rates in the U.K. have both risen by 1.00% during the year as the Fed and the MPC responded to stronger economic indicators. European rates remain unchanged as the ECB cope with static economies and a strong Euro. The Bank of Canada continued to react to a volatile Canadian economy with three rate cuts and two rate increases in 2004. Other major influences on bond and equity markets included the soaring US twin deficits, Middle East political concerns and the transition of China from a deflationary to an inflationary force driving commodity prices higher. The Investment Managers considered the low yield environment, and market volatility, as presenting a high-risk environment for bonds; as such they maintained a cautious short duration and low risk strategy, in line with the investment objectives. Overall returns benefited from this approach, particularly in the fourth quarter of 2004 as US bond yields rose, prompted by stronger employment data.

The continued strength in the underwriting conditions, described in the Underwriters Report, led to further positive cash flows. Syndicate funds had increased to £117.4 million at the year end. The resulting increase in invested assets added to investment income in a year of low investment returns. The overall calendar year investment yield as defined in note 8 was 1.5 per cent compared to 1.6 per cent in 2003. 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.

Given the constraints, the fixed income markets 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 CAAM since their appointment has exceeded money market returns but was marginally below the adopted benchmark.

## **Investment strategy**

The investment strategy in the coming year for Sterling funds, and the Euro and Canadian Dollar funds not managed by CAAM is likely to be similar to that followed during 2004 with any surplus funds being held in very short dated liquid instruments or bank deposits.

In respect of the funds managed by CAAM, our investment managers write:

> "US Dollar returns should be comfortably higher than 2004, with the impact of higher fund sizes and higher bond yields substantially increasing forecast earnings. At the start of 2005 short dated US bond yields were in the region of 1.3% percentage points higher than the start of 2004. In addition to increasing prospective returns this has significantly reduced the risk of the negative returns that were possible in 2004. The Fed remains on a rate-hiking phase that, whilst priced into the Treasury yield curve, increases the downside risk to bond prices. As such, US Dollar portfolios will continue to be maintained shorter than long-term averages. It is expected that returns in non-U.S. Dollar portfolios will be similar to those produced in 2004.
>
> In Europe, the MPC and the ECB remain on hold with the last rate hike by the MPC being in August 2004, and the ECB last cutting rates in June 2003. Both central banks are adopting a 'wait and see' policy; the MPC is waiting to see if its last round of rate increases have put sufficient brakes on the UK consumer and property markets, and the ECB are looking for signs of consistent growth in its two main economies, Germany and France. A flat to downward sloping yield curve in the UK does not price any possibility of a further rate increase, and as such Sterling portfolios will be maintained shorter than long term averages, whilst a positive Euro yield curve compensates sufficiently for some additional duration to be added.

# Managing Agent's Report
# At 31 December 2004

*continued*

### Investment strategy *continued*

The Bank of Canada is expected to continue to increase rates in the near future but more slowly than originally thought. It is weighing the unwelcome strength of the Canadian Dollar and low inflation versus a strong domestic economy driven by high commodity prices and a leveraged consumer. As the picture is not as clear as in the U.S., and is going to be heavily influenced by external factors, Canadian Dollar portfolios are likely to be managed conservatively, shadowing U.S. Dollar portfolios.

Credit fundamentals remain good whilst credit spreads remain tight in all currencies, particularly Euros and Sterling. Exposure to non-Government issuers is likely to remain at current levels particularly in short dated maturities; this limits the exposure of the portfolio to negative price action caused by credit spreads widening.

Exposure to Asset Backed Securities will likely increase as the supply, structural and spread fundamentals remain favourable versus Corporate bonds."

### 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 Cathedral Underwriting Limited

| | **2004 account £m** | 2003 account £m | 2002 account £m | 2001 account £m | 2000 account £m |
|---|---|---|---|---|---|
| Aggregate allocated capacity of all managed syndicates | **199.7** | 160.0 | 95.7 | 81.1 | 20.0 |

| | **Year ended 31 December 2004 Unaudited £'000** | Year ended 31 December 2003 Audited £'000 | Year ended 31 December 2002 Audited £'000 | Year ended 31 December 2001 Audited £'000 | Year ended 31 December 2000 Audited £'000 |
|---|---|---|---|---|---|
| Fee income | **1,271** | 1,019 | 612 | 602 | 110 |
| Expenses, net of recharges to managed syndicates | **(3,245)** | (2,115) | (661) | (496) | (1,103) |
| | **(1,974)** | (1,096) | (49) | 106 | (993) |
| Retained profit commission | **4,567** | 1,724 | – | – | – |
| Other income, net of related expenses | **–** | – | 57 | 145 | 39 |
| Profit/(loss) before tax | **2,593** | 628 | 8 | 251 | (954) |
| Net assets | **3,451** | 1,634 | 1,154 | 1,217 | 1,041 |

## 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. No such transactions occurred under this general consent for the period under review in these reports and accounts.

*Reinsurance resume*

Reinsurance resumes 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: | Credit Agricole Asset Management (UK) Limited |
| Software support: | Insurance Technology Solutions Limited |

Aberdeen Asset Management Limited was investment manager of the US Dollar Credit for Reinsurance Trust Fund and certain funds held in the US Dollar Lloyd's Deposit Trust Fund, of Syndicate 2010 until October 2004. At that time, Aberdeen was replaced as manager by Credit Agricole Asset Management (UK) Limited. Credit Agricole Asset Management (UK) Limited has also been appointed as investment manager for Surplus Lines Trust Funds and a proportion of both the Canadian Dollar and Euro syndicate funds.

## 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.

## Advanced consents procedure notifications

*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.

*Agency and Syndicate Auditor*

Mazars LLP replaced KPMG Audit PLC as the independent auditor to Cathedral Underwriting Limited during the year. Mazars LLP succeeded Mazars as syndicate auditors during the year. It is the intention of the managing agent to re-appoint Mazars LLP as syndicate auditors in accordance with the Lloyd's regulations for the year commencing 1 May 2005. It is also intended that Mazars LLP will be re-appointed auditors of Cathedral Underwriting Limited.

### Advanced consents procedure notifications *continued*

The safeguards against conflicts of interests arising from the same audit firm being auditors to both the managing agent and the syndicate remain the same as stated in our memorandum dated 22 June 2004 addressed to Members' Agents and Direct Corporate Capital Providers, copies of which are available on request to all syndicate members.

Names have until 18 April 2005 to advise the compliance officer of Cathedral Underwriting Limited at the address below of any objections in relation to any of the above matters.

By order of the Board

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

15 March 2005

# Report of the Independent Auditors to the Members of Syndicate 2010

We have audited the Annual Report for the year ended 31 December 2004 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 Managing Agent's Report and Underwriter's 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 and gives a true and fair view of the profit of the 2002 closed year of account.

**MAZARS LLP**
*CHARTERED ACCOUNTANTS*
*and Registered Auditors*

24 Bevis Marks
London EC3A 7NR

15 March 2005

# 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 which has been closed into Syndicate 1861 with effect from 31 December 2004.

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

15 March 2005

## 2002 Underwriting Account as closed at end of Third Year
## At 31 December 2004

| | Notes | 2002 account @ 24 months £'000 | Calendar year movement £'000 | 2002 account @ 36 months £'000 | 2001 account @ 36 months £'000 |
|---|---|---|---|---|---|
| Syndicate allocated capacity | | **95,739** | | **95,739** | 81,088 |
| Gross premiums written (net of brokerage) | | **72,551** | **337** | **72,888** | 55,659 |
| Outwards reinsurance premiums | | **(24,729)** | **(215)** | **(24,944)** | (23,037) |
| Net premiums | | **47,822** | **122** | **47,944** | 32,622 |
| Reinsurance to close premiums received from earlier years of account | | **13,575** | **(591)** | **12,984** | – |
| | | **61,397** | **(469)** | **60,928** | 32,622 |
| Gross claims paid | | **(13,218)** | **(10,041)** | **(23,259)** | (39,091) |
| Reinsurers' share | | **2,156** | **2,823** | **4,979** | 24,735 |
| Net claims | | **(11,062)** | **(7,218)** | **(18,280)** | (14,356) |
| | | **50,335** | **(7,687)** | **42,648** | 18,266 |
| Reinsurance premiums paid to close the account | 3 | **–** | **(14,263)** | **(14,263)** | (13,575) |
| Balance on technical account before profit/(loss) on exchange and syndicate operating expenses | 4 | **50,335** | **(21,950)** | **28,385** | 4,691 |
| Profit/(loss) on exchange | | **255** | **163** | **418** | (57) |
| Syndicate operating expenses | 5 | **(4,450)** | **(30)** | **(4,480)** | (3,928) |
| Balance on technical account | | **46,140** | **(21,817)** | **24,323** | 706 |
| Investment income | 7 | **535** | **522** | **1,057** | 1,212 |
| Investment expenses and charges | | **(19)** | **(26)** | **(45)** | (41) |
| Investment gains less losses | | **(12)** | **(91)** | **(103)** | 98 |
| Profit for the closed year of account | 9, 13 | **46,644** | **(21,412)** | **25,232** | 1,975 |

The notes on pages 27 to 39 form part of these accounts.

# 2003 Underwriting Account at end of Second Year
# At 31 December 2004

| | Notes | 2003 account @ 12 months £'000 | Calendar year movement £'000 | 2003 account @ 24 months £'000 | 2002 account @ 24 months £'000 |
|---|---|---|---|---|---|
| Syndicate allocated capacity | | **159,969** | | **159,969** | 95,739 |
| Gross premiums written (net of brokerage) | | **85,075** | **16,352** | **101,427** | 72,551 |
| Outwards reinsurance premiums | | **(28,830)** | **94** | **(28,736)** | (24,729) |
| Net premiums | | **56,245** | **16,446** | **72,691** | 47,822 |
| Reinsurance to close premiums received from earlier years of account | | **–** | **14,263** | **14,263** | 13,575 |
| | | **56,245** | **30,709** | **86,954** | 61,397 |
| Gross claims paid | | **(7,567)** | **(10,373)** | **(17,940)** | (13,218) |
| Reinsurers' share | | **3,186** | **1,453** | **4,639** | 2,156 |
| Net claims | | **(4,381)** | **(8,920)** | **(13,301)** | (11,062) |
| Balance on technical account before profit/(loss) on exchange and syndicate operating expenses | | **51,864** | **21,789** | **73,653** | 50,335 |
| Profit/(loss) on exchange | | **22** | **(8)** | **14** | 255 |
| Syndicate operating expenses | 5 | **(4,944)** | **(880)** | **(5,824)** | (4,450) |
| Balance on technical account | | **46,942** | **20,901** | **67,843** | 46,140 |
| Investment income | 7 | **226** | **747** | **973** | 535 |
| Investment expenses and charges | | **(9)** | **(31)** | **(40)** | (19) |
| Investment gains less losses | | **(14)** | **(126)** | **(140)** | (12) |
| Balance on open year | 14 | **47,145** | **21,491** | **68,636** | 46,644 |

The notes on pages 27 to 39 form part of these accounts.

# 2004 Underwriting Account at end of First Year
# At 31 December 2004

| | Notes | 2004 account @ 12 months £'000 | 2003 account @ 12 months £'000 |
|---|---|---|---|
| Syndicate allocated capacity | | **199,661** | 159,969 |
| Gross premiums written (net of brokerage) | | **118,383** | 85,075 |
| Outwards reinsurance premiums | | **(35,788)** | (28,830) |
| Net premiums | | **82,595** | 56,245 |
| Gross claims paid | | **(32,350)** | (7,567) |
| Reinsurers' share | | **13,392** | 3,186 |
| Net claims | | **(18,958)** | (4,381) |
| Balance on technical account before profit/(loss) on exchange and syndicate operating expenses | | **63,637** | 51,864 |
| Profit/(loss) on exchange | | **2** | 22 |
| Syndicate operating expenses | 5 | **(4,429)** | (4,944) |
| Balance on technical account | | **59,210** | 46,942 |
| Investment income | 7 | **512** | 226 |
| Investment expenses and charges | | **(14)** | (9) |
| Investment gains less losses | | **(64)** | (14) |
| Balance on open year | 14 | **59,644** | 47,145 |

The notes on pages 27 to 39 form part of these accounts.

# Balance Sheet
# At 31 December 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Investments | 10 | **71,116** | 46,588 |
| Debtors | 11 | **25,125** | 16,705 |
| Other assets: | | | |
| Cash at bank and in hand | | **43,104** | 27,706 |
| Overseas deposits | 12 | **3,143** | 2,367 |
| Prepayments and accrued income | | **714** | 507 |
| Total assets | | **143,202** | 93,873 |
| **LIABILITIES** | | | |
| Profit for the 2002 (2001) closed year of account | 13 | **12,591** | 103 |
| Balance on open 2003 (2002) year of account | 14 | **60,819** | 42,339 |
| Balance on open 2004 (2003) year of account | 14 | **54,070** | 43,425 |
| Creditors | 15 | **15,497** | 7,806 |
| Accruals and deferred income | | **225** | 200 |
| Total liabilities | | **143,202** | 93,873 |

This annual report was approved by the Board of Directors on 15 March 2005.

**L A Holder**
*Managing Director*
Cathedral Underwriting Limited

**J C Hamblin**
*Active Underwriter*

The notes on pages 27 to 39 form part of these accounts.

# Notes to the Accounts
# For the year ended 31 December 2004

## 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 2004

*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 1.41, 1.92 and 2.30 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 11 and 15 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

| | **2002 account @ 36 months £'000** | 2001 account @ 36 months £'000 |
|---|---|---|
| Gross outstanding claims | **43,716** | 40,766 |
| Reinsurance recoveries anticipated | **(30,331)** | (28,016) |
| Net outstanding claims | **13,385** | 12,750 |
| Provision for gross claims incurred but not reported | **20,311** | 28,951 |
| Reinsurance recoveries anticipated | **(15,569)** | (23,505) |
| Provision for net claims incurred but not reported | **4,742** | 5,446 |
| Provision for future inwards gross premiums | **(9,107)** | (11,476) |
| Provision for future reinsurance costs | **5,243** | 6,855 |
| Provision for net premiums incurred but not reported | **(3,864)** | (4,621) |
| Reinsurance premium payable to close the account | **14,263** | 13,575 |

### 4 Balance on technical account before profit on exchange and syndicate operating expenses

| | **2002 account @ 36 months £'000** | 2001 account @ 36 months £'000 |
|---|---|---|
| Profit attributable to business allocated to the 2002 (2001) year of account | **26,392** | 4,691 |
| Surplus on the reinsurance to close received from the 2001 year of account | **1,993** | – |
| Total | **28,385** | 4,691 |

# Notes to the Accounts
# For the year ended 31 December 2004

*continued*

## 5 Syndicate operating expenses

| | 2002 account @ 24 months £'000 | Calendar year movement £'000 | 2002 account @ 36 months £'000 | 2001 account @ 36 months £'000 |
|---|---|---|---|---|
| Salaries and related costs | **1,787** | **4** | **1,791** | 1,580 |
| Costs of accommodation | **301** | **1** | **302** | 103 |
| Auditor's remuneration: | | | | |
| audit | **54** | **2** | **56** | 49 |
| other services | **6** | **4** | **10** | 5 |
| Computer costs | **338** | **26** | **364** | 275 |
| Communication, stationery and printing | **37** | **9** | **46** | 49 |
| Interest payable | **5** | **1** | **6** | 371 |
| Premium levy | **1,422** | **(61)** | **1,361** | 774 |
| Travel and entertainment | **67** | **–** | **67** | 46 |
| Legal and professional | **66** | **30** | **96** | 112 |
| Overseas operating expenses | **124** | **(16)** | **108** | 77 |
| Regulatory levy | **113** | **–** | **113** | 96 |
| Charges relating to usage of fixed assets | **24** | **2** | **26** | 14 |
| Irrecoverable VAT | **51** | **10** | **61** | 63 |
| Syndicate set up costs | **144** | **–** | **144** | 241 |
| Bank charges | **47** | **8** | **55** | 90 |
| Other expenses | **42** | **2** | **44** | 34 |
| | **4,628** | **22** | **4,650** | 3,979 |
| Contribution from quota share reinsurers | **(178)** | **8** | **(170)** | (51) |
| | **4,450** | **30** | **4,480** | 3,928 |

## 5 Syndicate operating expenses *continued*

| | 2003 account @ 12 months £'000 | Calendar year movement £'000 | 2003 account @ 24 months £'000 | 2002 account @ 24 months £'000 |
|---|---|---|---|---|
| Salaries and related costs | **2,061** | **478** | **2,539** | 1,787 |
| Costs of accommodation | **400** | **39** | **439** | 301 |
| Auditor's remuneration: | | | | |
| audit | **59** | **(2)** | **57** | 54 |
| other services | **5** | **17** | **22** | 6 |
| Computer costs | **412** | **105** | **517** | 338 |
| Communication, stationery and printing | **49** | **17** | **66** | 37 |
| Interest payable | **1** | **1** | **2** | 5 |
| Premium levy | **1,398** | **26** | **1,424** | 1,422 |
| Travel and entertainment | **100** | **1** | **101** | 67 |
| Legal and professional | **60** | **42** | **102** | 66 |
| Overseas operating expenses | **80** | **163** | **243** | 124 |
| Regulatory levy | **163** | **–** | **163** | 113 |
| Charges relating to usage of fixed assets | **23** | **6** | **29** | 24 |
| Irrecoverable VAT | **39** | **21** | **60** | 51 |
| Syndicate set up costs | **88** | **–** | **88** | 144 |
| Bank charges | **64** | **10** | **74** | 47 |
| Other expenses | **32** | **14** | **46** | 42 |
| | **5,034** | **938** | **5,972** | 4,628 |
| Contribution from quota share reinsurers | **(90)** | **(58)** | **(148)** | (178) |
| | **4,944** | **880** | **5,824** | 4,450 |

CATHEDRAL
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# Notes to the Accounts
# For the year ended 31 December 2004

*continued*

## 5 Syndicate operating expenses *continued*

| | **2004 account @ 12 months £'000** | 2003 account @ 12 months £'000 |
|---|---|---|
| Salaries and related costs | **2,480** | 2,061 |
| Costs of accommodation | **410** | 400 |
| Auditor's remuneration: | | |
| audit | **59** | 59 |
| other services | **52** | 5 |
| Computer costs | **570** | 412 |
| Communication, stationery and printing | **61** | 49 |
| Interest payable | **3** | 1 |
| Premium levy | **–** | 1,398 |
| Travel and entertainment | **111** | 100 |
| Legal and professional | **49** | 60 |
| Overseas operating expenses | **251** | 80 |
| Regulatory levy | **256** | 163 |
| Charges relating to usage of fixed assets | **31** | 23 |
| Irrecoverable VAT | **25** | 39 |
| Syndicate set up costs | **–** | 88 |
| Bank charges | **77** | 64 |
| Other expenses | **38** | 32 |
| | **4,473** | 5,034 |
| Contribution from quota share reinsurers | **(44)** | (90) |
| | **4,429** | 4,944 |

These expenses include expenses recharged from the managing agency in accordance with the policy as set out on page 28.

The remuneration of the active underwriter during calendar year 2004 (2003), charged to the syndicate operating expenses, was as follows:

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Salary | **214** | 213 |
| Employers' pension contributions | **23** | 19 |
| Other benefits | **1** | 1 |
| | **238** | 233 |

### 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 start-up 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 and 2004. These expenses are deferred and will be charged to the syndicate over a number of years of account commencing with the 2003 account. This expense recharge will be based upon the estimated premium income generated by this team to these years of account.

## 6 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:

| | **2002 account @ 24 months £'000** | **Calendar year movement £'000** | **2002 account @ 36 months £'000** | 2001 account @ 36 months £'000 |
|---|---|---|---|---|
| Amounts written off | **–** | **–** | **–** | – |
| Provision for bad debts | **56** | **2,033** | **2,089** | 2,048 |
| Total bad and doubtful debts | **56** | **2,033** | **2,089** | 2,048 |

| | **2003 account @ 12 months £'000** | **Calendar year movement £'000** | **2003 account @ 24 months £'000** | 2002 account @ 24 months £'000 |
|---|---|---|---|---|
| Amounts written off | **–** | **–** | **–** | – |
| Provision for bad debts | **48** | **(45)** | **3** | 56 |
| Total bad and doubtful debts | **48** | **(45)** | **3** | 56 |

| | **2004 account @ 12 months £'000** | 2003 account @ 12 months £'000 |
|---|---|---|
| Amounts written off | **–** | – |
| Provision for bad debts | **62** | 48 |
| Total bad and doubtful debts | **62** | 48 |

## 7 Investment income

| | **2002 account @ 24 months £'000** | **Calendar year movement £'000** | **2002 account @ 36 months £'000** | 2001 account @ 36 months £'000 |
|---|---|---|---|---|
| Investment income receivable | **511** | **491** | **1,002** | 1,115 |
| Accrued interest | **24** | **31** | **55** | 97 |
| Total investment income | **535** | **522** | **1,057** | 1,212 |

# Notes to the Accounts
# For the year ended 31 December 2004

*continued*

## 7 Investment income *continued*

| | **2003 account @ 12 months £'000** | **Calendar year movement £'000** | **2003 account @ 24 months £'000** | 2002 account @ 24 months £'000 |
|---|---|---|---|---|
| Investment income receivable | **217** | **689** | **906** | 511 |
| Accrued interest | **9** | **58** | **67** | 24 |
| Total investment income | **226** | **747** | **973** | 535 |

| | **2004 account @ 12 months £'000** | 2003 account @ 12 months £'000 |
|---|---|---|
| Investment income receivable | **454** | 217 |
| Accrued interest | **58** | 9 |
| Total investment income | **512** | 226 |

## 8 Calendar year investment yield

| | **31 December 2004 £'000** | 31 December 2003 £'000 |
|---|---|---|
| Average amount of syndicate funds available for investment during the year | **98,633** | 55,380 |
| **Investment return** | **1,527** | 880 |
| Calendar year investment yield | **1.5%** | 1.6% |
| **Analysis of investment yield by currency:** | | |
| Sterling | **4.6%** | 3.1% |
| Euro | **1.6%** | 1.8% |
| US Dollars | **1.3%** | 1.3% |
| Canadian Dollars | **2.5%** | 3.1% |

## 9 Analysis of result by currency

| | **Currency '000** | **2002 account @ 36 months £'000** | Currency '000 | 2001 account @ 36 months £'000 |
|---|---|---|---|---|
| United States dollar 2002 closed year profit @ $1.92 (2001 $1.79) | **$38,900** | **20,260** | $4,683 | 2,616 |
| Candian dollar 2002 closed year profit @ C$2.30 (2001 C$2.31) | **C$3,405** | **1,480** | C$1,191 | 515 |
| Sterling 2002 closed year profit (including Euro @ 1.41 (2001 1.42)) | | **3,492** | | (1,156) |
| | | **25,232** | | 1,975 |

The 2002 closed year profit will be distributed in Sterling and United States dollars.

## 10 Financial investments

| | 31 December 2004 | | 31 December 2003 | |
|---|---|---|---|---|
| | **Cost £'000** | **Market value £'000** | Cost £'000 | Market value £'000 |
| Debt securities and other fixed-income securities | **70,579** | **70,530** | 27,305 | 27,299 |
| Deposits with approved credit institutions and financial institutions | **–** | **–** | 18,484 | 18,495 |
| Other | **586** | **586** | 794 | 794 |
| Debt securities and other fixed-income securities | **71,165** | **71,116** | 46,583 | 46,588 |

## 11 Debtors

| | **31 December 2004 £'000** | 31 December 2003 £'000 |
|---|---|---|
| **Amounts due within one year:** | | |
| Arising out of direct insurance operations: | | |
| Lloyd's central accounting balance | **152** | 23 |
| Other | **49** | – |
| Arising out of reinsurance operations: | | |
| Lloyd's central accounting balance | **13,819** | 10,691 |
| Reinsurance claims accruals | **8,843** | 5,074 |
| Outstanding claims advances | **21** | 136 |
| Other | **1,064** | 147 |
| Other debtors | **1,177** | 336 |
| | **25,125** | 16,407 |
| **Amounts due after one year:** | | |
| Other debtors | **–** | 298 |
| Total debtors | **25,125** | 16,705 |

# Notes to the Accounts
# For the year ended 31 December 2004

*continued*

## 12 Overseas deposits

| | 31 December 2004 £'000 | 31 December 2003 £'000 |
|---|---|---|
| South African Trust Funds | **309** | 54 |
| Australian Trust Funds | **1,545** | 1,168 |
| Additional Securities Ltd | **657** | 143 |
| Deposits with US Reinsurance Trust Funds | **294** | 301 |
| Deposits with US Surplus Lines Trust Funds | **49** | – |
| Canadian Marginal Fund | **233** | 701 |
| Deposits with US Kentucky Trust Funds | **56** | – |
| | **3,143** | 2,367 |

## 13 Profit for the closed year of account

| | 2002 account @ 36 months £'000 | 2001 account @ 36 months £'000 |
|---|---|---|
| Profit for the 2002 (2001) closed year of account | **25,232** | 1,975 |
| Personal expenses | **(4,953)** | (1,503) |
| | **20,279** | 472 |
| Members' agents' fees | **(486)** | (369) |
| Closed year of account profit after personal expenses | **19,793** | 103 |
| Continuous solvency transfer | **(7,202)** | – |
| Closed year of account profit after personal expenses and continuous solvency transfer | **12,591** | 103 |

## 14 Balance on open years of account

| | 2003 account @ 24 months £'000 | 2002 account @ 24 months £'000 |
|---|---|---|
| Balance on open year of account at 24 months | **68,636** | 46,644 |
| Personal expenses | **(3,041)** | (1,819) |
| | **65,595** | 44,825 |
| Members's agents's fees | **(681)** | (486) |
| Open year of account balance after personal expenses | **64,914** | 44,339 |
| Continuous solvency transfer | **(4,095)** | (2,000) |
| Open year of account balance after personal expenses and continuous solvency transfer | **60,819** | 42,339 |

## 14 Balance on open years of account *continued*

| | 2004 account @ 12 months £'000 | 2003 account @ 12 months £'000 |
|---|---|---|
| Balance on open year of account at 12 months | **59,644** | 47,145 |
| Personal expenses | **(4,792)** | (3,039) |
| | **54,852** | 44,106 |
| Members' agents' fees | **(782)** | (681) |
| Open year of account balance after personal expenses | **54,070** | 43,425 |

## 15 Creditors

| | 31 December 2004 £'000 | 31 December 2003 £'000 |
|---|---|---|
| **Amounts due within one year:** | | |
| Arising out of direct insurance operations: | | |
| Lloyd's central accounting balance | **10** | – |
| Other | **12** | – |
| Arising out of reinsurance operations: | | |
| Lloyd's central accounting balance | **5,004** | 4,672 |
| Reinsurance premium accruals | **6,521** | 2,759 |
| Outstanding claims advances | **40** | 54 |
| Other | **734** | 128 |
| Amount due to managing agent in respect of expenses | **39** | 193 |
| Amount due to managing agent in respect of profit commission | **3,134** | – |
| Other creditors | **3** | – |
| Total creditors | **15,497** | 7,806 |

# Notes to the Accounts
# For the year ended 31 December 2004

*continued*

## 16 Particulars of business written

| Geographical origin of gross premium (direct business only): | 2002 account @ 24 months £'000 | Calendar year movement £'000 | 2002 account @ 36 months £'000 | 2001 account @ 36 months £'000 |
|---|---|---|---|---|
| UK | **2,657** | **(587)** | **2,070** | 2,888 |
| Other EU | **536** | **13** | **549** | 173 |
| Other | **1,515** | **10** | **1,525** | 1,315 |

| | 2003 account @ 12 months £'000 | Calendar year movement £'000 | 2003 account @ 24 months £'000 | 2002 account @ 24 months £'000 |
|---|---|---|---|---|
| UK | **215** | **65** | **280** | 2,657 |
| Other EU | **69** | **239** | **308** | 536 |
| Other | **4,715** | **6,106** | **10,821** | 1,515 |

| | 2004 account @ 12 months £'000 | 2003 account @ 12 months £'000 |
|---|---|---|
| UK | **777** | 215 |
| Other EU | **1,333** | 69 |
| Other | **23,851** | 4,715 |

## 16 Particulars of business written *continued*

| Type of business: | | Direct Business | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Third Party Liability £'000 | Marine Aviation & Transport £'000 | Motor £'000 | Fire & Other Damage to Property £'000 | Reinsurance £'000 | Total £'000 |
| **2002 account @ 36 months** | | | | | | | |
| Gross premium written | | 7 | 2,070 | 2,067 | – | 68,744 | 72,888 |
| Gross claims paid | | – | 2,962 | 1,110 | – | 19,187 | 23,259 |
| Gross operating expenses | 1 | – | 132 | 132 | – | 4,386 | 4,650 |
| Reinsurance balance | 2 | (2) | (74) | (469) | – | (19,420) | (19,965) |
| Average rate of commission | 3 | 20.00% | 6.00% | 11.25% | – | 12.07% | 12.05% |

| Type of business: | | Direct Business | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Third Party Liability £'000 | Marine Aviation & Transport £'000 | Motor £'000 | Fire & Other Damage to Property £'000 | Reinsurance £'000 | Total £'000 |
| **2003 account @ 24 months** | | | | | | | |
| Gross premium written | | 7 | 3,381 | 3,312 | 4,709 | 90,018 | 101,427 |
| Gross claims paid | | – | 148 | 1,413 | 421 | 15,958 | 17,940 |
| Gross operating expenses | 1 | – | 199 | 195 | 277 | 5,301 | 5,972 |
| Reinsurance balance | 2 | (2) | (920) | (573) | (1,225) | (21,377) | (24,097) |
| Average rate of commission | 3 | 20.00% | 12.93% | 24.99% | 20.50% | 12.99% | 13.83% |

| Type of business: | | Direct Business | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Third Party Liability £'000 | Marine Aviation & Transport £'000 | Motor £'000 | Fire & Other Damage to Property £'000 | Reinsurance £'000 | Total £'000 |
| **2004 account @ 12 months** | | | | | | | |
| Gross premium written | | 254 | 2,762 | 5,257 | 17,688 | 92,422 | 118,383 |
| Gross claims paid | | – | 40 | 1,555 | 2,530 | 28,225 | 32,350 |
| Gross operating expenses | 1 | 10 | 104 | 199 | 668 | 3,492 | 4,473 |
| Reinsurance balance | 2 | (77) | (818) | (945) | (4,300) | (16,256) | (22,396) |
| Average rate of commission | 3 | 26.93% | 10.56% | 25.66% | 22.40% | 12.81% | 15.05% |

### 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 2004

| | **2002** | 2001 |
|---|---|---|
| Syndicate allocated capacity | **£95.74m** | £81.09m |
| Capacity utilised | **76.1%** | 68.6% |
| Number of underwriting members | **971** | 788 |
| Aggregate net premiums | **£47.94m** | £32.62m |
| Net capacity utilised | **50.1%** | 40.2% |
| Technical account ratio | **33.4%** | 1.3% |

**Results for an illustrative share of £10,000**

| | **£** | £ |
|---|---|---|
| Gross premiums | **7,613** | 6,864 |
| Net premiums | **5,008** | 4,023 |
| Reinsurance to close from an earlier account | **1,356** | – |
| Net claims | **(1,909)** | (1,770) |
| Reinsurance to close | **(1,490)** | (1,674) |
| Profit/(loss) on exchange | **44** | (7) |
| Syndicate operating expenses | **(468)** | (484) |
| Balance on technical account | **2,541** | 88 |
| Investment income and gains less losses, less expenses and charges | **95** | 156 |
| Profit for closed year of account before personal expenses | **2,636** | 244 |
| Illustrative personal expenses for a traditional name: | | |
| Managing agent's salary | **(65)** | (65) |
| Central Fund contributions | **(100)** | (75) |
| Lloyd's subscription | **(25)** | (25) |
| Profit commission | **(428)** | (12) |
| Total illustrative personal expenses for a traditional name | **(618)** | (177) |
| Profit on ordinary activities after illustrative managing agent's fee and profit commission and illustrative personal expenses | **2,018** | 67 |
| Total of syndicate operating expenses, managing agent's fee and profit commission | **961** | 561 |

# Disclosure of Interests Statement

## Directors' shareholdings

The ultimate parent company of Cathedral Underwriting Limited is Cathedral Capital PLC. Century Capital Partners III, L.P., has a 11.5% interest in Cathedral Capital PLC and is therefore deemed to be a controller of the managing agency and has been approved as such by Lloyd's and the FSA.

The interests of the directors of Cathedral Underwriting Limited in office as at 31 December 2004 and their families in the share capital of Cathedral Capital PLC were as follows:

| | 31 December 2004 | | 31 December 2003 | |
|---|---|---|---|---|
| | "A" Convertible Ordinary Shares | "C" Convertible Ordinary Shares | "A" Convertible Ordinary Shares | "C" Convertible Ordinary Shares |
| J M Andrews | **350,000** | **–** | 200,000 | – |
| D C Grainger | **–** | **613,625** | – | 613,625 |
| J C Hamblin | **200,000** | **818,168** | 200,000 | 818,168 |
| L A Holder | **200,000** | **818,168** | 153,845 | 818,168 |
| J A Lynch | **250,000** | **818,168** | 185,000 | 818,168 |
| E E Patrick | **2,253,492** | **818,168** | 2,253,492 | 818,168 |
| P D Scales | **250,000** | **818,168** | 210,000 | 818,168 |
| A I G C South | **275,000** | **–** | 250,000 | – |
| J P Tilling | **17,500** | **–** | 17,500 | – |

Mr Hamblin's wife is the beneficial holder of 27,397 A Convertible Ordinary 25p Shares 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 2004 was through a wholly owned subsidiary company. Cathedral Capital (1998) Limited, a Lloyd's corporate member and subsidiary of Cathedral Capital PLC, provides the following underwriting capacity:

| | | Allocated capacity | |
|---|---|---|---|
| Syndicate | 2005 account | 2004 account | 2003 account |
| 2010 | £107.7 million | £97.0 million | £67.9 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.

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. In addition one director is a director of a number of corporate names which have participations on Syndicate 2010. Standard fees and profit commisions are paid by these corporate names to Cathedral Underwriting Limited.

# Disclosure of Interests Statement

### Consortium arrangements

For the 2004 and 2003 accounts 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 7% and 4% of the Syndicate's total premium income for 2004 and 2003 accounts respectively. Risks are allocated between participants on a pre-determined basis (for both the 2004 and 2003 accounts 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 has 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 the 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 5 to these accounts.

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