CATHEDRAL

SYNDICATE 2010

MMX

Annual Report

31 December 2006

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Chairman's Statement

As we enter our seventh year of underwriting, the accounts have again been produced both on an annual accounting basis and on a traditional three year 'funded' basis in respect of the closing 2004 year of account.

On an annual accounting basis Syndicate 2010's combined ratio for the 2006 calendar year is 74.7%, a profit of circa £46.7 million. This is a good result, even though calendar year 2006 was remarkably loss free.

On a traditional basis I am pleased to report that the Syndicate has maintained its profitable record with a closed year profit of 11.6% of stamp capacity for a name paying standard managing agency fee and profit commission. This is a creditable result for a business with such a property orientation as Syndicate 2010, bearing in mind the wind losses emanating from Hurricanes Charley, Frances, Ivan and Jeanne. The aviation account once again provided a significant positive contribution and furthermore the back year reserves have again held up well, thus leading to small releases.

The 2005 year of account which was heavily affected by the well publicised wind losses, particularly Hurricanes Katrina, Rita and Wilma, has performed as well as we could have hoped and a marginal result is still in prospect. To date, our original estimates remain valid which reflects great credit on the professionalism of both our underwriting and modelling teams. We have taken the opportunity to improve our banded forecast to –2 % to +3% of stamp capacity.

The 2006 year of account in its first year provides a complete contrast to its predecessor. While the year remains heavily on risk there is no doubt that it offers the prospect of a very worthwhile return, not only from the property accounts, but also from the aviation/satellite and contingency accounts.

While the prospect of a good year of account return after a year like 2005 is welcome, there is now a softening in many areas of the market which is not encouraging. Fear still conditions the wider market's approach to catastrophe exposed business, particularly in the United States. Elsewhere greed is becoming the order of the day. We cannot expect the 2007 calendar year to be as loss-free as 2006, but diversification into weakening casualty lines as a strategy is not one supported by compelling precedent! In a fast changing world our underwriting team will continue with their specialist short-tail approach and continue to focus on risk and exposure management.

I would thank the underwriting and management teams for all their efforts on Syndicate 2010's behalf.

A. I. G. C. South
Chairman

21 March 2007

Underwriter's Report

Introduction

On an annual accounting basis the result of the syndicate for calendar year 2006 is a profit £46.7 million (combined ratio 74.7%). On the traditional Lloyd's basis of reporting, the 2004 year of account has closed with a profit of £33.0 million before standard personal expenses, being 11.6% on capacity, after the deduction of standard personal expenses.

2004 Account

I am pleased to report that the year has closed with a profit of £33.0 million, before personal expenses. For a natural name with standard personal expenses, this equates to a profit of 11.6% of capacity, before members' agency fees. This result is in the middle of our forecast range even though it has been depressed by the weak dollar.

The capacity for the 2004 underwriting year was approximately £199.7 million. The gross signed premium income, net of brokerage, was some 78% of capacity at year-end rates of exchange.

In last year's report I summarised the loss activity affecting the 2004 year of account, most particularly Hurricanes Charley, Frances, Ivan and Jeanne. These and other losses affecting the year behaved as expected over the last twelve months. There were also small releases from prior years which all continue to run off well.

2005 Account

For 2005 we maintained our capacity at £199.7 million.

In general going into the 2005 year the market had more capacity in most areas than was really needed. The hurricanes of 2004 had done little to dampen the enthusiasm of the Bermudian companies who had set up in 2002. In truth, the hurricanes in 2004 were never likely to be market changing, in that most insurers and reinsurers had done well outside Florida and although the storms took the gloss off their results, in most cases they still made money and had their business assumptions confirmed. Furthermore, the blind reliance on the new generation of catastrophe models meant that many of them had unrealistic expectations of what the impact of a very large catastrophe on their books could really be.

Having had one of the most benign hail/tornado seasons since records began the year started on a very positive note. However as you will know the 2005 hurricane season was the busiest since records began. Although the market as a whole was involved to some degree with all those that made landfall, only three are of special concern.

In August Hurricane Katrina hit New Orleans as well as Alabama, Mississippi and inland Louisiana. I do not intend to go into a lengthy description of the loss because the damage done was well publicised. Estimates vary, but the insured damage was between $40 to $60 billion. By some threefold, this was the largest natural disaster in history.

We were involved in the loss through both our treaty and direct property accounts. Assessing the treaty book is relatively straightforward for a loss of this size, given that the reinsurance programmes of many assureds were simply exhausted. The direct side is more complicated by issues such as business interruption and loss adjustment expenses. Nonetheless, our initial estimation of the impact on this area of the account has also proved robust. This will not make us less conservative in our assumptions in future.

Hurricane Rita which hit Texas and Louisiana in September was by comparison a "conventional" catastrophe. Towards the end of its long journey across the Gulf of Mexico the prognosis was that it would strike Galveston and Houston as a category 4 hurricane. This would have caused losses on a par with Katrina and could well have caused widespread insolvencies in the reinsurance industry. As it happened, it hit Eastern Texas and Western Louisiana causing insured losses of around $5 billion. The adjusting issues are more straightforward and the loss is settling more quickly than Katrina.

Underwriter's Report

continued

2005 account continued

Finally in October Hurricane Wilma struck Mexico as a category 5 and then ricocheted across the Gulf hitting the west coast of Florida. Most of the damage was caused in the urban areas of Eastern Florida as the storm system made its way out into the Atlantic. Estimates of insured damage are around the $10 billion mark for the United States and $2-3 billion for Mexico.

As I said last year, 2005, for a writer of wind exposed property business is about as bad a year as you could reasonably contemplate. Severity is one thing but frequency and severity is the stuff of nightmares. We owe a great deal to our reinsurers who have carried much of our losses and we appreciate their support going forward.

Our aviation book saw a slight decline in rates at the start of the year, but given the lack of any large losses in the last three years, this was hardly surprising. During 2005 there was a run of losses to some smaller airlines, but nothing that would impact the market as a whole. Towards the end of the year rates began to drift up again as the "Katrina effect" began to take hold. The satellite market continued to perform very well with a remarkably low incidence of loss giving us one of our best years to date.

The direct property book saw increasing competition on large accounts during the early part of 2005. This was primarily driven by new Bermudian markets who had arrived in 2002 following 9/11. Post Katrina this decline was halted and towards the end of the year rates began to climb again across most areas of the book, but most particularly in catastrophe exposed areas in the USA.

Our result for 2005 will be marginal. There is some business which is still on risk and the final outcome for the year will depend on how well the runoff performs, although the performance during the last twelve months has been encouraging.

We have therefore slightly improved our forecast to -2% to +3% of stamp capacity from -4% to +3% of stamp capacity.

2006 Account

For the 2006 account we increased our capacity to approximately £249.7 million, in large part to take advantage of what promised to be a difficult, but distressed market in many areas of our operations.

As it turned out the 2006 calendar year was a complete contrast to 2005 in that there were no hurricanes which made landfall in the US (or anywhere else for that matter).

Rates were increasing at the beginning of the year, but not as much as we expected, given the immense punishment the industry had taken in 2005. This was largely because many insurers and reinsurers in fact didn't fully appreciate just how bad their results were until the first quarter of 2006. This was due to a mixture of late development of the losses and hopeless optimism by some companies as to where the claims would ultimately end up. Once the full impact of the three 2005 hurricanes began to appear in their books, many then reacted by slashing their exposures on the US coast. This created a market shortage of capacity for catastrophe exposed business in the second and third quarters of 2006 which in turn led to the highest pricing for coastal wind exposure ever seen.

In an attempt to replace lost income many insurers and reinsurers have rushed to enter new markets, writing anything so long as it is not coastal US property business. This has led to widespread softening in US and non-US casualty, airline, international property and to a lesser extent in perceived non catastrophe exposed US property business. The most satisfying part of the year was that we needed to make no such forced changes to our strategy as a result of the 2005 hurricanes. We continued to write catastrophe exposed business in a measured manner.

I expect the year to be a good one for those who had hurricane exposure, simply because there were no hurricanes. It remains to be seen when the next one hits just how much exposures have in fact been brought under control.

The overall picture for both property accounts is that a higher percentage of our income now comes from the US. This is partly because the rates have risen so much, but also because that's where the opportunities are.

2006 account continued

Our aviation business which is a reinsurance one has remained strong, but 2006 saw near suicidal rating levels for the original business, particularly in the major airline and product manufacturer sectors. This cannot be sustained even in the medium term, unless the capital providers are prepared to lose money for the foreseeable future. There were a number of losses during the year among smaller airline operators, most of which have fallen to our clients' bottom lines. The squeeze between very low rates for their inward business, a rash of retained losses, and a reinsurance market which is charging much the same as it has for the last few years, means that some time soon something has to give.

Our satellite book continued to run well.

The contingency account which was added at the end of 2005 has performed very well and has made a modest but valuable contribution to our results to date.

2006 Calendar Year Commentary

The 2006 calendar year result is made up of contributions from all open years of account (2004, 2005 and 2006) together with movements on the closed years of account (2001 to 2003) that occurred during the year. The result for the year is a profit of £46.7 million (2005: £13.7 million). However, there was also a loss on currency translation for the year of £4.9 million (2005: a gain of £4.5 million), which has been accounted for through the Statement of Total Recognised Gains and Losses.

The performance of the 2004 and prior years of account contributed a profit of £3.4 million to the overall calendar year result. The income of the 2004 pure year had been substantially earned at the previous year-end whilst that of the prior years had been fully earned. The favourable run-off of the reserves established at the previous year-end contributed a profit of circa £0.8 million. Investment income contributed £2.6 million to the result.

The 2005 year of account contributed an annual accounting profit of £16.9 million compared with a loss of approximately £16 million during the previous calendar year. A significant proportion of the unearned income at 31 December 2005, relating to the 2005 year, was earned during 2006. The reserves established, at the previous year-end, in respect of loss activity that had occurred during 2005 ran-off favourably and no significant major losses in 2006 impacted the year further. These factors combined to produce a profit of £14.8 million which was supplemented by a positive investment return of £2.1 million.

The performance of the 2006 account contributed a profit of £26.3 million to the calendar year result of which £0.9 million related to investment income. This result reflects the benign catastrophe year. At the year-end approximately 55% of the net premiums written, for the 2006 account, had been earned.

Further details of the Syndicate's calendar year result are set out in the Managing Agent's Report.

Underwriter's Report

continued

Future prospects

We expect to grow in premium volume for 2007, largely due to rate growth, and as a result we have increased our stamp to £300 million. It is likely that this will prove sufficient for the next couple of years as the market begins to settle again. We will always add new lines of business if the right individuals become available in short tail classes which require expertise, but good people are in short supply in our industry.

New capital is quick to respond whenever there is a shortage of capacity, particularly these days. In the last 18 months or so since Katrina we have seen much capital deployed then destroyed, but we have also seen that capital replaced again, and increased very quickly. Not so good for the old shareholders, who have paid the losses and then been diluted, but good for those markets that are desperate for opportunities to put capital to work. We have seen a raft of start-up businesses in Bermuda as well as a couple of new syndicates in Lloyd's, with more on the way. This will put further pressure on non coastal business as these entities will seek to achieve a spread of risk. It will, however, bring some relief to buyers on the coast of the US, where prices continued to rise at 1 January 2007. Even though prices have since begun to flatten, the pricing environment for catastrophe exposed US business remains strong. Regardless of how high the rates get, however, the weather still needs to co-operate for the promised returns to be generated.

Anyone can make money in our business... if there are no losses. So we will continue to manage the exposures to our business, not chase premium. We will continue to choose to underwrite, not gamble.

Concluding comments

A successful syndicate is a team effort. My thanks therefore go to my underwriting colleagues, Mark Wilson, Nick Destro and Simon Dean (our non-marine treaty underwriters), Richard Williams and Dan Warburg (our aviation underwriters), Simon King and Richard Wood (our direct and facultative property underwriters) and Justin Burns and Katie Spicer (our contingency underwriters), together with the Syndicate's entire support team to whom we all owe a great deal.

J C Hamblin
Active Underwriter
21 March 2007

Managing Agent's Report
At 31 December 2006

Introduction

The directors of Cathedral Underwriting Limited, the managing agency for Syndicate 2010, present the Annual Report for the Syndicate at 31 December 2006, together with the Chairman's Statement and the Underwriter's Report. The Syndicate commenced trading for the 2001 year of account.

This is the second year that the Syndicate's Annual Report is presented on an annual accounting basis. The 2006 annual accounting calendar year result includes a contribution from all open years of account (2004, 2005 and 2006) together with any movement on the closed years of account (2001 to 2003) that occurred during the year. An analysis, by year of account, of the annual accounting result is included later in this report.

The Annual Report also includes the result of the 2004 closing year of account.

The auditors, Mazars LLP, have included two separate "True and Fair" audit opinions within the Annual Report one covering the annual accounting result for 2006 and the other the closing year of account result for 2004.

The Managing Agent

Cathedral Underwriting Limited is the managing agent for Syndicate 2010 and is authorised and regulated by the UK's Financial Services Authority ("FSA") and Lloyd's.

Syndicate	Principal class of business	Active underwriter	2007 Capacity £'000
2010	Non marine and aviation reinsurance, direct and facultative property and contingency	J C Hamblin	300,006

During the year the ultimate parent company of Cathedral Underwriting Limited changed from Cathedral Capital PLC (company registration number: 3372107) to Disciple Topco Limited (company registration number: 5958018). Alchemy Partners Nominee Limited has a 56.1% interest in Disciple Topco Limited and is therefore deemed to be a controller of the managing agency and has been approved as such by Lloyd's and the FSA.

Directors' shareholdings

The directors who served during the year and their interests and that of their families in the share capital of Disciple Topco Limited as at 31 December 2006 (interest in Cathedral Capital PLC as at 31 December 2005), were as follows:

		31 December 2006		31 December 2005	
		"B" Ordinary 1 pence Shares	**Ordinary 1 pence Shares**	"A" Convertible Ordinary 25 pence Shares	"C" Convertible Ordinary 25 pence Shares
J M G Andrews	Non-Executive Director	-	-	350,000	-
D C Grainger	Compliance Director	**14,411**	**11,812**	25,000	613,625
J C Hamblin	Director	**21,041**	**33,413**	200,000	818,168
L A Holder	Managing Director	**21,041**	**33,413**	200,000	818,168
J A Lynch	Finance Director	**21,634**	**33,413**	250,000	818,168
E E Patrick	Non-Executive Director	**9,388**	**9,788**	2,253,492	818,168
P D Scales	Director	**21,634**	**33,413**	250,000	818,168
A I G C South	Non-Executive Chairman	-	-	275,000	-
J P Tilling	Independent Review Director	-	-	17,500	-

Mr Hamblin's wife was the beneficial holder of 27,397 A Convertible ordinary 25 pence shares of Cathedral Capital PLC at 31 December 2005.

Managing Agent's Report
At 31 December 2006

continued

Some of the directors have an interest in the preference shares issued by Disciple Topco Limited and loan notes issued by Disciple Holdco Limited (company registration number 5958038). These interests which were acquired during December 2006 are set out below:

	31 December 2006 Preference £1 Shares	31 December 2006 Loan Notes £
D C Grainger	**562,561**	**1,125,290**
J C Hamblin	**821,356**	**1,642,958**
L A Holder	**821,356**	**1,642,958**
J A Lynch	**844,489**	**1,689,232**
E E Patrick	**366,699**	**733,509**
P D Scales	**844,489**	**1,689,232**

The Cathedral Group has an Employee Share Ownership Plan ("ESOP") in which all employees are potential beneficiaries. As such, all directors who are full time employees of the Cathedral Group have a potential interest in the shares (and other assets) held by the ESOP. The interests of the ESOP are as follows:

	31 December 2006			31 December 2005
	Disciple Topco Limited		Disciple Holdco Limited	Cathedral Capital PLC
	"B" Ordinary 1 pence Shares	Preference £1 Shares	Loan Notes £	"A" Convertible Ordinary 25 pence Shares
	17,054	**665,733**	**1,331,666**	1,688,895

Directors and their participations in Syndicate 2010

None of the directors of Cathedral Underwriting Limited participate directly as Names on the Syndicate. Certain of the directors do, however, own shares in the ultimate parent company, Disciple Topco Limited, which owns 100% of the interest in the corporate member Cathedral Capital (1998) Limited which has a £107.7 million, £135.2 million and £169.2 million participation in the 2005, 2006 and 2007 years of account respectively. In addition, one of the directors is a director of a number of corporate names which had, in aggregate, £2 million, £1.5 million and £2.1 million participations on the 2005, 2006 and 2007 years of account respectively.

Active Underwriter

John Hamblin was appointed active underwriter on 30 November 2001 having joined the Syndicate on 1 January 2001 as deputy underwriter. He had previously been active underwriter for Syndicate 566.

Registered Office/accounting records

In August 2006, the registered office and principal place of business of Cathedral Underwriting Limited changed to 5th Floor, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8EN. 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.

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 Managing Agent's Board.

2006 Calendar Year

This Annual Report includes the results, for the calendar year, on an annual accounting basis, and is prepared in accordance with Schedule 9A to the Companies Act 1985 and applicable accounting standards. In the past separate underwriting accounts were presented for each reporting year of account and a result was only determined for the years of account that had reached the 36 month stage of development. The accounting policies adopted in producing annual accounting numbers vary significantly from those adopted in producing accounts on the old Lloyd's basis. The accounting policies that have been adopted to produce the annual accounting results are set out in full on pages 27 to 29.

Results

The overall calendar year result is the aggregate of the calendar year results of all years of account. The results are all from continuing operations. The annual accounting result is a profit of £46.7 million in the year (2005: £13.7 million) and this can be analysed as follows:

	2004 * account £'000	**2005 account £'000**	**2006 account £'000**	**31 December 2006 £'000**	31 December 2005 £'000
Gross earned premium	**3,746**	**77,169**	**138,312**	**219,227**	211,305
Reinsurers' share	**(799)**	**(7,364)**	**(40,738)**	**(48,901)**	(59,360)
Net earned premium	**2,947**	**69,805**	**97,574**	**170,326**	151,945
Gross claims incurred	**(2,497)**	**(46,755)**	**(39,006)**	**(88,258)**	(244,595)
Reinsurers' share	**1,296**	**8,476**	**997**	**10,769**	149,480
Net claims incurred	**(1,201)**	**(38,279)**	**(38,009)**	**(77,489)**	(95,115)
Net Operating Expenses	**(949)**	**(16,720)**	**(34,213)**	**(51,882)**	(46,173)
Balance on Technical Account before investment return	**797**	**14,806**	**25,352**	**40,955**	10,657
Net Investment Income	**2,630**	**2,145**	**932**	**5,707**	2,998
Profit for the financial year	**3,427**	**16,951**	**26,284**	**46,662**	13,655

* The 2004 account includes the movement in the 2001 to 2003 accounts which have closed into the 2004 account.

It is written premiums that are used for annual accounting purposes. Unlike the traditional three year "funded" basis, annual accounting premiums are grossed up for brokerage.

The insurance and reinsurance contracts underwritten by the Syndicate are earned over the life of the policy, normally commencing at the inception of the policy. An earnings pattern is established for each class of business written by the Syndicate and these earnings patterns are applied at an individual policy level. The earning patterns aim to reflect the underlying exposures of the business written. Thus net earned premiums during 2006 include premiums on policies incepting during 2006 together with estimates for premiums and adjustments to premiums on policies incepting in prior periods. The gross and net earned premiums can be analysed as follows:

	31 December 2006		31 December 2005	
	Gross £'000	**Net £'000**	Gross £'000	Net £'000
Non-marine reinsurance	**73,946**	**49,798**	88,908	55,940
Aviation	**39,401**	**30,708**	40,124	30,971
Satellite	**6,292**	**4,496**	7,099	5,762
Direct & facultative property	**77,763**	**64,145**	58,483	42,551
Contingency	**6,730**	**5,959**	692	645
Other	**15,095**	**15,220**	15,999	16,076
Total	**219,227**	**170,326**	211,305	151,945

At the year end the Syndicate had net unearned premiums of £77.3 million (2005: £81.5 million) on the balance sheet.

The impact of the major losses on the account are individually assessed. In addition, an attritional loss ratio has been determined for each class of business written by the Syndicate. Attritional losses on an annual accounting basis are derived by applying the estimated attritional ultimate loss ratios to the earned premium. This presumes that the attritional loss ratios remain the same over the year of account.

The annual account includes the impact of any losses identified with a date of loss in 2006 regardless of the year of account when the cover incepted. When a loss occurs the full impact of that loss (gross and net) is recognised at that time. The Underwriter's Report contains further detail of loss activity during calendar year 2006.

The 2006 combined ratio is 74.7% compared with a restated combined ratio of 90.6% for 2005. This combined ratio is expressed as a percentage of Net Earned Premiums and excludes investment return and any other gains and losses that have been accounted for through the Statement of Total Recognised Gains and Losses. The combined ratio is analysed as follows:

	31 December 2006		31 December 2005 *(restated)*	
	Gross %	**Net %**	Gross %	Net %
Claims Ratio:				
Non-marine reinsurance	**41.0**	**46.1**	165.8	82.4
Aviation	**45.2**	**57.1**	7.7	22.4
Satellite	**28.7**	**33.9**	14.7	23.6
Direct & facultative property	**32.5**	**35.2**	138.7	68.1
Contingency	**47.8**	**52.7**	52.8	56.7
Other	**65.0**	**64.4**	72.1	55.3
Total Claims Ratio	**40.3**	**45.5**	115.8	62.6
Expense Ratio	**22.7**	**29.2**	20.2	28.0
Combined Ratio	**63.0**	**74.7**	136.0	90.6

The combined ratio has been restated to exclude managing agent's profit commission. This is the basis used throughout these financial statements.

The expense ratio includes brokerage on inwards business which accounts for approximately 72% of the net operating expenses. The operating expenses are set out in more detail in Note 4 on page 32.

The Annual Report includes a Statement of Total Recognised Gains and Losses. The purpose of this statement is to show the extent to which members' funds have increased or decreased following the recognition of all gains and losses in the period and also reflects any change in the basis of accounting from the previous year.

Statement of Managing Agent's Responsibilities

Cathedral Underwriting Limited as managing agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the Regulations") require the managing agent to prepare annual accounts for the Syndicate at 31 December each year which give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period.

In preparing these Syndicate annual accounts, the managing agent is required to:

a) select suitable accounting policies which are applied consistently, with the exception of any changes arising on the adoption of new accounting standards in the year;
b) make judgements and estimates that are reasonable and prudent;
c) state whether applicable accounting standards have been followed, subject to any material differences disclosed and explained; and
d) prepare the financial statements on a going concern basis unless it is inappropriate to presume that there will be future years of account of the syndicate.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the Regulations and the relevant provisions of the Companies Act 1985. 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.

Year of Account

Members' Agents

The following members' agent has provided more than 20% of the Syndicate's allocated capacity for the 2005, 2006 and 2007 years of account.

	2007 account		2006 account		2005 account	
Name of Agent	**£'000**	**%**	£'000	%	£'000	%
Hampden Agencies Limited	**248,421**	**82.8**	171,617	68.7	134,572	67.4

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Cathedral Group company, provided £107.7 million, £135.2 million and £169.2 million respectively of the capacity to Syndicate 2010 for the 2005, 2006 and 2007 years of account through Hampden Agencies Limited.

Capacity by member type and year of account

	2007 account		2006 account		2005 account	
	£'000	**%**	£'000	%	£'000	%
Syndicate allocated capacity attributable to:						
Corporate members	**242,518**	**80.8**	182,520	73.1	144,252	72.2
External members	**54,759**	**18.3**	64,225	25.7	53,008	26.5
Working members *(none of whom are employed by the managing agency)*	**2,729**	**0.9**	2,947	1.2	2,441	1.3
	300,006	**100.0**	249,692	100.0	199,701	100.0

Result

The 2004 account closed with a profit of £33 million, before personal expenses. For a natural name with standard personal expenses, this equates to a profit of 11.6% of capacity, before members' agency fees.

This result is in the middle of the forecast range that had been previously released by the managing agent. The losses that impacted the 2004 account, which were reported on in detail in last year's Annual Report, ran off as expected during 2006 and indeed there were some modest releases from the favourable run off of the earlier years of account that had closed into the 2004 account at 31 December 2005. However, the result of the 2004 account, which closed at 31 December 2006, was impacted by a US dollar that had weakened throughout 2006. The analysis of the 2004 closed year result, before personal expenses, by member type is as set out below:

	2004 account	
	£'000	%
Result attributable to:		
Corporate members	22,837	69.3
External members	9,656	29.3
Working members *(none of whom are employed by the managing agency)*	461	1.4
	32,954	**100.0**

Managing Agent's Report
At 31 December 2006

continued

2005 account forecast

The forecast 2005 year of account result, on the traditional three year Lloyd's basis after charging standard managing agent's fees and profit commission, but before charging members' agents fees, is in the range of -2% to +3% of Syndicate capacity at 31 December 2006.

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;
- 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 2004 year of account;
- There will be no significant changes in the regulatory or legislative policies which will affect the activities of the Syndicate; and
- Interest, inflation and exchange rates as at 31 December 2007 will not differ significantly from those taken into account in the forecast.

This forecast result assumes that standard personal expenses before members' agency fees, including managing agency fees of 0.65% and profit commission of 17.5% are charged to all Names on the Syndicate for the 2005 year of account. Cathedral Underwriting Limited, does not charge profit commission to Cathedral Capital (1998) Limited, a wholly owned fellow subsidiary within the Cathedral Group.

Historical summary of results

A summary of results for all of the closed years of account of the Syndicate is set out on page 57 of this annual report.

Description of business and methods of acceptance

The Syndicate commenced underwriting for the 2001 year of account. 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.

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 cedants.

We also write a small book of retrocession 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 specialist Venice based satellite underwriting agency to which we delegate underwriting authority. The Syndicate also writes satellite excess of loss.

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

(i) Open market business which encompasses the whole range of risk sizes from large complex property schedules down to small single locations; and
(ii) Delegated binding authority business which targets smaller property risks principally in the US, Canada, Australia and Europe.

From mid-2003 the Syndicate wrote a fire theft and collision account (FTC). This was largely discontinued in the second half of 2006.

From the final quarter of 2005 the Syndicate has written a contingency account focused on non appearance insurance.

For the 2007 account, Syndicate 2010 intends to retain a focus on its existing accounts, although it will continue to seek opportunities in areas viewed as complementary. This may lead to a broadening of underwriting activities in 2007 and beyond.

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 for the main reinsurance account, the general aviation account and the war account. As with the non-marine account, OLW and proportional treaties are also employed.

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

The satellite account has proportional treaty protection.

The contingency account also has separate excess of loss protection.

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.

Syndicate investments

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.

Credit Agricole Asset Management (UK) Limited ("CAAM") is the investment manager 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 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.

The investment objective for CAAM is to invest the Premiums Trust Funds in a manner calculated to maximise return within agreed restraints 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 adequate liquidity and security and they 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 adverse price conditions.

CAAM's performance is measured against Merrill Lynch 1-3 year Government Index of the domestic Government bond market for each Trust Fund which are the benchmarks defined by the investment committee.

Investment performance

Bond yields rose throughout 2006 in all major currencies responding to continued Central Bank tightening and strong economic data. The US economy showed some signs of weakness, notably in the housing market, which saw a sharp slowdown in both construction and buyer activity. Whilst offset by continued activity in commercial property and rising net personal wealth (largely driven by a return of over 15% in US equity markets), the potential knock-on effect on the US consumer gave the Fed cause to pause after their run of 17 consecutive 0.25% rate hikes. Whilst the Bank of Canada followed suit, the ECB continued to raise rates, by 1.25%, driven by a surprisingly strong German export-led growth and excessive money-supply growth. The only significant, global, issue was the rise and fall of energy prices; oil touched a peak of $80/barrel before finishing the year around $60/barrel. Otherwise the wind did not blow (much) and the earth did not tremble. As such risk premia remain low in both credit and interest rate markets, with credit spreads remaining at low levels.

CAAM's strategy of maintaining short duration portfolios protected the syndicate from much of the negative price action driven by higher bond yields; returns were above those estimated at the beginning of 2006 and comfortably above benchmark returns in all currencies.

Net cash-flows were significantly more favourable over the calendar year than in 2005, largely in US Dollar portfolios, with invested assets up by around $50million, having a positive effect on total investment earnings. The overall calendar year investment yield was 4.1% compared to 2.4% in 2005.

Investment strategy

CAAM, our investment manager, writes:

> "2007 will start with yet higher expectations for investment returns, in all currencies. Portfolio durations are likely to be at or above those seen during 2006, although the relatively parallel shift in yield curves during 2006 means that flat yield curves continue to offer little or no additional return for potentially higher risk levels. Once again, short-term volatility may provide tactical opportunities to enhance returns through more active duration management. Credit fundamentals remain good, but default rates, in lower grade credit, have increased in 2006 whilst credit spreads have not reflected any change in risk profile. As money remains relatively cheap and LBOs aim for ever larger targets, the potential for a significant credit 'event' remains. Therefore selective increases in exposure to high-grade, non-Government, issuers is likely to continue focussing on 'carry' trades whilst minimising 'basis' risk of credit spread widening. The Syndicate's funds remain largely denominated in US Dollars, where much of the existing credit holdings exist. This is likely to remain the case as market issuance, yield spreads, and the ability to hold a broader range of securities are all more favourable versus Canadian Dollar and Euro bond markets."

Stock lending

The board of Cathedral Underwriting Limited prohibits CAAM from entering into any stock lending arrangements on behalf of the Syndicate.

Foreign exchange hedging

The managing agency, in so far as 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 funds. The managing agency will continue to keep this possibility under review and may at some future date enter into such transactions.

Bank facilities

The Syndicate has a number of banking facilities with Barclays Bank plc the main two being an overdraft, to assist in paying expenses and reinsurance purchases, and a Catastrophe facility, to assist in paying claims and gross funding of exceptional catastrophes.

The United States $80 million Catastrophe facility was renewed in December 2006 on expiring terms. United States $50 million can be utilised by way of Letter of Credit ("LOC") to assist the Syndicate's gross funding requirements. The Syndicate utilised this LOC facility during 2006, against the funding requirements of the 2005 account, but had released it back to the bank by the year end.

Syndicate capital requirement

The capital framework at Lloyd's requires each managing agent in the market to calculate the capital requirement for each syndicate they manage, a process called Individual Capital Assessment ("ICA"). The FSA require the ICA to be calibrated at a confidence level of 99.5% over a twelve month time horizon.

The ICA of each syndicate is regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's has the discretion to take into account other factors (including the need to maintain the market's overall security rating) when setting its required capital level, e.g. the need to retain Lloyd's financial strength rating. This is the Economic Capital Requirement ("ECA").

The ICA is predominantly based on syndicate specific data, and is influenced by the annual syndicate business forecast which is submitted to Lloyd's for approval. The ICA was first prepared for the 2005 account and submitted to Lloyd's as a "soft test". However, the ICA submitted for both the 2006 and 2007 accounts have been used by Lloyd's to determine the Syndicate level capital assessment. Though each submission was based on net premium income (as determined from the relevant syndicate business forecast), the 2006 return was scaled to stamp while for 2007 there was no presumption that stamp capacity would be fully utilised.

The 2006 submission was made following the late pre-emption to take the Syndicate's capacity to £250 million, post Hurricane Katrina. The Syndicate took no credit in its ICA for improved terms and conditions in 2006 and assumed that all of its increased premium income came hand in hand with increased exposure. In reality this was not the case and aggregate exposures remained largely unchanged year on year. This has been taken into account by the syndicate in calibration of its 2007 ICA.

The table below summarises Syndicate 2010's ICA return for the 2006 and 2007 accounts. These figures are as submitted to and approved by Lloyd's. The only additional loading imposed by Lloyd's to determined the syndicate's ECA was the market-wide capital loadings of 35% applied to all syndicates for 2006 and 2007.

		2007		2006
	£'000	**%***	£'000	%*
ICA	**125,600**	**41.8**	129,705	51.9
Lloyd's Loading	**43,960**	**14.7**	45,397	18.2
ECA	**169,560**	**56.5**	175,102	70.1
Stamp capacity	**300,006**		249,692	

* Note: % = percentage of stamp capacity

Managing Agent's Report
At 31 December 2006

continued

Principal risks impacting the Syndicate

The Syndicate is exposed to a variety of risks when undertaking its activities all of which are taken into account when setting the ICA of the Syndicate. The board has policies and procedures in place to identify and manage the key risks in accordance with its risk appetite. These largely relate to:

- Insurance risk;
- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

Insurance risk

The Syndicate has exposure to insurance risk (including reserving risk). Key areas where it is exposed to insurance risk are:

- Frequency of claims – the risk that the business written is subject to an unexpected frequency of claims;
- Severity of claims – the risk that the syndicate is subject to an unexpected severity of claim;
- Unknown/unexpected accumulations – the risk that risks accumulate to an extent or in a manner that is unexpected;
- Wording issues – the risk that wordings are interpreted to provide coverage in a manner or to an extent which is beyond that intended;
- Inadequate pricing – the risk that business written is under-priced for the risk assumed;
- Lack of reinsurance cover - the risk that reinsurance of a type or quantum necessary to effectively manage the gross exposures assumed is either unavailable or unavailable at a viable cost;
- Inappropriate reinsurance – the risk that the syndicate assumes gross exposures on the basis that effective reinsurance protection of a type or quantum is available and for that to prove not to be the case; and
- Reserving risk – the risk that provisions in respect of already incurred claims prove inadequate.

The loss development table that follow provide information about historical claims development. In effect, the table highlight the Syndicate's ability to provide a robust estimate of the claims costs.

Underwriting year - Gross	2001	2002	2003	2004	2005	2006
12 months	181%	46%	50%	88%	157%	28%
24 months	141%	34%	29%	76%	121%	-
36 months	148%	30%	27%	76%	-	-
48 months	143%	29%	26%	-	-	-
60 months	139%	29%	-	-	-	-
72 months	137%	-	-	-	-	-

Underwriting year - Net	2001	2002	2003	2004	2005	2006
12 months	93%	58%	53%	69%	88%	39%
24 months	79%	44%	32%	56%	73%	-
36 months	74%	37%	29%	56%	-	-
48 months	70%	36%	28%	-	-	-
60 months	68%	36%	-	-	-	-
72 months	68%	-	-	-	-	-

The loss ratios above are in respect of the pure year of account and are cumulative annually accounted loss ratios at each stage.

Credit risk

The Syndicate has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where it is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries; and
- Assets held as financial investments.

Liquidity risk

The Syndicate has exposure to liquidity risk. Liquidity risk is the risk that cash may not be available to pay obligations when due on a timely basis. Where insufficient liquid funds exist, the Syndicate can cash call the Names supporting it and can ultimately drawdown from the Names' Funds at Lloyd's.

Market risk

The Syndicate has exposure to market risk. This includes the risks associated with interest rate and currency movemments which can alter the value of funds invested and the Sterling translated value of its assets and liabilities.

Operational risk

The Syndicate has exposure to operational risk. This includes risks associated with

- the failure of the management controls;
- loss, failure or corruption of information technology systems;
- loss of key management and underwriting personnel;
- legal and regulatory issues; and
- other operational disruption.

Risk Management

All areas of risk are subject to the managing agency's risk management framework and enterprise wide risk management practices and controls.

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

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 managing agency's board.

Managing Agent's Report
At 31 December 2006

continued

Statement as to disclosure of information to auditors

The directors of the managing agent at the date of this report have individually taken all necessary steps to make themselves aware, as directors, of any relevant audit information and to establish that the Syndicate auditors are aware of that information. As far as the directors are aware, there is no relevant audit information of which the auditors are unaware.

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 are the independent auditors to all of the Cathedral Group companies and the Syndicate. Mazars LLP has signified its willingness to continue in office as the independent auditor to both the managing agent and the Syndicate and it is the intention of the managing agent to reappoint, in accordance with Lloyd's regulations, Mazars LLP for a further year with effect from 1 May 2007.

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, as amended by that of 21 September 2006, addressed to Members' Agents and Direct Corporate Capital Providers, copies of which are available on request to all Syndicate members

Names have until 21 April 2007 to advise the compliance director 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
5th Floor, Fitzwilliam House
10 St. Mary Axe, London EC3A 8EN

21 March 2007

SYNDICATE ANNUAL ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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Report of the Independent Auditors to the Members of Syndicate 2010

We have audited the syndicate annual accounts of Syndicate 2010 for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and related notes as set out on pages 22 to 38. The syndicate annual accounts have been prepared under the accounting policies set out therein.

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. 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

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Managing Agent's Responsibilities on page 10.

Our responsibility, as independent auditors, is to audit the syndicate annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate annual accounts give a true and fair view, whether the syndicate annual accounts are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, and whether the information given in the Managing Agent's Report is consistent with the syndicate annual accounts. We also report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the syndicate, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the remuneration of the directors of the managing agent and other transactions is not disclosed.

We read other information attached to the syndicate annual accounts and consider whether it is consistent with the audited syndicate annual accounts. This other information comprises the Managing Agent's Report, the Chairman's Statement and the Underwriter's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate annual accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate annual accounts, 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 syndicate annual accounts are 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 syndicate annual accounts.

Opinion

In our opinion:

- the syndicate annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice. of the state of affairs of Syndicate No 2010 as at 31 December 2006 and of its profit for the year then ended;
- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive. (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the Managing Agent's Report is consistent with the syndicate annual accounts.

MAZARS LLP
CHARTERED ACCOUNTANTS and Registered Auditors

24 Bevis Marks, London EC3A 7NR
21 March 2007

CATHEDRAL
SYNDICATE 2010

Profit and Loss Account
Technical Account - General Business
For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Earned premiums, net of reinsurance:			
Gross premiums written	3	**225,576**	216,809
Outward reinsurance premiums		**(50,935)**	(57,587)
Net premiums written		**174,641**	159,222
Change in the provision for unearned premiums:			
Gross amount		**(6,349)**	(5,504)
Reinsurers' share		**2,034**	(1,773)
Earned premiums, net of reinsurance		**170,326**	151,945
Allocated investment return transferred from the non-technical account		**5,707**	2,998
Claims paid:			
Gross amount		**(152,406)**	(138,962)
Reinsurers' share		**71,092**	84,877
		(81,314)	(54,085)
Change in the provision for claims:			
Gross amount		**64,148**	(105,633)
Reinsurers' share		**(60,323)**	64,603
		3,825	(41,030)
Claims incurred, net of reinsurance		**(77,489)**	(95,115)
Net operating expenses	4	**(51,882)**	(46,173)
Balance on the technical account for general business*		**46,662**	13,655

* All items relate to continuing operations only.

The notes on pages 27 to 38 form part of these accounts.

Profit and Loss Account
Non-Technical Account
For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Balance on the general business technical account		**46,662**	13,655
Investment income	8	**6,140**	4,508
Unrealised gains on investments		**357**	67
Investment expenses and charges	9	**(543)**	(787)
Unrealised losses on investments		**(247)**	(790)
Allocated investment return transferred to the general business technical account		**(5,707)**	(2,998)
Profit for the financial year	15	**46,662**	13,655

Statement of Total Recognised Gains and Losses
For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Profit for the financial year	15	**46,662**	13,655
Currency translation differences	15	**(4,946)**	4,497
Total recognised gains and losses since last annual report		**41,716**	18,152

The notes on pages 27 to 38 form part of these accounts.

CATHEDRAL SYNDICATE 2010

Balance Sheet
As at 31 December 2006

	Notes	2006 £'000	2005 (Restated) £'000
Investments:			
Financial investments	10	**148,279**	124,289
		148,279	124,289
Reinsurers' share of technical provisions:			
Provision for unearned premiums		**6,782**	5,486
Claims outstanding		**80,743**	155,532
		87,525	161,018
Debtors:			
Debtors arising out of direct insurance operations			
- Intermediaries	11	**22,321**	21,613
Debtors arising out of reinsurance operations	12	**55,458**	106,265
Other debtors	13	**2,306**	2,945
		80,085	130,823
Other assets:			
Cash at bank and in hand		**3,529**	3,438
Other	14	**9,434**	7,185
		12,963	10,623
Prepayments and accrued income:			
Deferred acquisition costs		**15,250**	16,828
Other prepayments and accrued income		**660**	766
		15,910	17,594
Total assets		**344,762**	444,347

The notes on pages 27 to 38 form part of these accounts.

	Notes	2006 £'000	2005 (Restated) £'000
Capital and reserves:			
Members' balances	15	**50,635**	35,878
		50,635	35,878
Technical provisions:			
Provision for unearned premiums		**84,058**	87,001
Claims outstanding		**187,461**	277,774
		271,519	364,775
Creditors:			
Creditors arising out of direct insurance operations	16	**455**	769
Creditors arising out of reinsurance operations	17	**17,064**	35,185
Other creditors including taxation and social security	18	**4,813**	7,385
		22,332	43,339
Accruals and deferred income		**276**	355
Total liabilities		**344,762**	444,347

The Syndicate annual accounts on pages 22 to 38 were approved by the Board of Cathedral Underwriting Limited on 21 March 2007 and were signed on its behalf by

L A Holder
Managing Director

J A Lynch
Finance Director

21 March 2007

The notes on pages 27 to 38 form part of these accounts.

CATHEDRAL
SYNDICATE 2010

Statement of Cash Flows
For the year ended 31 December 2006

	Notes	2006 £'000	2005 (Restated) £'000
Reconciliation of profit to net cash inflow from operating activities			
Profit for the financial year		**46,662**	13,655
Realised and unrealised investments (gains)/losses on cash and investments, including currency movements		**14,505**	(10,125)
Income from investments		**(5,678)**	(4,632)
Interest payable		**8**	17
Decrease/(increase) in debtors, prepayments and accrued income		**52,422**	(53,302)
(Decrease)/increase in net technical provisions		**(19,763)**	63,662
(Decrease)/increase in creditors, accruals and deferred income		**(21,086)**	13,751
Exchange (losses)/gains		**(4,945)**	4,018
Net cash inflow from operating activities		**62,125**	27,044
Returns on investment and servicing of finance:			
Interest paid		**(9)**	(17)
Interest received		**5,678**	4,632
Transfer to members in respect of underwriting participations		**(26,959)**	(24,240)
Financing:			
Cash calls received		**-**	3
Increase in cash and portfolio investments in the year	19	**40,835**	7,422
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	19	**125**	(5,687)
Net portfolio investments	20	**40,710**	13,109
Net investment of cash flows		**40,835**	7,422

The notes on pages 27 to 38 form part of these accounts.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2006

1 Basis of Preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (revised in December 2006) ("the ABI SORP").

2 Accounting Policies

(a) *Basis of accounting*

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(b) *Underwriting*

(i) *Premiums written*

Premiums written comprise premiums on contracts incepted during the financial year, together with adjustments made in the year to premiums written in prior accounting periods. They also include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

(ii) *Unearned premiums*

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

(iii) *Reinsurance premium ceded*

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(iv) *Claims incurred*

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end. Claims outstanding are reduced by anticipated salvage and other recoveries.

(v) *Claims provisions and related recoveries*

The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on a detailed review of losses and loss development by management and further reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

The Syndicate uses a number of statistical techniques to assist in making the above estimates. The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(vi) *Unexpired risks provision*

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together. No account is taken of any future investment return.

(vii) *Acquisition costs*

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(c) *Foreign currencies*

Transactions in US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date of the transaction or at an appropriate average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date unless contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates are used. Differences arising on the re-translation of foreign currency amounts are included in the Statement of Total Recognised Gains and Losses.

(d) *Investments*

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid price value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

(e) *Investment return*

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the Technical Account General Business to reflect the investment return on funds supporting underwriting business. All investment return is deemed to arise on such funds.

(f) *Taxation*

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 22%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the Balance Sheet under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on underwriting results.

(g) *Pension costs*

Cathedral Underwriting Limited operates a defined contribution pension scheme and its recharges to the Syndicate staff costs which include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

(h) *Operating lease rentals*

Amounts recharged by Cathedral Underwriting Limited include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

(i) *Reclassification of certain cash balances*

The Syndicate holds cash balances which are swept overnight into pooled arrangements. In 2005, these holdings were classified as cash. In 2006, these holdings have been classified as investments and the 2005 comparatives have been restated accordingly.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2006

continued

3 Particulars of business written

An analysis of the technical account balance before investment return is set out below:

Type of business	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
						Year ended 31 December 2006
Direct insurance:						
Motor (third party liability)	299	340	(156)	(171)	-	13
Motor (other classes)	6,961	9,403	(6,776)	(2,946)	(28)	(347)
Marine aviation and transport	8,623	8,575	(2,898)	(1,755)	(1,124)	2,798
Fire and other damage to property	70,835	62,930	(17,820)	(16,717)	(8,490)	19,903
Third party liability	(855)	(706)	412	(153)	(129)	(576)
Credit and suretyship	6,548	6,174	(3,011)	(1,675)	(633)	855
Assistance	-	-	-	-	-	-
Miscellaneous	551	554	(63)	(134)	(58)	299
	92,962	87,270	(30,312)	(23,551)	(10,462)	22,945
Reinsurance acceptances	132,614	131,957	(57,946)	(28,331)	(27,670)	18,010
Total	225,576	219,227	(88,258)	(51,882)	(38,132)	40,955

Type of business	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
						Year ended 31 December 2005
Direct insurance:						
Motor (third party liability)	110	54	(50)	(92)	-	(88)
Motor (other classes)	9,915	12,657	(9,048)	(3,599)	211	221
Marine aviation and transport	6,093	6,302	(2,196)	(1,091)	(974)	2,041
Fire and other damage to property	52,146	44,000	(64,396)	(12,803)	33,806	607
Third party liability	1,105	1,336	(70)	(328)	(124)	814
Credit and suretyship	-	-	-	-	-	-
Assistance	15	14	(6)	(2)	1	7
Miscellaneous	1,409	735	(390)	(200)	(46)	99
	70,793	65,098	(76,156)	(18,115)	32,874	3,701
Reinsurance acceptances	146,016	146,207	(168,439)	(28,058)	57,246	6,956
Total	216,809	211,305	(244,595)	(46,173)	90,120	10,657

3 Particulars of business written *continued*

Geographical analysis by origin

	Gross written premiums		Profit		Net assets	
	2006	2005	**2006**	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Direct	**92,962**	70,793	24,962	4,247	17,900	6,534
Reinsurance	**132,614**	146,016	21,700	9,408	32,735	29,344
	225,576	216,809	**46,662**	13,655	50,635	35,878

All business originates in the UK.

Geographical analysis by destination

	Gross written premiums 2006 £'000	Gross written premiums 2005 £'000
UK	30,581	26,529
US	118,579	104,910
Other EU member states	22,687	25,217
Rest of the world	53,729	60,153
	225,576	216,809

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2006

continued

4 Net operating expenses

	2006 £'000	2005 £'000
Acquisition costs	**37,622**	34,379
Change in deferred acquisition costs	**(120)**	(1,351)
Administrative expenses	**7,303**	6,771
Reinsurance commissions and profit participation	**(201)**	(467)
Profit and loss on exchange	**(274)**	(21)
Personal expenses	**7,552**	6,862
	51,882	46,173

Administrative expenses include:

	2006 £'000	2005 £'000
Auditors' remuneration:		
- Audit of the accounts	**72**	60
- Other regulatory reporting	**18**	15
- Taxation services	**3**	3
- Other services	**18**	-

Total commissions for direct insurance accounted for in the year amounted to £19,869,512 (2005: £15,574,717).

5 Staff numbers and costs

All staff are employed by the managing agency. The following amounts were recharged to the Syndicate in respect of salary costs:

	2006 £'000	2005 £'000
Wages and salaries	**3,944**	4,172
Social security costs	**482**	342
Other pension costs	**507**	466
	4,933	4,980

The average number of employees employed by the managing agency but working for the Syndicate during the year was as follows:

	2006 £'000	2005 £'000
Operations, administration and finance	**14**	14
Underwriting and claims	**23**	19
	37	33

6 Emoluments of the directors of Cathedral Underwriting Limited

Cathedral Underwriting Limited charged the Syndicate the following amounts in respect of emoluments paid to its directors, including the active underwriter, of the Syndicate:

	2006 £'000	2005 £'000
Emoluments	**666**	635

7 Active underwriter's emoluments

The active underwriter received the following aggregate remuneration charged to the Syndicate:

	2006 £'000	2005 £'000
Emoluments	**216**	216

8 Investment income

	2006 £'000	2005 £'000
Income from investments	**6,012**	4,407
Gains on the realisation of investments	**128**	101
	6,140	4,508

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2006

continued

9 Investment expenses and charges

	2006 £'000	2005 £'000
Investment management expenses, including interest	**108**	86
Losses on realisation of investments	**435**	701
	543	787

10 Financial investments

	Market value		Cost	
	2006	2005 (Restated)	**2006**	2005 (Restated)
	£'000	£'000	**£'000**	£'000
Shares and other variable yield securities	**13,632**	10,647	**13,632**	10,647
Debt securities and other fixed Income securities	**129,753**	109,273	**129,581**	109,621
Participation in investments pods	**1,518**	2,868	**1,518**	2,868
Loans with credit institutions	**3,376**	1,501	**3,376**	1,501
	148,279	124,289	**148,107**	124,637

Debt securities and other fixed income securities are all listed on recognised stock exchanges.

Loans with credit institutions include £3,376,008 (2005: £1,500,502) in respect of loans to the Lloyd's New Central Fund.

The reclassification of certain cash balances is explained in note 2(i).

11 Debtors arising out of direct insurance operations

	2006 £'000	2005 £'000
Due within one year - intermediaries	**22,321**	21,613

12 Debtors arising out of reinsurance operations

	2006 £'000	2005 £'000
Due within one year	**55,458**	106,265

13 Other debtors

	2006 £'000	2005 £'000
Due within one year:		
Amounts due from members	**785**	686
Other	**31**	162
Due after one year:		
Amounts due from members	**1,490**	2,097
	2,306	2,945

14 Other assets - overseas deposits

	2006 £'000	2005 £'000
Amounts advanced in other countries as a condition of carrying on business there	**9,434**	7,185

15 Reconciliation of members' balances

	2006 £'000	2005 £'000
Members' balances at 1 January	**35,878**	42,442
Profit for the financial year	**46,662**	13,655
Exchange (losses)/gains for the financial year	**(4,946)**	4,497
Exchange gains/(losses) in respect of continuous solvency transfers	**-**	(476)
Transfers to members' personal reserve funds	**(26,959)**	(24,240)
Members' balances carried forward at 31 December	**50,635**	35,878

Members' balances do not include members' agency fees or non-standard personal expenses.

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of that particular year.

Transfers to members' personal funds comprise the 2003 (2002) closed year of account profit.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2006

continued

16 Creditors arising out of direct insurance operations

	2006 £'000	2005 £'000
Due within one year	**455**	769

17 Creditors arising out of reinsurance operations

	2006 £'000	2005 £'000
Due within one year	**17,064**	35,185

18 Other creditors including taxation and social security

	2006 £'000	2005 £'000
Due within one year:		
Profit commission owed to managing agent	**2,534**	4,779
Expenses owed to managing agent	**90**	61
Other	**7**	13
	2,631	4,853
Due after one year:		
Profit commission owed to managing agent	**2,182**	2,532
	4,813	7,385

19 Movement in opening and closing portfolio investments, net of financing

	2006 £'000	2005 (Restated) £'000
Net cash inflow/(outflow) for the year	**125**	(5,687)
Cash flow – portfolio investments	**40,710**	13,109
Movement arising from cash flows	**40,835**	7,422
Changes in market value and exchange rates	**(14,505)**	10,125
Total movement in portfolio investments net of financing	**26,330**	17,547
Balance brought forward at 1 January	**134,912**	117,365
Balance carried forward at 31 December	**161,242**	134,912

19 Movement in opening and closing portfolio investments, net of financing *continued*

	At 1 January 2006 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2006 £'000
Cash at bank and in hand	**3,438**	**125**	**(34)**	**3,529**
Overseas deposits	**7,185**	**2,732**	**(483)**	**9,434**
Shares and other variable yield securities	**10,647**	**4,277**	**(1,292)**	**13,632**
Debt securities and other fixed income securities	**109,273**	**32,836**	**(12,356)**	**129,753**
Participation in investment pods	**2,868**	**(1,010)**	**(340)**	**1,518**
Loan with credit institutions	**1,501**	**1,875**	**-**	**3,376**
Total portfolio investments	**131,474**	**40,710**	**(14,471)**	**157,713**
Total cash at bank and in hand and portfolio investments	**134,912**	**40,835**	**(14,505)**	**161,242**

20 Net cash (outflow)/inflow on portfolio investments

	2006 £'000	2005 £'000
Purchase of debt securities and other fixed income securities	**(145,669)**	(168,489)
Purchase of loans and deposits with credit institutions	**(1,875)**	(1,501)
Sale of debt securities and other fixed income securities	**112,833**	136,562
Sale of loans and deposits with credit institutions	**-**	655
Movement of shares and other variable yield securities	**(4,277)**	16,098
Movement of participation in investment pools	**1,010**	7,437
Movement of overseas deposits	**(2,732)**	(3,871)
Net cash (outflow)/inflow on portfolio investments	**(40,710)**	(13,109)

21 Related parties

The immediate parent company of Cathedral Underwriting Limited is Cathedral Capital Holdings Limited (registered no. 4039209).

The ultimate parent company of Cathedral Underwriting Limited is Disciple Topco Limited (registered no. 05958018).

Statutory Accounts for Cathedral Capital Holdings Limited and Disciple Topco Limited (registered no. 05958018) are available from the Company Secretary of Cathedral Underwriting Limited, 5th Floor, Fitzwilliam House, 10 St. Mary Axe, London EC3A 8EN.

Total fees paid during calendar year 2006 to Cathedral Underwriting Limited in respect of services provided to the Syndicate amounted to £1,622,997 (2005: £1,298,057).

Profit commission of £2,533,677 (2005: £4,778,586) is also due to the managing agent in respect of the profit on the 2004 (2003) closed year.

Profit commission of £37,032 (2005: £2,532,311) has also been accrued in respect of the 2005 (2004) year of account, with £2,145,414 (2005: nil) accrued in respect of the 2006 (2005) year of account. Profit commission is only due on closure of the year of account: the 2005 underwriting year is expected to close at 31 December 2007 and the 2006 year of account at 31 December 2008.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2006

continued

21 Related parties *continued*

Expenses totalling £7,197,769 (2005: £6,568,300) were recharged to the Syndicate by Cathedral Underwriting Limited. Where expenses were incurred jointly by the managing agent and the Syndicate, they were apportioned as follows:

Salaries and related costs	- according to the estimated time of each individual spent on syndicate matters
Accommodation costs	- according to number of personnel
Other costs	- as appropriate in each case

Amounts owed to Cathedral Underwriting Limited at 31 December 2006 totalled £4,806,373 (2005: £7,372,283) and are included in "Other creditors including taxation and social security".

Cathedral Capital (1998) Limited, a fellow subsidiary of Cathedral Underwriting Limited, provided capacity to the 2004, 2005 and 2006 underwriting years. Cathedral Capital (1998) Limited's share of the profit for the 2006 calendar year is £26,219,472 (2005: £7,119,057).

22 Post balance sheet events

The following amounts will be transferred to members' personal reserve funds on 18 April 2007:

2004 Year of account	£5,194,167
	US$38,519,745

23 Funds at Lloyd's

In case syndicate assets prove insufficient to meet members' underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL").

The level of FAL Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. FAL is not hypothecated to any specific syndicate participation of a member. Therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.

SYNDICATE UNDERWRITING YEAR ACCOUNTS

FOR THE 2004 YEAR OF ACCOUNT

CLOSED AT 31 DECEMBER 2006

CATHEDRAL
SYNDICATE 2010

Report of the Independent Auditors
To the Members on the 2004 Year of Account of Syndicate 2010

We have audited the syndicate underwriting year accounts of the 2004 year of account of Syndicate 2010 as closed at 31 December 2006. These accounts comprise the Statement of Managing Agent's Responsibilities, the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and related notes as set out on pages 41 to 56, and they have been prepared under the accounting policies set out in therein.

This report is made solely to the members on the 2004 year of account of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations and the Lloyds Syndicate Accounting Byelaw. Our audit work has been undertaken so that we might state to the 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for preparing the syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and the Lloyd's Syndicate Accounting Byelaw are set out in the Statement of Managing Agent's Responsibilities on page 41.

Our responsibility, as independent auditors, is to audit the syndicate underwriting year accounts in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the syndicate underwriting year accounts give a true and fair view of the result of the closed year of account in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the syndicate and if the syndicate underwriting year accounts are not in agreement with the accounting records.

We read the Managing Agent's Report, the Chairman's Statement and the Underwriter's Report and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate underwriting year accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate underwriting year accounts, 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 syndicate underwriting year accounts are 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 syndicate underwriting year accounts.

Opinion

In our opinion the syndicate underwriting year accounts of Syndicate 2010 give a true and fair view of the profit of its 2004 closed year of account.

MAZARS LLP
CHARTERED ACCOUNTANTS
and Registered Auditors

24 Bevis Marks
London EC3A 7NR

21 March 2007

Statement of Managing Agent's Responsibilities

Cathedral Underwriting Limited as managing agent is responsible for preparing syndicate underwriting year accounts in accordance with applicable law and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 (the "Lloyd's Regulations") require the managing agent to prepare syndicate underwriting year accounts for each syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December. These syndicate underwriting year accounts must give a true and fair view of the result of the closed year of account.

In preparing these syndicate underwriting year 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 the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured 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) take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;

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

(iv) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year of accounts comply with the Lloyd's Regulations and Syndicate Accounting Byelaw. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
By order of the Board

L A Holder
Managing Director
Cathedral Underwriting Limited

21 March 2007

CATHEDRAL
SYNDICATE 2010

Profit and Loss Account
Technical Account - General Business
2004 Year of Account
For the 36 months ended 31 December 2006

		Notes	36 months ended 31 December 2006 £'000
Earned premiums, net of reinsurance			
Gross premiums written		3	**196,524**
Outward reinsurance premiums			**(44,447)**
Net premiums written			**152,077**
Change in the provision for unearned premiums			
Gross amount			**684**
Reinsurers' share			**(37)**
Earned premiums, net of reinsurance			**152,724**
Reinsurance to close premiums received, net of reinsurance		3	**20,787**
Allocated investment return transferred from the non-technical account			**4,306**
Claims incurred, net of reinsurance			
Claims paid	Gross amount		**(124,680)**
	Reinsurers' share		**52,086**
			(72,594)
Reinsurance to close premium payable, net of reinsurance		8	**(30,330)**
Claims incurred net of reinsurance			**(102,924)**
Net operating expenses		5	**(44,617)**
Balance on the technical account for general business			**30,276**

The underwriting year has closed; all items therefore relate to discontinued operations

The notes on pages 46 to 56 form part of these accounts.

Profit and Loss Account
Non-Technical Account
2004 Year of Account
For the 36 months ended 31 December 2006

	Notes	36 months ended 31 December 2006 £'000
Balance on the general business technical account		**30,276**
Investment income	6	**5,273**
Unrealised gains on investments		**164**
Investment expenses and charges	7	**(660)**
Unrealised losses on investments		**(471)**
Allocated investment return transferred to the general business technical account		**(4,306)**
Profit for the closed year of account	14	**30,276**

Statement of Total Recognised Gains and Losses
2004 Year of Account
For the 36 months ended 31 December 2006

	Notes	36 months ended 31 December 2006 £'000
Profit for the financial year		**30,276**
Currency translation differences		**(4,647)**
Total recognised gains and losses	14	**25,629**

The notes on pages 46 to 56 form part of these accounts.

CATHEDRAL
SYNDICATE 2010

Balance Sheet
2004 Year of Account
For the 36 months ended 31 December 2006

	Notes	31 December 2006 £'000
Assets		
Investments	9	**50,013**
Debtors:		
Debtors arising out of direct insurance operations		
- Intermediaries	10	**1,312**
Debtors arising out of reinsurance operations	11	**9,922**
Other debtors	12	**3,422**
		14,656
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	8	**51,588**
Other assets:		
Cash at bank and in hand		**2,534**
Other	13	**2,580**
		5,114
Prepayments and accrued income		**54**
Total assets		**121,425**
Liabilities		
Amounts due to members	14	**25,629**
Reinsurance to close premiums payable to close the account – gross amount	8	**85,395**
Creditors:		
Creditors arising out of direct insurance operations	15	**143**
Creditors arising out of reinsurance operations	16	**7,649**
Other creditors including taxation and social security	17	**2,545**
		10,337
Accruals and deferred income		**64**
Total liabilities		**121,425**

The Syndicate underwriting year accounts on pages 41 to 56 were approved by the Board of Cathedral Underwriting Limited on 21 March 2007 and were signed on its behalf by:

L A Holder
Managing Director

J A Lynch
Finance Director

21 March 2007

The notes on pages 46 to 56 form part of these accounts.

Statement of Cash Flows
2004 Year of Account
For the 36 months ended 31 December 2006

	Notes	36 months ended 31 December 2006 £'000
Profit for the closed year of account		**30,276**
Realised and unrealised investments losses		**723**
Income from investments		**(4,647)**
Net reinsurance to close premium payable		**30,330**
(Increase) in debtors		**(5,581)**
(Increase) in prepayments and accrued income		**(12)**
Increase in creditors		**4,395**
Increase in accruals and deferred income		**64**
Exchange losses		**(4,647)**
Net cash inflow from operating activities		**50,901**
Returns on investment and servicing of finance:		
Interest received		**4,605**
Increase in cash and portfolio investments in the period		**55,506**
Cash flows were invested as follows:		
Increase in cash holdings	18	**2,534**
Net portfolio investments	19	**52,972**
Net investment of cash flows	18	**55,506**

The notes on pages 46 to 56 form part of these accounts.

Notes to the Syndicate Underwriting Year Accounts
2004 Year of Account
For the 36 months ended 31 December 2006

1 Basis of Preparation

The Syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw and applicable accounting standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (revised December 2006) ("the ABI SORP").

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2004 year of account which has been closed by reinsurance to close at 31 December 2006; consequently the Balance Sheet represents the assets and liabilities of the 2004 year of account and the profit and loss account, and cash flow statement reflect the transactions for that year of account during the 36 months period until closure.

As each syndicate year of account is a separate annual venture, there are no comparative figures.

2 Accounting Policies

Underwriting transactions

(a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

(b) The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs, and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

(c) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the Syndicate year of account.

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the balance of premiums written in the period to the balance sheet date that relate to unexpired terms of policies in force at that date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being protected.

(d) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

(e) Outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on a detailed review of losses and loss development by management and further reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The methods used, and the estimates made, are reviewed regularly.

(f) A provision for unexpired risks is created where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

(g) Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date

Investments and investment return

(h) Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the Syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years in respect of investment disposals in the current period.

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the Technical Account General Business to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid price value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

Syndicate operating expenses

(i) Costs incurred by the managing agent in respect of the Syndicate are charged to the Syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the managing agent and the Syndicate, they are apportioned as follows:

Salaries and related costs - according to the estimated time of each individual spent on syndicate matters
Accommodation costs - according to number of personnel
Other costs - as appropriate in each case

The managing agent operates a defined contribution pension scheme and its recharges to the Syndicate staff costs which include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

Amounts recharged by the managing agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Taxation

(j) Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

(k) Transactions in US dollars, Canadian dollars and Euros are translated at the rate of exchange at the date of the transaction or at an approximate average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date unless contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates are used.

Although transactions are translated as described above, the final result for the year of account is calculated with US dollars, Canadian dollars and Euros translated at the balance sheet date rates of exchange.

Differences arising on the re-translation of foreign currency amounts are included in the Statement of Total Recognised Gains and Losses.

Where Canadian dollars or Euros are sold or bought relating to the profit or loss of a closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where United States dollars relating to the profit or loss of a closed underwriting account are bought or sold by members on that year, any exchange profit or loss accrues to those members.

Notes to the Syndicate Underwriting Year Accounts
2004 Year of Account
For the 36 months ended 31 December 2006

continued

3 Particulars of business written

An analysis of the technical account balance before investment return is set out below:

				36 months ended 31 December 2006		
Type of business	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Motor (third party liability)	390	390	(251)	(158)	-	(19)
Motor (other classes)	13,954	14,122	(10,630)	(1,742)	1,074	2,824
Marine aviation and transport	7,521	7,546	(4,038)	(2,188)	(340)	980
Fire and other damage to property	38,932	39,216	(33,893)	(12,876)	8,735	1,182
Third party liability	256	262	(135)	(123)	(213)	(209)
Credit and suretyship	3	3	-	-	(1)	2
	61,056	61,539	(48,947)	(17,087)	9,255	4,760
Reinsurance acceptances*	156,255	156,456	(151,709)	(27,530)	43,993	21,210
Total	217,311	217,995	(200,656)	(44,617)	53,248	25,970

*Reinsurance acceptances include the reinsurance to close premium of £20,787,000 received from the 2003 year of account.

Geographical analysis by origin	Gross written premiums £'000	Profit £'000	Net assets £'000
Direct	61,056	5,548	4,697
Reinsurance	156,255	24,728	20,932
	217,311	30,276	25,629

All business originates in the UK.

Geographical analysis by destination	Gross written premiums £'000
UK	32,083
US	94,473
Other EU member states	31,555
Rest of the world	59,200
	217,311

4 Technical account balance before allocated investment return and net operating expenses

	36 months ended 31 December 2006 £'000
Balance attributable to business allocated to the 2004 year of account	**69,851**
Balance attributable to the reinsurance to close of the 2003 year of account	**736**
	70,587

5 Net operating expenses

	36 months ended 31 December 2006 £'000
Acquisition costs	**32,032**
Change in deferred acquisition costs	**150**
Administrative expenses	**5,612**
Reinsurers' commissions and profit participation	**(180)**
Profit on exchange	**(322)**
Personal expenses	**7,325**
	44,617

The closed year profit is stated after charging:

	36 months ended 31 December 2006 £'000
Auditors' remuneration:	
- Audit of accounts	**53**
- Other regulatory reporting	**13**
- Taxation services	**3**
- Other services	**25**
Staff pension costs	**407**

6 Investment income

	36 months ended 31 December 2006 £'000
Income from investments	**5,173**
Gains on the realisation of investments	**100**
	5,273

Notes to the Syndicate Underwriting Year Accounts
2004 Year of Account
For the 36 months ended 31 December 2006

continued

7 Investment expenses and charges

	36 months ended 31 December 2006 £'000
Investment management expenses, including interest	103
Losses on realisation of investments	557
	660

8 Reinsurance premium payable to close the 2004 year of account

	31 December 2006 £'000
Gross outstanding claims	62,995
Reinsurance recoveries anticipated	(39,067)
Net outstanding claims	23,928
Provision for gross claims incurred but not reported	22,400
Reinsurance recoveries anticipated	(12,521)
Provision for net claims incurred but not reported	9,879
Provision for future inwards gross premiums	(9,419)
Provision for future reinsurance protection	5,942
Provision for net premiums incurred but not reported	(3,477)
Reinsurance premium payable to close the account	30,330

9 Investments

	31 December 2006 Market value £'000
Shares and other variable yield securities	6,422
Debt Securities and other fixed income securities	43,472
Participation in investment pods	119
	50,013

10 Debtors arising out of direct insurance operations

	31 December 2006 £'000
Due within one year	
- intermediaries	1,312

11 Debtors arising out of reinsurance operations

	31 December 2006 £'000
Due within one year	**9,922**

12 Other debtors

	31 December 2006 £'000
Inter - year loans	**2,636**
Amount due from members	**785**
Other	**1**
	3,422

Amounts due from members includes members' agency fees paid by the Syndicate on behalf of members, and other non-standard personal expenses.

13 Other assets – overseas deposits

	31 December 2006 £'000
Amounts advanced in other countries as a condition of carrying on business there	**2,580**

14 Amounts due to members

	31 December 2006 £'000
Profit for the closed year of account	**30,276**
Currency translation differences	**(4,647)**
Members' balances carried forward at 31 December 2006	**25,629**

Members' balances do not include members' agency fees or non-standard personal expenses.

Notes to the Syndicate Underwriting Year Accounts
2004 Year of Account
For the 36 months ended 31 December 2006

continued

15 Creditors arising out of direct insurance operations

	31 December 2006 £'000
Due within one year	143

16 Creditors arising out of reinsurance operations

	31 December 2006 £'000
Due within one year	7,649

17 Other creditors including taxation and social security

	31 December 2006 £'000
Profit commission payable to managing agent	2,534
Expenses payable to managing agent	4
Other	7
	2,545

18 Movement in opening and closing portfolio investments, net of financing

	31 December 2006 £'000
Net cash inflow from the period	2,534
Cash flow – portfolio investments	52,972
Movement arising from cash flows	55,506
Changes in market value and exchange rates	(379)
Total movement in portfolio investments net of financing	55,127
Balance brought forward at 1 January 2004	-
Balance carried forward at 31 December 2006	55,127

	At 1 January 2004 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2006 £'000
Cash at bank and in hand	-	2,534	-	2,534
Overseas deposits	-	2,645	(65)	2,580
Investments	-	50,327	(314)	50,013
Total portfolio investments	-	52,972	(379)	52,593
Total cash and portfolio investments	-	55,506	(379)	55,127

19 Net cash (outflow) on portfolio investments

	36 months ended 31 December 2006 £'000
Purchase of overseas deposits	**(2,645)**
Purchase of investments	**(164,576)**
Sale of investments	**114,249**
Net cash (outflow) on portfolio investments	**(52,972)**

20 Borrowings

During the period to 31 December 2006, the Syndicate negotiated unsecured overdraft facilities with Barclays Bank plc to assist with the financing of expenses and the paying or funding of any significant catastrophe losses. These facilities were never used by the 2004 year of account and accordingly the balance outstanding at the balance sheet date was £nil.

21 Related parties

The immediate parent company of Cathedral Underwriting Limited is Cathedral Capital Holdings Limited (registered no. 4039209).

The ultimate parent company of Cathedral Underwriting Limited is Disciple Topco Limited (registered no. 05958018).

Statutory Accounts for Cathedral Capital Holdings Limited (registered no. 4039209) and Disciple Topco Limited (registered no. 05958018) are available from the Company Secretary of Cathedral Underwriting Limited, 5th Floor, Fitzwilliam House, 10 St. Mary Axe, London EC3A 8EN.

Total fees payable to Cathedral Underwriting Limited in respect of services provided to the Syndicate in respect of the 2004 year of account amounted to £1,297,798 of which £nil was outstanding at 31 December 2006. Profit commission of £2,533,677 is also due to the managing agent in respect of the profit on the 2004 closed year, and this was outstanding at 31 December 2006.

Expenses totalling £5,721,536 were recharged to the 2004 year of account by Cathedral Underwriting Limited. The basis on which expenses are apportioned is set out in note 2(i).

Amounts owed to Cathedral Underwriting Limited at 31 December 2006 totalled £2,537,968 and are included in "Other creditors including taxation and social security".

Cathedral Capital (1998) Limited, a fellow subsidiary of Cathedral Underwriting Limited, provided capacity to the underwriting years as follows:

	2004 Year of Account £'000	2005 Year of Account £'000	2006 Year of Account £'000
Cathedral Capital (1998) Limited	**97,016 ,434**	**107,725,388**	**135,166,439**

22 Post balance sheet events

The reinsurance premium to close the 2004 year of account at 31 December 2006 was agreed by the managing agent on 21 March 2007. Consequently the technical provisions at 31 December 2006 have been presented in the balance sheet under the headings "reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account" and "reinsurance to close premiums payable to close the account – gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw. The actual amount of reinsurance to close premiums paid will be after deduction of unsigned premiums.

The following amounts will be transferred to members' personal reserve funds on 18 April 2007: £5,194,167 and US$38,519,745.

Seven Year Summary of Results

	2004 YoA	2003 YoA	2002 YoA	2001 YoA
Syndicate allocated capacity	£199.66m	£159.97m	£95.74m	£81.09m
Gross capacity utilised (i)	98.4%	85.7%	98.1%	92.0%
Number of underwriting members	1,020	1,049	971	788
Aggregate net written premiums (i)	£152.08m	£103.64m	£64.70m	£32.62m
Net capacity utilised (i)	76.2%	64.8%	67.6%	55.8%
Loss ratio (ii)	59.3%	37.2%	43.3%	67.4%
Results for an illustrative share of £10,000				
Gross written premiums	9,843	8,571	9,808	9,197
Net earned premiums	7,649	6,266	6,736	5,416
Reinsurance to close received from an earlier account	1,041	892	1,418	-
Net claims paid	(3,636)	(1,361)	(2,044)	(1,979)
Reinsurance to close payable	(1,519)	(1,299)	(1,489)	(1,674)
Profit/(loss) on exchange	16	1	13	(5)
Acquisition costs	(1,612)	(1,210)	(1,132)	(908)
Syndicate operating expenses	(272)	(325)	(454)	(501)
Balance on technical account before investment return	1,667	2,964	3,048	349
Investment income and gains less losses, less expenses & charges	216	134	101	173
Profit for closed year of account before personal expenses	1,883	3,098	3,149	522
Currency translation differences	(233)	60	(512)	(279)
Total recognised gains and losses before personal expenses	1,650	3,158	2,637	243
Illustrative personal expenses for a traditional Name:				
- Managing agent's salary	(65)	(65)	(65)	(65)
- Central Fund contributions	(125)	(100)	(100)	(75)
- Lloyd's subscription	(50)	(25)	(25)	(25)
- Profit commission	(247)	(519)	(428)	(14)
Total illustrative personal expenses for a traditional Name	(487)	(709)	(618)	(179)
Total recognised gains and losses after illustrative personal expenses	**1,163**	**2,449**	**2,019**	**64**

Notes

(i) Premiums above are gross of brokerage. Therefore, it is possible that the capacity utilisation could exceed 100%, as the traditional way of monitoring utilisation is net of brokerage.

(ii) The loss ratio is claims paid plus the reinsurance to close divided into net earned premiums plus reinsurance to close received.

(iii) 2001 and 2002 year of accounts have been restated to be brought into line with the annual returns submitted to Lloyd's.

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