CATHEDRAL

SYNDICATE 2010

MMX

Annual Report

31 December 2011

Contents

Chairman's Statement

These accounts have been produced on both an annual accounting basis and on the three year traditional basis in respect of the closing of the 2009 Year of Account.

On an annual accounting basis Syndicate 2010 has produced a loss of £11.6 million for the 2011 calendar year, in addition to which there was a currency gain of £0.9 million. Its combined ratio is 106.6% (including all managing agency related personal expenses, other than profit commission). Bearing in mind the incidence of losses in the 2011 calendar year, the short tail, catastrophe nature of business underwritten by Syndicate 2010 and its geographical scope, I believe this outcome vividly illustrates our underwriters' professionalism in restricting the downside consequences of the business we are in, from a year when a far worse outcome might have been expected.

Reverting back to the traditional basis of reporting, I am pleased to say that the Syndicate has closed the 2009 Year of Account with a profit on capacity of 16.1% for a participant paying the standard managing agency fee and profit commission. This is more than the forecast result range given this time last year and also exceeds our latest published forecast.

The 2010 Year of Account has suffered from the catastrophe losses which occurred in that year and also those that occurred in the first half of 2011, but which affect 2010 year of account policies. This year will undoubtedly produce a loss when it comes to close this time next year.

As far as the 2011 Year of Account is concerned, this too suffered a frequency of large catastrophe losses, particularly in the Southern Hemisphere and the Far East, but unlike its predecessor saw major US losses too, including the worst tornado season on record. A marginal result is in prospect.

In spite of there having been over $150 billion of insured catastrophe losses since 2010, the market is not seeing the across-the-board rate increases that might have been expected. While there is some good news, such as the very worthwhile increases in US Catastrophe rates seen this year end, together with modest (although fitful) increases in some US direct property rates, international rates are generally defying reason, with little sign of general recovery apart from in the specific loss affected areas such as New Zealand and Japan. Most other classes remain competitive, including the longer tail ones which is surprising when you consider how very dependent for profit these are on investment income and have become on reserve releases; those involved can no longer rely on the former, while in many cases they may have exhausted the latter.

Inevitably many of the recent losses, such as the Thai floods are not evenly distributed, leading to some market participants receiving a disproportionate share of losses, while others are far less affected (more by luck than judgement in some cases!). Notwithstanding this, many of the major European carriers which dominate much of the international scene away from the US, continue to underwrite aggressively, seemingly for market share. There is still an excess of capital in the market (some more apparent than real) and some in the form of hedge-fund supported alternative vehicles and the like, but until some more of this dissipates or consolidates, improvements in general market conditions will continue to be patchy and uneven.

It is impossible to prepare any report these days without some mention of 'Solvency II' and last year's comments remain apposite. Although Lloyd's is still on course for implementation by 2014, the European Parliament continues to drag its feet which could still derail any Europe – wide adoption as currently timetabled, leaving the UK market/ Lloyd's having spent enormous time, effort and money, but still with no level playing field. What will happen if the implementation date for Solvency II is pushed back again is less than clear. Certainly such credibility as the whole of this over-engineered project still retains will be seriously undermined and it seems likely that piece-meal National solutions will be the order of the day. Everyone at Cathedral has been involved in additional tasks to meet the various deadlines; this is in addition to their day jobs. One thing is quite clear, Solvency II means the cost bases of both Lloyd's Central and individual Syndicates will rise.

As always, we have every reason to be grateful to our underwriting, claims, modelling, financial and management teams who have served and continue to serve us so well particularly in these challenging times. They have my thanks.

I would also like to extend my thanks to my non-executive colleagues, Michael Andrews, Tony Minns, Elvin Patrick and John Tilling for their sound judgements and wise advice. During 2011 there were two changes to the non-executive members of the Board; Tony Minns joined us in May and John Goldsmith left us in September, to become chairman and chief executive of a newly formed Lloyd's broker. I would therefore particularly like to welcome the former and to extend my thanks and best wishes to the latter. Lastly I would also congratulate Lawrence Holder on his election as a Member of the Council of Lloyd's.

A. I. G. C. South

Chairman

12 March 2012

Underwriter's Report

Summary

On an annual accounting basis, the result of the Syndicate for calendar year 2011 is a loss of £11.6 million (combined ratio 106.6%), in addition to which there was a currency gain of £0.9 million. On the traditional Lloyd's basis of reporting, the 2009 year of account has closed with a profit for a Natural Name with standard personal expenses, of 16.1% of capacity, before members' agency fees.

2009 Account

I am pleased to report that the year has closed with a profit of £64.7 million, inclusive of currency retranslation gains but before personal expenses. For a Natural Name with standard personal expenses, this equates to a profit of 16.1% of capacity, before members' agency fees.

The capacity for the 2009 underwriting year was approximately £300 million. The gross signed premium income, net of brokerage, was some 80% of capacity at year-end rates of exchange.

In last year's report, I summarised the underwriting conditions and loss activity affecting the 2009 year of account. Those losses ran off within our reserve provisions. Prior years continue to run off satisfactorily.

2010 Account

For 2010, we increased our capacity to £350 million, largely due to rates of exchange considerations. The calendar year itself saw varying degrees of softening across most lines of business in which we were involved, but the result on a year of account basis will be heavily influenced by losses which occurred during the first quarter of 2011.

Last year's report outlined the business written for the 2010 year of account and the market conditions which prevailed during the calendar year. You may have noticed the uncharacteristic note of optimism with which the report concluded as to the likely ultimate outcome of the year of account at that stage.

As you will be aware the damage occasioned by the earthquake at Christchurch in New Zealand in February 2011 and that in Japan in March have caused very large insured and economic losses. What you may not be aware of is that virtually all Australasian business renews at 1st July and Japanese business almost exclusively renews at 1st April. These are the only two areas of note which carry significant exposure past a year end for property treaty business and both suffered huge losses. These losses are discussed in more detail in the 2011 commentary but the impact on the 2010 account cannot be underestimated. The Christchurch loss in particular is an extremely complex loss and will take many years to finally settle. These losses were of course in addition to losses which had already occurred during the calendar year itself such as the Chile earthquake and storms in the US and Australia.

We are maintaining our currently estimated result for the 2010 account at a loss of between -2.50% and -7.50% of stamp capacity.

2011 Account

For 2011 we continued to write the same classes of business as we have in the past.

For the treaty account, the softening in rates seen during 2010 continued, albeit at a slower pace than in 2009. Appetite for catastrophe business remained strong, with the non US market in particular remaining broadly soft other than in areas impacted by losses that had occurred during 2010, such as Chile which had experienced an earthquake in the early part of that year. European reinsurers dominate the non US market place and continued their relentless pursuit of market share, in spite of falling investment returns and a gathering storm in the European sovereign

Underwriter's Report

continued

debt markets. The US reinsurance market also continued a gentle slide in what is historically a tighter and more disciplined market. However, although the absence of a hurricane during 2010 meant that the US results had been good, there was limited appetite among reinsurers for any wholesale retreat on prices at the beginning of 2011.

On 22nd February the second earthquake to hit Christchurch in less than six months devastated the city. Even now, much of its commercial district is still only open to demolition crews. Estimates vary as to the insured loss but about US $15bn seems to be commonly used and given that around 25% of the centre of the city is said to be damaged or destroyed this seems reasonable. Large areas of suburban Christchurch will be bulldozed and simply moved on to bed rock to avoid a future recurrence of the levels of liquefaction seen in this quake. The city will take many years to plan and rebuild, not helped by a series of powerful aftershocks.

Three weeks later, on 11th March, the north east coast of Japan was devastated by an earthquake and ensuing tsunami. Damage in coastal areas was total with complete devastation on a staggering scale. Although much of the Japanese householders' business is insured for earthquake by the government, not all is, particularly in many rural areas where local mutual companies assume some of that risk. Other classes such as commercial property and marine are covered by insurers for earthquake loss should the customer elect to buy it. The overall insured loss is estimated to be around $40bn and frankly could have been a lot worse given that damage in Tokyo itself was slight. Both of these losses fall heavily on the 2010 account but there are still substantial elements of this loss which fall to the 2011 account.

In September and October the market saw unprecedented flooding in Thailand which inundated several large industrial estates in and around Bangkok. Loss estimates have been slow to emerge, as the water has taken a very long time to subside but this event will have a major impact on those major international motor, computer and other manufacturers who base their manufacturing there. Hardest hit will be the Japanese insurers many of whose customers switched some of their production to Thailand following the tsunami in Japan.

Last year's report stated that the enemy of the catastrophe underwriter is frequency and 2011 was both frequent and severe. There is some debate amongst insurers as to whether 2011 is the worst or second worst catastrophe year in history. If it's not the worst, it's a strong contender. Although the US hurricane season produced only one hurricane of note, Hurricane Irene which was a mere $4bn or so, it did manage to produce the worst series of hail and tornado events seen to date. Two large tornadoes swept through the towns of Tuscaloosa in Alabama and Joplin Missouri each of which caused more than three times the previous largest insured tornado loss seen historically. In the international market, in addition to the New Zealand and Japanese losses there were floods and a cyclone in Australia, storms in Scandinavia, wild fires in Texas and a seemingly endless series of hail, flood, freeze and storm losses across the United States.

The impact of the two earthquakes in the first quarter of 2011 meant that rates for property treaty business immediately flattened and then began to rise towards the middle of the year, a trend which continued into the January 2012 renewal season.

Direct commercial property rates had also continued to decline until the two earthquakes but then began to rise. Although the increases were initially encouraging they became somewhat patchy and did not reclaim the lost ground of the past two years. A relative lack of exposure to the non US market of our direct property account meant that while our losses from the earthquakes were relatively small we were then able to take some advantage of increasing rates in the affected areas due to market dislocation. The absence of a major US hurricane also means that results to date are encouraging although there is still a long way to go before the book is run off.

The aerospace reinsurance book also saw modest decreases in rates in the absence of a major airline loss although the disaster at the Reno air races has produced a substantial claim to the market. Our Clients continue to see declining rates across all lines of business from light aircraft to satellites and to see their margins eroded. Their resilience is impressive but it is increasingly difficult to believe that they can all continue to trade profitably in the current rating environment.

Our contingency account, although small, produced its best result to date in spite of a very competitive environment where the values for major tours continue to rise. Our focus continues to be on the smaller, less capacity driven business where service is more valued than price.

Although we are not required to estimate a result until the 31st of March 2012 the note of optimism sounded at this stage last year will not be repeated this time. The frequency and severity of loss already experienced coupled with allowance to recognise the amount of 2011 year of account business still on risk means that any result for the year will be marginal.

2011 Calendar Year Result

The 2011 calendar year result is made up of contributions from all open years of account (2009, 2010 and 2011) together with movements on the closed years of account (2001 to 2008) that occurred during the year. The result for the calendar year is a loss of £11.6 million (2010: profit £17.3 million). There was a gain on currency translation for the year of £0.9 million (2010: a gain of £1.1 million), which has been accounted for through the Statement of Total Recognised Gains and Losses ("STRGL").

The total recognised loss for the 2011 calendar year is therefore £10.7 million (2010: gain £18.4 million). The combined ratio for the 2011 calendar year is 106.6%, including all managing agency related expenses, other than profit commission (2010: 92.5%).

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

Future Prospects

Results seen in the market for 2011 during the early part of the 2012 reporting season vary from marginal to disastrous. This is in spite of the widespread use of large releases from liability reserves to mask poor property results. Results have also reflected plummeting investment returns. This is not a picture that excites and entices fresh capital into the industry as the potential returns on offer are not compelling. Investment income, which for so long has provided a large part of the industry's return, is not only dwindling but the very assets that provided that return are now becoming a source of potential capital loss, as some of the larger continental insurers begin to write off parts of their sovereign debt exposure.

As mentioned last year, there are still too many players operating in our chosen markets and for that matter, in most markets. This includes a plethora of small Lloyds' syndicates, most of which began trading in the last five years and most of which bring little to the market other than additional capacity.

Consolidation has been almost nonexistent in the last twelve months as most quoted companies were trading below their book value or are losing money or both. There are quite a number of distressed businesses either implicitly or overtly for sale both in London and in the wider market at the moment. Although there have been many expressions of interest for these businesses from potential buyers of all shapes and sizes, very few deals have actually been done. Until valuations improve, shareholders are going to see little to be gained in either selling or acquiring, with prospects for growth continuing to look bleak.

We would expect to see some entities suffer a slow and painful decline and one or two are quite likely go into runoff if they fail to find a white knight in the not too distant future; in the meantime they continue to clutter the landscape. There can be no doubt that new capital is out there and is available if good returns look possible but in the absence of a sustained hardening market, it's unlikely to deploy.

All the above means continuing pressure on market participants which should hopefully lead to a slow improvement, as there are few places left to make a return other than underwriting profit.

The 2012 renewal season for treaty business in the US saw strengthening prices and increasing retentions. Discipline was pretty much universal with most markets seeking to renew or reduce their exposure to the accounts they already had, rather than seek new clients and add to their exposures. This was at least in part due to the introduction of the new version of the industry's leading catastrophe model during 2011 which was mentioned in last year's report. This has greatly increased the "expected losses" insurers and reinsurers see when they calculate their exposures using these models. Despite the increase in potential loss indicated by the model version, insurers in general have not increased the amount of cover they bought, not because they don't want to, but because of cost and availability.

The international catastrophe market away from the US saw similar, large increases in price and higher attachment points but this was limited to those territories which suffered losses rather than due to a more general rating movement. Again, the appetite for imposing widespread increases from the European reinsurers who dominate this market has been limited, despite deteriorating results. This has meant that Lloyd's syndicates in particular have retrenched and have declined a lot of indifferently priced treaty renewals over year end. This business has then been taken up either by the European companies or European branches of the self-same Lloyd's syndicates!

Prospects for the commercial property market are still mixed. The US market is rising, just, and the wider international market continues to rise on loss affected accounts but not on much else. We've had three years without a major US hurricane and still results for most participants are slim, meaning that there is little catastrophe risk being priced in to the premiums in the direct market. There is some repositioning from one or two major players in the US market but as yet there is still too much capacity chasing what becomes available to cause premiums to rise by other than modest amounts. We will continue to look for new opportunities which, while few, are gradually growing.

We expect the aerospace insurance market to continue to decline with all the pressures that brings and the contingency market to remain competitive.

I said last year that I expected the market to be challenging, which turned out to be something of an understatement. However, as I have said before, we have a very experienced team who are well equipped to take full advantage of the opportunities and deal with the challenges which lie ahead.

Concluding Comments

A successful syndicate is a team effort and that applies to all staff, from the underwriters and management, to our reception. My particular thanks 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), Justin Burns, Katie Spicer and Jane Todd (our contingency underwriters), Steve Gentili our aggregation manager and Grant Williams our claims manager, together with the syndicate's entire support team to whom we all owe a great deal.

J C Hamblin
Active Underwriter

12 March 2012

Managing Agent's Report
At 31 December 2011

Introduction

The Directors of Cathedral Underwriting Limited, the managing agency for Syndicate 2010, present the Annual Report for the Syndicate at 31 December 2011, together with the Chairman's Statement and the Underwriter's Report. The Syndicate commenced trading for the 2001 year of account.

This Annual Report includes the Annual Accounts for the year ended 31 December 2011 and the Underwriting Year Accounts for the 2009 Year of Account. The annual accounting result for the 2011 calendar year was a loss of £11.6 million (2010: profit of £17.3 million). This consists of a contribution from all open years of account (2009, 2010 and 2011) together with all movements on the closed years of account (2001 to 2008) that occurred during the year. An analysis, by year of account, of the annual accounting result is included later in this report.

The 2009 Year of Account closed at 31 December 2011 with a profit of £64.7 million, inclusive of currency translation gains but before standard personal expenses. This includes movement on the closed years of account.

The auditors, Mazars LLP, have included two separate "True and Fair" audit opinions with the Annual Report – one covering the annual accounting result for 2011 and the other the closing 2009 year of account result.

The Managing Agent

Cathedral Underwriting Limited is the managing agent for Syndicate 2010. It also acts as managing agent for Syndicate 3010. Cathedral Underwriting Limited is authorised and regulated by the UK's Financial Services Authority ("FSA") and Lloyd's.

Syndicate	Principal class of business	Active underwriter	2011 Capacity £'000
2010	Non marine and aviation reinsurance, direct and facultative property and contingency	J C Hamblin	349,727
3010	Marine cargo	J C Hamblin	30,000

The ultimate parent company of Cathedral Underwriting Limited is Cathedral Capital Limited. Alchemy Partners Nominee Limited has a 63.1% interest in Cathedral Capital Limited and is deemed to be the controller of the managing agency; it has been approved as such by both Lloyd's and the FSA.

Multiple syndicates consent

The Council of Lloyd's on 25 July 2008 confirmed that Alasdair Butler and Lee Aspinall of Syndicate 3010 were approved under the Multiple Syndicates Byelaws (No.5 of 1989) to underwrite for Syndicates 2010 and 3010. This approval is given only in respect of FTC business that is to be written into Syndicate 2010.

Directors' shareholdings

The Directors who served during the year and their interests and that of their families in the share capital of Cathedral Capital Limited as at 31 December 2011, were as follows:

		31 December 2011			31 December 2010		
		B1 Ordinary 1 pence Shares	**B Ordinary 1 pence Shares**	**Ordinary 1 pence Shares**	B1 Ordinary 1 pence Shares	B Ordinary 1 pence Shares	Ordinary 1 pence Shares
D C Grainger	Compliance Director	**-**	**12,798**	**7,779**	-	14,411	11,812
J C Hamblin	Director	**18,686**	-	**22,002**	21,041	-	33,413
L A Holder	Managing Director	**18,686**	**-**	**22,002**	21,041	-	33,413
J A Lynch	Finance Director	**19,213**	**-**	**22,002**	21,634	-	33,413
E E Patrick	Director	**-**	**8,337**	**6,445**	-	9,388	9,788
P D Scales	Director	**19,213**	**-**	**22,002**	21,634	-	33,413

The other directors who served during the year were J M G Andrews, J S Goldsmith, A S Minns, A I G C South and J P Tilling. Mr J S Goldsmith resigned on 30 September 2011 and Mr A S Minns was appointed a director on 3 May 2011. They have no interest in the share capital of Cathedral Capital Limited.

Managing Agent's Report
At 31 December 2011
continued

The following directors (including their families) have an interest in the Preference shares issued by Cathedral Capital Limited and the Manager Loan Notes issued by Cathedral Capital (Investments) Limited.

	31 December 2011		31 December 2010	
	Preference £1 Shares	**Loan Notes £**	Preference £1 Shares	Loan Notes £
D C Grainger	**548,005**	**1,096,179**	548,005	1,096,179
J C Hamblin	**800,104**	**1,600,454**	800,104	1,600,454
L A Holder	**800,104**	**1,600,454**	800,104	1,600,454
J A Lynch	**822,639**	**1,645,531**	822,639	1,645,531
E E Patrick	**357,211**	**714,533**	357,211	714,533
P D Scales	**822,639**	**1,645,531**	822,639	1,645,531

The Cathedral Group has an Employee Share Ownership Plan ("ESOP") in which all full time 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 in the B Ordinary and Preference Shares of Cathedral Capital Limited and the Manager Loan Notes issued by Cathedral Capital (Investments) Limited at the year end are:

31 December 2011			31 December 2010		
B Ordinary 1 pence Shares	**Preference £1 Shares**	**Manager Loan Notes £**	B Ordinary 1 pence Shares	Preference £1 Shares	Manager Loan Notes £
12,212	**652,162**	**1,304,524**	13,723	651,048	1,302,367

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, Cathedral Capital Limited, which owns 100% of the interest in the corporate member Cathedral Capital (1998) Limited which has a £202.3 million participation in the 2010, 2011 and 2012 years of account. In addition Mr South, one of the Directors is a director of a number of corporate names which had, in aggregate, a £2.0 million participation on the 2010 year of account, a £1.9 million participation on the 2011 year of account, and £1.3 million participation on the 2012 year of account.

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

The registered office and principal place of business of Cathedral Underwriting Limited is 5th Floor, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8BF. 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 management board which includes senior management and underwriting representatives of Syndicate 2010 together with representatives of the Managing Agent's Board.

2011 Calendar Year

The Annual Report includes the results, for the calendar year, on an annual accounting basis, and is prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards. 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 loss of £11.6 million in the year (2010: profit £17.3 million) and this can be analysed as follows:

	2009* account £'000	**2010 account £'000**	**2011 account £'000**	**31 December 2011 £'000**	31 December 2010 £'000
Gross earned premium	**(647)**	**97,607**	**190,227**	**287,187**	284,193
Reinsurers' share	**299**	**(21,109)**	**(63,064)**	**(83,874)**	(77,905)
Net earned premium	**(348)**	**76,498**	**127,163**	**203,313**	206,288
Gross claims incurred	**19,860**	**(150,565)**	**(151,089)**	**(281,794)**	(185,624)
Reinsurers' share	**2,098**	**77,432**	**42,309**	**121,839**	47,834
Net claims incurred	**21,958**	**(73,133)**	**(108,780)**	**(159,955)**	(137,790)
Net operating expenses	**(2,255)**	**(19,966)**	**(36,681)**	**(58,902)**	(55,218)
Balance on Technical Account before investment return	**19,355**	**(16,601)**	**(18,298)**	**(15,544)**	13,280
Net investment return	**1,903**	**1,523**	**496**	**3,922**	4,052
Profit/(loss) for the financial year	**21,258**	**(15,078)**	**(17,802)**	**(11,622)**	17,332

* The 2009 account includes the movement in the 2001 to 2008 accounts which have closed into the 2009 account.

Premiums above 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 the policy level. The earning patterns aim to reflect the underlying exposures of the business written. Thus net earned premiums during 2011 include premiums on policies incepting during 2011 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:

Earned premiums by underwriting team

	31 December 2011		31 December 2010	
	Gross £'000	**Net £'000**	Gross £'000	Net £'000
Non-marine reinsurance	**146,333**	**94,996**	133,919	90,670
Aviation	**33,187**	**24,586**	43,090	32,753
Satellite	**3,423**	**1,859**	4,943	4,229
Direct & facultative property	**97,315**	**76,508**	95,239	73,263
Contingency	**6,369**	**4,804**	6,169	4,540
Other	**560**	**560**	833	833
Total	**287,187**	**203,313**	284,193	206,288

At the year end the Syndicate had net unearned premiums of £77.1 million (2010: £83.1 million) on the balance sheet.

The impacts of 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. However where appropriate, adjustments are made to the attritional loss ratio applied to the earned premiums.

The annual accounting result includes the impact of any losses identified with a date of loss in 2011 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 2011.

The 2011 net combined ratio is 106.6% (2010: 92.5%). This combined ratio is expressed as a percentage of Net Earned Premiums and excludes investment return, profit commission 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 2011		31 December 2010	
	Gross %	**Net %**	Gross %	Net %
Claims Ratio:				
Non-marine reinsurance	**141.6**	**102.3**	79.1	68.4
Aviation	**44.9**	**52.9**	70.9	78.1
Satellite	**81.6**	**91.2**	32.9	31.5
Direct & facultative property	**54.3**	**61.4**	45.8	61.9
Contingency	**59.4**	**18.5**	51.0	62.4
Other	**33.2**	**33.2**	82.1	82.1
Total	**98.1**	**78.6**	65.3	66.8
Expense Ratio	**19.8**	**28.0**	18.7	25.7
Combined Ratio	**117.9**	**106.6**	84.0	92.5

The combined ratio excludes managing agent's profit commission and is the basis used throughout these financial statements.

The expense ratio includes brokerage on inwards business which accounts for approximately 73% 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, including currency retranslations.

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 Aggregate Accounts) Regulations 2008 ("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 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 in the financial statements; 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. 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 2010, 2011 and 2012 years of account.

	2012 account		2011 account		2010 account	
Name of Agent	**£'000**	**%**	£'000	%	£'000	%
Hampden Agencies Limited	**270,886**	**77.4**	271,306	77.6	271,686	77.7

Cathedral Capital (1998) Limited, an incorporated member of Lloyd's and a Cathedral Group Company, provided £202.3 million of the capacity for the 2010, 2011 and 2012 years of account through Hampden Agencies Limited.

Capacity by member type and year of account

	2012 account		2011 account		2010 account	
	£'000	**%**	£'000	%	£'000	%
Syndicate allocated capacity attributable to:						
Corporate members	**315,206**	**90.1**	311,740	89.1	308,200	88.1
External members	**32,674**	**9.3**	35,831	10.3	39,378	11.3
Working members (none of whom are employed by the managing agency)	**2,136**	**0.6**	2,156	0.6	2,264	0.6
	350,016	**100.0**	349,727	100.0	349,842	100.0

Result

The 2009 account closed with a profit of £64.7 million inclusive of currency translation gains but before standard personal expenses. For a natural name with standard personal expenses, this equates to a profit of 16.1% of capacity, before members' agency fees.

This result is in excess of the result range forecast by the managing agent at last year end. The losses that impacted the 2009 account, which were reported on in detail in last year's Annual Report, ran off as expected during 2011 and there were releases from the favourable run off of the earlier years of account that had closed into the 2009 account at 31 December 2010. The analysis of the 2009 closed year result, before personal expenses, by member type is as set out below:

	2009 account	
	£'000	%
Result attributable to:		
Corporate members	55,574	85.9
External members	8,669	13.4
Working members *(none of whom are employed by the managing agency)*	453	0.7
	64,696	100.0

Managing Agent's Report
At 31 December 2011

continued

2010 account forecast

The forecast 2010 year of account result at 31 December 2011, 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 a loss in the range of -7.5% to -2.5% of Syndicate capacity.

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 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 2009 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 2012 will not differ significantly from those taken into account in the forecast.

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 main 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 the third major 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 in the US 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 developed regions – Europe, Australasia 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 US 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.

The aviation account is built around a core book which protects insurers of airlines or major aviation manufacturers against catastrophic loss. 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 small property risks principally in the US, Canada, Australasia and Europe.

From mid-2003 the Syndicate wrote a fire theft and collision account (FTC). This was largely discounted in the second half of 2006, although a modest account continues to be written.

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

Going forward, Syndicate 2010 intends to retain its focus on these accounts and will continue to seek opportunities within these classes.

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 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 majority of 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.

During the calendar year, Amundi (UK) Limited ("Amundi") were the investment managers of the US Dollar Trust Funds and also a proportion of both the Syndicate's Euro and Canadian Dollar Trust Funds. On 8 February 2012, 30 days notice was given to terminate the investment management agreement following a change in the investment management team within Amundi. Conning Asset Management Limited ("Conning") were appointed as syndicate investment managers from 9 March 2012. The other funds held in the Syndicate Trust Funds are managed directly by the finance department of Cathedral Underwriting Limited.

The investment policy adopted with respect to the Syndicate funds is to balance liquidity, security and investment risk so as to enable the Syndicate to meet its commitments as and when they fall due.

Managing Agent's Report
At 31 December 2011

continued

The investment objective for the syndicate investment manager is to invest the Premium 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 the light of this, portfolios are predominantly invested in short-term, high quality fixed income securities. The syndicate investment manager has been instructed to invest for the highest total return consistent with maintaining adequate liquidity and security and has 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.

The syndicate investment manager's performance is measured against Merrill Lynch 1-3 year Government Index of the domestic Government bond market for each Premium Trust Fund which are the benchmarks defined by the investment committee. The funds not managed by Amundi were held predominantly in cash throughout the year.

Investment performance

During the first quarter of the year bond yields increased in the US, UK, Canadian and core Euro-zone markets as the economic recovery appeared to continue, commodity prices continued to push inflation rates higher, quantitative easing programmes were coming to an end and benchmark interest rate increases were anticipated. The ECB increased its benchmark rate from 1% to 1.5% in two 25bp steps at its meetings in April and July, and three members of the Bank of England's MPC were voting for an immediate increase in Bank Rate from February to May, following which the term of one of those expired and he left the committee. However, as economic data took a weaker turn following the Japanese earthquake/tsunami, bond yields fell back and yield curves flattened. The FOMC stated that it did not expect to increase the Federal Funds target rate until at least the middle of 2013 and announced "Operation Twist", a programme to sell Treasuries with maturities of up to three years and reinvest in longer maturities, the MPC returned to a unanimous vote to keep Bank Rate unchanged and announced a further programme of quantitative easing, and the ECB reversed its rate hikes with 25bp cuts at the November and December meetings. Much attention was focussed on the travails of the Euro-zone and the increasing speculation about its future. The yield spreads between German Government bonds and those of the other Euro-zone countries increased and while yields in Spain and Ireland fell, those in Italy and particularly Portugal and Greece increased significantly. Portugal became the third country after Greece and Ireland to receive EU/IMF rescue packages and the deteriorating situation in Greece led to proposals that a proportion of debt should be written off and EU politicians raised the possibility of its leaving the Euro-zone. Credit spreads, which were generally steady or a little tighter during the first half of the year, widened significantly during the third quarter as equity markets fell sharply and financial strains increased.

For the funds managed by Amundi, the investment returns of 1.04% in USD, and 1.87% in Euro were at the higher end of the estimates predicted by Amundi at the beginning of 2011. The US Dollar and Euro returns versus the guideline Merrill Lynch 1-3 year index were impacted by a short duration stance, in the main designed to avoid capital losses and volatility given the economic uncertainty that prevailed in 2011. In Canadian Dollar the portfolio returned 2.12% which was in excess of that predicted at the beginning of the year, but again a lower return when compared to the ML 1-3 year index because of the short duration stance.

Net cash-flows in invested portfolios were broadly flat to marginally negative over the year, having little impact on total investment earnings. The overall calendar year investment yield is set out in detail in Note 10 on page 34.

Investment strategy

Conning our investment manager, writes:

> "The ability to generate investment income for short-maturity portfolios remains limited, given the low level of bond yields. At year-end yield curves were relatively flat in the maturity range covered by the benchmark indices and two-year yields in the US, UK, Germany and Canada of 0.24%, 0.33%, 0.14% and 0.96% respectively were all below the relevant central bank benchmark interest rates, suggesting that markets fully believe that there will be no interest rate increases until at least the end of 2013.
>
> At these historically low bond yields the risks are skewed to the downside; there is little scope for yields to fall much further, but any stronger than expected economic growth, particularly if accompanied by higher than target inflation could lead to markets discounting earlier interest rate increases. This would lead to higher bond yields and the potential for capital losses. Portfolios currently have short duration relative to benchmarks and this is likely to be maintained in the medium term, since the investment objectives are currently biased towards protecting the syndicate against unnecessary losses. Portfolio returns will be enhanced by exposure to corporate bonds and other "spread" products, carefully selected by sector and individual issuer to limit risks. Portfolio exposure to those instruments is likely to remain high, and may be increased where opportunities exist.

The potential for capital losses through yield increases means that portfolios will likely be maintained with a short duration bias in the medium term, with tactical variations. This policy is unlikely to change in the short-term as the investment objectives are currently biased towards protecting the portfolio against unnecessary losses. "

Stock lending

The Board of Cathedral Underwriting Limited prohibits Amundi from entering into any stock lending arrangements on behalf of the Syndicate. Conning will also be prohibited from entering such transactions when they take over the management of the portfolio.

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 arranged a United States $80 million catastrophe facility with Barclays Bank plc. This facility is there to assist in paying claims and gross funding of exceptional catastrophes. Up to United States $50 million can be utilised by way of Letter of Credit to assist the Syndicate's US gross funding requirements.

The facility was not utilised during calendar 2011 and was renewed for another year in December 2011.

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 at Lloyd's is regarded as the minimum Regulatory Capital Requirement for the business. Lloyd's has the discretion to take into account other factors at member level to uplift the calculated ICA (including the need to maintain the market's overall security rating). This produces a Syndicate Economic Capital Requirement ("ECA").

The ICA is predominantly based on syndicate specific data and the annual syndicate business forecast which is submitted to Lloyd's for approval prior to the commencement of an underwriting year. ICA's were first prepared for the 2005 account and submitted to Lloyd's as a "soft test". However, the ICA's submitted since then have been used by Lloyd's to determine capital at member level. Each submission is based on premium income (as determined from the relevant syndicate business forecast).

The table below summarises Syndicate 2010's ICA return for the 2010, 2011 and 2012 accounts. These ICA figures are as agreed with Lloyd's. The ECA numbers reflect the market-wide capital loadings of 35% applied to all syndicates for all three years.

		2012		2011		2010
	£m	**%***	£m	%*	£m	%*
ICA	**143.1**	**40.9**	161.1	46.0	148.1	42.3
Lloyd's Loading	**50.1**	**14.3**	56.4	16.1	51.8	14.8
ECA	**193.2**	**55.2**	217.5	62.1	199.9	57.1

* Note: % = percentage of stamp capacity

Solvency II

Solvency II is the proposed EU-wide solvency and risk management regime that is intended to apply to all EU insurers. The current intended implementation date is 2014. In parallel with Lloyd's own Solvency II implementation programme, Cathedral has developed and tested its own Solvency II compliant internal model and submitted a Final Application Pack to Lloyd's in December 2011. This included details of outstanding areas to be addressed in 2012 to complete Solvency II preparedness.

The external costs incurred by the Syndicate relating to Solvency II in the 2011 calendar year amounted to £0.3 million.

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;
- Accumulative loss including unknown/unexpected accumulations – the risk that risks accumulate including the extent or manner to which this 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 tables that follow provide information about historical claims development.

Underwriting year - Gross	2005	2006	2007	2008	2009	2010	2011
12 months	157%	28%	41%	74%	39%	63%	79%
24 months	121%	36%	46%	69%	52%	94%	-
36 months	115%	36%	47%	69%	48%	-	-
48 months	118%	36%	46%	68%	-	-	-
60 months	117%	35%	45%	-	-	-	-
72 months	117%	35%	-	-	-	-	-
84 months	117%	-	-	-	-	-	-

Underwriting year - Net	2005	2006	2007	2008	2009	2010	2011
12 months	88%	39%	59%	66%	51%	74%	86%
24 months	73%	45%	57%	60%	57%	82%	-
36 months	67%	46%	57%	59%	51%	-	-
48 months	66%	44%	55%	56%	-	-	-
60 months	66%	44%	54%	-	-	-	-
72 months	66%	43%	-	-	-	-	-
84 months	65%	-	-	-	-	-	-

The loss ratios above are in respect of the pure year of account and are cumulative annually accounted loss ratios at each stage. In effect, the table highlights the Syndicate's ability to provide a robust estimate of the claims costs. It should be noted that any losses in year two onwards will not be recognised at the 12 months stage under annual accounting.

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 Managing Agent can cash call the Names supporting the Syndicate and can ultimately drawdown from Names' Funds at Lloyd's.

Market risk

The Syndicate has exposure to market risk. This includes the risks associated with interest rate and currency movements 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 that are 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:	Amundi (UK) Limited (until 9 March 2012)
	Conning Asset Management Limited (since 9 March 2012)
Software support:	Sword UK Limited

Managing Agent's Report At 31 December 2011

continued

Actuaries

Towers Watson Limited acted as reporting actuaries to the Syndicate for the period under review.

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 will continue as company auditors for a further year with effect from 1 May 2012.

Appointment as Syndicate auditor will be addressed in accordance with the "deemed reappointment of auditor" provisions under the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 unless the deemed reappointment is prevented by members in accordance with Schedule 1 Part 3 (paragraph 14(2) of the Regulations 2008).

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 30 April 2012 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 8BF

12 March 2012

SYNDICATE ANNUAL ACCOUNTS

For the year ended 31 December 2011

This page is left intentionally blank.

Independent Auditor's Report to the Members of Syndicate 2010

We have audited the syndicate annual accounts of Syndicate 2010 for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows, and the related notes as set out on pages 22 to 38. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on pages 10 and 11, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. 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 auditor's 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's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the syndicate annual accounts?

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm .

Opinion on the syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the state of affairs of Syndicate 2010 as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on the other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Andrew Hubbard *(Senior Statutory Auditor)*
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London E1W 1DD
12 March 2012

CATHEDRAL
SYNDICATE 2010

Profit and Loss Account
Technical Account - General Business
For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Earned premiums, net of reinsurance:			
Gross premiums written	3	**279,489**	276,589
Outward reinsurance premiums		**(82,756)**	(79,428)
Net premiums written		**196,733**	197,161
Change in the provision for unearned premiums:			
Gross amount		**7,698**	7,604
Reinsurers' share		**(1,118)**	1,523
Earned premiums, net of reinsurance		**203,313**	206,288
Allocated investment return transferred from the non-technical account		**3,922**	4,052
Claims paid:			
Gross amount		**(172,237)**	(123,852)
Reinsurers' share		**43,202**	34,063
		(129,035)	(89,789)
Change in the provision for claims:			
Gross amount		**(109,557)**	(61,772)
Reinsurers' share		**78,637**	13,771
		(30,920)	(48,001)
Claims incurred, net of reinsurance		**(159,955)**	(137,790)
Net operating expenses	4	**(58,902)**	(55,218)
Balance on the technical account for general business		**(11,622)**	17,332

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 2011

	Notes	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
Balance on the general business technical account		**(11,622)**	17,332
Investment income	8	**6,012**	6,155
Unrealised gains on investments		**646**	537
Investment expenses and charges	9	**(1,437)**	(1,296)
Unrealised losses on investments		**(1,299)**	(1,344)
Allocated investment return transferred to the general business technical account		**(3,922)**	(4,052)
(Loss)/profit for the financial year	17	**(11,622)**	17,332

Statement of Total Recognised Gains and Losses
For the year ended 31 December 2011

	Notes	**Year ended 31 December 2011 £'000**	Year ended 31 December 2010 £'000
(Loss)/profit for the financial year	17	**(11,622)**	17,332
Currency translation differences	17	**880**	1,112
Total recognised (losses)/gains since last annual report		**(10,742)**	18,444

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

CATHEDRAL
SYNDICATE 2010

Balance Sheet
As At 31 December 2011

	Notes	2011 £'000	2010 £'000
Investments:			
Financial investments	11	**224,802**	246,918
		224,802	246,918
Reinsurers' share of technical provisions:			
Provision for unearned premiums		**8,052**	9,091
Claims outstanding	12	**171,924**	91,629
		179,976	100,720
Debtors:			
Debtors arising out of direct insurance operations			
- Intermediaries	13	**14,238**	19,035
Debtors arising out of reinsurance operations	14	**88,589**	74,736
Other debtors	15	**5,403**	4,775
		108,230	98,546
Other assets:			
Cash at bank and in hand		**7,517**	23,202
Other	16	**36,317**	18,969
		43,834	42,171
Prepayments and accrued income:			
Deferred acquisition costs		**14,616**	16,903
Other prepayments and accrued income		**528**	594
		15,144	17,497
Total assets		**571,986**	505,852

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

	Notes	**2011 £'000**	2010 £'000
Capital and reserves:			
Members' balances	17	**17,468**	64,693
		17,468	64,693
Technical provisions:			
Provision for unearned premiums		**85,103**	92,209
Claims outstanding		**428,913**	316,914
		514,016	409,123
Creditors:			
Creditors arising out of direct insurance operations	18	**1,703**	1,769
Creditors arising out of reinsurance operations	19	**32,925**	23,217
Other creditors including taxation and social security	20	**5,250**	6,497
		39,878	31,483
Accruals and deferred income		**624**	553
Total liabilities		**571,986**	505,852

The Syndicate annual accounts on pages 22 to 38 were approved by the Board of Cathedral Underwriting Limited on 12 March 2012 and were signed on its behalf by

L A Holder
Managing Director

J A Lynch
Finance Director

12 March 2012

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

Statement of Cash Flows
For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Reconciliation of profit to net cash inflow from operating activities			
(Loss)/profit for the financial year		**(11,622)**	17,332
Realised and unrealised investments losses/(gains) on cash and investments, including currency movements		**355**	(5,396)
Income from investments		**(5,756)**	(5,621)
Interest payable		**-**	7
(Increase)/decrease in debtors, prepayments and accrued income		**(7,331)**	(3,052)
Increase/(decrease) in net technical provisions		**25,637**	44,464
Increase/(decrease) in creditors, accruals and deferred income		**8,466**	(444)
Exchange gains/(losses)		**880**	1,112
Net cash inflow from operating activities		**10,629**	48,402
Returns on investment and servicing of finance:			
Interest paid		**-**	(7)
Interest received		**5,756**	5,621
Transfer to members in respect of underwriting participations		**(36,483)**	(38,187)
(Decrease)/increase in cash and portfolio investments in the year	21	**(20,098)**	15,829
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings	21	**(15,509)**	4,185
Net portfolio investments	22	**(4,589)**	11,644
Net investment of cash flows		**(20,098)**	15,829

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

1 Basis of Preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("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) *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.

(iii) *Unearned premiums*

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

(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. IBNR for major catastrophe losses is individually assessed by underwriting and non underwriting management. IBNR for smaller and more attritional losses is based on projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced 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.

Notes to the Accounts
For the year ended 31 December 2011

continued

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 and other 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 and related expenses estimated to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums 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.

Realised exchange differences are included in the technical account within net operating expenses.

(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. The Syndicate holds cash balances, some of which are swept overnight into pooled arrangements. These balances have been classified as investments.

(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 deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members 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 it 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.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2011
continued

3 Particulars of business written

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

					Year ended 31 December 2011	
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)	**136**	**141**	**(231)**	**(127)**	**(53)**	**(270)**
Motor (other classes)	**736**	**754**	**(163)**	**(81)**	**(120)**	**390**
Marine aviation and transport	**(192)**	**1,942**	**(1,966)**	**(695)**	**(57)**	**(776)**
Fire and other damage to property	**68,478**	**71,537**	**(37,829)**	**(21,034)**	**(15,621)**	**(2,947)**
Third party liability	**(690)**	**23**	**(187)**	**(220)**	**96**	**(288)**
Credit and suretyship	**6,509**	**6,289**	**(3,785)**	**(1,578)**	**1,340**	**2,266**
	74,977	**80,686**	**(44,161)**	**(23,735)**	**(14,415)**	**(1,625)**
Reinsurance acceptances	**204,512**	**206,501**	**(237,633)**	**(35,167)**	**52,380**	**(13,919)**
Total	**279,489**	**287,187**	**(281,794)**	**(58,902)**	**37,965**	**(15,544)**

					Year ended 31 December 2010	
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)	211	234	(263)	(109)	(16)	(154)
Motor (other classes)	563	558	(437)	(98)	(45)	(22)
Marine aviation and transport	3,402	3,827	(1,310)	(72)	(280)	2,165
Fire and other damage to property	68,522	70,262	(28,749)	(19,418)	(16,512)	5,583
Third party liability	563	912	(548)	(835)	(222)	(693)
Credit and suretyship	5,716	6,016	(3,156)	(1,555)	(1,301)	4
	78,977	81,809	(34,463)	(22,087)	(18,376)	6,883
Reinsurance acceptances	197,612	202,384	(151,161)	(33,131)	(11,695)	6,397
Total	276,589	284,193	(185,624)	(55,218)	(30,071)	13,280

3 Particulars of business written *continued*

Geographical analysis by origin

	Gross written premiums		(Loss)/profit		Net assets	
	2011	2010	**2011**	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Direct	**74,977**	78,977	**(1,389)**	7,161	**1,051**	4,454
Reinsurance	**204,512**	197,612	**(10,233)**	10,171	**16,417**	60,239
	279,489	276,589	**(11,622)**	17,332	**17,468**	64,693

All business originates in the UK.

Geographical analysis by destination

	Gross written premiums 2011 £'000	Gross written premiums 2010 £'000
UK	**44,569**	42,638
US	**116,879**	124,699
Other EU member states	**22,736**	25,536
Rest of the world	**95,305**	83,716
	279,489	276,589

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2011
continued

4 Net operating expenses

	2011 £'000	2010 £'000
Acquisition costs	**40,788**	42,333
Change in deferred acquisition costs	**2,351**	705
Administrative expenses	**8,702**	7,906
Reinsurance commissions and profit participation	**(885)**	(815)
Loss/(profit) on exchange	**807**	(2,089)
Personal expenses	**7,139**	7,178
	58,902	55,218

Administrative expenses include:

	2011 £'000	2010 £'000
Auditors' remuneration:		
- Audit of the accounts	**82**	80
- Other regulatory reporting	**21**	20
- Taxation services	**3**	1
- Other services	**16**	47

Total commissions for direct insurance accounted for in the year amounted to £18,581,565 (2010: £17,454,831).

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:

	2011 £'000	2010 £'000
Wages and salaries	**4,060**	3,710
Social security costs	**486**	433
Other pension costs	**629**	602
	5,175	4,745

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

	2011	2010
Operations, administration and finance	**18**	15
Underwriting and claims	**28**	28
	46	43

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:

	2011 £'000	2010 £'000
Emoluments	**751**	718

7 Active underwriter's emoluments

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

	2011 £'000	2010 £'000
Emoluments	**253**	227

8 Investment income

	2011 £'000	2010 £'000
Income from investments	**5,676**	5,668
Gains on the realisation of investments	**336**	487
	6,012	6,155

9 Investment expenses and charges

	2011 £'000	2010 £'000
Investment management expenses, including interest payable	**209**	198
Losses on realisation of investments	**1,228**	1,098
	1,437	1,296

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2011
continued

10 Investment return

The average Syndicate funds and investment return in the calendar year by currency is as follows:

	31 December 2011		31 December 2010	
	Average funds ’000*	**Investment yield %**	Average funds ’000*	Investment yield %
Sterling	**25,789**	**5.2**	22,012	2.3
Euro	**36,042**	**1.5**	24,993	0.4
US Dollars	**305,877**	**1.0**	318,647	1.6
Canadian Dollars	**38,005**	**1.9**	32,293	1.4
All currencies converted	**272,206**	**1.5**	269,262	1.6

Investment return includes investment income, realised investment gains and losses and movements on unrealised investment gains and losses.

* Average funds are shown in original currencies.

11 Financial investments

	Market value		**Cost**	
	2011 £’000	2010 £’000	**2011 £’000**	2010 £’000
Shares and other variable yield securities	**24,331**	14,302	**24,331**	14,302
Debt securities and other fixed income securities	**192,463**	226,594	**192,873**	227,248
Participation in investment pools	**7,905**	5,920	**7,905**	5,920
Deposits with approved credit institutions	**103**	102	**103**	102
	224,802	246,918	**225,212**	247,572

Debt securities and other fixed income securities are all listed on recognised stock exchanges. All investments, other than deposits with approved credit institutions, are stated at bid price value. Furthermore, though the majority of investments were rated AAA to A by external ratings agencies as at the Balance Sheet date Securities rated below A, no lower than BBB had a value of £1.3 million.

12 Reinsurers’ share of claims outstanding

The year end assessment of the recoverability of the Syndicate’s reinsurance assets is a subjective one. The managing agent considers that the provision is fairly stated based on the current information available. However, the ultimate amount recoverable may be different as a result of subsequent information and future events.

The table below analyses the exposure to reinsurers by credit quality: The grading refers to the year end grade of the relevant reinsurer by reference to their Bests and/or S&P rating. These ratings will not neccessarily be the same as when the relevant reinsurances were purchased.

	2011 £’000	2010 £’000
A grade security	**153,014**	84,534
Other*	**23,568**	10,354
	176,582	94,888
Less provision for bad debt	**(4,658)**	(3,259)
	171,924	91,629

* includes carriers within A rated groups which are no longer actively trading following acqusition or group re-organisation, carriers which have been subject to court approved transfers and carriers which are subject to collateralisation/LOC arrangements.

13 Debtors arising out of direct insurance operations

	2011 £'000	2010 £'000
Due within one year - intermediaries	**14,238**	19,035

14 Debtors arising out of reinsurance operations

	2011 £'000	2010 £'000
Due within one year	**88,589**	74,736

15 Other debtors

	2011 £'000	2010 £'000
Due within one year:		
Amounts due from members	**1,655**	1,330
Other	**89**	74
Due after one year:		
Amounts due from members	**3,659**	3,371
	5,403	4,775

16 Other assets - overseas deposits

	2011 £'000	2010 £'000
Amounts advanced in other countries as a condition of carrying on business there	**36,317**	18,969

17 Reconciliation of members' balances

	2011 £'000	2010 £'000
Members' balances at 1 January	**64,693**	84,436
(Loss)/profit for the financial year	**(11,622)**	17,332
Exchange gain/(loss) for the financial year	**880**	1,112
Transfers to members' personal reserve funds	**(36,483)**	(38,187)
Members' balances carried forward at 31 December	**17,468**	64,693

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 2008 (2007) closed year of account profit.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2011

continued

18 Creditors arising out of direct insurance operations

	2011 £'000	2010 £'000
Due within one year	**1,703**	1,769

19 Creditors arising out of reinsurance operations

	2011 £'000	2010 £'000
Due within one year	**32,925**	23,217

20 Other creditors including taxation and social security

	2011 £'000	2010 £'000
Due within one year:		
Profit commission owed to managing agent	**5,087**	3,358
Expenses owed to managing agent	**159**	65
Other	**4**	26
	5,250	3,449
Due after one year:		
Profit commission owed to managing agent	**-**	3,048
	5,250	6,497

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

	2011 £'000	2010 £'000
Net cash (outflow)/inflow for the year	**(15,509)**	4,185
Cash flow – portfolio investments	**(4,589)**	11,644
Movement arising from cash flows	**(20,098)**	15,829
Changes in market value and exchange rates	**(355)**	5,396
Total movement in portfolio investments net of financing	**(20,453)**	21,225
Balance brought forward at 1 January	**289,089**	267,864
Balance carried forward at 31 December	**268,636**	289,089

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

	At 1 January 2011 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2011 £'000
Cash at bank and in hand	**23,202**	**(15,509)**	**(176)**	**7,517**
Overseas deposits	**18,969**	**17,311**	**37**	**36,317**
Shares and other variable yield securities	**14,302**	**9,854**	**175**	**24,331**
Debt securities and other fixed income securities	**226,594**	**(33,797)**	**(334)**	**192,463**
Participation in investment pools	**5,920**	**2,043**	**(58)**	**7,905**
Deposits with approved credit institutions	**102**	**-**	**1**	**103**
Total portfolio investments	**265,887**	**(4,589)**	**(179)**	**261,119**
Total cash at bank and in hand and portfolio investments	**289,089**	**(20,098)**	**(355)**	**268,636**

22 Net cash inflow/(outflow) on portfolio investments

	2011 £'000	2010 £'000
Purchase of debt securities and other fixed income securities	**(115,071)**	(129,308)
Sale of loans and deposits with approved credit institutions	**-**	1,282
Sale of debt securities and other fixed income securities	**148,868**	120,976
Movement of shares and other variable yield securities	**(9,854)**	1,727
Movement of participation in investment pools	**(2,043)**	(3,435)
Movement of overseas deposits	**(17,311)**	(2,886)
Net cash inflow/(outflow) on portfolio investments	**4,589**	(11,644)

23 Related parties

The immediate parent company of Cathedral Underwriting Limited is Cathedral Capital (2000) Limited.

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

Total managing agency fees paid during calendar year 2011 to Cathedral Underwriting Limited in respect of services provided to the Syndicate amounted to £2,273,228 (2010: £2,273,975).

Profit commission of £5,087,042 (2010: £3,358,117) is also due to the managing agent in respect of the profit on the 2009 (2008) closed year.

Profit commission of £nil (2010: £3,047,496) has also been accrued in respect of the 2010 (2009) year of account, with £nil (2010: £nil) accrued in respect of the 2011 (2010) year of account.

Notes to the Syndicate Annual Accounts
For the year ended 31 December 2011

continued

23 Related parties *continued*

Expenses totalling £8,626,128 (2010: £7,991,013) 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 the number of personnel
Other costs	- as appropriate in each case

Amounts owed to Cathedral Underwriting Limited At 31 December 2011 totalled £5,245,789 (2010: £6,470,655) 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 2009, 2010 and 2011 underwriting years. Cathedral Capital (1998) Limited's share of the result for the 2011 calendar year is a loss of £5,545,861 (2010: £11,266,462 profit).

24 Post balance sheet events

The following amounts will be transferred to members' personal reserve funds on 10 April 2012:

2009 Year of account	£1,891,945
	US$80,999,988

On the same date, outstanding profit commission of £5,087,042 will be paid to Cathedral Underwriting Limited on the 2009 closed year of account.

25 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.

26 Quota share reinsurance

In accordance with Lloyd's consent, the following quota share reinsurance contracts have been ceded by Syndicate 2010 to Cathedral managed Syndicate 3010.

	Percentage	Account
1.	16,67%	Satellite Account (SATEC)
2.	5.00%	North East USA Treaty Account

The Cathedral group corporate member is the sole capital provider to Syndicate 3010.

SYNDICATE UNDERWRITING YEAR ACCOUNTS

FOR THE 2009 YEAR OF ACCOUNT

CLOSED AT 31 DECEMBER 2011

Independent Auditor's Report to the Members of Syndicate 2010 – 2009 Closed Year of Account

We have audited the syndicate underwriting year accounts for the 2009 year of account of Syndicate 2010 for the three years ended 31 December 2011 which comprise Statement of Managing Agent's Responsibilities, the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes as set out on pages 41 to 56. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the managing agent and auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 41, the managing agent is responsible for the preparation of the syndicate underwriting year accounts, under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), which give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the members on the 2009 year of account of the syndicate, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. 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 auditor's 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 on the 2009 year of account of the syndicate as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the syndicate underwriting year accounts

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm .

Opinion on the syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2009 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires us to report to you if, in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

Andrew Hubbard *(Senior Statutory Auditor)*
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London E1W 1DD
12 March 2012

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.

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 (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 are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;

(ii) 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

12 March 2012

CATHEDRAL
SYNDICATE 2010

Profit and Loss Account
Technical Account - General Business
2009 Year of Account
For the 36 months ended 31 December 2011

		Notes	36 months ended 31 December 2011 £'000
Earned premiums, net of reinsurance			
Gross premiums written		3	**280,278**
Outward reinsurance premiums			**(77,630)**
Net premiums written			**202,648**
Change in the provision for unearned premiums			
Gross amount			**1,243**
Reinsurers' share			**(88)**
Earned premiums, net of reinsurance			**203,803**
Reinsurance to close premiums received, net of reinsurance		3	**83,907**
Allocated investment return transferred from the non-technical account			**3,743**
Claims incurred, net of reinsurance			
Claims paid	Gross amount		**(108,745)**
	Reinsurers' share		**25,933**
			(82,812)
Reinsurance to close premium payable, net of reinsurance		8	**(94,599)**
Claims incurred net of reinsurance			**(177,411)**
Net operating expenses		5	**(59,752)**
Balance on the technical account for general business			**54,290**

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
2009 Year of Account
For the 36 months ended 31 December 2011

	Notes	36 months ended 31 December 2011 £'000
Balance on the general business technical account		**54,290**
Investment income	6	**6,166**
Unrealised gains on investments		**624**
Investment expenses and charges	7	**(1,636)**
Unrealised losses on investments		**(1,411)**
Allocated investment return transferred to the general business technical account		**(3,743)**
Profit for the closed year of account	14	**54,290**

Statement of Total Recognised Gains and Losses
2009 Year of Account
For the 36 months ended 31 December 2011

	Notes	36 months ended 31 December 2011 £'000
Profit for the financial year	14	**54,290**
Currency translation differences	14	**932**
Total recognised gains and losses		**55,222**

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

Balance Sheet
2009 Year of Account
For the 36 months ended 31 December 2011

	Notes	31 December 2011 £'000
Assets		
Investments	9	**126,246**
Debtors:		
Debtors arising out of direct insurance operations		
- Intermediaries	10	**937**
Debtors arising out of reinsurance operations	11	**18,285**
Other debtors	12	**12,971**
		32,193
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	8	**58,063**
Other assets:		
Cash at bank and in hand		**4,183**
Other	13	**8,796**
		12,979
Prepayments and accrued income		**13**
Total assets		**229,494**
Liabilities		
Amounts due to members	14	**55,222**
Reinsurance to close premiums payable to close the account – gross amount	8	**159,922**
Creditors:		
Creditors arising out of direct insurance operations	15	**121**
Creditors arising out of reinsurance operations	16	**9,071**
Other creditors including taxation and social security	17	**5,091**
		14,283
Accruals and deferred income		**67**
Total liabilities		**229,494**

The Syndicate underwriting year accounts on pages 41 to 56 were approved by the Board of Cathedral Underwriting Limited on 12 March 2012 and were signed on its behalf by:

L A Holder
Managing Director

J A Lynch
Finance Director

12 March 2012

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

Statement of Cash Flows
2009 Year of Account
For the 36 months ended 31 December 2011

	Notes	36 months ended 31 December 2011 £'000
Profit for the closed year of account		**54,290**
Realised and unrealised investment losses, including currency movements		**1,954**
Income from investments		**(6,151)**
Net reinsurance to close premium payable		**94,599**
(Increase) in debtors		**(16,580)**
(Increase) in prepayments and accrued income		**(11)**
Increase in creditors		**6,301**
Increase in accruals and deferred income		**67**
Exchange gain		**932**
Net cash inflow from operating activities		**135,401**
Returns on investment and servicing of finance:		
Interest received		**6,149**
Increase in cash and portfolio investments in the period	18	**141,550**
Cash flows were invested as follows:		
Increase in cash holdings	18	**4,183**
Net portfolio investments	19	**137,367**
Net investment of cash flows	18	**141,550**

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

Notes to the Syndicate Underwriting Year Accounts
2009 Year of Account
For the 36 months ended 31 December 2011

1 Basis of Preparation

The Syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 ("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 2009 year of account which has been closed by reinsurance to close at 31 December 2011; consequently the balance sheet represents the assets and liabilities of the 2009 year of account and the profit and loss account, the statement of total recognised gains and losses and the statement of cash flows reflect the transactions for that year of account during the 36 month 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, IBNR, 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.

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

Written premium is earned according to the risk profile of the policy which is calculated on the basis of established earnings patterns or time apportionment as appropriate. 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.

(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) Acquisition costs comprise commission and other internal and external costs related to the acquisition of new insurance contracts. These are recognised in line with gross earned premiums.

Investments and investment return

(g) 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

(h) 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 the 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

(i) 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 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

(j) 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.

Realised exchange differences are included in the technical account within net operating expenses.

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.

CATHEDRAL
SYNDICATE 2010

Notes to the Syndicate Underwriting Year Accounts
2009 Year of Account
For the 36 months ended 31 December 2011

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 2011		
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)	323	325	(469)	(97)	(8)	(249)
Motor (other classes)	1,109	1,110	(579)	(51)	(64)	416
Marine aviation and transport	6,240	6,182	(3,404)	(1,996)	(553)	229
Fire and other damage to property	93,764	94,512	(44,262)	(20,561)	(17,615)	12,074
Third party liability	803	817	(646)	(266)	(28)	(123)
Credit and suretyship	8,628	8,634	(9,627)	(2,877)	3,390	(480)
	110,867	111,580	(58,987)	(25,848)	(14,878)	11,867
Reinsurance acceptances*	253,318	253,848	(194,438)	(33,904)	13,174	38,680
Total	364,185	365,428	(253,425)	(59,752)	(1,704)	50,547

* Reinsurance acceptances include the reinsurance to close premium of £83,906,598 received from the 2008 year of account.

Geographical analysis by origin	**Gross written premiums £'000**	**Profit/ (loss) £'000**	**Net assets £'000**
Direct	110,868	12,744	12,963
Reinsurance	253,317	41,546	42,259
	364,185	54,290	55,222

All business originates in the UK.

Geographical analysis by destination	**Gross written premiums £'000**
UK	54,141
US	176,813
Other EU member states	33,810
Rest of the world	99,421
	364,185

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

	36 months ended 31 December 2011 £'000
Balance attributable to business allocated to the 2009 year of account	100,504
Balance attributable to the reinsurance to close of the 2008 year of account	9,795
	110,299

5 Net operating expenses

	36 months ended 31 December 2011 £'000
Acquisition costs	43,417
Change in deferred acquisition costs	269
Administrative expenses	7,719
Reinsurers' commissions and profit participation	(717)
(Profit) on exchange	(410)
Personal expenses	9,474
	59,752

The closed year profit is stated after charging:

	36 months ended 31 December 2011 £'000
Auditors' remuneration:	
- Audit of accounts	77
- Other regulatory reporting	19
- Taxation services	3
- Other services	17
Staff pension costs	578

6 Investment income

	36 months ended 31 December 2011 £'000
Income from investments	5,873
Gains on the realisation of investments	293
	6,166

Notes to the Syndicate Underwriting Year Accounts
2009 Year of Account
For the 36 months ended 31 December 2011

continued

7 Investment expenses and charges

	36 months ended 31 December 2011 £'000
Investment management expenses, including interest	214
Losses on realisation of investments	1,422
	1,636

8 Reinsurance premium payable to close the 2009 year of account

	31 December 2011 £'000
Gross outstanding claims	111,222
Reinsurance recoveries anticipated	(47,148)
Net outstanding claims	64,074
Provision for gross claims incurred but not reported	48,700
Reinsurance recoveries anticipated	(10,915)
Provision for net claims incurred but not reported	37,785
Provision for future inwards gross premiums	(15,242)
Provision for future reinsurance protection	7,982
Provision for net premiums incurred but not reported	(7,260)
Reinsurance premium payable to close the account	94,599

9 Investments

	31 December 2011 Market value £'000
Shares and other variable yield securities	10,296
Debt Securities and other fixed income securities	115,091
Participation in investment pools	756
Deposits with approved credit instructions and approved financial institutions	103
	126,246

10 Debtors arising out of direct insurance operations

	31 December 2011 £'000
Due within one year	
- intermediaries	937

11 Debtors arising out of reinsurance operations

	31 December 2011 £'000
Due within one year	**18,285**

12 Other debtors

	31 December 2011 £'000
Inter-year loans	**11,309**
Amount due from members	**1,655**
Other	**7**
	12,971

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 2011 £'000
Amounts advanced in other countries as a condition of carrying on business there	**8,796**

14 Amounts due to members

	31 December 2011 £'000
Profit for the closed year of account	**54,290**
Currency translation differences	**932**
Members' balances carried forward at 31 December 2011	**55,222**

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

Notes to the Syndicate Underwriting Year Accounts
2009 Year of Account
For the 36 months ended 31 December 2011

continued

15 Creditors arising out of direct insurance operations

	31 December 2011 £'000
Due within one year	**121**

16 Creditors arising out of reinsurance operations

	31 December 2011 £'000
Due within one year	**9,071**

17 Other creditors including taxation and social security

	31 December 2011 £'000
Profit commission payable to managing agent	**5,087**
Expenses payable to managing agent	**4**
	5,091

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

	31 December 2011 £'000
Net cash inflow for the period	**4,183**
Cash flow – portfolio investments	**137,367**
Movement arising from cash flows	**141,550**
Changes in market value and exchange rates	**(2,325)**
Total movement in portfolio investments net of financing	**139,225**
Balance brought forward at 1 January 2009	**-**
Balance carried forward at 31 December 2011	**139,225**

	At 1 January 2009 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2011 £'000
Cash at bank and in hand	-	4,183	-	**4,183**
Overseas deposits	-	8,761	35	**8,796**
Investments	-	128,606	(2,360)	**126,246**
Total portfolio investments	-	137,367	(2,325)	**135,042**
Total cash and portfolio investments	-	141,550	(2,325)	**139,225**

19 Net cash (outflow) on portfolio investments

	36 months ended 31 December 2011 £'000
Purchase of overseas deposits	**(8,761)**
Purchase of investments	**(295,204)**
Sale of investments	**166,598**
Net cash (outflow) on portfolio investments	**(137,367)**

20 Borrowings

During the period to 31 December 2011, the Syndicate had an unsecured catastrophe facility with Barclays Bank plc to assist with the paying or funding of any significant catastrophe losses. This facility was never utilised by the 2009 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 (2000) Limited.

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

Total managing agency fees payable to Cathedral Underwriting Limited in respect of services provided to the Syndicate in respect of the 2009 year of account amounted to £1,949,195 of which £nil was outstanding at 31 December 2011. Profit commission of £5,087,042 is also due to the managing agent in respect of the profit on the 2009 closed year. Of this, £5,087,042 was outstanding at 31 December 2011.

Expenses totalling £7,866,961 were recharged to the 2009 year of account by Cathedral Underwriting Limited. The basis on which expenses are apportioned is set out in note 2(h).

Amounts owed to Cathedral Underwriting Limited at 31 December 2011 totalled £5,091,109 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:

	2009 Year of Account £	2010 Year of Account £	2011 Year of Account £
Cathedral Capital (1998) Limited	**173,403,431**	**202,309,782**	**202,310,471**

22 Post balance sheet events

The reinsurance premium to close the 2009 year of account at 31 December 2011 was agreed by the managing agent on 12 March 2012. Consequently the technical provisions at 31 December 2011 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 10 April 2012: £1,891,945
US$80,999,988

On the same date, outstanding profit commission, in respect of the 2009 year of account, of £5,087,042 will be paid to Cathedral Underwriting Limited.

Seven Year Summary of Results (unaudited)

	2009 YoA	2008 YoA	2007 YoA	2006 YoA	2005 YoA	2004 YoA	2003 YoA
Syndicate allocated capacity	£299.8m	£299.7m	£299.7m	£249.7m	£199.7m	£199.7m	£160.0m
Gross capacity utilised (i)	93.5%	77.6%	71.3%	87.2%	107.0%	98.4%	85.7%
Number of underwriting members	1,024	1,003	1,023	1,035	1,004	1,020	1,049
Aggregate net written premiums (i)	£202.7m	£168.7m	£159.6m	£169.6m	£157.5m	£152.1m	£103.6m
Net capacity utilised (i)	67.6%	56.3%	53.3%	67.9%	78.8%	76.2%	64.8%
Loss ratio (ii)	61.7%	71.0%	68.8%	65.7%	67.7%	59.3%	37.2%
Results for an illustrative share of £10,000							
Gross written premiums	9,349	7,756	7,133	8,715	10,699	9,843	8,571
Net earned premiums	6,798	5,993	5,515	6,608	7,856	7,649	6,266
Reinsurance to close received from an earlier account	2,799	2,347	2,194	1,812	1,519	1,041	892
Net claims paid	(2,762)	(3,125)	(2,956)	(2,896)	(4,085)	(3,636)	(1,361)
Reinsurance to close payable	(3,155)	(2,799)	(2,347)	(2,633)	(2,266)	(1,519)	(1,299)
Profit/(loss) on exchange	13	65	7	54	5	16	1
Acquisition costs	(1,457)	(1,266)	(1,199)	(1,400)	(1,733)	(1,612)	(1,210)
Syndicate operating expenses	(234)	(225)	(214)	(261)	(323)	(272)	(325)
Balance on technical account before investment return	2,002	990	1,000	1,284	973	1,667	2,964
Investment income and gains less losses, less expenses & charges	125	166	313	439	317	216	134
Profit for closed year of account before personal expenses	2,127	1,156	1,313	1,723	1,290	1,883	3,098
Currency translation differences	31	306	281	1,191	(152)	(233)	60
Total recognised gains and losses before personal expenses	2,158	1,462	1,594	2,914	1,138	1,650	3,158
Illustrative personal expenses for a traditional Name:							
- Managing agent's salary	(65)	(65)	(65)	(65)	(65)	(65)	(65)
- Central Fund contributions	(41)	(34)	(100)	(100)	(50)	(125)	(100)
- Lloyd's subscription	(41)	(34)	(50)	(50)	(50)	(50)	(25)
- Profit commission	(402)	(266)	(241)	(472)	(170)	(247)	(519)
Total illustrative personal expenses for a traditional Name	(549)	(399)	(456)	(687)	(335)	(487)	(709)
Total result after illustrative personal expenses	**1,609**	**1,063**	**1,138**	**2,227**	**803**	**1,163**	**2,449**

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.

This page is left intentionally blank.

This page is left intentionally blank.

This page is left intentionally blank.

CATHEDRAL
UNDERWRITING LTD

5th Floor
Fitzwilliam House
10 St. Mary Axe
London EC3A 8BF
United Kingdom

Tel: +44 (0)20 7170 9000
Fax: +44 (0)20 7170 9001
e-mail enquiries: info@cathedralcapital.com