CATHEDRAL

SYNDICATE 3010

Annual Report

31 December 2007

Contents

Chairman's Statement

These reports and account cover the six month period since Syndicate 3010 started underwriting on 1st July 2007.

Syndicate 3010 is supported entirely by the Cathedral Group's corporate underwriting member of Lloyd's. This Name has an overall allocated premium capacity at Lloyd's of nearly £220 million for the 2008 underwriting year.

The business of Syndicate 3010 is currently a broad based cargo account, underwritten by highly experienced and respected specialist underwriters and supported by the existing Cathedral infrastructure.

The nature and scale of the Syndicate 3010's business will undoubtedly develop over time, but as John Hamblin's report as Active Underwriter details, the syndicate has made an encouraging start. For this, particular thanks go to Alasdair Butler and Lee Aspinall, our cargo underwriters.

I should also thank my non-executive colleagues on the board. John Tilling (the Independent Review Director), Michael Andrews and Elvin Patrick, for their contributions and wise advise. They have recently been joined by John Goldsmith, formerly Chairman of Lloyd's brokers Towers Clayton Perrin, whom I have no doubt will add an extra dimension to board discussions.

A I G C South
Chairman

20 March 2008

Underwriter's Report

2007 Underwriting Year

Syndicate 3010 commenced trading in July 2007 with a plan focused on cargo.

Initially, all day to day underwriting was undertaken by our cargo underwriter, Alasdair Butler, who joined Cathedral in June 2007 and who has worked in the cargo market at Lloyd's since 1980. Alasdair was joined by his deputy Lee Aspinall in December 2007, thereby reuniting a team of leading cargo underwriters who have worked successfully together at Lloyd's for over seventeen years.

The remit of our cargo underwriters is to develop over time a broad based cargo account within Syndicate 3010, including specie, fine art and war, whilst maintaining the discipline which has characterised their underwriting careers to date. The syndicate in turn operates within Cathedral's general control environment and with the full support of the Cathedral management infrastructure. Syndicate 3010 has been well supported by brokers and clients who have regarded Syndicate 3010 not so much as a new venture, but as a new home for an established and respected Lloyd's underwriting team.

The cargo market has undoubtedly weakened over the past twelve months, often driven by domestic markets particularly in the US and the Far East which are voraciously hungry for income. Nonetheless there are opportunities, especially where relationships are key and where technical underwriting skill and experience is required. This is particularly so where value is ascribed to continuity of approach over market cycles. It is via these routes that we are currently developing the cargo account.

Six months into the life of a new syndicate is extremely early to do more than record the actual financial performance to date. We incurred certain one-off costs in establishing the syndicate and these have been recognised in full within our expenses at year end. Written premium reflects our assessment of that income written in the accounting period including only that judged to be actually written under the covers, lineslips and the like that help generate much of the income. On a year of account basis, we would estimate that gross written premium attributable to the 2007 underwriting year will probably double by the time the year comes to close. On an annual accounting basis such further income will be recognised within our gross premiums written over future accounting periods.

Actual loss activity at year end was neglible. We hold against our earned premium what we expect will prove to be solid reserves. Net unearned premium at the balance sheet date is £2.2 million. We have no reason to believe this will be other than profitable, but this is naturally subject to the nature and extent of future loss activity.

The overall result for the six months covered by these accounts is a loss of £685,000. I regard this as extremely pleasing particularly for a start up syndicate reporting when it has traded for just six months, given that there is every prospect that this will unwind on a year of account basis as earnings come through. Meanwhile we have established Cathedral as a highly credible member of the cargo fraternity in the Lloyd's and London markets. We have also established a new underwriting platform within Cathedral which over time may develop into new areas of business.

Looking into 2008 and beyond, we will not chase cargo income in what will undoubtedly be challenging times, given the current expectations in the market. Equally, we will endeavour to exploit the underwriting skills and experience we have in both the syndicate underwriting team and in the Cathedral management team to help negotiate the challenges created by the softening market in the most effective manner we can and to build the business for the future.

Underwriter's Report

continued

In conclusion, Syndicate 3010 has made a good start. I thank all my colleagues at Cathedral who helped establish Syndicate 3010 and who support the underwriting team on an ongoing basis. I particularly thank Alasdair and Lee for their professionalism and hard work since they joined us at Cathedral.

J C Hamblin
Active Underwriter

20 March 2008

Managing Agent's Report
At 31 December 2007

Introduction

The directors of Cathedral Underwriting Limited, the managing agency for Syndicate 3010, present the Annual Report for the Syndicate at 31 December 2007, together with the Chairman's Statement and the Underwriter's Report. On 1 July 2007, the Syndicate commenced trading for the 2007 year of account.

The auditors, Mazars LLP, have included a "True and Fair" audit opinion within the Annual Report covering the annual accounting result for the six months ended 31 December 2007.

The Managing Agent

Cathedral Underwriting Limited is the managing agent for Syndicate 3010. It also acts as managing agent for Syndicate 2010, 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	2007 Capacity £'000
3010	Marine cargo	J C Hamblin	20,000
2010	Non marine and aviation reinsurance, direct and facultative property and contingency	J C Hamblin	299,751

The ultimate parent company of Cathedral Underwriting Limited is Cathedral Capital Limited. Alchemy Partners Nominee Limited has a 56.1% interest in Cathedral Capital Limited and is therefore deemed to be the controller of the managing agency and has been approved as such by Lloyd's and the FSA.

All the capacity of Syndicate 3010 is provided by Cathedral Capital (1998) Limited, a subsidiary of Cathedral Capital Limited.

Multiple syndicates consent

The council of Lloyd's on 25 July 2007 confirmed that Alasdair Butler and Lee Aspinall of Syndicate 3010 were approved under the Multiple Syndicates Byelaw (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 period and their interests and that of their families in the share capital of Cathedral Capital Limited as at 31 December 2007, were as follows:

		31 December 2007 "B" Ordinary 1 pence Shares	31 December 2007 Ordinary 1 pence Shares
D C Grainger	Compliance Director	**14,411**	**11,812**
J C Hamblin	Director	**21,041**	**33,413**
L A Holder	Managing Director	**21,041**	**33,413**
J A Lynch	Finance Director	**21,634**	**33,413**
E E Patrick	Non-Executive Director	**9,388**	**9,788**
P D Scales	Director	**21,634**	**33,413**

Messrs Andrews, South and Tilling, who served during the year, have no interest in the share capital of Cathedral Capital Limited.

Some of the 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 2007	
	Preference £1 Shares	Loan Notes £
D C Grainger	**562,561**	**1,125,290**
J C Hamblin	**821,356**	**1,642,958**
L A Holder	**821,356**	**1,642,958**
J A Lynch	**844,489**	**1,689,232**
E E Patrick	**366,699**	**733,509**
P D Scales	**844,489**	**1,689,232**

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

31 December 2007		
Cathedral Capital Limited		Cathedral Capital (Investments) Limited
"B" Ordinary 1 pence Shares	Preference £1 Shares	Manager Loan Notes £
17,054	**665,733**	**1,331,666**

Mr J S Goldsmith, who was appointed a non-executive director of Cathedral Underwriting Limited on 10 January 2008, does not have an interest in the share capital of the Cathedral Group.

Directors and their participations in Syndicate 3010

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 £20 million and £30 million participation in the 2007 and 2008 year of account respectively.

Active Underwriter

John Hamblin was appointed active underwriter from when the Syndicate commenced trading. He is also active underwriter of Syndicate 2010 which is managed by Cathedral Underwriting Limited.

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 8EN. Telephone 020 7170 9000; Fax 020 7170 9001; Email info@cathedralcapital.com; Website www.cathedralcapital.com. The accounting records are kept at the registered office.

Management of Syndicate 3010

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 3010 together with representatives of the managing agent's board.

2007 Calendar Year

This Annual Report includes the results, for the calendar year, on an annual accounting basis, and is prepared in accordance with Schedule 9A to the Companies Act 1985 and applicable accounting standards. The accounting policies that have been adopted to produce the annual accounting result, are set out in full on pages 19 to 21.

Results

The results are all from continuing operations. The annual accounting result is a loss of £685,000 in the period and this can be analysed as follows:

	2007 account £'000
Gross earned premium	751
Reinsurers' share	(209)
Net earned premium	542
Gross claims incurred	(364)
Reinsurers' share	-
Net claims incurred	(364)
Net Operating Expenses	(867)
Balance on Technical Account before investment return	(689)
Net Investment Income	4
Result for the financial year	(685)

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 an individual policy level. The earning patterns aim to reflect the underlying exposures of the business written.

All business currently written by Syndicate 3010 is within its Marine Cargo account.

At the year end the Syndicate had net unearned premium of £2.2 million on the balance sheet.

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.

Managing Agent's Report
At 31 December 2007

continued

Statement of Managing Agent's Responsibilities

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

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

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

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

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the Regulations and the relevant provisions of the Companies Act 1985. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Description of business and methods of acceptance

The account currently written by the Syndicate is a broad based worldwide cargo one, including specie, fine art and war. Much of the account written is open covers but an amount is accepted by way of facultative reinsurance, cargo lineslips and binding authorities. There is a modest treaty element to the account.

Reinsurance protection

The account written has the benefit of an excess of loss reinsurance programme which provides protection in the event of large risk or catastrophe loss.

Syndicate Investments

The Syndicate funds have been liquid in order to meet any cash demands that arise. Some cash balances are swept overnight into pooled arrangements and therefore are classified as investments. However, none of the funds are under the management of external fund managers.

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 transactions 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.

Principal risks impacting the Syndicate

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

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

Insurance risk

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

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

Credit risk

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

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

Liquidity risk

The Syndicate has exposure to liquidity risk. Liquidity risk is the risk that cash may not be available to pay obligations when due on a timely basis. Where insufficient liquid funds exist, the Syndicate can cash call the Name supporting it and can ultimately drawdown from the Name's Funds at Lloyd's. During the period Cathedral Capital (1998) Limited provided £651,256 for liquidity purposes.

Market risk

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

Managing Agent's Report
At 31 December 2007

continued

Operational risk

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

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

Risk Management

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

Sub contracted functions:

The managing agent has sub contracted its software support to Insurance Technology Solutions Limited.

Actuaries

EMB Consultancy LLP 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.

Syndicate auditors

It is the intention of the managing agent to reappoint, in accordance with Lloyd's regulations, Mazars LLP for a further year with effect from 1 May 2008.

By order of the Board

L A Holder
Managing Director
Cathedral Underwriting Limited
5th Floor, Fitzwilliam House
10 St. Mary Axe, London EC3A 8EN

20 March 2008

SYNDICATE ANNUAL ACCOUNTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

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Report of the Independent Auditors to the Member of Syndicate 3010

We have audited the syndicate annual accounts of Syndicate 3010 for the six months ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and related notes as set out on pages 14 to 28. The syndicate annual accounts have been prepared under the accounting policies set out therein.

This report is made solely to the member of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. Our audit work has been undertaken so that we might state to the syndicate's member those matters we are required to state to it in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate member as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Managing Agent's Responsibilities on page 8.

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

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

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate annual accounts.

Opinion

In our opinion:

- the syndicate annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of Syndicate No 3010 as at 31 December 2007 and of its loss for the six months then ended;
- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the Managing Agent's Report is consistent with the syndicate annual accounts.

MAZARS LLP
CHARTERED ACCOUNTANTS and Registered Auditors

Tower Bridge House, St Katharine's Way, London E1W 1DD
20 March 2008

CATHEDRAL
SYNDICATE 3010

Profit and Loss Account
Technical Account - General Business
For the six months ended 31 December 2007

	Notes	Six months ended 31 December 2007 £'000
Earned premiums, net of reinsurance:		
Gross premiums written	3	**4,074**
Outward reinsurance premiums		**(1,334)**
Net premiums written		**2,740**
Change in the provision for unearned premiums:		
Gross amount		**(3,323)**
Reinsurers' share		**1,125**
Earned premiums, net of reinsurance		**542**
Allocated investment return transferred from the non-technical account		**4**
Claims paid:		
Gross amount		**-**
Reinsurers' share		**-**
		-
Change in the provision for claims:		
Gross amount		**(364)**
Reinsurers' share		**-**
		(364)
Claims incurred, net of reinsurance		**(364)**
Net operating expenses	4	**(867)**
Balance on the technical account for general business		**(685)**

All items relate to continuing operations only.

The notes on pages 19 to 28 form part of these accounts.

Profit and Loss Account
Non-Technical Account
For the six months ended 31 December 2007

	Notes	Six months ended 31 December 2007 £'000
Balance on the general business technical account		**(685)**
Investment income	8	**4**
Allocated investment return transferred to the general business technical account		**(4)**
Loss for the six months ended 31 December 2007	14	**(685)**

Statement of Total Recognised Gains and Losses
For the six months ended 31 December 2007

	Notes	Six months ended 31 December 2007 £'000
Loss for the six months ended 31 December 2007	14	**(685)**
Currency translation differences		**-**
Total recognised loss		**(685)**

The notes on pages 19 to 28 form part of these accounts.

CATHEDRAL
SYNDICATE 3010

Balance Sheet
As at 31 December 2007

	Notes	2007 £'000
Investments:		
Financial investments	9	**115**
		115
Reinsurers' share of technical provisions:		
Provision for unearned premiums		**1,130**
Claims outstanding		**-**
		1,130
Debtors:		
Debtors arising out of direct insurance operations		
- Intermediaries	10	**1,291**
Debtors arising out of reinsurance operations	11	**1,374**
Other debtors	12	**1**
		2,666
Other assets:		
Cash at bank and in hand		**77**
Other	13	**1**
		78
Prepayments and accrued income:		
Deferred acquisition costs		**1,142**
Other prepayments and accrued income		**12**
		1,154
Total assets		**5,143**

The notes on pages 19 to 28 form part of these accounts.

	Notes	2007 £'000
Capital and reserves:		
Member's balance	14	**(685)**
		(685)
Technical provisions:		
Provision for unearned premiums		**3,365**
Claims outstanding		**367**
		3,732
Creditors:		
Creditors arising out of reinsurance operations	15	**1,000**
Other creditors including taxation and social security	16	**1,043**
		2,043
Accruals and deferred income		**53**
Total liabilities		**5,143**

The Syndicate annual accounts on pages 14 to 28 were approved by the Board of Cathedral Underwriting Limited on 20 March 2008 and were signed on its behalf by

L A Holder
Managing Director

J A Lynch
Finance Director

20 March 2008

The notes on pages 19 to 28 form part of these accounts.

CATHEDRAL
SYNDICATE 3010

Statement of Cash Flows
For the six months ended 31 December 2007

	Notes	Six months ended 31 December 2007 £'000
Reconciliation of loss to net cash		
inflow from operating activities		
Loss for the six months ended 31 December 2007		**(685)**
Income from investments		**(4)**
(Increase) in debtors, prepayments and accrued income		**(3,820)**
Increase in net technical provisions		**2,602**
Increase in creditors, accruals and deferred income		**2,096**
Net cash inflow from operating activities		**189**
Returns on investment and servicing of finance:		
Interest received		**4**
Increase in cash and portfolio investments in the period	17	**193**
Cash flows were invested as follows:		
Increase in cash holdings	17	**77**
Net portfolio investments	18	**116**
Net investment of cash flows		**193**

The notes on pages 19 to 28 form part of these accounts.

Notes to the Syndicate Annual Accounts
For the six months ended 31 December 2007

1 Basis of Preparation

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

2 Accounting Policies

(a) *Basis of accounting*

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

(b) *Underwriting*

(i) Premiums written

Premiums written comprise premiums on contracts incepted during the financial year. They also include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

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

(ii) *Unearned premiums*

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

(iii) *Reinsurance premium ceded*

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

(iv) *Claims incurred*

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

(v) *Claims provisions and related recoveries*

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

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

The amount included in respect of IBNR is based on a detailed review of losses and loss development by management and further reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. 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 Syndicate Annual Accounts
For the six months ended 31 December 2007

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

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

(vi) *Unexpired risks provision*

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

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

(vii) *Acquisition costs*

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

(c) *Foreign currencies*

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

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

(d) *Investments*

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

The Syndicate holds cash balances which are swept into pooled arrangements. These holdings 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 (currently at 22%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to the member is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

(g) *Pension costs*

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

(h) *Operating lease rentals*

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

Notes to the Syndicate Annual Accounts
For the six months ended 31 December 2007

continued

3 Particulars of business written

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

						Six months ended 31 December 2007
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:						
Marine aviation and transport	2,702	496	(241)	(577)	(138)	(460)
Fire and other damage to property	198	39	(19)	(50)	(11)	(41)
	2,900	535	(260)	(627)	(149)	(501)
Reinsurance acceptances	1,174	216	(104)	(240)	(60)	(188)
Total	4,074	751	(364)	(867)	(209)	(689)

Geographical analysis by origin

	Gross written premiums 2007 £'000	Loss 2007 £'000	Net assets 2007 £'000
Direct	2,900	(499)	(499)
Reinsurance	1,174	(186)	(186)
	4,074	(685)	(685)

All business originates in the UK.

Geographical analysis by destination

	Gross written premiums 2007 £'000
UK	2,167
US	452
Other EU member states	322
Rest of the world	1,133
	4,074

4 Net operating expenses

	2007 £'000
Acquisition costs	1,371
Change in deferred acquisition costs	(1,129)
Administrative expenses	275
Personal expenses	350
	867

Administrative expenses include:

	2007 £'000
Auditors' remuneration:	
- Audit of the accounts	32
- Other regulatory reporting	8
- Taxation services	2

Total commissions for direct insurance accounted for in the period amounted to £676,489.

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:

	2007 £'000
Wages and salaries	136
Social security costs	15
Other pension costs	20
	171

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

	2007
Operations, administration and finance	1
Underwriting and claims	2
	3

Notes to the Syndicate Annual Accounts
For the six months ended 31 December 2007

continued

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:

	2007 £'000
Emoluments	27

7 Active underwriter's emoluments

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

	2007 £'000
Emoluments	6

8 Investment income

	2007 £'000
Income from investments	4

9 Financial investments

	Market value 2007 £'000	Cost 2007 £'000
Shares and other variable yield securities	112	112
Participation in investments pools	3	3
	115	115

10 Debtors arising out of direct insurance operations

	2007 £'000
Due within one year - intermediaries	1,291

11 Debtors arising out of reinsurance operations

	2007 £'000
Due within one year	1,374

12 Other debtors

	2007 £'000
Due within one year	1

13 Other assets - overseas deposits

	2007 £'000
Amounts advanced in other countries as a condition of carrying on business there	1

Notes to the Syndicate Annual Accounts
For the six months ended 31 December 2007

continued

14 Reconciliation of member's balance

	2007 £'000
Member's balance at 1 July	-
Loss for the six months to 31 December 2007	**(685)**
Member's balance carried forward at 31 December	**(685)**

Member's balance does not include members' agency fees or non-standard personal expenses.

15 Creditors arising out of reinsurance operations

	2007 £'000
Due within one year	**1,000**

16 Other creditors including taxation and social security

	2007 £'000
Due within one year:	
Expenses owed to managing agent	**392**
Cathedral Capital (1998) Ltd - Loan	**651**
	1,043

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

	2007 £'000
Net cash inflow for the period	**77**
Cash flow – portfolio investments	**116**
Movement arising from cash flows	**193**
Changes in market value and exchange rates	-
Total movement in portfolio investments net of financing	**193**
Balance brought forward at 1 July	-
Balance carried forward at 31 December	**193**

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

	At 1 July 2007 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2007 £'000
Cash at bank and in hand	-	77	-	77
Shares and other variable yield securities	-	112	-	112
Overseas deposits	-	1	-	1
Participation in investment pools	-	3	-	3
Total portfolio investments	-	116	-	116
Total cash at bank and in hand and portfolio investments	-	193	-	193

18 Net cash (outflow) on portfolio investments

	2007 £'000
Movement of shares and other variable yield securities	(112)
Movement of participation in investment pools	(3)
Movement of overseas deposits	(1)
Net cash outflow on portfolio investments	(116)

19 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 fees payable during the period to Cathedral Underwriting Limited in respect of services provided to the Syndicate amounted to £100,000

No profit commission is charged to the Syndicate.

Expenses totalling £291,468 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:

19 Related parties *continued*

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

Amounts owed to Cathedral Underwriting Limited at 31 December 2007 totalled £391,468 and are included in "Other creditors including taxation and social security".

Cathedral Capital (1998) Limited, a fellow subsidiary of Cathedral Underwriting Limited, provided £20 million of capacity for the 2007 underwriting year (being 100% of the stamp). Therefore all profits and losses of the Syndicate are incurred by Cathedral Capital (1998) Limited.

During the period, Cathedral Capital (1998) Limited provided a loan to the Syndicate. Amounts owed to Cathedral Capital (1998) Limited at 31 December 2007 totalled £651,256 and are included in "Other creditors including taxation and social security".

20 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.

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