

Company registration number: 3640182

# **Courage Underwriting Limited**

## **Report and financial statements 31 December 2004**

### **Contents:**

<b>Company information</b>	<b>1</b>
<b>Report of the directors</b>	<b>2</b>
<b>Report of the auditors</b>	<b>4</b>
<b>Profit and loss account - technical account</b>	<b>6</b>
<b>Profit and loss account - non-technical account</b>	<b>7</b>
<b>Balance sheet</b>	<b>8</b>
<b>Cash flow statement</b>	<b>10</b>
<b>Notes to the financial statements</b>	<b>11</b>



# **Courage Underwriting Limited**

## **Company information**

### **Directors**

W J Courage  
Nomina plc

### **Company Secretary**

Hampden Legal PLC

### **Registered Office**

12/13 Lime Street  
London  
EC3M 7AB

### **Auditors**

Littlejohn Frazer  
Chartered Accountants  
and Registered Auditors  
1 Park Place  
Canary Wharf  
London  
E14 4HJ

### **Accountants**

Axiom Consulting Limited  
Lloyds Chambers  
1 Portsoken Street  
London E1 8DF

### **Bankers**

Butterfield Bank (UK) Ltd.  
99 Gresham Street  
London  
EC2V 7NG

### **Solicitors**

Jones Day Gouldens  
10 Old Bailey  
London  
EC4M 7NG

# **Courage Underwriting Limited**

## **Report of the directors**

The directors submit their report together with the financial statements of the company for the year ended 31 December 2004.

### **Principal activities and business review**

The principal activity of the Company is that of trading as a Lloyd's corporate capital member. The Company's result for the year is in line with expectations given the market results for the closing 2002 year of account

The Company continues to trade in 2005 and the Directors expect this year's result to be better than years currently being reported.

### **Results and dividends**

The results for the year are set out on pages 6 to 7 of the financial statements. The directors do not propose to pay a dividend.

### **Directors and directors' interests**

The directors who served at any time during the year and their interests in the share capital of the company were as follows:

	At 31 December 2004 Ordinary £1 shares	At 1 January 2004 Ordinary £1 shares
W J Courage	290	290
Nomina plc	-	-

# **Courage Underwriting Limited**

## **Report of the directors (continued)**

### **Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been applied
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements and that applicable accounting standards have been followed.

By Order of the Board



Hampden Legal PLC  
Secretary

30th June 2005

# **Courage Underwriting Limited**

## **Independent Auditors' report**

### **To the Shareholders of Courage Underwriting Limited**

We have audited the Financial Statements of Courage Underwriting Limited for the year ended 31 December 2004 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the accounting policies and the related notes on pages 6 to 25. These Financial Statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

### **Basis of Opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Financial Statements, and of whether the Accounting Policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

# **Courage Underwriting Limited**

## **Independent Auditors' report (continued)**

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 Financial Statements 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 Financial Statements.

### **Opinion**

In our opinion the Financial Statements give a true and fair view of the state of the company's affairs as at 31 December 2004, and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

CLB 

**CLB Littlejohn Frazer**

Chartered Accountants  
and Registered Auditors

7<sup>th</sup> July 2005

1 Park Place  
Canary Wharf  
London E14 4HJ

# Courage Underwriting Limited

## Profit and loss account

### Technical account – general business

For the year ended 31 December 2004

	Note	2004 £	2003 £
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	848,442	683,786
Outward reinsurance premiums		(112,007)	(123,256)
Net premiums written		736,435	560,530
Allocated investment return transferred from the non-technical account		18,190	15,149
<b>Total technical income</b>		754,625	575,679
<b>Claims paid</b>			
Gross amount		(314,625)	(302,555)
Reinsurers' share		102,215	115,744
Net claims paid		(212,410)	(186,811)
<b>Change in provision for claims</b>			
Gross amount		(343,779)	(78,583)
Reinsurers' share		63,404	(98,271)
<b>Claims incurred net of reinsurance</b>		(492,785)	(363,665)
Net operating expenses	4	(240,339)	(218,983)
Investment expenses and charges		(650)	(617)
<b>Total charges</b>		(733,774)	(583,265)
<b>Balance on technical account – general business</b>		20,851	(7,586)

The accounting policies and notes on pages 11 to 25 form part of these financial statements.

# Courage Underwriting Limited

## Profit and loss account

### Non - technical account

For the year ended 31 December 2004

	Note	2004 £	2003 £
<b>Balance on technical account – general business</b>		20,851	(7,586)
Investment income	5	18,341	15,340
Allocated investment return transferred to the Technical account – general business		(18,190)	(15,149)
Profit (loss) on disposal of syndicate capacity		39	1,614
Other charges		(7,009)	(5,570)
<b>Profit (loss) on ordinary activities before taxation</b>	6	14,032	(11,351)
Tax on profit (loss) on ordinary activities	7	5,365	7,814
<b>Profit (loss) for the financial year</b>		19,397	(3,537)
Dividends paid and proposed		-	-
<b>Retained profit (loss) for the financial year</b>	11	19,397	(3,537)

The Company has no recognised gains or losses other than the profit or (loss) on ordinary activities after taxation stated above. There is no material difference between the reported profit or (loss) for the period and the profit or (loss) for the period restated on a historical cost basis.

All amounts above relate to continuing operations.

The accounting policies and notes on pages 11 to 25 form part of these financial statements.



# Courage Underwriting Limited

## Balance sheet

As at 31 December 2004

		31 December 2004			31 December 2003		
	Note	Held Directly £	Held through Syndicate Participation £	Total £	Held Directly £	Held through Syndicate Participation £	Total £
<b>Assets</b>							
<b>Intangible assets</b>							
Syndicate participation rights	8	7,205	-	7,205	8,106	-	8,106
<b>Investments</b>							
Financial investments	9	-	635,108	635,108	-	498,619	498,619
Deposits with ceding undertakings		-	529	529	-	566	566
		-	635,637	635,637	-	499,185	499,185
<b>Reinsurers' share of technical provisions</b>							
Claims outstanding		-	427,730	427,730	-	471,794	471,794
<b>Debtors</b>							
<i>Arising out of direct insurance operations</i>							
- Intermediaries		-	191,535	191,535	-	163,410	163,410
- Policyholders		-	13,500	13,500	-	7,875	7,875
<i>Arising out of reinsurance operations</i>		-	304,519	304,519	-	329,926	329,926
Funds at Lloyd's	2	-	2	2	400	-	400
Other debtors		26,807	66,355	93,162	57,352	45,778	103,130
		26,809	575,909	602,718	57,752	546,989	604,741
<b>Other assets</b>							
Cash at bank and in hand	34	100,096	100,130	100,130	43	98,049	98,092
Other		-	64,860	64,860	-	56,805	56,805
	34	164,956	164,990	164,990	43	154,854	154,897
<b>Prepayments and accrued income</b>							
Other prepayments and accrued income		-	4,058	4,058	-	2,930	2,930
<b>Total assets</b>		34,048	1,808,290	1,842,338	65,901	1,675,752	1,741,653

The accounting policies and notes on pages 11 to 25 form part of these financial statements.

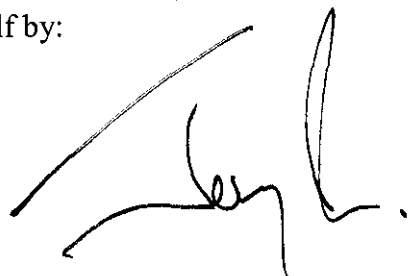
# Courage Underwriting Limited

## Balance sheet

As at 31 December 2004

		31 December 2004			31 December 2003		
	Note	Held Directly £	Held through Syndicate Participation £	Total £	Held Directly £	Held through Syndicate Participation £	Total £
<b>Liabilities and shareholders' funds</b>							
<b>Capital and reserves</b>							
Called up share capital	10	290	-	290	290	-	290
Share premium account		-	-	-	-	-	-
Profit and loss account	11	(235,607)	24,113	(211,494)	(170,802)	(60,089)	(230,891)
Shareholders' funds – attributable to equity interests	12	(235,317)	24,113	(211,204)	(170,512)	(60,089)	(230,601)
<b>Technical provisions</b>							
Claims outstanding – gross amount		-	1,675,354	1,675,354	-	1,574,858	1,574,858
<b>Provisions for other risks and charges</b>							
Provision for taxation		-	-	-	-	-	-
<b>Creditors</b>							
Arising out of direct insurance operations		-	9,632	9,632	-	9,543	9,543
Arising out of reinsurance operations		-	71,847	71,847	-	99,107	99,107
Other creditors	13	235,616	58,015	293,631	217,104	61,038	278,142
		235,616	139,494	375,110	217,104	169,688	386,792
<b>Accruals and deferred income</b>							
Accruals		-	3,078	3,078	-	2,327	2,327
Lloyd's solvency transfer		33,749	(33,749)	-	19,309	(11,032)	8,277
		33,749	(30,671)	3,078	19,309	(8,705)	10,604
<b>Total liabilities</b>		34,048	1,808,290	1,842,338	65,901	1,675,752	1,741,653

Approved by the board of directors on 30th June 2005  
and signed on its behalf by:



Nomina plc  
Director

The accounting policies and notes on pages 11 to 25 form part of these financial statements.

## Courage Underwriting Limited

### Cash flow statement

For the year ended 31 December 2004

	Note	2004 £	2003 £
<b>Operating activities</b>			
Net cash inflow/(outflow) from operating activities	14	3,025	(7,827)
<b>Returns on investments</b>		-	-
<b>Capital expenditure</b>			
Purchase of syndicate capacity		(1,950)	(1,978)
Proceeds from sale of syndicate capacity		39	1,651
<b>Taxation</b>			
Corporation tax (paid) refunded		(1,123)	(504)
<b>Financing</b>			
Issue of shares		-	-
Share issue expenses		-	-
Net cash inflow/(outflow) for the year		<u>(9)</u>	<u>(8,658)</u>
<b>Cash flows were invested as follows:</b>			
Increase/(decrease) in cash holdings		(9)	(8,658)
Purchase of financial investments		-	-
Sale of financial investments		-	-
Net investment of cash flows		<u>(9)</u>	<u>(8,658)</u>

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the cash flow statement is prepared reflecting only the movement in corporate funds, which includes transfers to and from the syndicates at Lloyd's.

The accounting policies and notes on pages 11 to 25 form part of these financial statements.

# **Courage Underwriting Limited**

## **Notes to the financial statements**

**For the year ended 31 December 2004**

### **1 Accounting policies**

#### **1.1 Accounting convention**

The financial statements are prepared under the historical cost convention as modified by the revaluation of investments.

#### **1.2 Basis of accounting for underwriting results**

The company participates in insurance business as an underwriting member of various syndicates at Lloyd's. All classes of insurance business written are accounted for on a three year funded basis because it is the basis most similar to that followed by the syndicates. The nature of the information managing agents can make available is insufficient for the company to make reliable estimates of the necessary technical provisions on an annual basis of accounting. Under the three year funded basis followed by the company, the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period ("the underwriting year") is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Consequently, no profit is recognised in respect of an underwriting year until that time at the earliest.

If an underwriting year is expected to make a loss, the loss is recognised as soon as it is foreseen by increasing the technical provision to make it sufficient to meet present liabilities and anticipated future claims and expenses.

#### **1.3 Premiums**

Premiums written comprise the total premiums receivable for the whole period of cover provided by the contracts incepting during the financial year, together with any adjustments arising in the year to such premiums receivable in respect of business written in prior years. Premiums are shown gross of commission payable to intermediaries and exclude insurance premium tax.

Gross premiums written may include "reinsurance to close" receivable (see 1.6 below).

Premiums written by a syndicate may also include the reinsurance of other syndicates on which the company participates. No adjustments have been made to gross premiums written or outward reinsurance premiums (or to gross and reinsurers' share of claims) to remove this intersyndicate reinsurance.

Outward reinsurance premiums may include "reinsurance to close" payable (see 1.6 below).

#### **1.4 Claims incurred**

Claims incurred include the costs of claims handling expenses. Recoverable amounts arising out of subrogation or salvage are deducted from the cost of claims. Claims incurred comprise amounts paid or provided in respect of claims occurring during the year to 31 December, together with the amount by which settlement or reassessment of claims from previous years differ from the provision at the beginning of the year.

# **Courage Underwriting Limited**

## **Notes to the financial statements**

### **For the year ended 31 December 2004**

#### **1.5 Provision for claims (technical provisions)**

Provision is made for claims incurred but not paid in respect of events up to 31 December. The provision includes the amounts required to ensure that for each underwriting year no profit is recognised before the end of the third year under the three year funded basis of accounting (see 1.2 above).

The provision has been increased as appropriate by the company to the extent that deficits are foreseen on underwriting years before the 36 months point is reached.

The provision is based on the returns and reports from the managing agents and the company's members' agent.

#### **1.6 Reinsurance to close**

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's syndicates. Under it, underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year), agree with underwriting members who comprise that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge, of the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that syndicate and allocated to the closed year in consideration of:

- (a) a premium; and
- (b) either
  - (i) the assignment, or agreement to assign, to the reinsuring members of all the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitation the right to receive all future premiums, reinsurances and other monies receivable in connection with that insurance business); or
  - (ii) an agreement by the reinsured members that the reinsuring members shall collect on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefit so far as they are not applied in discharges of the liabilities of the reinsured members.

To the extent that the company participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

# **Courage Underwriting Limited**

## **Notes to the financial statements**

**For the year ended 31 December 2004**

### **1.6 Reinsurance to close (continued)**

If the company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the company has assumed a greater proportion of the business of the syndicate. If the company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the company's exposure to risks previously written by the syndicate.

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain liable for the settlement of any outstanding claims.

However, payment of a reinsurance to close is conventionally accepted as terminating a reinsured member's participation on a syndicate year of account and it is treated for accounts purposes as settling all the company's outstanding gross liabilities in respect of the business so reinsured.

### **1.7 Run-off years**

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities for that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

### **1.8 Investments**

Listed and other traded investments are stated at mid-market values. Other investments are stated at directors' valuations. Unrealised gains and losses are recognised in the profit and loss account.

# **Courage Underwriting Limited**

## **Notes to the financial statements**

### **For the year ended 31 December 2004**

#### **1.9 Investment income**

Investment income comprises interest receivable and dividends received plus realised gains and losses on the disposal of investments. Realised gains and losses arise from the difference between sale proceeds and either the valuation at the previous year end, or purchase cost if the investment was purchased during the current year.

Where investments represent the company's share of syndicate investments, they are treated as sold and repurchased at each year end in recognition of the annual venture nature of participation on a syndicate. The cost of these investments is therefore their market value at each 31 December. The realised gains reported by Syndicates are net of any realised losses.

All investment income, net of realised losses, arising on syndicate participations is allocated to the technical account. Other investment income is attributable to the non-technical account.

#### **1.10 Investment expenses and charges**

Investment expenses and charges comprise investment management expenses.

#### **1.11 Net operating expenses**

Operating expenses are recognised when incurred. They include the company's share of syndicate operating expenses, the remuneration payable to managing agents (and the company's members' agent/licensed adviser) and the direct costs of membership of Lloyd's. Where they relate to the company's underwriting, they are taken into account in calculating the technical provision required under the three year funded basis of accounting. Also included in operating expenses is any managing agent profit commission due on the results for the year. Members agent profit commission is accounted for in the year it is paid.

#### **1.12 Other charges**

Expenses not attributable to underwriting or investment management are recognised when incurred.

#### **1.13 Foreign currencies**

The company's share of syndicate assets, liabilities, income and expenditure expressed in US dollars, Canadian dollars and Euros (where accounted by syndicates under the Lloyd's direct settlement scheme) are translated at rates of exchange ruling at the balance sheet date. Underwriting transactions in Euros (where accounted by syndicates under the Lloyd's conversion scheme) and other foreign currencies are included in the financial statements at historical rates. All exchange differences relating to syndicates are dealt with in the technical account.

#### **1.14 Syndicate participation rights**

Where the company has purchased the right to participate on Syndicates, the cost is capitalised, less any provision for permanent diminution in value, and amortised on a straight line basis over its estimated economic life. It is intended that purchased capacity will be amortised over 5 years. No amortisation is charged until the first year of account in which profits or losses are normally recognised.

## **Courage Underwriting Limited**

### **Notes to the financial statements For the year ended 31 December 2004**

#### **1.15 Taxation**

The company is taxed on its share of the underwriting results declared by Syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results (excluding any additional provisions made by the directors) relating to the 2004 account will be declared for tax purposes in the calendar year 2007.

Other profits are assessable to corporation tax in the same period as they are recognised for accounting purposes, after adjustment in accordance with tax legislation.

#### **1.16 Deferred taxation**

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.



# **Courage Underwriting Limited**

## **Notes to the financial statements For the year ended 31 December 2004**

### **2 Basis of preparation of financial statements**

#### **2.1 Basis of preparation**

The financial statements have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 ("the Act") and in accordance with applicable Accounting Standards, and the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in November 2003.

An underwriting member of Lloyd's is obliged to maintain Funds at Lloyd's (FAL) sufficient not only to support its continuing underwriting, but also to meet the whole of its liabilities as determined in the solvency test carried out each year as at 31 December. Where closed year deficits have been transferred to the distribution process, which is normally in the year following the closure of the underwriting year concerned, those deficits are normally funded by one or both of the company's own retained funds and the funds of the shareholders being made available to the company in the form of either further capital or debt.

Any losses incurred by the company are therefore funded by the FAL, by any retained reserves of the company, and by further capital or debt introduced by the shareholders. On this basis, the accounts of the company have been prepared on the basis that the company is a going concern.

#### **2.2 Recognition of insurance transactions**

Preparing financial statements in accordance with Section 255 of, and Schedule 9A to, the Act requires the company to recognise its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates.

The company has delegated sole management and control of its underwriting through each syndicate to the managing agent of the syndicate and it has further undertaken not to interfere with the exercise of such management and control. The managing agents of the syndicates are therefore responsible for determining the insurance transactions to be recognised by the company. The only exception to this rule is the level of provision for outstanding claims. These provisions have been determined by the directors of the company (see 1.5 above).

Accordingly, for each such syndicate, the company's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the company's technical account. Similarly, its proportion of the syndicate's assets and liabilities has been reflected in its balance sheet (under the column heading "Held through Syndicate Participation"). The "syndicate" assets are held subject to trust deeds for the benefit of the company's insurance creditors.

The proportion referred to above is calculated by reference to the company's participation as a percentage of each syndicate's total capacity.

# **Courage Underwriting Limited**

## **Notes to the financial statements**

**For the year ended 31 December 2004**

### **2.3 Sources of data**

The information used to compile the technical account and the “syndicate” balance sheet is based on returns prepared for this purpose by the managing agents of the syndicates. The returns have been subjected to audit by the syndicate auditors and are based on the audited syndicate returns to Lloyd’s and the audited annual reports to syndicate members. This base data has been adjusted as necessary so that the returns reflect the differences in preparation between syndicate annual reports and financial statements in accordance with Schedule 9A of the Companies Act 1985.

The format of the returns has been established by Lloyd’s and Lloyd’s has also been responsible for collating the data at a syndicate level and analysing it into corporate member level results.

The returns cover the 12 months to 31 December 2004.

### **2.4 Debtors/creditors arising from insurance/reinsurance operations**

The amounts shown in the Balance Sheets in respect of the above include the totals of all the syndicate’s outstanding debit and credit transactions as processed by the central facility used by Lloyd’s; no account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicates and each of their counter party insurers, reinsurers or intermediaries as appropriate.

# Courage Underwriting Limited

## Notes to the financial statements For the year ended 31 December 2004

3 Segmental information	Gross premiums written £	Gross claims incurred £	Gross operating expenses £	Reinsurance balance £	Total £
2004					
<b>Direct business</b>					
Accident and health	25,689	(8,659)	(10,201)	1,817	8,646
Motor – third party liability	8,319	(3,970)	(4,462)	636	523
Motor – other classes	33,510	(14,592)	(11,348)	(1,940)	5,630
Marine, aviation and transport	48,371	(27,403)	(14,442)	(6,608)	(82)
Fire and other damage to property	226,326	(103,870)	(71,068)	(17,319)	34,069
Third party liability	234,451	(192,040)	(65,421)	41,081	18,071
Credit and suretyship	17,556	(26,429)	(5,825)	(386)	(15,084)
Legal expenses	(30)	(6,265)	(239)	2,221	(4,313)
Assistance	(1)	-	-	-	(1)
Other	(1,137)	(551)	234	956	(498)
Total direct	593,054	(383,779)	(182,772)	20,458	46,961
<b>Reinsurance business</b>					
Other reinsurance acceptances	110,516	(65,242)	(23,507)	(24,631)	(2,864)
Reinsurance to close	144,872	(209,383)	-	57,785	(6,726)
	848,442	(658,404)	(206,279)	53,612	37,371

	2004 £
<b>Gross premiums in respect of direct business written in:</b>	
United Kingdom	570,209
Other EU Member states	-
Rest of the world	22,845
	593,054

# Courage Underwriting Limited

## Notes to the financial statements For the year ended 31 December 2004

### 3 Segmental information (continued)

	Gross premiums written £	Gross claims incurred £	Gross operating expenses £	Reinsurance balance £	Total £
<b>2003</b>					
<b>Direct business</b>					
Accident and health	18,745	(5,621)	(5,858)	(3,132)	4,134
Motor – third party liability	1,946	(8,420)	(1,388)	498	(7,364)
Motor – other classes	40,418	(5,937)	(11,849)	(2,378)	20,254
Marine, aviation and transport	36,206	2,284	(13,757)	(16,841)	7,892
Fire and other damage to property	163,036	5,059	(51,499)	(38,813)	77,783
Third party liability	181,075	(216,630)	(56,919)	(22,356)	(114,830)
Credit and suretyship	4,676	(6,199)	(2,754)	(1,482)	(5,759)
Legal expenses	3,472	(4,057)	(1,485)	(1,054)	(3,124)
Assistance	(4)	4	(2)	26	24
Other	3,246	808	(1,323)	(2,045)	686
<b>Total direct</b>	<b>452,816</b>	<b>(238,709)</b>	<b>(146,834)</b>	<b>(87,577)</b>	<b>(20,304)</b>
<b>Reinsurance business</b>					
Other reinsurance acceptances	175,714	(30,776)	(54,452)	(100,720)	(10,234)
Reinsurance to close	55,256	(166,028)	-	82,514	(28,258)
	<b>683,786</b>	<b>(435,513)</b>	<b>(201,286)</b>	<b>(105,783)</b>	<b>(58,796)</b>

### Gross premiums in respect of direct business written in:

	<b>2003 £</b>
United Kingdom	452,816
Other EU Member states	-
Rest of the world	-
	<b>452,816</b>

# Courage Underwriting Limited

## Notes to the financial statements For the year ended 31 December 2004

<b>4 Net operating expenses</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Syndicate operating expenses	29,325	14,966
Exchange adjustment	36,010	37,099
Costs of acquisition – commission and brokerage	140,944	149,221
	<hr/>	<hr/>
	206,279	201,286
Members personal expenses	30,797	15,825
Other operating expenses	3,263	1,872
	<hr/>	<hr/>
	240,339	218,983
	<hr/>	<hr/>

<b>5 Investment income</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Investment income	24,852	21,030
Realised investment gains less losses	(6,511)	(5,690)
Unrealised gains less losses on investments	-	-
	<hr/>	<hr/>
	18,341	15,340
	<hr/>	<hr/>

### 6 Profit/(loss) on ordinary activities before taxation

The auditor's remuneration of £120 is charged to Nomina plc and then recharged to the company as part of the Nomina plc management fee included within other charges in the non-technical account.

The company has no employees and no director's fees have been paid in the period.

<b>7 Taxation</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
<b>Analysis of charge in period</b>		
Current U.K. corporation tax at 19%	1,123	504
Prior year	-	-
	<hr/>	<hr/>
	1,123	504
Deferred tax at 19%	(6,488)	(8,318)
	<hr/>	<hr/>
	(5,365)	(7,814)
	<hr/>	<hr/>

### Factors affecting tax charge for period

The tax assessed for the period is different than the standard rate of Corporation Tax in the UK of 19%. The differences are shown below:

# Courage Underwriting Limited

## Notes to the financial statements For the year ended 31 December 2004

### 7 Taxation (continued)

	2004 £	2003 £
Profit/(loss) on ordinary activities before tax	14,032	(11,351)
Tax on above multiplied by the standard rate of 19%	2,666	(2,185)
Effects of:		
Underwriting results subject to timing differences for taxation	30,542	16,602
Utilisation of tax losses	(32,705)	(14,003)
Deferred tax asset not recognised	-	-
Amortisation and other tax computation adjustments	620	(414)
Marginal or starting rates of taxation	-	504
Current tax charge for the period	1,123	504

The balance sheet deferred tax asset in respect of losses available was 2004: £14,806 (2003: £8,318 ).

### 8 Intangible assets – held directly

Syndicate participation rights	2004 £	2003 £
<b>Cost</b>		
At 1 January 2004	19,681	17,760
Additions	1,950	1,978
Disposals	-	(57)
At 31 December 2004	21,631	19,681
<b>Amortisation</b>		
At 1 January 2004	11,575	9,432
Charge for the period	2,851	2,162
Disposals	-	(19)
At 31 December 2004	14,426	11,575
<b>Net book value</b>		
At 31 December 2004	7,205	8,106
At 1 January 2004	8,106	8,328

As required by FRS 10 and 11, an annual impairment review of the carrying value of the above intangible assets is carried out. As a result of this review, the above syndicate participation is carried out at no more than the latest weighted average values obtained at the Lloyd's capacity auctions during 2004.

No impairment provision is required for the period.

# Courage Underwriting Limited

## Notes to the financial statements For the year ended 31 December 2004

### 9 Financial investments

	2004 Historic cost £	2004 Market Value £	2003 Historic cost £	2003 Market Value £
<b>Syndicate participations</b>				
Shares and other variable yield securities	37,721	39,572	27,808	33,089
Debt securities and other fixed income securities	541,049	552,519	484,706	447,563
Participation in investment pools	26,841	14,099	12,063	5,679
Loans guaranteed by mortgage	-	-	60	61
Other loans	-	9	-	-
Deposits with credit institutions	11,818	28,798	10,599	11,964
Other	105	111	79	263
	<b>617,534</b>	<b>635,108</b>	<b>535,315</b>	<b>498,619</b>

#### Other

Shares and other variable yield securities

-	-	-	-
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#### Analysis of market value

##### Syndicate participations

	2004 £	2003 £
Listed on the stock exchange	447,435	396,843
Other listed	136,335	47,322
Unlisted	51,338	54,454
	<b>635,108</b>	<b>498,619</b>

#### Other

Listed on the stock exchange

-	-
-	-
-	-

# Courage Underwriting Limited

## Notes to the financial statements

For the year ended 31 December 2004

<b>10 Share capital</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
100,000 Ordinary shares of £1 each	100,000	100,000
<b>Allotted, called up and fully paid</b>		
290 Ordinary shares of £1 each	290	290
<b>11 Statement of movements on reserves</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Balance at 1 January 2004	(230,891)	(227,354)
Retained profit/(loss) for the year	19,397	(3,537)
Balance at 31 December 2004	(211,494)	(230,891)
The reserves included above shown as being held directly represent the accumulated results of the Company's corporate activities, the results for any closed/run-off years that have been settled and anticipated losses on open years. The reserves shown as held through syndicate participation represent closed/run-off year results not yet settled.		
<b>12 Reconciliation of movements in shareholders' funds</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Profit for the financial year	19,397	(3,537)
Proceeds from issue of shares	-	-
Share premium on new share capital	-	-
Expenses paid in connection with share issue	-	-
Net addition to shareholders' funds	19,397	(3,537)
Opening shareholders' funds	(230,601)	(227,064)
Closing shareholders' funds	(211,204)	(230,601)
<b>13 Other creditors including taxation and social security – held directly</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Corporation tax	-	-
Amount due to parent undertaking	-	-
Proprietors' loan accounts	202,789	180,687
Third party funds	-	-
Other creditors	32,827	36,417
	235,616	217,104



# Courage Underwriting Limited

## Notes to the financial statements

For the year ended 31 December 2004

14 Cash flow statement	2004 £	2003 £
<b>Reconciliation of profit or loss on ordinary activities before tax to net cash inflow from operating activities:</b>		
Profit/(loss) on ordinary activities before tax	14,032	(11,351)
(Profit)/loss attributable to syndicate transactions	(84,202)	(33,762)
(Increase)/decrease in debtors	37,431	21,387
Increase/(decrease) in creditors and technical provisions	32,952	15,350
(Profit)/loss on disposal of intangible assets	(40)	(1,614)
Amortisation of syndicate capacity	3,541	3,541
Impairment of syndicate capacity	(689)	(1,378)
Unrealised (gain)/loss on revaluation of investments	-	-
Net cash inflow/(outflow) from operating activities	3,025	(7,827)

## 15 Related party disclosure

The company's 1999, 2000, 2001 2002, 2003 and 2004 underwriting is supported by the assets of or guarantees made interavailable to it by W J Courage. These assets or guarantees are also available to Lloyd's to meet the personal underwriting liabilities of W J Courage for underwriting years in run-off commencing prior to 1 January 1999, where applicable.

Nomina plc, a director of the company, administers the conversion scheme in which the company participates. Nomina plc charges a fixed management fee of £2,250 (2003: £2,250) to cover all the costs of basic administration of the company.

# Courage Underwriting Limited

## Notes to the financial statements For the year ended 31 December 2004

### 16 Syndicates

The principal syndicates or members' agent pooling arrangements ("MAPA") in which the company participates as an underwriting member are as follows:

Syndicate or MAPA Number:	Managing Agent	2005 Allocated Capacity £	2004 Allocated Capacity £	2003 Allocated capacity £	2002 Allocated Capacity £
1200	Heritage Managing Agency Ltd	30,000	30,000	30,000	
1245	Heritage Managing Agency Ltd		52,330	50,000	105,000
3245	Heritage Managing Agency Ltd	25,000	45,000		
4040	Illium Managing Agency Ltd	25,000	35,930		
7071	Members' Agents Pooling Arrangement				363,000
7200	Members' Agents Pooling Arrangement	63,870	63,870	60,312	
7201	Members' Agents Pooling Arrangement	338,875	338,875	296,738	
7202	Members' Agents Pooling Arrangement	124,196	137,995	125,450	