

Company registration number: 3640182

Courage Underwriting Limited

Report and financial statements 31 December 2006

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Courage Underwriting Limited

Company information

Directors

W J Courage
Nomina plc

Company Secretary

Hampden Legal PLC

Registered Office

85, Gracechurch Street
London
EC3V 0AA

Auditors

CLB 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

Solicitors

Jones Day
21, Tudor Street
London
EC4Y 0DJ

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 2006

Principal Activities and Business Review

The principal activity of the Company is that of trading as a Lloyd's corporate capital member. The Company continues to trade in 2007 and the Directors expect this year's result to be better than years currently being reported.

The Financial Statements incorporate the annual accounting results of the syndicates on which the Company participates for the 2004, 2005 and 2006 years of account, as well as any 2003 and prior run-off years.

The 2004 year closed at 31 December 2006 with a result of £66,925 (2003 - £117,503). The 2005 and 2006 open underwriting account will normally close at 31 December 2007 and 2008.

Certain syndicates on which the Company participates have for a variety of reasons been unable to close. There is a greater than usual degree of uncertainty as to the eventual outcome of these accounts.

Results and Dividends

The results for the year are set out on pages 9 to 10 of the Financial Statements. Dividends totalling £- were paid in the year (2005 £-).

Future Developments

The Company continues to write insurance business in the Lloyd's insurance market as a corporate underwriting member of Lloyd's.

Courage Underwriting Limited

Report of the Directors (continued)

Key Performance Indicators

The directors consider the following to be the key performance indicators of the Company

	2006	2005
Capacity (youngest underwriting year)	604,786	606,941
Gross premium written as a % of capacity	114.5%	105.6%
Underwriting profit of latest closed year		
as a % of capacity	9.5%	20.9%
Run-off years of account movement	4,390	(26,608)

Other Performance Indicators

As a result of the nature of this Company as a Lloyd's Corporate Member the majority of its activities are carried out by the syndicates in which it participates. The Company is not involved directly in the management of the syndicate's activities, including employment of syndicate staff, as these are the responsibility of the relevant Managing Agent. Each Managing Agent will also have responsibility for the environmental activities of each syndicate, although by their nature insurers do not produce significant environmental emissions. As a result, the Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

Risk Management

As a corporate member of Lloyd's the majority of the risks to this Company's future cash flows arise from its participation in the results of Lloyd's syndicates. As detailed below, these risks are mostly managed by the Managing Agent of the syndicate. This Company's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicates.

Syndicate risks

The syndicate's activities expose it to a variety of financial and non-financial risks. The Managing Agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, the Managing Agent prepares an Individual Capital Assessment (ICA) for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the ICA; and typically the majority of the total assessed value of the risks concerned is attributable to Insurance Risk.

Courage Underwriting Limited

Report of the Directors (continued)

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's and the Financial Services Authority provide additional controls over the syndicate's management of risks.

The Company manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, of a review of the business plan prepared for each syndicate by its Managing Agent. In addition quarterly reports and annual accounts together with any other information made available by the Managing Agent are monitored and if necessary enquired into. If the Company considers that the risks being run by the syndicate are excessive it will seek confirmation from the Managing Agent that adequate management of the risk is in place and if considered appropriate will withdraw support from the next underwriting year.

Investment and currency risks

The other significant risks faced by the Company are with regard to the investment of the available funds within its own custody. The elements of these risks are investment risk, liquidity risk, currency risk and interest rate risk. To mitigate this, the surplus company funds are invested in the Money Market with triple A rated banks. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the company to meet the claim. In order to minimise investment, credit and liquidity risk the Company's funds are invested in readily realisable money market deposits. The Company's money market deposits are held approximately equally in Sterling and US dollars, which is similar to the balance of the underlying currencies in which the supported syndicates trade. This aims to mitigate the currency exposure risk that may arise if syndicates require funding for losses and also to ensure that any changes to capital requirements arising from currency movements are mitigated by similar changes in the value of Company funds.

Regulatory risks

The Company is subject to continuing approval by Lloyd's and the Financial Services Authority to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. The capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance and although the process is intended to be fair and reasonable the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the Company is able to support.

Operational risks

As there are a relatively few transactions actually undertaken by the Company there are only limited systems and staffing requirements of the Company and therefore operational risks are not considered to be significant. Close involvement of all directors in the Company's key decision making and the fact that the majority of the Company's operations are conducted by syndicates provides control over any remaining operational risks.

Courage Underwriting Limited

Report of the Directors (continued)

Directors

The Directors who served at any time during the year were as follows

W J Courage
Nomina plc

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 followed, subject to any material departures disclosed and explained in the Financial Statements
- 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 are responsible for ensuring that the Report of the Directors is prepared in accordance with company law in the United Kingdom.

Courage Underwriting Limited

Report of the Directors (continued)

Auditors

A resolution to reappoint CLB Littlejohn Frazer will be proposed at the next Annual General Meeting

In the case of each of the persons who are Director's at the time this report is approved, the following applies:

- (a) So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By Order of the Board



Hampden Legal PLC
Secretary

18th July 2007

Courage Underwriting Limited

Independent Auditors' report

Independent Auditor's report to the shareholders of Courage Underwriting Limited

We have audited the Financial Statements of Courage Underwriting Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Accounting Policies and the related notes 1 to 21. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described by the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the Financial Statements 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 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 Report of the Directors 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 other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of 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 Financial Statements. It also includes an assessment of the significant estimates and judgments 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.

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.

Courage Underwriting Limited

Independent Auditors' report (continued)

Opinion

In our opinion

- the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its result for the year then ended,
- and have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the Financial Statements

CLB Littlejohn Frazer

CLB Littlejohn Frazer

Chartered Accountants
and Registered Auditors

20th July 2007

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 2006

	Note	2006 £	2005 £
Premiums Written			
Gross premiums written	1	692,387	640,729
Outward reinsurance premiums		(116,779)	(119,661)
Net Premiums Written		<u>575,608</u>	<u>521,068</u>
Change in the provision for Unearned premiums			
Gross Provision		(18,576)	46,133
Reinsurers' share		2,306	(10,785)
Earned Premiums, Net of Reinsurance		<u>559,338</u>	<u>556,416</u>
Allocated Investment Return			
Transferred from the Non-Technical Account		42,049	29,169
Claims Paid			
Gross Amount		(510,500)	(415,372)
Reinsurers' share		209,541	140,910
Net claims paid		<u>(300,959)</u>	<u>(274,462)</u>
Change in Provision for Claims			
Gross amount		192,039	(313,669)
Reinsurers' share		(163,193)	149,930
Change in net provision for claims		<u>28,846</u>	<u>(163,739)</u>
Claims Incurred, Net of Reinsurance		<u>(272,113)</u>	<u>(438,201)</u>
Changes in other technical provisions, net of reinsurance		-	-
Net operating expenses	3	(210,127)	(197,535)
Other technical charges, net of reinsurance		-	-
Balance on the Technical Account for General Business		<u>119,147</u>	<u>(50,151)</u>

The accounting policies and notes on pages 14 to 28 form part of these Financial Statements

Courage Underwriting Limited

Profit and loss account

Non - technical account

For the year ended 31 December 2006

	Note	2006 £	2005 £
Balance on Technical Account for General Business		119,147	(50,151)
Investment income	4	46,614	37,111
Unrealised gains on investments		4,322	3,224
Investment expenses and charges	5	(6,325)	(5,107)
Unrealised losses on investments		(2,562)	(6,059)
Allocated investment return transferred to the general business technical account		(42,049)	(29,169)
Other income		22,824	336
Other charges		(12,863)	(7,276)
Profit/(loss) on ordinary activities before taxation	6	129,108	(57,091)
Tax on profit/(loss) on ordinary activities	7	(307)	(389)
Profit/(loss) for the financial year	14	128,801	(57,480)

All amounts relate to continuing operations

The accounting policies and notes on pages 14 to 28 form part of these Financial Statements

Courage Underwriting Limited

Balance sheet

As at 31 December 2006

		31 December 2006			31 December 2005		
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Assets							
Intangible assets	9	-	2,000	2,000	-	4,672	4,672
Investments							
Financial investments	10	834,356	-	834,356	783,775	-	783,775
Deposits with ceding undertakings		595	-	595	493	-	493
		834,951	-	834,951	784,268	-	784,268
Reinsurers' share of technical provisions							
Provision for unearned premiums		-	-	-	34,597	-	34,597
Claims outstanding		352,191	-	352,191	517,136	-	517,136
Other technical provisions		-	-	-	-	-	-
		352,191	-	352,191	551,733	-	551,733
Debtors							
Arising out of direct insurance operations	11	153,842	-	153,842	180,263	-	180,263
Arising out of reinsurance operations	11	110,273	-	110,273	126,347	-	126,347
Other debtors	12	66,633	55,929	122,562	76,417	3,611	80,028
		330,748	55,929	386,677	383,027	3,611	386,638
Other assets							
Cash at bank and in hand		80,444	23,026	103,470	128,430	3,701	132,131
Other		67,275	-	67,275	78,336	-	78,336
		147,719	23,026	170,745	206,766	3,701	210,467
Prepayments and accrued income							
Accrued interest		3,920	-	3,920	3,273	-	3,273
Deferred acquisitions costs		62,211	-	62,211	68,289	-	68,289
Other prepayments and accrued income		2,770	-	2,770	3,295	-	3,295
		68,901	-	68,901	74,857	-	74,857
Total assets		1,734,510	80,955	1,815,465	2,000,651	11,984	2,012,635

The accounting policies and notes on pages 14 to 28 form part of these Financial Statements

Courage Underwriting Limited

Balance sheet

As at 31 December 2006

		31 December 2006			31 December 2005		
	Note	Syndicate Participation £	Corporate £	Total £	Syndicate Participation £	Corporate £	Total £
Liabilities and shareholders' funds							
Capital and reserves							
Called up share capital	13	-	290	290	-	290	290
Share premium account		-	-	-	-	-	-
Profit and loss account	14	83,730	(154,644)	(70,914)	47,496	(247,211)	(199,715)
Shareholders' funds – attributable to equity interests	15	83,730	(154,354)	(70,624)	47,496	(246,921)	(199,425)
Technical provisions							
Provision for unearned premiums		279,105	-	279,105	300,086	-	300,086
Claims outstanding – gross amount		1,195,311	-	1,195,311	1,501,532	-	1,501,532
Other technical provisions		-	-	-	-	-	-
Provisions for other risks and charges							
Deferred taxation	16	-	-	-	-	-	-
Other		-	-	-	-	-	-
Deposit received from reinsurers		6,321	-	6,321	12,357	-	12,357
Creditors							
Arising out of direct insurance operations		44,185	-	44,185	24,816	-	24,816
Arising out of reinsurance operations		57,069	-	57,069	79,380	-	79,380
Amounts owed to credit Institutions		70	-	70	138	-	138
Other creditors including taxation and social security	17	92,600	205,075	297,675	71,779	205,779	277,558
		1,674,661	205,075	1,879,736	1,990,088	205,779	2,195,867
Accruals and deferred income		(23,881)	30,234	6,353	(36,933)	53,126	16,193
Total liabilities		1,734,510	80,955	1,815,465	2,000,651	11,984	2,012,635

Approved by the Board of Directors on 18th July 2007
and signed on its behalf by


Nomina plc
Director

The accounting policies and notes on pages 14 to 28 form part of these Financial Statements

Courage Underwriting Limited

Cash flow statement

For the year ended 31 December 2006

	Note	2006 £	2005 £
Operating activities			
Net cash inflow/(outflow) from operating activities	18	(1,548)	4,135
Returns on investments and servicing of finance		-	-
Capital expenditure			
Purchase of syndicate capacity		(1,657)	(416)
Proceeds from sale of syndicate capacity		22,837	336
Taxation			
Corporation tax (paid)/refunded		(307)	(389)
Equity dividends paid		-	-
Financing			
Issue of shares		-	-
Share issue expenses		-	-
Net cash inflow/(outflow) for the year	18	<u>19,325</u>	<u>3,666</u>
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	18	19,325	3,666
Purchase of financial investments		-	-
Sale of financial investments		-	-
Net investment of cash flows		<u>19,325</u>	<u>3,666</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 14 to 28 form part of these Financial Statements

Courage Underwriting Limited

Accounting Policies For the year ended 31 December 2006

Basis of Preparation

The Financial Statements are prepared under the historical cost basis of accounting modified to include the revaluation of investments and comply with applicable Accounting Standards

The Company participates in insurance business as an underwriting member of various syndicates at Lloyd's

The Financial Statements have been prepared in accordance with Section 255 of, and Schedule 9A of the Companies Act 1985 and the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006, except that exchange differences arising on syndicate assets and liabilities are dealt with in the technical account as all of these differences arise from technical account transactions

Accounting information in respect of the syndicate participations has been provided by the Syndicate's managing agent and has been reported upon by the syndicate auditors

Basis of Accounting

The Financial Statements are prepared using the annual basis of accounting Under the annual basis of accounting a result is determined at the end of each accounting period reflecting the profit or loss from providing insurance coverage during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods

Amounts reported in the general business technical account relate to movements in the period in respect of all relevant years of account of the syndicates on which the Company participates

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the syndicates' managing agents Accordingly, these assets and liabilities have been shown separately in the balance sheet as "Syndicate Participation" Other assets and liabilities are shown as "Corporate" The syndicate assets are held subject to trust deeds for the benefit of the syndicates' insurance creditors.

Courage Underwriting Limited

Accounting Policies

For the year ended 31 December 2006

General Business

i Premiums

Premiums written comprise the total premiums receivable in respect of business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the syndicates on which the Company participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries 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 unexpired terms of policies in force at the Balance Sheet date, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the relevant Managing Agent.

iii Deferred Acquisition Costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

iv Reinsurance Premiums

Reinsurance premium costs are allocated by the Managing Agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

v Claims Incurred and Reinsurers' Share

Claims incurred comprise claims and settlement expenses (both internal and external) occurring in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and settlement expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by each syndicate's in-house reserving team and 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. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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.

Courage Underwriting Limited

Accounting Policies

For the year ended 31 December 2006

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 each syndicate's 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. Each syndicate uses a number of statistical techniques to assist in making these estimates

Accordingly the two most critical assumptions made by each syndicates Managing Agent 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 including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred

The level of uncertainty with regard to the estimations within these provisions generally decreases with time since the underlying contracts were exposed to new risks. In addition the nature of short tail claims such as property where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks such as some liability business where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. However, 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 provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly

v1 Unexpired Risks Provision

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the balance sheet date. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. The provision is made on a syndicate by syndicate basis by the relevant Managing Agent

v11 Closed Years of Account

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs.

Courage Underwriting Limited

Accounting Policies

For the year ended 31 December 2006

Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account

viii Run-off Years of Account

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 of 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

ix Net Operating Expenses (including Acquisition Costs)

Net operating costs include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Company participates

Acquisition costs, comprising commission and other 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

x Distribution of Profits and Collection of Losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements

Courage Underwriting Limited

Accounting Policies

For the year ended 31 December 2006

x1. Investments

Investments are stated at current value, including accrued interest at the Balance Sheet date

x11 Investment Return

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

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the current value at that date

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting business

x111 Basis of Currency Translation

Syndicates maintain separate funds in Sterling, United States dollars, Canadian dollars and Euros

Income and expenditure in US dollars, Canadian dollars and Euros is translated at the average rate of exchange for the year. 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 translated into Sterling at the rates of exchange at the Balance Sheet date

Differences arising on translation of foreign currency amounts in syndicates are included in the technical account

x1V Debtors/Creditors arising from Insurance/Reinsurance Operations

The amounts shown in the Balance Sheet include the totals of all the Syndicates outstanding debit and credit transactions as processed by the Lloyd's central facility, 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 counterparty insureds, reinsurers or intermediaries as appropriate

Courage Underwriting Limited

Accounting Policies

For the year ended 31 December 2006

Taxation

The Company is taxed on its results including its share of underwriting results declared by the syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these Financial Statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

HM Revenue & Customs agrees the taxable results of the syndicates at a syndicate level on the basis of computations submitted by the managing agent. At the date of the approval of these Financial Statements the syndicate taxable results of years of account closed at this and at previous year ends may not have been fully agreed with HM Revenue & Customs. Any adjustments that may be necessary to the tax provisions established by the Company, as a result of HM Revenue & Customs agreement of syndicate results, will be reflected in the Financial Statements of subsequent periods.

Deferred Taxation

Deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

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.

Intangible Assets

Costs incurred by the Company in the Corporation of Lloyd's auctions in order to acquire rights to participate on syndicates' underwriting years are included within intangible fixed assets and amortised over a 5 year period beginning in the year following the purchase of the syndicate participation.

Cash Flow Statement

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 syndicates at Lloyd's.

Courage Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2006

1. Class of Business	Gross Written Premiums £	Gross Premiums Earned £	Gross Claims Incurred £	Net Operating Expenses £	Reinsurance Balance £	Total £
2006						
Direct Insurance						
Accident and health	19,014	18,964	(4,298)	(9,093)	(3,270)	2,303
Motor – third party liability	3,614	3,050	(349)	(1,005)	(1,353)	343
Motor – other classes	33,199	31,107	(16,441)	(10,448)	(2,606)	1,612
Marine, aviation and transport	76,793	72,912	(33,142)	(22,207)	(10,088)	7,475
Fire and other damage to property	170,980	159,362	(43,984)	(55,267)	(36,239)	23,872
Third party liability	180,224	178,677	(122,257)	(53,792)	10,553	13,181
Credit and suretyship	5,303	6,024	(8,646)	(2,732)	(2,323)	(7,677)
Legal expenses	532	537	1,516	(760)	(1,367)	(74)
Assistance	-	-	-	-	-	-
Miscellaneous	683	698	(320)	(306)	(21)	51
	490,342	471,331	(227,921)	(155,610)	(46,714)	41,086
Reinsurance	202,045	202,480	(90,540)	(54,517)	(21,411)	36,012
Total	692,387	673,811	(318,461)	(210,127)	(68,125)	77,098
2005						
Direct Insurance						
Accident and health	18,423	19,523	(569)	(8,071)	(1,592)	9,291
Motor – third party liability	1,533	2,057	(1,343)	(1,348)	(637)	(1,271)
Motor – other classes	25,812	29,780	(13,911)	(8,928)	701	7,642
Marine, aviation and transport	68,592	62,603	(88,590)	(18,344)	39,629	(4,702)
Fire and other damage to property	143,211	165,055	(129,418)	(49,874)	34,733	20,496
Third party liability	173,697	193,460	(154,486)	(54,491)	(8,549)	(24,066)
Credit and suretyship	4,669	9,465	(48,011)	(3,609)	3,088	(39,067)
Legal expenses	866	739	(7,474)	(1,031)	428	(7,338)
Assistance	2	2	(1)	-	(131)	(130)
Miscellaneous	1,904	1,551	(735)	(223)	(72)	521
	438,709	484,235	(444,538)	(145,919)	67,598	(38,624)
Reinsurance	202,020	202,627	(284,503)	(51,616)	92,796	(40,696)
Total	640,729	686,862	(729,041)	(197,535)	160,394	(79,320)

Courage Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2006

2. Geographical Analysis	2006	2005
	£	£
Direct Gross Premium Written in:		
United Kingdom	490,342	438,707
Other EU Member States	-	-
Rest of the World	-	2
	<hr/>	<hr/>
	490,342	438,709
	<hr/>	<hr/>
3. Net Operating Expenses	2006	2005
	£	£
Acquisition costs	137,071	127,422
Change in deferred acquisition costs	873	8,372
Administrative expenses	65,805	68,466
Loss/(Profit) on exchange	6,378	(6,725)
	<hr/>	<hr/>
	210,127	197,535
	<hr/>	<hr/>
4. Investment Income	2006	2005
	£	£
Income from investments	42,764	33,849
Gains on the realisation of investments	3,280	3,050
Bank deposit interest	570	212
	<hr/>	<hr/>
	46,614	37,111
	<hr/>	<hr/>
5. Investment Expenses and Charges	2006	2005
	£	£
Investment management expenses, including interest	847	793
Losses on the realisation of investments	5,478	4,314
	<hr/>	<hr/>
	6,325	5,107
	<hr/>	<hr/>
6. Profit/(Loss) on Ordinary Activities before Taxation	2006	2005
	£	£
This is stated after charging		
Directors remuneration	-	-
Auditors' remuneration - audit	120	120
Auditors' remuneration – taxation	-	-
Amortisation of syndicate capacity	4,316	2,948
Interest on bank loan and overdrafts	-	-
Interest on other loans	-	-
	<hr/>	<hr/>
The Company has no employees		

Courage Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2006

7. Taxation

Analysis of Charge in Period

Current tax

UK corporation tax on profit/(loss) of the period

Adjustment in respect of previous period

Foreign tax

Total current tax

Deferred tax

Origination and reversal of timing differences

2006

£

2005

£

-	-
-	-
-	-
307	389
307	389
-	-
307	389

Factors affecting tax charge for period

The tax assessed for the period is different to the standard rate of corporation tax in the UK (19% (19% 2005)) The differences are explained below

Profit/(loss) on ordinary activities before tax

Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2005 – 19%)

Effects of

Underwriting results subject to timing differences for taxation

Utilisation of tax losses

Foreign tax

Amortisation and other corporation computation adjustments

Marginal or starting rates of taxation and prior period adjustment

Current tax charge for the period

129,108	(57,091)
24,531	(10,847)
(24,473)	58,119
-	(47,198)
307	389
(58)	(74)
-	-
307	389

The results of the Company's participation on the 2004, 2005 and 2006 years of account and the calendar year movement on 2003 and prior run-offs, will not be assessed to tax until the year ended 31 December 2007, 2008 and 2009 respectively being the year after the calendar year result of each run-off year or the normal date of closure of each year of account

Courage Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2006

8. Dividends	2006	2005
	£	£
Equity dividends declared and paid	-	-
9. Intangible Assets	2006	2005
	£	£
Purchased syndicate capacity		
Cost		
At 1 January 2006	22,047	21,631
Additions	1,657	416
Disposals	(77)	-
At 31 December 2006	23,627	22,047
Amortisation		
At 1 January 2006	17,375	14,426
Provided during the year	4,316	2,949
Disposals	(64)	-
At 31 December 2006	21,627	17,375
Net Book Value		
At 31 December 2006	2,000	4,672
At 31 December 2005	4,672	7,205

Courage Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2006

10. Investments

Other Financial Investments - Syndicate

	2006		2005	
	Market Value £	Cost £	Market Value £	Cost £
Shares and other variable yield securities and units in unit trusts	73,633	70,609	45,411	43,075
Debt securities and other fixed income securities	702,905	703,268	682,908	685,854
Participation in investment pools	13,896	12,652	12,439	12,229
Loans secured by mortgages	625	636	765	781
Other loans	13,112	13,110	4,747	3,309
Deposits with credit institutions	22,080	22,006	37,181	36,997
Other	8,105	8,105	324	443
	834,356	830,386	783,775	782,688
Listed investments included within the above	790,434	786,529	740,758	741,158

Other Financial Investments - Corporate

Shares and other variable yield securities	-	-	-	-
Debt securities and other fixed income securities	-	-	-	-
Participation in investment pools	-	-	-	-
Loans guaranteed by mortgage	-	-	-	-
Other loans	-	-	-	-
Deposits with credit institutions	-	-	-	-
Other	-	-	-	-
	-	-	-	-
Listed investments included within the above	-	-	-	-

11. Debtors arising out of Direct Insurance and Reinsurance Operations

	Syndicate Participation £	Corporate £	2006 Total £	Syndicate Participation £	Corporate £	2005 Total £
The following amounts due after one year						
Direct insurance operations	284	-	284	284	-	284
Reinsurance operations	175	-	175	750	-	750
	459	-	459	1,034	-	1,034

Courage Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2006

12. Other Debtors

	Syndicate Participation £	Corporate £	2006 Total £	Syndicate Participation £	Corporate £	2005 Total £
Amounts due from group undertakings	-	-	-	-	-	-
Funds at Lloyd's	-	23,868	23,868	-	2	2
Other	66,633	32,061	98,694	76,417	3,609	80,026
	<u>66,633</u>	<u>55,929</u>	<u>122,562</u>	<u>76,417</u>	<u>3,611</u>	<u>80,028</u>

Funds at Lloyd's represents assets deposited with the Corporation of Lloyd's (Lloyd's) to support the Company's underwriting activities as described in the Accounting Policies. The Company has entered into a Lloyd's Deposit Trust Deed which gives the Corporation the right to apply these monies in settlement of any claims arising from the participation on the syndicates. These monies can only be released from the provision of this Deed with Lloyd's express permission and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Company's liabilities in respect of its underwriting.

13. Called-up Share Capital

	2006 Authorised	2006 Allotted, called-up and fully paid	2005 Authorised	2005 Allotted, called-up and fully paid
Ordinary £1 shares	100,000	290	100,000	290

14. Profit and Loss Account

	Syndicate Participation £	Corporate £	2006 Total £	Syndicate Participation £	Corporate £	2005 Total £
Retained profit/(loss) brought forward	47,496	(247,211)	(199,715)	108,180	(250,415)	(142,235)
Reallocate distribution	(92,952)	92,952	-	(24,113)	24,113	-
Profit/(loss) for the financial year	129,186	(385)	128,801	(36,571)	(20,909)	(57,480)
Equity dividends	-	-	-	-	-	-
Retained profit/(loss) carried forward	<u>83,730</u>	<u>(154,644)</u>	<u>(70,914)</u>	<u>47,496</u>	<u>(247,211)</u>	<u>(199,715)</u>

15. Reconciliation of Movements in Shareholders' Funds

	2006 £	2005 £
Opening shareholders funds	(199,425)	(141,945)
Profit/(loss) for the financial year	128,801	(57,480)
Equity dividends	-	-
Proceeds from issue of shares	-	-
Closing shareholders' funds	<u>(70,624)</u>	<u>(199,425)</u>

Courage Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2006

16. Deferred Taxation	2006	2005
	£	£
Opening balance	-	-
Profit and loss account charge	-	-
Closing balance	-	-

17. Other Creditors including Taxation and Social Security

	Syndicate Participation £	Corporate £	2006 Total £	Syndicate Participation £	Corporate £	2005 Total £
Corporation tax	-	-	-	-	-	-
Proprietors' loan accounts	-	176,094	176,094	-	172,754	172,754
Third Party Funds	-	-	-	-	-	-
Other creditors	92,600	28,981	121,581	71,779	33,025	104,804
Amount due to group undertakings	-	-	-	-	-	-
	92,600	205,075	297,675	71,779	205,779	277,558

18. Reconciliation of Operating Profit to Net Cash Inflow/(Outflow) from Operating Activities	2006	2005
	£	£
Profit or loss on ordinary activities before tax	129,108	(57,091)
(Profit)/loss attributable to syndicate transactions	(36,234)	60,684
Profit or loss – excluding syndicate transactions	92,874	3,593
(Increase)/decrease in debtors	(52,318)	8,390
Increase/(decrease) in creditors	(23,596)	(10,460)
(Profit)/loss on disposal of intangible assets	(22,824)	(336)
Amortisation of syndicate capacity	4,316	4,326
Impairment of syndicate capacity	-	(1,378)
Unrealised (gain)/loss on revaluation of investments	-	-
Net cash inflow/(outflow) from operating activities	(1,548)	4,135
Movement in cash		
Opening cash	3,701	35
Movement in cash	19,325	3,666
Closing cash	23,026	3,701

Courage Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2006

19. Related party disclosure

The company's 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 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 £2,500 (2005 £2,500) to cover all the costs of basic administration of the company

20. Ultimate Controlling Party

The Company is controlled by W J Courage

Courage Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2006

21 Syndicate Participation

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	2006 Allocated Capacity £	2005 Allocated Capacity £	2004 Allocated capacity £	2003 Allocated Capacity £
1200	Heritage Managing Agency Ltd	30,000	30,000	30,000	30,000
1245	Heritage Managing Agency Ltd	-	-	52,330	50,000
3245	Heritage Managing Agency Ltd	22,845	25,000	45,000	-
4040	Illum Managing Agency Ltd	25,000	25,000	35,930	-
7200	Members' Agents Pooling Arrangement	63,870	63,870	63,870	60,312
7201	Members' Agents Pooling Arrangement	338,875	338,875	338,875	296,738
7202	Members' Agents Pooling Arrangement	124,196	124,196	137,995	125,450