

Gulf Underwriting Limited

Directors' Report and Financial Statements

**For the year ended
31 December 2003**

Registered Number 3780599



COMPANIES HOUSE

29/10/04

Gulf Underwriting Limited

Directors' Report and Financial Statements

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2003.

Principal Activity

The principal activity of the Company is to act as a corporate member of Lloyd's and to participate in the Lloyd's Insurance Market through the provision of underwriting capacity to Syndicate 205, which underwrites general insurance business.

As previously reported last year, Syndicate 205 has suffered significant losses during the underwriting years 2000 and 2001, including losses arising from the World Trade Center. Provision for these losses have been made in these accounts. Syndicate 205 ceased underwriting the 2002 year of account on 27 March 2002. The limited premium income receivable together with commitments to purchase reinsurance made prior to the decision to cease underwriting and the expenses incurred following that decision mean that the 2002 year is also forecast to make a loss. However, due to the significant improvements in terms and conditions that were achieved in 2002, the loss is not likely to be of the magnitude suffered by the 2000 and 2001 years.

The Company will remain in existence until the affairs of its participation in Syndicate 205 have been wound up. This may take some time in view of the fact that the 2000 and 2001 run-off years of account of the syndicate remain open at 31 December 2003 due to the uncertainty as to the ultimate liabilities in respect of these accounts and also as there is no successor syndicate to accept the reinsurance to close premiums once they are determined. The earliest date on which the 2002 open year of account would normally be expected to close is 31 December 2004.

The losses incurred to date by the Company in respect of its participations in Syndicate 205 have exhausted the Funds at Lloyd's provided. However, during 2004 additional capital was contributed to the Company which enabled the settlement of all outstanding cash calls.

The financial statements have not been prepared on a going concern basis, and the effect of this is explained in note 1 to the accounts.

Business Review

Lloyd's, in line with the rest of the London Insurance Market, have suffered significant losses during the years 2000 and 2001, including losses arising from the World Trade Center. Syndicate 205 projects significant losses for these years and provision has been made in these accounts for the relevant proportion of these losses.

Results and Dividends

The results for the year are set out on pages 6 and 7.

The Directors do not recommend the payment of a final dividend.

Gulf Underwriting Limited

Directors' Report (continued)

Directors and Directors' Interests

The Directors who held office during the year were as follows:

C E Watson
K W Ziegler
S K Bantis

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

Mr C E Watson, Mr K W Ziegler and Mr S K Bantis resigned on 29 June 2004.

Mr S Belden, Mr H G Eyre and Mr P J Cooper were appointed Directors on 29 June 2004.

Creditor Payment Policy

Payments are made to creditors in accordance with agreed terms and Lloyd's practice.

Auditors

KPMG Audit Plc have expressed their willingness to continue as auditors to the Company and are deemed reappointed in accordance with Section 386 of the Companies Act 1985.

By order of the board



Capita London Market Services Limited

Secretary

Pullman Place
Great Western Road
Gloucester
GL1 3EA

1 July 2004

Gulf Underwriting Limited

Statement of Directors' Responsibilities

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

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been applied, subject to any material departure disclosed and explained in the financial statements;
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. As explained in note 1 to the financial statements, the directors do not believe the going concern basis to be appropriate and these financial statements have been prepared on the basis set out in note 1.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Gulf Underwriting Limited

Independent Auditors' Report to the Members of Gulf Underwriting Limited

We have audited the financial statements on pages 6 to 16 which, as described in note 1, have not been prepared on a going concern basis.

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 audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Directors' Report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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.

Basis of audit opinion

We conducted our audit in accordance with 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.

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.

Gulf Underwriting Limited

Independent Auditors' Report to the Members of Gulf Underwriting Limited (continued)

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 13 to the financial statements concerning the uncertainty over the Company's liabilities, representing its share of Syndicate 205's technical provisions and related reinsurance recoveries for settlement of World Trade Center terrorist attack claims and also US and UK casualty accounts. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc

Chartered Accountants
Registered Auditor
London

Gulf Underwriting Limited

Profit and Loss Account: Technical Account – General business for the year ended 31 December 2003

	Note	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Premiums net of reinsurance:			
Gross premiums written	2	(4,466)	15,841
Outward reinsurance premiums		<u>2,049</u>	<u>(16,045)</u>
		(2,417)	(204)
Investment income		<u>920</u>	<u>1,921</u>
		(1,497)	1,717
Claims incurred net of reinsurance			
Claims paid:			
Gross amount	2	(19,782)	(19,969)
Reinsurers' share		<u>8,458</u>	<u>9,783</u>
		(11,324)	(10,186)
Change in the provisions for claims			
Gross amount	2	36,627	9,881
Reinsurers' share		<u>(15,833)</u>	<u>(7,682)</u>
		<u>20,794</u>	<u>2,199</u>
Net claims incurred		9,470	(7,987)
Operating expenses	7	(1,922)	(10,941)
Investment expenses and charges		<u>(54)</u>	<u>(76)</u>
Balance on technical account general business		<u>5,997</u>	<u>(17,287)</u>

Gulf Underwriting Limited

Profit and Loss Account: Non-Technical Account

for the year ended 31 December 2003

	<i>Note</i>	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Balance on technical account – general business		5,997	(17,287)
Investment income	3	<u>920</u>	<u>1,921</u>
Total income		6,917	(15,367)
Allocated investment return transferred to general business technical account		(920)	(1,921)
Operating expenses		<u>-</u>	<u>16</u>
Operating profit/(loss)	4	5,997	(17,272)
Interest payable	5	-	(89)
Exchange gain/(loss) on cashcalls		412	(2,775)
Miscellaneous income	15	<u>-</u>	<u>2,034</u>
Profit/(loss) on ordinary activities before tax		6,409	(18,102)
Tax on profit/(loss) on ordinary activities		<u>-</u>	<u>-</u>
Retained profit/(loss) for the year transferred to reserves		<u><u>6,409</u></u>	<u><u>(18,102)</u></u>

The profit/(loss) for the year relates only to discontinuing operations.

There are no recognised gains or losses other than the loss for the year and accordingly, no statement of total recognised gains and losses has been prepared.

Gulf Underwriting Limited

Balance Sheet

at 31 December 2003

ASSETS	Note	31 December 2003			31 December 2002		
		£'000 Corporate	£'000 Syndicate Participations	£'000 Total	£'000 Corporate	£'000 Syndicate Participations	£'000 Total
Investments	9	-	30,587	30,587	-	38,896	38,896
Reinsurers' share of technical provisions		-	6,215	6,215	-	23,416	23,416
Debtors arising out of direct insurance operations		-	406	406	-	11,070	11,070
Debtors arising out of reinsurance operations		-	2,055	2,055	-	2,363	2,363
Other debtors		-	12,213	12,213	-	550	550
Cash at bank and in hand		-	2,326	2,326	-	6,828	6,828
Other assets		-	2,121	2,121	-	2,768	2,768
Total assets		-	55,923	55,923	-	85,891	85,891

Gulf Underwriting Limited

Balance Sheet (continued)

at 31 December 2003

		31 December 2003			31 December 2002		
		£'000	£'000	£'000	£'000	£'000	£'000
		Corporate	Syndicate	Total	Corporate	Syndicate	Total
			Participations			Participations	
LIABILITIES AND SHAREHOLDERS' FUNDS							
Capital and reserves							
Called up share capital	10	32,622	-	32,622	29,282	-	29,282
Profit and loss account	11	(35,002)	-	(35,002)	(41,411)	-	(41,411)
Total Shareholders funds	12	(2,380)	-	(2,380)	(12,129)	-	(12,129)
Technical provisions	13	-	48,718	48,718	-	85,181	85,181
Creditors: amounts falling due within one year							
Creditors arising out of direct insurance operations		-	137	137	-	62	62
Creditors arising out of reinsurance operations		-	-	-	-	5,756	5,756
Deposits received from reinsurers		-	-	-	-	7,190	7,190
Accruals		-	46	46	-	54	54
Other creditors	14	2,380	7,022	9,402	12,129	(12,352)	(223)
<hr/>							
Total Liabilities and Shareholders' funds		-	55,923	55,923	-	85,891	85,891
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These financial statements were approved by the Board of Directors on 1st July 2004 and were signed on its behalf by:



Howard Eyre
Director

Gulf Underwriting Limited

Notes to the Financial Statements

(forming part of the financial statements)

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period are set out below.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards in the UK and of section 255 and Schedule 9A of the Companies Act 1985. As a consequence, the financial statements include statements of the transactions, assets and liabilities of the syndicate on which it participates as a corporate Member of Lloyd's. The principal accounting policies adopted are set out below.

Until 2001, the accounts were prepared on a going concern basis. However in 2002, the accounts were not prepared on a going concern basis because the funds at Lloyds did not meet the Company's share of liabilities of Syndicate 205. Whilst an additional injection of capital took place in June 2004, the directors remain of the view that it is inappropriate to consider the Company to be a going concern.

In accordance with FRS1(Revised), the Company is not required to prepare a cashflow statement, as it is a wholly owned subsidiary.

b) Basis of accounting for underwriting business

The underwriting account has been prepared by aggregating the Company's share of the underwriting transactions (premiums, claims, expenses and investment income) of the Lloyd's Syndicate 205. The syndicate's revenue and balance sheet information is made up on a calendar year basis and is incorporated in the accounts on that basis.

All premiums included in the Profit and Loss Account relate to discontinuing operations. Written premiums comprise adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commissions payable to intermediaries.

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the Balance Sheet date after taking into account handling costs and settlement trends. A provision for claims incurred but not reported is established on a statistical basis. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

The columns in the Balance Sheet headed "syndicate participations" represent the Company's share of the assets and liabilities of the Syndicate 205 at 31 December 2003 with comparative figures at 31 December 2002. Syndicate liabilities include in addition the provisions for losses if applicable made in respect of open years of account, based on information available at the time of drawing up these accounts.

The Lloyd's syndicate 205 is managed and controlled by Jago Managing Agency Limited. The accounting information in respect of the participation has been provided by Jago Managing Agency Limited and has been audited by the syndicate auditors.

Syndicate expenses include the personal expenses of the open years.

Gulf Underwriting Limited

Notes to the Financial Statements

Accounting policies (continued)

Syndicate assets, liabilities, income and expenditure expressed in US dollars and Canadian dollars are translated at rates of exchange ruling at the year end. Underwriting transactions in other foreign currencies are included in the accounts at historical rates. All differences on the translation of foreign currency amounts in the syndicates are dealt with in the technical account; non syndicate differences are dealt with in the non – technical account.

c) Investments

All syndicate investments are stated at their year end market value. Listed investments are stated at mid market value at the close of business on the relevant 31 December or the last London Stock Exchange dealing day before the relevant 31 December. Debt securities and other fixed income securities are stated at their market value at that date.

d) Income

Syndicate investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Interest income is accrued up to the relevant year end.

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year. Investment income and all investment gains and losses, realised and unrealised, relating to syndicate investments and cash are dealt with through the technical account.

e) Profit on underwriting activities

The three year fund basis of accounting has been applied to the syndicate participations to be consistent with the basis adopted by Lloyd's. Under the fund basis of accounting, premiums, claims and expenses are carried forward as a fund and profit recognition is deferred until the end of the third year from the start of an underwriting year.

Profits arising from underwriting activities are accounted for in the year in which the underwriting year of account normally closes. Provision is made for losses (including directly related expenses) as soon as they are foreseen for the syndicate in a year of account, on the basis of information which is available each year at the date on which the financial statements are approved

Technical provisions in the Balance Sheet represent claims outstanding and the balance on the fund.

f) Taxation

The Company is taxed on its share of the underwriting result declared by syndicate 205 and this is deemed to accrue evenly over the calendar year in which it is declared. These financial statements do not include any results declared for tax purposes.

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.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the Balance Sheet date, except as otherwise required by FRS19.

Gulf Underwriting Limited

Notes (continued)

2 Segmental information

The following business has all been underwritten in the Lloyd's insurance market, which has been treated as one geographical segment and class of business for the purpose of Statement of Accounting Practice No.25: "Segmental Reporting". Segmental information in the format required by the Companies Act 1985, so far as it is available is as follows:

Year ended 31 December 2003	Gross Premiums Written £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct business:					
Accident & Health	(146)	(803)	(150)	(2,703)	(3,802)
Motor (third party liability)	153	373	(273)	216	469
Motor (other classes)	(55)	288	(186)	(2,055)	(2,008)
Marine, Aviation and Transport	307	(677)	(229)	(1,463)	(2,062)
Fire and other damage to property	(1,879)	(6,124)	139	34,892	27,028
Third Party Liability	610	22,623	(1,341)	(9,839)	12,053
Credit and Suretyship	(50)	(465)	(36)	(753)	(1,304)
Legal expenses	(59)	152	(33)	(791)	(731)
Total Direct	(1,119)	15,367	(2,109)	17,504	29,643
Reinsurance business:					
Reinsurance acceptances	(3,347)	1,478	187	(22,830)	(24,512)
Total Reinsurance	(3,347)	1,478	187	(22,830)	(24,512)
TOTAL	(4,466)	16,845	(1,922)	(5,326)	5,131
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Year ended 31 December 2002	Gross Premiums Written £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct business:					
Accident & Health	1,647	984	(793)	(390)	1,448
Motor (third party liability)	668	2,668	(470)	(265)	2,601
Motor (other classes)	367	(1,697)	(339)	(604)	(2,273)
Marine, Aviation and Transport	691	790	(471)	(229)	781
Fire and other damage to property	3,996	(3,639)	(2,669)	(6,379)	(8,691)
Third Party Liability	5,446	(6,927)	(3,424)	(2,915)	(7,820)
Credit and Suretyship	214	764	(148)	(158)	672
Legal expenses	253	(158)	(163)	(196)	(264)
Total Direct	13,282	(7,215)	(8,477)	(11,136)	(13,546)
Reinsurance business:					
Reinsurance acceptances	2,559	(2,873)	(2,464)	(2,808)	(5,586)
Total Reinsurance	2,559	(2,872)	(2,464)	(2,808)	(5,585)
TOTAL	15,841	(10,088)	(10,941)	(13,944)	(19,132)
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Direct business:					

Gulf Underwriting Limited

Notes (continued)

3 Investment income

	2003 £'000	2002 £'000
Investment income on syndicate participation	920	1,921

4 Loss on ordinary activities before tax

	2003 £'000	2002 £'000
Loss on ordinary activities before tax is stated after charging:		
Amortisation of intangible assets	Nil	Nil
Auditors' remuneration:		
Audit services	Nil	Nil

The auditors' remuneration was borne by Travelers Property Casualty Group

5 Interest payable

	2003 £'000	2002 £'000
Interest on loan from holding company	Nil	89

6 Staff Costs and remuneration of directors

All staff costs other than Directors' Fees are covered by a management charge from Jago Managing Agency Limited.

	2003 £'000	2002 £'000
Directors' fees	Nil	Nil

7 Operating expenses

	2003 £'000	2002 £'000
Acquisition costs	(602)	7,073
Exchange adjustment	2,274	3,174
Administration expenses	250	694
	1,922	10,941

8 Taxation

The difference between the actual tax charge of nil and the pro-forma tax charge of 34% arises because the profit for the year has been offset by losses brought forward. In the comparative period, the difference between the actual tax charge of nil and the pro-forma tax charge at 30% arises as no deferred tax asset has been recognised on the losses declared because the Company has ceased underwriting and there will not be any future profits to utilise the losses.

Gulf Underwriting Limited

Notes (continued)

9 Fixed Asset Investments

Syndicate participations

	2003	2002
<i>Market Value</i>	£'000	£'000
Debt securities and other fixed interest securities	25,570	33,297
Deposits with credit institutions	4,992	5,591
Deposits with ceding undertakings	25	8
	<u>30,587</u>	<u>38,896</u>

	2003	2002
<i>Cost</i>	£'000	£'000
Debt securities and other fixed interest securities	25,389	34,423
Deposits with credit institutions	4,992	5,591
Deposits with ceding undertakings	25	8
	<u>30,406</u>	<u>40,022</u>

10 Called up share capital

	2003	2002
	£	£
<i>Authorised</i>		
32,700,000 ordinary shares of £1 each	32,700,000	32,700,000
	<u> </u>	<u> </u>
<i>Allotted, issued and fully paid</i>		
32,622,071 (2002: 29,281,807) ordinary shares of £1 each	32,622,071	29,281,807
	<u> </u>	<u> </u>

On 20th June 2003 the Company issued 3,340,264 shares of £1 each. This injection of cash was used to settle outstanding liabilities at Lloyd's.

11 Profit and loss account

	2003	2002
	£'000	£'000
At beginning of year	(41,411)	(23,309)
Retained profit/(loss) for the year	6,409	(18,102)
At 31 December	<u>(35,002)</u>	<u>(41,411)</u>

Gulf Underwriting Limited

Notes (continued)

12 Reconciliation of Movements in Shareholders' Funds

	2003 £'000	2002 £'000
At beginning of year	(12,129)	(23,309)
Retained profit/(loss) for the year	6,409	(18,102)
Increase in share capital	3,340	29,282
	<hr/>	<hr/>
At 31 December	(2,380)	(12,129)
	<hr/>	<hr/>

13 Claims outstanding

The Company's share of current estimates of Syndicate 205's gross claims and reinsurance recoveries associated with the terrorist attack in the United States of America on 11 September 2001 (WTC) are £26m (2002: £28m) and £14.9m (2002: £17.2m) respectively, giving rise to a net loss of £11.1m (2002: £10.8m) after net reinsurance reinstatement premiums.

This WTC is in addition to the uncertainties in respect of UK and US casualty business which represent approximately 75% of the technical provisions.

14 Other creditors including taxation and social security

	2003 £'000	2002 £'000
Due to syndicate 205	2,380	12,129
	<hr/>	<hr/>
	2,380	12,129
	<hr/>	<hr/>

15 Miscellaneous Income

	2003 £'000	2002 £'000
Loan Forgiveness	-	2,034
	<hr/>	<hr/>

16 Contingent liabilities and guarantees

The assets of the company are subject to restrictions on use or transfer as follows:

- a) Assets of syndicate 205 as at 31 December 2003 amounting to £55,923,000 (2002: £85,891,000) are held subject to the Lloyd's Premiums Trust Deeds.
- b) The Company has entered into a Deposit Trust Deed with the Society of Lloyd's under which bank guarantees of £Nil (2002: £3,340,264) have been deposited with Lloyd's as security in respect of its underwriting business. These can only be released with the authority of Lloyd's.

Gulf Underwriting Limited

Notes (continued)

17 Ultimate parent company

As at 31 December 2003, the Company's immediate parent undertaking is Gulf Underwriting Holdings Limited, which is incorporated in the UK. The parent undertaking of the smallest group of undertakings for which group accounts are drawn up is Gulf Insurance Holdings UK Limited, which is also incorporated in the UK. The parent undertaking of the largest group of the undertakings for which Group accounts are drawn up and the ultimate parent company is Travelers Property Casualty Corp, which is incorporated in the United States of America. Copies of both the above financial statements and the financial statements of the Travelers Property Casualty Corp are available from Gulf Insurance Holdings UK Limited, Pullman Place, Great Western Road, Gloucester GL1 3EA.

On 1 April 2004, Travelers Property Casualty Corporation merged with the St Paul Companies Inc. to become the St Paul Travelers Companies Inc.

18 Related parties

The Company has taken advantage of the exemption contained in FRS 8 not to disclose transactions with entities which form part of the group.