

WIESCO LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2005

SATURDAY



AYEXZMKO

A16

27/01/2007

395

COMPANIES HOUSE

	Page
Directors and Advisers	2
Report of the Directors	3 & 4
Statement of Directors' Responsibilities	5
Report of the Auditors	6
Profit and Loss Account	7 & 8
Balance Sheet	9 & 10
Statement of Total Recognised Gains and Losses	11
Cash Flow Statement	12
Accounting Policies	13 - 17
Notes to the Financial Statements	18 - 29

Directors

C H Wiese
C Wiese

Company Secretary

Argenta Secretariat Limited

Registered Office

Fountain House
130 Fenchurch Street
London
EC3M 5DJ

Bankers

Butterfield Private Bank
99 Gresham Street
London
EC2V 7NG

Auditors

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

The Directors have pleasure in presenting their Report together with the Financial Statements for the year ended 31 December 2005.

Change in Reporting Basis

The underwriting results of the syndicates on which the Company participates have been determined on the annual basis of accounting, as required by Statutory Instrument 3219 of the 2004 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations").

This represents a fundamental change in reporting basis. Previously, results were not determined until the normal date of closure of each year of account at the end of the third year.

These changes in accounting policies have been treated as a prior year adjustment in these Financial Statements; further details have been provided in Note 1 to the Financial Statements.

Results and Dividends

The results for the period are set out on pages 7 and 8 of the financial statements. The Directors do not recommend the payment of a dividend.

Review of the Business

The principal activity of the Company in the period under review was that of a corporate underwriting member of Lloyd's. The Company commenced underwriting with effect from 1 January 1999.

The Financial Statements incorporate the annual accounting results of the syndicates on which the Company participates for the 2003, 2004 and 2005 years of account, as well as any 2002 and prior run-off years.

The annual accounting technical result for the year is a loss of £679,619 (2004 – profit £860,141). Although the 2003 and 2004 years of account remain profitable, the unprecedented level of Hurricane activity in 2005 has seen the 2005 year of account report a loss on an annual accounting basis at the twelve month stage of £1,625,147.

The 2003 year closed at 31 December 2005 with a profit, net of any calendar year run-off movements of £1,602,966 (2002 profit - £786,515). The 2004 and 2005 open underwriting account will normally close at 31 December 2006 and 2007.

As detailed in note 22, 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.

Directors and Directors' Interests

The Director of the Company in office during the year and his interest in the company's share capital was as follows:

	31 December 2005 Ordinary £1 shares	1 January 2005 Ordinary £1 shares
C H Wiese	-	-
C Wiese	-	-

The Directors hold no interest in the company's share capital.

Auditors

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

By Order of the Board

Director

18/01/2007

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 of the Company for that year. In preparing those Financial Statements the Directors are required to:

- select suitable Accounting Policies and then apply them consistently;
- make judgments 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; and
- 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 maintaining 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.

Independent Auditor's report to the shareholders of Wiesco Limited

We have audited the Financial Statements of Wiesco Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Accounting Policies and the related notes 1 to 24. 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.

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 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

CLB Littlejohn Frazer

CLB Littlejohn Frazer

Chartered Accountants
and Registered Auditors

18 January 2006

1 Park Place
Canary Wharf
London E14 4HJ

TECHNICAL ACCOUNT - GENERAL BUSINESS

	Note	2005	2004 Restated
Gross Premiums Written	2	10,754,671	9,189,333
Outward reinsurance premiums		(1,901,974)	(1,439,360)
Net Premiums Written		8,852,697	7,749,973
Change in the provision for unearned premiums			
Gross provision		(582,352)	(126,935)
Reinsurers share		2,040	(145,987)
Earned Premiums, Net of Reinsurance		8,272,385	7,477,051
Allocated Investment Return Transferred from the Non-Technical Account		337,331	189,657
Claims Paid			
Gross amount		(5,033,949)	(3,147,619)
Reinsurers' share		1,482,723	811,116
Net claims paid		(3,551,226)	(2,336,503)
Change in Provision for Claims			
Gross amount		(5,960,872)	(2,069,613)
Reinsurers' share		3,073,418	305,367
Change in net provision for claims		(2,887,454)	(1,764,246)
Claims Incurred, Net of Reinsurance		(6,438,680)	(4,100,749)
Net operating expenses	4	(2,850,655)	(2,705,818)
Balance on the Technical Account for General Business		£(679,619)	£860,141

All the amounts above relate to continuing operations

The Accounting Policies and Notes on pages 13 to 29 form part of these Financial Statements.

NON-TECHNICAL ACCOUNT

	Notes	2005	2004 Restated
Balance on the General Business Technical Account		(679,619)	860,141
Investment income	5	445,353	299,822
Unrealised gains on investments		156,230	48,505
Investment expenses and charges	6	(53,429)	(74,720)
Unrealised losses on investments		(69,393)	(59,557)
Allocated investment return transferred to the general business technical account		(337,331)	(189,657)
Other income		-	14,155
Other charges		(149,177)	520
		<hr/>	<hr/>
(Loss) / Profit on Ordinary Activities before Taxation	7	(687,366)	899,209
Tax on profit on ordinary activities	8	187,350	(303,843)
		<hr/>	<hr/>
(Loss) / Profit on Ordinary Activities after Taxation	14	£(500,016)	£595,366
		<hr/>	<hr/>

The Accounting Policies and Notes on pages 13 to 29 form part of these Financial Statements.

		2005		2004 Restated			
	Note	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
Assets							
Intangible Assets	9	-	99,307	99,307	-	188,599	188,599
Investments							
Financial Investments	10	9,680,640	305,605	9,986,245	7,092,089	130,213	7,222,302
Deposits with ceding Undertakings		10,382	-	10,382	9,780	-	9,780
		<u>9,691,022</u>	<u>305,605</u>	<u>9,996,627</u>	<u>7,101,869</u>	<u>130,213</u>	<u>7,232,082</u>
Reinsurers' share of technical provisions							
Provision for unearned Premiums		433,134	-	433,134	405,796	-	405,796
Claims outstanding		6,217,014	-	6,217,014	2,607,313	-	2,607,313
		<u>6,650,148</u>	<u>-</u>	<u>6,650,148</u>	<u>3,013,109</u>	<u>-</u>	<u>3,013,109</u>
Debtors							
Arising out of direct insurance operations		2,776,992	-	2,776,992	2,163,581	-	2,163,581
Arising out of reinsurance operations		1,758,988	-	1,758,988	1,338,491	-	1,338,491
Other debtors	11	752,289	133	752,422	454,696	-	454,696
		<u>5,288,269</u>	<u>133</u>	<u>5,288,402</u>	<u>3,956,768</u>	<u>-</u>	<u>3,956,768</u>
Other Assets							
Cash at bank and in hand	12	1,729,938	640,205	2,370,143	1,282,586	419,232	1,701,818
Other		832,288	-	832,288	571,087	-	571,087
		<u>2,562,226</u>	<u>640,205</u>	<u>3,202,431</u>	<u>1,853,673</u>	<u>419,232</u>	<u>2,272,905</u>
Prepayments and Accrued Income							
Accrued interest		32,930	-	32,930	34,393	-	34,393
Deferred acquisitions Costs		1,222,198	-	1,222,198	967,325	-	967,325
Other prepayments and accrued income		29,406	-	29,406	19,592	-	19,592
		<u>1,284,534</u>	<u>-</u>	<u>1,284,534</u>	<u>1,021,310</u>	<u>-</u>	<u>1,021,310</u>
Total Assets		£25,476,199	£1,045,250	£26,521,449	£16,946,729	£738,044	£17,684,773

The Accounting Policies and Notes on pages 13 to 29 form part of these Financial Statements.

		2005		2004 Restated			
	Note	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
Liabilities and Shareholders' Funds							
Capital and Reserves							
Called-up share capital	13	-	500	500	-	500	500
Share premium account		-	-	-	-	-	-
Profit and Loss Account	14	387,874	(59,486)	328,388	1,877,994	(1,049,590)	828,404
Shareholders' funds attributable to Equity interests	15	387,874	(58,986)	328,888	1,877,994	(1,049,090)	828,904
Technical provisions:							
Provision for unearned premiums		4,767,859	-	4,767,859	4,006,351	-	4,006,351
Claims outstanding		17,691,361	-	17,691,361	9,803,968	-	9,803,968
		22,459,220	-	22,459,220	13,810,319	-	13,810,319
Provisions for Other Risks and Charges							
Deferred taxation	16	-	54,081	54,081	-	391,734	391,734
Deposit received from reinsurers		461,678	-	461,678	36,653	-	36,653
Creditors							
Arising out of direct insurance operations		342,808	-	342,808	164,465	-	164,465
Arising out of reinsurance operations		1,229,077	-	1,229,077	794,314	-	794,314
Amounts owed to credit Institutions		1,256	-	1,256	300	-	300
Other creditors	17	503,699	407,609	911,308	159,051	1,011,109	1,170,160
		2,076,840	407,609	2,484,449	1,118,130	1,011,109	2,129,239
Accruals and Deferred Income		90,587	642,546	733,133	103,633	384,291	487,924
Total Liabilities		£25,476,199	£1,045,250	£26,521,449	£16,946,729	£738,044	£17,684,773

Approved by the Board on 18 January 2006.

Director

The Accounting Policies and Notes on pages 13 to 29 form part of these Financial Statements.

	2005	2004 Restated
(Loss) / Profit for the Financial Year	(500,016)	595,366
Total Recognised Gains and Losses Relating to the Year	(500,016)	£595,366
Prior year adjustment (Note 1)	754,873	
Total Gains and Losses Recognised since last Financial Statements	£254,857	

	Note	2005	2004 Restated
Net Cash (Outflow)/Inflow from Operating Activities	18	984,715	235,503
Interest and dividends received		17,985	9,572
Net Cash Inflow from Returns on Investments and Servicing of Finance		17,985	9,572
Taxation Paid			
Overseas Taxation paid		(135,303)	(1,357)
Capital Expenditure and Financial Investment			
Purchase of intangible fixed assets		(59,872)	(17,600)
Proceeds from the sale of intangible fixed assets		2,201	17,645
Net Cash (Outflow)/Inflow from Capital Expenditure and Financial Investment		(57,671)	45
Cash flow before financing		809,726	243,763
Financing			
Funds (repaid)/lent to the company by shareholders to meet expenses and cash calls		(536,806)	2,752
Increase in Cash	20	£272,920	£246,515
Cashflows were invested as follows:	19, 20		
Increase in cash holdings		220,973	246,515
Net portfolio investment		51,947	-
Net Investment of Cashflow		£272,920	£246,515

The Company has no control over the disposition of asset 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 13 to 29 form part of these Financial Statements.

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.

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.

Change in Reporting Basis and Basis of Accounting

The Financial Statements for the year ended 31 December 2004 were prepared using the fund basis of accounting. Under the fund basis of accounting, premiums, claims and expenses are carried forward as a fund within the technical provision for outstanding claims and profit recognition is deferred until the end of the third year when the year of account is closed by reinsurance or goes into run-off. No accrual was made on open years for income or expenses that were incurred but had not settled except for underwriting losses, which were recognised immediately.

For the year ended 31 December 2005, the annual basis of accounting has been adopted. 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.

This change in the basis of accounting results in changes to the accounting policies for claims and syndicate participations, and new accounting policies for unearned premiums provision, deferred acquisition costs, unexpired risks and other technical provisions. The effect of these changes on the reported results of the company is detailed in Note 1.

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.

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.

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.

vi. 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.

vii. 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. 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.

xi. Investments

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

xii. 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.

xiii. 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.

xiv. 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.

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.

The Inland Revenue 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 the Inland Revenue. Any adjustments that may be necessary to the tax provisions established by the Company, as a result of Inland Revenue 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 3 year period beginning in the first year after the underwriting commences in respect of the purchased 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.

1. Change in Reporting Basis

As described in the Accounting Policies, "Change in Reporting Basis and Basis of Accounting", the basis of accounting has been changed from the fund basis to the annual basis resulting in changes to a number of accounting policies and equity dividends are only included in the financial statements when they have been declared and approved for payment by the shareholders.

The principal difference between the annual accounting basis and the fund basis concerns the timing of the recognition of underwriting results of a particular year of account. Prior period amounts have been restated to reflect these changes in accounting policies. The effect of the change from the fund basis to the annual basis of accounting is shown in the following table:

	31 December 2004		
	Previously recognised	Adjustment to new reporting basis	Restated on an Annual accounting basis
Recognition of 2004 year of account underwriting	35,075	(57,191)	(22,116)
Recognition of 2003 year of account underwriting	-	1,148,670	1,148,670
Recognition of 2002 and prior years of account underwriting	769,745	16,770	786,515
	<hr/>	<hr/>	<hr/>
	804,820	1,108,249	1,913,069
Deferred taxation	(38,358)	(353,376)	(391,734)
	<hr/>	<hr/>	<hr/>
	£766,462	£754,873	£1,521,335
	<hr/>	<hr/>	<hr/>

Under the annual basis of accounting premiums, including future premiums, are recognised on an earned basis. Previously premiums were accounted for in the period in which the risk commences, together with adjustments to premiums written in previous accounting periods.

Under the annual basis of accounting claims are provided for on the basis of premiums earned up to the balance sheet date with an additional provision where appropriate for unexpired risks. Previously, no profit was recognised until the end of the third year of a particular year of account and losses were recognised as soon as they were foreseeable. The excess of premiums written and syndicate investment income over the claims and syndicate expenses paid in respect of business incepting in an underwriting year was carried forward for two years in a fund as part of outstanding claims.

Under the annual basis of accounting expenses are accounted for on an accruals basis. In addition, acquisition costs are deferred to the extent that they relate to unearned premiums. Previously expenses were included on a provisional basis and were not finalised until the year of account closed. Any internal acquisition costs were written off as incurred.

2. Class of Business 2005	Gross written premiums	Gross premiums earned	Gross claims incurred	Net operating expenses	Reins- Reinsurance balance	Total
Direct Insurance						
Accident and health	598,558	529,112	(216,572)	(211,761)	(40,135)	60,644
Motor (third party liability)	46,973	43,670	(25,877)	(12,318)	(1,188)	4,287
Motor (other classes)	586,141	573,688	(379,813)	(165,277)	(7,589)	21,009
Marine, aviation and transport	1,164,820	1,073,647	(1,509,722)	(290,495)	670,338	(56,232)
Fire and other damage to property	2,638,088	2,427,112	(2,433,914)	(732,413)	466,131	(273,084)
Third party liability	1,770,842	1,714,878	(1,076,271)	(452,502)	(58,917)	127,188
Credit and suretyship	111,015	112,045	(84,006)	(33,210)	12,338	7,167
Legal expenses	11,428	8,701	(6,379)	(2,831)	178	(331)
Miscellaneous	165,187	178,098	(43,897)	(44,765)	(37,109)	52,327
	<u>7,093,052</u>	<u>6,660,951</u>	<u>(5,776,451)</u>	<u>(1,945,572)</u>	<u>1,004,047</u>	<u>(57,025)</u>
Reinsurance	<u>3,661,619</u>	<u>3,511,368</u>	<u>(5,218,370)</u>	<u>(905,083)</u>	<u>1,652,160</u>	<u>(959,925)</u>
Total	<u>£10,754,671</u>	<u>£10,172,319</u>	<u>£(10,994,821)</u>	<u>£(2,850,655)</u>	<u>£2,656,207</u>	<u>£(1,016,950)</u>

2004 (Restated)**Direct**

Accident and health	402,496	436,421	(284,461)	(166,044)	13,959	(125)
Motor (third party liability)	62,442	58,299	(52,019)	(26,494)	10,818	(9,396)
Motor (other classes)	505,360	522,084	(347,991)	(143,185)	2,374	33,282
Marine, aviation and transport	873,814	925,634	(497,997)	(249,892)	(77,359)	100,386
Fire and other damage to property	2,108,635	2,128,683	(1,228,965)	(640,130)	(128,240)	131,348
Third party liability	1,656,221	1,773,230	(1,097,968)	(522,866)	(49,962)	102,434
Credit and suretyship	64,519	68,617	(49,090)	(19,346)	(483)	(302)
Legal expenses	8,301	8,830	(6,248)	(3,620)	544	(494)
Miscellaneous	346,024	201,552	(87,699)	(60,595)	(12,532)	40,726
	<u>6,027,812</u>	<u>6,123,350</u>	<u>(3,652,438)</u>	<u>(1,832,172)</u>	<u>(240,881)</u>	<u>397,859</u>
Reinsurance	<u>3,161,521</u>	<u>2,939,048</u>	<u>(1,564,794)</u>	<u>(873,646)</u>	<u>(227,983)</u>	<u>272,625</u>
Total	<u>£9,189,333</u>	<u>£9,062,398</u>	<u>£(5,217,232)</u>	<u>£(2,705,818)</u>	<u>£(468,864)</u>	<u>£670,484</u>

3. Geographical Analysis

	2005	2004 Restated
Direct Gross Premium Written in:		
United Kingdom	7,093,052	6,027,812
Other EU Member States	-	-
Rest of the World	-	-
	<u>£7,093,052</u>	<u>£6,027,812</u>

4. Net Operating Expenses

Acquisition costs	2,500,382	2,112,751
Change in deferred acquisition costs	(209,082)	(58,136)
Administrative expenses	679,293	585,993
(Profit)/Loss on exchange	(119,938)	65,210
	<u>£2,850,655</u>	<u>£2,705,818</u>

5. Investment Income

Income from investments	399,987	266,181
Realised gains on investments	31,953	26,803
Bank deposit interest	13,413	6,838
	<u>£445,353</u>	<u>£299,822</u>

6. Investment Expenses and Charges

Investment management expenses	8,882	6,259
Losses on the realisation of investments	44,547	68,461
	<u>£53,429</u>	<u>£74,720</u>

7. Profit on Ordinary Activities before Taxation

This is stated after charging:

Directors remuneration	£ -	£ -
Auditors' remuneration - audit	£ 1,000	£ 600
- other services	£ 1,500	£ 1,300
Amortisation of syndicate capacity	£ 145,932	£ 10,371
(Loss)/Profit on sale and syndicate capacity	£ (1,031)	£ 14,155
	<u>£ 146,401</u>	<u>£ 26,326</u>

The Company has no employees

	2005	2004 Restated
8. Taxation		
Analysis of Charge in Period		
Current tax:		
UK corporation tax on profit of the period	15,000	-
Adjustment in respect of previous period	-	-
	<hr/>	<hr/>
	15,000	-
Foreign tax	135,303	1,357
	<hr/>	<hr/>
Total current tax	150,303	1,357
Deferred tax:		
Origination and reversal of timing differences	(217,653)	302,486
Double tax relief	(120,000)	-
	<hr/>	<hr/>
	£(187,350)	£303,843
	<hr/>	<hr/>

Factors affecting tax charge for period

The tax assessed for the period is different to the standard rate of corporation tax in the UK (30%). The differences are explained below:

(Loss)/Profit on ordinary activities before tax	£(687,366)	£899,209
	<hr/>	<hr/>
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%)	(206,210)	269,763
Effects of:		
Expenses not deductible for tax purposes	(1,439)	(11)
Timing difference on underwriting profits	440,252	(317,358)
Other timing differences	(35,920)	-
Foreign tax	135,303	1,357
Adjustments in respect of prior periods	-	-
Trading losses (utilised)/carried forward	(181,683)	47,606
	<hr/>	<hr/>
Current tax charge for period	£150,303	£1,357
	<hr/>	<hr/>

Factors that may affect future tax charges

The results of the Company's participation on the 2003, 2004 and 2005 years of account and the calendar year movement on 2002 and prior run-offs, will not be assessed to tax until the year ended 31 December 2006, 2007 and 2008 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.

The Company has trading losses of approximately £Nil (2004 - £570,000) available for carry forward against future trading profits which, if utilised, should significantly reduce tax payments in subsequent years.

The above charge for foreign tax has been estimated after making provision for double taxation relief with the UK. However, due to the differences of timings and tax rates some foreign tax may ultimately not be fully recoverable.

9. Intangible Assets

Purchased syndicate capacity	2005
Cost	
At 1 January 2005	404,986
Additions	59,872
Disposals	(9,481)
	<hr/>
At 31 December 2005	455,377
	<hr/>
Amortisation	
At 1 January 2005	216,387
Provided during the year	145,932
Disposals	(6,249)
	<hr/>
At 31 December 2005	356,070
	<hr/>
Net Book Value	
At 31 December 2005	£99,307
	<hr/>
At 31 December 2004	£188,599
	<hr/>

10. Investments

Other Financial Investments - Syndicate

	2005		2004 Restated	
	Market value	Cost	Market value	Cost
Shares and other variable yield securities and units in unit trusts	746,085	709,886	482,235	475,044
Debt securities and other fixed income securities	8,349,959	8,394,571	6,061,428	6,087,171
Participation in investment pools	74,529	70,152	138,237	138,176
Loans secured by mortgages	-	-	-	-
Other loans	78,176	53,008	4,265	4,263
Deposits with credit institutions	431,890	430,242	405,924	405,744
	<u>£9,680,639</u>	<u>£9,657,859</u>	<u>£7,092,089</u>	<u>£7,110,398</u>
Listed investments included within the above	<u>£9,096,044</u>	<u>£9,104,457</u>	<u>£6,543,663</u>	<u>£6,562,215</u>

Other Financial Investments - Corporate

Shares and other variable yield securities and units in unit trusts	305,605	149,916	130,213	89,684
	<u>£305,605</u>	<u>£149,916</u>	<u>£130,213</u>	<u>£89,684</u>
Listed investments included within the above	<u>£305,605</u>	<u>£149,916</u>	<u>£130,213</u>	<u>£89,684</u>

11. Other Debtors

	2005			2004 Restated		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
Deferred tax	-	-	-	-	-	-
Other	752,289	133	752,422	454,696	-	454,696
	<u>752,289</u>	<u>133</u>	<u>752,422</u>	<u>454,696</u>	<u>£-</u>	<u>£454,696</u>

Other debtors includes £Nil (2004 - £Nil) in respect of cash calls paid to Lloyd's syndicates. This amount will be recoverable when the year of account on whose behalf the call was made is closed at a profit, or will be treated as a payment on account if the year is closed at a loss.

12. Cash at Bank and in Hand

	2005			2004 Restated		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
Lloyd's deposit	-	624,213	624,213	-	415,070	415,070
Cash at bank	1,729,938	15,992	1,745,930	1,282,586	4,162	1,286,748
	<u>£1,729,938</u>	<u>£640,205</u>	<u>£2,370,143</u>	<u>£1,282,586</u>	<u>£419,232</u>	<u>£1,701,818</u>

The Lloyd's deposit represents monies 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

	2005	2005	2004	2004
	Authorised	Allotted, called-up and fully paid	Authorised	Allotted, called-up and fully paid
Ordinary shares of £1 each	<u>£100,000</u>	<u>£500</u>	<u>£100,000</u>	<u>£500</u>

14. Profit and Loss Account

	2005		2004			
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
Retained Profit Brought Forward as previously Reported	769,745	(696,214)	73,531	(198,717)	(397,931)	(596,648)
Prior year adjustment Annual Accounting	1,108,249	(353,376)	754,873	1,052,928	(223,242)	829,686
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As Restated (Loss)/Profit for the financial year	1,877,994	(1,049,590)	828,404	854,211	(621,173)	233,038
Transfer	(720,375)	220,359	(500,016)	825,066	(229,700)	595,366
	(769,745)	769,745	-	198,717	(198,717)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Retained Profit Carried forward	£387,874	£(59,486)	£328,888	£1,877,994	£(1,045,590)	£828,404
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

15. Reconciliation of Movements in Shareholders' Funds

	2005	2004 Restated
Opening shareholders funds as previously stated	74,031	(596,148)
Prior year adjustment (Note 1)	754,873	829,686
	<hr/>	<hr/>
Opening shareholders funds as restated (Loss)/Profit for the financial year	828,904	233,538
	(500,016)	595,366
	<hr/>	<hr/>
Closing shareholders' funds	£328,888	£828,904
	<hr/>	<hr/>

16. Deferred Taxation

Opening Balance Previously Reported	38,358	(133,994)
Prior Year Adjustment	353,376	223,242
	<hr/>	<hr/>
As Restated	391,734	89,248
Profit and loss account (credit)/charge	(337,653)	302,486
	<hr/>	<hr/>
Closing balance	£54,081	£391,734
	<hr/>	<hr/>

Analysis of Provision for Deferred Taxation

Timing differences arising from the taxation of underwriting results	134,081	573,921
Other timing differences	40,000	(9,771)
Tax losses carried forward	-	(172,416)
Double taxation relief	(120,000)	-
	<hr/>	<hr/>
	£54,081	£391,734
	<hr/>	<hr/>

17. Creditors

	2005			2004 Restated		
	Syndicate Participation	Corporate	Total	Syndicate Participation	Corporate	Total
Other creditors	503,699	85,695	589,394	159,051	167,389	326,440
Directors' loan account	-	306,914	306,914	-	843,720	843,720
Corporation Tax	-	15,000	15,000	-	-	-
	<u>£503,699</u>	<u>£407,609</u>	<u>£911,308</u>	<u>£159,051</u>	<u>£1,011,109</u>	<u>£1,170,160</u>

18. Reconciliation of Operating Profit to Net Cash
Outflow from Operating Activities

	2005	2004 Restated
Operating (loss)/profit	(687,366)	899,209
Interest and dividends received – non technical account	(21,698)	(11,057)
Unrealised gain on corporate investments	(119,732)	(13,336)
(Decrease)/Increase in creditors	176,561	307,592
Increase in debtors	(133)	80,662
Underwriting results	1,490,120	(1,023,783)
Amortisation of syndicate capacity	145,932	10,371
Loss/(Profit) on sale of syndicate capacity	1,031	(14,155)
	<u>£984,715</u>	<u>£235,503</u>
Net cash inflow from operating activities		

	2005	2004 Restated
19 Movement in Opening and Closing Portfolio Investments		
Net cash (outflow)/inflow from the year	220,973	246,515
Cash flow – portfolio investments	51,947	-
	<hr/>	<hr/>
Movement arising from cash flows	272,920	246,515
Changes in market value and exchange rates	119,732	13,336
Non cash transactions	3,713	1,485
	<hr/>	<hr/>
Total movement in portfolio investments net of financing	396,365	261,336
Balance brought forward at 1 January	549,445	288,109
	<hr/>	<hr/>
Balance carried forward at 31 December	£945,810	£549,445
	<hr/>	<hr/>

20 Movement in Cash and Portfolio Investments

	At 1 January 2005	Non Cash Transactions	Cash flow	Changes To market value and currencies	At 31 December 2005
Cash at bank and in hand	419,232	-	220,973	-	640,205
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	419,232	-	220,973	-	640,205
Portfolio investments: Shares and other variable yield securities and units in unit trusts	130,213	3,713	51,947	119,732	305,605
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total portfolio investments	130,213	3,713	51,947	119,732	305,605
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total cash and portfolio Investments	£549,445	£3,713	£272,920	£119,732	£945,810
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

21. Funds at Lloyd's

In addition to the Funds held in the Lloyd's Deposit (Note 12) the Company's Lloyd's underwriting is supported by £3,835,000 (2004: £3,321,200). These funds are also available to Lloyd's to meet the personal underwriting liabilities of the shareholders for underwriting years commencing prior to 1 January 1999.

22. Syndicate Participation

Syndicate No.	Managing Agent	2006	2005	2004	2003
		Allocated capacity per underwriting year			
		£'000	£'000	£'000	£'000
33	Hiscox Syndicates Limited	1,290	1,067	1,080	950
218	Cox Syndicate Management Limited	370	400	250	199
382	Hardy (Underwriting Agencies) Limited	-	-	-	149
386	Limit Underwriting Limited	-	-	-	300
510	R J Kiln & Company Limited	1,478	1,291	1,100	900
557	R J Kiln & Company Limited	802	505	150	150
570	Atrium Underwriting Limited	750	750	700	500
609	Atrium Underwriting Limited	400	400	271	241
623	Beazley Furlonge Limited	1,006	800	700	550
727	S A Meacock & Company Limited	700	700	500	300
779	St Paul Syndicate Management Limited	132	125	171	114
780	Advent Underwriting Limited	-	200	100	89
807	R J Kiln & Co Limited	715	750	600	400
958	Omega Underwriting Agents Limited	888	900	731	500
2001	Amlin Underwriting Limited	-	-	-	179
2010	Cathedral Underwriting Limited	313	-	-	250
2020	Wellington Underwriting Agencies Limited	1,096	886	800	650
2791	Managing Agency Partners Limited	1,137	927	700	700
4040	Illium Syndicates Limited	-	-	250	-
7103	Anton Value MAPA	-	-	900	900
		£11,077	£9,701	£9,003	£8,020

In addition the company is still participating on the following syndicates or Mapa's in run-off

Syndicate No.	Year of Account	Capacity
2	2001	75,000
2	2002	125,000
138	2000	75,000
340	2000	40,000
340	2001	50,000
435	2000	75,000
7103	1999	6,061
7103	2000	69,682
7103	2001	91,187

22. Syndicate Participation (continued)**Technical Provisions – Run-off years of account**

Certain syndicate years of account, representing some £606,930 of capacity, on which the Company participated have not been closed at their normal date or subsequently.

The reasons for these years of account being placed in run-off include:

- material exposure to losses from the terrorist attacks in the United States of America on 11 September 2001;
- significant reinsurance disputes;
- the lack of a successor to accept the reinsurance to close and therefore uncertainty as to the ultimate cost of a reinsurance to close to a third party;
- material potential exposure to litigation arising from the corporate failure of certain US corporations, for example Enron and WorldCom; and
- material potential exposure to litigation arising on alleged improper activities, in relation to a number of initial public offerings (IPOs) in the United States of America, so called "Laddering Claims".

Whilst the Directors consider the technical provision for outstanding claims is the best estimate that can be made on the basis of information currently available, the estimate is subject to change. Further information may cause the estimate to be revised. The timing of the conclusions on these estimates is unknown. Accordingly the determination of the underwriting result for the year and any related provision for run-off year of account losses is fundamentally uncertain and the eventual result might be higher or lower.

23 Related Party Transactions

C H Wiese and C Wiese are Directors of the Company. During 2005 they and Myrtledare Corp have provided funding of £117,197 (2004: £2,752); 654,004 (2004: £Nil) was repaid and included within the creditors at 31 December 2005 is £306,914 (2004: 843,720) which is due to C H Wiese and C Wiese and Myrtledare Corp. This amount is shown separately in Note 17 under Proprietors' loan account. No interest is chargeable on the amount outstanding.

24. Ultimate Parent Undertaking

The ultimate parent undertaking is Myrtledare Corp a company registered in the British Virgin Islands.