

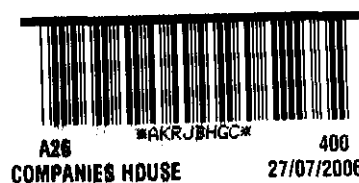
Registered Number: 2973436



Wellington (One) Limited

Annual report and financial statements

2005



WELLINGTON (ONE) LIMITED

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Directors and officers of the Company

Directors

P. Prebensen
K.L. Letsinger

Company Secretary

Wellington Insurance Limited

Auditors

PricewaterhouseCoopers LLP

Registered office

88 Leadenhall Street
London
EC3A 3BA

Registered number

2973436

Report of the Directors

The directors present their report together with the financial statements for the year ended 31 December 2005.

Activity and review of developments

The Company acts as a corporate member at Lloyd's and is a wholly owned subsidiary of Wellington Underwriting plc. The Company's participation in the capacity of Syndicate 2020 by year of account is as follows:

	2001	2002	2003	2004	2005	2006
Capacity provided by the Company (£m)	10.2	12.0	12.5	13.0	15.8	15.8
Percentage of total syndicate capacity	2.05%	1.92%	1.79%	1.78%	2.16%	1.97%

As a result of Hurricanes Katrina, Rita and Wilma the Company incurred a significant loss this year on its technical account as at 31 December 2005. However the latest forecast results for 2006 show a technical account profit and a much improved solvency position.

Results and dividends

The loss for the year, after tax, amounted to £1.5m (2004: profit £1.2m).

The directors do not recommend a final dividend (2004: £0.3m). A dividend of £0.3m (2004: £nil) was paid during the year in respect of the 2004 result.

Directors and their interest in shares

The directors who held office during the year are as follows:

P. Prebensen
K.L. Letsinger

The register kept for the purposes of the Companies Act 1985 discloses that no director of the Company had any interest in the Company's shares, or in the shares of any group undertaking except for the ultimate holding company, Wellington Underwriting plc.

In so far as the directors are also directors of Wellington Underwriting plc, their interests in the shares and loan notes of Group undertakings are fully disclosed in the financial statements of that company.

Financial Risk Management

The Company's financial risk management policies and objectives are established and managed by Wellington Underwriting plc's Board. Details of the types of financial risks faced by the Company and the financial risk management policies and objectives are set out in note 2 to the financial statements.

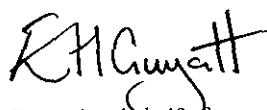
Supplier payment policy

The Company has no external creditors as all services are provided by other Group companies and all expenses incurred by the Company are settled by inter-company account with Wellington Underwriting plc.

Elective regime

The Company has adopted the elective regime dispensing with the requirement to hold annual general meetings, lay financial statements and reports before the Company in general meeting and to appoint auditors annually. Accordingly PricewaterhouseCoopers LLP are deemed to be re-appointed for each financial year on the expiry of the time for appointing auditors for that year.

By order of the Board



For and on behalf of
Wellington Insurance Limited
Company Secretary

13 July 2006

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 followed, subject to any material departures 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.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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 provisions of the Companies Act 1985. They also have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud or other irregularities.

Independent auditors' report to the members of Wellington (One) Limited

We have audited the financial statements of Wellington (One) Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in 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). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

Basis of audit opinion

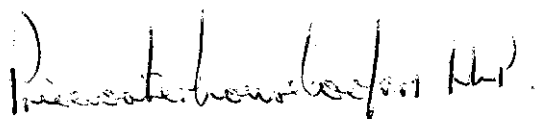
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
13 July 2006

Profit and loss account: technical account – general business

For the year ended 31 December	Notes	2005 £m	2004 Restated £m
Earned premiums, net of reinsurance			
Gross premiums written	3	17.1	14.1
Outward reinsurance premiums		(4.1)	(2.4)
Reinsurance to close premium payable		(0.6)	(0.7)
Net premiums written		<u>12.4</u>	<u>11.0</u>
Change in the gross provision for unearned premiums		(0.2)	(1.8)
Change in the provision for unearned premiums - reinsurers' share		0.2	(0.4)
Change in the net provision for unearned premiums		<u>-</u>	<u>(2.2)</u>
Net earned premiums		12.4	8.8
Allocated investment income transferred from the non-technical account	5	0.9	0.6
Other technical income, net of reinsurance		0.4	0.5
		<u>1.3</u>	<u>1.1</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(9.2)	(6.4)
Reinsurers' share		2.7	2.5
		<u>(6.5)</u>	<u>(3.9)</u>
Change in the provision for claims		(16.2)	(1.3)
Gross amount		10.8	(0.3)
Reinsurers' share		0.6	0.7
Reinsurance to close claim provision		<u>(4.8)</u>	<u>(0.9)</u>
Net claims incurred	4	(11.3)	(4.8)
Net operating expenses	6	(4.5)	(3.3)
		<u>(2.1)</u>	<u>1.8</u>
Balance on technical account - general business		(2.1)	1.8

The notes on pages 9 to 21 form part of these financial statements.

Profit and loss account: non-technical account

For the year ended 31 December	Notes	2005 £m	2004 Restated £m
Balance on technical account - general business		(2.1)	1.8
Investment income		0.8	0.5
Unrealised gains on investments		0.1	0.1
Investment expenses and charges		-	-
	5	0.9	0.6
Allocated investment return transferred to the technical account - general business	5	(0.9)	(0.6)
		-	-
Other charges		(0.1)	(0.1)
(Loss)/profit on ordinary activities before tax	7	(2.2)	1.7
Tax on (loss)/profit on ordinary activities	8	0.7	(0.5)
(Loss)/profit on ordinary activities after tax		(1.5)	1.2
Dividends		(0.3)	-
Retained (loss)/profit for the financial year		(1.8)	1.2

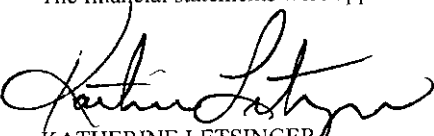
No statement of realised gains and losses has been disclosed as all gains and losses have been included within the profit and loss account.

The notes on pages 9 to 21 form part of these financial statements.

Balance sheet

At 31 December	Notes	2005 £m	2004 Restated £m
ASSETS			
Intangible assets	9	0.6	0.6
Investments	10	29.0	22.7
Reinsurers' share of technical provisions			
Provision for unearned premiums		0.7	0.5
Claims outstanding		19.5	7.6
Debtors			
Debtors arising out of direct insurance operations		5.5	5.4
Debtors arising out of reinsurance operations		2.8	2.2
Other debtors	11	1.6	0.6
Other assets - Cash at bank		1.4	1.1
Prepayments and accrued income			
Deferred acquisition costs	12	1.7	1.7
Other prepayments and accrued income		0.1	0.1
Total assets		62.9	42.5
LIABILITIES			
Capital and reserves			
Called-up share capital	13	0.3	0.3
Share premium account	14	2.9	2.9
Profit and loss account	14	(1.4)	0.4
Shareholder's funds attributable to equity interests	14	1.8	3.6
Technical provisions			
Provision for unearned premiums		8.4	8.2
Claims outstanding		43.3	25.1
Provision for other risks and charges – deferred taxation	15	1.1	0.8
Deposits received from reinsurers		0.2	0.3
Creditors			
Creditors arising out of direct insurance operations		0.3	0.2
Creditors arising out of reinsurance operations		2.3	0.9
Other creditors including taxation and social security	16	4.6	3.0
Accruals and deferred income		0.9	0.4
Total liabilities		62.9	42.5

The financial statements were approved by the directors on 13 July 2006.


KATHERINE LETSINGER
Director

The notes on pages 9 to 21 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, as modified by the revaluation of certain investments, in compliance with Sections 255, Schedule 9A, and other requirements of the Companies Act 1985. The Company has adopted the guidance on accounting for insurance business set out in the revised Statement of Recommended Practice issued by the Association of British Insurers in December 2005.

All accounting policies have been applied consistently.

The Company underwrites as a corporate member of *Lloyd's on Syndicate 2020*, which is managed by Wellington Underwriting Agencies Limited. The Company's share of the transactions of Syndicate 2020 is included in the financial statements on an annual accounting basis. The attributable share of transactions of Syndicate 2020 has been included in these financial statements.

The Company is a wholly-owned subsidiary of Wellington Underwriting plc and is included in their consolidated financial statements which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996).

(b) Syndicate participation

The Company consolidates its share of the assets, liabilities, net assets, revenues, expenses and cash flows of Syndicate 2020.

The reinsurance to close (RITC) is a contract between the Lloyd's members on one syndicate underwriting year of account and the members on another syndicate underwriting year of account (normally the following year of the same syndicate), whereby the members on the earlier year reinsure all their outstanding liabilities with the members on the later year. To the extent that members maintain their interest from one year to the next, there is no economic effect arising from this transaction. However, where members' interests change from one underwriting year of account to the next, and the Company's share of the syndicate changes as a consequence, there is an economic transfer arising from the RITC.

RITC is accounted for in the year in which the contract is signed which is the calendar year after the relevant year of account closes. The Company discloses in *gross premiums, written and earned*, the amount of the RITC received relating to the increase (or decrease) in capacity from one underwriting year of account to the next, along with an equivalent increase (or decrease) in net claims incurred. The recognition of the RITC results in an increase (or decrease) to earned premium that is equally offset by an increase (or decrease) in incurred losses. As a result, there is no impact to the net result. In addition, the recognition of the RITC results in an increase (or decrease) in reinsurance assets that is equally offset by an increase (or decrease) in loss provisions. As a result, there is no impact to net assets.

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using average rates of exchange as a proxy for the transactional rates. Foreign exchange (FX) gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, except available for sale securities, are recognised in the profit and loss account. Non-monetary assets and liabilities, including deferred acquisition costs (DAC) and unearned premium (UEP), are translated at the FX rate prevailing at the time of the original transaction and are not re-translated at each year-end.

Notes to the financial statements

1. Accounting policies - continued

(d) Insurance contracts

Premiums

Gross premiums from the sale of general insurance products, including pipeline premiums, are recorded when written and recognised in earnings over the terms of the related policy coverage. Gross premiums written are stated before deduction of commissions but net of taxes and duties levied on premiums. Gross premiums written that have not been collected by the balance sheet date are recognised as debtors on the balance sheet.

Management makes estimates of ultimate gross premiums written which consists of an estimate of ultimate premium for risks written during the calendar year (i.e. an underwriting year). Premium earnings patterns are then applied to the estimated ultimate premium for each underwriting year to determine the amount of earnings that should be recognised in the calendar year. The earnings patterns are applied by class of business and are consistent with the risk profile of the underlying business. As additional premium information is received, variances from previous estimates are reflected in the period identified.

The Syndicate purchases reinsurance protection to mitigate its exposure to insurance risk. The reinsurance premium is recorded when written and is earned over the term of the reinsurance contract or matched to the related direct or inwards reinsurance business, as appropriate.

Unearned premiums

The provision for UEP represents that part of gross premiums written and the reinsurers' share that is estimated to relate to the unexpired term of the related policy coverage.

Claims

Claims incurred comprise claims and claims handling expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses.

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not reported to the syndicate until after the year end (IBNR). The provision for claims also includes amounts in respect of claims handling costs. When developing the estimate of claims incurred management initially makes estimates of ultimate underwriting year losses which represent the losses related to all policies incepting during a given calendar year. Underwriting year estimated ultimate gross losses are determined for each class of business and include reported losses as well as a provision for IBNR.

When calculating the ultimate estimated cost of unpaid claims, management makes certain assumptions concerning the ultimate settlement of these claims that are generally based on statistical analyses of historical experience combined with analysis based on exposure where appropriate. In most instances, management assumes the development pattern of current claims will be consistent with past experience. This approach is modified to account for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to vary when compared with the cost of previously settled claims. Examples of such changes are:

- changes in processes which might accelerate or slow down the development and / or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movement in industry benchmarks.

Incurred loss patterns are applied to ultimate gross losses, by class of business, to determine the year in which the losses should be recorded. The incurred loss occurrence patterns for non-catastrophe exposed business are generally consistent with the premium earning patterns of the related business. These patterns give consideration to the actual losses that have arisen during the calendar year and estimates for losses which have been incurred but not yet reported for non-catastrophe exposed business. Inherent in applying these assumptions is the sensitivity of allocation of the provision for ultimate gross and net IBNR between the current and future calendar years. For catastrophe exposed business, the allocation of ultimate losses between years is determined by the accident year in which the loss has occurred.

Notes to the financial statements

1. Accounting policies - continued

(d) Insurance contracts (continued)

The estimation of IBNR claims is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified. Claims IBNR may often not be apparent until many years after the event giving rise to the claims has occurred. Classes of business where the IBNR proportion of the total reserve is high, such as liability business, will typically display greater variations between initial estimates and final outcomes as a result of the greater degree of difficulty in estimating these reserves. Actual paid losses generally vary less from the initial loss reserve for classes of business where claims are typically reported relatively quickly after the claim event, such as property business.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the reinsurers' share of provisions for claims based on calculated amounts for outstanding claims and projections to IBNR, net of estimated uncollectible amounts. The estimate of reinsurance recoveries (including IBNR) is based on the relevant reinsurance programme in place for the calendar year in which the related losses have been incurred. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim reserves associated with the reinsured policy. An estimate for potential bad debts is provided to reduce the carrying value of reinsurance assets to their net recoverable amount.

The Board considers the loss reserves and related reinsurance recoveries to be fairly stated, based on the information currently available. The ultimate liability will vary as a result of inherent uncertainties and may result in significant adjustments to the amounts provided.

(e) Investment return

Investment return is comprised of interest income, dividends, realised gains and losses and the current year change in unrealised gains on financial investments classified as fair value through income. All cash inflows arise from underwriting activities and consequently all the investment return is allocated to the technical account.

All financial investments are held for trading and classified as fair value through income. For financial investments classified as fair value through income, realised gains and losses represent the difference between net sales proceeds and the purchase price (if acquired during the year), or fair value at the previous year-end. Unrealised gains and losses represent the difference between the market value at the end of the year and the purchase price (if acquired during the year), or fair value at the previous year-end.

(f) Net operating expenses

Brokerage and other acquisition costs

Brokerage and other acquisition costs include commissions, underwriting and policy issue expenses that are directly related to the production of new and renewal business. Such acquisition costs are deferred, to the extent they are recoverable, and amortised over the life of the related contracts.

Administrative costs

The Company's share of syndicate and administrative expenses, including finance costs, is recognised in the profit and loss account as incurred.

(g) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the year in which the dividends are authorised and are no longer at the discretion of the Company. Final dividends are accrued when approved by the Company's shareholders at the general meeting and interim dividends are recognised when paid.

(h) Other charges

Other charges are recognised in the profit and loss account as incurred.

(i) Intangible assets

Intangible assets which represent purchased syndicate capacity are stated at historical cost less amortisation. Purchased syndicate capacity is generally amortised over 20 years, subject to there being no impairment during this period, from the date at which associated underwriting results are first recognised in the technical account. Amortisation is charged through the non-technical account.

Notes to the financial statements

1. Accounting policies - continued

(j) Financial assets

Financial assets comprise investments, reinsurers' share of technical provisions, debtors and cash.

Investments

Investments are recognised and de-recognised on the trade date. Investments held by the Company comprise investment securities held for trading that are classified as "fair value through income" and are carried at fair value. Fair values are determined by reference to published bid prices. Fair value through income investments include debt and equity securities that are managed to maximise total return. For investments designated as fair value through income, the change in fair value is recognised in the profit and loss account.

Derivative financial instruments

Syndicate 2020 uses derivative financial instruments to mitigate exposure to changes in FX rates. Cash flow derivatives are purchased to protect future distribution of foreign currency profits paid in sterling from the syndicate to members (including the Company). These FX cash flow derivatives are recorded at their fair value at the date of the contract and subsequent changes in fair value are recognised in the profit and loss account. The fair value of all derivative financial instruments is obtained from independent valuation sources and is disclosed within Investments.

Reinsurers' share of technical provisions

Reinsurers' share of technical provisions include unearned reinsurance premiums and amounts recoverable from reinsurers in respect of unpaid losses including IBNR losses and loss adjustment expenses. Amounts recoverable from reinsurers are recorded gross in the balance sheet, unless a legally enforceable right of offset exists and it is management's intention to settle on a net basis. The Group considers qualitative and quantitative factors, such as reinsurers' Standard & Poor's (S&P) ratings and overall financial condition, when assessing the recoverability of amounts due from reinsurers. When a reinsurance debtor is considered impaired, a provision is provided to reduce the carrying value to its net recoverable amount.

Debtors

Receivable balances are carried at their estimated net recoverable amount. Debtors arising out of direct insurance operations comprise mainly premiums due on direct insurance contracts but also include claim refunds. Debtors arising out of reinsurance operations comprise amounts recoverable from reinsurers on paid claims and premiums due from the reinsured on reinsurance contracts.

Cash at bank

Cash at bank comprises deposits with banks and financial institutions and includes investments with original maturities of three months or less, including other short-term highly liquid investments.

(k) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Impairment of assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, or its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Notes to the financial statements

1. Accounting policies – continued

(m) Change in accounting policies and prior year adjustment

The Company has adopted the following new accounting policies as described below:

- FRS21, "Events after the balance sheet date", provides guidance on the accounting implications of transactions and events occurring after the balance sheet date. Consequently, dividends which are approved after the balance sheet date are to be disclosed but not recognised as a liability. The adoption of this standard increased shareholder's equity by £0.3m at 1 January 2005 but had no impact on the profit and loss account for either the current or prior year;
- Following the adoption of International Financial Reporting Standards by the Company's parent resulting in the recognition of RITC transactions in the year in which they are concluded and signed the Company has changed its accounting policy to recognise RITC transactions on a similar basis to be consistent with the parent group's accounting policies. The adoption of this new policy had no impact on the profit and loss account or shareholders funds for the current or prior year;
- FRS23, "Foreign exchange rates", provides guidance on the treatment of transactions and balances denominated in foreign currencies. Under FRS 23, income and expenses are recognised at average exchange rates, which represent a proxy for the transactional rate. Exchange differences arising from the retranslation of brought forward balances of monetary items to period-end exchange rates are recognised in the profit and loss account. Non-monetary assets and liabilities, such as UEP and DAC, are valued at historical exchange rates. Differences between the average and period-end exchange rates are recognised in the profit and loss account. The adoption of this standard reduced shareholder's equity by £0.2m at 1 January 2005. The impact on the profit and loss account for the current year and prior year is shown in the table below;
- FRS25, "Financial instruments: Disclosure and presentation", details additional disclosure requirements for financial instruments. The adoption of this standard had no impact on shareholder's equity or the profit and loss account for the current or prior year;
- FRS26, "Financial instruments: Measurement", requires investment securities to be classified as held to maturity, available for sale or fair value through income and carried at fair value. Additional measurement guidance is provided for other financial assets such as trade receivables and derivatives. The adoption of this standard had no impact on shareholder's equity or the profit and loss account for the current or prior year;

The standards FRS23, FRS25, FRS26 have been adopted voluntarily by the Company and the comparative amounts have been restated accordingly. Details of the effect of the adoption of these accounting standards on the Company's shareholder's equity are presented in note 14. Reconciliation between the 2004 and 2005 pre-tax results as currently published and the results under the previous year's accounting policies is as follows:

	2005 £m	2004 £m
(Loss) / profit before tax under previous year's accounting policies	(2.3)	1.7
Adjustment for currency translation including the differences between current and historical average rates of exchange on UEP and DAC	0.1	-
(Loss) / profit before tax under current accounting policies	(2.2)	1.7

Notes to the financial statements

2. Financial Risk Management

The overall objectives, with respect to financial risk management, are to maximise investment returns within established risk parameters and to ensure that funds are available to meet obligations as they fall due. The Company's financial assets and liabilities, the financial risks they are exposed to and the corresponding risk management policies and objectives are summarised below.

Financial assets and liabilities -

The Company's financial assets and liabilities are:

- Investments at fair value through income
 - Bonds
 - Funds of hedge funds
 - Equity investments
- Reinsurers' share of technical provisions
- Debtors
- Cash
- Technical provisions
- Creditors

Financial risks -

The financial risks the Company's financial instruments are exposed to are summarised below:

- Currency risk - the risk that the value of a financial instrument will fluctuate because of changes in FX rates
- Fair value interest rate risk - the risk that the value of a financial instrument will fluctuate because of changes in market interest rates
- Price risk - the risk that the value of a financial instrument will fluctuate as a result of changes in market prices
- Credit risk - the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss
- Liquidity risk - the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments
- Cash flow interest rate risk - the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates

The Company's financial instruments are exposed to these financial risks as shown in the table below:

Financial instrument	Currency risk	Fair value interest rate risk	Price risk	Credit risk	Liquidity risk	Cash flow interest rate risk
Bonds	•	•	•	•	•	•
Funds of hedge funds and equity investments	•		•		•	
Debtors	•			•	•	
Insurance liabilities	•				•	
Other creditors	•					

Financial risk management policies and objectives -

Currency risk

The Company's policy is to match assets and liabilities by major currency. The objective of the policy is to minimise the economic impact that fluctuating exchange rates will have on the Company and the funds distributed to members.

Fair value and cash flow interest rate risk

The Company's investment portfolio is traded regularly which reduces the sensitivity of unrealised gains in the investment portfolio to fluctuating interest rates. The Company's policy is to hold a minimum of 80% of the investment portfolio in investment grade bonds. The objective is to minimise the Company's investment in, and sensitivity to, investments in entities debt instruments that are not investment grade.

Notes to the financial statements

2. Financial Risk Management - continued

Price risk

The Company has established a policy that no greater than 20% of the investment portfolio can be held in diversified instruments such as equities, funds of hedge funds and high yield bonds. The policy objective for this portion of the portfolio is to generate acceptable yields, within established risk parameters, that meet or exceed established benchmarks such as the S&P 500 or Merrill Lynch High Yield Index.

Credit risk

- Reinsurance assets and trade receivables: The Company's policy is to review all reinsurers and intermediaries for credit worthiness and to formally approve them prior to their being used. The objective of the credit risk policy is to minimise the Company's exposure to a reinsurer not being able to fulfil its obligations to the Company or to an intermediary not submitting funds collected on the Company's behalf.
- Bonds: The Company's policy for managing credit risk inherent within the investment grade bond portfolio is to limit exposure to any single corporate name. The objective of this policy is to minimise the Company's sensitivity to the default of a single entity.
- Non-investment grade bonds: The Company's credit risk policy, as it relates to non-investment grade bonds, is to invest in securities primarily having an S&P rating of B or BB, with limited exposure to CCC rated securities. Investments having an S&P rating of less than CCC are prohibited. In addition, no more than 2% of the non-investment grade bond portfolio may be held in a single security.

Liquidity risk

The Company's policy for managing liquidity risk is to ensure that its financial assets can be liquidated over a period that ensures that it will be able to meet its liabilities as they fall due. To achieve this objective the duration of the bond portfolio is broadly matched with the estimated duration of the insurance liabilities to ensure that funds will be available as insurance liabilities fall due. In addition, the Company regularly reviews all claims to identify those instances where a reinsurance recovery is applicable and actively pursues collections from reinsurers.

Notes to the financial statements

3. Segmental Analysis

Type of business

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

	<i>Accident and Health £m</i>	<i>Marine, Aviation and Transport £m</i>	<i>Fire and other damage to Property £m</i>	<i>Third- party liability £m</i>	<i>Credit & suretyship £m</i>	<i>Energy £m</i>	<i>Reinsurance acceptances £m</i>	<i>RITC £m</i>	<i>2005 Total £m</i>
2005									
Gross premiums written	0.2	0.8	3.1	2.1	0.4	1.4	9.1	-	17.1
Gross premiums earned	0.2	0.8	3.2	2.0	0.4	1.3	9.0	-	16.9
Gross claims incurred	(0.1)	(0.6)	(6.1)	(1.0)	(0.3)	(7.1)	(10.2)	0.8	(24.6)
Gross operating expenses	(0.1)	(0.2)	(1.1)	(0.4)	(0.1)	(0.2)	(2.4)	-	(4.5)
Reinsurance balance	-	-	1.8	(0.1)	0.1	5.0	2.8	(0.8)	8.8
Net technical balance	-	-	(2.2)	0.5	0.1	(1.0)	(0.8)	-	(3.4)
Net technical reserve	(0.1)	(0.9)	(5.5)	(0.8)	(0.2)	(8.6)	(16.0)	0.6	(31.5)
	<i>Accident and Health £m</i>	<i>Marine, Aviation and Transport £m</i>	<i>Fire and other damage to Property £m</i>	<i>Third- party liability £m</i>	<i>Credit & suretyship £m</i>	<i>Energy £m</i>	<i>Reinsurance acceptances £m</i>	<i>RITC £m</i>	<i>2004 Total Restated £m</i>
2004									
Gross premiums written	0.2	0.7	3.6	2.1	0.4	1.3	5.8	-	14.1
Gross premiums earned	0.2	0.7	3.0	1.6	0.3	0.9	5.6	-	12.3
Gross claims incurred	(0.2)	(0.4)	(1.6)	(0.6)	(0.2)	(1.2)	(3.5)	1.1	(6.6)
Gross operating expenses	(0.1)	(0.1)	(1.2)	(0.3)	(0.1)	(0.1)	(1.4)	-	(3.3)
Reinsurance balance	-	(0.1)	(0.2)	(0.9)	-	(0.1)	0.7	(1.1)	(1.7)
Net technical balance	(0.1)	0.1	-	(0.2)	-	(0.5)	1.4	-	0.7
Net technical reserve	(0.5)	(0.2)	0.7	(1.1)	(0.1)	0.9	(25.6)	0.7	(25.2)

Geographical analysis by origin

For the purposes of SSAP 25, 'Segmental reporting', the Lloyd's insurance market has been treated as one geographical segment. Consequently all business is signed and concluded in the UK.

Geographical analysis by destination

The geographical analysis of premiums by destinations is as follows:

	<i>2005 £m</i>	<i>2004 £m</i>
UK	1.9	1.5
Other EU countries	0.6	0.7
US	6.8	5.2
Other	7.8	6.7
Total gross premiums written	17.1	14.1

Notes to the financial statements

4. Exceptional item

Net claims incurred (including IBNR) were dominated by the 2005 hurricane losses Katrina, Rita and Wilma. The Company's share of the 2005 hurricane losses was £6m (at average rates of exchange) as shown in the table below. These losses are significant, having exceeded the reinsurance coverage in property and property treaty with respect to losses estimated from Hurricane Katrina. The losses sustained from the 2005 hurricanes impacted the property, property treaty and energy (Katrina and Rita only) classes of business. The gross losses for each hurricane have been separately estimated and the syndicate's reinsurance programme has been applied to each estimate. Reinsurance protection for Katrina is now exhausted on an incurred basis, whilst further reinsurance protection on Rita and Wilma is still available. However, the loss reporting patterns are faster for Katrina than for Rita and Wilma, because of its timing, its sheer size, and the number of adjusters in the area which indicates that the ultimate losses for Katrina are more fully developed.

	<i>\$m</i>
2005 hurricane losses	
Katrina	21
Rita	8
Wilma	3
Gross loss	32
Reinsurance recoveries	(22)
Net loss	10
Reinstatement premiums	1
Company's share of losses	11
Company's share of losses (£m converted)	£6m

5. Investment return

	<i>2005 £m</i>	<i>2005 Yield</i>	<i>2004 £m</i>	<i>2004 Yield</i>
<i>Investment return on:</i>				
Funds at Lloyd's and other corporate funds	0.2	4.5%	0.2	4.4%
Share of syndicate funds	0.7	3.6%	0.4	2.4%
Investment expenses	-		-	
	<u>0.9</u>		<u>0.6</u>	
			<i>2005 £m</i>	<i>2004 £m</i>
<i>Investment return on Funds at Lloyd's and other corporate funds</i>				
Change in fair value on assets classified as fair value through income			-	-
Realised gains/(losses)			-	-
Interest income			0.2	0.2
			<u>0.2</u>	<u>0.2</u>
<i>Investment return on share of syndicate funds</i>				
Change in fair value on assets classified as fair value through income			0.1	0.1
Realised gains/(losses)			-	(0.1)
Interest income			0.6	0.4
			<u>0.7</u>	<u>0.4</u>
Investment expenses			-	-
			<u>0.9</u>	<u>0.6</u>

Notes to the financial statements

6. Net operating expenses

	2005 £m	2004 £m
Brokerage and other business acquisition costs	3.4	2.5
Administration costs	1.1	0.8
	<u>4.5</u>	<u>3.3</u>

7. (Loss)/profit on ordinary activities before tax

	2005 £	2004 Restated £
(Loss)/profit on ordinary activities before tax is stated after charging/(crediting):		
Amortisation of syndicate capacity	42,884	42,885
Auditor's remuneration:		
- audit services	244	2,682
Exchange (gains)/losses	<u>(124,785)</u>	<u>252,993</u>

The Company had no employees during 2005 and 2004.

All board directors are also directors of Wellington Underwriting plc and their emoluments for services to the Group can be seen in the Wellington Underwriting plc consolidated financial statements.

There were no staff costs or directors' emoluments recharged to the Company during 2005 and 2004.

8. Tax on (loss)/profit on ordinary activities

	2005 £m	2004 Restated £m
UK corporation tax at 30% (2004 30%)	0.5	(0.5)
Overseas tax	-	(0.1)
Current tax charge/(credit) for the year	0.5	(0.6)
Deferred tax (credit)/charge	<u>(1.2)</u>	<u>1.1</u>
Total tax on (loss)/profit on ordinary activities	<u>(0.7)</u>	<u>0.5</u>

A reconciliation of the tax (credit)/charge that would result from applying the standard rate of corporation tax in the UK of 30% to the (loss)/profit before tax, to the current tax charge/(credit) for the year, is given in the following table:

	2005 £m	2004 Restated £m
(Loss)/profit on ordinary activities before tax	<u>(2.2)</u>	<u>1.7</u>
Tax (credit)/charge at average UK corporation tax rate of 30% (2003 30%)	<u>(0.7)</u>	<u>0.5</u>
Effects of:		
Timing differences relating to the recognition of net underwriting losses/(profits)	1.2	(1.1)
Higher tax rates on overseas earnings	0.1	-
Other	<u>(0.1)</u>	<u>-</u>
Current tax charge/(credit) for the year	<u>0.5</u>	<u>(0.6)</u>

Factors that may affect future tax charges are primarily related to the Company's overseas earnings, in particular those from the US, which are subject to tax at different rates to those applicable in the UK.

Notes to the financial statements

9. Intangible assets

	<i>Cost £m</i>	<i>Amortisation £m</i>	<i>Net Book Value £m</i>
1 January 2005	0.9	(0.3)	0.6
Movement in the year	-	-	-
31 December 2005	0.9	(0.3)	0.6

Intangible assets represent purchased capacity in Syndicate 2020.

10. Investments

	<i>2005</i>		<i>2004 (Restated)</i>	
	<i>Market value £m</i>	<i>Cost £m</i>	<i>Market value £m</i>	<i>Cost £m</i>
Debt securities and other fixed income securities	11.8	12.0	10.7	10.7
Deposits with credit institutions	0.3	0.3	0.3	0.3
Shares, other variable yield securities and unitised trust funds	15.4	14.8	10.0	10.0
Other	1.5	1.5	1.7	1.3
	<u>29.0</u>	<u>28.6</u>	<u>22.7</u>	<u>22.3</u>
Share of Syndicate 2020's assets:				
Debt securities and other fixed income securities	11.8	12.0	10.7	10.7
Deposits with credit institutions	-	-	0.1	0.1
Shares, other variable yield securities and unitised trust funds	8.5	7.9	5.9	5.9
Other	1.5	1.5	1.7	1.3
Total held within syndicate premium trust funds	<u>21.8</u>	<u>21.4</u>	<u>18.4</u>	<u>18.0</u>
Company funds:				
Debt securities and other fixed income securities	-	-	-	-
Deposits with credit institutions	0.3	0.3	0.2	0.2
Shares, other variable yield securities and unitised trust funds	6.9	6.9	4.1	4.1
Total Company funds	<u>7.2</u>	<u>7.2</u>	<u>4.3</u>	<u>4.3</u>
	<u>29.0</u>	<u>28.6</u>	<u>22.7</u>	<u>22.3</u>

All financial investments are listed on recognised stock exchanges with the exception of asset backed securities and corporate bonds (both of which are included within "debt securities and other fixed income securities" and "deposits with credit institutions"). Funds at Lloyd's required to support the Company's underwriting total £9.4m (2004 £6.0m) comprise Company funds of £7.2m (2004 £4.3m) and a letter of credit for £2.2m (2004 £1.7m) provided by a consortium of banks.

There was £5.8m (2004 £3.5m) of bonds exposed to fair value interest rate risk and £6.0m (2004 £7.2m) exposed to cash flow interest rate risk. The weighted average effective interest rate of the Groups' bond portfolio, including its share of the syndicate's portfolio, was 4% (2004 3%).

11. Other debtors

	<i>2005 £m</i>	<i>2004 Restated £m</i>
Corporation tax recoverable	0.1	0.5
Deferred tax asset	1.5	-
Other	-	0.1
	<u>1.6</u>	<u>0.6</u>

Notes to the financial statements

12. Deferred acquisition costs

	2005 £m	2004 Restated £m
Deferred acquisition costs at the beginning of the year	1.7	2.9
Costs deferred during the year	3.4	1.3
Costs amortised during the year	(3.4)	(2.5)
Deferred acquisition costs at the end of the year	<u>1.7</u>	<u>1.7</u>

13. Share capital

	Authorised 2005 and 2004 £	Allotted, called-up and fully paid 2005 and 2004 £
Ordinary shares of 10p each 1 January and 31 December	<u>1,500,000</u>	<u>320,000</u>

14. Reconciliation of movements in shareholder's funds

	Total £m	Share capital £m	Share premium £m	Profit & Loss £m
At 31 December 2004 as originally reported	3.5	0.3	2.9	0.3
Prior year adjustment	0.1	-	-	0.1
At 1 January 2005	<u>3.6</u>	<u>0.3</u>	<u>2.9</u>	<u>0.4</u>
Loss for the year	(1.5)	-	-	(1.5)
Dividends paid	(0.3)	-	-	(0.3)
At 31 December 2005	<u>1.8</u>	<u>0.3</u>	<u>2.9</u>	<u>(1.4)</u>

The prior year adjustment comprises the dividend adjustment of £0.3m in respect of FRS 21 less the UEP and DAC adjustment of £0.2m in respect of FRS 23.

	Total £m	Share capital £m	Share premium £m	Profit & Loss £m
At 31 December 2003 as originally reported	2.7	0.3	2.9	(0.5)
Prior year adjustment	(0.3)	-	-	(0.3)
At 1 January 2004	<u>2.4</u>	<u>0.3</u>	<u>2.9</u>	<u>(0.8)</u>
Profit for the year	1.2	-	-	1.2
At 31 December 2004	<u>3.6</u>	<u>0.3</u>	<u>2.9</u>	<u>0.4</u>

The prior year adjustment comprises the UEP and DAC adjustment of £0.3m in respect of FRS 23.

Notes to the financial statements

15. Deferred taxation

	2005			2004		
	Asset £m	Liability £m	Net £m	Asset £m	Liability £m	Net £m
Deferred tax balance relating to underwriting results	1.5	(1.1)	0.4	-	(0.8)	(0.8)
Balance at 1 January as originally reported	-	(0.9)	(0.9)	0.2	-	0.2
Prior year adjustment	-	0.1	0.1	0.3	(0.2)	0.1
Balance at 1 January as restated	-	(0.8)	(0.8)	0.5	(0.2)	0.3
Amounts credited/(charged) to profit and loss account	1.5	(0.3)	1.2	(0.5)	(0.6)	(1.1)
Balance at 31 December	1.5	(1.1)	0.4	-	(0.8)	(0.8)

16. Other creditors, including taxation and social security

	2005 £m	2004 Restated £m
Amounts payable within one year		
Amount due to parent company	4.3	2.9
Other	0.3	0.1
	<u>4.6</u>	<u>3.0</u>

17. Contingencies and commitments

Within total assets of £62.9m (2004: 42.5m) disclosed on the balance sheet, £53.5m (2004: £37.0m) are the Company's share of the total assets of Syndicate 2020, of which £23.2m (2004: £19.5m) are investments and cash. These assets are subject to Lloyd's Premium Trust Fund rules and will only be released to the Company on the distribution of syndicate profits in accordance with Lloyd's requirements.

18. Holding company

The Company is a wholly owned subsidiary of Wellington Underwriting plc, a company registered in England and Wales. The results of the Company are consolidated in the financial statements of Wellington Underwriting plc, copies of which are available from the registered office.

19. Related party transactions

The Company has taken advantage of the exemption within FRS 8 of not disclosing transactions with Wellington Underwriting plc and other subsidiary companies.