

KX Reinsurance Company Limited

Report & Accounts

2009

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REPORT OF THE DIRECTORS

The Directors present their annual report together with the financial statements of KX Reinsurance Company Limited ("the Company") for the year ended 31 December 2009.

Principal activity and review of business

The principal activity of KX Reinsurance Company Limited is the run-off of reinsurance contracts written prior to 1993, when the Company ceased underwriting new business and the Company will continue its principal activity in 2010 and beyond. The Company is regulated by the FSA.

The Company recorded a loss for the year of \$0.4 million (2008 profit: \$2.4 million) and the full results for the year are set out on pages 7 and 8. During the current period the Company's net asset value decreased from \$130.7 million to \$90.3 million at 31 December 2009, the net asset value decrease is attributable to the dividend of \$40.0 million paid during the period.

Gross claims and run-off expenses paid during the period were \$9.9 million (2008: \$17.0 million) and gross undiscounted reserves were reduced by \$6.9 million (2008: \$24.7 million). This is due to claims paid in the normal course of business and commutations recognised in the year.

Reinsurers' share of claims paid was \$2.4 million (2008: \$3.9 million) and undiscounted reinsurance on reserves was reduced by \$1.1 million (2008: \$5.8 million).

As a result of the above undiscounted reserves net of reinsurance decreased by 4.2% to \$65.9 million as at 31 December 2009 (2008: \$68.8 million).

The impact of discounting for the time value of money in the balance sheet at 31 December 2009 was \$19.9 million (2008: \$14.1 million). The change in the discount reflected in the profit and loss account was a gain \$5.1 million (2008: loss \$10.2 million) after accounting for the effect of foreign exchange movements. This movement was a function of increased interest rates at the higher end of the yield curve and the unwinding of the discount as uncommuted reserves move closer to the time of payment. The Company continues to use risk free yield curves for appropriate currencies in discounting its reserves.

Discounted reserves net of reinsurance decreased by 15.9% to \$46.0 million as at 31 December 2009 (2008: \$54.7 million).

The net investment return for 2009 was \$(2.7) million (2008: \$10.4 million). This return was \$0.1 million less than the unwinding of the discount on net claims reserves, which the Company considers is the key performance measure for the investment portfolio. The difference in the return when compared to 2008 was due to the impact of increases in yields during 2009. Conversely, yields fell during 2008. The Company maintains an investment portfolio which is closely matched to the net discounted liabilities in terms of duration. This ensured that the Company was insulated from the impact of the significant changes in interest rates during the year. The Company also benefited from the allocation of 97% of its portfolio to treasuries and cash equivalents, thereby providing protection from the volatility within the markets for corporate bonds and structured products.

Dividends

During the year a dividend of £40 million (2008: \$nil) was proposed and paid to the ordinary shareholder on the register at 18 June 2009.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

Directors and Directors' interests

The Directors of the Company are listed on page 5 and unless otherwise indicated, all served throughout the year.

G M J Erulin and E M Rosenstiehl, who both resigned from the Board of Directors on 31 May 2009, are also Directors of Tawa Management Limited with whom the Company has entered into a management agreement for the provision of management services. Management charges and fees payable to Tawa Management Limited in the period to 31 December 2009 were \$5.5 million (2008: \$6.8 million). At the year end, the balance owed to Tawa Management was \$0.2 million (2008: \$2.7 million).

G M J Erulin who resigned from the Board of Directors on 31 May 2009 is also a Director of Tawa Consulting Limited from whom the company has purchased services during the year. Services purchased from Tawa Consulting Limited in the period to 31 December 2009 totalled \$0.1 million (2008: \$0.1 million). At the year end, the balance owed to Tawa Consulting Limited was \$nil (2008: \$nil).

REPORT OF THE DIRECTORS (CONTINUED)**Directors' Indemnities**

The Company is a beneficiary of insurance cover for its Directors and Officers against liabilities which may be incurred by them while acting as Directors and Officers. As at the date of this report, indemnities are in force under which the Company has agreed to indemnify its Directors and Officers, to the extent permitted by law and the Company's articles of association, against all costs, charges, losses, liabilities and expenses that they may incur in the execution of their duties, powers and offices as Directors and Officers of the Company. Copies of these indemnities are kept at the Company's registered office and are open for inspection by any member of the Company without charge.

Political and charitable contributions

The Company made no political or charitable donations during the year (2008: \$nil).

Risk management

In the ordinary course of business, the Company is exposed to, and manages, a variety of risks, with insurance, credit and liquidity risk being of particular significance.

- Insurance risk is the risk associated with the uncertainty and the quantum of the claim or the time when claims payments will fall due. In order to mitigate these risks, actuarial techniques are used to protect future claims payments. This is discussed further in note 3 to the accounts.
- Credit risk is the risk associated with the Company's reinsurance arrangements, investment portfolios, and other counterparty credit risks. When purchasing reinsurance the Company took account of the risk assessment, the financial strength of reinsurance counterparties and the cost of reinsurance protection. Additionally, the Company is subject to credit risk in respect of third party entities in which the Company holds debt securities issued by those entities. As a consequence of the established investment policies and in order to mitigate investment risk, the average credit quality of the portfolio must be rated A or higher and all securities must be rated BBB or higher. The actual average rating of the portfolios at 31 December 2009 was AAA.
- Liquidity risk is the risk that there will be insufficient liquid resources available to fund insurance liability cash outflows when they fall due. The Company's practice is to invest in assets which are readily marketable and which broadly match the duration of the liabilities.

The management of risk is fundamental to the Company, with the Board having responsibility for the overall system of internal control and for reviewing its effectiveness. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Company has processes for identifying, evaluating and managing the significant risks faced by the Company. These processes have been in place for the whole of the year and have continued up to the date this document was approved.

The Company has a detailed risk management process, culminating in a Board review, which identifies the key risks facing the Company. Each operational area within the Company is responsible for the identification and assessment of their particular risk exposures, and implementing risk management policies, limits and procedures, as approved by the Board.

The Board has delegated specific risk monitoring and control responsibilities to the Audit Committee and the Treasury Committee as follows:

- the Audit Committee, on behalf of the Board, considers the effectiveness of the operation of internal control processes and procedures in the Company during the financial year, including the review of reports from the external auditors, and reports its conclusions to the Board; and
- the Treasury Committee considers the management of assets and liabilities, including the level of risk to be accepted in relation to both assets backing the Company's liabilities and assets backing the surplus and the monitoring and controlling of the Company's financial and regulatory reporting.

Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed to be reappointed as auditors in the absence of an Annual General Meeting.

REPORT OF THE DIRECTORS (CONTINUED)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 period.

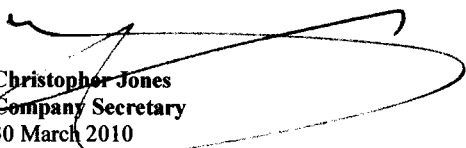
In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; 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 keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006.

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. Under applicable law, the Directors are also responsible for preparing a Directors' Report that complies with that law.

By order of the Board


Christopher Jones
Company Secretary
30 March 2010

CORPORATE INFORMATION

Directors

G M J Erulin – Chairman (Resigned 31 May 2009)
C G Bird – Chief Executive Officer and Chairman – effective 31 May 2009
P M M Barbizet – Non-Executive (Resigned 31 May 2009)
G Pagniez – Non-Executive
H Rodarie – Non-Executive
E M Rosenstiehl – Non-Executive (Resigned 31 May 2009)

Head Office & Registered Office

The Isis Building
193 Marsh Wall
London
E14 9SG

Auditors

Deloitte LLP
Hill House
1 Little New Street
London EC4A 3TR

Principal Bankers

Barclays Bank plc
1 Churchill Place
Canary Wharf
London E14 5HP

Registered Number: 494416

(England and Wales)

Company Secretary

C H E Jones FCIS

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF KX REINSURANCE COMPANY LIMITED

We have audited the financial statements of KX Reinsurance Company Limited for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditors' 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Jeremy Casson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
30 March 2010

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2009

Technical Account - General Business

	Notes	31 Dec 2009		31 Dec 2008	
		US\$000	US\$000	US\$000	US\$000
Gross premiums written and earned			57		35
Outward reinsurance premiums			-		(144)
Net premiums written and earned			<u>57</u>		<u>(109)</u>
Allocated investment income from the Non-Technical Account	6		(3,009)		8,316
Claims paid					
Gross amount		(9,930)		(17,038)	
Reinsurers' share		<u>2,431</u>		<u>3,879</u>	
		<u>(7,499)</u>		<u>(13,159)</u>	
Change in the provision for claims					
Gross amount		6,948		24,689	
Reinsurers' share		(1,102)		(5,826)	
Impact of discounting		<u>5,129</u>		<u>(10,187)</u>	
		<u>10,975</u>		<u>8,676</u>	
Net claims incurred			3,476		(4,483)
Net operating expenses	5		(2,078)		(836)
Balance on the Technical Account - General Business			<u>(1,554)</u>		<u>2,888</u>

Since the Company ceased underwriting in 1993, the results of the operations relate to discontinued activities. However, the Company continues to manage its general insurance and reinsurance business.

The notes on pages 10 to 21 form part of these financial statements.

PROFIT AND LOSS ACCOUNT (CONTINUED)*For the year ended 31 December 2009***Non -Technical Account**

	Notes	31 Dec 2009		31 Dec 2008	
		US\$000	US\$000	US\$000	US\$000
Balance on the Technical Account -					
General Business			(1,554)		2,888
Investment return			283		2,075
Investment income and realised gains	6	3,812		5,409	
Unrealised investment (losses)/gains	6	(6,485)		5,421	
Investment expenses and charges	6	(53)		(439)	
Allocated to the Technical Account		<u>3,009</u>		<u>(8,316)</u>	
Other income/(expenses)	7		<u>862</u>		<u>(2,569)</u>
(Loss)/profit on ordinary activities before taxation			(409)		2,394
Taxation	11		<u>-</u>		<u>-</u>
(Loss)/profit for the financial year			<u>(409)</u>		<u>2,394</u>

A statement of total recognised gains and losses is not presented as there have been no gains and losses other than as shown above.

The inclusion of unrealised gains and losses in the profit and loss account is not deemed to be a departure from the unmodified historical cost basis of accounting and therefore a separate note of historical costs profits and losses has not been included.

The notes on pages 10 to 21 form part of these financial statements.

BALANCE SHEET

As at 31 December 2009

		31 Dec 2009	31 Dec 2008
	Notes	US\$000	US\$000
Assets			
Investments			
Other financial investments	13	<u>93,357</u>	<u>146,893</u>
Reinsurers' share of technical provisions			
Claims outstanding	18	<u>13,293</u>	<u>15,998</u>
Debtors			
Debtors arising out of reinsurance operations		9,355	10,409
Other debtors	14	<u>18,989</u>	<u>17,899</u>
		<u>28,344</u>	<u>28,308</u>
Other assets			
Cash at bank and in hand		<u>17,592</u>	<u>15,821</u>
Prepayments and accrued income			
Other prepayments and accrued income		<u>796</u>	<u>861</u>
Total assets		<u>153,382</u>	<u>207,881</u>
Liabilities			
Capital and reserves			
Called up share capital	15	76,082	76,082
Capital contribution	17	7,900	47,900
Share premium account	17	5,000	5,000
Profit and loss account	17	<u>1,273</u>	<u>1,682</u>
Shareholders' funds attributable to equity interests		<u>90,255</u>	<u>130,664</u>
Technical provisions			
Claims outstanding	18	<u>59,315</u>	<u>70,680</u>
Creditors			
Creditors arising out of reinsurance operations		2,443	3,374
Other creditors including tax and social security	20	<u>1,369</u>	<u>3,163</u>
		<u>3,812</u>	<u>6,537</u>
Total liabilities		<u>153,382</u>	<u>207,881</u>

The notes on pages 10 to 21 form part of these financial statements.

The financial statements of KX Reinsurance Company Limited (494416) were approved by the Board of Directors and authorised for issue on 24 March 2010 and were signed on its behalf on 30 March 2010 by:



Colin Bird
Chief Executive Officer

NOTES TO THE ACCOUNTS

1. Basis of preparation

The financial statements are prepared in accordance with the provisions of Section 396 of the Companies Act 2006 and Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of certain assets, and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 as amended in December 2006.

The Company has not presented a cash flow statement under exemptions available in - Financial Reporting Standard 1: Cash flow statements (revised 1996) paragraph 5a.

Going concern

The Company's activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on page 2. In addition the section on Risk Management includes an analysis of the risks the Company faces and its policies for mitigating those risks.

The Company has considerable financial resources and the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. This uncertainty has created widespread difficulty in the valuation of certain assets. The Company has limited exposure to such products and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence as a going concern. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

2. Accounting policies

A summary of the principal accounting policies, which have been applied consistently, unless otherwise stated, are set out below.

a) Basis of accounting for underwriting activities

All classes of business are accounted for on an annual basis.

b) Premiums

Written premiums comprise reinstatement and adjustment premiums with regard to contracts written in previous financial years.

c) Claims incurred

Claims incurred include all claims and internal and external claims settlement expense payments made in respect of the financial period, together with the movement in the provision for claims outstanding and internal and external claims settlement expenses, including claims incurred but not reported.

Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured.

d) Claims outstanding

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred up to, but not paid at, the balance sheet date, whether reported or not, together with all future costs related to the management of the run-off of the portfolio of claims. Material salvage and other recoveries are recorded as other assets and not deducted from outstanding claims.

The gross claims outstanding provisions and related reinsurance recoveries, net of specific provision for doubtful recoveries, are determined on the basis of information currently available. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly and are discussed further in note 3.

e) Run-off provision

Provision is made for administration and other costs estimated to be incurred during the period of the run-off unless these costs will be covered by future investment income.

2. Accounting policies (continued)**f) Discounting**

The Company's net technical provisions, estimated as set out in note 3 below, will be paid over a period of many years dependent upon the nature of the underlying risk, the claims outstanding and the related reinsurance recoveries. The net future liabilities have been reduced or "discounted" by an amount representing an estimate of future investment income from income-producing assets set aside to meet net claims liabilities. The payment patterns for claims outstanding are derived by the Company's actuaries from analysis of historical patterns experienced by the Company and other comparable companies in run-off. The Company's investment portfolio has been structured to minimise interest rate exposure such that the maturity profile of the fixed income investments matches the maturity profile of the technical provisions. The discount rate, hence anticipated future investment income, has been calculated with reference to relevant dates on the yield curve for treasury bonds in the currencies in which the investments are held. This is consistent with a marked to market value for the invested assets of the Company at the balance sheet date.

g) Foreign currencies

The Company has chosen to represent its financial statements in US dollars as the Directors consider this more closely reflects the trading activities of the business. Transactions in foreign currencies are recorded into US dollars using the rates of exchange ruling at the date the transaction occurs. Monetary assets and liabilities are translated into US dollars at rates of exchange ruling at the balance sheet date. These translation differences are dealt with in the non-technical account.

The Company pursues a strategy of matching its estimate of the discounted net liability in each significant currency of exposure with currency or currency denominated instruments.

h) Investment income, expenses and charges

Investment income is accounted for on a receivable basis, gross of any imputed tax credit. Interest is accrued up to the balance sheet date. Realised gains or losses represent the difference between net sales proceeds and purchase price.

i) Unrealised gains and losses on investments

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains and losses comprises the increase/decrease in the period in the value of the investments held at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investments disposed of in the current period.

j) Allocation of investment return

All investment return is recognised in the non-technical account. An allocation of investment return is made from the non-technical account to the technical account. The actual investment return allocated is based on the risk free return of its shareholders' funds.

k) Taxation

Current taxation is provided for by reference to the profits and losses recognised in these accounts after taking account of group or consortium relief using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is provided in full on timing differences between recognition of gains and losses in the financial statements and the recognition for taxation purposes. Deferred taxation liabilities are provided in relation to transactions that have occurred by the balance sheet date. Deferred taxation assets are recognised when it is considered that the benefit is more likely than not to inure to the Company. Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

l) Investments

Investments are shown in the financial statements at mid-market value at the balance sheet date. Investment transactions are recognised on a settlement date basis.

2. Accounting policies (continued)**m) Reinsurance debt purchased**

Realised profits in respect of purchased debts are included in "Other income/(expenses)".

The carrying value of the debt in the balance sheet is recorded at the lower of cost and recoverable amount. Any realised or unrealised losses in respect of purchased debts will be recognised in line with FRS5 "Reporting the Substance of Transactions", and included as a bad debt charge within "Other income/(expenses)" in the period concerned. Any unrealised gains will not be recognised. Insolvent debts are treated as a single debt with operating income recorded when the total dividend received exceeds the price paid. Residual debts are treated as a portfolio of debts and operating income is recorded when cash received from individual debtors exceed the purchase price allocated against those debtors.

Debts purchased are shown at cost less any provision considered necessary for impairment to value. A review is carried out on a quarterly basis for impairments of debt purchases. The need for any impairment write-down is assessed by comparison of the carrying value of the asset against the recoverable amount, being the higher of net realisable value and value in use. The value in use is determined from estimated discounted future cash flows.

3. Estimation techniques and uncertainties**Introduction**

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the technical provisions of the Company. There is considerable uncertainty as regards the eventual outcome of the claims that have occurred by the balance sheet date but remain unsettled. This includes claims that may have occurred but have not yet been notified to the Company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the Company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Estimation techniques

As stated in note 2d, the Company sets its provision for claims outstanding based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods and market benchmarks, as appropriate.

The adequacy of the claims outstanding provision is assessed by reference to actuarial projections of the ultimate development of claims in respect of each underwriting year. In addition, in certain areas of the portfolio, exposure analysis has been performed. This provision is derived through extensive analysis by the Company's in-house actuaries. The methods used, and the estimates made, are reviewed regularly. The methodology used to project ultimate development for liability classes is reviewed annually by the Company's actuary.

The provision for claims outstanding and the provision for all future expenses related to the run-off of the net liabilities are discounted to take account of future investment income which will be generated prior to settlement of the claims, as outlined in note 2f above. The use of discounted technical provisions in representing the economic position of the Company necessarily depends upon the accuracy of the Company's estimate of:

- (i) future claims payments and associated reinsurance recoveries;
- (ii) the payment profiles attributable to claims payments and related reinsurance recoveries; and
- (iii) the future rate of return expected on invested assets.

3. Estimation techniques and uncertainties (continued)**Uncertainties**

Whilst the Directors consider that the gross provision for claims and the related recoveries are fairly stated on the basis of the information currently available to them, due to the nature of the insurance industry there is inherent uncertainty in these estimates. This uncertainty is such that the ultimate liability, which will vary as a result of subsequent information and events, may result in adjustments to the amount provided. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made.

Significant delays occur in the notification of certain claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. In particular, estimates of technical provisions inevitably contain inherent significant uncertainties because extensive periods of time may elapse between the occurrence of an insured loss, the claim triggering the insurance under a claims-made coverage, the reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

The specific uncertainties affecting the Company's financial statements are as follows:

(i) Asbestos, pollution and other latent claims

The Company has net exposure to claims and claims related expenses emanating from exposures to asbestos, environmental pollution and other latent injuries. Such claims are frequently subject to disputes such as the extent of coverage and definitions of occurrence and possible legislative changes. Consequently, reserves for claims of this type cannot be determined using traditional actuarial techniques and the uncertainty surrounding the ultimate cost of settlement is greater than for more standard claims within the Company's portfolio. Significant adverse development may have a material impact on the Company's future results and net assets.

4. Segmental reporting

	Insurance property 31 Dec 2009 US\$000	Insurance liability 31 Dec 2009 US\$000	Insurance Accident and Health 31 Dec 2009 US\$000	Reinsurance Operations 31 Dec 2009 US\$000	Total 31 Dec 2009 US\$000
Gross premiums written and earned	-	-	-	57	57
Outward reinsurance premiums	-	-	-	-	-
Net premiums earned	-	-	-	57	57
Allocated investment income from Non - Technical Account	(3)	(1,501)	(4)	(1,501)	(3,009)
Gross claims incurred	(35)	(21,384)	(11)	18,448	(2,982)
Reinsurers' share	1	1,454	-	(126)	1,329
Impact on discounting	13	939	23	4,154	5,129
Net claims incurred	(21)	(18,991)	12	22,476	3,476
Net operating expenses	(8)	(411)	-	(1,659)	(2,078)
Balance on the Technical Account - General Business	(32)	(20,903)	8	19,373	(1,554)

	Insurance property 31 Dec 2008 US\$000	Insurance liability 31 Dec 2008 US\$000	Insurance Accident and Health 31 Dec 2008 US\$000	Reinsurance Operations 31 Dec 2008 US\$000	Total 31 Dec 2008 US\$000
Gross premiums written and earned	-	-	-	35	35
Outward reinsurance premiums	-	-	-	(144)	(144)
Net premiums earned	-	-	-	(109)	(109)
Allocated investment income from Non - Technical Account	10	327	10	7,969	8,316
Gross claims incurred	220	1,034	272	6,125	7,651
Reinsurers' share	-	(666)	-	(1,281)	(1,947)
Impact on discounting	(71)	(654)	(92)	(9,370)	(10,187)
Net claims incurred	149	(286)	180	(4,526)	(4,483)
Net operating expenses	-	(61)	(1)	(774)	(836)
Balance on the Technical Account - General Business	159	(20)	189	2,560	2,888

4. Segmental reporting (continued)

	31Dec 2009	31Dec 2008
	US\$000	US\$000
Gross Written premium by geographical segment		
United Kingdom	12	25
Worldwide	45	10
	<u>57</u>	<u>35</u>

Items within the Non - Technical Account are not allocated to lines of business since the Directors do not consider such an allocation to be meaningful.

Net assets are maintained to meet the solvency requirements of the Company as a whole and, as a consequence, segmental analysis of net assets has not been provided.

5. Net operating expenses

	31 Dec 2009	31 Dec 2008
	US\$000	US\$000
Acquisition costs	(2)	(594)
Other expenses	(2,076)	(242)
	<u>(2,078)</u>	<u>(836)</u>

The provision for unallocated loss adjustment expenses and subsequent adjustments to the provision are included within net claims incurred.

6. Investment return

	31 Dec 2009	31 Dec 2008
	US\$000	US\$000
Investment income	4,455	5,333
Realised investment (losses)/gains	(643)	76
	<u>3,812</u>	<u>5,409</u>
Unrealised investment (losses)/gains	(6,485)	5,421
Investment management expenses	(53)	(439)
Investment return	<u>(2,726)</u>	<u>10,391</u>
Allocation to the technical account	(3,009)	8,316

7. Other income/(expenses)

	31 Dec 2009	31 Dec 2008
	US\$000	US\$000
Gains/(losses) in relation to movements in foreign currency exchange rates	757	(2,569)
Gains in relation to debt purchase agreement	<u>105</u>	<u>-</u>
	<u>862</u>	<u>(2,569)</u>

8. Employees' remuneration

	31 Dec 2009	31 Dec 2008
	US\$000	US\$000
Wages and salaries	44	148
Social security costs	<u>3</u>	<u>18</u>
	<u>47</u>	<u>166</u>
Average number of employees	1	1

9. Directors' emoluments

	31 Dec 2009	31 Dec 2008
	US\$000	US\$000
Highest paid Director		
Emoluments	<u>47</u>	<u>148</u>
	<u>47</u>	<u>148</u>
All Directors		
Emoluments	<u>159</u>	<u>332</u>
	<u>159</u>	<u>332</u>

10. Auditors' remuneration

Amounts payable to Deloitte LLP, and their associates, by the Company in respect of non-audit services were \$nil (2008: \$nil). A more detailed analysis of auditors' remuneration basis is provided below:

	31 Dec 2009		31 Dec 2008	
	US\$000	%	US\$000	%
Audit services				
Services as auditors	181	100	272	100
Other services				
Valuation and actuarial services	-	-	-	-
	<u>181</u>	<u>100</u>	<u>272</u>	<u>100</u>

Significant non-audit services require pre-approval by the Audit Committee.

11. Taxation

	31 Dec 2009	31 Dec 2008
	US\$000	US\$000
Current taxation		
UK Corporation tax on (loss)/profit for the period	-	-
Group / consortium relief recoverable at non-standard rates	-	-
Taxation	<u>-</u>	<u>-</u>
	31 Dec 2009	31 Dec 2008
	US\$000	US\$000
(Loss)/profit on ordinary activities before taxation	<u>(409)</u>	<u>2,394</u>
Taxation at standard UK Corporation Tax rate of 28% (2008: 28.5%)	(115)	682
Effects of:		
Expenses not deductible for tax purposes	(239)	792
Group relief	-	(1,474)
Movement in unrecognised deferred tax assets	<u>354</u>	<u>-</u>
Total current taxation	<u>-</u>	<u>-</u>

12. Dividends

An interim dividend for the year ended 31 December 2008 of \$40 million (0.98 pence per share) was paid to the shareholders during the year (2008: \$nil).

13. Rates of exchange

The rates of exchange used to translate items denominated in foreign currency at the balance sheet date relative to US\$1 for significant currencies are as follows:

	31Dec 2009	31Dec 2008
United Kingdom	£0.60	£0.67
Euro	€0.91	€0.85

14. Investments

	Market value		Cost	
	31 Dec 2009 US\$000	31 Dec 2008 US\$000	31 Dec 2009 US\$000	31 Dec 2008 US\$000
Listed debt securities and other fixed interest securities	62,490	106,431	58,190	97,518
Deposits with credit institutions	30,867	40,462	30,410	42,862
	<u>93,357</u>	<u>146,893</u>	<u>88,600</u>	<u>140,380</u>

All the listed investments are quoted on a recognised investment exchange.

In accordance with normal market practice, Citibank N.A. has issued letters of credit for outstanding losses. The collateral against these letters of credit includes a pledge to the value of \$7.36 million (2008: \$7.84 million) against an investment portfolio.

15. Other debtors

	31 Dec 2009	31 Dec 2008
	US\$000	US\$000
Other debtors and prepayments - due within one year	143	143
Reinsurance debt purchased	10,826	-
Amounts due from an affiliated company - due within one year	-	17,756
Amounts due from group undertaking - due within one year	8,020	-
	<u>18,989</u>	<u>17,899</u>

Amounts due from an affiliated company - due within one year

On 18 June 2008 the Company entered into a sale and repurchase agreement with an affiliated company as part of the Company's treasury management. On the same date and under the repurchase agreement the Company bought an interest in an ECM fund from the other party for £11.5 million (\$23.5 million at that date). On 6 February 2009 the affiliated company repurchased this investment for £12 million (\$17.3 million at that date) including accrued interest.

Amounts due from group undertaking - due within one year

On 30 June 2009 the Company entered into a facility agreement with another Group company, this facility is available until 31 March 2012. On 1 October 2009 the group company utilised \$7.9 million under the terms of this facility agreement. The loan is repayable within 12 months and is subject to interest equal to one year LIBOR plus a margin of 250 basis points.

16. Share capital and shareholders' funds

	31 Dec 2009	31 Dec 2008
Called up share capital		
Authorised 60,000,000 ordinary shares of £1 each (2008: 60,000,000)	<u>60,000,000</u>	<u>60,000,000</u>
	<u>US\$000</u>	<u>US\$000</u>
Called up, allotted and fully paid 40,901,137 ordinary shares of £1 each (2008: 40,901,137)	<u>76,082</u>	<u>76,082</u>

Shareholders' funds attributable to equity interests

	31 Dec 2009	31 Dec 2008
	<u>US\$000</u>	<u>US\$000</u>
Shareholders' funds as at 1 January	130,664	128,270
(Loss)/profit for the financial year	(409)	2,394
Dividends paid	(40,000)	-
Exchange differences taken to reserves	-	-
Share capital paid up during the year	-	-
Shareholders' funds as at 31 December	<u>90,255</u>	<u>130,664</u>

17. Movements on reserves

	Capital contribution	Share premium account	Profit and loss account	Total
	US\$000	US\$000	US\$000	US\$000
At 1 January	47,900	5,000	1,682	54,582
Retained loss for the year	-	-	(409)	(409)
Dividends paid	(40,000)	-	-	(40,000)
At 31 December	<u>7,900</u>	<u>5,000</u>	<u>1,273</u>	<u>14,173</u>

18. Claims outstanding

	Gross Claims 31 Dec 2009	Reinsurance 31 Dec 2009	Net 31 Dec 2009	Gross Claims 31 Dec 2008	Reinsurance 31 Dec 2008	Net 31 Dec 2008
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Provision before discounting	86,073	20,146	65,927	89,971	21,212	68,759
Discount	(26,758)	(6,853)	(19,905)	(19,291)	(5,214)	(14,077)
Net of discount	59,315	13,293	46,022	70,680	15,998	54,682

All claims outstanding and the provision for unallocated loss adjustment expenses, of \$3.0 million (2008: \$4.15 million), are discounted to reflect the investment income which will be generated prior to settlement of the underlying claims and expenses.

The average mean term of the total portfolio of net liabilities is 10.97 years (2008: 10.42 years). The mean terms of gross claims outstanding and related reinsurance recoveries are projected separately taking into account historic payment patterns and the expected impact of the Company's cessation of underwriting activities and the implementation of the Company's run-off strategy.

The average, effective rate of investment return used for discounting is 3.53% (2008: 2.66%).

19. Changes to prior year estimates

In the normal course of business the Company's ultimate projections of accident year premiums, commissions and claims are estimated using actuarial methodologies (see note 3). The impact of movements during the year on prior year estimates, reflected in the Technical Account - General Business, prior to the impact of discounting, was a net gain of \$0.4 million, comprising a gain in net earned premiums of \$0.57 million (2008: loss \$0.1 million), net incurred commissions of \$0.02 million (2008: \$0.6 million) and a loss in net incurred claims of \$1.65 million (2008: \$5.7 million).

20. Other creditors including tax and social security

	31Dec 2009	31Dec 2008
	US\$000	US\$000
Amounts due to group companies	1,303	2,797
Sundry creditors	66	366
	1,369	3,163

21. Related party transactions

Under FRS 8, the Company is exempt from the requirement to disclose related party transactions with other members of the Tawa group on the grounds that all subsidiaries which are party to the transactions are wholly owned within the group.

22. Parent company

In the opinion of the Directors, the ultimate parent company and ultimate controlling party is Financière Pinault S.C.A., a Société en commandite par actions incorporated in France. Copies of the group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004, Paris, France. The parent undertaking of the smallest group which includes the Company and for which group accounts are prepared is Tawa plc, a company incorporated in Great Britain. Copies of the financial statements of Tawa plc are obtainable from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

23. Post balance sheet events

On 23 March 2010 the Financial Services Authority confirmed that they had no objection to a \$35 million capital reduction.