CX Reinsurance Company Limited

Report & Accounts

21 March to 31 December 2006

CONTENTS

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

The surplus of the Company increased by $44.0 million during the period since 21 March 2006 to $98.1 million. This development was a result of the recognition of the benefits from group/consortium tax relief which is expected to be surrendered to members of the consortium which acquired the Company's shares on 21 March 2006. Excluding these gains, the net result from the Company's other activities was a small net profit of $1.2 million.

Claims management

The Company's manager, Tawa Management, has continued to make significant headway in accelerating the run-off of the Company through paying claims in the normal course and agreeing commutations or policy buy-backs with cedants and insureds. Gross claims reserves have fallen during the period by $336.4 million to $580.5 million.

Over the four years since the Company was acquired by Tawa, the strategy of accelerating the run-off through commutations has provided protection from claims deterioration, which otherwise would have jeopardised the Company's solvency. The commutation activity during 2006 was focused primarily on the US professional indemnity portfolio and the asbestos exposures.

As an underwriter, the Company was a market leader in the writing of US directors and officers and errors and omissions risks, particularly in the years from 1997 to 2001. The experience of these classes has been compounded by a series of major losses, emanating principally from US class actions, unprecedented for these lines of business. Commutations were achieved during the period with several of the remaining key cedants and, as a result, the rate of claims development has been lower than that experienced in a number of the previous reporting periods. However, the Company continues to have exposure to several volatile professional liability accounts. Progress has been made in mitigating the asbestos liabilities through market settlements and commutations independent of the market. This process was enhanced by the information derived from the exposure based analysis of asbestos claims performed at the end of 2005 with the assistance of independent actuarial experts.

A consequence of descaling through commutations has been the speeding up of certain types of claim payable which might otherwise not have been paid for several years. This has contributed to the reduction in the impact of discounting for the time value of money within the balance sheet. Payment patterns for claims have been reassessed in the light of the rate of pay out expected for live contracts remaining at the end of 2006.

A key development in the mitigation of balance sheet risk occurred just after the period end with the transfer of the IGI portfolio to CNA Insurance Company Limited. This involved the transfer of recorded liabilities and matching reinsurance asset of $74 million.

Reinsurance

Reinsurance recoveries due on reserves, the systems for computing reinsurance recoveries and the provision for doubtful recoveries have been reviewed during the period following the reduction in reserves, principally through commutation activities. The result of this activity is that such reinsurance on reserves, net of provisions for bad debt and discount, has been reduced by $6.5 million.

Asset and liability management

The Company's asset and liability matching strategy remains unchanged from previous years. Investment income covered the unwind of the discount and through close liaison with the US regulators which supervise the Company's trust funds and reduction of issued letters of credit, sufficient cash has been provided when required to finance commutation activity. Liquidity, however, continues to be a key risk which is monitored and managed very carefully.

Future developments

The Company has increased its provision for unallocated loss adjustment expenses by $6 million, to ensure that the most appropriate resources are applied to delivering the strategy of the Company and protecting the interests of stakeholders. This increase is largely attributable to the increased volume of claims, commutations and related activities compared to previous forecasts.

CHIEF EXECUTIVE OFFICER'S REVIEW (CONTINUED)

The achievements in managing the run-off so far should be acknowledged. Although the gross reserves have been reduced by $1.7 billion since the Company was sold by the CNA group in 2002, the portfolio still comprises $0.5 billion of gross liabilities of insurance and reinsurance exposures containing several volatile components from the wide ranging underwriting activities of the Company prior to entering run-off.

The challenges involved in continuing this programme of liability reduction and reinsurance collection and in ultimately closing the run-off successfully should not be underestimated.

Colin Bird
Chief Executive Officer

FINANCIAL REVIEW

Overview

The Company recorded a profit of $44.0 million in the period to 31 December 2006 (1 January – 20 March 2006: loss of $11.2 million). As a consequence, the Company's surplus (shareholders' funds) increased to $98.1 million at 31 December 2006 (20 March 2006: $54.0 million). As set out in the Chief Executive Officer's review, this increase was driven by the requirement to reflect the benefits expected to flow from the surrender of group/consortium relief.

Technical account

Net earned premium for the period was $2.8 million (1 January – 20 March 2006: $0.2 million) due to the identification of reinstatement premiums and additional premiums on swing rated medical malpractice contracts.

Gross claims and run-off expenses paid during the period were $254.2 million (1 January – 20 March 2006: $92.4 million) and gross undiscounted reserves were reduced by $336.4 million (1 January – 20 March 2006: $80.0 million), after taking account of the impact of foreign exchange differences, to $580.5 million. A significant proportion of this reduction was attributable to the commutation activity which removed many of the larger US professional indemnity ("PI") portfolios to which the Company still had exposure at 20 March 2006. Claims' deterioration was less severe than in the previous accounting period, due in the main to the commutation of these US PI liabilities. Increases in claims reserves were however required in the last quarter of the year for certain US pharmaceutical related claims.

Reinsurers' share of claims paid was $12.8 million (1 January – 20 March 2006: $34.5 million) and undiscounted reinsurance on reserves was reduced by $44.4 million (1 January – 20 March 2006: $35.1 million). The reduction in reinsurance in excess of the paid recoveries was principally due to the reassessment of reinsurance recoveries and related doubtful debt provisions referred to in the Chief Executive Officer's review. The benefit from the reduction in provisions for doubtful debts is included within net operating income.

As a result of the above, undiscounted reserves net of reinsurance decreased by 38.9% to $433.7 million as at 31 December 2006.

The impact of discounting for the time value of money in the balance sheet at 31 December 2006 was $116.0 million (20 March 2006: $192.0 million). The change in the discount reflected in the profit and loss account was $(82.2) million (20 March 2006: $(0.1) million) after accounting for the effect of foreign exchange movements. This reduction was a function of removing the components of the discount which related to contracts commuted in the period and the unwinding of the discount as uncommuted reserves move closer to the time of payment. The small movement in the period to 2006 was due to the increases in interest rates since the end of 2005 which increased the relative impact of discounting in the balance sheet. The Company continues to use risk free yield curves in discounting its reserves and provides for unallocated loss adjustment expenses required to complete the run-off.

Net operating income in the period was $14.8 million (1 January – 20 March 2006: $0.9 million). This benefit was driven by the reduction in provisions for doubtful reinsurance recoveries.

Investment return

The key principle within the investment strategy remains the mitigation of risks relating to changes in interest rates and foreign exchange rates and to credit and liquidity risks. This mitigation is achieved by broadly matching the duration and currency of the liabilities and maintaining a high quality and readily realisable portfolio of fixed income securities (average rating AA). Within the confines of this strategy, the Company continues to look for opportunities to enhance the return from the portfolio.

Investment yield for the period was 4.0% on an annualized basis (1 January – 20 March 2006: -1.2%). The investment performance was sufficient to cover the aggregate of the unwind of the discount and the impact of changes in interest rates on net discounted reserves, which is the fundamental requirement of the investment return. The excess over the unwind of the discount, which is based on the performance of risk free Government securities, was due to the return on the assets supporting the surplus, the contribution from US corporate and asset backed securities within the Company's investment portfolio and the strategic adoption of a marginally short duration position within the portfolio at the points in the period when interest rates at the medium to long parts of the yield curve increased.

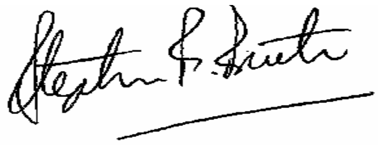
FINANCIAL REVIEW (CONTINUED)

Balance sheet

The changes in the balance sheet are a function of the transactions and developments explained above with reference to the profit and loss account. The benefits from the surrender of group/consortium relief are represented at the balance sheet date by an increase in investments of $39.3 million representing the funds held in escrow at the end of the year, a debtor of $22.1 million representing proceeds to be paid into the escrow account and a creditor of $16.2 million representing the proportion of the benefits payable to other stakeholders.

Cash flow statement

Since the Company is no longer part of a group, the Company is therefore required under Financial Reporting Standard 1 to prepare a cash flow statement, which is disclosed on page 13.



Stephen Baxter
Treasurer

REPORT OF THE DIRECTORS

The Directors present their thirty-fifth report together with the financial statements for the period from 21 March to 31 December 2006.

Principal activity

The principal activity of CX Reinsurance Company Limited is the carrying out of reinsurance contracts written prior to August 2001, when the Company ceased underwriting new business. The Company is regulated by the FSA.

Business review

A review of the Company's business is set out in the Chief Executive Officer's Review and the Financial Review on pages 2 to 5, and the results for the year are set out on pages 10 and 11.

As indicated in previous accounts for the period ended 20 March 2006, the Company shortened the following accounting period by bringing it to a close on 31 December 2006. Going forward the Company will re-adopt calendar year reporting.

No dividend was declared or paid in the period (1 January – 20 March 2006: $ nil). The balance from the profit and loss account is to be transferred to reserves.

Directors and Directors' interests

The Directors of the Company are listed on page 8 and unless otherwise indicated, all served throughout the period.

In connection with the restructuring of the share capital, on 21 March 2006 P A Jardine and P M Marcell each acquired 216 B voting shares.

None of the Directors had any interest in any material contract entered into or subsisting during the year and relating to the business of the Company.

The Company maintains 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.

The Company made no political or charitable donations during the period (1 January – 20 March 2006: $ nil).

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare the financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the group and of the profit or loss of the group 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 subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE DIRECTORS (CONTINUED)

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. 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 period 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 Asset and Liability Management and Financial Reporting 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 period, including the review of reports from the external auditors, and reports its conclusions to the Board;
- the Asset and Liability Management and Financial Reporting 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 CX RE’s financial and regulatory reporting.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors in accordance with the provisions of the Companies Act 1985.

Disclosure of information to Auditors

Each Director confirms that so far as he is aware there is no relevant audit information of which the Company’s auditors are unaware. Each Director also confirms that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any such information and to establish whether the auditors are aware of that information.

By order of the Board

Christopher Jones
Company Secretary
29 March 2007

CORPORATE INFORMATION

Directors

G M J Erulin (France) - Chairman
C G Bird - Chief Executive Officer
J J Hendrickson (USA) – Non-Executive (appointed 26 May 2006)
P A Jardine - Non-Executive
P M Marcell - Non-Executive
G Pagniez (France) - Non-Executive
E M Rosenstiehl (France) - Non-Executive
P J Singer (resigned 21 March 2006)
C R Thresh (resigned 21 March 2006)

Head Office & Registered Office

The London Underwriting Centre
3 Minster Court
Mincing Lane
London
EC3R 7DD

Registered Number: 1086556

(England and Wales)

Company Secretary

C H E Jones FCIS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CX REINSURANCE COMPANY LIMITED

We have audited the financial statements of CX Reinsurance Company Limited for the period from 21 March to 31 December 2006 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the period then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Emphasis of matter – estimation techniques and uncertainties
Without qualifying our opinion, we draw attention to the disclosures made in Note 3 to the financial statements concerning the principal estimation techniques adopted by the Company and the uncertainties relating to the assessment of provisions for outstanding claims and related reinsurance recoveries. These uncertainties are such that they may result in material, but presently unquantifiable, adjustments to the amounts provided in respect of the ultimate liabilities, which will vary as a result of subsequent information and events. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
29 March 2007

PROFIT AND LOSS ACCOUNT

For the period from 21 March to 31 December 2006

Technical Account – General Business

	Notes	21 March to 31 December 2006 US$000	21 March to 31 December 2006 US$000	1 January to 20 March 2006 US$000	1 January to 20 March 2006 US$000
Gross premiums written	4		**2,818**		144
Outward reinsurance premiums			**26**		12
Net premiums written and earned			**2,844**		156
Allocated investment income / (losses) from the Non-Technical Account			**14,990**		(1,687)
Claims paid					
Gross amount		**(254,160)**		(92,381)	
Reinsurers' share		**12,752**		34,526	
		(241,408)		(57,855)	
Change in the provision for claims					
Gross amount		**336,419**		79,988	
Reinsurers' share		**(44,407)**		(35,149)	
Impact of discounting		**(82,226)**		(107)	
		209,786		44,732	
Net claims incurred	4		**(31,622)**		(13,123)
Net operating income	4,5		**14,752**		874
Balance on the Technical Account - General Business	4		**964**		(13,780)

Since the Company ceased underwriting in August 2001, 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 14 to 25 form part of these financial statements.

PROFIT AND LOSS ACCOUNT (CONTINUED)
For the period from 21 March to 31 December 2006

Non-Technical Account

	Notes	21 March to 31 December 2006 US$000	21 March to 31 December 2006 US$000	1 January to 20 March 2006 US$000	1 January to 20 March 2006 US$000
Balance on the Technical Account - General Business			**964**		(13,780)
Investment return					
Investment income and realised gains	6	**7,769**		6,204	
Unrealised investment gains / (losses)	6	**7,907**		(7,530)	
Investment expenses and charges	6	**(686)**		(361)	
Allocated to the Technical Account		**(14,990)**		1,687	
Other income	7		**278**		364
Profit / (loss) on ordinary activities before tax			**1,242**		(13,416)
Tax on profit on ordinary activities	11		**42,777**		2,251
Profit / (loss) for the financial period	16		**44,019**		(11,165)

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 notes on pages 14 to 25 form part of these financial statements.

BALANCE SHEET

As at 31 December 2006

	Notes	31 Dec 2006 US$000	20 March 2006 US$000
Assets			
Investments			
Other financial investments	13	**401,060**	597,799
Reinsurers' share of technical provisions			
Claims outstanding	17	**97,225**	119,631
Debtors			
Debtors arising out of direct insurance operations		**415**	274
Debtors arising out of reinsurance operations		**37,749**	40,550
Other debtors	14	**25,067**	1,417
		63,231	42,241
Other assets			
Cash at bank and in hand		**2,871**	5,558
Prepayments and accrued income			
Other prepayments and accrued income		**4,902**	7,666
Total assets		**569,289**	772,895
Liabilities			
Capital and reserves			
Called up share capital	15	**513,226**	513,226
Share premium account		**11,330**	11,330
Profit and loss account	16	**(426,500)**	(470,519)
Shareholders' funds attributable to equity interests		**98,056**	54,037
Technical provisions			
Claims outstanding	17	**414,980**	637,912
Creditors			
Creditors arising out of direct insurance operations		**2,621**	2,913
Creditors arising out of reinsurance operations		**29,546**	68,530
Other creditors including tax and social security	19	**24,086**	9,503
		56,253	80,946
Total liabilities		**569,289**	772,895

The notes on pages 14 to 25 form part of these financial statements.

These financial statements were approved by the Board of Directors on 28 March 2007 and were signed on its behalf on 29 March 2007 by:

Colin Bird
Chief Executive Officer

CASH FLOW STATEMENT

For the period from 21 March to 31 December 2006

	Note	31 Dec 2006 US$000	20 March 2006 US$000
Net cash inflow from general business	20	**(257,879)**	(48,597)
Net cash inflow from operating activities		**(257,879)**	(48,597)
Interest received	21	**1,059**	72
Taxation		**42,777**	2,251
		(214,043)	(46,274)
Cash flows were invested as follows:			
Decrease in cash holdings		**(2,687)**	(8,762)
Net portfolio investment:			
Fixed income securities	21	**(211,356)**	(37,513)
Net investment of cash flows		**(214,043)**	(46,275)

NOTES TO THE ACCOUNTS

1. Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 and in accordance with applicable Accounting Standards in the United Kingdom. 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 as amended in December 2006 by the Association of British Insurers.

2. Accounting policies

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

a) Basis of accounting for underwriting activities

All classes of business are accounted for on an annual basis, whereby the incurred cost of claims, commissions and expenses are charged against the earned proportion of premiums, net of reinsurance arising in the financial period.

b) Premiums

Written premiums, gross of commission payable to intermediaries, comprise the Company's share of written premiums on contracts entered into during a financial period, regardless of whether such amounts may relate in whole or in part to a later financial period, exclusive of taxes and duties levied on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for pipeline premiums. For inwards proportional reinsurance treaties and certain binding authorities and lineslips, written premium is included in line with anticipated writing patterns of cedants and agents. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

c) Unearned premiums

Provision for unearned premiums comprises those elements of gross premiums written and outward reinsurance premiums due which are estimated to be earned in the following or subsequent financial periods, computed separately for each insurance or reinsurance contract using the daily pro rata method and taking into account the risk profile of the contracts.

d) Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial period. Deferred acquisition costs represent the proportion of acquisition costs incurred, which correspond to the proportion of gross premiums written, which are unearned at the balance sheet date.

e) 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.

f) 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. Where applicable, prudent estimates are made for salvage and subrogation recoveries.

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.

2. Accounting policies (continued)

g) 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 mark-to-market value for the invested assets of the Company at the balance sheet date.

h) 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. Premium, claim and commission transactions and investment income during the year are recorded in ledgers denominated in the recognised settlement currencies and translated into US dollars at the exchange rates prevailing at the balance sheet date. Other revenue transactions are recorded at average rates of exchange during the year. Monetary assets and liabilities are converted into US dollars at the exchange rates prevailing at the balance sheet date. Differences on exchange 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.

i) 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.

j) 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.

k) Allocation of investment return

All investment income / (losses) were allocated from the Non-Technical Account to the Technical Account.

l) Taxation

Taxation is provided for by reference to the profits and losses recognised in these accounts after taking account of group or consortium relief. 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.

m) 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.

n) Pensions

The pension scheme for employees of Tawa Management Limited, which is a defined contribution scheme, is funded by Tawa Management Limited. Details of the pension scheme are disclosed in that company's accounts.

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 2f, 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 external 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 2g 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.

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

Following the commutation during 2002 of the whole account stop loss reinsurance contract with Continental Casualty Company protecting the 1987 and prior underwriting years, the Company has net exposure to claims and claims related expenses emanating from exposures to asbestos, environmental pollution and other latent injuries. In determining the reserves for such claims, the Company’s actuaries have incorporated the result of an exposure analysis which was performed with the assistance of an external consultant. 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.

3. Estimation techniques and uncertainties (continued)

(ii) 11 September 2001

The Company has material exposure to claims arising from the tragic events in the United States on 11 September 2001. Due to the size and complexity of these losses, the ultimate outcome of the gross claims is subject to greater uncertainty than has been the case with other catastrophes to which the Company has been exposed. The Company has undertaken a careful review of all contracts with exposure to losses from the terrorist attacks and the Directors consider that the reserves and the related reinsurance recoveries have been established on an appropriate basis. The results for the period reflect gross undiscounted reserves of $35.8million (20 March 2006: $42.0 million) and undiscounted reinsurance recoveries of $nil (20 March 2006: $nil). As a result of the uncertainty implicit within these claims, these estimates may be subject to potentially significant adjustments in future fiscal periods.

(iii) IGI Contingency

In 1997, the Company entered into an arrangement with IOA Global Limited ("IOA"), an independent managing general agent based in Philadelphia, Pennsylvania, to develop and manage a book of accident and health coverages. Pursuant to this arrangement, IGI Underwriting Agencies Limited ("IGI"), a personal accident reinsurance managing general underwriter, was appointed to underwrite and market the book under the supervision of IOA. Between April 1, 1997 and December 1, 1999, IGI underwrote a number of reinsurance arrangements with respect to personal accident insurance worldwide (the IGI Program). Under various arrangements, the Company both assumed risks as a reinsurer and also ceded a substantial portion of those risks to other companies, including other CNA insurance subsidiaries, and ultimately to a group of reinsurers participating in a reinsurance pool known as the Associated Accident and Health Reinsurance Underwriters ("AAHRU") Facility. With effect from 1 January 2002, the Company acquired additional reinsurance protection from Continental Casualty Company, a member of the CNA Group, so that, from that date, the Company had no remaining net exposure to risks written through IGI. A reinsurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000, which has had the effect of transferring the IGI portfolio from CX Reinsurance Company Limited to CNA Insurance Company Limited, was approved by the High Court in the UK in December 2006 and became effective on 1 January 2007.

(iv) Reinsurer default

The level of uncertainty inherent in the recoverability of reinsurance recoveries is enhanced at this point in time due to the impact on the reinsurance industry of a number of severe catastrophes in recent years, including the 2004 and 2005 hurricanes. Included in the Company's balance sheet are substantial reinsurance recoveries. The Directors have assessed exposure to bad debts arising from reinsurance dispute or failure and, following careful review, have made a provision against bad debts based on current information available.

4. Segmental reporting

Segmental reporting

	Insurance Operations 31 Dec 2006 US$000	Reinsurance Operations 31 Dec 2006 US$000	Total 31 Dec 2006 US$000	Insurance Operations 20 March 2006 US$000	Reinsurance Operations 20 March 2006 US$000	Total 20 March 2006 US$000
Gross premiums written	**21**	**2,797**	**2,818**	68	76	144
Outward reinsurance premiums	**(75)**	**101**	**26**	3	9	12
Net premiums written	**(54)**	**2,898**	**2,844**	71	85	156
Gross earned premiums	**21**	**2,797**	**2,818**	68	76	144
Outwards reinsurance premiums	**(75)**	**101**	**26**	3	9	12
Net earned premiums	**(54)**	**2,898**	**2,844**	71	85	156
Allocated investment income from Non-Technical Account	**2,446**	**12,544**	**14,990**	(275)	(1,412)	(1,687)
Gross claims incurred	**9,034**	**73,225**	**82,259**	(7,191)	(5,202)	(12,393)
Reinsurers' share	**(11,517)**	**(20,138)**	**(31,655)**	844	(1,467)	(623)
Impact on discounting	**(21,331)**	**(60,895)**	**(82,226)**	(18)	(89)	(107)
Net claims incurred	**(23,814)**	**(7,808)**	**(31,622)**	(6,365)	(6,758)	(13,123)
Gross operating income	**4,209**	**10,543**	**14,752**	102	772	874
Reinsurers' share	**-**	**-**	**-**	-	-	-
Net operating income	**4,209**	**10,543**	**14,752**	102	772	874
Balance on the Technical Account - General Business	**(17,213)**	**18,177**	**964**	(6,467)	(7,313)	(13,780)

Gross written premium by geographical segment (calculated by domicile of ceding company):

	31 Dec 2006 US$000	20 March 2006 US$000
Worldwide	**2,818**	144
	2,818	144

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 income

	31 Dec 2006 US$000	20 March 2006 US$000
Acquisition costs	**(997)**	(542)
Other income including decreases to provisions for doubtful reinsurance recoveries	**15,749**	1,416
	14,752	874

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

6. Investment return

	31 Dec 2006 US$000	20 March 2006 US$000
Investment income	**17,607**	6,228
Realised investment losses	**(9,838)**	(24)
	7,769	6,204
Unrealised investment gains / (losses)	**7,907**	(7,530)
Investment management expenses	**(686)**	(361)
Investment return	**14,990**	(1,687)

7. Other income

	31 Dec 2006 US$000	20 March 2006 US$000
Gains in relation to movements in foreign currency exchange rates	**278**	364
Other income	**278**	364

8. Employee's remuneration

	31 Dec 2006 US$000	20 March 2006 US$000
Wages and salaries	**284**	68
Social security costs	**53**	2
	337	70
Average number of employees	**1**	1

9. Directors' emoluments

	31 Dec 2006 US$000	20 March 2006 US$000
Highest paid Director		
Emoluments	**284**	68
	284	68
All Directors		
Emoluments	**631**	184
	631	184

One of the Directors is the only employee of the Company, hence emoluments of all Directors exceed the wages and salaries of employees (see note 8).

10. Auditors' remuneration

Amounts payable to Deloitte & Touche LLP, and their associates, by the Company in respect of non audit services were $236,000 (1 January – 20 March 2006: $0). A more detailed analysis of auditors' remuneration basis is provided below:

	31 Dec 2006		20 March 2006	
	US$000	%	US$000	%
Audit services				
Services as auditors	**432**	**65**	300	100
Other Services				
Valuation and actuarial services	**236**	**35**	-	-
	668	**100**	300	100

Significant non-audit services require pre-approval by the audit committee.

11. Taxation

	31 Dec 2006 US$000	20 March 2006 US$000
Current tax		
UK Corporation Tax on profit/(loss) for the period	-	-
Group/consortium relief recoverable at non-standard rates	**(26,977)**	-
Adjustment in respect of prior periods	**(15,800)**	(2,251)
Total current tax	**(42,777)**	(2,251)
Deferred tax		
Origination and reversal of timing difference	-	-
Total tax on profit/(loss) on ordinary activities	-	-

11. Taxation (continued)

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK Corporation Tax to the profit on ordinary activities before tax is as follows:

	31 Dec 2006 US$000	**20 March 2006 US$000**
Profit/(loss) on ordinary activities before tax	**1,242**	(13,416)
Tax on profit/(loss) on ordinary activities at standard UK Corporation Tax rate of 30% (2005: 30%)	**373**	(4,025)
Effects of:		
Expenses not deductible for tax purposes	**30**	53
Capital allowances less than depreciation	**(1)**	(1)
Section 107 interest	**(24,161)**	(1,352)
Change in technical reserves disclaimed under FA2000 s107(4)	**(110,491)**	(2,760)
Movement in unrecognised deferred tax asset	**134,250**	8,085
Group/consortium relief recoverable at non-standard rates	**(26,977)**	-
Adjustment in respect of prior periods	**(15,800)**	(2,251)
Total current tax	**(42,777)**	(2,251)

The Company has agreed to surrender the benefit of tax losses relating to the period to companies in the group of which the Company was a member until 21 March 2006 and to members of the consortium which owns the Company's A shares for a consideration of $42.8 million (20 March 2006: $2.3 million). Funds received have been paid into escrow accounts.

There is a deferred, unrecognised tax asset of $10.8 million (20 March 2006: $115.1 million) in respect of the accumulated losses that has not been recognised, as it is not certain that the Company will be able to realise this asset by generating sufficient, future taxable profits.

12. 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:

	31 Dec 2006	**20 March 2006**
United Kingdom	**£0.51**	£0.57
Euro	**€ 0.67**	€ 0.69

13. Investments

	Market value		**Cost**	
	31 Dec 2006 US$000	**20 March 2006 US$000**	**31 Dec 2006 US$000**	**20 March 2006 US$000**
Listed variable yield securities and unit trusts	**56,902**	63,828	**53,076**	62,688
Listed debt securities and other fixed interest securities	**255,341**	491,053	**258,780**	500,312
Deposits with credit institutions	**88,817**	42,918	**88,817**	42,918
	401,060	597,799	**400,673**	605,918

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

13. Investments (continued)

In accordance with normal market practice, Citibank N.A. and Barclays Bank PLC have issued letters of credit for unearned premiums and outstanding losses. The collateral against these letters of credit includes a pledge to the value of $44.8 million
(20 March 2006: $56.9 million) against an investment portfolio, and charges to the value of $0.3 million (20 March 2006: $0.4 million) against certain bank deposits.

The Company has established trust funds for the benefit of its US reinsurance and US surplus lines policyholders. The values of the trust investments in the respective trusts included above are $159.6 million (20 March 2006: $257.0 million) and $59.8 million (20 March 2006: $62.4 million).

14. Other debtors

	31 Dec 2006 US$000	20 March 2006 US$000
Amounts due from group companies	-	35
Other debtors - due in more than one year	**25,067**	1,382
	25,067	1,417

15. Called up share capital and shareholders' funds

Called up share capital	31 Dec 2006	20 March 2006
Authorised 400,000,000 ordinary shares of £1 each (20 March 2006: 400,000,000)	**400,000,000**	400,000,000
343,920,000 "A" non voting shares and 4,280 "B" voting shares (20 March 2006: 343,924,280 ordinary shares of £1 each)	**$513,226,000**	$513,226,000

Shareholders' funds attributable to equity interests

	31 Dec 2006 US$000	20 March 2006 US$000
Profit / (loss) for the financial period	**44,019**	(11,165)
Shareholders' funds as at 21 March / 1 January	**54,037**	65,202
Shareholders' funds as at 31 December / 20 March	**98,056**	54,037

Issued share capital:

On 21 March 2006, the Company restructured its share capital by sub dividing the 343,924,280 issued voting shares of £1 each into 343,920,000 “A” non-voting shares and 4,280 B voting shares.

16. Profit and loss account

	31 Dec 2006 US$000	20 March 2006 US$000
At 21 March / 1 January	**(470,519)**	(459,354)
Retained profit / (loss) for the period	**44,019**	(11,165)
At 31 December / 20 March	**(426,500)**	(470,519)

17. Claims outstanding

	Gross Claims 31 Dec 2006 US$000	Reinsurance 31 Dec 2006 US$000	Net 31 Dec 2006 US$000	Gross Claims 20 March 2006 US$000	Reinsurance 20 March 2006 US$000	Net 20 March 2006 US$000
Provision before discounting	**580,546**	**146,768**	**433,778**	889,754	179,502	710,252
Discount	**(165,566)**	**(49,543)**	**(116,023)**	(251,842)	(59,871)	(191,971)
Net of discount	**414,980**	**97,225**	**317,755**	637,912	119,631	518,281

All claims outstanding and the provision for future administrative expenses 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 8.59 years (1 January – 20 March 2006: 8.13 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 4.87% (20 March 2006: 4.83%).

18. 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 period on prior year estimates, reflected in the Technical Account - General Business, prior to the impact of discounting, was a net gain of $52.4 million (20 March 2006: loss of $13.3 million), comprising movements in net earned premiums of (gain) $2.8 million, net incurred commissions of (loss) $1.0 million and net incurred claims (gain) of $50.6 million.

19. Other creditors including tax and social security

	31 Dec 2006 US$000	20 March 2006 US$000
Sundry creditors	**24,086**	9,503
	24,086	9,503

$14.6 million of the amount at 31 December 2006 is payable after more than one year (20 March 2006: $nil).

20. Cash flow: Reconciliation of operating profit to net cash inflow from operating activities

	31 December 2006		20 March 2006	
	US$000	US$000	US$000	US$000
Operating profit before taxation after interest		**1,242**		(13,416)
Unrealised (gains) / losses	**(7,907)**		7,530	
Realised losses	**9,838**		24	
Non cash investment income	**(17,607)**		(6,227)	
Decrease in general insurance technical provisions	**(237,142)**		(42,127)	
(Increase) / decrease in other debtors	**(23,650)**		1,864	
Decrease in prepayments	**2,764**		2,951	
Increase in creditors	**14,583**		804	
		(259,121)		(35,181)
Net cash inflow from operating activites		**(257,879)**		(48,597)

21. Analysis of cash flows for headings netted in the cash flow statement

	31 Dec 2006	20 March 2006
	US$000	US$000
Returns on investments and servicing of finance		
Interest received	**1,059**	72
Net cash inflow	**1,059**	72
Portfolio investments		
Purchase of fixed income securites	**(208,087)**	(87,955)
Sale of fixed income securites	**419,443**	125,468
Net cash inflow	**211,356**	37,513
Total net cash inflow	**212,415**	37,585

22. Movement in cash, portfolio investments and financing

	21 March 2006 US$000	Cash flow US$000	Changes to market value and currencies US$000	31 Dec 2006 US$000
Cash in hand, at bank	5,558	(2,687)	-	2,871
Current asset investments - Fixed income securities	597,799	(211,356)	14,617	401,060
Total	603,357	(214,043)	14,617	403,931

23. Related party transactions

The following have been identified as related parties of the Company for the period to 31 December 2006:

(i) Tawa Management Limited, the run-off manager;
(ii) Directors of the Company;
(iii) Shareholders of the Company.

Tawa Management Limited
Following its sale to Tawa UK Limited, the Company entered into a management agreement with CX Management Company Limited, which was subsequently transferred to Tawa Management Limited, for the provision of management services to the Company. Management charges and fees payable to Tawa Management Limited in the period to 31 December 2006 were $20.2 million (1 January – 20 March 2006: $3.8 million). At the period end, the balance owed to Tawa Management Limited was $1.4 million (20 March 2006: $0 million).

Directors of the Company
Directors' emoluments are disclosed in note 9.
Shareholdings of directors are disclosed in the Directors' Report.

Shareholders of the Company
During the period, Tawa UK Limited settled invoices with a value of $0.1 million on behalf of the Company. At the period end the balance owed to Tawa UK Limited in relation to this transaction was $0.1 million.

As disclosed in note 11, the Company has agreed to surrender group and consortium relief. The impact on these financial statements of relief to be surrendered to shareholders is set out below:

		31 Dec 2006 US$000
Profit and loss account		
Group/consortium relief surrendered to related parties		26,982
Balance sheet		
Other debtors	- due in more than one year	19,215
Other creditors	- payable within one year	1,615
	- payable in more than one year	8,952

24. Parent company

Following the sale of the share capital of the Company on 21 March 2006, the Company has not been a member of a group.