CX Reinsurance Company Limited

Report & Accounts

2007

CONTENTS

CHIEF EXECUTIVE OFFICER'S REVIEW

Summary

The surplus of the Company decreased by $5.9 million during 2007 to $92.2 million. The impact of strengthening certain claims provisions and the posting of additional provisions for future run-off costs together with unrealised losses generated by the spread widening experienced in the bond markets in the latter part of the year exceeded commutations profits.

Claims management

Tawa Management, the Company's run-off manager, has made further progress in the reduction of the insurance and reinsurance exposures. Although the total volume of reserves removed through commutation during the year was lower than planned, a number of key transactions were concluded and work continues on others which will be reflected in the 2008 accounts. Commutations have been achieved across all areas of the portfolio of liabilities, although reasonable progress has been made in reducing the Company's exposure to contracts with asbestos losses.

Since Tawa acquired the company, the volatility within the portfolio has been reduced markedly through the successful programme of commutations of liabilities and outwards protections, particularly those with the principal cedants with US professional indemnity exposures. Areas of volatility remain, however, as demonstrated by a number of claims developments experienced during the year. A large extended warranty claim was settled above reserves held and just before the year end, the requirement to settle an aggressive US industrial claim surprised the Company and several other market players. In addition, the impact of these claims and several other sizable payments was that claims paid exceeded the rate anticipated in the payment patterns applied to reserves, adversely affecting the impact of discount in the profit and loss account.

As reported last year, a key development in the mitigation of balance sheet risk occurred at the start of the year 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.

The various strategic options available to the company and the costs involved have been considered and evaluated. Over the past four years the Company has executed in excess of 300 deals resulting in excess of $850 million gross undiscounted reserve descale. The directors continue to hold the view that the most appropriate strategy for protecting the surplus of the company is to continue investing in the process of accelerating the run-off of the liabilities through commutations. Accordingly, the provision for Unallocated Loss Adjustment Expenses has been increased by $6m.

Asset and liability management

The Company's asset and liability matching strategy remains unchanged from previous years. Investment income was impacted by unrealised losses on asset backed securities and corporate bonds due to the market's reaction to concerns over sub-prime exposures and the consequent liquidity crunch. The investment portfolio has avoided any direct exposure to sub-prime mortgage products but the investment return was approximately £1 million less than the combination of the unwind of the discount and the impact of changes in interest rates on the discounted liabilities due to the negative returns on spread products, as analysed in the Financial Review. Investment performance in the early part of 2008 has continued to be impaired by further unrealised losses; however, the turbulence in the markets has not involved the Company in any forced sales of assets or any changes in the investment strategy.

The Company is working closely with its investment managers to enable the Company to benefit, as far as possible, from the unwinding of losses as market conditions improve and the bonds move closer to maturity, while managing the liquidity required for operations.

Future developments

The Company's directors and management are fully aware of the ongoing challenges inherent within the remaining gross liabilities of $332 million and continue to be committed to the delivery of the most suitable strategies for managing the Company's capital and risks.

Colin Bird
Chief Executive Officer

FINANCIAL REVIEW

Overview

The Company recorded a loss after tax of $5.9 million in the year to 31 December 2007 (21 March – 31 December 2006 profit of $44.0 million). As a consequence, the Company's surplus (shareholders' funds) decreased to $92.2 million at 31 December 2007 (31 December 2006: $98.1 million). The profit in 2006 was driven by the recognition of the benefits from the transfer of consortium tax relief to shareholders. A further $2 million from such transfers was recognised in 2007.

Technical account

Net earned premium for the period was $3.4 million (21 March – 31 December 2006: $2.8 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 $159.0 million (21 March – 31 December 2006: $254.2 million) and gross undiscounted reserves were reduced by $261.9 million (21 March – 31 December 2006: $336.4 million), after taking account of the impact of foreign exchange differences, to $332.0 million. Of this reduction, $74 million was attributable to the transfer of liabilities relating to business written through IGI to CNA Insurance Company Limited. The remainder is due to claims paid in the normal course of business and commutations recognised in the year.

Reinsurers' share of claims paid was $19.3 million (21 March – 31 December 2006: $12.8 million) and undiscounted reinsurance on reserves was reduced by $94.6 million (21 March – 31 December 2006: $44.4 million). The removal of reinsurance relating to IGI is the principal cause of the decrease in the reinsurance reserves.

As a result of the above, undiscounted reserves net of reinsurance decreased by 36.2% to $276.5 million as at 31 December 2007.

The impact of discounting for the time value of money in the balance sheet at 31 December 2007 was $64.3 million (31 December 2006: $116.0 million). The change in the discount reflected in the profit and loss account was $(54.4) million (21 March – 31 December 2006: $(82.2) 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 Company continues to use risk free yield curves for appropriate currencies in discounting its reserves and provides for unallocated loss adjustment expenses required to complete the run-off.

Taking into account the change in discount, discounted reserves net of reinsurance decreased by 33.2% to $212.3 million as at 31 December 2007.

Net operating expenses in the period were $4.0 million (21 March – 31 December 2006: income of $14.8 million). Expenses in 2007 comprised management fees payable; the income in 2006 was driven by reductions 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, foreign exchange rates and to liquidity risks and a conservative approach is adopted towards credit risk. 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 year was 4.8% (21 March – 31 December 2006: 4.0%). This return reflects the combination of unrealised gains due to decreases in interest rates across the yield curves and unrealised losses due to the underperformance of spread products, most significantly commercial mortgage-backed securities ("CMBS"), asset-backed securities ("ABS") and corporate bonds, in the last six months of the year.

Compared to duration adjusted risk free assets, negative returns based on US Lehman credit indices during 2007 were as follows: CMBS -4.35%; ABS -6.34%; corporate bonds -4.64% (financial institutions sector -6.87%). The Company's experience was broadly in line with these market indices. At the end of 2007, the portfolio comprised the following allocation by investment sector: Treasuries – 23%; Agencies – 2%; Corporate bonds 37%; CMBS/ABS 25%; cash and cash equivalents 13%.

FINANCIAL REVIEW (CONTINUED)

This underperformance of spread products has continued into 2008 as liquidity concerns reverberate around the global investment markets. Detailed and regular analysis of the Company's investment portfolio has been carried out in conjunction with the investment managers to understand the nature of underlying exposures and the quality of collateral. The portfolio has not experienced any write-downs for impairment and the investment managers do not have concerns about the relevant collateral for investments held. Wherever possible in the context of liquidity requirements, securities with unrealised losses will be retained to enable reversal of such losses through improvement of market conditions or maturity of investments.

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.

Stephen Baxter
Treasurer

REPORT OF THE DIRECTORS

The Directors present their thirty-sixth report together with the financial statements for the year ended 31 December 2007.

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 4, and the results for the year are set out on pages 9 and 10.

No dividend was declared or paid in the year (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 7 and unless otherwise indicated, all served throughout the year.

G M J Erulin and E M Rosenstiehl 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 2007 were $22.9 million (2006: $20.2 million). At the year end, the balance owed to Tawa Management was $ 3.3 million (2006: $ 1.4 million).

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 year (2006: $ nil).

Statement of Directors' responsibilities

The Directors are responsible for preparing the 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 Company for that year. 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 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;
- 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

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. This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

By order of the Board

Christopher Jones
Company Secretary
28 March 2008

CORPORATE INFORMATION

Directors

G M J Erulin - Chairman
C G Bird - Chief Executive Officer (Resigned as a director 4 May 2007)
J J Hendrickson– Non-Executive (Resigned 30 July 2007)
P A Jardine - Non-Executive
P M Marcell - Non-Executive
G Pagniez - Non-Executive
E M Rosenstiehl - Non-Executive
P T Blue - Non-Executive (Appointed 7 January 2008)
J R W Thirlwell - Non-Executive (Appointed 7 January 2008)

Head Office & Registered Office

The Isis Building
193 Marsh Wall
London
E14 9SG

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 year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, cash flow statement 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 2007 and of its loss for the year then ended;
- 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.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
31 March 2008

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2007

Technical Account – General Business

	Notes	1 Jan 2007 to 31 Dec 2007 US$000	US$000	21 Mar 2006 to 31 Dec 2006 US$000	US$000
Gross premiums written	4		**3,457**		2,818
Outward reinsurance premiums			**(87)**		26
Net premiums written and earned			**3,370**		2,844
Allocated investment income from the Non-Technical Account			**17,175**		14,990
Claims paid					
Gross amount		**(159,000)**		(254,160)	
Reinsurers' share		**19,527**		12,752	
		(139,473)		(241,408)	
Change in the provision for claims					
Gross amount		**261,943**		336,419	
Reinsurers' share		**(94,562)**		(44,407)	
Impact of discounting		**(54,407)**		(82,226)	
		112,974		209,786	
Net claims incurred	4		**(26,499)**		(31,622)
Net operating (expenses) / income	4,5		**(3,956)**		14,752
Balance on the Technical Account - General Business	4		**(9,910)**		964

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 13 to 24 form part of these financial statements.

PROFIT AND LOSS ACCOUNT (CONTINUED)

For the year ended 31 December 2007

Non-Technical Account

	Notes	1 Jan 2007 to 31 Dec 2007		21 Mar 2006 to 31 Dec 2006	
		US$000	US$000	US$000	US$000
Balance on the Technical Account - General Business			**(9,910)**		964
Investment return					
Investment income and realised gains	6	**12,812**		7,769	
Unrealised investment gains	6	**5,146**		7,907	
Investment expenses and charges	6	**(783)**		(686)	
Allocated to the Technical Account		**(17,175)**		(14,990)	
Other income	7		**1,093**		278
(Loss) / profit on ordinary activities before tax			**(8,817)**		1,242
Taxation	11		**2,948**		42,777
(Loss) / profit for the financial year	16		**(5,869)**		44,019

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 13 to 24 form part of these financial statements.

BALANCE SHEET
As at 31 December 2007

	Notes	31 Dec 2007 US$000	31 Dec 2006 US$000
Assets			
Investments			
Other financial investments	13	**305,530**	401,060
Reinsurers' share of technical provisions			
Claims outstanding	17	**36,715**	97,225
Debtors			
Debtors arising out of direct insurance operations		**202**	415
Debtors arising out of reinsurance operations		**44,608**	37,749
Other debtors	14	**19,950**	25,067
		64,760	63,231
Other assets			
Cash at bank and in hand		**1,268**	2,871
Prepayments and accrued income			
Other prepayments and accrued income		**2,173**	4,902
Total assets		**410,446**	569,289
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	**(432,369)**	(426,500)
Shareholders' funds attributable to equity interests		**92,187**	98,056
Technical provisions			
Claims outstanding	17	**248,968**	414,980
Creditors			
Creditors arising out of direct insurance operations		**2,824**	2,621
Creditors arising out of reinsurance operations		**30,099**	29,546
Other creditors including tax and social security	19	**36,368**	24,086
		69,291	56,253
Total liabilities		**410,446**	569,289

The notes on pages 13 to 24 form part of these financial statements.

These financial statements were approved by the Board of Directors on 28 March 2008 and were signed on its behalf on 28 March 2008 by:

Giles Erulin
Chairman

CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	1 Jan 2007 to 31 Dec 2007 US$000	21 Mar 2006 to 31 Dec 2006 US$000
Net cash inflow from general business	20	**(118,040)**	(257,879)
Net cash inflow from operating activities		**(118,040)**	(257,879)
Interest received	21	**1,838**	1,059
Taxation		**2,948**	42,777
		(113,254)	(214,043)
Cash flows were invested as follows:			
Decrease in cash holdings		**(1,603)**	(2,687)
Net portfolio investment:			
Fixed income securities	21	**(111,651)**	(211,356)
Net investment of cash flows		**(113,254)**	(214,043)

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.

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 year 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.

4. Segmental reporting

	Insurance Operations 31 Dec 2007 US$000	Reinsurance Operations 31 Dec 2007 US$000	Total 31 Dec 2007 US$000	Insurance Operations 31 Dec 2006 US$000	Reinsurance Operations 31 Dec 2006 US$000	Total 31 Dec 2006 US$000
Gross premiums written	**1,241**	**2,216**	**3,457**	21	2,797	2,818
Outward reinsurance premiums	**-**	**(87)**	**(87)**	(75)	101	26
Net premiums written	**1,241**	**2,129**	**3,370**	(54)	2,898	2,844
Gross earned premiums	**1,241**	**2,216**	**3,457**	21	2,797	2,818
Outwards reinsurance premiums	**-**	**(87)**	**(87)**	(75)	101	26
Net earned premiums	**1,241**	**2,129**	**3,370**	(54)	2,898	2,844
Allocated investment income from Non-Technical Account	**4,635**	**12,540**	**17,175**	2,446	12,544	14,990
Gross claims incurred	**30,552**	**72,391**	**102,943**	9,034	73,225	82,259
Reinsurers' share	**(2,710)**	**(72,325)**	**(75,035)**	(11,517)	(20,138)	(31,655)
Impact on discounting	**(17,650)**	**(36,757)**	**(54,407)**	(21,331)	(60,895)	(82,226)
Net claims incurred	**10,192**	**(36,691)**	**(26,499)**	(23,814)	(7,808)	(31,622)
Gross operating income	**(1,042)**	**(2,914)**	**(3,956)**	4,209	10,543	14,752
Reinsurers' share	**-**	**-**	**-**	-	-	-
Net operating income	**(1,042)**	**(2,914)**	**(3,956)**	4,209	10,543	14,752
Balance on the Technical Account - General Business	**15,026**	**(24,936)**	**(9,910)**	(17,213)	18,177	964

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

	31 Dec 2007 US$000	31 Dec 2006 US$000
Worldwide	**3,457**	2,818
	3,457	2,818

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) / income

	1 Jan 2007 to 31 Dec 2007 US$000	21 Mar 2006 to 31 Dec 2006 US$000
Acquisition costs	**(478)**	(997)
Other (expenses) / income including decreases to provisions for doubtful reinsurance recoveries	**(3,478)**	15,749
	(3,956)	14,752

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

6. Investment return

	1 Jan 2007 to 31 Dec 2007 US$000	21 Mar 2006 to 31 Dec 2006 US$000
Investment income	**14,639**	17,607
Realised investment losses	**(1,827)**	(9,838)
	12,812	7,769
Unrealised investment gains	**5,146**	7,907
Investment management expenses	**(783)**	(686)
Investment return	**17,175**	14,990

7. Other income

	1 Jan 2007 to 31 Dec 2007 US$000	21 Mar 2006 to 31 Dec 2006 US$000
Gains in relation to movements in foreign currency exchange rates	**1,093**	278
Other income	**1,093**	278

8. Employee's remuneration

	1 Jan 2007 to 31 Dec 2007 US$000	21 Mar 2006 to 31 Dec 2006 US$000
Wages and salaries	**548**	284
Social security costs	**70**	53
	618	337
Average number of employees	**1**	1

9. Directors' emoluments

	1 Jan 2007 to 31 Dec 2007 US$000	21 Mar 2006 to 31 Dec 2006 US$000
Highest paid Director		
Emoluments	**255**	284
	255	284
All Directors		
Emoluments	**641**	631
	641	631

10. Auditors' remuneration

Amounts payable to Deloitte & Touche LLP, and their associates, by the Company in respect of non audit services were $251,000 (21 March 2006 – 31 December 2006: $236,000). A more detailed analysis of auditors' remuneration basis is provided below:

	1 Jan 2007 to 31 Dec 2007 US$000	%	21 Mar 2006 to 31 Dec 2006 US$000	%
Audit services				
Services as auditors	**411**	**62**	432	65
Other Services				
Valuation and actuarial services	**251**	**38**	236	35
	663	**100**	668	100

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

11. Taxation

	1 Jan 2007 to 31 Dec 2007 US$000	21 Mar 2006 to 31 Dec 2006 US$000
Current tax		
UK Corporation tax on (loss) / profit for the period	**-**	-
Group / consortium relief recoverable at non-standard rates	**(2,948)**	(26,977)
Adjustment in respect of prior periods	**-**	(15,800)
Taxation	**(2,948)**	(42,777)
Deferred tax		
Origination and reversal of timing difference	**-**	-
Taxation	**-**	-

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:

	1 Jan 2007 to 31 Dec 2007 US$000	21 Mar 2006 to 31 Dec 2006 US$000
(Loss) / profit on ordinary activities before tax	**(8,817)**	1,242
Taxation at standard UK corporation tax rate of 30% (2006: 30%)	**(2,645)**	373
Effects of:		
Expenses not deductible for tax purposes	**1**	30
Capital allowances less than depreciation	**-**	(1)
Section 107 interest	**-**	(24,161)
Change in technical reserves disclaimed under FA2000 s107(4)	**(5,316)**	(110,491)
Value of unrecognised tax losses at 30%	**7,960**	134,250
	(0)	**(0)**
Group / consortium relief recoverable at non-standard rates	**(2,948)**	(26,977)
Adjustment in respect of prior periods	**-**	(15,800)
Taxation	**(2,948)**	(42,777)

The Company has agreed to surrender the benefit of tax losses relating to the year 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 $2.9 million (21 March 2006 - 31 December 2006: $42.8 million). Funds received have been paid into escrow accounts.

There is a deferred, unrecognised tax asset of $8.1 million (2006: $10.8 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 2007	31 Dec 2006
United Kingdom	**£0.50**	£0.51
Euro	**€ 0.74**	€ 0.67

13. Investments

	Market value		Cost	
	31 Dec 2007 US$000	31 Dec 2006 US$000	31 Dec 2007 US$000	31 Dec 2006 US$000
Listed variable yield securities and unit trusts	**33,659**	56,902	**31,179**	53,076
Listed debt securities and other fixed interest securities	**175,485**	255,341	**173,853**	258,780
Deposits with credit institutions	**96,386**	88,817	**94,771**	88,817
	305,530	401,060	**299,803**	400,673

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 $86.6 million (31 December 2006: $44.8 million) against an investment portfolio, and charges to the value of $0.04 million (21 March 2006 - 31 December 2006: $0.3 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 $95.5 million (31 December 2006: $159.6 million) and $60 million (31 December 2006: $59.8 million).

14. Other debtors

	31 Dec 2007 US$000	**31 Dec 2006 US$000**
Other debtors - due in more than one year	**-**	25,067
Other debtors - due in less than one year	**19,950**	-
	19,950	25,067

15. Called up share capital and shareholders' funds

	31 Dec 2007	**31 Dec 2006**
Called up share capital		
Authorised 400,000,000 ordinary shares of £1 each (2006: 400,000,000)	**400,000,000**	400,000,000
343,920,000 "A" non voting shares and 4,280 "B" voting shares of £1 each (2006: 343,920,000 "A" non voting shares and 4,280 "B" voting shares)	**$513,226,000**	$513,226,000

Shareholders' funds attributable to equity interests

	31 Dec 2007 US$000	**31 Dec 2006 US$000**
(Loss) / profit for the financial year	**(5,869)**	44,019
Shareholders' funds as at 1 January / 21 March	**98,056**	54,037
Shareholders' funds as at 31 December	**92,187**	98,056

16. Profit and loss account

	31 Dec 2007 US$000	31 Dec 2006 US$000
At 1 January / 21 March	**(426,500)**	(470,519)
Retained profit / (loss) for the period	**(5,869)**	44,019
At 31 December	**(432,369)**	(426,500)

17. Claims outstanding

	Claims 31 Dec 2007 US$000	Reinsurance 31 Dec 2007 US$000	Net 31 Dec 2007 US$000	Claims 31 Dec 2006 US$000	Reinsurance 31 Dec 2006 US$000	Net 31 Dec 2006 US$000
Provision before discounting	**332,039**	**55,533**	**276,506**	580,546	146,768	433,778
Discount	**(83,071)**	**(18,818)**	**(64,253)**	(165,566)	(49,543)	(116,023)
Net of discount	**248,968**	**36,715**	**212,253**	414,980	97,225	317,755

All claims outstanding and the provision for future administrative expenses are discounted to reflect the investment income which should be generated prior to settlement of the underlying claims and expenses.

The average mean term of the total portfolio of net liabilities is 8.45 years (21 March 2006 – 31 December 2006: 8.59 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 4.11% (31 December 2006: 4.87%).

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 year on prior year estimates, reflected in the Technical Account - General Business, prior to the impact of discounting, was a net gain of $35.6 million (31 December 2006: gain of $52.4 million), comprising movements in net earned premiums of (gain) $3.7 million, net incurred commissions of (loss) $0.5 million and net incurred claims (gain) of $32.4 million.

19. Other creditors including tax and social security

	31 Dec 2007 US$000	31 Dec 2006 US$000
Sundry creditors	**36,368**	24,086
	36,368	24,086

$0 million of the amount at 31 December 2007 is payable after more than one year (2006: $14.6 million).

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

	1 Jan 2007 to 31 Dec 2007		21 Mar 2006 to 31 Dec 2006	
	US$000	**US$000**	**US$000**	**US$000**
Operating (loss) / profit before taxation after interest		**(8,817)**		1,242
Unrealised gains	**(5,146)**		(7,907)	
Realised (gains) / losses	**-**		9,838	
Non cash investment income	**(12,812)**		(17,607)	
Decrease in general insurance technical provisions	**(111,393)**		(237,142)	
Decrease / (increase) in other debtors	**5,117**		(23,650)	
Decrease in prepayments	**2,729**		2,764	
Increase in creditors	**12,282**		14,583	
		(109,223)		(259,121)
Net cash inflow from operating activites		**(118,040)**		(257,879)

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

	1 Jan 2007 to 31 Dec 2007 US$000	21 Mar 2006 to 31 Dec 2006 US$000
Returns on investments and servicing of finance		
Interest received	**1,838**	1,059
Net cash inflow	**1,838**	1,059
Portfolio investments		
Purchase of fixed income securites	**(275,359)**	(208,087)
Sale of fixed income securites	**387,010**	419,443
Net cash inflow	**111,651**	211,356
Total net cash inflow	**113,489**	212,415

22. Movement in cash, portfolio investments and financing

	31 Dec 2006 US$000	Cash flow US$000	Changes to market value and currencies US$000	31 Dec 2007 US$000
Cash in hand, at bank	2,871	(1,603)	-	**1,268**
Current asset investments - Fixed income securities	401,060	(111,651)	16,120	**305,530**
Total	403,931	(113,254)	16,120	**306,798**

23. Related party transactions

The following have been identified as related parties of the Company for the year to 31 December 2007:

(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 plc (formerly 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 year were $22.9 million (21 March 2006 – 31 December 2006: $20.2 million). At the year end, the balance owed to Tawa Management Limited was $3.3 million (31 December 2006: $1.4 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 year the company settled invoices with a value of $0.1 million (21 March 2006 – 31 December 2006: $-0.1 million) on behalf of Tawa plc. At the year end the balance owed to Tawa plc in relation to this transaction was $0.1 million (31 December 2006: $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 2007 US$000	**31 Dec 2006 US$000**
Profit and loss account			
Consortium / group relief surrendered to related parties		**2,948**	26,982
Balance sheet			
Other debtors	- due in more than one year	**18,631**	19,215
Other creditors	- payable within one year	**32,983**	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.