Company Registration No. 01086556 (England and Wales)

CX REINSURANCE COMPANY LIMITED

DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

CX REINSURANCE COMPANY LIMITED

CONTENTS

CX REINSURANCE COMPANY LIMITED

COMPANY INFORMATION

DIRECTORS

G M J Erulin (Chairman)	
P A Jardine (Non Executive)	
Guy Lallour	(Appointed 6 February 2012)
P M Marcell (Non Executive)	(Resigned 6 February 2012)

SECRETARY

C H E Jones FCIS

COMPANY NUMBER

01086556

REGISTERED OFFICE

The Isis Building
193 Marsh Wall
London
E14 9SG

PRINCIPAL BANKERS

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

STATUTORY AUDITOR

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

CX REINSURANCE COMPANY LIMITED

CHIEF EXECUTIVE OFFICER'S REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2011

Summary

The Company made a loss after tax of $14.3 million in the year (2010: loss of $7.8 million), which was due to the need to increase the provision for expenses and to various aspects of claims management.. This result has reduced the Company's surplus (shareholders' funds) to $39.0 million at 31 December 2011 (2010: $53.4 million).

Claims Management

Tawa Management Limited, the Company's run-off manager, has made further progress in the reduction of the insurance and reinsurance exposures. This level of claims and commutations has reduced compared to previous years and the manager continues to explore the strategies for descaling the liabilities and mitigating the exposure to the remaining risks in the portfolio.

Since Tawa Management Limited became the Company's run-off manager, the volatility within the portfolio has been reduced significantly through the successful programme of commutations of liabilities and outwards protections. The movement in projections of the Company's remaining net claims reserves and bad debt provisions during the year was $1 million. In addition, costs of arbitrations were $3 million and the impact on the level of discount due to acceleration of the payment of certain claims was $2 million. Net undiscounted reserves now amount to just under $127 million, from a total of $1.6 billion at the point of acquisition by Tawa.

Asset and liability management

The Company's asset and liability matching strategy remains unchanged from previous years and is explained in the Finance Review. The Company's asset managers have taken further steps to reduce the levels of risk within the portfolio by lowering the allocations to bonds with a higher level of volatility. This strategy has largely shielded the Company's balance sheet from the impact of challenging conditions in bond markets, particularly during the third quarter of 2011.

Balances held relating to the surrender of tax losses

Following the reorganisation on 21 March 2006, the Company has surrendered tax losses by way of consortium relief relating to its accounting period ended 31 December 2006. These surrenders required the claimant companies to place in sterling escrow accounts in the name of the Company the amount of the consideration, which together with interest, at 31 December 2011 amounted to $66.9 million. The Company also carries creditor balances being amounts due to other parties from the proceeds of the transactions amounting to $31.8 million. Thus the net benefit to the Company at 31 December 2011 is $35.1 million. The proceeds will not be released from escrow until the claiming companies agree their tax returns for the relevant periods with HMRC. Should the losses not finally be available to the claiming companies, the proceeds would accrue back to the claiming companies and the benefit to the Company would reduce accordingly. The impact of changes in foreign exchange rates on the balances held in escrow net of the creditor balances was a loss of $0.5 million.

Since the year end $10.7 million has been transferred from the tax escrow accounts to the Company's free funds following closure of a related company's tax return by HMRC.

Costs

Costs recharged by the Company's manager, Tawa Management Limited in 2011 amounted to $5.6 million (2010: $6.4 million), including a performance bonus for 2010. In addition, a $2.5 million (2010: $2.5 million) management fee was paid to the manager.

Future developments

The various strategic options available to the Company and the costs involved have been considered and evaluated once again. The Directors continue to be of the view that the most appropriate strategy for protecting the surplus of the Company from claims is to continue the process of accelerating the run-off of the liabilities through commutations.

The Company's Directors, officers and managers are fully aware of the ongoing challenges and remain committed to the delivery of the most suitable strategies for managing the Company's capital and risks.

Colin Bird
Chief Executive Officer
28 March 2012

CX REINSURANCE COMPANY LIMITED

FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2011

Claims management

The Company continues to benefit from the extensive de-risking of the portfolio of liabilities since Tawa assumed management. The projection of ultimate net claims payable did not change significantly during the year, however the Company's net assets were reduced by $6 million due to arbitration costs and the impact of the rate of payment of claims being faster than assumed within the payment patterns on which the discounting of reserves is based.

Gross claims and run-off expenses paid during the period were $37.4 million (2010: $32.9 million) and gross undiscounted reserves were reduced by $28.2 million (2010: $24.1 million), after taking account of the impact of foreign exchange differences, to $156.0 million (2010: $184.4 million). Unallocated loss adjustment expenses charged in the year were $3.0 million.

Reinsurers' share of claims paid was $2.4 million (2010: $2.1 million) and undiscounted reinsurance on reserves was reduced by $2.4 million (2010: $1.1 million) to $29.0 million (2010: $31.4 million).

Undiscounted reserves net of reinsurance decreased by 17.0% (2010: 15.3%) to $127.0 million as at 31 December 2011 (2010: $153.0 million).

Net operating expenses, which exclude those costs charged to unallocated loss adjustment expenses and allocated loss adjustment expenses in the period, were $2.6 million (2011: $2.5 million), comprising management fees charged by Tawa Management Limited.

Asset and liability management ("ALM")

The key principles within the ALM strategy for the Company continue to be the mitigation of risks due to:

- changes in interest rates;
- changes in foreign exchange rates;
- illiquidity of assets;
- excess credit risk.

To address these risks the Company has consistently maintained a portfolio of highly rated, readily realisable assets which broadly matches the duration and currency of the liabilities. Average rating of the portfolio remains at AA. The objective each year is for the investment return to exceed the unwinding of the discount on the net reserves.

During 2011, the Company's net assets were reduced by $1 million due to the marked flattening of yield curves and under-performance of corporate bonds compared to treasuries (2010: increase in net assets of $4 million). The Company's assets continue to have a slightly shorter duration than the liabilities so that the Company will benefit when yield curves increase.

The Company's policy of matching the currency of assets and liabilities, subject to the assets held in escrow accounts described below, has ensured that changes in foreign currency rates have little effect on the Company's surplus.

The Company continues to apply risk free yield curves for principal currencies in discounting its reserves and provides for appropriate levels of unallocated loss adjustment expenses required to service the run-off. The impact of discounting for the time value of money in the balance sheet at 31 December 2011 was $18.9 million (2010: $31.9 million).

The loss due to changes in exchange rates disclosed in other expenses in the profit and loss account was $0.6 million (2010: loss of $1.6 million). This loss was attributable to the impact of the weakening of sterling against the US dollar during the year on the sterling assets held in the tax escrow accounts set up at the time of the reorganisation of the Company's share capital in 2006 and which relate to the surrender of consortium relief to the shareholders.

The Company closely monitors its liquidity needs and continues to work actively with US regulators to release funds held as collateral for US policyholders in order to provide free cash to settle liabilities not supported by collateral. The Company and its representatives have made significant progress during the year in the quest to reduce the collateral required by US regulators for alien accredited reinsurers in run-off.

Stephen Baxter
Treasurer
28 March 2012

CX REINSURANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

The Directors present their thirty-ninth annual report together with the financial statements of CX Reinsurance Company Limited ("the Company") for the year ended 31 December 2011.

Principal activity and review of business

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 will continue its principal activity in 2012 and beyond. The Company is regulated by the FSA. A review of the Company's business is set out in the Chief Executive Officer's Review and the Financial Review on pages 2, 3 and 4, and the results for the year are set out on pages 8 to 11.

Dividends

No dividends were declared or paid in the year (2010: $nil). The balance from the profit and loss account is to be transferred to reserves.

Going concern

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

Directors

The Directors of the Company are listed on page 1 and unless otherwise indicated, all served throughout the year.

Directors' indemnities

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

Political and charitable contributions

The Company made no political or charitable donations during the year (2010: $nil).

Risk management

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

- Insurance risk is the risk associated with the uncertainty and the quantum of the claim or the time when claims payments will fall due. In order to mitigate these risks, actuarial techniques are used to protect future claims payments. This is discussed further in note 3 to the accounts.
- Credit risk is the risk associated with the Company's reinsurance arrangements, investment portfolios, and other counterparty credit risks. When purchasing reinsurance the Company took account of the risk assessment, the financial strength of reinsurance counterparties and the cost of reinsurance protection. Additionally, the Company is subject to credit risk in respect of third party entities in which the Company holds debt securities issued by those entities. As a consequence of the established investment policies and in order to mitigate investment risk, the average credit quality of the portfolio must be rated A or higher and all securities must be rated BBB or higher. The actual average rating of the portfolios at 31 December 2011 was AA.
- Liquidity risk is the risk that there will be insufficient liquid resources available to fund insurance liability cash outflows when they fall due. The Company's practice is to invest in assets which are readily marketable and which broadly match the duration of the liabilities.

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

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

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

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

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

Auditors

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

Mazars LLP was appointed as the Group's auditor during the year. Mazars LLP will continue as auditor in accordance with section 487(2) of the Companies Act 2006.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

C H E Jones
Company Secretary
28 March 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CX REINSURANCE COMPANY LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2011

We have audited the financial statements of CX Reinsurance Company Limited for the year ended 31 December 2011, which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Andrew Heffron (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

28 March 2012

CX REINSURANCE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

Technical Account - General Business

	Notes	31 Dec 2011 US$000	31 Dec 2011 US$000	31 Dec 2010 US$000	31 Dec 2010 US$000
Earned premiums, net of reinsurance					
Gross premiums written and earned	4		(14)		(382)
Outward reinsurance premiums			49		(58)
Net premiums written and earned			35		(440)
Allocated investment income from the Non-Technical Account			10,178		12,237
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(37,391)		(32,854)	
Reinsurers' share		2,422		2,136	
Net claims paid		(34,969)		(30,718)	
Change in the provision for claims					
Gross amount		28,154		24,075	
Reinsurers' share		(2,368)		(1,079)	
Impact of discounting		(12,968)		(8,753)	
Change in the net provision for claims		12,818		14,243	
Net claims incurred	4		(22,151)		(16,475)
Net operating expenses	4,5		(1,805)		(3,732)
Balance on Technical Account for General Business	4		**(13,743)**		**(8,410)**

The notes on pages 11 to 24 form part of these financial statements.

CX REINSURANCE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

Non- Technical Account - General Business

	Notes	31 Dec 2011 US$000	31 Dec 2011 US$000	31 Dec 2010 US$000	31 Dec 2010 US$000
Balance on the Technical Account for General Business			(13,743)		(8,410)
Investment return					
Investment income and realised gains	6	6,714		7,540	
Unrealised gains on investments	6	3,483		4,752	
Investment expenses and charges	6	(19)		(55)	
Allocated to the Technical Account		(10,178)		(12,237)	
Interest payable			(7)		(24)
Other expenses	7		(587)		(1,825)
Operating loss on ordinary activities before taxation			(14,337)		(10,259)
Taxation on loss on ordinary activities	11		-		2,432
Loss on ordinary activities after taxation retained for the year	16		**(14,337)**		**(7,827)**

Since the Company ceased underwriting in August 2001, the results of the operations relate to the run-off of the insurance contracts. The Company continues to manage its general insurance and reinsurance business and all activties are continuing.

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

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

The notes on pages 11 to 24 form part of these financial statements.

CX REINSURANCE COMPANY LIMITED

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2011

	Notes	31 Dec 2011 US$000	31 Dec 2011 US$000	31 Dec 2010 US$000	31 Dec 2010 US$000
ASSETS					
Investments					
Other financial investments	**13**		174,470		198,994
Reinsurers' share of technical provisions					
Claims outstanding	**17**		22,372		21,265
Debtors					
Arising out of direct insurance operations		684		378	
Arising out of reinsurance operations		18,107		20,946	
Other debtors	**14**	-		2,879	
Total debtors			18,791		24,203
Other assets					
Cash at bank and in hand			3,507		2,428
Prepayments and accrued income					
Other prepayments and accrued interest			735		1,139
Total assets			**219,875**		**248,029**
LIABILITIES					
Capital and reserves					
Called up share capital	**15**	513,226		513,226	
Share premium account	**16**	11,330		11,330	
Profit and loss account	**16**	(485,518)		(471,180)	
Total equity shareholders' funds			39,038		53,376
Technical provisions					
Gross claims outstanding	**17**		130,423		142,367
Creditors					
Arising out of direct insurance operations		1,965		1,608	
Arising out of reinsurance operations		15,536		16,405	
Other creditors including taxation	**19**	32,913		34,273	
Total creditors			50,414		52,286
Total liabilities			**219,875**		**248,029**

The notes on pages 11 to 24 form part of these financial statements.

The financial statements of CX Reinsurance Company Limited (01086556) were approved by the Board of Directors and authorised for issue on 21 March 2012 and were signed on its behalf on 28 March 2012 by:

G M J Erulin (Chairman)

CX REINSURANCE COMPANY LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	31 Dec 2011 US$000	31 Dec 2010 US$000
Net cash outflow from operating activities	20	(33,634)	(40,361)
Returns on investments and servicing of financing	21	55	38
Taxation	21	-	2,432
		(33,579)	(37,891)
Capital expenditure and financial investment	21	34,659	34,020
Increase/(decrease) in cash holdings	22	**1,080**	**(3,871)**

The notes on pages 11 to 24 form part of these financial statements.

1. Basis of preparation

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

Going concern

The Directors have reviewed the position of the Company in relation to its assets and liabilities and its estimates of future cash flows. They have considered the position of the Company's investments, reinsurance assets and assets relating to the surrender of tax losses, compared to the technical provisions and the costs of the run-off. In addition they have assessed the Company's liquidity with regard to expected future cash flows. In light of these reviews they have concluded that it is appropriate to adopt the going concern basis in preparing the annual report and accounts.

2. Accounting policies

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

a) Basis of accounting for underwriting activities

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

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) 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.

d) 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.

e) 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.

2. **Accounting policies (continued)**

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.

f) Run-off provision

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

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 marked 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. Transactions in foreign currencies are recorded using the rates of exchange ruling at the date the transaction occurs. Monetary assets and liabilities are translated into US dollars at rates of exchange ruling at the balance sheet date. These translation differences are dealt with in the non-technical account.

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

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.

2. Accounting policies (continued)

l) Taxation

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

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, risks 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 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 2e, 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 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 payments profiles attributable to claims payments and related reinsurance recoveries; and
(iii) the future rate of return expected on invested assets.

3. Estimation techniques, risks and uncertainties (continued)

Risks and 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 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 risks and 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.

(ii) Surrendered tax losses

Following the reorganisation on 21 March 2006, the Company has surrendered tax losses by way of consortium relief relating to its accounting period ended 31 December 2006. These surrenders required the claimant companies to place in sterling escrow accounts in the name of the Company the amount of the consideration, which together with interest, at 31 December 2011 amounted to $66.9 million (2010: $65.4 million). The Company also carries creditor balances being amounts due to other parties from the proceeds of the transactions amounting to $31.8 million (2010: $32.2 million). Thus the net benefit to the Company at 31 December 2011 is $35.1 million (2010: $35.4 million). The proceeds will not be released from escrow until the claiming companies agree their tax returns for the relevant periods with HMRC. Should the losses not finally be available to the claiming companies, the proceeds would accrue back to the claiming companies and the benefit to the Company would reduce accordingly.

(iii) Investments

The Company is exposed to market risk and credit risk on its invested assets. Market risk includes the risk of potential losses from adverse movements in market rates and prices including interest rates and foreign currency exchange rates. The interest rate risk is concentrated in investments in US dollar, sterling and euros and is sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets.

CX REINSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2011

4. Segmental reporting

	Insurance property 31 Dec 2011 US$000	Insurance liability 31 Dec 2011 US$000	Insurance financial loss 31 Dec 2011 US$000	Insurance other 31 Dec 2011 US$000	Reinsurance Operations 31 Dec 2011 US$000	Total 31 Dec 2011 US$000
Gross premiums written and earned	47	92	(1)	35	(187)	(14)
Outward reinsurance premiums	-	-	-	-	49	49
Net premiums written and earned	47	92	(1)	35	(138)	35
Allocated investment income from Non-Technical Account	-	5,357	-	-	4,821	10,178
Gross claims incurred	16	(4,864)	(92)	250	(4,547)	(9,237)
Reinsurer's share	(156)	462	(8)	(25)	(219)	54
Impact on discounting	(300)	(6,454)	2	33	(6,249)	(12,968)
Net claims incurred	(440)	(10,856)	(98)	258	(11,015)	(22,151)
Net operating expenses	(45)	(857)	(131)	(2)	(770)	(1,805)
Balance on the Technical Account - General Business	(438)	(6,264)	(230)	291	(7,102)	(13,743)

	Insurance property 31 Dec 2010 US$000	Insurance liability 31 Dec 2010 US$000	Insurance financial loss 31 Dec 2010 US$000	Insurance other 31 Dec 2010 US$000	Reinsurance Operations 31 Dec 2010 US$000	Total 31 Dec 2010 US$000
Gross premiums written and earned	-	19	1	(1)	(401)	(382)
Outward reinsurance premiums	-	-	-	-	(58)	(58)
Net premiums written and earned	-	19	1	(1)	(459)	(440)
Allocated investment income from Non-Technical Account	-	6,093	-	-	6,144	12,237
Gross claims incurred	643	(18,574)	(1,214)	(20)	10,386	(8,779)
Reinsurer's share	(855)	1,421	86	407	(2)	1,057
Impact on discounting	(222)	(4,205)	3	1	(4,330)	(8,753)
Net claims incurred	(434)	(21,358)	(1,125)	388	6,054	(16,475)
Net operating expenses	(4)	(1,396)	(156)	6	(2,182)	(3,732)
Balance on the Technical Account - General Business	(438)	(16,642)	(1,280)	393	9,557	(8,410)

4. Segmental reporting (continued)

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

	31 Dec 2011 US$000	31 Dec 2010 US$000
United States	(12)	(182)
United Kingdom	-	(4)
Europe	-	(160)
Worldwide	(2)	(37)
	(14)	(382)

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

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

5. Net operating expenses

	31 Dec 2011 US$000	31 Dec 2010 US$000
Acquisition costs	817	(140)
Other expenses	(2,622)	(3,592)
	(1,805)	(3,732)

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

6. Investment return

	31 Dec 2011 US$000	31 Dec 2010 US$000
Investment income	3,982	5,903
Realised investment gains	2,732	1,637
	6,714	7,540
Unrealised investment gains	3,483	4,752
Investment management expenses	(19)	(55)
Investment return	10,178	12,237

7. Other expenses

	31 Dec 2011 US$000	31 Dec 2010 US$000
Write offs	(4)	(29)
Losses in relation to movements in foreign currency exchange rates	(583)	(1,796)
	(587)	(1,825)

8. Employees' remuneration

The Company has no staff and no associated costs (2010: $nil), all staff costs are paid by another company within the Tawa Group

9. Directors' emoluments

	31 Dec 2011 US$000	31 Dec 2010 US$000
Highest paid Director		
Emoluments	55	58
	55	58
All Directors		
Emoluments	109	213
	109	213

10. Auditor's remuneration

Amounts payable to Mazars LLP, and their associates, by the Company in respect of non-audit services were $nil (2010: $nil). A more detailed analysis of auditors' remuneration is provided below:

	31 Dec 2011		31 Dec 2010	
	US$000	%	US$000	%
Audit services				
Services as auditors	84	100	218	100
	84	100	218	100

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

11. Taxation

	31 Dec 2011 US$000	31 Dec 2010 US$000
Current taxation		
UK Corporation tax on loss for the period	-	-
Group / consortium relief recoverable at non-standard rates	-	2,432
Taxation	-	2,432
Deferred taxation		
Origination and reversal of timing difference	-	-
Total taxation on loss on ordinary activities	-	-

	31 Dec 2011 US$000	31 Dec 2010 US$000
Loss on ordinary activities before taxation	(14,337)	(10,259)
Taxation at standard UK Corporation Tax rate of 26.5% (2010: 28%)	(3,799)	(2,873)
Effects of:		
Consortium relief surrendered	508	-
Value of unrecognised tax losses at 26.5% (2010: 28%)	3,291	2,873
	-	-
Group/consortium relief recoverable at non-standard rates	-	2,432
Taxation	-	2,432

The Company has surrendered the benefit of tax losses to members of the consortium which own the Company's A shares during the current year of $nil (2010: $2.4 million).

There is an unrecognised deferred tax asset of $8.6 million (2010: $6.5 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 2011	31 Dec 2010
United Kingdom	£0.64	£0.63
Europe	€0.85	€0.84

13. Investments

	Market value		Cost	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	US$000	US$000	US$000	US$000
Listed variable yield securities and unit trusts	1,073	11,257	1,089	11,791
Listed debt securities and other fixed interest securities	96,605	113,691	92,686	112,708
Deposits with credit institutions	76,792	74,046	76,332	73,594
	174,470	198,994	170,107	198,093

In accordance with normal market practice, Citibank N.A. and Barclays Bank PLC have issued letters of credit for outstanding losses. The collateral against these letters of credit includes a pledge to the value of $9.5 million (2010: $10.2 million) against an investment portfolio.

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 $40.3 million (2010: $52.2 million) and $34.8 million (2010: $37.8 million).

Investments include $61.8 million (2010: $62.5 million) of deposits with credit institutions which are held in sterling escrow accounts, being the proceeds of the surrender of tax losses by way of consortium relief for 2006. An additional $5.1 million (2010: $2.8 million) of deposits with credit institutions are held in sterling escrow accounts by way of consortium relief for 2007. The Company also carries creditor balances being amounts due to other parties from the proceeds of the transactions amounting to $31.8 million (2010: $32.1 million), thus the net benefit to the Company at 31 December 2011 is $35.1 million (2010: $33.2 million).

14. Other debtors

	31 Dec 2011	31 Dec 2010
	US$000	US$000
Other debtors - due in less than one year	-	2,879

15. Share capital and shareholders' funds

	31 Dec 2011	31 Dec 2010
Called up share capital		
Authorised 400,000,000 ordinary shares of £1 each (2010: 400,000,000)	400,000,000	400,000,000
	US$000	US$000
343,920,000 "A" non voting shares and 4,280 "B" voting shares of £1 each (2010: 343, 920,000 "A" non voting shares and 4,280 "B" voting shares)	513,226	513,226

Shareholders' funds attributable to equity interests

	31 Dec 2011 US$000	31 Dec 2010 US$000
Loss for the financial year	(14,337)	(7,827)
Shareholders' funds brought forward	53,375	61,202
Shareholders' funds as at 31 December 2011	39,038	53,375

16. Movements on reserves

	Share premium account US$000	Profit and loss account US$000	Total US$000
At 1 January	11,330	(471,180)	(459,850)
Retained loss for the year	-	(14,337)	(14,337)
At 31 December	11,330	(485,518)	(474,188)

17. Claims outstanding

	Gross Claims 31 Dec 2011 US$000	Reinsurance 31 Dec 2011 US$000	Net 31 Dec 2011 US$000	Gross Claims 31 Dec 2010 US$000	Reinsurance 31 Dec 2010 US$000	Net 31 Dec 2010 US$000
Provision before discounting	155,977	29,049	126,928	184,420	31,429	152,991
Discount	(25,554)	(6,677)	(18,877)	(42,053)	(10,164)	(31,889)
Net of discount	130,423	22,372	108,051	142,367	21,265	121,102

All claims outstanding and the provision for unallocated loss adjustment expenses are discounted to reflect the investment income which should be generated prior to settlement of the underlying claims and $3.5 million (2010 $4.0m).

The average mean term of the total portfolio of net liabilities is 8.51 years (2010: 8.5 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 1.97% (2010: 2.86%).

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 loss of $9.148 million (2010: loss of $8.022 million), comprising movements in net earned premiums of profit $0.035 million (2010 loss $0.44 million), net incurred commissions of profit $0.8 million (2010: loss $0.14 million) and net incurred claims (loss) of $8.313 million (2010: loss $7.722 million).

19. Other creditors including taxation

	31 Dec 2011 US$000	31 Dec 2010 US$000
Sundry creditors	32,913	34,273
	32,913	34,273

$31.8 million (2010: $32.1 million) of sundry creditors is surrendered tax losses, see note 3(ii)

20. Cash flow: Reconciliation of operating loss to net outflow from operating activities

	31 Dec 2011		31 Dec 2010	
	US$000	US$000	US$000	US$000
Operating loss		(14,337)		(10,259)
Unrealised gains	(3,483)		(4,752)	
Realised gains	(2,732)		(1,637)	
Non cash investment income	(3,975)		(5,879)	
Decrease in general insurance technical provisions	(11,030)		(15,419)	
Decrease/(increase) in other debtors	2,879		(2,856)	
Decrease in prepayments	404		333	
(Decrease)/increase in creditors	(1,360)		108	
		(19,297)		(30,102)
Net cash outflow from operating activities		(33,634)		(40,361)

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

	31 Dec 2011 US$000	31 Dec 2010 US$000
Returns on investments and servicing of financing		
Interest received	62	62
Interest paid	(7)	(24)
Net cash inflow	55	38
Taxation		
Group / consortium relief recoverable at non-standard rates	-	2,432
Net cash inflow	-	2,432
Portfolio investments		
Purchase of fixed income securities	(197,493)	(138,979)
Sale of fixed income securities	232,152	172,999
Net cash inflow	34,659	34,020
Total net cash inflow	34,714	36,490

22. Movement in cash, portfolio investments and financing

	31 Dec 2010 US$000	Cash flow US$000	Changes to market value and currencies US$000	31 Dec 2011 US$000
Cash in hand, at bank	2,428	1,079	-	3,507
Current asset investments - Fixed income securities	198,994	(34,659)	10,135	174,470
Total	201,422	(33,580)	10,135	177,977

23. Related party transactions

The following have been identified as related parties of the Company for the year to 31 December 2011:

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

Tawa Management Limited

The Company has a management agreement with 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 $7.7 million (2010: $9.9 million). At the year end the balance owed to Tawa Management Limited was $1.0 million (2010: $2.1 million).

Tawa Consulting Limited

Tawa Consulting Limited provides run-off management services to the Company. Fees charged by Tawa Consulting Limited in 2011 is nil (2010: $0.04 million).

Directors of the Company

Directors' emoluments are disclosed in note 9.

Shareholders of the Company

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 2011	31 Dec 2010
		US$000	**US$000**
Balance sheet			
Other debtors	- due in more than one year		
	Bupa	-	**2,264**
	Christies	-	**168**
Other creditors	- payable within one year	**31,848**	**32,165**

24. Controlling party

The Company is owned by a consortium and the Directors do not believe that any one member of the consortium exercises control and consequently the Company does not have an ultimate controlling party.