

**DEUTSCHE RÜCK UK REINSURANCE COMPANY
LIMITED**

REPORT AND ACCOUNTS

YEAR ENDED 31ST DECEMBER 2007

**Moore Stephens LLP
Chartered Accountants**

Deutsche Rück UK Reinsurance Company Limited

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Deutsche Rück UK Reinsurance Company Limited

COMPANY INFORMATION

Company number	995292
Directors	J. Rehmann J. A. W. Robinson G.Mudrack
Secretary	Chiltington International Limited
Registered office	Holland House 1-4 Bury Street London EC3A 5AW
Auditors	Moore Stephens LLP Chartered Accountants St. Paul's House Warwick Lane London EC4M 7BP
Bankers	Barclays Bank Plc 1 Churchill Place London E14 5HP HSBC Bank Plc 60 Fenchurch Street London EC3M 4BA Hypo-und Vereinsbank AG Alter Wall 22 20457 Hamburg Germany

Deutsche Rück UK Reinsurance Company Limited

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st December 2007

Principal activity and review of business

The company's principal activity is the run off of its reinsurance business. On 13th July 1993 the company ceased underwriting new business and is now running off the previous business of the company.

In 2007 the Company accepted a transfer of two portfolios of assumed reinsurance business from its parent company in Germany, Deutsche Rückversicherung Aktiengesellschaft. This transfer was made following approval on 4 October 2007 by the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin") in accordance with Section 121f para. 1 of the German Insurance Supervisory Act VAG (*Versicherungsaufsichtsgesetz*). The business accepted is also in run-off. The Company is not expected to accept any other business in the foreseeable future.

The run-off mainly comprises the payment of reinsurance liabilities and the investment of assets. The technical provisions, including those assumed through the transfer decreased by £551,607 in the year (2006 £57,346) and total claims paid were £708,529 (2006 (£16,644)). Investment income of £420,629 (2006 £86,105) exceeded the claims cost. This is the principle factor contributing to the increase in net assets for the year of £173,105.

Results and dividends

After payment of all expenses the company had a profit after tax for the year of £173,105 (2006 profit £52,144) which was transferred to reserves leaving a surplus carried forward of £682,105 (2006 £509,000). The directors do not recommend the payment of a dividend (2006 £nil).

Risk exposure

The company is exposed to risk, mainly through its financial assets and technical provisions, which give rise to insurance, market and operational risks. The key financial risk is that financial assets are not sufficient to fund claims and the expenses for handling the claims and all other run off activities as they fall due.

The company manages these risks as set out below:

- **Insurance risk** – The primary risk is that the technical provisions are inadequate. The Company appointed external actuaries to project the reserves and the actual development is monitored against these projections.
- **Market risk** – Market risks arise in the investment portfolio, principally from the risks that interest rate changes will cause a loss, that currencies will move so as to create a mismatch of per currency assets and liabilities, that credit risk results in a loss in investment value and that liquidity risk causes investments to be sold prematurely at a loss. Investments are managed through the parent company, following guidelines approved by the Board designed to avoid counterparty concentration and low rated investments. The investment portfolio is structured based on the currencies in which liabilities are denominated and the expected period over which the reserves are projected to be paid.
- **Operational risk** – These are risks of potential increased costs due to outside events. Examples are the catastrophic loss of records due to fire or loss due to extraordinary change in the legal environment. The company minimizes the risks of physical loss and the directors assess the appropriateness of operating assumptions in order to minimize future loss.

Deutsche Rück UK Reinsurance Company Limited

DIRECTORS' REPORT

Key performance indicators

The company principally monitors two key performance indicators. These are:

- The relationship of paid to incurred claims, which indicates the sufficiency of prior period reserves in respect of settled claims and claim expenses. For 2007, expenditure increased over the prior year, but remained less than investment income.
- The trend in administration expenses in relationship to investment income indicates the performance in minimising cost and meeting costs out of investment income. For 2007, expenditure remained less than investment income.

Directors and their interest

The following is a list of the directors who served during the year.

J. Rehmann
J.A.W. Robinson
G.Mudrack

The company is a wholly owned subsidiary of Deutsche Rückversicherung Aktiengesellschaft, a company incorporated in Germany. No director held any shares in the company or the parent company at any time during the year.

Statement as to disclosure of information to auditors

In accordance with s234ZA of the Companies Act 1985 each of the directors at the date of the approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with s385 of the Companies Act 1985, a resolution proposing the reappointment of Moore Stephens LLP as auditors to the company will be put to the Annual General Meeting.

By order of the Board



For and on behalf of Chilton International Limited
Secretary

Date: 17 March 2008

Deutsche Rück UK Reinsurance Company Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practices (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 of the profit or loss of the company for that period. In preparing those 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;
- 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 that 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.

Deutsche Rück UK Reinsurance Company Limited

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DEUTSCHE RÜCK UK REINSURANCE COMPANY LIMITED

We have audited the financial statements of Deutsche Rück UK Reinsurance Company Ltd for the year ended 31st December 2007 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 14. 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 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.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

Moore Stephens LLP

Registered Auditors and
Chartered Accountants

St. Paul's House
Warwick Lane
London, EC4M 7BP

Date: 27 March 2008

Deutsche Rück UK Reinsurance Company Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2007

TECHNICAL ACCOUNT – GENERAL BUSINESS		<i>Notes</i>	2007	2006
			£	£
Claims paid	- gross amount		708,529	(16,644)
	- reinsurers' share		-	-
	- net of reinsurance		<u>708,529</u>	<u>(16,644)</u>
Change in provision for claims	- gross amount		(551,607)	(57,346)
	- reinsurers' share		-	-
	- net of reinsurance		<u>(551,607)</u>	<u>(57,346)</u>
Claims incurred net of reinsurance		3	156,922	(73,990)
Net operating expenses – administrative expenses			15,258	68,247
TOTAL CHARGES			<u>172,180</u>	<u>(5,743)</u>
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS			<u>(172,180)</u>	<u>5,743</u>

Deutsche Rück UK Reinsurance Company Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2007

NON-TECHNICAL ACCOUNT	<i>Notes</i>	2007 £	2006 £
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		<u>(172,180)</u>	<u>5,743</u>
Investment income	7	393,549	206,985
Unrealised gain/(loss) on fixed income securities		27,080	(120,880)
Loss on sale of fixed income securities		-	(10,380)
Investment expenses		(7,054)	-
Other Income		<u>2,168</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		243,563	81,468
Tax charge on profit on ordinary activities	8	(70,458)	(29,324)
PROFIT RETAINED FOR THE FINANCIAL YEAR		<u><u>173,105</u></u>	<u><u>52,144</u></u>

On 13th July 1993 the company ceased underwriting new business, but continued to service existing business at that date. In 2007 the company accepted a transfer of two portfolios of assumed reinsurance business from its parent company. The business accepted is also in run off. In this respect activities are classed as continuing, on a run-off basis.

There were no recognised gains or losses for 2007 or 2006 other than those included in the profit and loss account.

Deutsche Rück UK Reinsurance Company Limited

BALANCE SHEET AS AT 31ST DECEMBER 2007

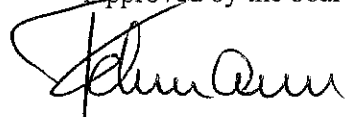
ASSETS	Notes	2007 £	2006 £
INVESTMENTS			
Other financial investments	14	19,940,838	4,008,610
Deposits with ceding undertakings		<u>267,667</u>	<u>-</u>
		<u>20,208,505</u>	<u>4,008,610</u>
DEBTORS			
Other debtors		-	2,269
OTHER ASSETS			
Cash at bank		181,431	374,759
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		71,152	65,479
Other prepayments and accrued income		<u>2,923</u>	<u>2,764</u>
		<u>74,075</u>	<u>68,243</u>
TOTAL ASSETS		<u>20,464,011</u>	<u>4,453,881</u>

Deutsche Rück UK Reinsurance Company Limited

BALANCE SHEET
AS AT 31ST DECEMBER 2007

LIABILITIES	<i>Notes</i>	2007 £	2006 £
CAPITAL AND RESERVES			
Called up share capital	9	2,800,000	2,800,000
Capital reserve	10	10,475	10,475
Profit and loss account	10	682,105	509,000
Shareholders' funds attributable to equity interests		<u>3,492,580</u>	<u>3,319,475</u>
TECHNICAL PROVISIONS			
Claims outstanding - gross amount		<u>12,540,384</u>	<u>542,544</u>
CREDITORS			
Creditors arising out of reinsurance operations		<u>4,285,487</u>	<u>576,225</u>
OTHER CREDITORS			
Corporation Tax		<u>70,459</u>	-
ACCRUALS AND DEFERRED INCOME			
		<u>75,101</u>	<u>15,637</u>
TOTAL LIABILITIES			
		<u>20,464,011</u>	<u>4,453,881</u>

Approved by the board of Directors on 17 March 2008


Director

Deutsche Rück UK Reinsurance Company Limited

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31ST DECEMBER 2007

	2007	2006
	£	£
Reconciliation of operating profit to operating cash flows		
Profit on ordinary activities before tax	243,563	5,743
Non cash movements on cash and portfolio investments	(593,951)	(53,845)
Investment return	(393,545)	-
Increase in other debtors	(163)	(1,376)
Increase in claims reserve deposits		
	Portfolio transfer in	-
	Other movements	-
	(474,027)	
	206,360	
Increase/(decrease) in technical provisions:		
	Portfolio transfer in	-
	Other movements	(55,746)
	11,447,469	
	550,370	
Increase/(decrease) in ceding companies & brokers:		
	Portfolio transfer in	-
	Other movements	(13,134)
	3,888,531	
	(179,269)	
Increase/(decrease) in other creditors relating to operating activities	59,464	(4,999)
Net cash outflow from operating activities	<u>14,754,802</u>	<u>(123,357)</u>

CASH FLOW STATEMENT

	2007	2006
	£	£
Net cash inflow/(outflow) from operating activities	14,754,802	(123,357)
Return on investments:		
Interest received	387,876	189,683
Taxation recovered	2,269	-
Management of liquid resources		
Purchase of corporate bonds	-	(492,420)
Sale of corporate bonds	-	306,090
Funds placed on short term deposit	(15,338,083)	-
	<u>(15,338,083)</u>	<u>(186,330)</u>
Decrease in cash holdings (Note 13)	<u>(193,136)</u>	<u>(120,004)</u>

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

1. ACCOUNTING POLICIES

Disclosure requirements

The accounts have been prepared in compliance with the special provisions relating to insurance companies of section 255 of, and Schedule 9A to, the Companies Act 1985.

Standard accounting practice

The accounts comply with applicable accounting standards. In addition, the company has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business (December 2005 (as amended in December 2006)) issued by the Association of British Insurers.

Historical cost convention

The accounts have been prepared under the historical cost convention which takes no account of the effect of inflation.

Foreign currencies

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Exchange profits and losses are included in administrative expenses in the profit and loss account.

Insurance funds

Provision is made on the basis of available information for the estimated ultimate cost of claims notified but not settled at the date of the balance sheet. Provision reflects claims settlement expenses and anticipated reinsurance and other recoveries.

Liabilities assumed through portfolio transfers are directly included in technical provisions without any entries in the profit and loss technical account at the date of transfer.

Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date. No provision is made for taxation on permanent timing differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

Investments

All investments are stated at current value in the balance sheet which represents mid-market value on the balance sheet date. Unrealised gains and losses are taken to the profit and loss account.

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2007

2. PORTFOLIO TRANSFER

During the year the company accepted two portfolios of assumed reinsurance business from its parent company by way of a portfolio transfer. The business accepted is in run-off.

The financial effect of this transaction was to transfer £12,087,469 of gross reserves to the company. Consideration of the same amount was received, comprising:

	£
Deposits with ceding undertakings	474,027
Cash and investments	15,501,973
Creditors arising out of reinsurance operations	<u>(3,888,531)</u>
	<u>£12,087,469</u>

3. SEGMENTAL INFORMATION

	2007 Reinsurance £	2006 Reinsurance £
Gross claims incurred	156,922	(73,990)
Gross operating expenses	<u>15,258</u>	<u>68,247</u>
Gross technical result	172,180	(5,743)
Reinsurance balance	<u>-</u>	<u>-</u>
Net technical result	<u>172,180</u>	<u>(5,743)</u>
Net technical provisions	<u>£12,540,384</u>	<u>£542,544</u>

The company wrote only reinsurance business therefore analysis of business between major direct classes is not applicable.

4. EXPENDITURE

Amounts charged/(credited) to the profit and loss account include:-

	2007 £	2006 £
Exchange loss/(gain)	31,023	(53,845)
Auditors' remuneration – audit	<u>20,562</u>	<u>8,225</u>

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2007

	2007 £	2006 £
5. STAFF COSTS		
Wages and salaries	8,668	7,100
Social security costs	1,085	844
	<u>9,753</u>	<u>7,944</u>

The average weekly number of employees, including executive directors during the year was comprised as follows:-

Administration	<u>2</u>	<u>2</u>
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	2007 £	2006 £
6. DIRECTORS' EMOLUMENTS		
Fees	<u>5,450</u>	<u>3,000</u>

	2007 £	2006 £
7. INVESTMENT INCOME		
Interest receivable	<u>393,549</u>	<u>206,985</u>

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2007

	2007	2006
	£	£
8. TAXATION		
The charge for taxation comprises:		
Current tax:		
United Kingdom corporation tax at 30% (2006 - 30%)	70,458	29,324
	<u>70,458</u>	<u>29,324</u>
Total charge	<u>70,458</u>	<u>29,324</u>
The tax assessed for the year ended 31 December 2007 is lower than the standard rate of corporation tax in the UK of 30% (2006 – 30%):		
Profit on ordinary activities before tax	<u>243,563</u>	<u>81,468</u>
Taxation at standard rate of 30% (2006: 30%)	73,069	24,440
Expenses not deductible for tax purposes	186	106
Capital allowances in excess of depreciation	(47)	(63)
Tax adjustment in respect of GIR(T) REG. 2001	3,509	14,974
Small companies relief	(6,259)	(10,133)
Current tax charge for period	<u>70,458</u>	<u>29,324</u>
9. SHARE CAPITAL	2007	2006
	£	£
Authorised		
2,800,000 Ordinary shares of £1 each	<u>2,800,000</u>	<u>2,800,000</u>
Allotted, issued and fully paid		
2,800,000 Ordinary shares of £1 each	<u>2,800,000</u>	<u>2,800,000</u>

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £	Capital reserve £	Profit and loss account £	Total £
At 1 st January 2007	2,800,000	10,475	509,000	3,319,475
Retained profit for the year	-	-	173,105	173,105
At 31 st December 2007	<u>2,800,000</u>	<u>10,475</u>	<u>682,105</u>	<u>3,492,580</u>

11. PARENT COMPANY

The immediate and ultimate holding company is Deutsche Rückversicherung Aktiengesellschaft, a company incorporated in Germany.

12. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary, the company has taken advantage of the exemption allowed by FRS 8 not to disclose related party transactions with Deutsche Rückversicherung Aktiengesellschaft and its subsidiaries.

13. MOVEMENT IN CASH AND PORTFOLIO INVESTMENTS

	At 1 st January 2007 £	Cash flow £	Other non- cash changes £	At 31 st December 2007 £
Cash in hand and at bank	374,759	(193,136)	(192)	181,431
Current asset investments	4,008,610	15,338,083	594,145	19,940,838
Total	<u>4,383,369</u>	<u>15,144,947</u>	<u>593,953</u>	<u>20,122,269</u>

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

14. INVESTMENTS

	Current Value		Historical Cost	
	2007	2006	2007	2006
	£	£	£	£
Other financial investments:				
Fixed income securities	4,035,690	4,008,610	4,108,080	4,108,080
Deposits with credit institutions	15,905,148	-	15,905,148	-
Total Investments	<u>19,940,838</u>	<u>4,008,610</u>	<u>20,013,228</u>	<u>4,108,080</u>