

**DEUTSCHE RÜCK UK REINSURANCE COMPANY
LIMITED**

REPORT AND ACCOUNTS

YEAR ENDED 31ST DECEMBER 2009

**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
Secretary	Chilington 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 HSBC Trinkaus & Burkhardt AG Königsallee 21/23 40212 Düsseldorf Germany 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 2009.

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.

The Company implemented a solvent Scheme of Arrangement pursuant to Part 26 of the Companies Act 2006 during 2009 dealing with all the Company's reinsurance business, with the exception of two contracts against which the Company has the benefit of an indemnity from a third party for the entire claim under these contracts. The scheme became effective on 16th June 2009 and creditors had a period of six months until 15th December 2009 to file their claims against the Company. No further claims can now be made against the Company. It is expected that all claims will be settled during 2010 and the run off of the insurance business will be complete.

The run off mainly comprises the payment of reinsurance liabilities and the investment of assets. The technical provisions decreased in the year by £14,754,169 (2008 increase £166,942) and the total claims paid were £1,805,281 (2008 - £454,809). Investment income and gains on fixed income securities were £1,409,309 (2008 - £1,309,808). As a result of these factors, net assets increased in the year by £10,672,472.

Results and dividends

After payment of all expenses the company had a profit after tax for the year of £10,672,472 (2008 profit £267,410) which was transferred to reserves leaving a surplus carried forward of £11,621,987 (2008 £949,515). The directors did not recommend the payment of a dividend in 2009 (2008 - £nil) but expect to do so in 2010 in close consultation with the shareholder.

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. Provision has been made for the full amount of all filed claims. Under the terms of the Scheme of Arrangement, creditors' claims cannot be valued at an amount greater than the filed amount and therefore the technical provisions are sufficient to cover all scheme claims.
- **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.

Deutsche Rück UK Reinsurance Company Limited

DIRECTORS' REPORT (CONTINUED)

- **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.

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 2009, 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 2009, expenditure remained less than investment income.

Going concern

No material uncertainties that may cast doubt about the ability of the company to continue as a going concern have been identified by the directors.

Directors and their interest

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

J. Rehmann
J.A.W. Robinson

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

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.

By order of the Board



For and on behalf of Chilmington International Limited
Secretary

Date: 25th March 2010

Deutsche Rück UK Reinsurance Company Limited

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 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).

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 those financial statements, the directors are required to:

select suitable accounting policies and then apply them consistently;

make judgments and accounting 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 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 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.

Deutsche Rück UK Reinsurance Company Limited

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

We have audited the company's financial statements for the year ended 31 December 2009 which are set out on pages 8 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit 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 matter 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.

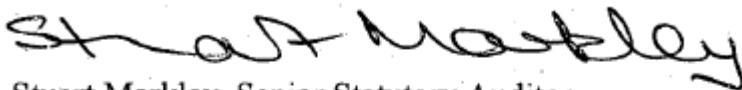
Deutsche Rück UK Reinsurance Company Limited

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

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 or 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.



Stuart Markley, Senior Statutory Auditor

For and on behalf of Moore Stephens LLP, Statutory Auditor
St Paul's House
8-12 Warwick Lane
London EC4M 7BP

31 March 2010

Deutsche Rück UK Reinsurance Company Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2009

TECHNICAL ACCOUNT – GENERAL BUSINESS		<i>Notes</i>	2009	2008
			£	£
Other technical income	- gross amount	2	(355,698)	-
	- reinsurers' share		-	-
	- net of reinsurance		<u>(355,698)</u>	<u>-</u>
Claims paid	- gross amount		1,805,281	454,809
	- reinsurers' share		-	-
	- net of reinsurance		<u>1,805,281</u>	<u>454,809</u>
Change in provision for claims	- gross amount		(14,754,169)	166,942
	- reinsurers' share		-	-
	- net of reinsurance		<u>(14,754,169)</u>	<u>166,942</u>
Claims incurred net of reinsurance		3	(12,948,888)	621,751
Net operating expenses – administrative expenses			(115,723)	302,288
TOTAL CHARGES			<u>(13,064,611)</u>	<u>924,039</u>
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS			<u>13,420,309</u>	<u>(924,039)</u>

Deutsche Rück UK Reinsurance Company Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2009

NON-TECHNICAL ACCOUNT	<i>Notes</i>	2009 £	2008 £
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		<u>13,420,309</u>	<u>(924,039)</u>
Investment income	7	987,536	1,057,585
Unrealised gain on fixed income securities		419,931	246,703
Gain on maturity of fixed income securities		1,842	5,520
Investment expenses		(6,476)	(15,161)
Other Income		4	45
		<u>1,402,837</u>	<u>1,294,692</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		14,823,146	370,653
Tax charge on profit on ordinary activities	8	(4,150,674)	(103,243)
PROFIT RETAINED FOR THE FINANCIAL YEAR		<u><u>10,672,472</u></u>	<u><u>267,410</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 2009 or 2008 other than those included in the profit and loss account.

Deutsche Rück UK Reinsurance Company Limited

BALANCE SHEET AS AT 31ST DECEMBER 2009


ASSETS	<i>Notes</i>	2009 £	2008 £
INVESTMENTS			
Other financial investments	14	20,361,627	23,374,840
Deposits with ceding undertakings		103,373	275,518
		20,465,000	23,650,358
OTHER ASSETS			
Cash at bank		200,336	704,354
Other debtors		355,698	-
		556,034	704,354
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		342,688	388,407
Other prepayments and accrued income		4,002	3,391
		346,690	391,798
TOTAL ASSETS		21,367,724	24,746,510

Deutsche Rück UK Reinsurance Company Limited

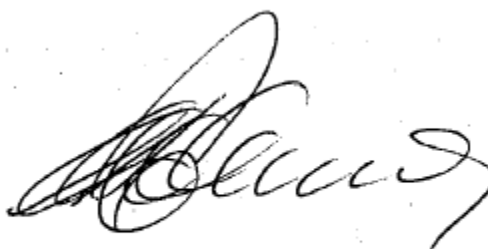
BALANCE SHEET
AS AT 31ST DECEMBER 2009

LIABILITIES	<i>Notes</i>	2009	2008
		£	£
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	11,621,987	949,515
Shareholders' funds attributable to equity interests		<u>14,432,462</u>	<u>3,759,990</u>
TECHNICAL PROVISIONS			
Claims outstanding - gross amount		<u>359,879</u>	<u>16,505,681</u>
CREDITORS			
Creditors arising out of reinsurance operations		<u>2,348,506</u>	<u>4,146,543</u>
OTHER CREDITORS			
Corporation Tax		<u>4,146,606</u>	<u>103,244</u>
ACCRUALS AND DEFERRED INCOME			
		<u>80,271</u>	<u>231,052</u>
TOTAL LIABILITIES			
		<u><u>21,367,724</u></u>	<u><u>24,746,510</u></u>

Approved by the board of Directors on 25th March 2010



Director



Registered Company Number: 995292 England

Deutsche Rück UK Reinsurance Company Limited

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31ST DECEMBER 2009

	2009	2008
	£	£
Reconciliation of operating profit to operating cash flows		
Profit on ordinary activities before tax	14,823,146	370,653
Non cash movements on cash and portfolio investments	1,154,780	(4,599,985)
Investment return	(987,536)	(1,057,585)
Increase in other debtors	(356,309)	(468)
Decrease/(increase) in claims reserve deposits	172,145	(7,851)
(Decrease)/increase in technical provisions	(16,145,802)	3,965,297
Decrease in ceding companies & brokers	(1,798,037)	(138,944)
(Decrease)/Increase in other creditors relating to operating activities	(150,781)	155,951
Net cash outflow from operating activities	<u>(3,288,394)</u>	<u>(1,312,932)</u>

CASH FLOW STATEMENT

	2009	2008
	£	£
Net cash outflow from operating activities	(3,288,394)	(1,312,932)
Return on investments:		
Interest received	1,033,255	740,330
Taxation paid	(107,312)	(70,458)
Management of liquid resources		
Purchase of corporate bonds	(4,286,956)	(10,941,575)
Sale and maturities of corporate bonds	1,709,933	800,000
Funds transferred from short term deposit	2,577,023	10,141,575
	<u>-</u>	<u>-</u>
Decrease in cash holdings (Note 13)	<u>(2,362,451)</u>	<u>(643,060)</u>

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2009

1. ACCOUNTING POLICIES

Preparation of financial statements

The financial statements are prepared in accordance with the provisions of Section 1164 to the Companies Act 2006 and Schedule 3 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulation 2008 (SI 2008/410) of the Companies Act 2006, and in compliance with applicable accounting standards and the ABI SORP Accounting for Insurance Business issued in December 2005 (as amended in December 2006).

Historical cost convention

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of investments.

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.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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.

Investment Income

All investment return is recognised in the Non Technical Account.

Investment earnings include interest income receivable in the year, interest on an accruals basis and realised profits/losses on sale of investments, less related expenses. Realised gains are calculated as the difference between net sales proceeds and costs. In accordance with the ABI SORP (revised) on accounting for insurance business, unrealized profits/losses on investments are also included in investment earnings. Unrealised investment gains and losses are calculated as the difference at the balance sheet date and their valuation at the last balance sheet date, or purchase price if acquired during the year. Unrealised investment gains and losses include adjustments in respect of gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account.

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2009

2. OTHER TECHNICAL INCOME	2009	2008
	£	£
Third party indemnity against claims under two reinsurance contracts	<u>355,698</u>	<u>-</u>
3. SEGMENTAL INFORMATION	2009	2008
	£	£
Other gross technical income	355,698	-
Gross claims incurred (see below)	12,948,888	621,751
Gross operating expenses	<u>115,723</u>	<u>302,288</u>
Gross technical result	13,420,309	924,039
Reinsurance balance	-	-
Net technical result	<u>13,420,309</u>	<u>924,039</u>
Net technical provisions (see below)	<u>359,879</u>	<u>16,505,681</u>

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

	Gross	Reinsurance	Net
	£	£	£
2009			
Claims paid	1,805,281	-	1,805,281
	<u>1,805,281</u>	<u>-</u>	<u>1,805,281</u>
Change in provisions for claims:			
Outstanding claims brought forward	16,505,681	-	16,505,681
Exchange Adjustments	(1,391,633)	-	(1,391,633)
Revised brought forward	<u>15,114,048</u>	<u>-</u>	<u>15,114,048</u>
Outstanding claims carried forward	359,879	-	359,879
Decrease	<u>14,754,169</u>	<u>-</u>	<u>14,754,169</u>
Claims incurred	<u>12,948,888</u>	<u>-</u>	<u>12,948,888</u>

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2009

	Gross £	Reinsurance £	Net £
2008			
Claims paid	454,809	-	454,809
	<u>454,809</u>	<u>-</u>	<u>454,809</u>
Change in provisions for claims:			
Outstanding claims brought forward	12,540,384	-	12,540,384
Exchange Adjustment	3,798,355	-	3,798,355
Revised brought forward	16,338,739	-	16,338,739
Outstanding claims carried forward	16,505,681	-	16,505,681
Decrease	166,942	-	166,942
Claims incurred	621,751	-	621,751
	<u>621,751</u>	<u>-</u>	<u>621,751</u>
4. EXPENDITURE	2009		2008
	£		£
Amounts charged to the profit and loss account include:-			
Exchange (gains)/ losses	(54,793)		194,626
Auditors' remuneration – audit	25,250		23,999
	<u>25,250</u>		<u>23,999</u>
5. STAFF COSTS	2009		2008
	£		£
Wages and salaries	57,200		17,413
Social security costs	6,738		885
	<u>63,938</u>		<u>18,298</u>
The average monthly number of employees, including executive directors, during the year was:-	<u>2</u>		<u>2</u>

Deutsche Rück UK Reinsurance Company Limited

FOR THE YEAR ENDED 31ST DECEMBER 2009

	2009	2008
	£	£
6. DIRECTORS' EMOLUMENTS		
Fees	<u>55,200</u>	<u>14,550</u>
7. INVESTMENT INCOME		
Interest receivable	<u>987,536</u>	<u>1,057,585</u>
8. TAXATION		
The charge for taxation comprises:		
Current tax:		
United Kingdom corporation tax at 28% (2008 – 28.5%)	<u>4,150,674</u>	<u>103,243</u>
Total charge	<u>4,150,674</u>	<u>103,243</u>
The tax assessed for the year ended 31 December 2009 is lower than the standard rate of corporation tax in the UK of 28% (2008 – 28.5%):		
Profit on ordinary activities before tax	<u>14,823,146</u>	<u>370,653</u>
Taxation at standard rate of 28% (2008: 28.5%)	4,150,480	105,635
Expenses not deductible for tax purposes	215	459
Capital allowances in excess of depreciation	(21)	(101)
Small companies relief	-	(2,750)
Current tax charge for period	<u>4,150,674</u>	<u>103,243</u>

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2009

9. SHARE CAPITAL	2009	2008
	£	£
Allotted, issued and fully paid 2,800,000 Ordinary shares of £1 each	<u>2,800,000</u>	<u>2,800,000</u>

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £	Capital reserve £	Profit and loss account £	Total £
At 1 st January 2009	2,800,000	10,475	949,515	3,759,990
Retained profit for the year	-	-	10,672,472	10,672,472
At 31 st December 2009	<u>2,800,000</u>	<u>10,475</u>	<u>11,621,987</u>	<u>14,432,462</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 2009 £	Cash flow £	Other non- cash changes £	At 31 st December 2009 £
Cash in hand and at bank	704,354	(495,799)	(8,219)	200,336
Current asset investments	23,374,840	(1,866,652)	(1,146,561)	20,361,627
Total	<u>24,079,194</u>	<u>(2,362,451)</u>	<u>(1,154,780)</u>	<u>20,561,963</u>

Deutsche Rück UK Reinsurance Company Limited

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2009

14. INVESTMENTS

	Current Value		Historical Cost	
	2009	2008	2009	2008
	£	£	£	£
Other financial investments:				
Fixed income securities	19,292,024	17,611,266	18,831,732	15,747,100
Deposits with credit institutions	1,069,603	5,763,573	1,069,603	5,763,573
Total Investments	20,361,627	23,374,839	19,901,335	21,510,673