Tawa plc Annual Report 2010

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- Profit for the year attributable to shareholders was $1.8 million;
- The Group's net assets were $226.3 million;
- Net assets per share in US dollars were $2.00 (£1.26);
- A dividend of £35 million was paid by subsidiary KX Reinsurance Company Limited to Tawa plc. This dividend represented free cash to the Group;
- An interim dividend of 1.25 pence per share will be paid on 1 June 2011. The Directors recommend a final dividend of 1.25 pence per share to be paid on 2 December 2011;
- Approval was received for $12 million of capital extraction from Connecticut domiciled subsidiary PXRE Reinsurance Company, which was utilised to repay part of the acquisition debt;
- On 22 October 2010 Tawa closed the transaction to purchase 94.3% of the ordinary shares of Island Capital Ltd and its wholly owned subsidiary Island Capital (Europe) Ltd;
- On 10 March 2011 Tawa closed the transaction to acquire 100% of the issued ordinary shares of Oslo Reinsurance Company (UK) Limited. The company has been renamed OX Reinsurance Company Ltd.

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Tawa plc was formed in 2001 with the purpose of acquiring or developing assets and business in the insurance industry. Tawa is interested in acquiring run-off portfolios of insurance and reinsurance companies, companies and businesses providing services to the insurance industry and in developing its own products to serve the insurance market as a whole.

Since its formation, Tawa has acquired CX Reinsurance Company Limited, KX Reinsurance Company Limited, PXRE Reinsurance Company, Island Capital Limited, the Pro group of companies and OX Reinsurance Company Limited. It also set up QX Reinsurance Company Limited, a Bermudian regulated reinsurance company, to write reinsurance business.

The combined Tawa/Pro team of 250 professionals service a number of the largest insurance businesses in the UK and Europe and deliver a market-wide third-party servicing capability as Pro services active underwriters as well as run-offs and cover London's company and Lloyd's markets as well as Europe and the USA.

Tawa also operates as an incubator for new projects and launched the STRIPE® system in September 2010. STRIPE® is a web based platform enabling insurers and cedants to deal with their (re)insurers directly, reducing re-processing of data. STRIPE® supports the single keying of data and allows the rapid and secure delivery of all transactions.

Joint statement of the Chairman and Chief Executive Officer

To our Shareholders,

We had a number of successes during 2010. On the servicing side the successful management of our largest clients' Schemes, the launch of STRIPE®, the securing of a number of consulting and outsourcing projects and an enhanced relationship with Swiss Re have partially offset the expected coming to an end of major contracts, whilst maintaining a good profitability level. On the investment side, the acquisition of both Island Capital and Oslo Re (UK), the strategic partnership with Lincoln General in the US, a deal to transfer the legacy portfolio of a top 50 Lloyd's broker and also multiple investments in reinsurance debt (a new activity using the skills within Pro), show the extended reach of our teams.

We are indeed leveraging more than our sole equity, we are leveraging the skills acquired in insurance restructuring and change management, to diversify our investment portfolio and to provide services which are value creative to our clients business and therefore more profitable to us.

This will change the Group's metrics from being cash extraction driven to a more balanced mix of recurring cash flows with continued releases of excess regulatory capital from the risk carriers. In 2010, we extracted $47 million from our run-off investments after $40 million extracted in 2009. But this year we also generated $4 million of pre-tax earnings from our servicing business.

These figures confirm that the acquisition of Pro in 2009 is already paying off, and is accelerating the transition of our group from a pure run-off acquirer model to a more diversified insurance investor model. Pro is providing the Group with a larger footprint in the market, the benefits of which are now beginning to show through.

Service business - Pro

Pro is well known for outsourcing and creating seamless administration solutions. It is less well known for expert consultancy services.

In order to have a better visibility for both divisions, we now have a structure built around clearly identified lines of business, to enhance profitable growth capacity: Consulting and Outsourcing. The Outsourcing division refers mainly to work we do on behalf of clients on our platform. Consulting typically refers to work provided directly for our clients.

Pro's Consulting division is a rapidly growing area. The creation of a stand-alone division reflects its increasing importance as a revenue stream. The consulting unit focuses on specific projects to deliver value and improve organizational effectiveness. We provide services such as business consultancy (change management, project management, process improvement, business analysis and data engineering) as well as (re)insurance and financial support services.

We plan to move upstream towards providing more high end, value-added consulting. This year, we are strengthening our team through refocus and expansion of our technical specialists and consultants. We are also building on our Swiss Re preferred supplier status to expand within large organisations across the world. We continue to enlarge our service offering beyond the run-off focus by capitalising on our wide ranging industry expertise and network.

Pro's Outsourcing division, provides clients with the opportunity to leverage the functions outsourced to Pro into a true value creation tool benefiting their own organizations. Practically, Pro provides clients insurance back-office outsourcing in all its various aspects. Pro also manages Tawa's existing run-off companies.

In this division, the expected but significant reduction of work for long standing clients following the successful managing of their wind down plans meant that whilst we were able to redeploy significant numbers of employees we had to let some others go. We want to take this opportunity to thank each of them for their dedicated efforts for the Company and to wish them well for the future.

To build towards a larger scale we have enhanced Pro's external sales strategy and created a marketing ethos to ensure sales are a major component of the daily job for each individual across the organization.
Bearing in mind this rebalancing of client mix, achieving our service division growth targets will be a challenge. 2010 has been a transition year which has prepared us to attain our goals. They require our business and our people to be dynamic, responsive and outgoing and to maintain their technical excellence at its highest level. Our aim is to be "best in class", and by some margin, wherever we operate.

Portfolio acquisitions and investments

In the acquisition arena, we now have an even stronger M&A team bearing the responsibility of overseeing and implementing any group investment, whether debt, insurance recoveries, portfolio or service company acquisitions.

Our strategy remains as it has been for a few years, of not participating actively in the auction environment but sourcing acquisition targets where the skill sets and expertise of Tawa's staff are best deployed. This was evidenced by the acquisitions on 22 October 2010 of 94.3% of the ordinary shares of Island Capital Ltd and its wholly owned subsidiary Island Capital (Europe) Ltd, which were specialist trade and credit insurers, and Oslo Reinsurance (UK) Limited, which completed on 10 March 2011.

While sticking to this disciplined approach, we have seen an increase in the number of interesting opportunities in the market and are progressing a number of them. Having achieved further cash extractions from our risk carriers ($47 million this year), we are investing our capital in the classes of assets we know best which should both enable us to use our expertise to create value from the businesses we acquire, as well as providing more clients for our outsourcing business.

STRIPE®

Through the high profile launching of STRIPE®, the market is gaining awareness of how STRIPE® matches the most critical needs of the insurance industry in respect of the automation of claims processing. STRIPE® is a secure internet based solution which requires little, if any, I.T. infrastructure investment and can interact with existing claims systems at both ends of a transaction. We are seeing the first fruits of our investment in the development of STRIPE® which has the potential to become part of the fabric of the market.

In conclusion, we would like to thank our shareholders for their strong support during 2010; it has been a challenging and interesting year, one where we have laid the foundations and built the momentum for a stronger and more profitable Group.

We will be proposing dividends equal to the enhanced dividend we distributed last year, of 2.5p per share, payable as to 1.25p per share interim dividend in June 2011 and 1.25p per share final in December 2011, which together represents an approximate 4% yield to stock price. While we are permanently managing cash flow for future investment needs, we believe our shareholders should receive value for holding their shares.

As the Group approaches its 10th anniversary, the goal we have set is that by this time next year we will have moved the group towards a more broadly based model, focused on acquisitions and the development of our service offering. It will bring more depth and breadth to our services, the companies we own and the geographies in which we operate. This, whilst retaining what makes us different from other places, namely our people; people with high expertise, skills and integrity, working together to achieve our common purpose in a challenging but supportive work environment.

Colin Bird
Chairman

Gilles Erulin
Chief Executive Officer

Introduction to the Group's business

Tawa plc was formed in 2001 with the purpose of acquiring or developing assets and business in the insurance industry and services markets in the UK, US, continental Europe, Bermuda and elsewhere.

Since its formation, Tawa has acquired CX Reinsurance Company Limited, KX Reinsurance Company Limited, PXRE Reinsurance Company, Island Capital Limited together with its wholly owned subsidiary Island Capital (Europe) Ltd, the Pro group of companies and, in March 2011, Oslo Reinsurance Company (UK) Limited. The future acquisition of additional insurance entities remains key to Tawa's business model.

From its origins in the run-off space, Tawa has now developed recognised skills across the insurance third-party service arena, and as such provides consultancy to live insurance carriers across the market in areas such as claims management, audits and litigation, solvent schemes, finance management and post-event accounting. Tawa's servicing arm, Pro, acquired in 2009 from Swiss Re, services a number of the largest insurance businesses.

Service segment

Founded in 1993 and with over 250 staff, Pro is recognised as one of the leading providers of run-off management and professional services to the international insurance and reinsurance industry. It operates primarily from bases in the UK and USA and clients include ongoing insurance entities and those in run-off. The consideration payable to Swiss Re was a cash consideration of £5 million and a deferred consideration dependent on Pro's earnings over the five years to 31 December 2014.

Run-off segment

On 22 October 2010 Tawa closed the transaction to purchase 94.3% of the ordinary shares of Island Capital Ltd and its wholly owned subsidiary Island Capital (Europe) Ltd. Island Capital is a Bermuda insurance company with a specialist underwriting portfolio of trade credit and political risk insurance business and the acquisition will give Tawa expertise in this arena.

On the run-off portfolios it has or will acquire, Tawa is in the business of generating value from run-offs in a variety of ways, depending on the nature of each run-off entity in question. These include:

- Buying net assets at a significant discount to economic value and accelerating capital extraction;
- Buying volatile books of business and applying Tawa's management techniques to create value and reduce volatility;
- Earning management fees from managing run-offs; and
- Obtaining synergies and process efficiencies from combining the management of multiple run-offs.

During the course of a run-off, the Group will be exposed to a range of risks which need to be identified and managed. These risks include adverse loss development (insurance risk), liquidity and operational risks, fluctuating foreign exchange rates and interest rates and credit risk both in respect of investments and reinsurer solvency. It is Tawa's expertise to manage and mitigate these risks.

The assets of a run-off company typically comprise cash, investments, subrogation recoveries and reinsurance recoveries. From these assets and any associated investment income the company must meet the cost of administering and paying all claims that arise on policies issued prior to the run-off. The residual balance, if any, will be returned to shareholders once all liabilities have been repaid or when the regulator is satisfied, inter alia, that the volatility is reduced to a level where capital can be released based on estimates as to the appropriate level of reserves and capital that the business requires to settle all valid claims.

Summary of 2010 results

- Profit from continuing operations was $8.6 million (2009: loss of $0.9 million), whilst there was a loss from discontinued operations of $6.8 million (2009: profit of $12.1 million);
- Profit for the year attributable to shareholders was $1.8 million (2009: profit of $11.2 million);
- Net assets per share in sterling decreased from £1.27 to £1.26; net assets per share in US dollars decreased from $2.02 to $2.00;
- The Group's net assets have decreased by $2.1 million to $226.3 million ($2.00 per share) at 31 December 2010;
- The Group's net tangible assets are $200.9 million (2009: $199.2 million);
- In line with the Group's dividend policy a final dividend for the year ended 31 December 2009 of 3.75 cents (2.5 pence) per share was paid in June 2010;
- An interim dividend of 1.25 pence per share will be paid on 1 June 2011.The Directors recommend a final dividend of 1.25 pence per share to be paid on 2 December 2011;

- A capital extraction of $35 million from KX Reinsurance Company Limited ('KX Re') was achieved at the end of March 2010. This represents the extraction of trapped regulatory capital and is free cash available to Tawa plc. Tawa has also received approval for cumulative $12 million of capital extraction from its Connecticut domiciled subsidiary PXRE Reinsurance Company ('PXRE');
- The Group acquired 94.3% of the ordinary shares of Island Capital on 22 October 2010 for $7.4 million in cash and $8.4 million of deferred consideration.

Statement of financial position

The Group focuses its business performance analysis on growing the value of each of its individual assets, which it measures mainly on their capacity to generate cash to first amortise the investment made in them and then generate significant cash profits into Tawa plc.

Another indicator of performance for the Group would be the growth of NAV per share. It is directly linked to the accounting rules, applied at the time of acquisition and thereafter as to recognition of profits. It is also sensitive to non-cash items which distort its significance, such as Forex adjustments, or recognition of future profits. Hence we view its relevance as secondary to the cash generation analysis described above.

The table below shows the Group's performance over the last four years. The profit from continuing operations was $8.6 million (2009: $0.9 million loss), whilst there was a loss from discontinued operations of $6.8 million (2009: $12.1 million profit). The combined profits for the year of $1.8 million and currency translation losses of $0.7 million have increased net assets by $1.1 million. However, the payment of the $4 million 2009 dividend to shareholders has resulted in an overall net asset decrease of 0.9%.

	2010 $m	**% Change**	2009 $m	% Change	2008 $m	% Change	2007 $m
Group's net asset development	**226.3**		228.4		214.6		237.1
Percentage increase/(decrease) in Group net assets		**(0.9)%**		6.4%		(9.5)%	

KX Re and PXRE insurance asset and liabilities

The insurance assets and liabilities of KX Re and PXRE have a mean term in excess of 4 years and so are discounted in accordance with the Group's accounting policies. At 31 December 2010 KX Re's portfolios had an average mean term of 10.7 years (2009: 10.97 years) and PXRE's portfolios had an average mean term of 6.2 years (2009: 4.30 years).

The Group's policy is to discount the insurance liabilities and the reinsurance assets at the risk-free rate applicable to the relevant currency at the duration of the liabilities. Currencies held in the Group are US dollar, sterling and euro. The average effective rate of investment return used to discount KX Re's net liabilities was 3.1% (2009: 3.53%). The average effective rate of investment return used to discount PXRE's net liabilities was 2.52% (2009: 2.90%).

KX Re's net insurance liabilities before discounting as at 31 December 2010 were $53.8 million (2009: $65.9 million). After applying a discount of $15.0 million (2009: $19.9 million) they were $38.8 million (2009: $46.0 million). The discount is unwound over the life of the portfolio, which represents a charge to the income statement and actual investment income is measured against this to ensure that it remains appropriate to continue to discount at the chosen rate. In 2010 the investment return for KX Re, which includes the return on the surplus, was $0.9 million above the discount unwind (2009: $0.1 million less than the discount unwind).

PXRE's net insurance liabilities before discounting as at 31 December 2010 were $46.7 million (2009: $67.1 million). After applying a discount of $6.3 million (2009: $7.2 million) they were $40.4 million (2009: $59.9 million). The discount is unwound over the life of the portfolio, which represents a charge to the income statement and actual investment income is measured against this to ensure that it remains appropriate to continue to discount at the chosen rate. In 2010 the investment return for PXRE was $0.9 million more than the discount unwind due to the performance of the corporate bonds held in the investment portfolios (2009: $4.6 million more than the discount unwind).

Cash and investments

The Group's consolidated cash position at 31 December 2010 was $48.5 million (2009: $30.9 million). Of that amount $33.2 million (2009: $24.2 million) relates to the Group's insurance subsidiaries KX Re, PXRE and Island Capital and is not considered to be freely distributable within the Group. The remainder is available for Tawa plc either for further distribution to its shareholders or to fund the equity piece of Tawa's growth strategy.

The Group's investment strategy is to mitigate, as far as is possible, the risks relating to changes in interest rates, foreign exchange rates and liquidity risk, whilst adopting a conservative approach to credit risk. This mitigation is achieved by broadly matching the duration and currency of the liabilities and maintaining a high quality portfolio of fixed income securities. Within the confines of this strategy and taking into account the current market turbulence in structured finance investments, the Group continues to look for opportunities to enhance the return from its portfolios.

The Group's investments, which are derived from its subsidiaries KX Re, PXRE and Island Capital, at the end of the year were $229.6 million (2009: $260.7 million). The KX Re portfolio of $52.9 million (2009: $93.4 million) is broadly matched in terms of foreign exchange exposure and duration and comprises almost exclusively treasuries and money market deposits. The entire portfolio is invested in instruments with a credit rating of "A" or better. The PXRE portfolio of $142.7 million (2009: $167.3 million) includes $45.8 million (2009: $38.4 million) of securities which are held in a separate trust account for a single counterparty which bears the investment risk of these securities. Assets in the remainder of the portfolio of $96.9 million broadly match the duration and currency of the underlying net liabilities and comprise treasuries and cash ($56.7 million – 58.5%) and corporate bonds and mortgage-backed securities ($40.2 million – 41.5%).

Deferred assets

On 21 March 2006, the Group disposed of 87.35% of its shareholding in CX Re. The retained shareholding of 12.65% has been accounted for under the equity method since that date. The initial consideration for the shares was $1.00, together with a deferred consideration equal to the purchasers' share of 100% of the amount of distributions made by CX Re up to $171 million and thereafter equal to 95% of the distributions made by CX Re.

Deferred assets relate to the consideration outstanding on the disposal of CX Re and the Group's receipt of a transaction facilitation fee in respect of the sale following which tax losses have been surrendered to CX Re's shareholders. The deferred consideration is accounted for in two ways:

- Profit/(loss) for the year from discontinued operations in the income statement arising from adjustment in 87.35% of the overall net asset value of the Group's associate CX Re; and
- A transaction facilitation fee due directly to Tawa plc.

The effect of the deferred consideration on the Group's statement of financial position is as follows:

	$m 100%	**$m 87.35%**
CX Re net assets December 2009	61.2	**53.5**
CX Re net assets December 2010	53.4	**46.6**
Movement in CX Re's net assets	(7.8)	**(6.9)**

The drivers behind the Group's decrease in deferred consideration in respect of CX Re are discussed below in the section on the income statement.

The transaction facilitation fee is derived from the level of tax losses surrendered by way of consortium relief to the associate's shareholders. Deferred consideration in respect of the Group's transaction facilitation fee amounts to $19.9 million (2009: $20.8 million).

At 31 December 2010 the total deferred consideration was $66.5 million (2009: $74.3 million).

	31 Dec 2010 $m	31 Dec 2009 $m
Balance at 1 January	**74.3**	59.9
(Decrease)/increase in CX Re's surplus	**(6.9)**	12.1
Interest on transaction facilitation fee	**0.1**	0.2
Exchange (loss)/gain	**(1.0)**	2.1
Balance at 31 December	**66.5**	74.3

Further information about the deferred consideration is disclosed on page 58 and 70 of the financial statements.

Insurance liabilities – KX Re and PXRE

The Group's expected loss development is determined by the Group's internal actuaries based on historical claims analysis and projected trends. Actual reported losses may vary from expected loss development. Generally, as an underwriting year matures the level of newly reported claims decreases.

During the year the Group experienced a deterioration in the prior year net reserves before discount excluding commutations of $4.4 million (2009: $0.7 million improvement). This has been driven by a net deterioration before discount on PXRE of $2.7 million and KX Re had a net deterioration before discount of $0.6 million. After discount, the reduction in net reserves during the year was $29.4 million (2009: $32.7 million) net of reinsurance and commutations.

Income statement

The Group's operating segments are:

- Underwriting run-off – this segment comprises the results from the Group's acquired run-off companies KX Re, PXRE and Island Capital. CX Re is not classified as underwriting run-off as it became an associate on 21 March 2006 when Tawa plc disposed of 87.35% of the shares held;
- Run-off management – this segment includes results of the Group's providers of run-off management;
- Insurance services (Pro) – this segment includes results of subsidiary Pro Insurance Solutions Limited and Pro IS, Inc. provider of insurance services to internal and external clients; and
- Other corporate activities – this segment reflects results from acquisitions, the Group's investment in its associated undertaking CX Re, the change in the deferred consideration attributable to the sale of 87.35% of the shares of CX Re on 21 March 2006 and the costs of developing the business.

Underwriting run-off

The underwriting run-off profit for the year was $1.2 million (2009: $6.0 million).

The business of KX Re comprises a collection of mature portfolios of long-tail liabilities, including exposure to asbestos, environmental and other latent claims. The Group's objective for KX Re is to reduce the company's liabilities by accelerating the natural run-off of the portfolio to enable the extraction of capital with regulatory approval. The contribution of KX Re in 2010 was a profit of $2.9 million. PXRE, which has a shorter tail and is mainly comprised of catastrophe exposures, made a loss of $1.7 million.

The Group's strategic principles for its asset and liability management ("ALM") in the insurance entities are to:

- Provide liquid funds to finance liability and capital management;
- Mitigate exposure to changes in interest and foreign exchange rates;
- Assume measured credit risk in line with agreed guidelines; and
- Invest the Group's surplus in line with agreed guidelines.

The ALM return represents the increase in value to the Group statement of financial position from investment activities after taking into account the unwinding of the discount and fees. The KX Re and PXRE ALM return for 2010 was $nil (2009: $4.8 million).

Run–off management

The revenue comprises:

- Management fees from CX Re and KX Re;
- Expenses recharged to CX Re, KX Re and PXRE;
- Income from consultancy services provided to a range of third party clients; and
- Expenses recharged to Tawa plc in relation to acquisitions and business development.

Revenue in 2010 was $6.9 million (2009: $8.6 million) generating a profit for the year of $4.4 million (2009: $3.1 million).

Insurance services (Pro)

The insurance services segment represents the results of the Group's subsidiary Pro which is a provider of insurance services to external clients. The profit before tax for the period was $4.5 million from total revenues of $35.9 million. From 1 January 2010 the Group shares this segments after tax profits with Swiss Re on a 50/50 basis over the five financial years to 31 December 2014 subject to an overall cap of £12 million.

Other corporate activities

The loss generated from other corporate activities for the year was $7.0 million (2009: profit $0.7 million). The main categories within this division are:

- Acquisition of subsidiaries;
- Finance costs; and
- Share in associate and deferred consideration derived from the sale of CX Re.

	31 Dec 2010 $m	31 Dec 2009 $m
Business development and other expenses	**(5.4)**	(7.3)
Risk premium released	**3.9**	3.8
Acquisition of subsidiaries, negative goodwill recognised	**4.9**	-
Impairment of Tawa Associates Limited goodwill	**-**	(5.0)
Share of results of associate CX Re	**(0.9)**	1.8
Finance costs	**(4.0)**	(4.7)
Deferred consideration of CX Re and transaction facilitation fee	**(6.8)**	12.1
Taxation	**1.3**	-
	(7.0)	0.7

Acquisition of subsidiaries

On 20 November 2009, 100% of the issued share capital of the Pro group of companies comprising: Pro Insurance Solutions Limited, Pro IS, Inc and Participant Run-Off (Pro) Iberica, SLU were acquired by the Company. This transaction has been accounted for by the purchase method of accounting. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Book value $m	Fair value adjustments $m	**Fair value on acquisition $m**	Provisional valuation 2009 $m
Assets				
Intangible assets acquired	-	2.0	**2.0**	-
Cash and cash equivalents	0.1	-	**0.1**	0.1
Loans and receivables including insurance receivables	13.3	-	**13.3**	13.3
Other Assets	0.8	-	**0.8**	0.8
Liabilities				
Other liabilities	(10.0)	(1.5)	**(11.5)**	(11.5)
	4.2	0.5	**4.7**	2.7
Consideration paid in cash			**8.7**	8.7
Deferred consideration payable			**5.8**	9.1
Consideration paid net of cash and cash equivalents			**8.6**	8.6
Goodwill on acquisition			**9.8**	15.1

Acquisition of subsidiaries - continued

The initial accounting for the business combination and amounts recognised in the 2009 annual financial statements were provisional. The fair values of the acquired intangible assets were provisional pending the final valuations of these assets. The fair value exercise regarding the Pro acquisition has now been completed.

The deferred consideration of $5.8 million (2009: $9.1 million) has been taken into account in the calculation of the goodwill and is included in other liabilities in the statement of financial position. The Group now also recognises an intangible asset of $2.0 million as part of the acquisition.

On 22 October 2010, 94.3% of the issued ordinary share capital of the Island Capital group of companies comprising Island Capital Limited and Island Capital (Europe) Limited, were acquired by the Company. This transaction has been accounted for by the purchase method of accounting. The net assets acquired in the transaction, and the negative goodwill arising, are as follows:

	Book value $m	Fair value adjustments $m	**Fair value on acquisition $m**
Assets			
Cash and cash equivalents	30.4	-	**30.4**
Loans and receivables including insurance receivables	18.5	-	**18.5**
Reinsurers' share of technical provisions	5.6	-	**5.6**
Other Assets	0.1	-	**0.1**
Liabilities			
Creditors arising out of insurance operations	(3.7)	-	**(3.7)**
Technical provisions	(11.8)	(3.6)	**(15.4)**
Financial liabilities - borrowings	(10.0)	-	**(10.0)**
Other liabilities	(3.4)	-	**(3.4)**
	25.6	(3.6)	**22.0**
Tawa Share 94.3%			**20.7**
Consideration paid in cash			**7.4**
Deferred consideration payable			**8.4**
Consideration paid net of cash and cash equivalents			**(23.0)**
Negative goodwill on acquisition			**(4.9)**

The initial accounting for the business combination is incomplete and the amounts recognised in these financial statements are provisional.

The negative goodwill upon acquisition has been recognised in the consolidated income statement for the period. The deferred consideration of $8.4 million has been taken into account in the calculation of the negative goodwill and is included in other liabilities in the statement of financial position and has no impact on the Group surplus.

Finance costs

At the beginning of the year, the Group had outstanding loan facilities with Natixis Bank for the purchase of its insurance subsidiary PXRE. The acquisition of PXRE was financed by a four year loan of $30 million and a $5 million revolving facility. The revolving facility became due on 31 March 2010 and was repaid to Natixis on that date. The Group also repaid a further $7.55 million of the $30 million loan facility. The outstanding PXRE loan of $22.45 million is repayable in March 2012.

As part of the acquisition of Island Capital Limited the Group acquired $10 million of debt repayable in 2035 with an interest rate of LIBOR +3.75%.

The total Group debt at 31 December 2010 was $32.2 million which represents 14.2% of shareholders' funds.

The finance costs in relation to these loans in 2010 were $4.0 million (2009: $4.7 million).

Share in associate and deferred consideration derived from the sale of CX Re

The Group made a loss of $0.9 million (2009: profit $1.8 million) from its share in associate CX Re. In addition, through the deferred consideration following the sale of 87.35% of CX Re on 21 March 2006 which is dependent upon the ultimate earn out value of the Company, the Group's results are affected by changes in the net assets of CX Re. The change in the deferred consideration for the year resulted in a loss to the Group of $6.8 million (2009: profit $12.1 million).

During the year CX Re's net assets decreased by $7.8 million from $61.2 million to $53.4 million which was mainly driven by the posting of a $5.6 million unallocated loss adjustment expenses provision and a currency translation loss on the sterling assets held in tax escrow accounts of $1.6 million. Details of CX Re's performance are discussed below:

- CX Re asset and liability management;
- CX Re claims management; and
- CX Re operating expenses and consortium relief.

CX Re asset and liability management

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

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

To address these risks CX Re 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 (2009: AA). The objective each year is for the investment return to exceed the unwinding of the discount on the net reserves.

CX Re's asset and liability matching strategy remains unchanged from previous years. While performance was less spectacular than in 2009 when CX Re benefited from the rebound in the fixed income markets from the traumas of the financial crisis in 2007 and 2008, the investment portfolio generated a return of $4 million in excess of the unwind of the discount on net liabilities and the impact of changes in interest rates. CX Re's investment managers have continued the policy of reducing risk within the portfolio and, in particular, have reduced exposures to commercial mortgage backed securities, corporate and municipal bonds during the year.

CX Re claims management

Gross claims and run-off expenses paid during the period were $32.9 million (2009: $39.3 million) and gross undiscounted reserves were reduced by $24.2 million (2009: $34.6 million), after taking account of the impact of foreign exchange differences, to $184.4 million (2009: $213.2 million).

Reinsurers' share of claims paid was $2.1 million (2009: $2.1 million) and undiscounted reinsurance on reserves was reduced by $1.1 million (2009: $2.3 million) to $31.4 million (2009: $32.5 million).

Undiscounted reserves net of reinsurance decreased by 15.3% (2009: 10.9%) to $153.0 million as at 31 December 2010 (2009: $180.7 million).

CX Re operating expenses

Net operating expenses, which exclude those costs charged to unallocated loss adjustment expenses and allocated loss adjustment expenses in the period were $3.7 million (2009: $3.0 million), comprising management fees payable to Tawa Management Limited.

Tawa's overall result and future prospects

In 2010 the Group continued to search for acquisition opportunities in the run-off market. Tawa's strategy remains as it has been for a few years, of not participating actively in the auction environment but sourcing acquisition targets where the skill sets and expertise of Tawa's staff are best put. This was evidenced by the acquisition of Island Capital Ltd and its subsidiary Island Capital (Europe) Ltd which was a specialist trade and credit insurer. The same goes for the acquisition of Oslo Reinsurance Limited, announced in December 2010 and completed on 10 March 2011.

With the maturing of its run-off entities releasing trapped regulatory capital whilst becoming more difficult in the current economic and regulatory environment remains a prime objective of the Group. After releasing $40 million from KX Re in 2009 and $47 million from KX Re and PXRE in 2010, Tawa anticipates further extraction of capital from its risk carriers over the next 3 years.

The investment in the STRIPE® system continues and it is now showing real traction in the market with a number of large reinsurers either on board or trialling the system.

The acquisition of Pro diversified the Group's operations and it continues to seek further opportunities in this market.

The Directors present their report together with the financial statements for the year ended 31 December 2010.

Share capital

A summary of the Company's share capital is set out in note 29 to the financial statements.

Principal activities and business review

The Company continued to trade as a company acting as an investment vehicle within the insurance industry. It incurs most of its costs in the pursuit of appropriate acquisition opportunities. Given the nature of Tawa plc, the principal risks and uncertainties facing the Group are deemed to be in respect of the performance of investments acquired and acquisition opportunities. The key performance indicators used to monitor the performance of the Group are the value and changes in value of investments acquired, administrative expenses incurred and the progress made in relation to potential acquisitions and are discussed in the Financial Review on pages 4 to 11.

The Group recorded a profit attributable to shareholders for the year of $1.8 million (2009: profit $11.2 million). This profit was primarily attributable to a profit of $1.2 million from underwriting run-off, a combined $7.5 million profit from provision of run-off management and insurance services activities, offset by a loss of $6.8 million from its share of results of associate CX Reinsurance Company Limited.

On 22 October 2010, the acquisition of 94.3% of the issued ordinary share capital of Island Capital Ltd and its wholly-owned subsidiary Island Capital (Europe) Ltd was completed.

A review of the Company's and the Group's activities is more fully set out in the Joint Statement of the Chairman and Chief Executive Officer and the Financial review on pages 2 and 4 respectively.

Results and dividends

The results for the Group for the year ended 31 December 2010 are set out in the accounts and related notes on pages 25 to 80.

An interim dividend of 2 cents (1.25 pence) will be paid on 1 June 2011 to shareholders on the register on 13 May 2011. The Directors recommend a final dividend of 2 cents (1.25 pence) to be paid on 2 December 2011 to shareholders on the register on 4 November 2011. A final dividend of 3.75 cents (2.5 pence) was paid on 1 July 2010 of $4.1 million (£2.6 million) for the prior year (2009: $0.9 million).

Directors

The Directors of the Company who served throughout the year, except as noted below, were as follows:

R A G Jackson (deceased 23 September 2010)
G M J Erulin
P M M Barbizet
C G Bird
L P M J Brivezac
A J Hamilton
J J Hendrickson
G F Pagniez
D A Vaughan

Following the death of Robin Jackson on 23 September 2010, Colin Bird was appointed as chairman of the Company. Since the year-end, the Board appointed Tim Carroll and Hans Miller as new Non-Executive Directors, thereby fulfilling its commitment to restore the balance of skills, knowledge and experience on the Board by the time of the next Annual General Meeting.

At the forthcoming Annual General Meeting P M M Barbizet, C G Bird, L P M J Brivezac, G M J Erulin, A J Hamilton, J J Hendrickson, G F Pagniez and D A Vaughan retire and being eligible, will offer themselves for re-election. T J Carroll and H H Miller having been appointed as Directors since the previous Annual General Meeting will offer themselves for re-election at the forthcoming Annual General Meeting.

None of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings other than their contracts of employment.

Corporate governance

The Company's compliance with corporate governance requirements is discussed in the corporate governance statement on pages 16 to 22.

Directors' interests

The interests of the Directors in the issued Ordinary Share capital of the Company at the beginning and the end of the year are set out below.

	31 December 2010 Ordinary Shares of 10p	31 December 2009 Ordinary Shares of 10p
G M J Erulin	940,345	910,173
P M M Barbizet	-	-
C G Bird	905,000	892,500
L P M J Brivezac	-	-
A J Hamilton	50,000	50,000
J J Hendrickson	-	-
G F Pagniez	400,000	400,000
D A Vaughan	917,931	898,966

The Company has a policy of making awards to Executive Directors under its Performance Share Plan and Deferred Share Bonus Plan. The Remuneration Committee has sole discretion for making awards. Awards made under the Performance Share Plan are as follows:

Director	At 1 January 2010	Date of grant	Number granted during 2010	Number vested during 2010	Lapsed during the year	At 31 December 2010	Price	Vesting date
C G Bird	116,000	26 July 2007	-	-	116,000	-	Nil	26 July 2010
	89,231	9 May 2008	-	-	-	89,231	Nil	9 May 2011
G M J Erulin	420,000	26 July 2007	-	-	420,000	-	Nil	26 July 2010
	215,385	9 May 2008	-	-	-	215,385	Nil	9 May 2011
	769,231	27 March 2009	-	-	-	769,231	Nil	27 March 2012
	-	12 April 2010	289,655	-	-	289,655	Nil	12 April 2013
D A Vaughan	316,800	26 July 2007	-	-	316,800	-	Nil	26 July 2010
	203,077	9 May 2008	-	-	-	203,077	Nil	9 May 2011
	725,275	27 March 2009	-	-	-	725,275	Nil	27 March 2012
	-	12 April 2010	273,103	-	-	273,103	Nil	12 April 2013

Awards are subject to performance conditions set by the Remuneration Committee each time awards are granted and these determine the extent to which awards vest. Awards that do not vest will lapse. Details of the applicable performance conditions are set out in the Directors' Remuneration Report on pages 19 and 20.

Except as stated above, none of the Directors in office as at 31 December 2010, nor any members of his or her immediate family, had any interest in the share capital of the Company at 31 December 2009 or 31 December 2010.

Awards made under the Deferred Share Bonus Plan are as follows:

Director	At 1 January 2010	Date of grant	Number granted during 2010	Number vested during 2010	Lapsed during the year	At 31 December 2010	Price	Vesting dates	
C G Bird	12,500	17 July 2008	-	12,500	-	-	Nil	17 July 2009 50%	17 July 2010 50%
G M J Erulin	30,172	17 July 2008	-	30,172	-	-	Nil	17 July 2009 50%	17 July 2010 50%
D A Vaughan	18,965	17 July 2008	-	18,965	-	-	Nil	17 July 2009 50%	17 July 2010 50%

Substantial shareholdings

	Number of Ordinary Shares	Percentage of issued Ordinary Share Capital
Financière Pinault SCA	80,491,017	71.24%
Karrick Limited	11,096,147	9.82%
AXA Group SA	4,082,160	3.61%

The Directors have not been notified or were otherwise aware of any other holdings of 3% or more of the Company's issued share capital.

Acquisition of the company's own shares

Further to the shareholders' resolutions of 18 June 2009 and 17 June 2010, the company purchased 1,225,822 ordinary shares with a nominal value of £0.10, and representing 1.09% of the company's called up ordinary share capital, for a consideration of £746,733.

At the end of the year, the directors had authority, under the shareholders' resolution of 17 June 2010, to purchase through the market up to 10% of the company's ordinary shares at prices ranging between £0.05 and £1.27 per share. The authority expires on 23 June 2011.

Directors' indemnities

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

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, Directors' Remuneration 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. The directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the International Accounting Standard Regulation (IAS).

IAS1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records that 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Risk management

The main risk factors to the Group's financial performance and the steps taken to mitigate them are detailed in the analysis of risk note on pages 42 to 58.

Creditor payment policy

Although the Company does not follow a specific code when settling its payment obligations with creditors, it is the policy of the Company to ensure that all suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations.

Going concern

The Directors have considered the position of the Group's investments and assets compared to the technical provisions and other liabilities. In addition, they have assessed the Group's liquidity with regard to expected future cash flows. They have also considered the performance of the business, as discussed in the financial review and projections for the coming year. The Directors have concluded that it is appropriate to adopt the going concern basis in preparing the annual report and accounts.

Charitable and political donations

During the year, charitable donations amounted to $nil (2009: $nil). No political contributions were made.

Auditor

The auditors have expressed their willingness to continue in office as auditors and a resolution to reappoint the auditors will be proposed at the forthcoming Annual General Meeting.

Each Director confirms that so far as he is aware there is no relevant audit information of which the Company's auditor is unaware. Each Director also confirms that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish whether the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board

Christopher Jones
Company Secretary
30 March 2011

The Company has continued its commitment to maintaining effective corporate governance during 2010. While companies on the AIM market are not obliged to comply with the Combined Code, the Company wishes to apply best practice in relation to corporate governance and aims to comply with the Combined Code as far as practicable having regard to its size and stage of development.

The Board has authority, and is accountable to shareholders, for ensuring that the Company is appropriately managed and achieves the corporate objectives it sets. In order to fulfil its responsibilities, the Board meets on a regular basis and has a formal schedule of matters specifically reserved for its consideration and decision. The schedule of matters reserved to the Board provides that the Board's role encompasses the overall management of the Company including approval of long term strategy and objectives, oversight of operations, ensuring maintenance of a sound system of internal controls and risk management, decisions relating to any changes in the Company's capital structure or of management and approval of any significant expenditure. When Directors are unable to attend a meeting, they are advised of matters to be discussed and have the opportunity to make their views known to the Chairman prior to the meeting.

Since 28 June 2007, the Board comprised three Executive Directors, namely Gilles Erulin, Colin Bird and David Vaughan and six Non-Executive Directors, namely Robin Jackson, Patricia Barbizet, Loïc Brivezac, Anthony Hamilton, John Hendrickson and Gilles Pagniez. Following the death of Robin Jackson on 23 September 2010, Colin Bird was appointed as chairman of the Company. Since the year-end, T J Carroll and H H Miller have been appointed as new Non-Executive Directors, thereby fulfilling the Board's commitment to restore the balance of skills, knowledge and experience on the Board by the time of the next Annual General Meeting.

The Non-Executive Directors share responsibility for the discharge of the Board's duties by taking an essentially supervisory role and are chosen for their broad and complementary experience in relation to the Executive Directors. The key elements of the role and responsibility of the Non-Executive Directors are:

- Supervision of, and advice to, the Executive Directors;
- Evaluation of Executive Directors' performance;
- Remuneration of Executive Directors;
- Monitoring of the effectiveness of controls; and
- Governance and compliance.

These roles and responsibilities are carried out through membership of the Company's Audit, Nomination and Remuneration Committees. Membership of, and attendance at, the Committees is set out below. The terms of reference for the Committees, along with the schedule of matters reserved to the Board can be found on the Company's website www.tawaplc.co.uk.

Board attendance during 2010

Director	Relevant number of meetings	Number attended	% Attendance
Robin Jackson (deceased 23 September 2010)	4	4	100
Gilles Erulin	7	7	100
Patricia Barbizet	7	7	100
Colin Bird	7	7	100
Loïc Brivezac	7	7	100
Anthony Hamilton	7	6	86
John Hendrickson	7	7	100
Gilles Pagniez	7	6	86
David Vaughan	7	7	100
Average attendance			97%

Committee membership during 2010

Director	Audit Committee	Nomination Committee	Remuneration Committee
Robin Jackson (deceased 23 September 2010)	Yes	No	Yes
Gilles Erulin	No	No	No
Patricia Barbizet	No	Yes (Chair)	No
Colin Bird	No	No	No
Loïc Brivezac	Yes	No	No
Anthony Hamilton	No	Yes	No
John Hendrickson	Yes (Chair)	No	Yes
Gilles Pagniez	No	No	Yes (Chair)
David Vaughan	No	No	No

Board independence

The Board concludes that Tim Carroll, Anthony Hamilton, John Hendrickson and Hans Miller are independent in character and judgement.

The Board will review on an ongoing basis whether there are relationships or circumstances which are likely to affect or could appear to affect the independence of Mr Carroll, Mr. Hamilton, Mr Hendrickson and Mr Miller.

Audit Committee

The Audit Committee was established by the Board on 28 June 2007 and consisted of John Hendrickson, Loïc Brivezac and Robin Jackson. The Committee meets at least twice a year and will meet at least once without any Executive Director being present. The external auditors attend the Committee meetings (including at least one with no Executive Directors present), to discuss the nature and scope of the audit before it commences as well as reviewing the auditors' reports relating to accounts and internal control systems.

Attendance at each of the meetings by Committee members is set out below.

Audit Committee

Relevant Director	**Number of meetings**	**Number attended**
John Hendrickson	3	3
Loïc Brivezac	3	3
Robin Jackson (deceased 23 September 2010)	3	3
Average attendance		100%

Remuneration Committee

The Remuneration Committee was established by the Board on 28 June 2007 and consisted of Gilles Pagniez (Chairman), John Hendrickson and Robin Jackson.

The Committee's main responsibilities are to determine the remuneration of the Company's Chairman, the Executive Directors and the Company Secretary and to see that awards under the Group's share and incentive plans, while complying with statutory and other requirements, are consistent with the Group's overall performance and the performance of individuals and provide an additional incentive to management.

During the year, the Remuneration Committee reviewed the report on Directors' remuneration in the 2009 annual report, approved salary and bonus proposals for the Executive Directors and the Company Secretary and approved the grant of awards under the Company's Performance Share Plan. The Committee also reviewed the performance targets under the Performance Share Plan. Since the year end the Committee has reviewed the report on Directors' remuneration in the 2010 annual report.

Attendance at each of the meetings by Committee members is set out below.

Remuneration Committee

Relevant Director	**Number of meetings**	**Number attended**
Gilles Pagniez	3	3
John Hendrickson	3	2
Robin Jackson (deceased 23 September 2010)	2	2
Average attendance		88%

Nomination Committee

The Nomination Committee was established by the Board on 28 June 2007 and consisted of Patricia Barbizet (Chairman) and Anthony Hamilton. It meets as required and its duties include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations to the Board with regard to any changes.

During the year, the Nomination Committee reviewed the size, structure and composition of the Board. The Committee also reviewed its own performance, constitution and terms of reference. Since the year end, the Nomination Committee has considered the re-election of Directors at the AGM on 23 June 2011. Tim Carroll and Hans Miller, having been appointed since the previous Annual General Meeting, will retire and seek re-election at the forthcoming Annual General Meeting. In accordance with best practice guidelines on corporate governance, all other Directors of the Company will retire and offer themselves for re-election at the forthcoming Annual General Meeting.

Attendance at each of the meetings by Committee members is set out below

Nomination Committee

Relevant Director	Number of meetings	Number attended
Patricia Barbizet	2	2
Anthony Hamilton	2	2
Average attendance		100%

Corporate social responsibility

The Company recognises the importance of various stakeholders to its business, including its employees, shareholders, capital providers, clients and the wider community. The Company takes into account its responsibilities to, and impact on, each of these stakeholders in its policies and procedures.

Employee relations

The Company recognises that its success lies with its employees and, as such, it aims to meet or exceed best practice in terms of employee relations. The Company has an established equal opportunities policy. Performance indicators are monitored monthly. During 2010 companies in the Group had an average absence record of 5.5 days per employee compared with 2.2 during 2009. Ongoing professional development is encouraged with an average of 17.5 hours (2.5 days) per employee of training undertaken (not including additional study leave for examinations). 8% of the workforce holds at least one professional qualification.

The Group's voluntary employee turnover increased to 3% during 2010 from 0% in 2009. Involuntary turnover (redundancies) amounted to 12% in 2010 an increase from 8% in 2009.

Disability

The Group operates an equal opportunities policy which meets the requirements of UK legislation on discrimination. The Group's recruitment process is designed to ensure that there is no unlawful discrimination.

If an employee joins the Group with a disability, or becomes disabled during employment, a risk assessment is carried out where appropriate, reasonable adjustment is made to the working environment so that the employee concerned can contribute to their full potential.

The Group's equal opportunity policy covers training, career development and promotion and ensures that there are no barriers to advancement for disabled employees.

Information and consultation

During 2010 briefing sessions on the Group's progress have been held for both management and staff, and regular information bulletins have been distributed to all employees.

All employees are encouraged to take an interest and pride in the Group's performance and the Group links staff compensation to individual's performance.

Directors' remuneration report

All members of the Remuneration Committee are Non-Executive Directors and they do not have any personal financial interest in the Company other than their shareholdings in the Company disclosed in the Report of the Directors.

Remuneration policy

The objective of the policy is to ensure that all members of the executive management of the Company are provided with appropriate incentives to encourage and maintain long term sustainability and enhanced performance and are, in a fair and responsible manner, rewarded for their individual and collective contributions to the success of the Company. The Remuneration Committee will have regard to conditions of service and remuneration levels of competitor companies to ensure that the Company is well placed to attract and retain high calibre management, but not so as to cause remuneration to rise without a corresponding sustained improvement in performance.

There are key elements of the remuneration package for Executive Directors and senior management:

- Basic salary and benefits including pensions;
- Annual performance related bonus; and
- Share awards.

Basic salary and benefits

The Remuneration Committee is responsible for determining the remuneration of the Chairman, all Executive Directors, the Company Secretary and, in addition the senior management of the Group with annual remuneration above £300,000. The Committee utilises advice from Hewitt New Bridge Street Consultants (a leading advisor on senior executive compensation to UK listed companies) together with reports provided by Watson Wyatt as well as other publicly available reports in order to ensure that remuneration levels are consistent with comparable companies, while also taking into account the Company's performance. Executive Directors also receive benefits in kind such as private health care and permanent heath insurance.

Pensions

Executive Directors are entitled to become members of Tawa's Retirement Benefit Plan or to elect for contributions to be paid into a personal plan. The amount of employer contributions is linked to age and ranges from contributions of 7% to 20% of salary. To be a member of the Tawa Plan individuals are required to contribute a minimum of 3% of salary. The amount of contribution made to Executive Directors is outlined in the table below.

Annual performance related bonus

Tawa plc's annual bonus provision comprises two elements: variable pay and business performance bonus.

Variable Pay: Each year, a pool is created based on 10% of the total salary bill. This is allocated across all employees based on an assessment of each individual's contribution and performance aligned to objectives and targets set at the beginning of the year. Variable pay is awarded in December and awards typically range from 0 – 17% of base pay. For 2009 the decision was taken to award all staff 10% variable pay across the board to reflect good overall team performance and the flexibility adopted by employees to deliver to plan.

Business Performance Bonus is directly linked to the performance of the whole Company against the business plan and factors which employees can control. The bonus distributed in 2010 (reflecting 2009 performance) was significantly reduced to reflect Company performance. Awards totalled 10% and 15% of the mid-point salary of each band against on-target bonus awards of 20% to 30%. One third of the bonus paid is paid in cash with the remaining two thirds deferred after a further 12 months and 24 months, subject to continued employment but no other employment conditions.

Executive Directors bonus amounts have been determined by the Board on an annual basis and comprise (i) variable pay target of 10% of salary (ii) a business performance target of 30% of salary and (iii) a discretionary top up bonus. An aggregate maximum limit of 80% of salary over the whole bonus applies.

Directors' remuneration

Services whilst Directors of the parent, amounts received as Directors of the parent, as Directors of any subsidiaries and otherwise in connection with any company in the Group.

	2010					2009
	Salary / Fees $	**Bonus** $	**Pension** $	**Taxable Benefits** $	**Total** $	Total $
Chairman						
Colin Bird						
(with effect from 8 October 2010)	280,770	208,323	50,018	22,154	**561,265**	524,170
Robin Jackson						
(deceased 23 September 2010)	97,808	-	-	-	**97,808**	104,087
Executive Directors						
Gilles Erulin	619,808	516,720	76,420	46,953	**1,259,901**	859,620
David Vaughan	286,328	487,194	351,331	35,873	**1,160,726**	660,325
Non-Executive Directors						
Patricia Barbizet	74,345	-	-	-	**74,345**	84,242
Loïc Brivezac	75,926	-	-	-	**75,926**	75,700
John Hendrickson	158,180	-	-	-	**158,180**	123,538
Anthony Hamilton	71,181	-	-	-	**71,181**	70,969
Gilles Pagniez	170,834	-	-	-	**170,834**	151,925
Total	1,835,180	1,212,237	477,769	104,980	**3,630,166**	2,654,576

Certain Directors of Tawa plc received the following remuneration from an associate of the Group.

	2010					2009
	Salary / Fees $	**Bonus** $	**Pension** $	**Taxable Benefits** $	**Total** $	Total $
Executive Directors						
Colin Bird	-	-	-	-	**-**	68,340
Non-Executive Directors						
Gilles Pagniez	-	-	-	-	**-**	24,209
Total	-	-	-	-	**-**	92,549

Share awards

The Company operates two share plans that were introduced in 2007, the Performance Share Plan and the Deferred Share Bonus Plan collectively referred to as the Tawa Share Plans. The Tawa Share Plans are designed to align the interests of employees and shareholders in addition to incentivising staff to deliver outstanding results.

In the context of the economic climate, the reduction in staff numbers, the regulatory framework and costs of running the Deferred Share Bonus Plan the decision was taken to wind down the Deferred Share Bonus Plan. The final tranche of shares under the Plan vested in July 2010 and future payments will be made in three cash tranches.

The Performance Share Plan

The Performance Share Plan provides for the grant of awards over Ordinary Shares. The vesting of awards granted to Executive Directors is subject to performance conditions set by the Remuneration Committee on or prior to the grant of an award. Awards normally vest on the third anniversary of the date of grant, subject to the satisfaction of the relevant performance conditions and to the employee being either an employee or Director within the Tawa Group on that date.

Awards made in 2007, 2008 and 2009 to the Executive Directors and senior executives are subject to the following conditions:

- One-half of the award is subject to a performance condition measuring the average annual compound growth in the Company's Net Asset Value ("NAV") per Share before dividends as determined by the Remuneration Committee over a single period of three financial years of the Company commencing with the financial year in which the award is granted. The NAV performance period for the awards granted in 2007 commenced on the date of admission and ends on 31 December 2009. The NAV performance period for the awards made in 2008 commenced on 1 January 2008 and ends on 31 December 2010. The NAV performance period for the awards made in 2009 commenced on 1 January 2009 and ends on 31 December 2011; and
- One half of the award is subject to a performance condition comparing the Company's relative Total Shareholder Return ("TSR") against a comparator group of companies comprising the constituents of the FTSE Small Cap (excluding investment trusts) on the grant date over a period of three years commencing on the date of grant of an award.

The performance measure for the NAV condition for 2009 was re-aligned to reflect market conditions and achievable, but stretching targets.

The portion of an award subject to the NAV condition will not vest unless NAV growth during the performance period is at least equal to an average of 7.5% (previously 12.5%) compound per annum, thereafter this portion of the award will vest as follows:

NAV per Share growth during the performance period (average compound)	Percentage of one-half of the total number of Shares subject to the award that will vest
Equal to or greater than 15%	100%
Between 7.5% and 15%	Pro-rata between 25% and 100%
Equal to 7.5%	25%
Less than 7.5%	Nil%

The portion of the award subject to the TSR performance condition will vest as follows:

Rank of the Company's TSR against comparator companies at the end of the performance period	Percentage of one-half of the total number of Shares subject to the award that will vest
Upper quartile or above	100%
Between upper quartile and median	Pro-rata between 25% and 100%
Median	25%
Below median	0%

The performance period for the TSR condition began on 26 July 2007, 9 May 2008 and 27 March 2009 respectively. For the initial tranche, the "base" TSR of the Company and the companies in the Comparator Group will be the average Net Returns of such companies for the first three months of the performance period, with the "end" TSRs being the relevant Net Returns for the three month period preceding the end of the performance period (except in the event of a takeover when TSR may be averaged over a shorter period).

As noted above, in addition to the satisfaction of performance conditions, the vesting of these awards is subject to the Executive Director and senior executive being either an employee or Director within the Tawa Group on the third anniversary of date of grant, except in the case of the award granted to Gilles Erulin, who is required to be an employee or Director within the Tawa Group on 30 March 2010 for awards made in 2007 and 30 March 2011 for awards made in 2008 and 30 March 2012 for awards made in 2009.

At the time of the Company's admission to trading on AIM, an initial grant over Ordinary Shares with an aggregate value equal to £75,000 was made under the Performance Share Plan to eight senior executives, none of whom were Executive Directors. These awards formed part of a discretionary cash bonus, one third of which was required to be used to acquire Ordinary Shares. In return, the Company granted each executive an award over Ordinary Shares with a value on grant worth 50 per cent of the amount invested. These awards vested in July 2009. Also at the time of admission, each employee (excluding Executive Directors and senior executives) in the Group were granted an award under the Performance Share Plan over 2,400 Ordinary Shares. These awards were not subject to any performance conditions and vested in July 2009.

The Deferred Share Bonus Plan

In the context of the economic climate, the reduction in staff numbers, the regulatory framework and costs of running the Deferred Share Bonus Plan the decision was taken to wind down the Deferred Share Bonus Plan. The final tranche of shares under the Plan vested in July 2010.

Awards held

The awards held over Ordinary Shares of 10p each in the Company as at 31 December 2010 by Executive Directors serving at the year-end are disclosed in the Directors' Report on page 13.

Future grants of awards under Tawa Share Plans will be approved by the Remuneration Committee. The Remuneration Committee will have due regard to the Association of British Insurers Guidelines and the Combined Code and the Financial Services Authority code of practice in making such awards and setting appropriate performance conditions.

Service contracts

The contracts of Gilles Erulin, Colin Bird and David Vaughan are terminable by either side on 12 months' notice and, in any event will terminate on the date they attain the age of 65.

The Remuneration Committee believes that these notice periods provide an appropriate balance and adequately protect the Company, having regard to the prevailing market for recruiting suitable replacements.

Non Executive Directors

The Executive Directors will review Non-Executive Directors' remuneration annually to ensure that fees are in line with comparable companies. All Non-Executive Directors receive an annual fee in respect of their board duties and an attendance fee for each board and board committee meeting they attend. The Non-Executive Directors do not receive any other benefit.

Overview

The control of all day-to-day operations of the Group is vested in the Board, delegated to management where appropriate, but always subject to review by the Board. At the present size of the Group the key controls are vested in the Executive Directors, who undertake a close day-to-day supervision of all activities and financial decisions.

However, such a system can only provide reasonable, not absolute, assurance against material misstatement or loss. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives as set by the Board.

The Audit Committee has oversight over the external auditors. Executive Management is responsible for the implementation and satisfactory maintenance of systems of internal controls over financial reporting and for compliance with laws and regulations.

The Audit Committee's main objectives are: to monitor the integrity of the Group's financial statements and any other formal announcements relating to the Group's financial performance before submission to, and approval by, the Board; review the Group's internal controls and risk management system; and review arrangements by which employees may, in confidence, raise concerns in financial reporting and other matters.

The Group's systems of internal control consist of inter-related components:

- Control environment
  The control environment within the company provides structure and discipline for the other four components, incorporating factors such as integrity, ethical values, management's philosophy and operating style; assignment of authority and responsibility; employee competence; organisational structure; and the attention and direction provided by the Board of Directors.

The control environment is also communicated to all employees through the following key policies approved by the Board:

- Tawa plc's corporate objectives;
- Code of ethics and conduct;
- Whistle blowing procedures; and
- Insider trading – restrictions on share dealing by Directors and employees.

Risk management

The Company faces a variety of risks from both internal and external sources that require identification, assessment and management. The management of these risks is a process that enables the business to:

- Identify and understand the risks that it faces in the pursuit of its business objectives;
- Assess and prioritise the risks identified and the means of mitigating them;
- Where possible and commercially feasible, reduce the probability and impact of those risks;
- Regularly review, monitor and report on those risks in order to take informed actions; and
- Ensure that any new risks, or changes to existing risks, are captured.

As the environment in which the Company is operating is constantly changing, the risk assessment process needs to be dynamic and updated on an ongoing basis.

An analysis of the risk management framework at Tawa can be found on pages 42 to 58.

Monitoring

Internal control systems need to be monitored to assess the quality of the systems over time. The Group achieves this through a combination of day-to-day operational monitoring conducted by management, such as the review of monthly management and exception reports. The Group believes it has implemented an effective system of internal control.

Independent auditors' report to the members of Tawa plc

We have audited the financial statements of Tawa plc for the year ended 31 December 2010 which comprise the consolidated and parent company income statement, the consolidated and parent company statement of comprehensive income, the consolidated and parent company statement of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent company statements of cash flows, and the related notes 1 to 58. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the 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 Group's and the parent 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 Group's and the parent company's affairs as at 31 December 2010 and of the Group's and the parent Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Jeremy Casson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
30 March 2011

Consolidated income statement

	Notes	**31 Dec 2010 $m**	31 Dec 2009 $m
Income continuing operations			
Insurance premium revenue		**(1.3)**	(1.2)
Insurance premium ceded to reinsurers		**0.3**	0.6
Net earned premium revenue		**(1.0)**	(0.6)
Revenue from consultancy, insurance and run-off services	7	**42.2**	14.4
Investment return	8	**7.7**	2.7
Interest income		**5.4**	-
Other income		**4.0**	1.1
Total income		**59.3**	18.2
Insurance claims and loss adjustment expenses	9	**(5.3)**	12.2
Insurance claims and loss adjustment expenses recovered from reinsurers	7	**2.4**	(2.3)
Net insurance claims		**(2.9)**	9.9
Total expenses		**(46.8)**	(20.3)
Results of operating activities before negative goodwill recognised and impairment of goodwill		**8.6**	7.2
Negative goodwill recognised	39	**4.9**	-
Impairment of goodwill	28	**-**	(5.0)
Results of operating activities		**13.5**	2.2
Share of results of associate	26	**(0.9)**	1.8
Finance costs	13	**(4.0)**	(4.9)
Profit/(loss) before taxation		**8.6**	(0.9)
Taxation	14	**-**	-
Profit/(loss) for the year from continuing operations		**8.6**	(0.9)
(Loss)/profit for the year from discontinued operations	15	**(6.8)**	12.1
Profit for the year	16	**1.8**	11.2
Attributable to:			
Equity holders of the Group		**1.8**	11.2
Earnings per share			
From continuing and discontinued operations	18		
Basic: Ordinary shares ($ per share)		**0.0159**	0.0991
Diluted: Ordinary shares ($ per share)		**0.0150**	0.0948
From continuing operations	18		
Basic: Ordinary shares ($ per share)		**0.0761**	(0.0080)
Diluted: Ordinary shares ($ per share)		**0.0719**	(0.0076)

The notes on pages 30 to 80 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	31 Dec 2010	31 Dec 2009
	$m	$m
Profit for the year	**1.8**	11.2
Other comprehensive (losses)/income		
Currency translation differences	**(0.7)**	2.3
Total comprehensive income for the year	**1.1**	13.5
Attributable to:		
Equity holders of the Group	**1.1**	13.5

The notes on pages 30 to 80 form part of these financial statements.

Tawa plc Consolidated statement of financial position

As at 31 December 2010

	Notes	31 Dec 2010 $m	31 Dec 2009 $m
Assets			
Cash and cash equivalents	19	**48.5**	30.9
Financial assets - investments	20	**229.6**	260.7
Loans and receivables including insurance receivables	21	**73.9**	61.2
Reinsurers' share of technical provisions	22	**29.7**	24.7
Property, plant and equipment	23	**1.7**	1.6
Deferred assets	24	**66.5**	74.3
Interest in associate	26	**6.8**	7.7
Other intangible assets	27	**2.3**	0.9
Goodwill	28	**23.1**	28.3
Total assets		**482.1**	490.3
Equity			
Share capital	29	**22.2**	22.2
Share premium	30	**111.4**	111.4
Share based payments reserve	31	**3.2**	2.5
Own shares	32	**(1.1)**	-
Retained earnings	31	**89.3**	92.3
Equity attributable to owners of the company		**225.0**	228.4
Non-controlling interest		**1.3**	-
Total equity attributable to equity holders		**226.3**	228.4
Liabilities			
Creditors arising out of insurance operations	33	**68.1**	66.8
Other liabilities	34	**33.9**	25.5
Financial liabilities - borrowings	35	**32.2**	33.3
Technical provisions	22	**121.6**	136.3
Total liabilities		**255.8**	261.9
Total liabilities and equity		**482.1**	490.3

The notes on pages 30 to 80 form part of these financial statements.

The financial statements of Tawa plc were approved by the Board of Directors and authorised for issue on 23 March 2011 and were signed on its behalf on 30 March 2011 by:

Colin Bird
Chairman

Gilles Erulin
Chief Executive Officer

Consolidated statement of changes in equity

As at 31 December 2010

	Issued capital $m	Share premium reserve $m	Share based payments reserve $m	Own shares $m	Retained earnings $m	Total $m	Non-controlling interest $m	Total Equity $m
Balance at 1 January 2009	22.2	111.4	1.3	-	79.7	214.6	-	214.6
Share based payments	-	-	1.2	-	-	1.2	-	1.2
Dividends paid	-	-	-	-	(0.9)	(0.9)	-	(0.9)
Total comprehensive income for the year	-	-	-	-	13.5	13.5	-	13.5
Balance at 31 December 2009	22.2	111.4	2.5	-	92.3	228.4	-	228.4
Balance at 1 January 2010	22.2	111.4	2.5	-	92.3	228.4	-	228.4
Share based payments	-	-	0.7	-	-	0.7	-	0.7
Dividends paid	-	-	-	-	(4.1)	(4.1)	-	(4.1)
Own shares acquired in the period	-	-	-	(1.1)	-	(1.1)	-	(1.1)
Non-controlling interest at acquisition	-	-	-	-	-	-	1.3	1.3
Total comprehensive income for the year	-	-	-	-	1.1	1.1	-	1.1
Balance at 31 December 2010	**22.2**	**111.4**	**3.2**	**(1.1)**	**89.3**	**225.0**	**1.3**	**226.3**

The notes on pages 30 to 80 form part of these financial statements.

Tawa plc Consolidated statement of cash flows

For the year ended 31 December 2010

	Notes	31 Dec 2010 $m	31 Dec 2009 $m
Net cash used in operations	36	**(17.8)**	(13.3)
Investing activities			
Cash payments to acquire debt securities		**(1,021.4)**	(1,718.4)
Cash receipts from sale of debt securities		**1,047.6**	1,773.5
Cash transferred from investing activities		**(1.4)**	3.0
Cash receipts from interest		**6.2**	8.6
Purchases of property, plant and equipment		**(0.8)**	(6.7)
Acquisition of subsidiary net of cash and cash equivalents	39	**23.0**	(8.6)
Cash generated by investing activities		**53.2**	51.4
Financing activities			
Dividends paid		**(4.1)**	(0.9)
Own share purchased		**(1.1)**	-
Proceeds from issue of equity shares		**-**	-
Proceeds from financial borrowings		**-**	1.7
Repayments of financial borrowings		**(12.7)**	(37.0)
Cash flows (used in) from financing activities		**(17.9)**	(36.2)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		**30.9**	29.0
Cash and cash equivalents at end of year		**48.5**	30.9

The notes on pages 30 to 80 form part of these financial statements.

1 General information

Tawa plc (the "Company") and its subsidiaries (together the "Group") are engaged in three principal business activities:

- The acquisition and run-off of insurance companies that have ceased underwriting;
- The provision of run-off management services to acquired insurance companies; and
- The provision of insurance services to external clients.

The Company is incorporated and domiciled in the United Kingdom and the address of its registered office is disclosed on page 93.

The Group acquired 94.3% of the ordinary shares of the Island Capital group of companies on 22 October 2010. The Island Capital group of companies comprise: Island Capital Limited and Island Capital (Europe) Limited.

On 21 March 2006, the Company disposed of 87.35% of its "A" Shares (carrying the economic rights) and 50.05% of its "B" Shares (carrying the voting rights) of CX Reinsurance Company Limited ("CX Re"). As a result of the disposal, the classification of the Company's 12.65% shareholding in CX Re changed from "subsidiary" to "associate", as the Group retains 49.95% of the voting power, and the equity accounting method has been adopted. An initial consideration was payable with further amounts being payable to the Company, referenced to future distributions from CX Re to its shareholders. Deferred consideration related to the disposal has been recorded in the statement of financial position as an asset and is dependent on the net asset value of CX Re. Any adjustments to deferred consideration will be accounted for as adjustments to the profit on disposal, which is disclosed as "Profit/(loss) for the year from discontinued operations" in the income statement, in the years in which the adjustments to the deferred consideration arise.

The Directors have considered the position of the Group's investments and assets compared to the technical provisions and other liabilities. In addition they have assessed the Group's liquidity with regard to expected future cash flows. They have also considered the performance of the business, as discussed in the financial review. The Directors have therefore concluded that it is appropriate to adopt the going concern basis in preparing the annual report and accounts.

2 Accounting developments

The new and revised standards that have been adopted in the current year and have affected disclosure and amounts reported in these financial statements are set out in 2a. Details of other standards and interpretations effective in the current period that have had no impact on these financial statements are set out in 2b. Standards and interpretations in issue and not yet adopted are set out in 2c.

a Standards and interpretations adopted in the current year affecting disclosure and amounts reported in these financial statements

The adoption of these standards has not led to any retrospective application of changes in the Group's accounting policies.

- Amendments to IFRS 2 "Share-based payment" effective for annual periods beginning on or after 1 January 2010. Amendment for Group cash-settled share-based payment transactions;
- IFRS 3 (Revised 2008) "Business combinations" effective for annual periods beginning on or after 1 July 2009. A comprehensive revision on applying the acquisition method. Consequential amendments to IAS 27 "Consolidated and separate financial statements", IAS 28 "Investments in associates" and IAS 31 "Interests in joint ventures", effective for annual periods on or after 1 July 2009;
- IFRIC 17 "Distributions of non-cash assets to owners" effective for annual periods beginning on or after 1 July 2009; and
- Various annual improvements to IFRSs (2009) effective for annual periods beginning on or after 1 July 2009 or 1 January 2010.

b Standards and interpretations adopted in the current year with no effect on these financial statements

The following new and revised standards and interpretations have also been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions or arrangements.

2 Accounting developments continued

- IFRS 3(2008) Business Combinations - In January 2008, the IASB issued an amendment to IFRS 3 which clarifies and changes certain elements of accounting for a business combination, including the measurement and accounting for non-controlling interests, contingent consideration, step acquisitions and acquisition-related costs and also widens the scope of the standard. There are also associated amendments to IAS 27, IAS 28 and IAS 31;
- IFRIC 17 Distributions of Non-cash Assets - The Interpretation provides guidance on when an entity should recognise an Owners non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled; and
- IFRS 2 (amended) group Cash-settled - The amendment clarifies the accounting for share-based payment transactions between group entities.

c Standards and interpretations in issue not yet adopted

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 Financial Instruments - In November 2009, the IASB issued IFRS 9 and in October 2010, issued an amendment to IFRS 9 which introduce new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
- IAS 24 (amended) Related Party Disclosures - In November 2009, the IASB issued amendments to IAS 24, effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The revised standard modifies the definition of a related party and simplifies disclosures for government-related entities;
- IAS 32 (amended) Classification of Rights Issues;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments;
- IFRIC 14 (amended) Prepayments of a Minimum Funding Requirement; and
- The adoption of IFRS 9 which the group plans to adopt for the year beginning on 1 January 2013 will impact both the measurement and disclosures of Financial Instruments.

3 Significant accounting policies

a Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") adopted for use in the European Union. The financial statements also comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are presented in millions of US dollars, rounded to the nearest hundred-thousand. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through the income statement.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

In accordance with IFRS 4 "Insurance contracts", the Group has applied existing accounting practices for insurance contracts and investment contracts within each of its subsidiaries, modified as appropriate, to comply with the IFRS framework and applicable standards.

b Basis of consolidation

These financial statements consolidate all the enterprises in which the Group exercises control either directly or indirectly (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(i) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combinations. The acquiree's identifiable assets, liabilities and contingent liabilities that meet conditions for recognition under IFRS 3 are recognised at fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non current assets held for sale and discontinued operations", which are recognised and measured at fair value less costs to sell.

Where the acquiree retains a non-controlling interest in the subsidiary, the value of equity attributable has been accounted for as a proportionate share of identifiable net assets acquired as defined under IFRS 3. The treatment can however be varied based on choice made on acquisition-by-acquisition basis, with the alternative method to account for the non-controlling interest at fair value.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised of a subsidiary, associate or jointly controlled entity at the date of acquisition. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination "negative goodwill", the excess is recognised immediately in the income statement.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. The results of subsidiaries disposed of during the year are included in the consolidated income statement up to the effective date of disposal, as appropriate. The financial results, profit on disposal and deferred consideration adjustments relating to the sale of Group operations are included in "Profit/(loss) for the year from discontinued operations" in the income statement.

3 Significant accounting policies continued

(ii) Insurance risk premium

On acquisition of a subsidiary, in determining the fair value of an acquired company's assets and liabilities, the technical provisions are increased to include an insurance risk premium, which reflects management's consideration of the uncertainty of the technical provisions acquired.

At acquisition the level of the risk premium is determined on an actuarial basis as the difference between the acquiree's level of technical provisions held and those that are required to bring them up to the 75th percentile level of confidence.

Following acquisition the in-house actuaries undertake a full actuarial review of the acquired company's technical provisions. At that time a review of the risk premium held is determined with any resultant increase or decrease in the risk premium charged or released to profits.

Management determines, through its business plan for the acquired company, the rate of descale for the company of its technical provisions and in each individual case sets a period over which the remaining risk premium will be released on a straight line basis.

(iii) Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the associates. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

(iv) Goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3 Significant accounting policies continued

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous GAAP amounts subject to being tested for impairment at that date.

c Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Chief Executive.

d Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the major Group entities are:

Tawa plc	GBP
KX Reinsurance Company Limited	USD
PXRE Reinsurance Company	USD
Pro Insurance Solutions Limited	GBP
Tawa Management Limited	GBP
Island Capital Limited	USD

The consolidated financial statements are presented in millions of US dollars, which is the Group's presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets are initially translated at transaction date. Non-monetary items are measured at the average rate applicable when the transaction occurred and not retranslated.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing exchange rates at the date of the most recent statement of financial position presented;
- income statement items are translated at the rate prevailing throughout the relevant period; and
- all resulting exchange differences are recognised in other comprehensive income and accumulated in equity.

e Product classification

The Group's products are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

Investment contracts are contracts that carry financial risk with no significant insurance risk.

In some insurance contracts or investment contracts, the financial risk is borne by the policyholders.

3 Significant accounting policies continued

Insurance contracts and investment contracts continue to be measured and accounted for under the existing accounting practices of each subsidiary prior to the date of transition to IFRS.

f Revenue recognition

(i) Insurance premium revenue

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

(ii) Revenue from run-off services

Revenue is attributable to providing management and operational services relating to the insurance industry and all income derived from associated concerns and are recognised in the income statement on an accrued basis. Incentive fees are attributable to providing transaction facilitation and structuring services and are recognised in the income statement on an accrued basis.

(iii) Investment return

Investment return consists of dividends, interest, realised gains and losses, and unrealised gains and losses on fair value assets. Investment income is accounted for on a receivable basis, gross of any imputed tax credit. Interest is accrued up to the statement of financial position date.

(iv) Insurance 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.

(v) Employee benefits

Pension costs

The Group only operates defined contribution pension arrangements. Contributions are charged to the income statement as employee benefit expense as they become payable in accordance with the rules of each scheme. The Group has no further payment obligations once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting condition) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the stochastic valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restriction, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each statement of financial position date for cash-settled share-based payments.

3 Significant accounting policies continued

g Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

h Taxation

Income tax expense represents the sum of the tax payable or receivable in the year and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the statement of financial position date.

Deferred income tax is provided in full, using the liability method, on all temporary differences, which are based on the differences between the financial statement carrying values and the tax bases of assets and liabilities using enacted income tax rates and laws. Deferred income tax assets are recognised to the extent that it is regarded as probable that they will be utilised against sufficient future taxable income. Deferred income tax assets and liabilities are not discounted.

Current tax payable by any Group company on distribution to the holding company of the undistributed profits of any subsidiaries is recognised as deferred tax unless the timing of the distribution of those profits is controlled by the holding company and the temporary difference is not expected to reverse in the foreseeable future.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

i Other intangible assets

(i) Software expenditure

An internally-generated intangible asset arising from the Group's software development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

It is amortised on a straight-line basis over its estimated useful life. The estimated useful lives are as follows:

Patents and trademarks	5 years
Development costs	5 years

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. The impairment policy is set out in note k below.

Intangible assets are subject to annual review for impairment. Any impairment charge is included within operating profits.

(ii) Arising from acquisition

An intangible asset arising from an acquisition of a subsidiary by the Group is initially valued on a provisional basis, pending the final valuation of these assets on completion of the fair value exercise. The final valuation will be specific to the nature of the business acquired, based on an assessment of the type of intangible assets identified matched with the application of the most appropriate valuation technique.

3 Significant accounting policies continued

The types of intangible asset that may be identified are:

- Market related;
- Contract based;
- Customer related; and
- Technology based.

The valuation methods applied can be:

- Market - by reference to transactions that occurred recently in similar markets, or benchmarks of comparable assets;
- Income - on the basis of the future economic benefits derived from the ownership of the asset; and
- Cost - by assessing the development or replacement cost of an asset.

The intangible assets recognised to date are amortised on a straight line basis, over their estimated useful life. The estimated useful lives are as follows:

Contract based valued on the income method	2 years
Customer related valued on the income method	5 years

j Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses when appropriate. Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Fixtures and fittings	4 years
Computer equipment	4 years
Leasehold improvements	Remainder of lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.
The residual values and useful lives of the assets are reviewed at each statement of financial position date and adjusted if appropriate.

k Impairment of non financial assets

The Group reviews the carrying amounts of its assets at each statement of financial position date to determine whether there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of fair value less costs to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3 Significant accounting policies continued

l Financial instruments

The Group recognises a financial asset or a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. On initial recognition, the Group determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the financial instruments are acquired.

(i) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL") and loans and receivables.

Financial assets at FVTPL

The Group has classified its investments as financial assets at FVTPL. The Group manages financial investments held to cover its insurance liabilities on the same basis, being fair value. As such the Group's investments are classified as FVTPL at inception. Investments are stated at fair value at the statement of financial position date with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in net investment return in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are designated on initial recognition and measured at fair value, using relevant measurement techniques. They are subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognised in the income statement.

Reclassification of financial assets

The Group has not reclassified certain non-derivative financial assets out of FVTPL to available for sale financial assets. Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3 Significant accounting policies continued

(ii) Financial liabilities

The Group classifies its financial liabilities as other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group does not deal in any derivatives. Purchases and sales of securities and currencies are recognised on trade date, the date on which the Group commits to purchase or sell the asset.

(iv) Fair value of financial instruments

The fair value of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices. Financial assets in this category include listed equities, listed debt securities and mortgages. Financial liabilities include borrowings, net asset value attributable to unit-holders and liabilities for investment contracts.

The fair value of other non-derivative financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

m Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

(i) Claims outstanding, related reinsurance recoveries and loss adjustment expenses

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred up to, but not paid at, the statement of financial position date, whether reported or not, together with provisions for future costs related to the management of the run-off of the portfolio of claims. Where applicable, prudent estimates are made for salvage and subrogation recoveries.

The gross claims outstanding provisions and related reinsurance recoveries, net of specific provisions 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. Claims outstanding are carried at actuarial "best-estimates".

3 Significant accounting policies continued

(ii) Discounting

The Group's net technical provisions 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. Discounting is applied to claims with a mean term of at least 4 years. The payment patterns for claims outstanding are derived by the Group's actuaries from analysis of historical patterns experienced by the Group and other comparable companies in run-off. The Group'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.

(iii) Investment contracts

Deposits collected under investment contracts are accounted for directly through the statement of financial position (except for the investment income attributable to those contracts) as a financial liability.

Liabilities are measured by reference to the fair value of the underlying net asset value of the financial assets backing those contracts at the end of the reporting period. They are designated at inception as at fair value through profit or loss.

Claims reflect the excess of amounts paid over the account balance released.

n Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

4 Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to exercise judgement in making estimates and assumptions that affect the application of the Group's accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the periods in which the estimates are revised if the revisions affect only those periods or in the periods of the revision and future periods if applicable.

Judgements made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in following years include:

a Outstanding claims provisions and related reinsurance recoveries (technical provisions)

There is uncertainty as regards the eventual outcome of the claims and related reinsurance recoveries that have occurred by the statement of financial position date but remain unsettled. This includes claims that may have occurred but have not yet been notified and those that are not yet apparent to the insured. 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 statement of financial position 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 reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

b Basis of discounting

The Group's net technical provisions are discounted as set out in note 3m. The use of discounted technical provisions depends upon the accuracy of the following estimates:

- future claims and expense payments and associated reinsurance recoveries;
- the payment profiles attributable to claims payments and related reinsurance recoveries; and
- the future rate of return expected on invested assets.

c Fair value of financial assets – measurement considerations

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g. a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate.

d Revenue recognition – deferred consideration

The deferred consideration receivable on the sale of the majority of the Group's shareholding in CX Reinsurance Company Limited, as referred to in note 1, is impacted by the net asset value of the company. A number of risks impact the fair value of CX Reinsurance Company Limited and any changes in the fair value will have a direct impact on the value of deferred consideration carried in the statement of financial position. The fair value of CX Reinsurance Company Limited is deemed to be its net asset value.

5 Analysis of risk

Although the Group disposed of the majority of its shareholding in CX Reinsurance Company Limited ("CX Re"), as referred to in note 1, the deferred consideration receivable on the sale is impacted by the net asset value of CX Re. Consequently, the Group remains exposed to all the major risks related to its associate CX Re and details of these risks are disclosed in this note.

a Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance while holding sufficient capital in each of the insurance operating entities to meet regulatory requirements. The capital structure of the Group consists of debt which includes borrowings, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued share capital, share premium and retained earnings.

The Group measures its capital using an economic capital model which is the Group's own assessment of the amount of capital it needs to hold and takes into account both financial and non-financial assumptions. The economic capital is used within the Financial Services Authority's ("FSA") requirement on Individual Capital Assessment (ICA). Developments in Solvency II are being monitored.

The Group's executive management reviews working capital on a continual basis and assesses the appropriate financing structures for acquisitions. They are responsible for assessing the Group's capital structure on a regular basis with the aim of selecting a debt-to-equity ratio that maximises return to shareholders. As at 31 December 2010 the debt-to-equity ratio was 7.5% (2009: 12%). The debt is defined as long and short term borrowings and has not been reduced by all Group cash and cash equivalents as some cash belonging to regulated subsidiaries is not regarded as readily distributable within the Group. Equity includes all capital and reserves of the Group.

As at 31 December 2010 the Group was required to hold sufficient capital to meet the conditions of bank loan covenants in respect of loans of $32.2 million (2009: $33.3 million).

The Group is also subject to externally imposed capital requirements in respect of all insurance entities that previously wrote insurance and reinsurance business. These requirements, which have been complied with during the year, are enforced within the individual locations and are detailed below:

- KX Reinsurance Company Limited is regulated by the FSA and it is required by the FSA to submit an annual statement of solvency and to hold capital resources in excess of its capital resources requirement;
- PXRE Reinsurance Company is regulated by the Connecticut Department of Insurance. It is required by the Connecticut Department to submit an annual risk-based capital statement and to hold total adjusted capital in excess of the Company Action Level which is 200% of its Authorised Control Level Risk-Based Capital;
- Island Capital Limited is regulated by the Bermuda Monetary Authority; and
- Island Capital (Europe) Limited is regulated by the FSA and it is required by the FSA to submit an annual statement of solvency and to hold capital resources in excess of its capital resources requirement.

b Fair value of financial instruments

The Group is exposed to liquidity risk arising from the fair value of financial instruments. The Group manages this risk by ensuring its exposure to financial assets valued at other than quoted prices is monitored by the Group's management. Valuations are determined by the Group's external investment managers and the suitability of the pricing methodologies are reported to and considered by the Group's management.

5 Analysis of risk continued

(i) Valuation techniques and assumptions applied for the purposes of measuring fair value

The Directors consider that the carrying amounts of financial assets and financial liabilities in the financial statements approximate their fair values.

Fair value is the amount for which an asset could be exchanged between willing parties in an arm's length transaction. The fair values of financial assets and financial liabilities are determined as follows:

- fair values of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- where such price information is typically not available for all instruments the Group applies valuation techniques based on discounted cash flow techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independent of the risk taker.

(ii) Fair value measurements recognised in the statement of financial position

The table on page 44 provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group does not have any financial assets classified as Level 1;
- Included in the Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable; and
- Included in the Level 3 category are financial assets measured using non market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and debt securities. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data.

5 Analysis of risk continued

(ii) Fair value measurements recognised in the statement of financial position continued

The following table presents the Group's and associate's financial instruments that are measured at fair value as at 31 December 2010.

Group	Level 1 $m	Level 2 $m	Level 3 $m	**31 Dec 2010 Total $m**
Financial assets designated as fair value through profit or loss ("FVTPL")				
Invested Assets (excluding Deposits with Credit Institutions)	-	201.6	-	**201.6**

Associate CX Re	Level 1 $m	Level 2 $m	Level 3 $m	**31 Dec 2010 Total $m**
Financial assets designated as fair value through profit or loss ("FVTPL")				
Invested Assets (excluding Deposits with Credit Institutions)	-	111.3	2.4	113.7

Group	Level 1 $m	Level 2 $m	Level 3 $m	31 Dec 2009 Total $m
Financial assets designated as fair value through profit or loss ("FVTPL")				
Invested Assets (excluding Deposits with Credit Institutions)	-	227.4	-	227.4

Associate CX Re	Level 1 $m	Level 2 $m	Level 3 $m	31 Dec 2010 Total $m
Financial assets designated as fair value through profit or loss ("FVTPL")				
Invested Assets (excluding Deposits with Credit Institutions)	-	126.9	-	126.9

There were no transfers between level 1 and 2 in the period.

The directors of CX Re have allocated one fixed income bond with a market value of $2.4 million to Level 3 following the review of the investment portfolio. This allocation to Level 3 is due to the limited liquidity in the market for investments of this nature.

5 Analysis of risk continued

(iii) Significant assumptions used in determining the fair value of financial assets

Asset backed securities

The financial statements of the Group include other debt securities backed by underlying pools of mortgage related loans which are measured at fair value (note 20). The financial statements of the Group's associate also include other debt securities backed by underlying pools of mortgage related loans which are measured at fair value. The fair value of the asset backed securities is determined using valuation techniques based on the calculation of the present value of expected future cash flows of the assets. Inputs to these valuation techniques include some assumptions relating to both these securities and the underlying loans to which they are collateralised, the majority of which are market observable (e.g. repayment speeds and default rates of the underlying loans and loss severity based on collateral type).

c Risk management

The Group's activities expose it to a variety of financial and non-financial risks. The Board of Directors retains overall responsibility for the risk management framework that has been established to minimise the Group's exposure to risk and assesses the effectiveness of the controls established to identify, monitor and mitigate the risks faced by the Group.

The risks that the Group faces include but are not limited to:

- Insurance risk; and
- Financial risk.

(i) Insurance risk

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 the Group uses actuarial techniques to project future claim payments.

Sources of uncertainty in the estimation of future claim payments

The uncertainty in the financial statements principally arises in respect of the outstanding claims provisions and related reinsurance recoveries, as set out in note 4. As a consequence of this uncertainty, the Group needs to apply sophisticated estimation techniques to determine the appropriate provisions. The Group sets its provision for claims outstanding based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date, together with the provision for related claims handling costs net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported at the statement of financial position date based on statistical methods and market benchmarks, as appropriate.

The adequacy of the claims outstanding provision is assessed with 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 Group's in-house actuaries including reference to internal and external benchmarks. The methods used, and the estimates made, are reviewed regularly. The methodology used to project ultimate development for liability classes is reviewed annually.

5 Analysis of risk continued

An analysis of the net claims development is below.

Group	31 Dec 2007 $m	31 Dec 2008 $m	31 Dec 2009 $m	**31 Dec 2010 $m**
Net reserves at:				
1 January	-	73.3	146.0	**111.6**
Net acquisition of subsidiaries	74.4	88.8	-	**9.7**
First year movement	(1.1)	-	-	**-**
Second year movement	-	(16.1)	-	**-**
Third year movement	-	-	(34.4)	**-**
Fourth year movement	-	-	-	**(29.4)**
Net position at 31 December	73.3	146.0	111.6	**91.9**

Associate CX Re	31 Dec 2007 $m	31 Dec 2008 $m	31 Dec 2009 $m	31 Dec 2010 $m
Net reserves at:				
1 January	317.7	212.3	169.2	139.0
First year movement	(105.4)	-	-	-
Second year movement	-	(43.1)	-	-
Third year movement	-	-	(30.2)	-
Fourth year movement	-	-	-	(17.8)
Net position at 31 December	212.3	169.2	139.0	121.1

Estimated net ultimate claims at:	31 Dec 2007 $m	31 Dec 2008 $m	31 Dec 2009 $m	**31 Dec 2010 $m**	Associate CX Re 31 Dec 2010 $m
1 January	-	73.3	146.0	**111.6**	139.0
Acquisition of subsidiaries	74.4	88.8	-	**9.7**	-
Impact of changes in foreign exchange rates	0.8	(7.0)	2.8	**(0.9)**	(3.6)
Net claims paid	(1.6)	(17.5)	(25.2)	**(32.1)**	(30.8)
(Decrease)/increase in ultimates for net claims before discounting	(1.9)	(1.2)	(0.7)	**4.4**	7.7
Change in the impact of discounting	5.6	12.8	(7.5)	**3.0**	8.8
Risk premium released	(4.0)	(3.2)	(3.8)	**(3.8)**	-
Net position at 31 December	73.3	146.0	111.6	**91.9**	121.1

The provision for claims outstanding and the provision for future expenses, related to the run-off of the net liabilities, with the exception of Island Capital, are discounted to take account of future investment income which will be generated prior to settlement of the claims. The use of discounted technical provisions depends upon the accuracy of estimates as set out in note 4.

5 Analysis of risk continued

Whilst the Directors consider that the gross provision for claims and 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 amounts provided. Adjustments of the provisions are reflected in the financial statements for the period in which the adjustments are made.

The following tables present the gross claims outstanding split between case reserves and incurred but not reported reserves ("IBNR") and booked gross claims outstanding before claims handling provisions and before discounting by major risk class:

	31 Dec 2010	31 Dec 2009	Associate CX Re 31 Dec 2010	Associate CX Re 31 Dec 2009
	%	%	%	%
Case reserves	**74.5%**	70.6%	75.6%	78.4%
IBNR	**25.5%**	29.4%	24.4%	21.6%
Total	**100.0%**	100.0%	100.0%	100.0%

	31 Dec 2010	31 Dec 2009	Associate CX Re 31 Dec 2010	Associate CX Re 31 Dec 2009
	$m	$m	$m	$m
Asbestos, pollution and other latent claims	**46.0**	52.4	57.5	60.5
Other	**93.8**	106.4	126.9	152.8
Total	**139.8**	158.8	184.4	213.3

Asbestos, pollution and other latent claims

These claims arise from policies issued prior to 1986 on a losses occurring basis. This means that a claim being notified any time after the exposure period would attach back to that exposure period regardless of the length of delay. By their nature 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 Group's portfolio. Significant adverse development may have a material impact on the Group's future results and net assets.

Other

All books of business have been closed to new exposures for a number of years now and the result is that they do not suffer from attritional claims activity. However, the age of these claims means that more will be subject to disputes on the extent of coverage and size of loss and allocation of loss amounts. Market rulings and legal judgements can have a material effect on groups of these claims making the final outcome uncertain.

5 Analysis of risk continued

Basis for establishing provision for claims outstanding

Loss reserves for insurance and reinsurance business are established based on claims data reported to the Group by insureds and ceding companies supplemented with relevant industry benchmark loss development patterns used to project the ultimate incurred loss. Ultimate incurred loss indications are calculated by the Group's actuaries using several standard actuarial methodologies.

The Group's actuaries utilise several assumptions in applying each methodology, including loss development factors and actual reported claim frequency and severity. These reviews and documentation are completed in accordance with professional actuarial standards appropriate to the jurisdictions where the business is written. The selected assumptions reflect the actuaries' judgement based on historical data and experience combined with information concerning economic, judicial, regulatory and other influences on ultimate claim settlements. Best estimates are derived for each group and underwriting year.

Based on the actuarial indications, the Group selects and records a single point estimate, which becomes management's best estimate which the Group considers to be one that has an equal likelihood of developing a redundancy or deficiency as the loss experience matures. On an annual basis the Group analyses and records its loss reserve estimates across detailed lines of business which reflect class of business, geographic location, insurance versus reinsurance, proportional versus non-proportional, and treaty versus facultative exposures. In addition, a limited number of the Group's largest contracts are reviewed individually.

During the loss settlement period, additional facts regarding claims are reported. As this occurs it may be necessary to increase or decrease the unpaid losses and loss expense reserves. The actual final liability may be significantly different to prior estimates. The Group reviews additional reported claim information on a monthly basis. Actual claim experience is compared to that expected from the most recent actuarial reserve review to highlight significant variances. A complete actuarial analysis by detailed line of business including selection of single point estimates is completed annually and is reviewed by the Group's management.

The unallocated loss adjustment expense provision ("ULAE") is based on assessment of the resources required by year to deliver the strategy for each company taking into account staff by department, accommodation and office services overheads, legal and professional charges, including assistance with planned schemes of arrangement, IT overheads including investment in system developments and human resources overheads. These estimates are reviewed in the context of previous year's actual expenses.

Insurance risk sensitivity analysis

If net claims reserves of $91.9 million (2009: $111.6 million) carried in the statement of financial position moved by 1% the impact on the income statement would be a change in the profit before tax and net assets of $0.9 million (2009: $1.1 million). If CX Re net claims reserves of $121.1 million (2009: $138.9 million) carried in the statement of financial position moved by 1% the impact on the income statement would be a change in the profit before tax and net assets of $1.2 million (2009: $1.4 million).

(ii) Financial risk

The Group is subject to several types of financial risk:

- Market risk (including interest rate risk) and currency risk;
- Credit risk, which are the risks associated with the Group's reinsurance arrangements, investment portfolios, and other counterparty credit risks; and
- Liquidity risk, the risk that cash may not be available to pay obligations when due.

5 Analysis of risk continued

Market risk (including interest rate risk)

The investment strategy of the Group and associate CX Re is based on a high quality diversified portfolio of liquid investment grade fixed income and other securities as a method of preserving equity capital and prompt claim payment capability.

The Group uses external investment managers to invest and manage its assets. The Board establishes investment policies and creates guidelines for such external investment managers. These guidelines specify criteria on the overall credit quality and liquidity characteristics of the portfolio and include limitations on the size of certain holdings as well as restrictions on purchasing certain types of securities.

Total invested assets managed by third-party fund managers with the asset mix as shown below:

Group	**31 December 2010 %**	**Average rating 31 December 2010**	31 December 2009 %	Average rating 31 December 2009
Governments	**35.7%**	**AAA**	33.8%	AAA
US corporates	**12.4%**	**A**	11.7%	A
Asset backed securities	**6.5%**	**AAA**	7.6%	AAA
Equities	**0.6%**	**NR**	0.0%	NR
Cash and other	**44.8%**	**AA+**	46.9%	AAA
Total Group	**100.0%**		100.0%	
Associate CX Re				
US Government	28.5%	AAA	21.5%	AAA
Mortgage backed securities	8.8%	AAA	5.3%	AAA
Commercial mortgage backed securities	3.3%	AAA	4.3%	AAA
EU Government and corporates	12.5%	AAA	13.1%	AA-
GBP Government and corporates	10.1%	AA	13.0%	AA
US Corporates	19.2%	A+	24.2%	A+
Municipals	0.4%	AA-	2.9%	AAA
Other asset backed securities	9.0%	AAA-	7.4%	AAA
Canadian Government	0.0%	AAA	0.0%	AAA
Cash and other	8.2%	A1	8.3%	AAA
Total associate CX Re	100.0%		100.0%	

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk as entities in the Group invest in long term debt at both fixed and variable interest rates. The risk is managed by the Group by broadly matching the duration of investments, assets and liabilities.

5 Analysis of risk continued

The following table shows the securities' maturity dates or contractual re-pricing dates and interest rate ranges:

	Total	Maturity date or contractual re-pricing date: Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
	$m	$m	$m	$m	$m	$m
31 Dec 2010						
Group invested assets fixed interest rate	**199.9**	**76.6**	**24.5**	**15.8**	**19.4**	**63.5**
Group invested assets variable interest rate	**29.7**	**29.1**	**-**	**-**	**-**	**0.7**
Associate CX Re invested assets fixed interest rate	113.7	1.3	6.6	8.9	18.8	78.0
Associate CX Re invested assets variable interest rate	85.3	82.3	-	-	-	3.0
31 Dec 2009						
Group invested assets fixed interest rate	229.0	110.6	14.7	17.4	25.2	61.1
Group invested assets variable interest rate	31.7	31.5	-	-	-	0.2
Associate CX Re invested assets fixed interest rate	127.0	3.3	3.2	10.4	20.3	89.8
Associate CX Re invested assets variable interest rate	93.8	89.1	-	-	-	4.7

	Interest rates range				
	%	%	%	%	%
2010					
Group invested assets fixed interest rate	**0.0% - 6.8%**	**0.4% - 7.0%**	**0.8% - 5.5%**	**1.0% - 5.7%**	**2.0% - 6.8%**
Associate CX Re invested assets fixed interest rate	0.0% - 5.0%	1.5% - 7.0%	0.5% - 7.4%	1.1% - 5.3%	1.9% - 8.8%
2009					
Group invested assets fixed interest rate	0.0% - 7.9%	0.0% - 7.6%	0.0% - 7.0%	1.5% - 5.6%	0.5% - 7.8%
Associate CX Re invested assets fixed interest rate	0.0% - 7.8%	1.5% - 5.0%	1.9% - 7.0%	1.8% - 7.4%	0.0% - 8.8%

5 Analysis of risk continued

Market risk (including interest rate risk) sensitivity analysis

The Group and its associate's invested assets are subject to interest rate risk. The interest rate risk is concentrated in investments in US dollar, sterling and euro and is sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Based on the Group's invested assets including cash at external managers of $229.7 million (2009: $263.2 million), a 1% increase/decrease in interest rates across the yield curve would result in an approximate $0.1 million (2009: $0.5 million) unrealised profit/loss respectively, net of the impact on the discounted net technical provisions. For associate CX Re's invested assets including cash at external managers of $198.0 million (2009: $229.3 million), a 1% increase/decrease in interest rates across the yield curve would result in an approximate $1.3 million (2009: $1.1 million) unrealised profit/loss.

The Group is also exposed to interest rate risk on its insurance reserves and floating rate borrowings. Where appropriate, reserves are discounted as permitted by IFRS 4. Discount rates are based on the relevant currencies' risk-free rates which are derived from yields on securities issued by UK, US and European Governments. A reduction of 1% in risk-free yields would reduce the net discount in the statement of financial position by approximately $4.2 million as at 31 December 2010 (2009: $5.1 million). Such a reduction would also reduce the amortised cost of the Group's borrowings by $0.3 million (2009: $0.3 million). A reduction of 1% would reduce the net discount in the statement of financial position of associate CX Re by approximately $6.8 million (2009: $8.7 million).

Currency risk

The Group and in particular its insurance companies are exposed to foreign currency risk generated through regular trading activity denominated in currencies other than their functional currencies. The Group reports its results in US dollars and accordingly, to the extent that shareholders' funds are invested in assets denominated in currencies other than US dollars, exchange gains or losses may arise on translation. The most significant currencies to which the Group is exposed are sterling and euro and the Group controls its currency risk by investing in assets that match the currency in which it expects related insurance liabilities to be paid and by investing the majority of assets backing shareholder funds in US dollars. The summary of the major currencies to which the Group is exposed are shown in the table below.

	31 Dec 2010		31 Dec 2009	
Group	**Sterling in $**	**Euro in $**	Sterling in $	Euro in $
Cash and cash equivalents	**11.1**	**1.2**	5.2	4.2
Financial assets - investments	**11.7**	**4.4**	13.2	4.9
Deferred assets	**66.5**	**-**	74.3	-
Other assets	**14.2**	**2.1**	14.8	2.2
Total assets	**103.5**	**7.7**	107.5	11.3
Technical provisions	**7.6**	**4.3**	13.6	4.8
Other liabilities	**20.8**	**1.4**	25.6	1.4
Total liabilities	**28.4**	**5.7**	39.2	6.2
Net assets	**75.1**	**2.0**	68.3	5.1

5 Analysis of risk continued

The summary of the major currencies to which associate CX Re is exposed are shown in the table below:

Associate CX Re	31 Dec 2010 Sterling in $	31 Dec 2010 Euro in $	31 Dec 2009 Sterling in $	31 Dec 2009 Euro in $
Cash and cash equivalents	0.4	-	0.1	0.4
Financial assets - investments	80.6	18.8	87.7	20.9
Other assets	1.0	1.5	2.9	1.4
Total assets	82.0	20.3	90.7	22.7
Technical provisions	18.5	22.0	25.4	29.4
Other liabilities	32.9	-	34.4	-
Total liabilities	51.4	22.0	59.8	29.4
Net assets	30.6	(1.7)	30.9	(6.7)

US dollar and other currencies are grouped together for currency management purposes due to the high level of correlation they have historically experienced relative to each other in comparison to their much lower correlation with the US dollar.

At 31 December 2010 the Group estimates that 66% (2009: 68%) of shareholders' funds consisted of US dollars.

Currency sensitivity analysis

A 1% increase/decrease in the US dollar against the relevant foreign currencies would result in an approximate $0.8 million unrealised foreign exchange profit/loss (2009: $0.7 million). For associate CX Re a 1% increase/decrease in the US dollar against the relevant foreign currencies would result in an approximate $0.3 million (2009: $0.3 million) unrealised foreign exchange profit/loss.

Credit risk

When the Group's portfolio of insurers were underwriting, it purchased reinsurance to manage its catastrophe exposure and mitigate insurance risk. However, the ceding of insurance risk exposes the Group to credit risk from its reinsurers and retrocessionaires.

In designing the reinsurance programme the Group took account of the risk assessment, the financial strength of reinsurance counterparties, the benefits to shareholders of capital efficiency and reduced volatility, and the cost of reinsurance protection.

When underwriting, the Group purchased retrocessional reinsurance to improve the extent to which it could manage risk exposures, protect against catastrophic losses, access additional underwriting capacity and stabilise financial ratios.

Credit risk includes the risk of reinsurer default. The Directors have assessed exposure to bad debts arising from reinsurance dispute or failure and, following careful review, have made a provision against bad debts based on current information available.

Reinsurance recoveries are calculated by reference to the gross claims including IBNR utilising the Group's recovery programmes for facultative, proportional and excess of loss reinsurance. There is a quarterly review process to ensure the recoveries calculated are accurate. If any amendments are required these are made as manual adjustments.

5 Analysis of risk continued

The following table summarises the average credit ratings of the reinsurance counterparties:

Credit rating of reinsurance counterparties	**31 December 2010**	31 December 2009	Reinsurance assets Associate CX Re 31 December 2010	Associate CX Re 31 December 2009
A++	**17.8%**	15.5%	7.1%	0.0%
A+	**30.0%**	25.1%	3.7%	14.5%
A	**1.4%**	13.4%	71.2%	54.8%
A-	**10.0%**	6.6%	0.1%	0.5%
B++	**0.5%**	0.5%	0.1%	0.1%
B+	**2.0%**	2.3%	0.0%	0.0%
Other	**38.3%**	36.6%	17.8%	30.1%
Total	**100.0%**	100.0%	100.0%	100.0%

The largest reinsurance policies in the Group which are collateralised are as follows:

Group 31 Dec 2010	Amount recoverable $m	Discount $m	Net amount $m	Collateral $m
Swiss Re	16.7	(0.7)	16.0	11.4
Farm Bureau Mutual of Michigan	0.4	0.0	0.4	0.1

Group 31 Dec 2009	Amount recoverable $m	Discount $m	Net amount $m	Collateral $m
Swiss Re	17.6	(1.0)	16.6	13.4
Farm Bureau Mutual of Michigan	0.5	0.0	0.5	0.1

The 3 largest reinsurance policies which are collateralised in associate CX Re are as follows:

Associate CX Re 31 Dec 2010	Amount recoverable $m	Discount $m	Net amount $m	Collateral $m
AXA	0.1	0.0	0.1	0.1
Unionamerica	0.1	0.0	0.1	0.1
Zurich	0.1	0.0	0.1	0.1

Associate CX Re 31 Dec 2009	Amount recoverable $m	Discount $m	Net amount $m	Collateral $m
AXA	0.1	0.0	0.1	0.1
Unionamerica	0.1	0.0	0.1	0.1
Zurich	0.1	0.0	0.1	0.1

5 Analysis of risk continued

The management of the Group and its associate mitigate risks associated with reinsurers by monitoring aged debt profiles. All factors which may impact recoverability are taken into account in determining the bad debt provisions and where possible management reduces bad debt exposure through commutations or settlements with counterparties.

For bad debt provisioning purposes, all insolvent security has a 100% provision. Well rated reinsurers are not provided against. In addition to a security provision there is a provision for losses classified as contentious and a provision for time barred losses which are calculated on a case by case basis. Any claim set-offs are netted off fully.

Additionally, the Group is subject to credit risk in respect of third party entities in which the Group 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 was AAA, CX Re AA (2009: AAA, CX Re AA). Other than with respect to US, Canadian and European Union Government and agency securities, the Group's investment guidelines limit its aggregate exposure to any single issuer to 2% (CX Re: 2%) of its portfolio. All securities must be rated BBB (CX Re: BBB) or better at the time of purchase and the weighted average rating requirement of the Group's portfolio is A. There were no investment write-offs in 2010 (2009: nil).

The following table illustrates the split of total debt securities by rating of investee:

Credit rating of investee	**31 December 2010**	31 December 2009	Associate CX Re 31 Dec 2010	Associate CX Re 31 Dec 2009
AAA / US Government or equivalent	**76.5%**	77.6%	65.7%	61.1%
AA	**1.6%**	0.7%	4.2%	5.7%
A	**11.2%**	12.2%	15.6%	15.5%
A1	**8.9%**	7.9%	6.9%	6.0%
BBB+	**1.0%**	0.7%	0.1%	0.0%
CCC	**0.0%**	0.0%	0.2%	0.2%
Not rated	**0.8%**	0.9%	7.3%	11.5%
Total	**100.0%**	100.0%	100.0%	100.0%

At 31 December 2010 the Group's largest aggregate exposure to any single issuer other than with respect to the United States Government and agency securities was $14.3 million (2009: $28.2 million) in respect of the BlackRock Institutional Liquidity Fund rated AAA. At 31 December 2010 associate CX Re's largest aggregate exposure to any single issuer other than with respect to the United States Government and agency securities was $65.4 million (2009: $65.1million) in respect of shares in JP Morgan AAA rated liquidity funds. Both these funds are structured as Undertakings for Collective Investments and Transferable Securities ("UCITS") which enable investors to assess counterparty exposure on the basis of the underlying investments in the funds, rather than on the basis of the issuing funds.

Depending upon the duration of the liabilities supported by a particular portfolio, the Group's portfolio investment duration targets may range from 1 to 6 years (2009: 1 to 6 years), CX Re 4 to 6 years (2009: 4 to 6 years). The duration of an investment is based on the maturity of the security and also reflects the payment of interest and the possibility of early principal payment of such security. The Group seeks to utilise investment benchmarks that reflect this duration target. The Board periodically revises the Group's investment benchmarks based on business and economic factors including the average duration of the Group's potential liabilities. At 31 December 2010 the Group's investment portfolio had an effective duration of 1.8 years (2009: 1.9 years). Associate CX Re's investment portfolio had an effective duration of 3.6 years (2009: 3.6 years).

5 Analysis of risk continued

The following table shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired and assets that have been impaired:

Group 31 Dec 2010	Neither past due nor impaired	Past due but less than 180 days	Past due more than 180 days	**Carrying amount**	Past due and impaired
Invested assets (excluding deposits with credit institutions)	201.6	-	-	**201.6**	-
Loans and receivables including insurance receivables	58.6	0.6	14.7	**73.9**	11.8
Reinsurers' share of technical provisions	35.9	-	-	**35.9**	13.4
Group 31 Dec 2009					
Debt securities	27.4	-	-	227.4	-
Loans and receivables including insurance receivables	45.3	0.6	15.3	61.2	11.8
Reinsurers' share of technical provisions	30.8	-	-	30.8	13.7

Associate CX Re 31 Dec 2010	Neither past due nor impaired	Past due but less than 180 days	Past due more than 180 days	Carrying amount	Past due and impaired
Invested assets (excluding deposits with credit institutions)	113.7	-	-	113.7	-
Loans and receivables including insurance receivables	-	0.5	1.0	1.5	18.8
Reinsurers' share of technical provisions	31.4	-	-	31.4	8.4
Associate CX Re 31 Dec 2009					
Debt securities	126.9	-	-	126.9	-
Loans and receivables including insurance receivables	-	0.1	4.0	4.1	18.4
Reinsurers' share of technical provisions	32.6	-	-	32.6	8.7

5 Analysis of risk continued

Liquidity risk

In order to ensure that adequate liquid resources are available to fund insurance liability cash outflows when they fall due, the Group's practice is to invest in assets to establish a sufficient matching with the duration of the expected related liabilities for liquidity purposes. In practice, the Group invests its equity in short-term assets. The tables below show the matching of assets and liabilities for the years under review:

		Maturity date or contractual re-pricing date				
Group 31 Dec 2010	Total $m	Less than one year $m	After one year but less than two years $m	After two years but less than three years $m	After three years but less than five years $m	More than five years $m
Cash and cash equivalents	48.5	48.5	-	-	-	-
Financial assets - investments	229.6	105.7	24.5	15.8	19.4	64.1
Reinsurers' share of technical provisions	29.7	5.5	5.6	4.2	4.7	9.8
Deferred assets	66.5	-	20.7	-	-	45.8
Other assets	107.8	24.8	20.2	23.4	6.0	33.3
Total assets	482.1	184.5	71.0	43.5	30.2	153.0
Technical provisions	121.6	29.9	18.2	14.5	17.4	41.6
Financial liabilities - borrowings	32.2	-	22.2	-	-	10.0
Other liabilities	101.9	21.3	16.0	10.6	5.3	48.7
Equity	226.3	-	-	-	-	226.3
Total liabilities and equity	482.1	51.2	56.4	25.2	22.7	326.6
Mismatch - surplus / (deficit)		133.2	14.6	18.3	7.5	(173.6)
Cumulative mismatch - surplus		133.2	147.8	166.1	173.6	-
Group 31 Dec 2009						
Cash and cash equivalents	30.9	30.9	-	-	-	-
Financial assets - investments	260.7	142.1	14.7	17.4	25.2	61.3
Reinsurers' share of technical provisions	24.7	4.1	4.2	3.4	2.6	10.4
Deferred assets	74.3	-	-	-	-	74.3
Other assets	99.7	24.5	18.4	12.2	4.2	40.4
Total assets	490.3	201.6	37.3	33.0	32.0	186.4
Technical provisions	136.3	30.6	24.3	16.4	12.8	52.2
Financial liabilities - borrowings	33.3	-	-	33.3	-	-
Other liabilities	92.3	18.1	13.5	9.0	5.3	46.4
Equity	228.4	-	-	-	-	228.4
Total liabilities and equity	490.3	48.7	37.8	58.7	18.1	327.0
Mismatch - surplus / (deficit)		152.9	(0.5)	(25.7)	13.9	(140.6)
Cumulative mismatch - surplus		152.9	152.4	126.7	140.6	-

5 Analysis of risk continued

The tables below show the matching of associate CX Re assets and liabilities for the years under review:

		Maturity date or contractual re-pricing date				
Associate CX Re 2010	Total $m	Less than one year $m	After one year but less than two years $m	After two years but less than three years $m	After three years but less than five years $m	More than five years $m
Cash and cash equivalents	2.4	2.4	-	-	-	-
Financial assets - Investments	199.0	83.6	6.6	8.9	18.8	81.0
Reinsurers' share of technical provisions	21.3	1.1	2.1	1.9	3.1	13.1
Other assets	23.6	9.5	7.1	4.7	2.4	-
Total assets	246.3	96.7	15.9	15.5	24.3	94.1
Technical provisions	142.4	24.1	16.7	11.7	21.8	68.0
Other liabilities	50.6	20.2	15.2	10.1	5.1	-
Equity	53.4	-	-	-	-	53.4
Total liabilities and equity	246.3	44.4	31.8	21.8	26.9	121.4
Mismatch - surplus/(deficit)		52.3	(16.0)	(6.4)	(2.6)	(27.3)
Cumulative mismatch - surplus		52.3	36.3	29.9	27.3	-
Associate CX Re 2009						
Cash and cash equivalents	6.3	6.3	-	-	-	-
Financial assets - Investments	220.8	92.4	3.2	10.4	20.3	94.5
Reinsurers' share of technical provisions	21.4	1.5	2.2	1.9	1.6	14.1
Other assets	24.3	9.7	7.3	4.9	2.4	-
Total assets	272.8	109.9	12.7	17.2	24.4	108.6
Technical provisions	160.3	30.2	19.9	16.0	13.2	81.0
Other liabilities	51.3	20.5	15.4	0.3	5.1	-
Equity	61.2	-	-	-	-	61.2
Total liabilities and equity	272.8	50.7	35.3	26.3	18.3	142.2
Mismatch - surplus/(deficit)		59.2	(22.6)	(9.1)	6.0	(33.5)
Cumulative mismatch - surplus		59.2	36.6	27.5	33.6	-

The analysis of assets and liabilities by maturity has been prepared on the following basis:

- Assets are disclosed according to the date of maturity;
- Net liabilities, represented as discounted cash flows, are disclosed according to the timing of payment; and
- Equity is disclosed as being payable in more than five years.

In practice, the Group mitigates its exposure to interest rate movements by broadly matching the duration of its assets and liabilities by comparing the discounted cash flows from its cash and investments (principal and interest) according to the period in which such cash flows arise.

5 Analysis of risk continued

Deferred consideration

Following the reorganisation of associate CX Re on 21 March 2006, CX Re has surrendered tax losses by way of consortium relief relating to its accounting periods ended 31 December 2006, 31 December 2007 and 31 December 2008. These surrenders required the claimant companies to place in sterling escrow accounts in the name of CX Re the amount of the consideration, which together with interest, at 31 December 2010 amounted to $65.4 million (2009: $68.1 million) and a debtor due to CX Re of $2.2 million (2009: nil). The sale of shares in CX Re on 21 March 2006 carried rights to receive additional consideration from the purchasers, based on future distributions from CX Re to shareholders, which would include the proceeds from surrendering tax losses. CX Re also carries creditor balances being amounts due to third parties from the proceeds of the transactions amounting to $12.2 million (2009: $12.8 million), thus the net benefit to the Group at 31 December 2010 is $55.4 million (2009: $55.3 million). This amount is included in "Deferred assets" in the consolidated statement of financial position. 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 to the claiming companies and the deferred amounts receivable by the Group would reduce accordingly.

6 Segmental information

The Group's reportable segments under IFRS 8 are identified as follows:

- Underwriting run-off;
- Run-off management services;
- Insurance services (Pro); and
- Other corporate activities.

Following acquisition on 22 October 2010, the Underwriting run-off segment now includes the Island Capital Group of companies.

The other corporate activities segment includes corporate expenses and other activities not related to the core business segments and which are not reportable segments due to their immateriality. Certain expenses and taxes are not allocated across the segments.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of central corporate expenses and tax expense. This is the measure reported to the Group Chief Executive for the purposes of resource allocation and assessment of segment performance.

6 Segmental information continued

a Segment income and results

The following is an analysis of the Group's revenue and result by reportable segment.

For the year ended 31 December 2010	Underwriting run-off $m	Run-off management $m	Insurance services (Pro) $m	Other corporate activities $m	Intra-group $m	**Total $m**
Continuing operations Income						
Insurance premium expense	(1.3)	-	-	-	-	**(1.3)**
Insurance premium ceded to reinsurers	0.3	-	-	-	-	**0.3**
Net earned premium expense	(1.0)	-	-	-	-	**(1.0)**
Revenue from consultancy and run-off services	-	30.5	52.2	5.3	(45.8)	**42.2**
Investment return	7.6	0.1	-	-	-	**7.7**
Interest Income	5.4	-	-	-	-	**5.4**
Other income	2.1	-	1.9	-	-	**4.0**
Segment income	15.1	30.6	54.1	5.3	(45.8)	**59.3**
Insurance claims and loss adjustment expenses	(10.2)	-	-	4.9	-	**(5.3)**
Insurance claims and loss adjustment expenses recovered from reinsurers	3.4	-	-	(1.0)	-	**2.4**
Net insurance claims	(6.8)	-	-	3.9	-	**(2.9)**
Segment expenses	(6.1)	(26.2)	(49.6)	(10.7)	45.8	**(46.8)**
Segment results of operating activities before recognising negative goodwill	1.2	4.4	4.5	(1.5)	-	**8.6**
Negative goodwill recognised	-	-	-	4.9	-	**4.9**
Segment results of operating activities	1.2	4.4	4.5	3.4	-	**13.5**
Share of results of associate	-	-	-	(0.9)	-	**(0.9)**
Finance costs	-	-	-	(4.0)	-	**(4.0)**
Taxation	-	-	(1.3)	1.3	-	**-**
Profit for the period from discontinued operations	-	-	-	(6.8)	-	**(6.8)**
Segment profit/(loss) for the year	1.2	4.4	3.2	(7.0)	-	**1.8**

6 Segmental information continued

For the year ended 31 December 2009	Underwriting run-off $m	Run-off management $m	Insurance services (Pro) $m	Other corporate activities $m	Intra-group $m	Total $m
Continuing operations Income						
Insurance premium revenue	(1.2)	-	-	-	-	(1.2)
Insurance premium ceded to reinsurers	0.6	-	-	-	-	0.6
Net earned premium revenue	(0.6)	-	-	-	-	(0.6)
Revenue from run-off services	-	25.1	6.2	-	(16.9)	14.4
Investment return	2.2	0.3	-	0.2	-	2.7
Other income	0.1	-	0.6	0.5	(0.1)	1.1
Segment income	2.3	25.4	6.8	0.7	(17.0)	18.2
Insurance claims and loss adjustment expenses	9.0	(1.6)	-	4.8	-	12.2
Insurance claims and loss adjustment expenses recovered from reinsurers	(1.2)	-	(0.1)	(1.0)	-	(2.3)
Net insurance claims	7.8	(1.6)	(0.1)	3.8	-	9.9
Segment expenses	(3.4)	(20.6)	(5.3)	(8.0)	17.0	(20.3)
Segment results of operating activities before impairment of goodwill	6.1	3.2	1.4	(3.5)	-	7.2
Impairment of goodwill	-	-	-	(5.0)	-	(5.0)
Segment results of operating activities	6.1	3.2	1.4	(8.5)	-	2.2
Share of results of associate	-	-	-	1.8	-	1.8
Finance costs	(0.1)	(0.1)	-	(4.7)	-	(4.9)
Taxation	-	-	-	-	-	-
Loss for the period from discontinued operations	-	-	-	12.1	-	12.1
Segment profit for the year	6.0	3.1	1.4	0.7	-	11.2

6 Segmental information continued

b Segment assets, liabilities and other information

The following is an analysis of the Group's net assets, capital expenditure, impairment losses, depreciation and amortisation by reportable segment:

As at 31 December 2010	Underwriting run-off $m	Run-off management $m	Insurance services (Pro) $m	Other corporate activities $m	**Total $m**
Segment assets	346.8	8.4	21.3	105.6	**482.1**
Segment liabilities	(197.6)	(1.4)	(15.7)	(41.1)	**(255.8)**
Segment net assets	**149.2**	**7.0**	**5.6**	**64.5**	**226.3**
Depreciation	-	-	(0.7)	-	**(0.7)**
Amortisation of intangible assets	-	-	-	(0.8)	**(0.8)**
Amortisation of risk premium	-	-	-	3.8	**3.8**

As at 31 December 2009	Underwriting run-off $m	Run-off management $m	Insurance services (Pro) $m	Other corporate activities $m	Total $m
Segment assets	365.6	7.3	13.7	103.7	490.3
Segment liabilities	(196.2)	(4.0)	(10.1)	(51.6)	(261.9)
Segment net assets	**169.4**	**3.3**	**3.6**	**52.1**	**228.4**
Depreciation	-	(0.4)	-	-	(0.4)
Impairment of goodwill	-	(5.0)	-	-	(5.0)
Amortisation of risk premium	-	-	-	3.8	3.8

For the purposes of monitoring segment performance and allocating resources between segments, the Group Chief Executive monitors the tangible, intangible and financial assets and liabilities of each segment. All assets and liabilities are allocated to reportable segments.

c Revenue from major products and services

The Group's revenue from major products and services is disclosed in the segment income tables.

d Geographical information

The Group's revenue and information about its segment net assets by geographical location are as follows:

As at 31 December 2010	United Kingdom $m	United States of America $m	**Total $m**
Segment revenue	55.4	2.9	**58.3**
Segment net assets	136.5	89.8	**226.3**
As at 31 December 2009	$m	$m	**$m**
Segment revenue	13.0	4.6	**17.6**
Segment net assets	148.8	79.6	**228.4**

6 Segmental information continued

e Information about major customers

The Group does not derive revenue from an individual policyholder or intermediary that represents 10% or more of the Group's total revenue.

7 Revenue from run-off services

Revenue comprises fees related to the provision of insurance run-off management and related consultancy services.

	31 December 2010 $m	31 December 2009 $m
Management fees	**2.2**	2.6
Consultancy and inspection fees	**35.5**	6.3
Expenses recharged	**4.5**	5.5
Revenue from run-off services	**42.2**	14.4

8 Investment return

	31 December 2010 $m	31 December 2009 $m
Financial assets - Designated at fair value through profit or loss ("FVTPL")		
Debt securities		
Investment income	**5.9**	7.7
Realised (losses)/gains	**(0.2)**	0.4
Changes in fair value, unrealised gains/(losses)	**1.5**	(5.9)
Cash and cash equivalents - interest income	**0.1**	0.2
Loans and receivables including insurance receivables - interest income	**0.4**	0.4
Investment costs	**-**	(0.1)
Investment revenue	**7.7**	2.7

9 Insurance claims, loss adjustment expenses and related reinsurance recoveries

	31 December 2010			31 December 2009		
	Gross $m	**Reinsurers' share $m**	**Net $m**	Gross $m	Reinsurers' share $m	Net $m
Insurance claims and loss adjustment expenses paid	**(33.8)**	**2.9**	**(30.9)**	(32.0)	4.6	(27.4)
Changes in technical provisions	**29.7**	**(0.4)**	**29.3**	32.4	(4.3)	28.1
Net insurance claims and loss adjustment expenses before discounting	**(4.1)**	**2.5**	**(1.6)**	0.4	0.3	0.7
Discounting	**(6.1)**	**0.9**	**(5.2)**	7.0	(1.6)	5.4
Amortisation of risk premium	**4.9**	**(1.0)**	**3.9**	4.8	(1.0)	3.8
Discounted insurance claims and loss adjustment expenses	**(5.3)**	**2.4**	**(2.9)**	12.2	(2.3)	9.9

10 Directors' emoluments

31 Dec 2010	Fees as Directors $m	Other emoluments $m	Company pension contributions $m	**Total $m**	Highest paid Directors emoluments $m
Services as Directors of the Company	0.6	2.5	0.5	**3.6**	1.3
Services as Directors of subsidiaries	-	-	-	**-**	-
Directors' emoluments	0.6	2.5	0.5	**3.6**	1.3

31 Dec 2009	Fees as Directors $m	Other emoluments $m	Company pension contributions $m	Total $m	Highest paid Directors emoluments $m
Services as Directors of the Company	0.5	1.6	0.4	2.5	0.9
Services as Directors of subsidiaries	0.1	-	-	0.1	-
Directors' emoluments	0.6	1.6	0.4	2.6	0.9

11 Auditors' remuneration

The following fees were incurred directly by the Group in respect of audit and related services set out below and paid to Deloitte LLP:

	31 Dec 2010 $m	31 Dec 2009 $m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.2**	0.2
Fees payable to the Company's auditors for audit of the Company's subsidiaries pursuant to legislation	**0.6**	0.7
Total audit fees	**0.8**	0.9

12 Staff costs

The average monthly number of employees (including Executive Directors) was:

	31 Dec 2010	31 Dec 2009
Outsourcing	**205**	41
Consulting	**19**	8
Actuarial	**4**	5
Executive & Management	**38**	13
Support	**60**	21
Number of employees	**326**	88

Their aggregate remuneration comprised:

	31 Dec 2010 $m	31 Dec 2009 $m
Wages and salaries	**28.5**	10.7
Social security costs	**3.1**	1.3
Other pension costs (see note 38)	**3.3**	1.2
Redundancy costs	**2.9**	-
Other costs	**1.8**	1.2
Staff costs	**39.6**	14.4

13 Finance costs

	31 Dec 2010	31 Dec 2009
	$m	$m
Interest on borrowings	**4.0**	4.9
Finance costs	**4.0**	4.9

14 Taxation

UK corporation tax is 28% (2009: calculated at 28%) of the estimated assessable UK profit for the year. The tax charge for the periods presented varied from the stated rate of UK corporation tax as explained below:

	Continuing operations		Discontinued operation		Total	
	31 Dec 2010 $m	31 Dec 2009 $m	**31 Dec 2010 $m**	31 Dec 2009 $m	**31 Dec 2010 $m**	31 Dec 2009 $m
UK Corporation tax on loss for the year	**-**	-	**-**	-	**-**	-
Adjustments in respect of prior periods	**-**	-	**-**	-	**-**	-
Group relief recoverable at non-standard rates	**-**	-	**-**	-	**-**	-
Total taxation	**-**	-	**-**	-	**-**	-

	Continuing operations		Discontinued operation		Total	
	31 Dec **2010 $m**	31 Dec 2009 $m	**31 Dec 2010 $m**	31 Dec 2009 $m	**31 Dec 2010 $m**	31 Dec 2009 $m
Profit/loss before taxation	**8.6**	(0.9)	**(6.8)**	12.1	**1.8**	11.2
At standard corporation tax of 28% (2009: 28%)	**2.4**	(0.3)	**(1.9)**	3.4	**0.5**	3.1
Factors affecting taxation charge:						
Timing differences	**(1.9)**	0.1	**-**	-	**(1.9)**	-
Income/expenses not taxable/deductible for tax purposes	**(2.9)**	0.6	**1.9**	(3.4)	**(1.0)**	(2.8)
Exchange difference on translation	**-**	-	**-**	-	**-**	-
Utilisation of tax losses in respect of which no deferred tax assets were provided	**2.4**	(0.4)	**-**	-	**2.4**	(0.4)
UK Corporation tax on profit for the year	**-**	-	**-**	-	**-**	-

At 31 December 2010 the Group has recognised deferred tax assets of $1.8 million (2009: $0.7 million). In addition the Group had unrecognised tax assets of $3.4 million (2009: $2.1 million) in respect of tax losses carried forward.

15 Discontinued operations

Following the Group's disposal of the majority of its shareholding in CX Reinsurance Company Limited, as referred to in note 1, any adjustments to the deferred consideration are accounted for as a profit/(loss) on sale of investment in the year in which the adjustments to the deferred consideration arise. Details of the discontinued operation are presented below.

	31 Dec 2010	31 Dec 2009
	$m	$m
(Loss)/profit on sale of investment	**(6.8)**	12.1
(Loss)/profit for the year	**(6.8)**	12.1

16 Profit/(loss) for the year

Profit for the year has been arrived at after charging:

	31 Dec 2010	31 Dec 2009
	$m	$m
Amortisation of risk premium	**3.8**	3.8
Auditors' remuneration (see note 11)	**(0.8)**	(0.9)
Depreciation of property, plant and equipment	**(0.7)**	(0.4)
Amortisation of intangible assets	**(0.8)**	-
Foreign exchange gains/(losses)	**(0.4)**	0.3
Impairment of goodwill	**-**	(5.0)
Negative goodwill arising on acquisition	**4.9**	-
Staff costs (see note 12)	**(39.6)**	(14.4)

17 Dividends

A final dividend for the year ended 31 December 2009 of $4.1 million (3.75 cents per share) was paid to the shareholders during the year (2009: A final dividend for the year ended 31 December 2008 of $0.9 million).

18 Earnings per share

Earnings	**31 Dec 2010 $m**	31 Dec 2009 $m
Earnings for the purposes of basic earnings per share from continuing and discontinued operations being net profit/(loss) attributable to equity holders of the Group	**1.8**	11.2
Earnings for the purposes of basic earnings per share from continuing operations	**8.6**	(0.9)

Number of shares	**31 Dec 2010**	31 Dec 2009
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	**112,987,164**	112,987,164
Effect of dilutive potential Ordinary Shares: Share options	**6,658,103**	5,116,563
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**119,645,267**	118,103,727

Basic earnings per share	**31 Dec 2010 $**	31 Dec 2009 $
From continuing and discontinued operations		
Basic: Ordinary Shares ($ per share)	**0.0159**	0.0991
Diluted: Ordinary Shares ($ per share)	**0.0150**	0.0948
From continuing operations		
Basic: Ordinary Shares ($ per share)	**0.0761**	(0.0080)
Diluted: Ordinary Shares ($ per share)	**0.0719**	(0.0076)

19 Cash and cash equivalents

	31 Dec 2010 $m	31 Dec 2009 $m
Cash at bank and in hand	**48.5**	30.9

This comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less. In the normal course of business insurance company subsidiaries have deposited funds in respect of certain contracts which can only be released with the approval of the appropriate regulatory authority. Cash and cash equivalents of $33.2 million (2009: $24.2 million) belonging to regulated subsidiaries is not regarded as readily distributable within the Group.

In accordance with normal market practice, Citibank N.A. has issued letters of credit for outstanding losses. The collateral against these letters of credit includes a pledge to the value of $4 million (2009: $4 million) against cash at bank and in hand. The Group also has deposited cash of $2.4 million (2009: $7.5 million) in a trust fund for the benefit of a counterparty. The related contracts are accounted for as investment contracts.

The Directors believe that the carrying amount approximates its fair value.

20 Financial assets-investments

Investments are designated at initial recognition as fair value through profit or loss. The fair values of these investments, disclosed in the table below, are based on bid market prices and fair value adjustments are made through the income statement.

Carrying amount	31 Dec 2010 $m	Fair value 31 Dec 2009 $m
Designated fair value through profit or loss ("FVTPL")		
Debt securities		
Foreign Government bonds	**140.5**	159.7
Local Government bonds	**11.7**	13.2
Corporate bonds	**31.2**	33.0
Mortgaged backed	**16.5**	21.5
Equity Securities	**1.6**	-
Deposits with credit institutions	**28.0**	33.3
Balance at 31 December	**229.6**	260.7
Due within one year	**105.8**	142.1
Due after one year	**123.9**	118.6

A reconciliation of the carrying amount is below:

Movements in carrying amount	Fair value 31 Dec 2010 $m
Balance at 1 January	**260.7**
Additions	**1,014.4**
Maturities and redemptions	**(704.9)**
Disposals	**(342.7)**
Reclassification on non cash movements	**1.4**
Fair value losses recorded in the income statement	**1.5**
Foreign exchange	**(0.7)**
Balance at 31 December	**229.6**

The average duration of the portfolios in the year was 1.8 years (2009: 1.9 years). The Group's insurance subsidiaries', KX Reinsurance Company Limited, PXRE Reinsurance Company and Island Capital, individual portfolios have an average duration of 5.2 years (2009: 3.1 years), 0.6 years (2009: 0.7 years) and 2.1 years (2009: n/a) respectively.

The Group has deposited investments of $45.8 million (2009: $38.4 million) in a trust fund for the benefit of counterparty. The related contracts are accounted for as investment contracts.

In accordance with normal market practice, Citibank N.A. has issued letters of credit for outstanding losses. The collateral against these letters of credit includes a pledge to the value of $6.6 million (2009: $7.4 million) against an investment portfolio.

21 Loans and receivables including insurance receivables

	31 Dec 2010 $m	31 Dec 2009 $m
Debtors arising out of reinsurance operations	**24.8**	23.8
Debtors arising out of insurance operations	**3.2**	14.7
Accrued income and prepayments	**(0.6)**	(1.4)
Receivables from related parties	**-**	-
Other debtors	**46.5**	24.1
Total loans and receivables including insurance receivables	**73.9**	61.2
Due within one year	**26.1**	32.5
Due after one year	**47.8**	28.7

Debtors arising out of reinsurance operations past due are $15.9 million (2009: $16.5 million) and net of bad debts $4.4 million (2009: $5.1 million) which are considered recoverable. Ageing of debtors arising out of reinsurance and insurance operations are detailed below:

	0-6 months	6-12 months	12-14 months	>24 months
31 Dec 2010	22%	4%	50%	24%
31 Dec 2009	22%	6%	44%	28%

The Group holds no security or collateral against these balances and the Directors believe that the carrying amount approximates its fair value.

22 Technical provisions

Carrying amount	31 Dec 2010 $m	31 Dec 2009 $m
Gross claims outstanding	**139.8**	158.8
Discount	**(28.0)**	(34.5)
	111.8	124.3
Claims handling provisions	**7.1**	5.0
	118.9	129.3
Risk premium adjustment	**2.7**	7.0
Total gross claims outstanding	**121.6**	136.3
Reinsurance		
Provision for reinsurance reserves outstanding	**35.9**	30.8
Discount	**(6.5)**	(7.4)
Risk premium adjustment	**0.3**	1.3
Total reinsurers' share of claims outstanding	**29.7**	24.7
Undiscounted claims outstanding, net of reinsurance	**113.4**	138.7
Discount	**(21.5)**	(27.1)
Total claims outstanding net of reinsurance	**91.9**	111.6
Security held for reinsurance	**13.5**	13.8
Total collateral held	**13.5**	13.8

22 Technical provisions continued

The technical provisions are all within the Group's insurance subsidiaries.

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.

The liabilities for KX Re's and PXRE's portfolios are subject to discounting. At 31 December 2010 KX Re's portfolio had an average mean term of 10.7 years (2009: 10.97 years) and the average effective rate of investment return used to discount net liabilities is 3.1% (2009: 3.53%). PXRE's portfolio had an average mean term of 6.2 years (2009: 4.30 years) and the average effective rate of investment return used to discount net liabilities is 2.52% (2009: 2.90%).

Reserve development

The Group's expected loss development is determined by the Group's internal actuaries based on historical claims analysis and projected trends. Actual reported losses may vary from expected loss development. Generally, as an underwriting year matures the level of newly reported claims decreases.

During the year the Group experienced a deterioration in the prior year net reserves before discount excluding commutations of $4.4 million (2009: improvement of $0.7 million). After discount the reduction in net reserves during the year was $29.3 million (2009: $32.7 million) net of reinsurance and commutations.

The following table presents the development of the Group's outstanding claims and claims handling expense reserves net of reinsurance and after discounting.

Movements in carrying amount	**31 Dec 2010 $m**	31 Dec 2009 $m
Balance of net discounted reserves at 1 January	**111.6**	146.0
Acquisition of subsidiary	**9.7**	-
Impact of changes in foreign exchange rates	**(0.9)**	2.8
Net claims paid	**(32.1)**	(25.2)
Decrease in ultimates for net claims before discounting	**4.4**	(0.7)
Change in the impact of discounting	**3.0**	(7.5)
Risk premium released	**(3.8)**	(3.8)
Balance of net discounted reserves at 31 December	**91.9**	111.6

23 Property, plant and equipment

	Computer equipment $m	Fixtures and fittings $m	Total $m
Cost or valuation			
Balance at 1 January 2010	7.4	2.4	9.8
Additions	0.8	-	0.8
Balance at 31 December 2010	**8.2**	**2.4**	**10.6**
Accumulated depreciation and impairment			
Balance at 1 January 2010	6.2	2.0	8.2
Charge for the year	0.7	-	0.7
Balance at 31 December 2010	**6.9**	**2.0**	**8.9**
Carrying amount			
At 31 December 2010	**1.3**	**0.4**	**1.7**
At 31 December 2009	1.2	0.4	1.6

24 Deferred assets

Deferred assets relate to the consideration outstanding on the disposal of subsidiary CX Reinsurance Company Limited, as described in note 1. Part of the deferred consideration is related to the net asset value of the company and is subject to net asset value adjustments through the income statement. Deferred consideration consists of $19.9 million (2009: $20.8 million) in respect of a transaction facilitation fee and $46.6 million (2009: $53.5 million) of proceeds on the disposal, a total of $66.5 million (2009: $74.3 million).

25 Subsidiaries

A list of the investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 49 to the Company's financial statements.

26 Interest in associate

Aggregated amounts relating to associate:

	31 Dec 2010 $m	31 Dec 2009 $m
Gross premiums written	**(0.4)**	0.2
(Loss)/profit for the year	**(7.8)**	13.8
Group's share of associate's (loss)/profit at 12.65%	**(0.9)**	1.8
Total assets	**246.3**	272.8
Total liabilities	**(193.0)**	(211.6)
Net assets	**53.4**	61.2
Group's share of associate's net assets at 12.65%	**6.8**	7.7

A list of the investments in associates, including the name, country of incorporation and proportion of ownership interest is given in note 50 to the Company's financial statements.

27 Other intangible assets

The intangible assets comprise software costs as disclosed in the table below:

	Development costs $m	Patents and trademarks $m	Acquired Intangible assets $m	**Total $m**
Cost				
Balance at 1 January 2010	0.8	0.1	-	**0.9**
Additions	0.2	-	2.0	**2.2**
Balance at 31 December 2010	1.0	0.1	2.0	**3.1**
Amortisation				
Balance at 1 January 2010	-	-	-	**-**
Amortised to income statement	(0.1)	-	(0.7)	**(0.8)**
Balance at 31 December 2010	(0.1)	-	(0.7)	**(0.8)**
Carrying amount				
At 31 December 2010	**0.9**	**0.1**	**1.3**	**2.3**
At 31 December 2009	0.8	0.1	-	0.9

The initial accounting for the business combination and amounts recognised in the 2009 annual financial statements were provisional. The fair values of the acquired Pro intangible assets were provisional pending the final valuations of these assets. The fair value exercise regarding the Pro acquisition has now been completed.

The deferred consideration of $5.3 million (2009: $9.1 million) has been taken into account in the calculation of the goodwill and is included in other liabilities in the statement of financial position. The Group now also recognises an intangible asset of $2.0 million as part of the acquisition.

The acquired intangible asset comprises the result of both a contract-based and customer-based review of the acquired portfolio. The value attributed to each component is $1.3 million contract-based and $0.7 million customer–based.

The intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

Patents and trademarks	5 years
Development costs	5 years
Acquired contract-based asset	2 years
Acquired customer-based asset	5 years

28 Goodwill

	31 Dec 2010 $m	31 Dec 2009 $m
Cost		
Balance at 1 January	**33.3**	18.2
Fair value adjustment on acquisition of a subsidiary	**(5.2)**	15.1
Balance at 31 December	**28.1**	33.3
Accumulated impairment losses		
Balance at 1 January	**(5.0)**	-
Impairment of goodwill for the year	**-**	(5.0)
Balance at 31 December	**(5.0)**	(5.0)
Carrying amount at 31 December	**23.1**	28.3

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating units ("CGU"s) that are expected to benefit from that business combination. Before recognition of impairment losses the carrying amount of goodwill has been allocated as follows:

	31 Dec 2010 $m	31 Dec 2009 $m
Tawa plc's acquisition of Tawa Associates Limited, which is now represented by the business of Tawa Management Limited, STRIPE Global Services Ltd and PXRE extraction fee	**18.2**	**18.2**
Tawa plc's acquisition of the Pro group of companies ("Pro"). The Pro group of companies comprise Pro Insurance Solutions Limited, Pro IS, Inc and Participant Run-Off (Pro) Iberica, SLU	**9.9**	15.1
Total cost	**28.1**	33.3

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets and liabilities acquired. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the income statement and cannot subsequently be reversed.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The Group prepares cash flow forecasts derived from the most recent financial budgets for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 6%. This rate does not exceed the average long term growth rate for relevant markets. The rate used to discount the forecast cash flows from Tawa Associates Limited is 10%.

29 Share capital

	31 Dec 2010		31 Dec 2009	
	Number '000	**$m**	Number '000	$m
Authorised:				
Ordinary shares of £0.10	**200,000**	**40.0**	200,000	40.0
Total authorised	**200,000**	**40.0**	200,000	40.0
Allotted, called up and fully paid:				
Ordinary shares of £0.10	**112,987**	**22.2**	112,987	22.2
Total allotted, called up and fully paid	**112,987**	**22.2**	112,987	22.2

30 Share premium

	31 Dec 2010 **$m**	31 Dec 2009 $m
Balance at 1 January	**111.4**	111.4
Balance at 31 December	**111.4**	111.4

31 Reserves

	Share based payments reserve $m	Retained earnings $m
Balance at 1 January	2.5	92.3
Share based payments	0.7	-
Currency translation differences	-	(0.7)
Profit for the year	-	1.8
Dividends	-	(4.1)
Balance at 31 December	**3.2**	**89.3**

32 Own Shares

	31 Dec 2010 **$m**	31 Dec 2009 $m
Balance at 1 January	**-**	-
Acquired in the period	**(1.1)**	-
Balance at 31 December	**(1.1)**	-

33 Creditors arising out of insurance operations

	31 Dec 2010 $m	31 Dec 2009 $m
Creditors arising out of reinsurance operations	**19.5**	20.4
Investment contracts	**48.6**	46.4
Balance at 31 December	**68.1**	66.8
Due within one year	**19.5**	20.4
Due after one year	**48.6**	46.4

Prior to becoming a subsidiary of the Group, PXRE Reinsurance Company entered into a small number of finite contracts that do not contain significant risk transfer. These contracts are treated as investment contracts for accounting purposes with the related investments included within financial assets, note 20, and the liabilities disclosed above as investment contracts.

The Directors believe that the carrying amount approximates its fair value.

34 Other liabilities

	31 Dec 2010 $m	31 Dec 2009 $m
Accruals	**8.3**	8.3
Deferred consideration	**14.0**	9.1
Other creditors	**11.6**	8.1
Balance at 31 December	**33.9**	25.5
Due within one year	**21.6**	20.4
Due after one year	**12.3**	5.1

35 Financial liabilities - borrowings

	31 Dec 2010 $m	31 Dec 2009 $m
Bank loan falling due within one year	**-**	3.7
Bank loan falling due after one year	**32.2**	29.6
Financial liabilities - borrowings	**32.2**	33.3

The Group had principal bank loans, being an existing loan from Natixis Bank and a debenture through the acquisition of Island Capital.

The Group obtained an additional bank loan of $30 million, to acquire subsidiary PXRE Reinsurance Company, on 27 March 2008. The term loan from Natixis Bank was $30 million and an additional $3.7 million revolving facility has been added to the loan. The term loan was due to be repaid in 2012, however $7.8 million was repaid during the current year and the revolving loan was repaid in full. During 2010 interest payable was based on US 3 month LIBOR plus 4 – 4.75%. The spread above 3 month LIBOR for future interest payments will be determined by the asset cover for PXRE Reinsurance Company.

The $10 million debenture issued by Island Capital is repayable in 2035, with interest payable at LIBOR + 375 basis points.

The Directors believe that the carrying amount approximates its fair value.

36 Cash used in operating activities

	31 Dec 2010			31 Dec 2009		
	Continuing $m	Discontinued $m	**Total $m**	Continuing $m	Discontinued $m	Total $m
Profit/(loss) for the year	8.6	(6.8)	**1.8**	(0.9)	12.1	11.2
Adjustments for:						
- share of results of associate	0.9	-	**0.9**	(1.8)	-	(1.8)
- discontinued operations	-	6.8	**6.8**	-	(12.1)	(12.1)
- negative goodwill	(4.9)	-	**(4.9)**	-	-	-
- impairment of goodwill	-	-	**-**	5.0	-	5.0
- investment return for the year transferred to investing activities	(6.4)	-	**(6.4)**	(8.2)	-	(8.2)
- realised (gains)/losses on investments	0.2	-	**0.2**	(0.4)	-	(0.4)
- unrealised losses/(gains) on investments	(1.5)	-	**(1.5)**	5.9	-	5.9
- finance costs	4.0	-	**4.0**	4.9	-	4.9
- depreciation	0.7	-	**0.7**	6.1	-	6.1
- share based payment expense	0.7	-	**0.7**	1.2	-	1.2
- amortisation of risk premium	(3.8)	-	**(3.8)**	(3.8)	-	(3.8)
- amortisation of intangible asset	(0.7)	-	**(0.7)**	-	-	-
- adjustment to amortised cost	6.7	-	**6.7**	-	-	-
- other gains and losses	(2.6)	-	**(2.6)**	(2.3)	-	(2.3)
	1.9	-	**1.9**	5.7	-	5.7
Change in operating assets and liabilities						
Net decrease in insurance receivables and liabilities	(13.8)	-	**(13.8)**	(27.1)	-	(27.1)
Net increase/(decrease) in loans and receivables	(8.5)	-	**(8.5)**	16.2	-	16.2
Net (decrease)/increase in other operating liabilities	5.2	-	**5.2**	(4.0)	-	(4.0)
Cash used in operations	(15.2)	-	**(15.2)**	(13.3)	-	(13.3)
Finance costs	(2.6)	-	**(2.6)**	(4.1)	-	(4.1)
Net cash used in operations	(17.8)	-	**(17.8)**	(21.3)	-	(21.3)

36 Share based payments

Share awards

During 2010, the Group continued to operate the Tawa 2007 Performance Share Plan (the "Performance Share Plan"). The Performance Share Plan is a key element of Tawa's reward strategy and is designed to incentivise the Company's Executive Directors and senior management and align their interests with those of its shareholders.

During the year the Remuneration Committee reviewed the operation of the Tawa 2007 Deferred Share Bonus Plan (the "Deferred Share Bonus Plan"). The Deferred Share Bonus Plan allowed the Company to defer a portion of an employee's bonus into a conditional award over Ordinary Shares with an aggregate market value on grant equivalent to the value of the deferred bonus. One-half of an award vested on the first anniversary of the date of grant and the other half vested on the second anniversary of the date of grant. The Committee concluded that owing to the cost and complexity associated with the administration of the Deferred Share Bonus Plan and the relatively small amounts involved no further awards should be made. The final tranche of existing awards under the Deferred Share Bonus Plan vested on 17 July 2010.

The Performance Share Plan

The Performance Share Plan provides for the grant of awards over Ordinary Shares. The vesting of awards granted to Executive Directors will be subject to performance conditions set by the Remuneration Committee on or prior to the grant of an award. The vesting of awards granted to other employees may not be subject to performance conditions. Awards normally vest on the third anniversary of the date of grant, subject to the satisfaction of the relevant performance conditions and to the employee being either an employee or Director within the Tawa Group on that date.

The tranche of awards to Executive Directors and senior executives during the year were subject to the following conditions:

a) One-half of the award is subject to a condition measuring the compound growth in the Company's Net Asset Value per Share before dividends as determined by the Remuneration Committee ("NAV").

b) One-half of the award is subject to a condition measuring the Company's relative Total Shareholder Return ("TSR") performance against a group of companies comprising the constituents of the FTSE Small Cap excluding investment trusts (the "Comparator Group") over a single period of three years.

The portion of the award subject to the NAV condition will not vest unless NAV growth during the performance period is at least equal to an average of 7.5% compound per annum, thereafter this portion of the award will vest as follows:

NAV per share growth during the performance period (average compound)	Percentage of one-half of the total number of shares subject to the award that will vest
Equal to or greater than 15%	100%
Between 7.5% and 15%	Pro-rata between 25% and 100%
Equal to 7.5%	25%
Less than 7.5%	Nil%

The portion of the award subject to the TSR performance condition will vest as follows:

Rank of the Company's TSR against comparator companies at the end of the performance period	Percentage of one-half of the total number of shares subject to the award that will vest
Upper quartile or above	100%
Between upper quartile and median	Pro-rata between 25% and 100%
Median	25%
Below median	0%

The performance period for the TSR condition begins on the date of grant. For the initial tranche, the "base" TSR of the Company and the companies in the comparator group will be the average net returns of such companies for the first three months of the performance period. For subsequent tranches, the "base" TSR of the Company and the companies in the comparator group will be the average net returns of such companies during the three months period ending on the day before the start of the TSR performance period. The "end" TSRs are the relevant net returns for the three month period preceding the end of the performance period (except in the event of a takeover when TSR may be averaged over a shorter period).

As noted above, in addition to the satisfaction of performance conditions, the vesting of awards is subject to the Executive Director and senior executive being either an employee or Director within the Tawa Group on the third anniversary of the date of grant.

37 Share based payments continued

At the time of the Company's admission to trading on AIM, an initial grant over Ordinary Shares with a value equal to £75,000 was made under the Performance Share Plan to eight senior managers, none of whom were Executive Directors. These awards formed part of a discretionary cash bonus, one-third of which was required to be used to acquire Ordinary Shares. In return, the Company granted each senior manager an award over Ordinary Shares with value on grant worth 50% of the amount invested. The vesting of these awards was not subject to performance conditions only to the requirement that the executive be an employee or Director within the Tawa Group on the vesting date and to the extent that the Ordinary Shares acquired on admission had been retained. These awards vested in full on 26 July 2009.

Also at the time of admission, each employee in the Group was granted an award under the Performance Share Plan over 2,400 Ordinary Shares. The vesting of these awards was not subject to any performance conditions only to the requirement that the employee be an employee or Director within the Tawa group on the vesting date. The awards that had not lapsed since the date of grant vested on 26 July 2009.

Details of the shares outstanding under the Tawa Share Plans during the year are as follows:

	31 Dec 2010	31 Dec 2009
	Number of share awards	Number of share awards
Outstanding at the beginning of the year	**5,797,594**	3,498,807
Granted during the year	**1,180,113**	2,724,125
Forfeited during the year	**(24,576)**	(425,338)
Outstanding at the end of the year	**6,953,131**	5,797,594

No shares were exercisable at the end of the year (2009: $nil).

In respect of the Performance Share Plan ("PSP") and the Deferred Share Bonus Plan ("DSB"), the inputs into the Stochastic valuation model are as follows:

		31 Dec 2010
	PSP TSR Tranche	**PSP NAV Tranche**
Weighted average share price	75 pence	75 pence
Weighted average exercise price	0	0
Expected volatility	39%	n/a
Expected life	3 years	3 years
Risk-free rate	n/a	n/a
Expected dividend yield	0%	0%

		31 Dec 2009
	PSP TSR Tranche	PSP NAV Tranche
Weighted average share price	45.5 pence	45.5 pence
Weighted average exercise price	nil	nil
Expected volatility	42%	n/a
Expected life	3 years	3 years
Risk-free rate	n/a	n/a
Expected dividend yield	0.00%	0.00%

37 Share based payments continued

Expected volatility was determined by calculating the median volatilities of similar entities to Tawa plc over the last three years. The historic volatility of the companies within the following groups were analysed:

- FTSE Fledging and AIM Non-Life Insurers;
- FTSE Small Cap Non-Life Insurers; and
- The whole FTSE Small Cap.

The Group recognised total expenses of $0.7 million (2009: $1.5 million) related to share based payments in 2010.

38 Retirement benefit scheme

Defined contribution schemes

The employees of the Group are covered by defined contribution schemes the costs of which are charged to the income statement when incurred. The total cost of retirement benefits for the Group in the year ended 31 December 2010 was $2.1 million (2009: $1.2 million).

39 Business combinations

On 22 October 2010, 94.3% of the issued share capital of the Island Capital group of companies comprising Island Capital Limited and Island Capital (Europe) Limited were acquired by the Company. This transaction has been accounted for by the purchase method of accounting. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Book value $m	Fair value adjustments $m	**Fair value on acquisition $m**
Assets			
Cash and cash equivalents	30.4	-	**30.4**
Loans and receivables including insurance receivables	18.5	-	**18.5**
Reinsurers' share of technical provisions	5.6	-	**5.6**
Other Assets	0.1	-	**0.1**
Liabilities			
Creditors arising out of insurance operations	(3.7)	-	**(3.7)**
Technical provisions	(11.8)	(3.6)	**(15.4)**
Financial liabilities - borrowings	(10.0)	-	**(10.0)**
Other liabilities	(3.4)	-	**(3.4)**
	25.6	(3.6)	**22.0**
Tawa Share 94.3%			**20.7**
Consideration paid in cash			**7.4**
Deferred consideration payable			**8.4**
Consideration paid net of cash and cash equivalents			**(23.0)**
Negative Goodwill on acquisition			**(4.9)**

The acquisition was funded by cash of $7.4 million.
Deferred cash consideration of $8.4 million is payable.

The initial accounting for the business combination is incomplete and the amounts recognised in these financial statements are provisional.

40 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associate are disclosed below. Transactions between the Company and its subsidiaries are disclosed in note 58.

Trading transactions

Two of the Company's subsidiaries, Tawa Management Limited and Tawa Consulting Limited, provide insurance run-off management services to CX Reinsurance Company Limited, an associate of the Group in which the company has a 12.65% share and a 49.95% voting interest.

Run-off services are provided on a negotiated fee basis, the terms and pricing of which are at arm's length. Run-off management expenses are recharged at cost by Tawa Management Limited, Pro Insurance Solutions Ltd and Pro IS, Inc.

During the year Group companies entered into the following transactions with related parties who are not members of the Group:

	Group income received	
	31 Dec 2010	31 Dec 2009
	$m	$m
From associate CX Reinsurance Company Limited for a management fee	**2.5**	3.0
From associate CX Reinsurance Company Limited for expenses recharged	**7.4**	6.5
From associate CX Reinsurance Company Limited for consultancy fees	**-**	0.1
	9.9	9.6

The following amounts were outstanding:

	Amounts owed (to) / from related parties	
	31 Dec 2010	31 Dec 2009
	$m	$m
Amounts due from associate CX Reinsurance Company Limited	**-**	0.4

Loans to related parties

On 18 June 2008 a sale and repurchase agreement was entered into between associate CX Reinsurance Company Limited and subsidiary KX Reinsurance Company Limited as part of the Group's treasury management. On the same date and under the repurchase agreement CX Reinsurance Company Limited sold an interest in an ECM fund to KX Reinsurance Company Limited for £11.5 million ($23.5 million at that date). On 6 February 2009 CX Reinsurance Company Limited repurchased this investment for £12 million ($17.3 million at that date) including accrued interest. Whilst not utilised during the year, the facility remains in place.

Remuneration of key management personnel

The Group considers its key management personnel to include its Executive and Non-Executive Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations. The remuneration of key management is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of the individual Directors is provided in the Director's remuneration report on pages 19 and 20.

	31 Dec 2010	31 Dec 2009
	$m	$m
Short-term employee benefits	**5.0**	5.2
Post-employment benefits	**0.7**	0.7
Termination benefits	**-**	0.1
Share based payments	**0.8**	0.9
Management remuneration	**6.5**	6.9

40 Related party transactions continued

Dividends of 2.5 pence per share totalling $1.2 million were paid in the year in respect of Ordinary Shares held by the Company's Directors. As at 31 December 2010, the Group had no loans outstanding to key management (2009: $nil).

Immediate and ultimate parent company

In the opinion of the Directors, the immediate and ultimate parent is Financière Pinault S.C.A., a Société en commandite par actions incorporated in France. The group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004 Paris, France.

41 Operating lease

Costs in respect of operating leases are charged on a straight line basis over the term of the lease. The Group has three lease agreements, two of which contain rent free periods. The benefit received relating to the rent free period is allocated over the life of the lease term. The rent payable per year for the Isis Building is $ $0.5 million (2009: $0.5 million) and expires in March 2014, Bruton Court $0.5 million and expires in March 2013, and Billiter Street $0.2 millon expiring March 2011.

Land and buildings	**31 Dec 2010** **$m**
Expiring within one year	**0.2**
Expiring during years two to five inclusive	**1.0**
Financial commitments and guarantees	**1.2**

42 Contingent liabilities

Some of the Group's subsidiaries are routinely involved in litigation or potential litigation related primarily to the settlement of insurance claims liabilities. However, none of such actual or proposed litigation that had not been provided for met the definition of a contingent liability. Consequently, the Group had no insurance related, or other, contingent liabilities as at 31 December 2010 (2009: no contingent liabilities).

43 Events after reporting period

On 10 March 2011, the Group completed the transaction to acquire Oslo Reinsurance Company (UK) Limited, a small London market company which has been in run-off since 1994. Most of the business has been removed by schemes and commutations, however the acquisition is strategically important as the company will be able to accept portfolio transfers or reinsurance of liabilities from other companies managed by Tawa or from external entities, subject to approval from the FSA.

Participant Run-Off (Pro) Iberica SLU was placed into liquidation on 11 March 2011. This has no impact upon the Groups' net assets as the value of the investment was written down to nil in 2009.

	Notes	**31 Dec 2010 $m**	31 Dec 2009 $m
Investment return	45	**0.1**	0.1
Dividends from subsidiaries		**37.5**	5.8
Other income		**5.9**	0.4
Total income		**43.5**	6.3
Administrative expenses		**(10.1)**	(9.1)
(Loss)/profit on sale of investment		**(6.8)**	12.1
Results of operating activities		**26.6**	9.3
Finance costs	46	**(0.3)**	(0.2)
Profit before taxation		**26.3**	9.1
Taxation	47	**-**	-
Profit for the year from continuing operations		**26.3**	9.1
Profit for the year	48	**26.3**	9.1

The notes on pages 86 to 92 form part of these financial statements.

Tawa plc Company statement of comprehensive income

For the year ended 31 December 2010

	31 Dec 2010	31 Dec 2009
	$m	$m
Profit for the year	**26.3**	9.1
Other comprehensive income/(losses)		
Currency translation differences	**(1.0)**	2.4
Total comprehensive income for the period	**25.3**	11.5

The notes on pages 86 to 92 form part of these financial statements.

	Notes	**31 Dec 2010 $m**	31 Dec 2009 $m
Assets			
Cash and cash equivalents		**2.8**	-
Financial assets - investments		**14.3**	-
Investment in subsidiaries	49	**113.2**	98.1
Investment in associate	50	**3.9**	3.9
Loans and receivables	51	**5.0**	4.0
Deferred assets		**66.5**	74.3
Total assets		**205.7**	180.3
Equity			
Share capital	52	**22.2**	22.2
Share premium	52	**111.4**	111.4
Share based payments reserve	53	**3.2**	2.5
Own shares	54	**(1.1)**	-
Retained earnings	53	**44.8**	23.6
Total equity attributable to equity holders		**180.5**	159.7
Liabilities			
Other liabilities	55	**16.9**	12.6
Financial liabilities - borrowings	56	**8.3**	8.0
Total liabilities		**25.2**	20.6
Total liabilities and equity		**205.7**	180.3

The notes on pages 86 to 92 form part of these financial statements.

The financial statements of Tawa plc (4200676) were approved by the Board of Directors and authorised for issue on 23 March 2011 and were signed on its behalf on 30 March 2011 by:

Colin Bird
Chairman

Gilles Erulin
Chief Executive Officer

Company statement of changes in equity

	Issued capital $m	Share premium reserve $m	Own shares $m	Share based payments reserve $m	Retained earnings $m	**Total $m**
Balance at 1 January 2009	22.2	111.4	-	1.3	13.0	**147.9**
Share based payments	-	-	-	1.2	-	**1.2**
Dividends paid	-	-	-	-	(0.9)	**(0.9)**
Total comprehensive income for the year	-	-	-	-	11.5	**11.5**
Balance at 31 December 2009	22.2	111.4	-	2.5	23.6	**159.7**
Balance at 1 January 2010	22.2	111.4	-	2.5	23.6	**159.7**
Share based payments	-	-	-	0.7	-	**0.7**
Dividends paid	-	-	-	-	(4.1)	**(4.1)**
Own shares acquired in the period	-	-	(1.1)	-	-	**(1.1)**
Total comprehensive income for the year	-	-	-	-	25.3	**25.3**
Balance at 31 December 2010	22.2	111.4	(1.1)	3.2	44.8	**180.5**

The notes on pages 86 to 92 form part of these financial statements.

Tawa plc Company statement of cash flows

For the year ended 31 December 2010

	Note	31 Dec 2010 $m	31 Dec 2009 $m
Net cash generated from/(used in) operating activities	57	**(10.5)**	5.5
Investing activities			
Cash Payments to acquire debt securites		**(14.3)**	-
Dividends received		**37.5**	5.8
Cash receipts from interest		**0.1**	0.1
Acquisition of subsidiary		**(5.1)**	(18.5)
Cash used in investing activities		**18.2**	(12.6)
Financing activities			
Dividends paid		**(4.1)**	(0.9)
Own shares purchased		**(1.1)**	-
Proceeds from issue of equity shares		**-**	-
Proceeds from financial borrowings		**0.3**	8.0
Cash flows generated from financing activities		**(4.9)**	7.1
Net decrease in cash and cash equivalents		2.8	-
Cash and cash equivalents at beginning of year		**-**	-
Cash and cash equivalents at end of year		**2.8**	-

The notes on pages 86 to 92 form part of these financial statements.

44 Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments in subsidiaries and associates are stated at cost less, where appropriate, provisions for impairment.

As discussed in note 1 to the consolidated financial statements, the Directors continue to adopt the going concern basis in the preparation of the Annual Report and Accounts.

45 Investment return

	31 Dec 2010	31 Dec 2009
	$m	$m
Interest receivable	**0.1**	0.1
Investment return	**0.1**	0.1

46 Finance costs

	31 Dec 2010	31 Dec 2009
	$m	$m
Interest on borrowings	**0.2**	0.2
Finance costs	**0.2**	0.2

47 Taxation

UK corporation tax is calculated at 28% (2009: 28%) of the estimated assessable UK profit for the year. The tax charge for the periods presented varied from the stated rate of UK corporation tax as explained below:

	31 Dec 2010 $m	31 Dec 2009 $m
UK Corporation tax on loss for the year	**-**	-
Group relief recoverable at non-standard rates	**-**	-
Total taxation	**-**	-
Profit/(loss) on ordinary activities before taxation	**26.3**	9.1
Standard corporation tax of 28% (2009: 28%)	**7.4**	2.6
Factors affecting taxation charge:		
Income/expenses not taxable/deductible for tax purposes	**(8.7)**	(4.4)
Exchange difference on translation to USD	**-**	
Effect of tax losses	**-**	0.9
Group relief recoverable at non-standard rates	**1.3**	0.9
UK Corporation tax on profit/(loss) for the year	**-**	-

48 Profit/(loss) for the year

The auditors' remuneration for audit and other services is disclosed in note 11 to the consolidated financial statements. Profit/(loss) for the year has been arrived at after charging:

	31 Dec 2010 $m	31 Dec 2009 $m
Foreign exchange (losses)/profit	**(6.0)**	0.4

49 Investment in subsidiaries

	31 Dec 2010	31 Dec 2009
	$m	$m
Balance at 1 January	**98.1**	79.6
Additions during the year	**15.1**	18.5
Balance at 31 December	**113.2**	98.1

The consolidated financial information presents the financial record of the Group for the year ended 31 December 2010. A list of all investments in Group subsidiaries, including the name and country of incorporation is given below:

Name of subsidiary	Place of incorporation (or registration) and operation	Portion of ownership interest	Portion of voting-power held
ICL Holdings Incorporated	United States Delaware	100%	100%
Island Capital Ltd	Bermuda	94.3%	94.3%
Island Capital (Europe) Ltd	Great Britain	94.3%	94.3%
KX Re Holdings Limited	Great Britain	100%	100%
KX Reinsurance Company Limited	Great Britain	100%	100%
Pro Insurance Solutions Limited	Great Britain	100%	100%
Pro IS, Inc	United States Delaware	100%	100%
Participant Run-Off (Pro) Iberica, SLU	Spain	100%	100%
PXRE Reinsurance Company	United States Connecticut	100%	100%
Tawa Associates Limited	Great Britain	100%	100%
Tawa Consulting Limited	Great Britain	100%	100%
STRIPE Global Services Limited (formerly Tawa Corporate Capital Limited)	Great Britain	100%	100%
Tawa Management (Bermuda) Limited	Bermuda	100%	100%
Tawa Management Limited	Great Britain	100%	100%
Tawa Managing Agency Limited	Great Britain	100%	100%
WT Holdings Incorporated	United States Delaware	100%	100%

The investments in subsidiaries are stated at cost.

50 Investment in associate

	31 Dec 2010	31 Dec 2009
	$m	$m
Balance at 31 December	**3.9**	3.9

The investment in associate is stated at cost. The Company ownership interest is 12.65% and the portion of voting power is 49.95% in CX Reinsurance Company Limited, which is incorporated in Great Britain.

51 Loans and receivables

At the statement of financial position date amounts receivable from fellow Group companies of $4.9 million (2009: $3.8 million) were outstanding. The carrying amount of these assets approximates their fair value. There are no past due impaired balances (2009: $nil).

52 Share capital and share premium

The movements on these items are disclosed in notes 29 and 30 to the consolidated financial statements.

53 Reserves

	Share based payments reserve $m	Retained earnings $m
Balance at 1 January	2.5	23.6
Share based payments	0.7	-
Currency translation differences	-	-
Profit for the year	-	25.3
Dividends paid	-	(4.1)
Balance at 31 December	**3.2**	**44.8**

54 Own shares

	31 Dec 2010 $m	31 Dec 2009 $m
Balance at 1 January	**-**	-
Acquired in the period	**(1.1)**	-
Balance at 31 December	**(1.1)**	-

55 Other liabilities

	31 Dec 2010 $m	31 Dec 2009 $m
Deferred consideration payable	**14.0**	9.1
Amounts payable to Group companies	**2.5**	0.4
Accruals	**0.3**	0.4
Other creditors	**0.1**	2.7
Balance at 31 December	**16.9**	12.6
Due within one year	**2.9**	3.5
Due after one year	**14.0**	9.1

56 Borrowings

On 30 June 2009 the Company entered into a facility agreement with another Group company, this facility is available until 31 March 2012. On 1 October 2009 the Company utilised $7.9 million under the terms of this facility agreement. The loan is repayable within 12 months and is subject to interest equal to one year LIBOR plus a margin of 250 basis points.

57 Cash generated from/(used in) operating activities

	31 Dec 2010 $m	31 Dec 2009 $m
Profit/(loss) for the year	**26.3**	9.1
Adjustments for:		
- investment return for the year transferred to investing activities	**(37.6)**	(5.9)
- profit/(loss) on sale of investment	**6.8**	(12.1)
- finance costs	**0.3**	0.2
- share based payment expense	**0.7**	1.2
- other gains and losses	**(0.0)**	0.1
	(3.5)	(7.4)
Change in operating assets and liabilities		
Net decrease/(increase) in loans and receivables	**(1.0)**	2.2
Net increase/(decrease) in other liabilities	**(5.7)**	10.9
Cash generated from/(used in) operations	**(10.2)**	5.7
Finance costs	**(0.3)**	(0.2)
Taxation	**-**	-
Net cash generated from/(used in) operating activities	**(10.5)**	5.5

58 Related party transactions

Transactions between the Company and its subsidiaries are included below.

Trading transactions

Four of the Company's subsidiaries, Tawa Management Limited, Tawa Consulting Limited, Pro Insurance Solutions Ltd and Pro IS, Inc provide insurance run-off management services to the other subsidiaries and associate within the Group.

Run-off services are provided on a negotiated fee basis, the terms and pricing of which are at arm's length. Run-off management expenses are recharged at cost by Tawa Management Limited and at an hourly charge out rate by Tawa Consulting Limited.

During the year the following transactions with Tawa Management Limited, Tawa Consulting Limited, Pro Insurance Solutions Ltd and Pro IS, Inc and related parties occurred:

	Group income received	
	31 Dec 2010 $m	31 Dec 2009 $m
From subsidiary KX Reinsurance Company Limited for a management fee	**2.0**	2.0
From subsidiary KX Reinsurance Company Limited for expenses recharged	**3.6**	3.3
From subsidiary KX Reinsurance Company Limited for consultancy fees	**-**	0.1
From subsidiary PXRE Reinsurance Company for expenses recharged	**3.0**	2.7
From subsidiary PXRE Reinsurance Company for consultancy fees	**-**	0.1
From subsidiary Tawa Consulting Limited for expenses recharged	**0.3**	0.4
From subsidiary WT Holdings Incorporated for expenses recharged	**-**	0.1
From subsidiary STRIPE Global Services Limited for expenses recharged	**1.9**	-
From holding Company Tawa plc for expenses recharged	**-**	6.5
From holding Company Tawa plc for consultancy fees	**-**	0.1
From subsidiary Tawa Management Limited for expenses recharged	**8.2**	-
From associate CX Reinsurance Company Limited for a management fee	**2.5**	3.0
From associate CX Reinsurance Company Limited for expenses recharged	**7.4**	6.5
From associate CX Reinsurance Company Limited for consultancy fees	**-**	0.1
	28.9	24.9

58 Related party transactions continued

The following amounts were outstanding at the statement of financial position date:

	Amounts owed (to)/from related parties	
	31 Dec 2010	31 Dec 2009
	$m	$m
Intercompany loan to CX Reinsurance Company Limited from Tawa Management Limited	-	(0.4)
Intercompany loan to KX Reinsurance Company Limited from Tawa Management Limited	-	(0.8)
Intercompany loan to PXRE Reinsurance Company from Tawa Management Limited	-	(0.4)
Intercompany loan to WT Holdings Incorporated from Tawa Management Limited	-	(0.1)
Intercompany loan to Tawa Consulting Limited from Tawa Management Limited	-	(0.6)
Intercompany loan from/(to) Tawa Consulting Limited to/(from) Tawa Management Limited	-	0.1
Intercompany loan to PXRE Reinsurance Company from Tawa Consulting Limited	-	(0.1)
Intercompany loan to Tawa plc from Tawa Consulting Limited	-	(0.4)
Intercompany loan to KX Re Holdings Limited from Tawa plc	-	(1.1)
Intercompany loan to WT Holdings Incorporated from Tawa plc	-	(2.1)

Other related party transactions

During the current year the following dividends were paid to related parties:

	31 Dec 2010	31 Dec 2009
	$m	$m
Dividend paid from Tawa Management Limited to Tawa Associates Limited	**0.9**	5.8
Dividend paid from Tawa Associates Limited to Tawa plc	**0.9**	5.8
Dividend paid from Pro Insurance Solutions Limited to Tawa plc	**1.6**	-
Dividend paid from PXRE Reinsurance Company to WT Holdings Incorporated	**12.0**	-
Dividend paid from KX Reinsurance Company Limited to KX Re Holdings Limited	**35.0**	40.0
Dividend paid from KX Re Holdings Limited to Tawa plc	**35.0**	-

Loans to related parties

On 18 June 2008 a sale and repurchase agreement was entered into between associate CX Reinsurance Company Limited and subsidiary KX Reinsurance Company Limited as part of the Group's treasury management. On the same date and under the repurchase agreement CX Reinsurance Company Limited sold an interest in an ECM fund to KX Reinsurance Company Limited for £11.5 million ($23.5 million at that date). On 6 February 2009 CX Reinsurance Company Limited repurchased this investment for £12 million ($17.3 million at that date) including accrued interest. During 2010 the facility was not utilised by the CX Re.

On 30 June 2009 KX Reinsurance Company Limited entered into a facility agreement with Tawa plc, this facility is available until 31 March 2012. On 1 October 2009 Tawa plc utilised $7.9 million under the terms of this facility agreement. The loan is repayable within 12 months and is subject to interest equal to one year LIBOR plus a margin of 250 basis points.

Key management personnel

The Company considers its key management personnel to include its Executive and Non-Executive Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations. The remuneration of key management is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

58 Related party transactions continued

	31 Dec 2010 $m	31 Dec 2009 $m
Short-term employee benefits	**5.0**	5.2
Post-employment benefits	**0.7**	0.7
Termination benefits	**-**	0.1
Share based payments	**0.8**	0.9
Management remuneration	**6.5**	6.9

Dividends of 2.5 pence per share totalling $1.2 million were paid in the year in respect of Ordinary Shares held by the Company's Directors. As at 31 December 2010, the Group had no travel loans outstanding to key management (2009: $nil).

Immediate and ultimate parent company

In the opinion of the Directors, the immediate and ultimate parent is Financière Pinault S.C.A., a Société en commandite par actions incorporated in France. The group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004 Paris, France.

Directors
Colin Bird
Chairman

Gilles Erulin
Chief Executive Officer

David Vaughan
Chief Operating Officer

Anthony Hamilton
Independent Non-Executive Director

John Hendrickson
Independent Non-Executive Director

Patricia Barbizet
Non-Executive Director

Gilles Pagniez
Non-Executive Director

Loïc Brivezac
Non-Executive Director

Registered Office
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Company Registration number
4200676

Secretary
Christopher Jones

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