



**Tawa plc** Interim Report 2011

**Tawa plc**

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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 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. It has recently announced the acquisition of Chilton Group of companies, and its acquisition, as part of a consortium, of Whittington Insurance Markets Limited.

The Group's combined team of 300 professionals service a number of the largest insurance businesses in the UK and Europe and deliver a market-wide third-party servicing capability and cover London's company and Lloyd's markets as well as Europe, Bermuda and the USA.

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

**Highlights**

The consolidated net earnings of Tawa plc after tax were \$11.0 million for the half year (2010 \$1.4 million). These results were driven principally by the \$19.6 million profit generated by QX Reinsurance Company Limited's ('QX Re') reinsurance of lead paint exposure underwritten by Pennsylvania National Mutual Casualty Insurance Company ('Penn National') and offset by the \$5.3 million loss on discontinued operations, finance costs of \$2.1 million and group costs of \$4.8 million.

As to cash generation capacity, which Tawa plc views as its main performance indicator, a capital extraction of \$22.8 million from its Connecticut domiciled subsidiary PXRE Reinsurance Company ('PXRE') was achieved during the period. This represents the extraction of trapped regulatory capital and is free cash available to Tawa plc. The \$22.8 million has been used to repay debt. This continues to reflect the significant progress made on reduction of the volatility achieved by downscaling the liability portfolios owned by the Group.

On 10 March 2011, the Group completed the transaction to acquire Oslo Reinsurance Company (UK) Limited ('Oslo Re (UK)'), 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. The company has been renamed OX Reinsurance Company Limited ('OX Re').

On 31 March 2011, Tawa plc set up QX Re, a Bermudian regulated special purpose insurer which will provide reinsurance coverage for a book of lead paint exposure that was underwritten by Penn National. The company will operate as a reinsurance vehicle and is an innovative way for Tawa to assume discontinued portfolios when a company transfer is not a viable option. QX Re received \$56.9 million in reinsurance premium and booked a claims provision of \$35.9 million. There were \$1.3 million of costs associated with the deal.

On 7 April 2011, Tawa plc announced that it had entered

into a definitive agreement to acquire for \$1 a 51% stake in a newly formed US holding company, LGIC Holdings, LLC ('LGIC'). Subject to regulatory approval, LGIC will acquire a majority of Walshire General Assurance Company, the sole shareholder of Lincoln General Insurance Company. The other investor in LGIC will be Kingsway Financial Services Inc, the former indirect owner of Walshire General Assurance Company. Pennsylvania-based Lincoln General, in run-off since 2009, reported statutory gross assets of \$412 million and net assets of \$3.2 million at the end of 2010. Previously Lincoln General wrote a broad book of predominantly commercial and personal lines insurance. After making allowances for fair value adjustments Tawa anticipates that the transaction will have minimal impact on net assets.

**Financial review**

During the first six months of 2011, Tawa recognised net profits of \$11.0 million compared to net profits of \$1.4 million in the six months to 30 June 2010. During the period Group net assets increased by \$8.3 million, from \$226.3 million (\$2.00/£1.26 per share) at 31 December 2010 to \$234.6 million (\$2.08/£1.27 per share) at 30 June 2011 mainly as a result of the continued expansion of the Group, notably through QX Re.

**Dividend and dividend policy**

In line with the Group's dividend policy an interim dividend for the year ended 31 December 2010 of 2 cents (1.25 pence) per share was paid on 1 June 2011, with a final dividend for the same amount to be paid on 2 December 2011. The Group does not propose the payment of a dividend relating to the interim period.

**Operational results**

The Group's operations are underwriting run-off, insurance portfolios management, insurance services (Pro), development of IT tools for the insurance industry (STRIPE®) and other corporate activities.

**Underwriting run-off and insurance**

Underwriting run-off and insurance comprises the Group's insurance subsidiaries in run-off, namely Island Capital, KX Reinsurance Company Limited ('KX Re'), OX Re and PXRE,

together with the specialist insurer QX Re. The objective for the Group is to reduce insurance liabilities by accelerating the natural run-off of the portfolios to enable extraction of capital with regulatory consent while protecting policyholders' future rights. The underwriting run-off and insurance profit for the period was \$17.1 million. A dividend of \$22.8 million was paid by PXRE during the period (2010 \$4.4 million).

#### Run-off management

Run-off management represents the results of the Group's providers of run-off management through its subsidiary Tawa Management Ltd. The revenue comprises income from run-off fees and expenses recharged within the Group. Profit for the period was \$2.1 million (2010 \$1.8 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 clients. Profit for the period was \$2.3 million from total revenues of \$24.7 million (2010 \$2.4 million from \$23.9 million).

#### Other corporate activities

Other corporate activities summarises acquisition activity, the Group's investment in its associated undertaking CX Reinsurance Company Limited ('CX Re'), the change in the deferred consideration attributable to the sale of 87.35% of the shares of CX Re in March 2006 and the costs of developing the Group's business.

The loss from this discontinued business was \$5.3 million. This arises in our associate CX Re, which was sold to a consortium in March 2006. Tawa plc is a member of the consortium holding 12.5% and is due deferred consideration linked to any distributions by CX Re to its consortium shareholders. The discounted net asset value of CX Re at the half year was \$47.1 million. The economic value of CX Re depends primarily on the value of receivables from the consortium members related to the availability of tax losses surrendered for the 2006 tax year. Of the \$47.1 million net asset value of CX Re at the half year, \$33.9 million was held in cash escrow accounts representing the present net worth

to CX Re of the losses surrendered and is not available for paying claims.

It is understood that presently HMRC has sought to deny the relief claimed by the consortium beneficiaries but this is under appeal. HMRC are presently reviewing the position to decide whether they will litigate on the appeals; however should litigation ensue it is expected that the process may take upwards of 3 years to reach a conclusion. Whilst the consortium has the benefit of positive advice from leading counsel, any litigation is likely to have a substantial adverse effect on the costs of the CX Re run-off and continue to restrict its liquidity.

During the interim period CX Re's net assets decreased by \$6.1 million to \$47.3 million (in the Group accounts, \$5.3 million loss from discontinued operations and \$0.8 million share of loss of associate). The principal contributory factors were:

#### CX Re claims management

Net discounted claims reserves and provision for expenses reduced in the period from \$121.1 million to \$112.8 million. During the period there was a net incurred deterioration on insurance risks of \$4.9 million.

#### CX Re asset and liability management ("ALM")

The return on investments supporting the liabilities (excluding the impact of changes in interest rates) was \$0.7 million more than the unwinding of the discount. There was also a favourable movement on foreign exchange of \$0.5 million in the period.

#### 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 \$1.5 million, comprising management fees payable to Tawa Management Limited and staff bonus.

#### Prospects

Since the half year Tawa has announced two deals which will move it further along its goal of diversifying the Group's activities. On 8 September 2011, Tawa entered into a share purchase agreement which will lead to the acquisition of the

Chiltington Group of companies, subject to regulatory approval. This will give Tawa a strategically important entry into the continental European market where Chiltington have a skilled team and strong presence.

On 16 September 2011, as a member of a consortium comprising Tawa plc, Skuld, and Paraline Group Limited, Tawa announced a definitive agreement to acquire Whittington Insurance Markets Limited (“Whittington”), subject to regulatory approval. This transaction provides Tawa with a platform through which to expand its range of services to the Lloyd’s market. Whittington is the leading franchise in the Lloyd’s agency management market and provides the Group with real scale as a provider of insurance services to the live market. This is highly complementary with the range of consulting and outsourcing services currently provided through Pro.

Tawa also has advanced plans to provide platforms for underwriting teams, managing general agencies and brokers looking for an experienced partner to help them launch new businesses into the insurance market. In effect the service will provide to the London market the turnkey concept of Lloyd’s.

In spite of the positive growth prospects resulting from the Group’s acquisitions discussed above, Group shareholders should remain acutely aware of the continuing volatility of the markets in which we invest our assets. Foreign exchange, interest rates and corporate bond spreads among others have experienced significant volatility over the last three months. This will undoubtedly have an impact upon the Group’s risk carriers and CX Re which retains some exposure to such volatility.

#### **Auditor**

Mazars LLP was appointed as the Group’s auditor during the period.

	Notes	6 months 30 Jun 2011 (Unaudited) \$m	6 months 30 Jun 2010 (Unaudited) \$m	12 months 31 Dec 2010 (Audited) \$m
<b>Income from continuing operations</b>				
Insurance premium revenue		57.8	(0.8)	(1.3)
Insurance premium ceded to reinsurers		2.0	0.5	0.3
<b>Net earned premium revenue</b>		<b>59.8</b>	<b>(0.3)</b>	<b>(1.0)</b>
<b>Revenue from consultancy, insurance and run-off services</b>				
Revenue from consultancy, insurance and run-off services		17.9	20.1	42.2
Investment return		2.6	6.5	7.7
Interest income		2.9	2.3	5.4
Other income		(1.0)	3.2	4.0
<b>Total other income</b>		<b>22.4</b>	<b>32.1</b>	<b>59.3</b>
<b>Total income</b>		<b>82.2</b>	<b>31.8</b>	<b>58.3</b>
<b>Insurance claims and loss adjustment expenses</b>				
Insurance claims and loss adjustment expenses		(43.8)	(1.6)	(5.3)
Insurance claims and loss adjustment expenses recovered from reinsurers		3.0	2.0	2.4
<b>Net insurance claims</b>		<b>(40.8)</b>	<b>0.4</b>	<b>(2.9)</b>
<b>Cost of consultancy, insurance and run-off services</b>				
Cost of consultancy, insurance and run-off services		(5.5)	(16.7)	(13.9)
Administrative expenses		(18.0)	(4.9)	(32.9)
<b>Total expenses</b>	6	<b>(23.5)</b>	<b>(21.6)</b>	<b>(46.8)</b>
<b>Results of operating activities before negative goodwill recognised and impairment of goodwill</b>		<b>17.9</b>	<b>10.6</b>	<b>8.6</b>
Negative goodwill recognised		1.5	-	4.9
<b>Results of operating activities</b>		<b>19.4</b>	<b>10.6</b>	<b>13.5</b>
<b>Share of results of associate</b>				
Share of results of associate		(0.8)	(0.9)	(0.9)
Finance costs		(2.1)	(2.0)	(4.0)
<b>Profit before taxation</b>		<b>16.5</b>	<b>7.7</b>	<b>8.6</b>
Taxation		(0.2)	-	-
<b>Profit for the period from continuing operations</b>		<b>16.3</b>	<b>7.7</b>	<b>8.6</b>
Loss for the period from discontinued operations	7	(5.3)	(6.3)	(6.8)
<b>Profit for the period</b>		<b>11.0</b>	<b>1.4</b>	<b>1.8</b>
<b>Attributable to:</b>				
Owners of the Company		11.1	1.4	1.8
Non-controlling interests		(0.1)	-	-
<b>Total attributable to equity holders</b>		<b>11.0</b>	<b>1.4</b>	<b>1.8</b>
<b>Earnings per share</b>				
<b>From continuing and discontinued operations</b>				
Basic: Ordinary shares (\$ per share)	8	0.0985	0.0124	0.0159
Diluted: Ordinary shares (\$ per share)	8	0.0921	0.0117	0.0150
<b>From continuing operations</b>				
Basic: Ordinary shares (\$ per share)	8	0.1460	0.0681	0.0761
Diluted: Ordinary shares (\$ per share)	8	0.1365	0.0645	0.0719

	<b>6 months 30 Jun 2011 (Unaudited) \$m</b>	6 months 30 Jun 2010 (Unaudited) \$m	12 months 31 Dec 2010 (Audited) \$m
Profit for the period	<b>11.0</b>	1.4	1.8
<b>Other comprehensive income/(losses)</b>			
Currency translation differences	<b>0.9</b>	(2.3)	(0.7)
<b>Total comprehensive income/(losses) for the period</b>	<b>11.9</b>	(0.9)	1.1
<b>Attributable to:</b>			
Owners of the Company	<b>12.0</b>	(0.9)	1.1
Non-controlling interests	<b>(0.1)</b>	-	-
<b>Total attributable to equity holders</b>	<b>11.9</b>	(0.9)	1.1



	Notes	30 Jun 2011 (Unaudited) \$m	30 Jun 2010 (Unaudited) \$m	31 Dec 2010 (Audited) \$m
<b>Assets</b>				
Cash and cash equivalents		54.2	60.9	48.5
Financial assets - investments		266.8	219.5	229.6
Loans and receivables including insurance receivables		67.2	53.5	73.9
Reinsurers' share of technical provisions		33.8	24.4	29.7
Property, plant and equipment		1.4	1.8	1.7
Deferred assets	10	61.9	65.6	66.5
Interest in associate		6.0	6.8	6.8
Other intangible assets		2.0	2.6	2.3
Goodwill		23.0	23.2	23.1
<b>Total assets</b>		<b>516.3</b>	455.3	482.1
<b>Equity</b>				
Share capital		22.2	22.2	22.2
Share premium		111.4	111.4	111.4
Share based payments reserve		3.5	2.9	3.2
Own shares		(2.7)	-	-
Retained earnings		99.0	87.4	89.3
<b>Equity attributable to owners of the Company</b>		<b>233.4</b>	223.9	225.0
<b>Non-controlling interests</b>		<b>1.2</b>	-	1.3
<b>Total equity attributable to equity holders</b>		<b>234.6</b>	223.9	226.3
<b>Liabilities</b>				
Creditors arising out of insurance operations		58.3	61.2	68.1
Other liabilities		26.9	18.0	33.9
Financial liabilities - borrowings		36.5	29.6	32.2
Technical provisions		160.0	122.6	121.6
<b>Total liabilities</b>		<b>281.7</b>	231.4	255.8
<b>Total liabilities and equity</b>		<b>516.3</b>	455.3	482.1

	Issued capital \$m	Share premium reserve \$m	Share based payments reserve \$m	Own shares \$m	Translation reserve \$m	Retained earnings \$m	Total \$m	Non-controlling interest \$m	Total equity \$m
Balance at 1 January 2010	<b>22.2</b>	<b>111.4</b>	<b>2.5</b>	-	<b>0.2</b>	<b>92.1</b>	<b>228.4</b>	-	<b>228.4</b>
Profit for the period	-	-	-	-	-	1.4	1.4	-	1.4
Currency translation differences	-	-	-	-	(2.3)	-	(2.3)	-	(2.3)
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>(2.3)</b>	<b>1.4</b>	<b>(0.9)</b>	-	<b>(0.9)</b>
Share based payments	-	-	0.4	-	-	-	0.4	-	0.4
Dividends paid	-	-	-	-	-	(4.0)	(4.0)	-	(4.0)
Balance at 30 June 2010 (Unaudited)	<b>22.2</b>	<b>111.4</b>	<b>2.9</b>	-	<b>(2.1)</b>	<b>89.5</b>	<b>223.9</b>	-	<b>223.9</b>
Balance at 1 July 2010	<b>22.2</b>	<b>111.4</b>	<b>2.9</b>	-	<b>(2.1)</b>	<b>89.5</b>	<b>223.9</b>	-	<b>223.9</b>
Profit for the period	-	-	-	-	-	0.4	0.4	-	0.4
Currency translation differences	-	-	-	-	1.6	-	1.6	-	1.6
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>1.6</b>	<b>0.4</b>	<b>2.0</b>	-	<b>2.0</b>
Share based payments	-	-	0.3	-	-	-	0.3	-	0.3
Dividends paid	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Own shares acquired in the period	-	-	-	(1.1)	-	-	(1.1)	-	(1.1)
Minority interest at acquisition	-	-	-	-	-	-	-	1.3	1.3
Balance at 31 December 2010 (Audited)	<b>22.2</b>	<b>111.4</b>	<b>3.2</b>	<b>(1.1)</b>	<b>(0.5)</b>	<b>89.8</b>	<b>225.0</b>	<b>1.3</b>	<b>226.3</b>
Balance at 1 January 2011	<b>22.2</b>	<b>111.4</b>	<b>3.2</b>	<b>(1.1)</b>	<b>(0.5)</b>	<b>89.8</b>	<b>225.0</b>	<b>1.3</b>	<b>226.3</b>
Profit for the period	-	-	-	-	-	11.1	11.1	-	11.1
Currency translation differences	-	-	-	-	0.9	-	0.9	-	0.9
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>0.9</b>	<b>11.1</b>	<b>12.0</b>	-	<b>12.0</b>
Share based payments	-	-	0.3	-	-	-	0.3	-	0.3
Dividends paid	-	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Own shares acquired in the period	-	-	-	(1.6)	-	-	(1.6)	-	(1.6)
Minority interest at acquisition	-	-	-	-	-	-	-	(0.1)	(0.1)
Balance at 30 June 2011 (unaudited)	<b>22.2</b>	<b>111.4</b>	<b>3.5</b>	<b>(2.7)</b>	<b>0.4</b>	<b>98.6</b>	<b>233.4</b>	<b>1.2</b>	<b>234.6</b>

Currency translation differences have been reclassified from retained earnings to a translation reserve in the period and the brought-forward balances revised accordingly.

	Notes	<b>6 months 30 Jun 2011 (Unaudited) \$m</b>	6 months 30 Jun 2010 (Unaudited) \$m	12 months 31 Dec 2010 (Audited) \$m
Net cash generated by/(used in) operations	11	<b>37.1</b>	(14.6)	(17.8)
<b>Investing activities</b>				
Cash payments to acquire debt securities		<b>(669.7)</b>	(260.6)	(1,021.4)
Cash receipts from sale of debt securities		<b>606.3</b>	310.0	1,047.6
Cash transferred from investing activities		<b>26.9</b>	0.8	(1.4)
Cash receipts from interest		<b>2.4</b>	2.8	6.2
Purchases of property, plant and equipment		<b>-</b>	(0.6)	(0.8)
Acquisition of subsidiary net of cash and cash equivalents		<b>2.4</b>	-	(23.0)
<b>Cash (used in)/generated by investing activities</b>		<b>(31.7)</b>	52.4	53.2
<b>Financing activities</b>				
Dividends paid		<b>(2.3)</b>	(4.0)	(4.1)
Own shares purchased		<b>(1.6)</b>	-	(1.1)
Proceeds from financial borrowings		<b>27.6</b>	-	-
Repayments of financial borrowings		<b>(23.4)</b>	(3.8)	(12.7)
<b>Cash flows generated by/(used in) financing activities</b>		<b>0.3</b>	(7.8)	(17.9)
<b>Net increase in cash and cash equivalents</b>		<b>5.7</b>	30.0	17.5
Cash and cash equivalents at beginning of period		<b>48.5</b>	30.9	30.9
<b>Cash and cash equivalents at end of period</b>		<b>54.2</b>	60.9	48.5

## 1 General information

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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.

On 10 March 2011, the Group completed the transaction to acquire Oslo Re (UK), 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. The company has been renamed OX Re.

Participant Run-Off (Pro) Iberica 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.

On 31 March 2011, Tawa plc set up QX Re, a Bermudian regulated special purpose insurer which will initially provide reinsurance coverage for a book of lead paint exposure that was underwritten by Pennsylvania National Mutual Casualty Insurance Company. The company will operate as a reinsurance vehicle and is an innovative way for Tawa to assume discontinued portfolios when a company transfer is not a viable option.

The interim consolidated financial statements do not constitute statutory accounts as defined in section 434 of the Companies Act 2006 and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2010. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not include a reference to any matters to which the auditors draw attention by way of emphasis without qualifying the report, and did not contain any statements under section 498(2) or 498(3) of the Companies Act 2006.

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 interim results. During the period, approval was given for the capital extraction of \$22.8 million from subsidiary PXRE, which was used to part repay the Group loan from Natixis bank. In light of these reviews the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the interim report.

The Directors confirm that the risks disclosed in the Company's consolidated financial statements for the year ended 31 December 2010 are still relevant for the current period and the remaining period to the year end. A description of these risks is included in note 5 to the 31 December 2010 consolidated financial statements, namely; insurance risk, market risk (including interest rate risk), currency risk, credit risk, liquidity risk and risk related to the Group's deferred assets.

The interim results have been reviewed by the Group's auditors, Mazars LLP, and their review report is set out on page 20.

## 2 Significant accounting policies

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The annual financial statements of Tawa plc are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2010.

During the period ended 30 June 2011 the Group adopted the following significant standards and revisions to standards:

- 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.

### 3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010. There have been no changes since the year end in any risk management policies.

The Group measures its financial instruments at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable. As disclosed in the annual financial statements as at 31 December 2010, the directors of CX Re have allocated one fixed income bond with a market value of \$2.3 million (31 December 2010: \$2.4 million) to level 3 following review of its investment portfolio. This allocation to level 3 continues to reflect the limited liquidity in the market for investments of this nature. All other assets are allocated to level 2.

### 4 Acquisition of subsidiaries

#### Island Capital

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

The initial accounting for the business combination and amounts recognised in the 2010 annual financial statements were provisional. The fair values of the acquired assets were provisional pending the final valuations of these assets. The fair value exercise has been revised during the current year, but still remains provisional at this stage. A final fair value exercise will be completed and accounted for in the 2011 annual financial statements.

	Book value \$m	Fair Value adjustments \$m	Revised fair value on acquisition \$m	Provisional fair value on acquisition \$m
<b>Assets</b>				
Cash and cash equivalents	30.4	-	<b>30.4</b>	30.4
Loans and receivables including insurance receivables	18.5	-	<b>18.5</b>	18.5
Reinsurers' share of technical provisions	5.6	-	<b>5.6</b>	5.6
Other Assets	0.1	-	<b>0.1</b>	0.1
<b>Liabilities</b>				
Creditors arising out of insurance operations	(3.7)	-	<b>(3.7)</b>	(3.7)
Technical provisions	(11.8)	(4.3)	<b>(16.1)</b>	(15.4)
Financial liabilities - borrowings	(10.0)	-	<b>(10.0)</b>	(10.0)
Other liabilities	(3.4)	-	<b>(3.4)</b>	(3.4)
	25.6	(4.3)	<b>21.3</b>	22.0
Tawa share 94.3%			<b>20.1</b>	20.7
Consideration paid in cash			<b>7.4</b>	7.4
Deferred consideration payable			<b>8.2</b>	8.4
Consideration paid net of cash and cash equivalents received			<b>(23.0)</b>	(23.0)
Goodwill on acquisition (negative)			<b>(4.5)</b>	(4.9)

The revised deferred consideration of \$8.2 million (2010: \$8.4 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 adjustment to negative goodwill of \$0.4 million has been recognised in the consolidated income statement for the period.

#### 4 Acquisition of subsidiaries continued

##### Oslo Re (UK)

On 10 March 2011, the Group acquired 100% of the issued ordinary share capital of Oslo Re (UK). This transaction has been accounted for by the acquisition 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
<b>Assets</b>			
Cash and cash equivalents	8.9	-	<b>8.9</b>
Reinsurers' share of technical provisions	4.2	-	<b>4.2</b>
<b>Liabilities</b>			
Technical provisions	(4.4)	-	<b>(4.4)</b>
Other liabilities	(0.2)	-	<b>(0.2)</b>
	8.5	-	<b>8.5</b>
Consideration paid in cash			<b>6.5</b>
Consideration paid net of cash and cash equivalents received			<b>(2.4)</b>
Goodwill on acquisition (negative)			<b>(2.0)</b>

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

The negative goodwill of \$2.0 million has been recognised in the consolidated income statement for the period.

#### 5 Segmental information

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

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

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 represents the profit 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.

## 5 Segmental information continued

### Segment income and results

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

For the period ended 30 June 2011	Underwriting run-off and insurance \$m	Run-off management \$m	Insurance services (Pro) \$m	Other corporate activities \$m	Intra-group \$m	<b>Total \$m</b>
<b>Income from continuing operations</b>						
Insurance premium revenue	57.8	-	-	-	-	<b>57.8</b>
Insurance premium ceded to reinsurers	2.0	-	-	-	-	<b>2.0</b>
<b>Net earned premium income</b>	<b>59.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59.8</b>
Revenue from consultancy and run-off services	-	14.7	23.4	2.3	(22.5)	<b>17.9</b>
Investment return	2.5	0.1	-	-	-	<b>2.6</b>
Interest income	2.9	-	-	-	-	<b>2.9</b>
Other income	(2.4)	-	1.3	0.1	-	<b>(1.0)</b>
<b>Segment income</b>	<b>3.0</b>	<b>14.8</b>	<b>24.7</b>	<b>2.4</b>	<b>(22.5)</b>	<b>22.4</b>
Insurance claims and loss adjustment expenses	(45.3)	-	-	1.5	-	<b>(43.8)</b>
Insurance claims and loss adjustment expenses recovered from reinsurers	3.2	-	-	(0.2)	-	<b>3.0</b>
<b>Net insurance claims</b>	<b>(42.1)</b>	<b>-</b>	<b>-</b>	<b>1.3</b>	<b>-</b>	<b>(40.8)</b>
Cost of consultancy and run-off services	(0.5)	-	(21.4)	(4.9)	21.3	<b>(5.5)</b>
Administrative expenses	(2.8)	(12.7)	(0.1)	(3.6)	1.2	<b>(18.0)</b>
<b>Segment expenses</b>	<b>(3.3)</b>	<b>(12.7)</b>	<b>(21.5)</b>	<b>(8.5)</b>	<b>22.5</b>	<b>(23.5)</b>
Negative goodwill recognised	-	-	-	1.5	-	<b>1.5</b>
<b>Segment results of operating activities</b>	<b>17.4</b>	<b>2.1</b>	<b>3.2</b>	<b>(3.3)</b>	<b>-</b>	<b>19.4</b>
Share of results of associate	-	-	-	(0.8)	-	<b>(0.8)</b>
Finance costs	(0.2)	-	-	(1.9)	-	<b>(2.1)</b>
Taxation	(0.1)	-	(0.9)	0.8	-	<b>(0.2)</b>
Loss for the period from discontinued operations	-	-	-	(5.3)	-	<b>(5.3)</b>
<b>Segment profit/(loss) for the period</b>	<b>17.1</b>	<b>2.1</b>	<b>2.3</b>	<b>(10.5)</b>	<b>-</b>	<b>11.0</b>

## 5 Segmental information continued

### Segment income and results continued

For the period ended 30 June 2010	Underwriting run-off and insurance \$m	Run-off management \$m	Insurance services (Pro) \$m	Other corporate activities \$m	Intra-group \$m	<b>Total \$m</b>
<b>Income from continuing operations</b>						
Insurance premium expense	(0.8)	-	-	-	-	<b>(0.8)</b>
Insurance premium ceded to reinsurers	0.5	-	-	-	-	<b>0.5</b>
<b>Net earned premium expense</b>	<b>(0.3)</b>	-	-	-	-	<b>(0.3)</b>
Revenue from consultancy and run-off services	-	2.3	22.9	4.0	(9.1)	<b>20.1</b>
Investment return	6.4	-	-	0.1	-	<b>6.5</b>
Interest income	2.3	-	-	-	-	<b>2.3</b>
Other income	2.1	-	1.0	0.1	-	<b>3.2</b>
<b>Segment income</b>	<b>10.8</b>	<b>2.3</b>	<b>23.9</b>	<b>4.2</b>	<b>(9.1)</b>	<b>32.1</b>
Insurance claims and loss adjustment expenses	(4.0)	-	-	2.4	-	<b>(1.6)</b>
Insurance claims and loss adjustment expenses recovered from reinsurers	2.4	-	0.1	(0.5)	-	<b>2.0</b>
<b>Net insurance claims</b>	<b>(1.6)</b>	-	<b>0.1</b>	<b>1.9</b>	-	<b>0.4</b>
Cost of run-off services	-	-	(20.4)	(4.2)	7.9	<b>(16.7)</b>
Administrative expenses	(5.1)	(0.5)	0.1	(0.6)	1.2	<b>(4.9)</b>
<b>Segment expenses</b>	<b>(5.1)</b>	<b>(0.5)</b>	<b>(20.3)</b>	<b>(4.8)</b>	<b>9.1</b>	<b>(21.6)</b>
<b>Segment results of operating activities before recognising negative goodwill</b>	<b>3.8</b>	<b>1.8</b>	<b>3.7</b>	<b>1.3</b>	-	<b>10.6</b>
Negative goodwill recognised	-	-	-	-	-	-
<b>Segment results of operating activities</b>	<b>3.8</b>	<b>1.8</b>	<b>3.7</b>	<b>1.3</b>	-	<b>10.6</b>
Share of results of associate	-	-	-	(0.9)	-	<b>(0.9)</b>
Finance costs	-	-	-	(2.0)	-	<b>(2.0)</b>
Taxation	-	-	(1.3)	1.3	-	-
Loss for the period from discontinued operations	-	-	-	(6.3)	-	<b>(6.3)</b>
<b>Segment profit/(loss) for the period</b>	<b>3.8</b>	<b>1.8</b>	<b>2.4</b>	<b>(6.6)</b>	-	<b>1.4</b>



## 5 Segmental information continued

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

	Underwriting run-off and insurance \$m	Run-off management \$m	Insurance services (Pro) \$m	Other corporate activities \$m	<b>Total \$m</b>
<b>As at 30 June 2011</b>					
Segment assets	413.0	10.9	18.9	73.5	<b>516.3</b>
Segment liabilities	(226.2)	(1.5)	(12.9)	(41.1)	<b>(281.7)</b>
<b>Segment net assets</b>	<b>186.8</b>	<b>9.4</b>	<b>6.0</b>	<b>32.4</b>	<b>234.6</b>
Depreciation	-	-	(0.3)	-	<b>(0.3)</b>
Amortisation of intangible assets	-	-	-	(0.4)	<b>(0.4)</b>
Amortisation of risk premium	-	-	-	1.3	<b>1.3</b>
	Underwriting run-off and insurance \$m	Run-off management \$m	Insurance services (Pro) \$m	Other corporate activities \$m	Total \$m
<b>As at 30 June 2010</b>					
Segment assets	313.1	7.4	17.2	117.6	455.3
Segment liabilities	(179.2)	(2.6)	(11.3)	(38.3)	(231.4)
<b>Segment net assets</b>	<b>133.9</b>	<b>4.8</b>	<b>5.9</b>	<b>79.3</b>	<b>223.9</b>
Capital expenditure	-	-	(0.8)	-	(0.8)
Depreciation	-	-	(0.2)	-	(0.2)
Amortisation of risk premium	-	-	-	1.9	1.9

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.

### Geographical information

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

	United Kingdom \$m	United States of America \$m	<b>Total \$m</b>
<b>As at 30 June 2011</b>			
Segment revenue	20.2	62.0	<b>82.2</b>
Segment net assets	111.3	123.3	<b>234.6</b>
	\$m	\$m	<b>\$m</b>
<b>As at 30 June 2010</b>			
Segment revenue	29.9	1.9	<b>31.8</b>
Segment net assets	152.8	71.1	<b>223.9</b>

### 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.

## 6 Total expenses

Due to the reallocation of costs in the year, total expenses of \$23.5 million should be compared to \$21.6 million for the equivalent period in 2010. The increase relates primarily to costs associated with acquisitions and the impact of foreign exchange.

## 7 Discontinued operation

On 21 March 2006, the Company sold a significant proportion (87.35%) of its "A" shareholding in CX Re to a consortium in which the Company participates. The majority of the consideration receivable is in the form of deferred consideration, any adjustments to the deferred consideration are accounted for as a profit/(loss) on sale of investment in the period in which the adjustments to the deferred consideration arise. The results of the discontinued operation which have been included in the consolidated income statement are as follows:

	<b>30 Jun 2011</b>	30 Jun 2010	31 Dec 2010
	<b>\$m</b>	\$m	\$m
Loss on sale of investment	<b>(5.3)</b>	(6.3)	(6.8)

## 8 Earnings per share

	<b>30 Jun 2011</b>	30 Jun 2010	31 Dec 2010
	<b>\$m</b>	\$m	\$m
<b>Earnings</b>			
Earnings for the purposes of basic earnings per share from continuing and discontinued operations being net profit attributable to equity holders of the Group	<b>11.0</b>	1.4	1.8
Earnings for the purposes of basic earnings per share from continuing operations being net loss attributable to equity holders of the Group	<b>16.3</b>	7.7	8.6
<b>Number of shares</b>	<b>30 Jun 2011</b>	30 Jun 2010	31 Dec 2010
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	<b>111,681,171</b>	112,987,164	112,987,164
Effect of dilutive potential Ordinary Shares: Share options	<b>7,725,941</b>	6,378,232	6,658,103
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	<b>119,407,112</b>	119,365,396	119,645,267
<b>Basic earnings per share</b>	<b>30 Jun 2011</b>	30 Jun 2010	31 Dec 2010
	<b>\$</b>	\$	\$
<b>From continuing and discontinued operations</b>			
Basic: Ordinary Shares (\$ per share)	<b>0.0985</b>	0.0124	0.0159
Diluted: Ordinary Shares (\$ per share)	<b>0.0921</b>	0.0117	0.0150
<b>From continuing operations</b>			
Basic: Ordinary Shares (\$ per share)	<b>0.1460</b>	0.0681	0.0761
Diluted: Ordinary Shares (\$ per share)	<b>0.1365</b>	0.0645	0.0719
<b>From discontinued operations</b>			
Basic: Ordinary Shares (\$ per share)	<b>(0.0475)</b>	(0.0558)	(0.0602)
Diluted: Ordinary Shares (\$ per share)	<b>(0.0444)</b>	(0.0528)	(0.0568)

## 9 Dividends

The Group does not propose the payment of a dividend to the shareholders in relation to the interim period (Jun 2010: nil). A dividend of 2 cents per share (1.25 pence) was paid on 1 June 2011 as an interim dividend for the year ended 31 December 2010, with a final dividend for the same amount to be paid on 2 December 2011.

## 10 Deferred assets

Deferred assets relate to the consideration outstanding on the disposal of a subsidiary CX Re, as described in note 7, and a transaction facilitation fee. Part of the deferred consideration is related to the net asset value of CX Re and is subject to net asset value adjustments through the income statement.

	<b>30 Jun 2011</b>	30 Jun 2010	31 Dec 2010
	<b>\$m</b>	\$m	\$m
Facilitation fee	<b>20.6</b>	20.6	19.9
Deferred consideration	<b>41.3</b>	46.8	46.6
Deferred assets	<b>61.9</b>	67.4	66.5

## 11 Cash generated by/(used in) operating activities

	<b>6 months</b>	<b>6 months</b>	<b>12 months</b>
	<b>30 Jun 2011</b>	<b>30 Jun 2010</b>	<b>31 Dec 2010</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Operating profit for the period	<b>19.4</b>	10.6	13.5
Adjustments for:			
- negative goodwill	<b>(1.5)</b>	-	(4.9)
- income tax expense	<b>(0.2)</b>	-	-
- investment return for the year transferred to investing activities	<b>(2.6)</b>	(3.4)	(6.4)
- realised (gains)/losses on investments	<b>(0.8)</b>	(0.1)	0.2
- unrealised losses/(gains) on investments	<b>0.8</b>	(3.0)	(1.5)
- depreciation	<b>0.3</b>	0.2	0.7
- share based payment expense	<b>0.3</b>	0.4	0.7
- amortisation of risk premium	<b>(1.3)</b>	(1.9)	(3.8)
- amortisation of intangible asset	<b>(0.4)</b>	(0.3)	(0.7)
- adjustment to amortised cost	<b>(0.4)</b>	4.1	6.7
- other gains and losses	<b>0.4</b>	(2.3)	(2.6)
	<b>14.0</b>	4.3	1.9
<b>Change in operating assets and liabilities</b>			
Net decrease/(increase) in insurance receivables and liabilities	<b>36.2</b>	(0.6)	(13.8)
Net decrease in loans and receivables	<b>(3.9)</b>	(8.8)	(8.5)
Net (decrease)/increase in other operating liabilities	<b>(7.2)</b>	(7.5)	5.2
<b>Cash generated by/(used in) operations</b>	<b>39.1</b>	(12.6)	(15.2)
Finance costs	<b>(2.0)</b>	(2.0)	(2.6)
<b>Net cash generated by/(used in) operations</b>	<b>37.1</b>	(14.6)	(17.8)

## 12 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 and balances between the Group and its associate are disclosed below.

### Trading transactions

Tawa Management Limited provides insurance run-off management services to CX Re an associate of the Group in which the Company has a 12.65% equity interest 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.

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

	<b>Group income received</b>		
	<b>30 Jun 2011</b>	30 Jun 2010	31 Dec 2010
	<b>\$m</b>	\$m	\$m
From associate CX Re for a management fee	<b>1.3</b>	1.3	2.5
From associate CX Re for expenses recharged	<b>2.8</b>	4.1	7.4
	<b>4.1</b>	5.4	9.9

At the period end, the following balances with related parties who are not members of the Group were outstanding:

	<b>Amounts owed (to)/from related parties</b>		
	<b>30 Jun 2011</b>	30 Jun 2010	31 Dec 2010
	<b>\$m</b>	\$m	\$m
Amounts due from associate CX Re	-	2.7	-

### 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.

### Remuneration of key management personnel

The remuneration of key management included in the income statement is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	<b>30 Jun 2011</b>	30 Jun 2010	31 Dec 2010
	<b>\$m</b>	\$m	\$m
Short-term employee benefits	<b>2.9</b>	3.6	5.0
Post-employment benefits	<b>0.2</b>	0.3	0.7
Share based payments	<b>0.2</b>	0.4	0.8
Management remuneration	<b>3.3</b>	4.3	6.5

### 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.

### **13 Contingent liabilities**

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Certain of the Group's subsidiaries and its associate are routinely involved in litigation or potential litigation related to primarily 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 30 June 2011 (30 June 2010 and 31 December 2010: no contingent liabilities).

### **14 Events after reporting period**

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Since the half-year Tawa has announced two deals which will move it further along its goal of diversifying the Group's activities. On 8 September 2011, Tawa announced it had entered into a share purchase agreement which will lead to the acquisition of the Chilton Group of companies, subject to regulatory approval.

On 16 September 2011, as a member of a consortium comprising Tawa plc, Skuld, and Paraline Group Limited, Tawa announced a definitive agreement to acquire Whittington Insurance Markets Limited, subject to regulatory approval.

We have been engaged by Tawa plc to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 14. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

#### **Respective responsibilities of directors and auditors**

The interim report, including the condensed set of consolidated financial statements contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules issued by the London Stock Exchange, which require that the interim report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the interim report based on our review.

#### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the interim report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules issued by the London Stock Exchange.

#### **Mazars LLP**

Chartered Accountants  
Tower Bridge House  
St Katharine's Way  
London E1W 1DD  
22 September 2011

#### **Notes:**

- (a) The maintenance and integrity of the Tawa plc web site is the responsibility of the directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

**Directors**

**Colin Bird**

Chairman

**Gilles Erulin**

Chief Executive Officer

**David Vaughan**

Chief Operating Officer

**Timothy Carroll**

Independent Non-Executive Director

**Anthony Hamilton**

Independent Non-Executive Director

**John Hendrickson**

Independent Non-Executive Director

**Hans Miller**

Independent Non-Executive Director

**Patricia Barbizet**

Non-Executive Director

**Loïc Brivezac**

Non-Executive Director

**Gilles Pagniez**

Non-Executive Director

**Registered Office**

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**Company registration number**

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**Secretary**

Christopher Jones

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**Registrars**

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