

Registered number  
557458

City of London Insurance Company Limited

Financial Statements

31 December 2010

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## **Company information**

### **Directors**

S Diffey  
C J Holmes  
R M Reid  
P C P Tiernan

### **Company secretary**

P J Lampshire

### **Registered office**

The Zurich Centre  
3000 Parkway  
Whiteley  
Fareham  
Hampshire  
PO15 7JZ

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Hays Galleria  
1 Hays Lane  
London  
SE1 2RD

## **Directors' report**

The directors present their annual report and audited financial statements for the year ended 31 December 2010

### **Business review**

This review is designed to help explain the financial statements and the financial performance of the Company. Set out below is a brief explanation of the methods used to measure and monitor the performance of the Company as well as commentary on the financial results for the year.

### **Principal activities**

The Company is in run-off under a Financial Services Authority Scheme of operations and has ceased underwriting. The Company continues in solvent run-off and its portfolio is a London Market account underwritten prior to 1979 and wholly reinsured with another group company.

The Company's parent, Eagle Star Insurance Company Limited (ESI), entered into an Adverse Loss Development Excess of Loss Reinsurance Agreement with a group undertaking, Zurich Insurance Company Ltd effective 1 December 2010. The agreement covers all the business reinsured internally within the ESI group, including that reinsured to and from the Company.

### **Performance measurement**

Due to the Company's size and relative lack of complexity, the directors are of the opinion that using key performance indicators (KPIs) is not necessary for an understanding of the development, performance or position of the Company. KPIs for the Company's immediate parent, Eagle Star Insurance Company Limited, are disclosed in that company's financial statements.

### **Results for the year**

The results for the Company show a pre-tax profit of **£19,000** (2009: £12,000) for the year.

The Company has total shareholders' funds of **£4,014,000** (2009: £4,000,000).

The overall financial position at the end of the year was satisfactory.

The Company will continue to manage claims to support an orderly run-off of the business.

### **Principal risks and uncertainties**

The principal risks from our general insurance business arise from fluctuations in the timing, frequency and severity of claims compared to our expectations, inadequate reinsurance protection, and inadequate reserving. To minimise these risks the Company has established strategies, which are approved by the directors and communicated clearly throughout the business through policy statements and guidelines.

### **Dividends**

The directors do not propose the payment of a dividend for the year (2009: £nil).

### **Directors**

The names of the directors at the date on which the financial statements were approved are shown on page 1.

The following director resigned after the end of the year:  
M K Sullivan (16 February 2011)

## **Directors' report**

### **Directors' indemnity**

Qualifying third party indemnity provisions (as defined in Section 234(2) of the Companies Act 2006) are in force for the benefit of the directors

### **Financial instruments**

#### **i) Financial risk management objectives**

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are credit risk and liquidity risk.

The Company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities. The Company does not use hedge accounting.

#### **ii) Credit risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities,
- amounts due from reinsurers in respect of claims already paid,
- amounts due from insurance contract holders, and
- amounts due from insurance intermediaries

The Company places limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The credit worthiness of reinsurers is monitored on an ongoing basis by reviewing their financial strength.

### **Statement of disclosure of information to auditors**

Each of the persons who is a director at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2010 of which the auditors are unaware, and
- the directors have taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Independent auditors**

The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office and will be deemed to be reappointed under section 487 of the Companies Act 2006.

## **Directors' report**

### **Directors' responsibilities statement**

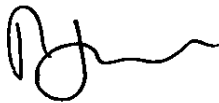
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



P J Lampshire  
Company Secretary  
29 March 2011

## **Independent auditors' report to the members of City of London Insurance Company Limited**

We have audited the financial statements of City of London Insurance Company Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **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 company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

## **Independent auditors' report to the members of City of London Insurance Company Limited**

### **Matters on which we are required to report by exception**

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

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



Paul Clarke (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

29 March 2011



**Profit and loss account**  
**Technical account - general business**  
**for the year ended 31 December 2010**

<b>£'000</b>	<b>Notes</b>	<b>2010</b>	<b>2009</b>
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	10	-
Outward reinsurance premiums		(10)	-
Net premiums written		-	-
<b>Earned premiums, net of reinsurance</b>			
		-	-
<b>Total technical income</b>			
		-	-
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount	1	(337)	(831)
Reinsurers' share		337	831
		-	-
Change in the provision for claims			
Gross amount	1	212	2,564
Reinsurers' share		(212)	(2,564)
		-	-
<b>Claims incurred, net of reinsurance</b>			
		-	-
<b>Balance on the technical account for general business</b>			
		-	-

All figures relate to discontinued operations

**Profit and loss account  
Non-technical account  
for the year ended 31 December 2010**

<b>£'000</b>	<b>Notes</b>	<b>2010</b>	<b>2009</b>
Balance on the technical account for general business		-	-
Investment income	7	19	25
Investment expenses and charges	7	-	(13)
Investment return		19	12
<b>Profit on ordinary activities before taxation</b>		<b>19</b>	<b>12</b>
Tax on profit on ordinary activities	8	(5)	(3)
<b>Profit for the financial year</b>		<b>14</b>	<b>9</b>

All figures relate to discontinued operations

The Company has no other recognised gains or losses other than the profit for the above financial years

There is no material difference between the profit on ordinary activities as reported and on an historical cost basis

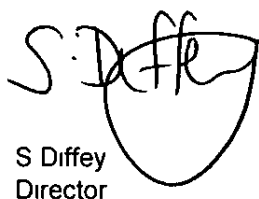
**Reconciliation of movements in shareholders' funds  
for the year ended 31 December 2010**

<b>£'000</b>	<b>Share capital</b>	<b>Profit and loss account</b>	<b>2010</b>	<b>2009</b>
Opening shareholders' funds	2,505	1,495	4,000	3,991
Profit for the financial year	-	14	14	9
<b>Closing shareholders' funds</b>	<b>2,505</b>	<b>1,509</b>	<b>4,014</b>	<b>4,000</b>

**Balance sheet  
as at 31 December 2010**

<b>£'000</b>	<b>Notes</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	9	4,006	3,473
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding		3,532	3,744
<b>Debtors</b>			
Debtors arising out of reinsurance operations		164	1,505
<b>Other assets</b>			
Cash at bank and in hand		1	16
<b>Prepayments and accrued income</b>			
Accrued interest and rent		2	1
<b>Total assets</b>		<b>7,705</b>	<b>8,739</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	10	2,505	2,505
Profit and loss account		1,509	1,495
<b>Total shareholders' funds</b>		<b>4,014</b>	<b>4,000</b>
<b>Technical provisions</b>			
Claims outstanding	11	3,532	3,744
<b>Deposits received from reinsurers</b>			
		45	85
<b>Creditors</b>			
Creditors arising out of reinsurance operations		103	905
Other creditors including taxation	13	11	5
		114	910
<b>Total liabilities</b>		<b>7,705</b>	<b>8,739</b>

The financial statements on pages 7 to 18 were approved and authorised for issue by the Board on 29 March 2011 and were signed on its behalf by

  
S Diffey  
Director

## **Accounting policies for the year ended 31 December 2010**

### **Basis of preparation**

The Company's financial statements have been prepared on the going concern basis and in accordance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies and in accordance with applicable accounting standards under UK Generally Accepted Accounting Practice

The financial statements have been prepared in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 (as amended in December 2006), with the exception of paragraph 219 in relation to the presentation of foreign currency exchange gains and losses. It is the directors' view that presentation of such gains and losses in the technical account does not render the financial statements any less relevant or reliable and the cost of re-presentation would not be of benefit to the user. The Company's accounting policy on the treatment of foreign currency gains and losses is detailed below.

The Company has taken advantage of the exemption in FRS 1 (revised 1996) and has not prepared a cash flow statement as the Company is a wholly owned subsidiary of a parent company that prepares a cash flow statement.

### **Basis of accounting for general insurance business**

The results for all classes of business are accounted for on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

#### **Premiums**

Premiums written relate to adjustments to policies inception in prior years, and include estimates of premiums due but not yet receivable or notified to the Company, less an allowance for cancellations.

Outwards reinsurance premiums earned are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

#### **Claims incurred**

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

#### **Claims provisions**

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

## **Accounting policies for the year ended 31 December 2010**

### **Claims provisions (continued)**

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available, particularly in the liability classes. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, which for most classes of business are based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Where such techniques are inappropriate, exposure based techniques or industry benchmarking may be applied. In particular, there continues to be a wide range of uncertainty around the estimate relating to asbestos, pollution and health claims because of, for example, the potential long delay between exposure and the onset of illness or disability. Therefore the future number, timing and amount of such claims is more difficult to estimate, (further details on the inherent uncertainties in these claims provisions are provided in note 14). However, the level of provision has been set on the basis of the information that is currently available. The methods used and the estimates made, are regularly reviewed. Where there is long tail exposure, allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods,
- changes in the legal environment,
- the effects of inflation,
- the impact of large losses, and
- movements in industry benchmarks

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are considered separately and may be measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assists in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

### **Discounted claims provisions**

On third party liability business, due to the long delay between the inception date of the policy and the final settlement of the claim, the outstanding claims provisions are discounted to take account of the expected investment income receivable between inception and settlement on the assets held to cover the provisions.

## **Accounting policies for the year ended 31 December 2010**

### **Reinsurance recoveries**

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies. Reinsurance recoveries are discounted on a basis consistent with the related gross claims provisions.

### **Investments**

Investments are stated at current value. For this purpose, listed investments are stated at market value on the balance sheet date. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date. Other unlisted investments are valued annually by the directors having prudent regard to their likely realisable value.

### **Investment return**

Investment return comprises all investment income (which includes the amortisation charge in respect of any investments carried at amortised cost), realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

In accordance with FRS 3 and the ABI SORP in relation to insurance companies and groups, both realised and unrealised gains on investments held as part of investment portfolios are included as part of investment return in the profit and loss account.

Dividends are recorded on the date on which shares are quoted ex-dividend. Interest, rents and expenses are accounted for on an accruals basis.

Realised gains and losses on investments, other than investments in group undertakings, carried at market value are calculated as the difference between net sales proceeds and purchase price. Realised gains on investments in group undertakings are calculated as the difference between net sales proceeds and the revalued amount. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

### **Foreign currencies**

Monetary assets and liabilities in foreign currencies are translated at rates of exchange ruling at year end, gains and losses on revaluation of assets and liabilities are reflected in the non-technical account with the exception of those arising from technical reserves which are reflected in the technical account. Foreign currency transactions are reflected in the non-technical account, or in the technical account if relating to technical reserves. These are translated at the spot rate at the date of the transaction where practicable, or at a materially equivalent rate.

**Notes to the financial statements  
for the year ended 31 December 2010**

**1 Segmental analysis**

All business is supplied from the United Kingdom, and all net assets are held within the United Kingdom

Based on the global network that supports the writing of multinational business within this Company, the determination of profit before tax by geographical segment is not practicable

Gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance by class of business are as follows

£'000	2010	2010	2010	2010	2010
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
<b>Direct insurance</b>					
Third party liability	-	-	(64)	-	64
<b>Reinsurance acceptances</b>					
Fire and other damage to property	-	-	(10)	-	10
Third party liability	10	10	(47)	-	37
Miscellaneous	-	-	(4)	-	4
	10	10	(61)	-	51
<b>Total</b>	<b>10</b>	<b>10</b>	<b>(125)</b>	<b>-</b>	<b>115</b>

£'000	2009	2009	2009	2009	2009
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
<b>Direct insurance</b>					
Fire and other damage to property	-	-	(5)	-	5
Third party liability	-	-	(115)	-	115
	-	-	(120)	-	120
<b>Reinsurance acceptances</b>					
Fire and other damage to property	-	-	75	-	(75)
Third party liability	-	-	1,591	-	(1,591)
Miscellaneous	-	-	187	-	(187)
	-	-	1,853	-	(1,853)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,733</b>	<b>-</b>	<b>(1,733)</b>

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to reinsurance outwards

## Notes to the financial statements for the year ended 31 December 2010

### 2 Movement in prior year's provision for claims outstanding

An unfavourable run-off deviation of **£88,000** (2009 £2,084,000 favourable) was experienced during the year in respect of liability business, an unfavourable run-off deviation of **£48,000** (2009 £131,000 favourable) in respect of property business and a favourable run-off deviation of **£64,000** (2009 £220,000) was experienced during the year of financial lines business

### 3 Net operating expenses

All administration expenses are borne by the Company's immediate holding company

### 4 Auditors' remuneration

During the year the Company obtained the following services from the Company's auditor at costs as detailed below

£'000	2010	2009
Fees payable to the Company's auditor for the audit of the Company's financial statements	3	3
Fees payable to the Company's auditor and its associates for other services		
- Other services pursuant to legislation, including the audit of the regulatory return for the Company	2	2
<b>Total</b>	<b>5</b>	<b>5</b>

### 5 Staff costs

Employees in the UK working on behalf of the Company are employed by either Zurich UK General Employee Services Limited, Zurich UK General Services Limited or Zurich Global Corporate UK Limited. These employees may also work on behalf of any other Zurich Financial Services' companies.

The principal disclosures in respect of these staff, including disclosures in relation to share based payments, appear in the accounts of Zurich UK General Employee Services Limited, Zurich UK General Services Limited and Zurich Global Corporate UK Limited, copies of which can be obtained from The Secretary, The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire, PO15 7JZ.



**Notes to the financial statements  
for the year ended 31 December 2010**

**6 Directors' remuneration**

The directors are directors of the parent company and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their remunerations in respect of each of the subsidiaries. Accordingly, no remunerations are disclosed in the Company and total remunerations are included in the aggregate of directors' remunerations disclosed in the financial statements of the immediate parent, Eagle Star Insurance Company Limited

**7 Investment income, interest and charges**

<b>£'000</b>	<b>2010</b>	<b>2009</b>
Income from other financial investments	<b>19</b>	25
<b>Investment income</b>	<b>19</b>	25
Investment management expenses	-	13
<b>Investment expenses and charges</b>	-	13

Investment management expenses includes interest payable on reinsurance deposits of **£nil** (2009 £13,000)

**8 Tax on profit on ordinary activities**

Tax in the profit and loss account was as follows

<b>£'000</b>	<b>2010</b>	<b>2009</b>
Current tax		
UK corporation tax at 28% for the year	<b>5</b>	3
<b>Tax on profit on ordinary activities</b>	<b>5</b>	3

Factors affecting the tax charge for the period

<b>£'000</b>	<b>2010</b>	<b>2009</b>
Profit on ordinary activities before taxation	<b>19</b>	12
Profit on ordinary activities at standard rate of corporation tax in the UK of 28% (2009 28%)	<b>5</b>	3
<b>Current tax charge for the year</b>	<b>5</b>	3

The Company has no recognised or unrecognised deferred tax in its financial statements

**Notes to the financial statements  
for the year ended 31 December 2010**

**9 Other financial investments**

<b>£'000</b>	<b>2010</b>	<b>2009</b>
Shares and other variable-yield securities and units in unit trusts	<b>4,006</b>	3,473
<b>Total</b>	<b>4,006</b>	3,473

Included in the carrying values above are amounts in respect of listed investments as follows

<b>£'000</b>	<b>2010</b>	<b>2009</b>
Shares and other variable-yield securities and units in unit trusts	<b>4,006</b>	3,473

The historical cost of total other financial investments is **£4,006,000** (2009 £3,473,000)

**10 Share capital**

<b>£'000</b>	<b>2010</b>	<b>2009</b>
Allotted, called up and fully paid 2,505,000 ordinary shares of £1 each	<b>2,505</b>	2,505
Authorised 10,000,000 ordinary shares of £1 each	<b>10,000</b>	10,000

**11 Claims outstanding**

The claims of certain classes of UK business have been discounted as follows

Class of business	Discount rates		Mean term of gross liabilities
	<b>2010</b>	2009	
Liability	<b>3.00%</b>	3.00%	<b>6.88 years</b> (2009 7.14 years)

The period that is estimated to elapse before claims are settled is determined using an analysis of historical settlement patterns

The discounting of claims provisions had no effect on either net assets or profit after taxation due to the fact the whole of the Company's insurance business, which is discounted, is reinsured

Gross claims provisions before discounting were **£4,341,000** (2009 £4,607,000)

**Notes to the financial statements  
for the year ended 31 December 2010**

**12 Reinsurance transactions with group undertakings**

Amounts due to group undertakings of **£nil** (2009 £151,000) are included in creditors arising out of reinsurance operations. Amounts due from group undertakings of **£3,093,000** (2009 £3,330,000) are included in reinsurers share of technical provisions, and **£121,000** (2009 £1,376,000) in debtors arising out of reinsurance operations.

**13 Other creditors including taxation**

<b>£'000</b>	<b>2010</b>	<b>2009</b>
Current tax payable	<b>9</b>	3
Other creditors	<b>2</b>	2
<b>Total</b>	<b>11</b>	5

All creditors fall due within one year

**14 Inherent uncertainty**

There is material inherent uncertainty attaching to the run-off of certain of the Company's insurance liabilities and related reinsurance recoveries as explained on page 11. The provisions held in respect of these classes, which include asbestos, pollution and health hazard, are material to the financial statements. Future changes in these reserves arising from the effects of these uncertainties could have a material effect on the Company's results and shareholders' funds in future periods. However, taking account of the full reinsurance protection in place with the parent undertaking, the directors consider that it is unlikely that future deterioration in these claims reserves will impair the Company's ability to continue as a going concern. Accordingly they have concluded that it is appropriate to prepare the accounts on a going concern basis.

**15 Ultimate parent company**

The Company's ultimate parent company and ultimate controlling party is Zurich Financial Services Ltd, which is incorporated in Switzerland. Copies of the consolidated financial statements of Zurich Financial Services Ltd can be obtained from The Secretary, Zurich Financial Services Ltd, Mythenquai 2, 8002 Zurich, Switzerland.

Zurich Insurance Company Ltd is the parent company of the smallest group of companies of which the Company is a wholly owned subsidiary for which group accounts are prepared. Copies of the financial statements of this company can be obtained from The Secretary, Zurich Insurance Company Ltd, Mythenquai 2, 8002 Zurich, Switzerland.

**Notes to the financial statements  
for the year ended 31 December 2010**

**16 Related party transactions**

The Company has taken advantage of an exemption from within FRS 8 not to disclose transactions with Zurich Financial Services' group undertakings. Balances with Zurich Financial Services' group undertakings are shown in note 12.

There were no material transactions with any other related party.

The directors of the Company and its key management had no material transactions with the Company or any of the Zurich Financial Services group's undertakings. The terms 'director' and 'key management' includes members of their families.