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Swiss Re Frankona Reinsurance Limited
Annual Report 2007

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Contents

Directors and Officers	3
Directors' Report	4
Independent Auditors' Report	6
Profit and Loss Account Technical Account – General Business	8
Profit and Loss Account Non Technical Account	9
Statement of Total Recognised Gains and Losses	9
Balance Sheet	10
Notes to the financial statements	11

Directors and Officers

Board of Directors as at 24 July 2008

Tim Carroll

Chairman

Michael Lyons (appointed 17 July 2007)

Clare Bousfield (resigned 31 May 2007)

Alberto Izaga (resigned 3 June 2007)

Company Secretary

John Titchener (appointed 1 April 2008)

Sarah Lewis (appointed 1 January 2008, resigned 31 March 2008)

Tracey Poole (resigned 21 December 2007)

Auditors

PricewaterhouseCoopers LLP

Hay's Galleria

1 Hay's Lane

London SE1 2RD

Registered Office

30 St Mary Axe

London EC3A 8EP

Telephone 020 7933 3000

Fax 020 7933 5000

Registered number

1306295

Directors' Report

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2007

Principal activity

The Company was previously authorised to carry on all classes of general insurance and reinsurance business. Following the transfer of the Company's insurance portfolio to Swiss Reinsurance Company UK Limited in 2006 the Company ceased to be authorised by the Financial Services Authority with effect from 18 December 2007.

Results and dividends

The results for the year are set out on pages 8 and 9.

The profit on ordinary activities after taxation by the Company in 2007 amounted to £0.2 million (2006: £49.4 million loss).

The Directors recommend that no dividends be declared on the ordinary shares for 2007 (2006: £337.5 million).

Business Review

The Company ceased to accept new business on 31 August 2006 and ceased to be authorised by the Financial Services Authority with effect from 18 December 2007.

Financial Risk Management

Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them.

Key Risks

The Directors consider that there are negligible risks within the Company and are restricted to those pertaining to any ongoing expenses and that any expenses continue to arise for a longer period or for a higher amount than expected.

Key Performance Indicators

Performance during the current year together with comparative data is set out below.

KPIs	2007	2006	
Gross Written Premiums £'m	-	155.6	Gross premiums written before outwards reinsurance
Gross Loss Ratio	-	(71%)	Ratio of gross claims incurred to gross earned premiums
Gross Combined Ratio	-	(93%)	Ratio of gross claims incurred, commissions and expenses to gross premiums earned
Net underwriting Result In £'m	-	(9.6)	Balance on technical account for general business
Shareholders' funds £'m	4.0	3.8	Result for year after tax in relation to average equity shareholder's funds

Directors' Report

Directors

The names of the Directors who served during the year up to 31 December 2007 are listed on page 3

Statement of Directors' responsibilities

The following statement should be read in conjunction with the auditors' report set out on pages 6 and 7, with a view to distinguishing for shareholders the respective responsibilities of the Directors and auditors in relation to the financial statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors confirm that they have complied with the above requirements in preparing the financial statements and also confirm that

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- each Director 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 that the Company's auditors are aware of that information

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Suppliers

The Company has no external suppliers as all services are provided by other group companies. All external expenses incurred by the Company are settled by inter-company recharges.

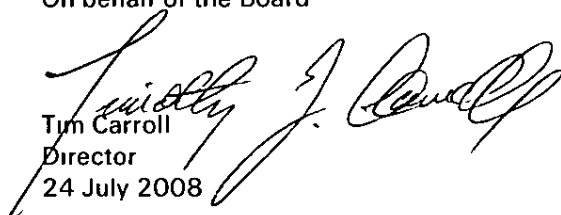
Charitable and Political donations

No donations were made for charitable or political purposes during the year (2006: £nil)

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and accordingly a resolution to propose their re-appointment will be submitted at the annual general meeting

On behalf of the Board


Tim Carroll
Director
24 July 2008

Independent Auditors' Report

To the Members of Swiss Re Frankona Reinsurance Ltd

We have audited the financial statements of Swiss Re Frankona Reinsurance Ltd for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' Report

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

24 July 2008

Profit and Loss Account

Technical Account – General Business

For the year ended 31 December 2007

	Notes	2007	2007	2006	2006
		£'m	£'m	£'m	£'m
Earned premiums, net of reinsurance					
Gross premiums written	2(a)	-	-	155 6	-
Outward reinsurance premiums		-	-	(100 2)	-
Net premiums written		-	-	55 4	-
Change in the gross provision for unearned premiums		-	-	101 9	-
Change in the provision for unearned premiums, reinsurers' share		-	-	(104 6)	-
Net change in the provision for unearned premiums		-	-	(2 7)	-
Earned premiums, net of reinsurance		-	-	-	52 7
Allocated investment return transferred from the non technical account					
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		-	-	(1,874 7)	-
Reinsurers' share		-	-	1,005 9	-
Net claims paid		-	-	(868 8)	-
Change in the provision for claims					
Gross amount		-	-	1,691 3	-
Reinsurers' share		-	-	(847 6)	-
Net change in the provision for claims		-	-	843 7	-
Claims incurred, net of reinsurance		-	-	-	(25 1)
Net operating expenses	3	-	-	-	(37 2)
Balance on the technical account for general business					(9 6)

The results are derived from discontinued activities

Profit and Loss Account

Non Technical Account

For the year ended 31 December 2007

	Notes	2007	2007	2006	2006
		£'m	£'m	£'m	£'m
Balance on the general business technical account					(9 6)
Investment income	5	0 3		42 1	
Investment expenses and charges	5	-		(17 9)	
Unrealised(losses) on investments	5	-		(3 1)	
Net investment return			0 3		21 1
Other income	6				4 5
Other charges	7				(64 8)
Profit/(loss) on ordinary activities before tax			0 3		(48 8)
Tax on profit/(loss) on ordinary activities	10		(0 1)		(0 6)
Profit/(loss) for the financial year			0 2		(49 4)

The results are derived from discontinued activities

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2007

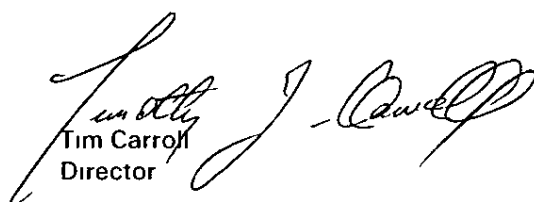
	Notes	2007	2006
		£'m	£'m
Profit/(Loss) for the financial year		0 2	(49 4)
Revaluation reserve	13	-	0 2
Total recognised gains/(losses) since last annual Report		0 2	(49 2)

Balance Sheet

As of 31 December 2007

Assets	Notes	2007 £'m	2007 £'m	2006 £'m	2006 £'m
Other assets					
Cash at bank and in hand			4.1		4.4
Total assets			4.1		4.4
Liabilities					
Capital and reserves					
Called up share capital	11				
Profit and loss account	12	4.0		3.8	
Total shareholder's funds			4.0		3.8
Creditors					
Other creditors including taxation and social security	14		0.1	0.6	
Total liabilities			4.1		4.4

The financial statements on pages 8 to 18 were approved by the Board of Directors on 24 July 2008 and were signed on their behalf by


 Tim Carroll
 Director

Notes to the Financial Statements

1. Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice of Accounting for Insurance Business issued by the Association of British Insurers in December 2005 (as amended in December 2006). The accounting policies adopted reflect UK financial reporting standards and statements of accounting practice applicable at the end of the financial year, as considered appropriate for an insurance company.

The Company is exempt from preparing a cash flow statement in accordance with Financial Reporting Standard 1, Cash Flow Statements (FRS 1), as it is included by full consolidation in the consolidated financial statements of Swiss Reinsurance Company, registered in Switzerland.

In accordance with Financial Reporting Standard 3, Reporting Financial Performance (FRS 3), the Company is exempt as an insurance company, from the requirement to include a note of historical cost profit and losses.

In accordance with Financial Reporting Standard 8, Related Party Disclosures (FRS 8), the Company is exempt, as a wholly owned subsidiary, from the requirement to disclose transactions with entities that are part of Swiss Re or investees of Swiss Re qualifying as related parties.

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

b) Premiums

Written premiums comprise the premiums on contracts entered into during the financial year regardless of whether such amounts relate in whole or in part to a later financial year, exclusive of taxes and duties levied on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for premiums written not yet booked.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

c) Unearned premiums

The provision for unearned premium comprises the amount representing that part of gross premiums which is estimated to be earned in the following or subsequent financial years.

d) Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs, which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred, which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

e) Claims provisions and related reinsurance recoveries

Claims incurred include all payments made in respect of the financial period, claims settlement expenses and the movement in provision for outstanding claims and settlement expenses and include claims incurred but not reported. Claims provisions and incurred claims also include reinsurance to close entries for the syndicate year of account which closed at the balance sheet date.

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.

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. Claims IBNR may often not be

Notes to the Financial Statements

1 Accounting policies (continued)

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, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience as adjusted to reflect changes in the underlying exposures.

Allowance is made, however, 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 claims, social, economic and legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks

A component of these estimation techniques is usually the estimation of the (continued) 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 are generally assessed separately, being 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, and 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 underwriting 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.

Liability and Marine claims

Marine and Liability claims are longer tail than some classes of business and so a larger element of the claims provision relates to incurred but not reported claims. Claims estimates for these classes of business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as exposure changes, premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.

Notes to the Financial Statements

1 Accounting policies (continued)

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.

f) Investments

Listed investments are stated at bid price value on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

g) Investment return

Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

h) Deferred tax

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

i) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange prevailing at the balance sheet date with the exception of non-monetary items which are maintained at historic rates. Revenue transactions denominated in foreign currencies are translated into Sterling at average rates of exchange for the year. Profits and losses arising from the fluctuation are included in the non-technical account.

j) Leases

The rental costs relating to operating leases are charged to the profit and loss account on a straight-line basis over the life of the lease.

k) Part VII transfers

Part VII transfers are accounted for as portfolio transfers in accordance with the ABI SORP. Portfolio premiums, for future liabilities, are recognised as negative written premium. Portfolio claims, for transferred historic liabilities, are recognised as claims paid.

2 Segmental information for Company

a) Gross written premium and balance on technical account are analysed as follows (all arise from discontinued activities)

	Direct fire and other damage to property	Direct third party liability	Direct marine & aviation	Miscellan- eous and pecuniary loss	Reinsurance Acceptance	Total
	2007 £'m	2007 £'m	2007 £'m	2007 £'m	2007 £'m	2007 £'m
Gross premiums written	-	-	-	-	-	-
Gross premiums earned	-	-	-	-	-	-
Gross claims incurred	-	-	-	-	-	-
Gross operating expenses	-	-	-	-	-	-
Gross balance	-	-	-	-	-	-
Reinsurance balance	-	-	-	-	-	-
Net balance	-	-	-	-	-	-

Notes to the Financial Statements

2 Segmental information for general business (continued)

	Fire and other damage to property	Third party liability	Marine & aviation	Miscellan- eous and pecuniary loss	Reinsurance Acceptance	Total
	2006 £'m	2006 £'m	2006 £'m	2006 £'m	2006 £'m	2006 £'m
Gross premiums written	1 9	5 1	17 3	0 8	130 5	155 6
Gross premiums earned	4 9	10 7	27 4	1 4	213 1	257 5
Gross claims incurred	(4 3)	(20 4)	(27 3)	0 5	(132 0)	(183 5)
Gross operating expenses	(0 7)	(1 6)	(5 7)	(0 3)	(48 6)	(56 9)
Gross balance	(0 1)	(11 3)	(5 6)	1 6	32 5	17 1
Reinsurance balance	(1 4)	1 4	0 1	(0 7)	(26 1)	(26 7)
Net balance	(1 5)	(9 9)	(5 5)	0 9	6 4	(9 6)

b) Geographical analysis

	2007 £'m	2006 £'m
United Kingdom	-	99 4
United States of America	-	8 7
Europe	-	19 6
Rest of the world	-	27 9
	-	155 6

The segmental analysis above represents business by destination. All business results from contracts concluded in the United Kingdom.

Net assets and profit cannot be practically divided between segments.

3 Net operating expenses

	2007 £'m	2006 £'m
Gross acquisition costs	-	25 0
Change in deferred acquisition costs	-	14 5
Administrative costs	-	17 5
Gross operating expenses	-	57 0
Reinsurance commissions and administrative expense recovery	-	(22 8)
Change in deferred reinsurance commissions	-	3 0
Net operating expenses	-	37 2

Notes to the Financial Statements

4 Prior years' claim provisions for general business

Over provisions in general business net claims provisions at the beginning of the year by comparison to payments and provisions at the end of the year were

	2007	2006 £'m
Property reinsurance	-	18 3
Casualty reinsurance	-	7 1
Marine reinsurance	-	21 8
	-	47 2

5 Investment return summary

	Non technical account 2007 £'m	Non technical account 2006 £'m
Investment income		
Income from listed investments	0 3	41 2
Gain on the realisation of investments	-	0 9
	0 3	42 1
Investment expenses and charges		
Loss on the realisation of investments	-	(17 9)
Unrealised (losses) on investments	-	(3 1)

6 Other income

	2007 £'m	2006 £'m
Profit on foreign exchange	-	4 3
Income from trade investment	-	0 2
	-	4 5

7 Other charges

	2007 £'m	2006 £'m
Loss on Part VII transfer	-	(64 5)
Other	-	(0 3)
	-	(64 8)

Notes to the Financial Statements

8 Profit on ordinary activities before tax

This is stated after charging

Auditors' remuneration

The fees paid to the Company's auditor, PricewaterhouseCoopers LLP, for the current year audit were borne by Swiss Reinsurance Company UK Limited and amounted to £5,000 (2006 £13,500)

All administration, staff and pension costs, including audit fees, have been incurred by Swiss Re Services Ltd, a fellow subsidiary undertaking, and all staff have service contracts with that company

9 Directors' emoluments

The directors received no emoluments during 2007 in respect of this company (2006 £nil)

10 Taxation

Tax on profit on ordinary activities

A charge for corporation tax in the profit and loss account is based on the results for the year and has been provided at 30% (2006 30%)

	2007 £'m	2006 £'m
Current Tax		
Tax on profits arising	0.1	0.6
Tax Charge	0.1	0.6

Factors affecting tax charge for period

	2007 £'m	2006 £'m
Profit/(Loss) on ordinary activities before tax	0.3	(48.8)
Corporation tax at the standard rate of UK corporation tax (30%)	0.1	(14.6)
Loss arising on transfer of business	-	19.3
Tax bases for insurance profits	-	(3.7)
Transfer pricing adjustments	-	(0.4)
Current tax charge for the period	0.1	0.6

11. Called up share capital

	2007 £'m	2006 £'m
Authorised		
139,056,383 ordinary shares of £1 each (2006 139,056,383)	139.1	139.1
Issued, allotted and fully paid		
100 ordinary shares of £1 each (2006 100)	-	-

Notes to the Financial Statements

12 Profit and loss reserves

	Share Capital £'m	Profit and Loss £'m	Total £'m
At 1 January 2007	-	3 8	3 8
Movement during the year	-	-	-
Profit for the year after tax	-	0 2	0 2
At 31 December 2007	-	4 0	4 0

13 Reconciliation of Shareholders' funds

	2007 £'m	2006 £'m
At 1 January	3 8	390.5
Profit/(loss) for the financial year	0 2	(49.4)
Revaluation of subsidiary undertakings	-	0 2
Interim dividends paid	-	(337.5)
At 31 December	4 0	3 8

14 Other creditors including taxation and social security

	2007 £'m	2006 £'m
Corporation tax (note 15)	0 1	0 6
	0 1	0 6

15 Taxation

	2007 £'m	2006 £'m
a) Corporation tax		
At 1 January	(0 6)	0 1
Current year movement	0 5	(0 6)
Balance transferred under court scheme	-	(0 1)
At 31 December (note 14)	(0 1)	(0 6)
b) Deferred tax		
At 1 January	-	36.4
Balance transferred under court scheme	-	(36.4)
At 31 December	-	-

Notes to the Financial Statements

16 Immediate and ultimate parent company

The Company's immediate parent company is Swiss Re GB Plc, registered in England and Wales

The parent undertaking of the largest group of undertakings for which Group consolidated accounts are drawn up and the ultimate parent company is Swiss Reinsurance Company, registered in Switzerland. Its accounts may be obtained by applying to the Company Secretary of Swiss Reinsurance Company at the following address

Mythenquai 50/60
P O Box 8022
Zurich
Switzerland