Financial Insurance Company Limited

Report and Financial Statements
for the year ended 31 December 2006

Registered No. 1515187

Financial Insurance Company Limited

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Directors and Principal Advisors

DIRECTORS

R J Brannock
S Donohoe
R U Meurer
J Sinclair
C Wilkinson

SECRETARY

J Rember

AUDITORS

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

REGISTERED OFFICE

Building 11
Chiswick Park
566 Chiswick High Road
London
W4 5XR

Directors' Report

The directors are pleased to present their report for the year ended 31 December 2006

Business Review and Principal Activities

The Company is a wholly owned subsidiary of Consolidated Insurance Group Limited and operated as part of the Genworth Financial Inc group's European protection division in 2006

The Company's principal activity is the underwriting of general insurance business in Europe The Company primarily underwrites accident and health and miscellaneous financial loss business, which included travel insurance The Company has branches in Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden and Switzerland

The only key change in operations during the year was the withdrawal from the travel insurance line of business Some cross border business was also written for the first time in Poland, Hungary and the Czech Republic

The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year The Company will, as planned, continue to look for opportunities to expand into new markets within Europe

As shown on the profit and loss account on page 9, gross premiums written have decreased by 9% to £409,372,000 This is a result of a reduction in UK business and the loss of a client in Italy Premiums earned have fallen by 25%, from £381,974,000 to £286,095,000 This is primarily due to two reinsurance treaties entered into during 2006 that reinsure a significant portion of the creditor business in the UK, France, Finland and Italy to a related company, combined with the reduction in premiums written

The financial performance of the Company as measured by the Combined Operating Ratio (claims and operating expenses expressed as a percentage of earned premium) is consistent with the prior year The Combined Operating Ratio for the year is 98% (2005· 96%) The effective tax rate has fallen from 31% to 8% as a result of group relief adjustments

The balance sheet on pages 12 and 13 of the financial statements shows that the Company's financial position is, in both net assets and cash terms, consistent with the prior year Amounts owed to group entities are shown in note 21 on page 23

There are no significant events since the balance sheet date that require adjustments to or disclosure in the financial statements

Dividends

Dividends paid during the year ended 31 December 2006 amounted to £5,120,000 (refer note 11) (2005 £20,800,000)

Principal Risks and Uncertainties

As a general insurance business, the Company faces a number of specific risk areas that have been summarised below

The Company's overall approach to dealing with risk can be defined as follows

- Assignment of authority, responsibility and accountability for risk areas within the Company,
- Identification of the key risks that exist within these areas,

- Measurement of risks by assessing the pertinence to the Company, stress and scenario testing and understanding the risk information and risk measurement techniques,
- Monitoring risks through mechanisms such as risk assessments, compliance reviews, risk and investment committees and internal or external audits, and
- Management of risk – this is detailed in the risk analysis below

- *Market risk* – this is defined as the risk of loss due to adverse fluctuations in interest rates, exchange rates and commodity prices This is managed through the implementation of detailed investment guidelines contained in the investment management agreement with the outsourced investment manager, GE Asset Management Limited Counterparty limits per portfolio have also been put in place and are approved and reviewed by the Investment Committee The Investment Committee meets quarterly to review investment reports, exposures against limits and compliance with the investment management agreement Foreign exchange risk exists mainly due to foreign currency inter-company balances held within the Genworth group Larger amounts are settled on a monthly basis Assets and liabilities are also matched by currency where possible to reduce the risk associated with the movement in foreign exchange rates

- *Credit risk* – this is defined as the risk of potential losses resulting from defaults by a borrower, tenant, reinsurer or counterparty This is managed through setting counterparty limits per portfolio and for the Company as a whole that are implemented by the outsourced investment manager, GE Asset Management Limited through an investment management agreement The Investment Committee sets these limits and assesses them periodically The Investment Committee is also responsible for reviewing actual exposure against limits on a regular basis and for monitoring the performance of the investment manager The Risk Committee that operates under approved Genworth reinsurer guidelines approves new reinsurance agreements

- *Operational risk* – this is defined as the risk of loss arising from inadequate or failed internal processes, people or systems This is managed through the Risk and Oversight Committees that review and monitor operational risks and report on these to the Board and Audit Committees An Operational Risk Manager establishes and implements operational risk procedures, reports risk changes to the Risk and Oversight Committees and ensures that action is taken to respond to these changes In addition, business units are required to define key risk indicators for the unit and to report on these indicators to the Risk Department for monitoring purposes

- *Liquidity risk* – this is defined as the risk that the Company will not be able to meet its obligations as they fall due because of insufficient liquid assets or inadequate access to funding This is managed through the implementation of a liquidity policy that requires the maintenance of adequate cash balances based on pre-established targets A Treasury manager is responsible for the Company's liquidity Short-term funds are managed by the Treasury department based on guidelines approved by the Investment Committee Excess cash is deposited in money market accounts with entities that have a minimum S&P rating as set out in the investment guidelines

- *Group risk* – this is defined as the risk of any other group company causing a substantial failure in the ability of the Company to meet its regulatory and legal requirements These risks are managed through the implementation of effective corporate governance structures, on-going monitoring of the Genworth Group credit ratings and availability of a financial support arrangement with the US parent company

- *Insurance risk* – this is defined as the uncertainty attaching to the occurrence, amount and timing of insurance liabilities Insurance risk is controlled as follows

    - A Risk Committee approves all proposals for new products,

- All new client proposals are approved by a Deal Review process,
- A formal insurance risk assessment has been performed and is reviewed annually The risks are documented in risk register and stress and scenario testing is performed,
- Risk is monitored through the Risk Committee On a quarterly basis reports are reviewed covering items such as claims experience, asset/liability matching and claims reserving,
- The Board of Directors approves countries from which risks will be accepted, and
- All cover types allowed are approved by the Risk Committee and any variation from these require separate approval

Employees

Details of the number of employees and related costs can be found in note 7 to the financial statements on page 20

Financial Instruments

The principal financial instruments of the Company are investments in interest-bearing securities, deposits with credit institutions, debtors, cash and creditors

The Company has a low risk profile with respect to liquidity risk, interest rate risk and credit risk due to the relatively short-term nature and term of the insurance liabilities underwritten and the investment policy of assets adopted The Investment Committee provides oversight to the monitoring, systems and controls required to manage such risks, which are further assessed by the Company within the Risk-based Capital Framework adopted by UK insurance companies regulated by the Financial Services Authority

Further details in relation to risk have been provided in the 'Principal Risks and Uncertainties' section above

Directors

The current directors are shown on Page 1 The directors of the Company during the year ended 31 December 2006 were those listed below

R J Brannock
S Donohoe
R U Meurer
J Sinclair
C Wilkinson

Directors' Interests

Under the provisions of the Companies (Disclosure of directors' interests) (Exceptions) Regulations 1985, the directors of the Company are exempt from disclosing to this Company any interest they may have in the shares of the parent company No director of the Company had any beneficial interest in the shares of the Company or of any UK Group company at 31 December 2006 or at any time during the year

Third Party Indemnity Provisions

The Company provided qualifying third party indemnity provisions to one or more of its Directors during 2006 These provisions were still in force at the date these accounts were approved

Political and Charitable Contributions

The Company made charitable donations of £103,597 during 2006 (2005 £4,588) No donations were made for political purposes during 2006 (2005 £nil)

Disclosure of Information to Auditors

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

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

- the director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Reappointment of Auditors

Pursuant to section 386 of the Companies Act 1985, the directors have elected to dispense with the requirement to appoint auditors annually KPMG have expressed their willingness to continue as auditors and the Board of Directors at its next meeting will approve their continuation in office

By Order of the Board

J. Rember
Secretary

30 March 2007

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 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, 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 are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They have the general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Independent Auditors' Report to the Members of Financial Insurance Company Limited

We have audited the financial statements of Financial Insurance Company Limited for the year ended 31 December 2006, which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to it in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, for our audit work, for this report, or for the opinions we have formed

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

Equalisation provisions

Our evaluation of the presentation of information in the financial statements has regard to the statutory requirement for insurance companies to maintain equalisation reserves The nature of equalisation reserves, the amounts set aside at 31 December 2006, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in note 20

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- have been properly prepared in accordance with the provisions of the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

30 March 2007

Financial Insurance Company Limited

Profit and Loss Account
for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Technical Account - General Business			
Earned premiums, net of reinsurance	1(a)		
Gross premiums written		409,372	448,211
Outward reinsurance premiums		(101,101)	(61,480)
Net premiums written		308,271	386,731
Changes in the gross provision for unearned premiums		(22,077)	(8,450)
Changes in the provision for unearned premiums, reinsurers' share		(99)	3,693
		(22,176)	(4,757)
Earned premiums, net of reinsurance		286,095	381,974
Other technical income	2	12,973	-
Allocated investment return transferred from the non-technical account		6,770	13,527
Total technical income		305,838	395,501
Claims incurred, net of reinsurance	1(b)		
Claims paid			
- gross amount		68,542	88,136
- reinsurers' share		(13,078)	(27,975)
		55 464	60,161
Change in the provision for claims	3		
- gross amount		(14,468)	(7,966)
- reinsurers' share		502	524
		(13,966)	(7,442)
Claims incurred, net of reinsurance		41,498	52,719
Interest expenses and charges		(386)	(579)
Net operating expenses	4	237,673	313,337
Change in equalisation provision		-	(78)
Total technical charges		278,785	365,399
Balance on the technical account for general business		27,053	30,102

The notes on pages 14 to 24 form part of these financial statements

Profit and Loss Account
for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Non-Technical Account			
Balance on the general business technical account		27,053	30,102
Investment income	9	14,818	13,814
Investment expenses and charges	9	(174)	(286)
Unrealised (losses) gains on investments	9	(7,468)	1,344
Allocated investment return transferred to the general business technical account		(6,770)	(13,527)
		406	1,345
Profit on ordinary activities before tax		27,459	31,447
Tax on profit on ordinary activities	10	2,299	9,621
Retained profit for the financial year		25,160	21,826

In accordance with the amendment to Financial Reporting Standard ("FRS") 3 Reporting Financial Performance, no note of historical cost profits has been prepared as the Company's only material gains and losses on assets relate to the holding and disposal of investments

All income and expenditure relates to continuing operations

The notes on pages 14 to 24 form part of these financial statements

Statement of Total Recognised Gains and Losses
for the year ended 31 December 2006

	Notes	*2006* *£000*	*2005* *£000*
Profit for the financial year		25,160	21,826
Currency translation differences	19	(2,381)	(4,132)
Total recognised gains and losses relating to the year		22,779	17,694

The notes on pages 14 to 24 form part of these financial statements

Financial Insurance Company Limited

Balance Sheet
as at 31 December 2006

	Notes	2006 £000	2005 £000
Assets			
Investments			
Other financial investments	13	323,024	341,926
Negative goodwill	12	(2,472)	(2,753)
Reinsurers' share of technical provisions			
Provision for unearned premiums		33,954	35,629
Claims outstanding		2,385	3,058
		36,339	38,687
Debtors			
Debtors arising out of direct insurance operations	14	41,231	35,290
Debtors arising out of reinsurance operations	15	2,378	2,461
Other debtors	16	4,554	8,496
		48,163	46,247
Other assets			
Tangible assets	17	582	438
Cash at bank and in hand		13,020	14,338
		13,602	14,776
Prepayments and accrued income			
Accrued interest		8,460	8,552
Deferred acquisition costs		169,601	154,538
		178,061	163,090
Total assets		596,717	601,973

The notes on pages 14 to 24 form part of these financial statements

Balance Sheet
as at 31 December 2006

	Notes	2006 £000	2005 £000
Liabilities			
Capital and reserves			
Called up share capital	18	74,213	74,213
Share premium	19	17,327	17,327
Other reserves	19	(2,152)	229
Profit and loss account	19	41,973	21,934
Total shareholders' funds	19	131,362	113,703
Technical provisions			
Provision for unearned premiums	20	316,564	297,859
Claims outstanding	20	50,469	65,078
Equalisation provisions	20	134	134
		367,167	363,071
Creditors			
Amounts owed to financial institutions		5,188	-
Creditors arising out of direct insurance operations		12,308	10,552
Creditors arising out of reinsurance operations	21	5,404	4,825
Other creditors including taxation and social security	22	5,046	20,307
		27,946	35,684
Accruals and deferred income			
Deferred premium income		6,599	-
Accrued commission		57,213	79,748
Reinsurers' share of deferred acquisition costs		6,430	9,767
		70,242	89,515
Total liabilities		596,717	601,973

The notes on pages 14 to 24 form part of these financial statements

These financial statements were approved by the Board of Directors on 30 March 2007
and signed on its behalf by

R U Meurer
Director

Statement of Accounting Policies
at 31 December 2006

A Basis of Presentation

The financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 and amended in December 2006

The financial statements have been prepared in accordance with applicable accounting standards

B Basis of Accounting

The results are determined 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

(i) Premiums written

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the company, less an allowance for cancellations

(ii) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date

(iii) Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned

(iv) 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

(v) Claims provisions and related reinsurance recoveries

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 apparent to the insured until many years after the event giving rise to the claim 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 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 legal environment
- changes in the mix of business

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 a previous period

Large claims impacting each relevant business class 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 The projections given by the various methodologies also assist 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

(vi) Property and accident business

Creditor and travel businesses are "short tail", that is there is not a significant delay between the occurrence of the claim and the claim being reported to the Company The costs of claims notified to the Company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim The ultimate expected cost of claims is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications

Statement of Accounting Policies
at 31 December 2006

(vii) 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

C Unexpired Risks Provision

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision The expected claims are calculated having regard to events that have occurred prior to the balance sheet date

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises There are no unexpired risks provisions at 31 December 2006 and 2005

D Equalisation Provision

Amounts are set aside as equalisation provisions in accordance with the Prudential Sourcebook for Insurers for the purpose of mitigating exceptionally high loss ratios in future years The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions

E Goodwill (including Negative Goodwill)

Goodwill arising subsequent to 31 December 1997 is capitalised in the balance sheet at cost and amortised or written back through the profit and loss account over its useful economic life on a straight-line basis The gain or loss on any subsequent disposal of subsidiary or associated undertakings will include any attributable and unamortised goodwill

F Other Financial 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

In the balance sheet of the Company, investments in group undertakings are stated at cost, unless their value has been impaired in which case they are valued at their realisable value or value in use as appropriate

Statement of Accounting Policies
at 31 December 2006

G Investment Return

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

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

Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price 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

Investment return is initially recorded in the non-technical account A transfer is made from the non-technical account to the technical account of the longer-term investment return (as estimated by the directors) on investments supporting the insurance technical provisions and related shareholders' funds This transfer is made so that the balance on the technical account is based on a longer-term rate of investment return and is not subject to distortion from short-term fluctuations in investment return

H Tangible Assets

Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives The principal rates used for this are as follows

Land and buildings	2 5%
Office and computer equipment	20%
Furniture, fixtures and fittings	10%

I Deferred Tax

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account Deferred tax is calculated at the rates at which it is expected that the tax will arise Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses Deferred tax balances are not discounted

J Pension Costs

The Company participates in pension arrangements in Portugal and Finland These are either government schemes or defined benefit multi-employer schemes, the assets and liabilities of which are held independently from the company The company is unable to identify its share of the underlying assets and liabilities of these arrangements and accordingly accounts for them as if they were defined contribution schemes, where monthly contributions are expensed in the profit and loss account

Statement of Accounting Policies
at 31 December 2006

K Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated to sterling at the rates of exchange ruling at the end of the financial year Transactions of the European branches are translated at the average rate of exchange during the year

Other transactions are translated at the actual rate on the date of the transactions Exchange differences arising from the retranslation of opening foreign currency denominated net assets of the European branches are taken to reserves and reported in the statement of total recognised gains and losses Other foreign exchange differences are reported in the non-technical account

L Operating Leases

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term

M Statement of Cash Flows

The Company has taken the exemption from the requirement to prepare a cash flow statement, as offered in Financial Reporting Standard 1 ("FRS") (Revised 1996) Cash flow statements on the ground that the ultimate holding company, Genworth Financial Inc includes the Company in its own consolidated financial statements

N Related Party Transactions

As the Company is a wholly owned subsidiary of Genworth Financial Inc , a company registered in the state of Delaware, in the United States of America, the Company has taken advantage of the exemption contained in FRS 8, and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties)

The consolidated financial statements of Genworth Financial Inc can be obtained from the address given in note 26

Notes to the Financial Statements
for the year ended 31 December 2006

1 Segmental Analysis

(a) Gross premiums written and earned by class of business

	Gross Premiums Written		Gross Premiums Earned	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Direct insurance				
Creditor Business	224 446	271 835	244,262	270 916
Other financial loss	94 054	95 209	94 054	95,209
Personal Accident Business	17 833	20 635	17 833	20 633
Travel	4,841	37 473	4 841	39,500
Other	227	375	227	380
Reinsurance acceptances				
Creditor Business	67,971	22 684	26 078	13 123
	409,372	448,211	387 295	439,761

(b) Gross claims incurred, gross operating expense and reinsurance balance by class of business

	Gross Claims Incurred		Gross Operating Expenses		Reinsurance Balance	
	2006	2005	2006	2005	2006	2005
	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance						
Creditor Business	33,743	35 350	164 509	210 273	(10 533)	(14 060)
Other financial loss	9,004	12 627	45 624	76 553	(23 616)	881
Personal Accident Business	2,391	937	12 396	21 203	-	-
Travel	2 599	27 866	2 746	12 233	(989)	(3 380)
Other		293	(9)	159	12	95
Reinsurance acceptances						
Creditor Business	6,337	3,097	13 648	5 475	-	-
	54,074	80,170	238,914	325,896	(35,126)	(16,464)

(c) Analysis by geographic area

	Gross Premiums Written		Profit Before Taxation		Net Assets	
	2006	2005	2006	2005	2006	2005
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom						
Other continuing operations	152 955	203 783	(566)	3,012	9 808	5 280
Europe						
Acquisitions	-		-	-		-
Other continuing operations	256 417	244 428	28 025	28 435	121 554	108 423
	409 372	448 211	27 459	31 447	131,362	113 703

Gross premiums written by destination are not materially different to those by origin

Of the gross premiums written in the United Kingdom and Europe £127 173 000 and £214 228 000 (2005 £204 937 000 and £217 880 000) relate to direct insurance

2 Other Income

During 2006 the Company entered into four reinsurance treaties (the "treaties") effective from 1 January 2006 with a related party Financial Insurance Guernsey PCC Limited ("Cell RRT") a Guernsey based reinsurer Cell RRT assumed around 20% risk of the Company's insurance business The Company received ceding commission of £12,973 000, which has been included within Other Income

3 Movement in Prior Year's Provision for Claims Outstanding

A negative run-off deviation of £7 564 000 was experienced during the year in respect of creditor business (2005 - positive deviation of £15,008 000)

4 Net Operating Expenses

	2006	2005
	£'000	£'000
Policy acquisition costs	173 938	221 419
Reinsurance commissions and profit participations	107 578	66 941
Change in deferred acquisition costs	(19 246)	(12 049)
Administrative expenses	37,187	49 585
Less ceding commission received from reinsurers	(61,784)	(12 559)
	237 673	313 337

Total commission for direct insurance accounted for by the Company during the year amounted to £144 510 000 (2005 £277 049 000)

Notes to the Financial Statements
for the year ended 31 December 2006

5 Auditors' Remuneration

	2006 £'000	2005 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	92	93
Total audit fees	92	93
Other services pursuant to legislation	13	26
Total non-audit fees	13	26
Fees payable to the company's auditors and their associates in respect of associated pension schemes	11	10

The audit fees were paid on behalf of the Company by another company in the group

6 Operating Lease Rentals

A significant number of leases on behalf of the Company are entered into by Financial Insurance Group Services Limited, a fellow group company The lease payments are recharged as incurred and included within administration expenses

7 Staff Costs

	2006 £'000	2005 £'000
Wages and salaries	2 477	1 763
Social security costs	419	250
Other pension costs	240	203
Share based payment expense	-	-
	3 136	2 216

The average number of employees of the Company during the year was as follows

	2006 No	2005 No
Administration and Finance	23	19
Operations	43	32
Sales and Marketing	22	15
	88	66

These employees are employed through branches in Denmark, Finland Italy Switzerland and Portugal The employees employed in France are employed through Financial Assurance Company Limited and the employees in the remaining branches are employed on behalf of the Company by a fellow group company Financial Insurance Group Services Limited These employment costs are recharged as incurred and included within administrative expenses

8 Directors Emoluments

	2006 £'000	2005 £'000
Directors Remuneration		
Emoluments	931	1 175
Amounts receivable (other than share options) under long-term incentive schemes	103	254
Company contributions to money purchase schemes	21	20
	1 055	1 449

	2006 No	2005 No
The number of directors who		
Are members of a defined benefit pension scheme	2	3
Are members of a money purchase pension scheme	1	1
Exercised options over shares in the company	1	2
Had awards receivable in the form of shares under a long-term incentive scheme	3	4

	2006 £'000	2005 £'000
Remuneration of the highest paid director		
Emoluments	395	396
Amounts receivable (other than shares and share options) under long-term incentive schemes	67	154
Company contributions to money purchase schemes	21	20
	483	570

Total remuneration paid to directors has been disclosed as it is not possible to separately identify the portion relating to qualifying services provided to this company

Notes to the Financial Statements
for the year ended 31 December 2006

9 Investment Return

	2006 £'000	2005 £'000
Investment Income		
Income from other investments	18 253	20 267
Gains/Losses on the realisation of investments	(3 435)	(6 453)
	14,818	13 814
Investment expenses and charges		
Investment management expenses including interest	(174)	(286)
Unrealised gains / (losses) on investments	(7 468)	1 344
Total investment return	7 176	14 872

All investment return excluding the unrealised gains and losses are transferred to the technical account

10 Taxation

	2006 £'000	2005 £'000
United Kingdom corporation tax at 30% (2005 - 30%)		
Current tax on income for the period	6 562	8,617
Adjustments relating to prior years	568	
Double taxation relief	(6,500)	(8,407)
	630	210
Foreign tax		
Current tax on income for the period	1 692	9,401
Current tax	2 322	9 611
Deferred taxation		
Origination and reversal of timing differences	1 744	10
Adjustments relating to prior years	(1 767)	-
	(23)	10
Tax on profit on ordinary activities	2 299	9,621

The tax assessed in the period is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006 £'000	2005 £'000
Non-Technical account		
Profit on ordinary activities before tax	27 459	31 447
Standard rate of corporation tax in the UK of 30%	8,238	9 434
Effects of		
Prior year adjustment for group relief claimed from affiliates	(2 919)	-
Fixed asset timing differences	14	(11)
Short Term Timing Differences	(1 758)	-
Permanently disallowable items for UK taxation	68	188
Foreign taxation	7 109	-
Double taxation relief	(6 500)	-
Prior year tax adjustment	(1,930)	-
Current tax charge for the period	2 322	9 611

The component of the deferred tax asset is as follows The balances have not been discounted

	2006 £'000	2005 £'000
Fixed assets	23	-
Total deferred tax asset	23	-

11 Dividends Paid

	2006 £'000	2005 £'000
Equity shares		
Dividend paid of 6 90p per share (2005 28 03p per share)	5 120	20 800

Notes to the Financial Statements
for the year ended 31 December 2006

12 Negative Goodwill

	2006 £'000	2005 £'000
Cost		
At 1 January	(2 950)	-
Additions during the year	-	(2 950)
Foreign exchange adjustment to prior year balance	92	-
At 31 December	(2 858)	(2 950)
Depreciation		
At 1 January	197	-
Charge for the period	189	197
At 31 December	386	197
Net book value at 31 December 2006	(2 472)	(2 753)

The goodwill arising on acquisition of the general insurance creditor business of RD Plus S.A on 7 December 2004 is being amortised on a staight-line basis over 15 years which is the period over which the directors expect the Company to benefit from the negative goodwill

The goodwill valuation adjustment is an adjustment to the reported preliminary allocation of net assets made upon the acquisition of Vie Plus S A as at 31 December 2004 This adjustment represents the decrease in valuation of net assets acquired thus increasing the negative goodwill recognised on acquisition

13 Other Financial Investments

	Market Value		Purchase Price	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Debt securities and other fixed income securities	303 486	327 450	313 879	328 573
Deposits with credit institutions	19 538	14 476	19 538	14 476
	323 024	341 926	333 417	343 049

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

	2006 £'000	2005 £'000
Debt securities and other fixed income securities	301 487	327 450
	301 487	327 450

14 Debtors Arising Out of Direct Insurance Operations

	2006 £'000	2005 £'000
Amounts owed by intermediaries	31 942	30 918
Amounts owed by group undertakings	9 289	4 372
	41 231	35 290

15 Debtors Arising Out of Reinsurance Operations

	2006 £'000	2005 £'000
Other reinsurance debtors	2 378	2 461
	2 378	2 461

16 Other Debtors

	2006 £'000	2005 £'000
Amounts owed by group undertakings	-	992
Deferred tax (see note 10)	23	-
Corporation tax recoverable	-	-
Other debtors	4 531	7 504
	4 554	8 496

Notes to the Financial Statements
for the year ended 31 December 2006

17 Tangible Assets

	Leasehold Improvements	Computer Equipment	Fixtures, Fittings and Office Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2006	454	131	250	835
Exchange differences	(14)	(1)	(1)	(16)
Purchases in the year	-	-	208	208
Transfer	-	-	-	-
Disposals in the year	-	-	-	-
At 31 December 2006	440	130	457	1 027
Depreciation				
At 1 January 2006	151	85	160	396
Exchange differences	(32)	-	-	(32)
Charge for the year	11	2	68	81
Disposals in the year	-		-	-
At 31 December 2006	130	87	228	445
Net book value at 31 December 2006	310	43	229	582
Net book value at 31 December 2005	304	46	88	438

18 Share Capital

	2006 £'000	2005 £'000
Allotted, called up and fully paid		
74 212 274 Ordinary shares of £1 each	74 213	74 213
Authorised		
150 000 000 Ordinary shares of £1 each	150 000	150 000

19 Reconciliation of Movements in Shareholders Funds

	Share Premium Account	Other Reserves	Profit & Loss Account	Total
	£'000	£'000	£'000	£'000
Profit for the financial year	-	-	25 159	25 159
Dividends paid (note 11)	-	-	(5 120)	(5 120)
Currency translation differences	-	(2 381)	-	(2 381)
Contribution in relation to share based payments (note 7)	-	-	-	-
Net addition / (reduction) to shareholders' funds	-	(2 381)	20 039	17 658
Opening shareholders' funds at 1 January	17 327	229	21 934	39 490
Closing shareholders' funds at 31 December	17 327	(2 152)	41 973	57 148

Other reserves consist of foreign currency translation adjustments arising on the translation of the results of overseas branches

20 Technical Provisions

	Provision for Unearned Premium	Claims Outstanding	Equalisation Provisions
	£'000	£'000	£'000
Balance as at 1 January 2006	297 859	65 078	134
Change in technical provisions	18 705	(14 609)	-
At 31 December 2006	316 564	50 469	134

The equalisation provision, which is an addition to the provision required to meet the ultimate cost of settlement of outstanding claims at the balance sheet date is required by schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that it does not represent a liability at the balance sheet date The effect of this provision is to reduce shareholders funds by £134 000 (2005 £134 000) The provision remained unchanged during the year (2005 £78 000 decrease)

21 Creditors Arising Out of Reinsurance Operations

	2006 £'000	2005 £'000
Amounts owed to intermediaries - group undertakings	2,578	-
Amounts owed to reinsurers	2 826	4,825
	5 404	4 825

Notes to the Financial Statements
for the year ended 31 December 2006

22 Other Creditors Including Taxation and Social Security

	2006 £'000	2005 £'000
Corporation tax	420	2 891
Insurance premium tax	1,186	812
Other creditors	3 440	16 604
	5 046	20 307

23 Contingent Liabilities

At 31 December 2006 there is a letter of credit of €41 750 expiring on 31 August 2007 in respect of a lease of office space in Milan

24 Pension and Similar Obligations

The Company participates in pension arrangements in Portugal and Finland The arrangement in Finland is government mandated and requires contributions to be paid into an insurance policy with an insurer All policies are held by the Finnish government The arrangement in Portugal is a defined benefit multi-employer scheme the assets and liabilities of which are held independently from the Company The Company is unable to identify its share of the underlying assets and liabilities of these arrangements and accordingly accounts for them as if they were defined contribution schemes

25 Related Party Transactions

As the Company is a wholly owned subsidiary of Genworth Financial Inc it has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities that form part of this Group Related party transactions and balances are disclosed in the group accounts prepared for Genworth Financial Inc See note 26 for details to obtain a copy of the financial statements for Genworth Financial Inc

26 Ultimate Parent Company

The Company's ultimate parent company is Genworth Financial Inc ("GNW") a company registered in the state of Delaware in the United States of America GNW is the parent of the largest and smallest group of which the Company is a member and for which group financial statements are prepared The group financial statements of GNW are available to the public and may be obtained from 2711 Centerville Road Suite 400 City of Wilmington County of Newcastle Delaware 19808 USA

The immediate parent company is Consolidated Insurance Group Limited ("CIGL") (100% ownership) Advantage has been taken of the exemption in FRS 8 not to disclose transactions with entities that are part of the Genworth Financial Inc group Genworth Financial Inc indirectly owns a 100% interest in the Company