Financial Insurance Company Limited

Report and Financial Statements
for the year ended 31 December 2007

Registered No. 1515187

Table of Contents

Directors and Principal Advisors

DIRECTORS

R J Brannock
R U Meurer
J Sinclair
C Wilkinson
A Mas
P Fernandes
L Raettig

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 dırectors are pleased to present theır report for the year ended 31 December 2007

Busıness Revıew and Prıncıpal Actıvıtıes

The Company ıs a wholly owned subsıdıary of Consolıdated Insurance Group Lımıted and operated as part of the Genworth Fınancıal Inc group's Internatıonal payment protectıon dıvısıon ın 2007

The Company's prıncıpal actıvıty ıs the underwrıtıng of general ınsurance busıness ın Europe The Company prımarıly underwrıtes accıdent and health and mıscellaneous fınancıal loss busıness The Company has branches ın Denmark, Fınland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden and Swıtzerland, and operates ın Poland and a number of other EU member states on freedom of servıces basıs

There were no key changes ın operatıons durıng the year Some cross border busıness was wrıtten for the fırst tıme ın Greece and Lıthuanıa

The dırectors are not aware, at the date of thıs report, of any lıkely major changes ın the Company's actıvıtıes ın the next year The Company wıll, as planned, contınue to look for opportunıtıes to expand ınto new markets and products wıthın Europe

As shown on the profit and loss account on page 9, gross premıums wrıtten have decreased by 2 4% from £409,372,000 to £399,439,000 due to lower premıums ın the Netherlands and the UK, offset by growth ın other contınental countrıes Retaıned profit after tax has ıncreased by 1 1%, from £25,160,000 to £25,436,000 as shown on page 10

Amounts owed to group entıtıes are shown ın note 21 on page 23

There are no sıgnıfıcant events sınce the balance sheet date that requıre adjustments to or dısclosure ın the fınancıal statements

The ultımate parent, Genworth Fınancıal Inc , manages ıts operatıons on a dıvısıonal basıs, coverıng Retırement & Protectıon, US Mortgage Insurance and Internatıonal For thıs reason, the Company's dırectors belıeve that further key performance ındıcators for the Company are not necessary or approprıate for an understandıng of the development, performance or posıtıon of the busıness The performance of the Internatıonal dıvısıon of Genworth Fınancıal Inc , whıch ıncluded thıs Company for 2007, ıs dıscussed ın the group's Annual Revıew that does not form part of thıs Report

Dividends

Dıvıdends paıd durıng the year ended 31 December 2007 amounted to £10,960,869 (refer to note 11) (2006 £5,120,000)

Prıncıpal Rısks and Uncertaıntıes

As a general ınsurance busıness, the Company faces a number of specıfic rısk areas that have been summarısed below

The Company's overall approach to dealıng wıth rısk can be defıned as follows

- Assıgnment of authorıty, responsıbılıty and accountabılıty for rısk areas wıthın the Company,
- Identıfıcatıon of the key rısks that exıst wıthın these areas,
- Measurement of rısks by assessıng the pertınence to the Company, stress and scenarıo testıng and understandıng the rısk ınformatıon and rısk measurement technıques,

- 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 managers, BlackRock Investment Managers (UK) Limited and Deutsche 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 managers, BlackRock Investment Managers (UK) Limited and Deutsche 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 managers 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 reports 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,

Directors' Report

- 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 and reported to the Board annually, 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 2007 were those listed below

R J Brannock	
S Donohoe	(Resigned on 30 June 2007)
R U Meurer	
J Sinclair	
C Wilkinson	
A Mas	(Appointed on 30 March 2007)
P Fernandes	(Appointed on 30 March 2007)
L Raettig	(Appointed on 26 July 2007)

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 2007 or at any time during the year

Directors' Report

Third Party Indemnity Provisions

The Company provided qualifying third party indemnity provisions to one or more of its Directors during 2007 These provisions were still in force at the date these accounts were approved

Political and Charitable Contributions

The Company made charitable donations of £941 during 2007 (2006 £103,597) No donations were made for political purposes during 2007 (2006 £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 is expected to approve their continuation in office

By Order of the Board

J. Rember
Secretary

31 March 2008

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 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

This report is made solely to the company's members, as a body, 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 them 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 as a body, 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

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

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 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

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants

8 Salisbury Square
London
EC4Y 8BB

Registered Auditor

31 March 2008

Profit and Loss Account
for the year ended 31 December 2007

	Notes	*2007* *£000*	*2006* *£000*
Technical Account - General Business			
Earned premiums, net of reinsurance	1(a)		
Gross premiums written		399,439	409,372
Outward reinsurance premiums		(94,589)	(101,101)
Net premiums written		304,850	308,271
Changes in the gross provision for unearned premiums		3,994	(22,077)
Changes in the provision for unearned premiums, reinsurers' share		(744)	(99)
		3,250	(22,176)
Earned premiums, net of reinsurance		308,100	286,095
Other technical income	2	2,075	1,076
Allocated investment return transferred from the non-technical account		9,034	6,770
Total technical income		319,209	293,941
Claims incurred, net of reinsurance	1(b)		
Claims paid			
- gross amount		52,214	68,542
- reinsurers' share		(9,293)	(13,078)
		42,921	55,464
Change in the provision for claims	3		
- gross amount		(5,164)	(14,468)
- reinsurers' share		(338)	502
		(5,502)	(13,966)
Claims incurred, net of reinsurance		37,419	41,498
Interest expense and charges		535	(806)
Net operating expenses	4	243,835	226,196
Change in equalisation provision		(134)	-
Total technical charges		281,655	266,888
Balance on the technical account for general business		37,554	27,053

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

Profit and Loss Account
for the year ended 31 December 2007

	Notes	*2007* *£000*	*2006* *£000*
Non-Technical Account			
Balance on the general business technical account		37,554	27,053
Investment income	9	12,354	14,818
Investment expenses and charges	9	(288)	(174)
Unrealised losses on investments	9	(2,497)	(7,468)
Allocated investment return transferred to the general business technical account		(9,034)	(6,770)
		535	406
Profit on ordinary activities before tax		38,089	27,459
Tax on profit on ordinary activities	10	12,653	2,299
Retained profit for the financial year		25,436	25,160

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 2007

	Notes	*2007* *£000*	*2006* *£000*
Profit for the financial year		25,436	25,160
Currency translation differences	19	13,419	(2,381)
Total recognised gains and losses relating to the year		38,855	22,779

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

Balance Sheet
as at 31 December 2007

	Notes	2007 £000	2006 £000
Assets			
Investments			
Other financial investments	13	365,277	323,024
Negative goodwill	12	(2,487)	(2,472)
Reinsurers' share of technical provisions			
Provision for unearned premiums		36,908	33,954
Claims outstanding		2,951	2,385
		39,859	36,339
Debtors			
Debtors arising out of direct insurance operations	14	25,082	41,231
Debtors arising out of reinsurance operations	15	6,365	2,378
Other debtors	16	5,900	4,554
		37,347	48,163
Other assets			
Tangible assets	17	1,082	582
Cash at bank and in hand		11,140	13,020
		12,222	13,602
Prepayments and accrued income			
Accrued interest		9,204	8,460
Deferred acquisition costs		181,555	169,601
		190,759	178,061
Total assets		642,977	596,717

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

Balance Sheet
as at 31 December 2007

	Notes	2007 £000	2006 £000
Liabilities			
Capital and reserves			
Called up share capital	18	74,213	74,213
Share premium	19	17,327	17,327
Other reserves	19	11,267	(2,152)
Profit and loss account	19	56,448	41,973
Total shareholders' funds	19	159,255	131,361
Technical provisions			
Provision for unearned premiums	20	333,380	316,564
Claims outstanding	20	48,036	50,469
Equalisation provisions	20	-	134
		381,416	367,167
Creditors			
Amounts owed to financial institutions		3,299	5,188
Creditors arising out of direct insurance operations		13,920	12,309
Creditors arising out of reinsurance operations	21	10,093	5,404
Other creditors including taxation and social security	22	8,910	5,046
		36,222	27,947
Accruals and deferred income			
Deferred premium income		12,857	6,599
Accrued commission		46,162	57,213
Reinsurers' share of deferred acquisition costs		7,065	6,430
		66,084	70,242
Total liabilities		642,977	596,717

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

These financial statements were approved by the Board of Directors on 31 March 2008
and signed on its behalf by

R U Meurer
Chairman and Chief Executive

Notes to the Financial Statements
Statement of Accounting Policies
at 31 December 2007

A Basis of Presentation

The financial statements have been prepared in accordance with the provisions of Section 235 of, and Schedule 9 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 Prior period reclassifications

In the profit and loss account some prior period other technical income has been reclassified as ceding commission and profit participation received from insurers and offset against operating expenses Also in the profit and loss account some other income previously offset against operating expenses has been reclassified as other technical income The net impact on the profit and loss account is zero

C 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

Notes to the Financial Statements
Statement of Accounting Policies
at 31 December 2007

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

(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

D 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 2007 and 2006

E 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 There are no equalisation provisions at 31 December 2007 (2006 £134,000)

F 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

G 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

Notes to the Financial Statements
Statement of Accounting Policies
at 31 December 2007

H 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

I 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%

J 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

K Pension Costs

The Company participates in pension arrangements in Italy, 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

Notes to the Financial Statements
Statement of Accounting Policies
at 31 December 2007

L 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

M Operating Leases

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

N 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

O 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 27

Notes to the Financial Statements
for the year ended 31 December 2007

1 Segmental Analysis

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

	Gross Premiums Written		Gross Premiums Earned	
	2007	*2006*	*2007*	*2006*
	£'000	*£'000*	*£'000*	*£'000*
Direct Insurance				
Creditor Business	184 859	224,446	221 340	244 262
Other financial loss	118 741	94 054	118,741	94,054
Personal Accident Business	16 239	17,833	16 239	17 833
Travel	112	4 841	112	4 841
Other	9	227	9	227
Reinsurance acceptances				
Creditor Business	79 479	67 971	46,992	26 078
	399,439	409,372	403,433	387,295

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

	Gross Claims Incurred		Gross Operating Expenses		Reinsurance Balance	
	2007	*2006*	*2007*	*2006*	*2007*	*2006*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Direct Insurance						
Creditor Business	30 640	33 743	148 237	184 509	(25 288)	(10 533)
Other financial loss	8 910	9 004	81 106	45,624	(35 047)	(23 616)
Personal Accident Business	(261)	2 391	11 261	12 396	-	-
Travel	804	2,599	(2)	2 746	(113)	(989)
Other	-	-	4	(9)	(5)	12
Reinsurance acceptances						
Creditor Business	6 957	6,337	16 918	13 648	-	-
	47,050	54,074	257,524	238,914	(60,453)	(35,126)

(c) Analysis by geographic area

	Gross Premiums Written		Profit Before Taxation		Net Assets	
	2007	*2006*	*2007*	*2006*	*2007*	*2006*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
United Kingdom						
Other continuing operations	138 516	152 955	(6 531)	(566)	(9 009)	9 808
Europe						
Other continuing operations	260 923	256 417	44 620	28 025	168 264	121 554
	399 439	409 372	38 089	27 459	159 255	131 362

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

Of the gross premiums written in the United Kingdom and Europe £110 824,000 and £209,136,000 (2006 £127 173 000 and £214 228 000) relate to direct insurance

2 Other Technical Income

Other technical income includes third party account income of £1 162 000 (2006 £764 000) and foreign exchange gains of £279 000 (2006 £430 000)

3 Movement in Prior Year's Provision for Claims Outstanding

A positive run-off deviation in claims outstanding of £11 775 000 net of reinsurance was experienced during the year in respect of total business (2006 - positive deviation of £14 603,000 net)

4 Net Operating Expenses

	2007	*2006*
	£'000	*£'000*
Policy acquisition costs	165 765	173 938
Reinsurance commissions and profit participations	116 607	107 578
Change in deferred acquisition costs	(2 356)	(19 246)
Administrative expenses	35 634	38 683
Less ceding commission and profit share participations received from reinsurers	(71 815)	(74 757)
	243 835	226 196

Total commission for direct insurance accounted for by the Company during the year amounted to £164 804 000 (2006 £144 510,000)

5 Auditors' Remuneration

	2007 £'000	2006 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	103	92
Total audit fees	103	92
Other services pursuant to legislation	65	13
Total non-audit fees	65	13
Fees payable to the company's auditors and their associates in respect of associated pension schemes	10	11

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

	2007 £'000	2006 £'000
Wages and salaries	2 935	2,477
Social security costs	545	419
Other pension costs	310	240
	3 790	3 136

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

	2007 No	2006 No
Administration and Finance	15	23
Operations	59	43
Sales and Marketing	35	22
	109	88

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

	2007 £'000	2006 £'000
Directors' Remuneration		
Emoluments	1 332	931
Amounts receivable (other than share options) under long-term incentive schemes	21	103
Company contributions to money purchase schemes	26	21
	1 379	1 055

	2007 No	2006 No
The number of directors who		
Are members of a defined benefit pension scheme	3	2
Are members of a money purchase pension scheme	2	1
Exercised options over shares in the company	-	1
Had awards receivable in the form of shares under a long-term incentive scheme	5	3

	2007 £'000	2006 £'000
Remuneration of the highest paid director		
Emoluments	434	395
Amounts receivable (other than shares and share options) under long-term incentive schemes	4	67
Company contributions to money purchase schemes	23	21
	461	483

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

9 Investment Return

	2007 £'000	2006 £'000
Investment income		
Income from other investments	17 643	18 253
Losses on the realisation of investments	(5 289)	(3 435)
	12 354	14 818
Investment expenses and charges		
Investment management expenses, including interest	(288)	(174)
Unrealised losses on investments	(2 497)	(7 468)
Total investment return	9 569	7 176

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

10 Taxation

	2007 £'000	2006 £'000
United Kingdom corporation tax at 30% (2006 - 30%)		
Current tax on income for the period	12 284	6 562
Adjustments relating to prior years	411	568
Double taxation relief	(12 284)	(6 500)
	411	630
Foreign tax		
Current tax on income for the period	12 121	1 692
Current tax	12 532	2,322
Deferred taxation		
Origination and reversal of timing differences	(796)	1 744
Adjustment relating to change in UK Tax Rate	6	
Adjustments relating to prior years	911	(1 767)
	121	(23)
Tax on profit on ordinary activities	12 653	2 299

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

	2007 £'000	2006 £'000
Non-Technical account		
Profit on ordinary activities before tax	38 089	27 459
Standard rate of corporation tax in the UK of 30%	11 427	8 238
Effects of		
Prior year adjustment for group relief claimed from affiliates	-	(2 919)
Fixed asset timing differences	31	14
Short Term Timing Differences	793	(1 758)
Permanently disallowable items for UK taxation	33	68
Foreign taxation	12,121	7,109
Double taxation relief	(12 284)	(6 500)
Prior year tax adjustment	411	(1 930)
Current tax charge for the period	12 532	2 322

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

	2007 £'000	2006 £'000
Fixed assets	6	23
Cost for pension recharged from FIGSL	(209)	-
Pension spreading	105	-
Total deferred tax asset	(98)	23

11 Dividends Paid

	2007 £'000	2006 £'000
Equity shares		
Dividend paid of 14 77p per share (2006 6 90p per share)	10 961	5 120

Notes to the Financial Statements
for the year ended 31 December 2007

12 Negative Goodwill

	2007 £'000	2006 £'000
Cost		
At 1 January	(2 858)	(2,950)
Foreign exchange adjustment to prior year balance	(258)	92
At 31 December	(3 116)	(2 858)
Depreciation		
At 1 January	386	197
Charge for the period	243	189
At 31 December	629	386
Net book value at 31 December 2007	(2 487)	(2 472)

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	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Debt securities and other fixed income securities	324,587	303 486	315 771	313,879
Holdings in collective investment schemes	34 153	19,538	34 153	19 538
Deposits with credit institutions	6 537	-	6 537	-
	365 277	323 024	356 461	333 417

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

	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Debt securities and other fixed income securities	322 575	301 486	313,771	311 879
Holdings in collective investment schemes	34 153	19 538	34 153	19 538
	356 728	321 024	347 924	331 417

14 Debtors Arising Out of Direct Insurance Operations

	2007 £'000	2006 £'000
Amounts owed by intermediaries	17,949	31 942
Amounts owed by group undertakings	7 133	9 289
	25 082	41 231

15 Debtors Arising Out of Reinsurance Operations

	2007 £'000	2006 £'000
Other reinsurance debtors	6 365	2 378
	6 365	2 378

16 Other Debtors

	2007 £'000	2006 £'000
Deferred tax (see note 10)	-	23
Other debtors	5 900	4 531
	5 900	4 554

**Notes to the Financial Statements
for the year ended 31 December 2007**

17 Tangible Assets

	Leasehold Improvements	Computer Equipment	Fixtures, Fittings and Office Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2007	440	130	457	1 027
Exchange differences	45	14	74	133
Purchases in the year	145	20	366	531
At 31 December 2007	630	164	897	1 691
Depreciation				
At 1 January 2007	129	87	229	445
Exchange differences	12	8	28	48
Charge for the year	31	4	81	116
At 31 December 2007	172	99	338	609
Net book value at 31 December 2007	458	65	559	1 082
Net book value at 31 December 2006	311	43	228	582

18 Share Capital

	2007	2006
	£'000	£'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

	Called up Share Capital	Share Premium Account	Other Reserves	Profit & Loss Account	Total
	£'000	£'000	£'000	£'000	£'000
Profit for the financial year	-	-	-	25 436	25 436
Dividends paid (note 11)	-	-	-	(10,961)	(10 961)
Currency translation differences	-	-	13,419	-	13 419
Net addition to shareholders' funds	-	-	13 419	14 475	27 894
Opening shareholders funds at 1 January	74 213	17 327	(2 152)	41 973	131,361
Closing shareholders' funds at 31 December	74 213	17 327	11 267	56 448	159 255

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 2007	316 564	50 469	134
Change in technical provisions	16 816	(2 433)	(134)
At 31 December 2007	333 380	48 036	-

The equalisation provision provision brought forward of £134 000 was released during the year (2006 unchanged) This provision was in addition to the provision required to meet the ultimate cost of settlement of outstanding claims at the balance sheet date and 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

21 Creditors Arising Out of Reinsurance Operations

	2007	2006
	£'000	£'000
Amounts owed to intermediaries - group undertakings	4 750	2 578
Amounts owed to reinsurers	5 343	2 826
	10 093	5 404

22 Other Creditors Including Taxation and Social Security

	2007 £'000	2006 £'000
Corporation tax	2 555	420
Deferred tax (see note 10)	98	-
Insurance premium tax	1,112	1,186
Other creditors	5 145	3 440
	8 910	5 046

Other creditors include a provision for dilapidations on leases of £147 000 (2006 Nil)

23 Financial Commitments

	Land and Buildings 2007 £'000	Other 2007 £'000	Total 2007 £'000	Total 2006 £'000
Annual commitments under non-cancellable operating leases are as follows				
Operating leases which expire				
Within one year	111	-	111	2
In the second to fifth years inclusive	96	240	336	354
Over five years	451	36	487	325
	658	276	934	682

24 Contingent Liabilities

At 31 December 2007 there is a letter of credit of €41,750 in respect of a lease of office space in Milan

25 Pension and Similar Obligations

The Company participates in pension arrangements in Finland Italy and Portugal 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 Italy is a private pension fund that has been entered into with Generali Insurance and the employer and employee contributions are paid into this fund on a monthly basis In addition the 'TFR' (the amount payable to the employee on leaving the company as required by Italian law) can also be paid into the private pension fund or accrued within the company The arrangement in Portugal is a 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

26 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 27 for details to obtain a copy of the financial statements for Genworth Financial Inc

27 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