

Company No : 3136300

**EQUITAS REINSURANCE LIMITED**

**REPORT & ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2008**

TUESDAY



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COMPANIES HOUSE

## **EQUITAS REINSURANCE LIMITED**

### **Chairman**

HA Stevenson

### **Directors**

JV Barker

Chief Executive Officer

ME McL Deeny

SG McGovern

RB Spooner

### **Company Secretary**

SJ Britt

### **Registered Office**

33 St Mary Axe  
London EC3A 8LL

## **EQUITAS REINSURANCE LIMITED**

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## **EQUITAS REINSURANCE LIMITED**

### **Directors' report for the year ended 31 March 2008**

The Directors present their report and the audited financial statements for the financial year ended 31 March 2008

### **Parent company**

The Company is a wholly-owned subsidiary of Equitas Holdings Limited

### **Principal activities**

The Company was established as part of the Lloyd's Reconstruction and Renewal Plan. On 3 September 1996 it executed a Reinsurance and Run-Off Contract pursuant to which it reinsured the business written by Lloyd's syndicates allocated to the 1992 and prior years of account, other than life syndicates and business previously reinsured by Lioncover Insurance Company Limited ('Lioncover'). It reinsured the business previously reinsured by Lioncover with effect from 18 December 1997 under the Lioncover Reinsurance Agreement. The Company is only authorised to effect these reinsurances and related activities. The Company is authorised and regulated under the Financial Services and Markets Act 2000 ('FSMA') by the Financial Services Authority ('FSA').

### **Reinsurance Contracts**

The reinsurance and run-off contract ("RROC") pursuant to which the Company reinsured Names' liabilities in September 1996 required the Company to send the Group's annual report and consolidated accounts to Names and to seek confirmation of Names' addresses each year. Similar provisions were contained in the Lioncover Reinsurance Agreement. Following the fundamental change to the Group's activities as a result of the National Indemnity retrocession, the Board concluded that the administrative burden and expense involved in fulfilling these requirements were disproportionate. Accordingly, with effect from 31 March 2008, the RROC and the Lioncover Reinsurance Agreement were amended to require Equitas Reinsurance Limited ('ERL') to send the Group's annual report and consolidated accounts only to those Names who requested a copy and by removing the requirement to seek confirmation of Names' addresses annually. The RROC continues to permit ERL to require Names to confirm their addresses and in that event Names must do so within 21 days. No such request is made at this time.

### **Business review**

The Company does not have an ongoing operational role, the business reinsured by the Company having been 100 per cent retroceded to Equitas Limited under a retrocession agreement dated 3 September 1996 ('Retrocession Agreement'). Until 30 March 2007 Equitas Limited was responsible for the run-off of that business. Equitas Limited is a wholly-owned subsidiary of the Company and accordingly the movement in the balance sheet of the Company is attributable to the surplus (2007 deficit) for the year ended 31 March 2008 reported by Equitas Limited.

On 30 March 2007 Equitas Limited completed a reinsurance agreement with National Indemnity Company ('National Indemnity'), a member of the Berkshire Hathaway group of insurance companies. The first phase of the agreement involves the purchase by Equitas Limited of an additional \$5.7 billion of reinsurance cover over and above the existing reserves as at 31 March 2006, less claims payments made and reinsurance recoveries received since 1 April 2006. It also involved the sub-delegation by Equitas Limited of its run-off responsibilities to Equitas Management Services Limited ('EMSL') and the sale of EMSL (re-named Resolute Management Services Limited) to a member of the Berkshire Hathaway Group. The second phase involves seeking the approval of the High Court to transfer Names' obligations to policyholders to another company, should necessary changes be made to FSMA 2000.

As a result of this transaction both the Company and Equitas Limited have been transformed and the Board believes the prospect of the failure of the Company now to be extremely remote.

## **EQUITAS REINSURANCE LIMITED**

Following the purchase of the reinsurance from National Indemnity, Equitas approved an aggregate return premium of £50 million to be paid to the approximately 34,000 Reinsured Names, Lioncover and Centrewrite Limited in accordance with their respective entitlements. At 31 March 2008, 27,760 of those entitled to a return premium have been paid their entitlement. This accounts for just over £43 million of the total return premium. The balance is payable to the remaining Reinsured Names or their estates on satisfaction by them of outstanding procedural requirements.

Further details of the agreement between Equitas Limited and National Indemnity can be found in the Report & Accounts of Equitas Holdings Limited for the year ended 31 March 2008.

### **Results**

The Company recorded a surplus of £1 million after tax for the year ended 31 March 2008 (2007: £428 million deficit). The Company's Articles of Association do not permit the payment of a dividend.

### **Directors**

The names of the Directors at the date of this report are listed on page 2. All held office throughout the year except Mr SG McGovern who was appointed a Director with effect from 1 September 2007. Mr I C Agnew served as a Director until his retirement on 1 September 2007.

The Company's Articles of Association stipulate that the Directors of the Company shall be the same as the Directors of its immediate parent company, Equitas Holdings Limited. All the persons who served as Directors during the year under review were also Directors of Equitas Holdings Limited.

### **Qualifying Indemnities**

During the year each Director had the benefit of a standard indemnity under the Articles of Association of the Company, Equitas Holdings Limited and Equitas Limited in respect of liabilities (including legal fees and expenses) incurred in defending proceedings, whether civil or criminal, in which he is acquitted, judgment is given in his favour or certain other relief is granted. These indemnities do not cover liability attaching to a Director in connection with any finding of negligence, default, breach of duty or breach of trust by him in relation to the Company, Equitas Holdings Limited or Equitas Limited.

### **Directors' responsibilities**

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the financial statements, the Directors are required to

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

The Directors confirm they have complied with the above requirements when preparing the financial statements.

## **EQUITAS REINSURANCE LIMITED**

The accounting policies on page 12 set out the issues relevant to the going concern basis for the preparation of the financial statements

The Directors are responsible for keeping proper accounting records which 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors' responsibility for the accounting records in relation to the reinsured liabilities commenced on 3 September 1996 on execution of the Reinsurance and Run-Off Contract.

### **Disclosure of information to Auditors**

Each Director confirms that so far as he is aware there is no relevant audit information of which the Company's auditors are unaware. Each Director also confirms that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any such information and to establish whether the auditors are aware of that information.

### **Auditors**

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be put to the forthcoming Annual General Meeting.

As permitted by the Company's Articles of Association, indemnities have been given to PricewaterhouseCoopers LLP against costs and liabilities incurred or arising out of their work as auditors in circumstances where a court finds in their favour.

By Order of the Board



**Stephen Britt**  
*Company Secretary*  
10 June 2008

## **EQUITAS REINSURANCE LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EQUITAS REINSURANCE LIMITED**

We have audited the financial statements of Equitas Reinsurance Limited for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

#### **Basis of audit opinion**

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

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

#### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008 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.

## EQUITAS REINSURANCE LIMITED

### Emphasis of matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the uncertainties relating to the provision for claims outstanding of £4,429million and reinsurers' share of claims outstanding of £4,429 million

Future experience may show material adjustments are required to these amounts in respect of assumptions made in estimating provisions and the potential for unforeseen change in the legal, judicial, technological or social environment, the risk of unexpected outcomes on disputed claims and court decisions and the potential for new sources or types of claim to emerge

As described in note 1, because of the reinsurance with National Indemnity Company, movements in claims outstanding would only affect the result for the year or net assets if the remaining reinsurance cover becomes exhausted



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
10 June 2008



# EQUITAS REINSURANCE LIMITED

## Profit and loss account for the year ended 31 March 2008

### Technical account - general business

	Note	2008 £m	2007 £m
Gross premiums written		-	(50)
Outwards premiums written		-	50
Net premiums written	4	-	-
Claims paid			
Gross amount		(310)	(408)
Reinsurer's share		310	408
Net claims paid	5	-	-
Change in the provision for claims			
Gross amount		(22)	673
Reinsurer's share		22	(673)
Change in the net provision for claims	14	-	-
Claims incurred, net of reinsurance		-	-
<b>Balance on the technical account for general business</b>		-	-

The accounting policies and notes on pages 12 to 18 form an integral part of these financial statements

# EQUITAS REINSURANCE LIMITED

## Profit and loss account for the year ended 31 March 2008

### Non-technical account

	Note	2008 £m	2007 £m
Balance on the technical account for general business		-	-
Unrealised gain/(loss) on investments	10	1	(428)
Surplus/(deficit) on ordinary activities before tax	6	<u>1</u>	<u>(428)</u>
Tax on surplus/(deficit) on ordinary activities	9	-	-
<b>Surplus/(Deficit) for the year</b>	<b>13</b>	<b><u>1</u></b>	<b><u>(428)</u></b>

No gains or losses have been recognised other than through the profit and loss account and the Company has no discontinued activities

The accounting policies and notes on pages 12 to 18 form an integral part of these financial statements

# EQUITAS REINSURANCE LIMITED

## Balance sheet as at 31 March 2008

Assets	Note	2008 £m	2007 £m
<b>Investments</b>			
Shares in Group undertakings	10	31	30
<b>Reinsurer's share of technical provisions</b>			
Claims outstanding	14	4,429	4,757
<b>Debtors</b>			
Debtors arising from reinsurance operations	11	7	50
<b>Total assets</b>		<u>4,467</u>	<u>4,837</u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	12	-	-
Retained surplus	13	31	30
<b>Shareholders' funds – non-equity interests</b>		<u>31</u>	<u>30</u>
<b>Technical provisions</b>			
Claims outstanding	14	4,429	4,757
<b>Creditors arising out of reinsurance operations</b>	15	7	50
<b>Total liabilities</b>		<u>4,467</u>	<u>4,837</u>

The financial statements on pages 9 to 18 were approved by the Board on 10 June 2008 and were signed on its behalf by



HA Stevenson



JV Barker

The accounting policies and notes on pages 12 to 18 form an integral part of these financial statements

## **EQUITAS REINSURANCE LIMITED**

### **Notes to the financial statements for the year ended 31 March 2008**

#### **1 Accounting policies**

No changes in respect of accounting policies have been made this year

#### **Going concern**

The financial statements have been prepared on a going concern basis

Significant uncertainties exist as to the accuracy of the provision for claims outstanding established by the Company. Adjustments to claims outstanding due to the uncertainties highlighted in note 2 may be material. Because of the terms of the reinsurance agreement with National Indemnity, the Company is not exposed to movements in claims outstanding provided these remain within the limits of the reinsurance cover purchased.

In view of the financial strength of National Indemnity and the size of the additional reinsurance cover available to the Company following the National Indemnity transaction, in overall terms and relative to the size of the provision for claims outstanding, the Directors have concluded that it continues to be appropriate to prepare the financial statements on a going concern basis.

#### **Basis of presentation**

The Company is exempt under section 228 of the Companies Act 1985 from the requirement to produce consolidated accounts.

The financial statements of the Company have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on accounting for insurance business issued by the Association of British Insurers dated December 2005.

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

#### **Other important accounting policies**

A summary of the more important accounting policies is set out below. The accounting policies have been applied consistently.

##### **(a) Basis of accounting**

The financial statements have been prepared in accordance with the historical cost convention modified by the revaluation of certain assets and liabilities. An annual basis of accounting has been adopted.

##### **(b) Claims and related reinsurance recoveries**

The provision for claims outstanding in the balance sheet is based upon the estimated ultimate cost of all claims, including those incurred but not reported ('IB NR') at the balance sheet date. Provisions for claims outstanding are stated gross of recoveries to be made on reinsurance contracts purchased by the reinsured syndicates and the Company.

Claims incurred include deductions made for salvage and other recoveries. Additional premiums receivable and payable by syndicates in respect of risks accepted under the Reinsurance and Run-Off Contract are included within the movement of claims incurred.

##### **(c) Discounting**

## **EQUITAS REINSURANCE LIMITED**

Until 30 March 2007 the reinsured liabilities were not expected to be fully settled for many years, and the provisions for claims outstanding and related reinsurance recoveries were discounted in previous years. Following the transaction with National Indemnity the economic benefit of investment income on investments that used to be held by Equitas Limited will not be passed to the Company and therefore it is no longer appropriate to discount the provision for claims outstanding and the related reinsurance recoveries. This is consistent with the accounts of Equitas Limited which is no longer permitted to discount its balance sheet because the financial investments matching the provision for claims outstanding have been transferred to National Indemnity.

### **(d) Investments**

Investments in subsidiary undertakings are stated at the Directors' estimate of the current value.

### **(e) Foreign exchange**

Assets and liabilities are translated into sterling at the rates of exchange prevailing at the balance sheet date and the exchange differences taken to the profit and loss account. Transactions during the period are translated into sterling using the rate of exchange prevailing at the time of the transaction, with the exchange differences taken to the profit and loss account.

### **(f) Cash flow statement**

As permitted by FRS 1 – Cash Flow Statements (revised 1996), no cash flow statement has been prepared as the Company is a wholly-owned subsidiary.

## **2 Estimation techniques and uncertainties**

### **Introduction**

The last comprehensive actuarial review was undertaken at 31 August 2007, the figures were rolled forward to 31 March 2008. The core estimation techniques described below are expected to be followed in future years, although the level and frequency of reviews in each area may be reduced in view of the much improved financial position of the Company following the National Indemnity transaction.

Because of the uncertainties inherent in the Company's liabilities, there are many assumptions and estimation techniques described below which individually could have a material impact on the amount of liabilities and the related reinsurance assets. Actual experience will often vary from these assumptions, and any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified. The provision for claims outstanding is based upon actuarial and other studies of the ultimate cost of liabilities including exposure based and statistical estimation techniques.

Significant delays occur in the notification and settlement of certain claims, and a substantial measure of experience and judgment is involved in making the assumptions for assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The gross provision for claims outstanding and related reinsurance recoveries is estimated on the basis of information currently available.

The provision for claims outstanding includes significant amounts in respect of notified and potential IBNR claims for long tail liabilities. The settlement of these claims is not expected to occur for many years, and there is considerable uncertainty as to the amounts at which they will be settled.

Where a claim is disputed, the validity of the claim is ultimately an issue that can only be determined by the courts. The provisions for disputed claims are based on the Company's view as to the expected outcomes of such court decisions.

## EQUITAS REINSURANCE LIMITED

Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or decrease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge

### **Asbestos claims**

In estimating asbestos liabilities, the Company follows a highly developed actuarial framework. The majority of asbestos reserves is estimated by modelling the expected claims from policyholders of the reinsured syndicates.

The number of future claims is projected for direct policyholders based on past claims experience combined with the results of epidemiological and other relevant studies that predict the incidence of asbestos related diseases into the future. This is then combined with estimates of the average cost of settling different types of claims for each policyholder to give a total value of claims to the relevant underlying policyholders. The results of these projections are then applied to the insurance coverage available for those policyholders, resulting in an estimation of the Company's liabilities arising from claims against those policyholders. The results are then adjusted to take into account liabilities in respect of policyholders that are not modelled explicitly, including an amount for those liabilities of which the Company may be currently unaware.

A similar modelling process is used to estimate asbestos liabilities for the largest inwards reinsurance accounts ceded to the reinsured syndicates, but with the additional step of applying the ceding companies' expected liabilities to the reinsurance cover available. The ceded liabilities that cannot be explicitly modelled are estimated by reference to the current and historical claims experience of the cedants, taking into account cedant specific characteristics where appropriate.

The techniques described above include a number of important assumptions, including

- the projected level of future valid claims filings for each policyholder by disease type,
- future levels of claims settlement values,
- the impact of bankruptcy of policyholders on the amount and timing of claims payments,
- the legal interpretation of insurance policies and the outcome of litigation, based upon legal advice received, and
- the period between the filing and payment of claims.

The assumptions on the proportion of claims filings that will ultimately lead to claims payments reflect an assessment that the claims management strategies adopted by the Company will reduce claims payments below the level that they would otherwise have been.

### **Pollution and health hazard claims**

Pollution liabilities are estimated for policyholders of the reinsured syndicates by evaluating the expected costs to be incurred by the policyholders in cleaning up polluted sites and then applying these costs to the insurance coverage available. The pollution liabilities expected by means of inwards reinsurance are evaluated in a similar manner, but with the additional step of applying the ceding companies' expected liabilities to the reinsurance cover available.

Allowance is then made for liabilities in respect of policyholders for which either sufficient information is unavailable to carry out the above analysis or which have not yet been identified.

Health hazard liabilities are estimated using similar principles to the above, in that the liabilities of the policyholder are estimated for the majority of reserves and then applied to the insurance coverage.

These evaluation techniques involve a number of important assumptions, including

- the validity and quantum of the claims potentially faced by the policyholder,
- the legal interpretation of insurance policies and the outcome of litigation, based upon legal advice received, and
- the degree to which potential or unforeseen health hazards may have an effect on the liabilities.

## EQUITAS REINSURANCE LIMITED

### Other claims

The estimation of the majority of other liabilities involves a projection, based upon historical claims experience, of separate homogeneous sub-divisions by underwriting year. The techniques used include calendar year and development year projections, as well as curve-fitting.

### Operating expenses

On 30 March 2007, the provision for operating expenses was transferred to National Indemnity, which is now responsible for current and future operating expenses for as long as the net claims paid by National Indemnity are less than the total cover available.

### Reinsurance recoveries

The Company retroceded the business it reinsured to Equitas Limited. Reinsurance recoveries on claims outstanding represent the reinsurance recoverable from Equitas Limited. Any change in the provision for claims outstanding will be matched by an equivalent, but opposite, movement in reinsurer's share of technical provisions. Reinsurance recoveries are considered recoverable in full.

## 3 Segmental information

The Company transacts only one class of business, being 100 per cent proportional reinsurance written in the United Kingdom.

## 4 Net premiums written

	2008 £m	2007 £m
Gross premiums written	-	(50)
Outwards premiums written	-	50
	<u>-</u>	<u>-</u>

### Gross premiums written

The Company accrued at the end of 2007 an aggregate return premium of £50 million to Reinsured Names, Lioncover and Centrewrite in accordance with their respective entitlements.

### Outwards premiums written

A proposed return premium was due at the end of 2007 from Equitas Limited in accordance with the Retrocession Agreement.

## 5 Net claims paid

The Company has a retrocession agreement with Equitas Limited, covering 100 per cent of the business reinsured by the Company. Net claims paid reflect this retrocession.

## 6 Surplus/(deficit) on ordinary activities before tax

The surplus/(deficit) is stated after charging

Auditors' remuneration	2008 £000	2007 £000
<b>Audit services</b>		
Fees payable to the Company's auditor for the audit of the accounts	21	20
<b>Non audit services</b>		
Other services not covered above	-	15
	<u>21</u>	<u>35</u>

## EQUITAS REINSURANCE LIMITED

### 7 Employees

The Company has no employees. Personnel and other services are provided to the Company by Equitas Holdings Limited and Resolute Management Services Limited.

### 8 Directors' emoluments

Directors provided their services to the Group as a whole and their remuneration cannot be meaningfully allocated to individual companies. Details of their remuneration (including the Chairman's emoluments) and transactions are shown in the financial statements of Equitas Holdings Limited.

### 9 Tax on surplus/(deficit) on ordinary activities

The Company is a mutual insurance company for tax purposes and its underwriting result is therefore not subject to corporation tax. Corporation tax of £3,640 is payable on non-technical profits for the year of £14,648.

### 10 Investments: shares in Group undertakings

Company Name	Class and proportion of shares held	Country of incorporation	Business activities
Equitas Limited	Ordinary 100%	England	Reinsurance run-off

The ordinary shares of Equitas Limited do not bear the right to dividends or to capital distributions. It is intended that any surplus assets at the end of the run-off of the claims liabilities will be paid to the Company by way of a profit participation. The Company commenced payment of a return premium to Reinsured Names, Lioncover and Centrewrite in accordance with their respective entitlements during the year.

The unrealised gain during the year of £1 million (2007: £428 million unrealised loss) represents the change in the Directors' estimate of the current value of the shares in Group undertakings.

### 11 Debtors arising out of reinsurance operations

Debtors arising out of reinsurance operations include £7 million (2007: £50 million) which is due from a Group undertaking.

### 12 Called up share capital

	2008 £	2007 £
<b>Authorised, allotted and called up</b>		
1 ordinary share of £100	<u>100</u>	<u>100</u>

The share was issued at par on incorporation and is fully paid. The share does not bear rights to dividends.

At the completion of the run-off of the claims liabilities or the successful Transfer of Business associated with Phase 2 of the transaction with National Indemnity if earlier, it is intended that any surplus assets of the Company should be applied to the payment of a further return premium to Reinsured Names. Such a payment would require the consent of the FSA. This intention is deemed to limit the rights to dividends on the ordinary share and accordingly it is considered to be a non-equity share.



## EQUITAS REINSURANCE LIMITED

### 13 Retained surplus

	2008 £m	2007 £m
Opening retained surplus	30	458
Surplus/(Deficit) for the year	1	(428)
Closing retained surplus	<u>31</u>	<u>30</u>

### 14 Provision for claims outstanding

	Claims £m	Reinsurance £m	2008 Net £m	Claims £m	Reinsurance £m	2007 Net £m
Undiscounted provisions	4,429	4,429	-	4,757	4,757	-

The provision for claims outstanding relates to amounts payable under the agreements governing the reinsurance of the 1992 and prior years' liabilities of syndicates at Lloyd's, other than life syndicates including, since 18 December 1997, the business previously reinsured by Lioncover

The Company has retroceded the businesses it reinsured to its subsidiary, Equitas Limited under the Retrocession Agreement. Whilst any changes in the provision for claims outstanding will be matched by an equivalent, but opposite, movement in reinsurer's share of technical provisions, the ability of Equitas Limited to pay amounts due under the Retrocession Agreement is dependent on it having sufficient assets. The Board believes that the risk of Equitas Limited not being able to pay amounts due has been significantly reduced following the reinsurance transaction with National Indemnity, which provided an additional \$5.7 billion of reinsurance cover.

#### (a) Claims and reinsurance recoveries

Claims and reinsurance recoveries are stated after elimination of inter-syndicate transactions.

#### (b) Discounting

The provision for claims outstanding and the related reinsurance recoveries are not discounted. Following the transaction with National Indemnity the economic benefit of investment income on investments that used to be held by Equitas Limited do not pass to the Company and therefore it is not appropriate to discount the balance sheet. This is consistent with the accounts of Equitas Limited which does not discount its balance sheet because the financial investments matching the provision for claims outstanding were transferred to National Indemnity.

#### (c) Estimation techniques and uncertainties

Details of the estimation techniques employed in the setting of the provision for claims outstanding and the associated uncertainties appear in note 2 on page 13.

### 15 Creditors arising out of reinsurance operations

Following completion of the reinsurance agreement between Equitas Limited and National Indemnity, the Company accrued an aggregate return premium of £50 million on 31 March 2007. The first distribution in respect of this amount was made in June 2007. At 31 March 2008, £7 million was outstanding.

All creditors arising out of reinsurance operations are payable within one year.

## EQUITAS REINSURANCE LIMITED

### 16 Reconciliation of movements in shareholders' funds

	2008 £m	2007 £m
Opening shareholders' funds	30	458
Surplus/(Deficit) for the year (see note 13)	1	(428)
Closing shareholders' funds	<u>31</u>	<u>30</u>

### 17 Related party transactions

The Company is a wholly-owned subsidiary and the financial statements of the Group in which the Company is included are publicly available. Therefore it is not required to disclose transactions with entities that are part of the Group or investees of the Group qualifying as related parties under FRS 8 – Related Party Disclosures.

### 18 Contingent liabilities and assets

The Company has granted certain indemnities to Directors, Employees and the Auditors.

The Company had no other material contingent liabilities or assets outside the normal course of business at the balance sheet date.

### 19 Parent undertaking

Equitas Holdings Limited is the parent company of Equitas Reinsurance Limited. Copies of the accounts of Equitas Holdings Limited can be obtained from the registered office at 33 St Mary Axe, London EC3A 8LL.