Swiss Re

Swiss Re Specialty Insurance (UK) Limited
(formerly GE Specialty Insurance (UK) Limited)
Annual Report 2006

Contents

Directors and Officers

Board of Directors as at 29 March 2007	Mr T J Carroll	Chairman	
	Mr N Beck		(appointed 11th August 2006)
	Mr J Isherwood		(appointed 24th January 2006, resigned 18th September 2006)
	Mr A Izaga		
	Mr P DeMartin		(resigned 12th June 2006)
	Mr M Elborne		(resigned 7th June 2006)
Company Secretary	Tracey Poole		
Registered Office	30 St Mary Axe London EC3A 8EP Telephone 020 7933 3000 Fax 020 7933 5000		
Auditors	PricewaterhouseCoopers LLP Southwark Towers 32 London Bridge Street London SE1 9SY		
Registered number	186919		

Directors' Report

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2006

Principal activity
The principal activity of the Company continues to be the transaction of all classes of general insurance business

Results and Dividends
The results for the year are set out on pages 10 and 11

The retained loss on ordinary activities after tax in 2006 amounted to £602,000 (2005 £1,297,000 loss)

The Directors recommend that no dividends be declared on the ordinary shares for 2006 (2005 £ nil)

Business Review
The Company was acquired by Swiss Re in 2006 as part of the transaction between Swiss Re and General Electric Company to transfer most of the GE Insurance Solutions Group

The Company became a subsidiary of Swiss Reinsurance Company UK Ltd after the majority of the business and assets of Swiss Re Frankona Reinsurance Limited, including its subsidiaries (which included the Company) were transferred under a Scheme pursuant to Part VII of the Financial Services & Markets Act 2000 on 1 September 2006 to Swiss Reinsurance Company UK Ltd

The name of the Company was changed from GE Specialty Insurance (UK) Limited to Swiss Re Specialty Insurance (UK) Limited with effect from 29 September 2006

The majority of business has been renewed into the Company's sister company SR International Business Insurance Company Limited, with the exception of aviation business into 2007

Business Environment
The Company operates in the highly competitive international business insurance market This market is diverse, without a single dominant participant Business is traditionally introduced via intermediaries although the Company is structured to develop its own business relationships and so direct placement with clients does occur

Contracts written are generally of 12 months duration These are subject to competitive tendering on renewal This can lead to volatility in business volume, particularly as pricing is cyclical, driven by the relationship of claims to premiums and the entry of capital to write new business The performance of the Company is intrinsically linked to impacts arising from catastrophic natural events (floods, wind storms etc) and man-made disasters (fire, accident damage, bodily injury, professional and product liability etc) The Company has in place tools to assist the assessment of risks acquired and the calculation of the associated premiums for assuming those risks

Business Strategy
The business strategy is to offer specialised insurance products by sharing our unique risk management capabilities with clients The Company allows clients to

transfer risk, make efficient use of capital and execute competitive business strategies

Swiss Re's business goals are to ensure sustainable earnings growth and to pursue high quality business rather than volume for volume's sake This is further supported by continually expanding the scope and range of services we provide to clients in all lines of business and regions Swiss Re's strategic direction focuses on four key objectives to deliver enhanced sustainable return for shareholders

- Generate economic profit growth,
- Reduce earnings volatility,
- Enlarge market scope, and
- Advance organisational excellence

In the UK, the global strategic objectives have been embedded in all activities, helping us to further improve our economic efficiency, as well as seeking opportunities, whether organically or through acquisitions, for profitable growth in our insurance and reinsurance markets

Future Outlook

The Company operates in a mature but very active market Annual contracts renew throughout the year with a bias towards the 2nd and 3rd quarters of the year In future the Company will only be used for selected risks and this will result in a marked decline in volume reporting

On 13 March 2007 Swiss Re announced that it will optimise its legal entity structure in the EU by forming three legal entities, based in Luxembourg, which will serve as risk carriers for most of its European reinsurance and insurance business, operating via branches in the rest of the EU The new legal structure will result in more efficient capital management, administration and reporting

The new legal structure will improve the alignment of regulatory and economic capital requirements Swiss Re intends to have the new structure in place by mid 2009, starting with the conversion of the first locations by 1 January 2008 For Swiss Re clients, the envisaged change will have no significant impact, as Swiss Re's business structure and market approach will remain unchanged.

The existing local operations will continue, operating as branches, to have the responsibility for their business activities

Principal Risks & Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks The key business risks affecting the Company are set out below Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them

Insurance risk refers to fluctuation in the timing, frequency and severity of insured events, relative to the expectations at the time of underwriting Insurance risk can also refer to fluctuations in the timing and amount of claim settlements Specific examples of insurance risk include variations in the amount of frequency of claims or the unexpected occurrence of multiple claims arising from a single cause

The Company manages its exposure to insurance risk by use of reinsurance, predominately from the Swiss Re Group

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price Market risk typically comprises currency risk, interest rate risk and equity price risk Equity price risk is the risk that arises from changes in market prices and these may be caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market Market risk is managed by investing in a well diversified portfolio of assets and, where appropriate, across both asset categories and geographical exposures The risk is monitored by the Finance and Risk Committee

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

- Exposure to corporate bonds,
- Reinsurer's share of insurance liabilities,
- Amounts due from reinsurers in respect of claims already paid, and
- Amounts due from insurance contract holders

The Company places limits on its exposures to any single counterparty and to geographical and industry segments

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost

The Company holds the vast majority of its financial investment assets in listed investments These are readily realisable in a relatively short period of time thus reducing overall liquidity risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events Within the Company this is wide ranging and can cover risks arising from policy issues, general processing or functionality errors, data, financial modelling and corporate tax, business continuity and outsourcing The Company monitors operational risk through routine management information and internal audits

Risk management

The risk management framework of the SRGB Group, is established in accordance with Swiss Re's overall risk management framework and relevant guidelines

The ultimate responsibility for the Company's risk management principles and policies lies with its Board of Directors, which is also responsible for approving the overall risk tolerance The committee of the Board that deals with risk management issues is the Finance and Risk Committee Group Internal Audit monitors the internal control framework

The Board has ultimate responsibility for risk management and is required to approve the overall risk framework for the Company, including risk policies, and review and approve the identification and prioritisation of all material risks facing the business, ensuring that arrangements are put in place to control those risks

The Swiss Re GB Plc Audit Committee is responsible for satisfying itself that a proper internal control framework to manage risks is in place throughout its group of companies and that controls are demonstrated to operate effectively

Key Performance Indicators
Performance during the current year together with historical trend data is set out below

KPI	2006	2005	
Gross Written Premiums £'000	15,130	17,767	Gross premiums written before outwards reinsurance
Gross Loss Ratio	6%	(187%)	Ratio of gross claims incurred to gross earned premiums
Gross Combined Ratio	(14%)	(209%)	Ratio of gross claims incurred, commissions and expenses to gross premiums earned
Net Underwriting Result £ 000	(374)	(2,419)	Balance on technical account for general business
Shareholder s Funds £'000	24,676	25,278	Value of shares in issue plus profit and loss account and revaluation account
Minimum Capital Requirement £ 000	2 406	3,922	Amount required for FSA regulatory purposes

Directors
The names of the Directors who served during the year up to 31 December 2006 are listed on page 2, together with those who served up to the date of signing the financial statements

Directors' interests
No Director held any disclosable interests in the share capital of the Company, Swiss Re GB Plc or any of its subsidiary companies during the year

Statement of Directors' responsibilities
The following statement should be read in conjunction with the auditors' report set out on pages 8 and 9, with a view to distinguishing for shareholders the respective responsibilities of the Directors and auditors in relation to the financial statements

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

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

Directors' Report

The Directors confirm that the financial statements comply with the above requirements and also confirm that

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

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

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

Charitable and Political donations
No donations were made for charitable or political purposes during the year (2005 £nil)

Auditors
The auditors KPMG Audit Plc resigned by letter dated 16 June 2006, PricewaterhouseCoopers LLP were appointed by the Board to fill the vacancy

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors

By order of the Board

Tracey Poole
Company Secretary
29 March 2007

Independent Auditors' Report

To the Members of Swiss Re Specialty Insurance (UK) Limited
We have audited the financial statements of Swiss Re Specialty Insurance (UK) Limited for the year ended 31 December 2006 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 Directors' report

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

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

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

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

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

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

Independent Auditors' Report

Equalisation provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions The nature of equalisation provisions, the amounts set aside at 31 December 2006, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and loss before tax, are disclosed in note 16

Opinion

In our opinion

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 March 2007

Profit and Loss Account
Technical Account – General Business

For the year ended 31 December 2006

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Earned premiums, net of reinsurance					
Continuing activies		4,721		4,895	
Discontinued activities		10,409		12,872	
Gross premiums written	2	15,130		17,767	
Outward reinsurance premiums		(13,654)		(16,091)	
Net premiums written		1,476		1,676	
Change in the gross provision for unearned premiums		997		828	
Change in the provision for unearned premiums, reinsurers' share		(897)		(745)	
Net change in the provision for unearned premiums		100		83	
Earned premiums, net of reinsurance			**1,576**		**1,759**
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(38,197)		(21,220))	
Reinsurers' share		34,891		19,764	
Net claims paid		(3,306)		(1,456)	
Change in the provision for claims					
Gross amount		39,239		(13,464)	
Reinsurers share		(36 973)		11,557	
Net change in the provision for claims		2,266		(1,907)	
Claims incurred, net of reinsurance			**(1,040)**		**(3,363)**
Change in equalisation provision			**(66)**		**214**
Net operating expenses	3		**(844)**		**(1,029)**
Balance on the technical account for general business					
Continuing activities		(62)			
Discontinued activities		(312)			
			(374)		**(2,419)**

All of the above arise from discontinued activities except for aviation business – see segmental analysis (note 2)

Profit and Loss Account
Non Technical Account

For the year ended 31 December 2006

	Notes	2006 £ 000	2006 £ 000	2005 £'000	2005 £'000
Balance on the general business technical account			**(374)**		**(2,419)**
Investment income	5	1,147		1,417	
Unrealised gains on investments	5	1,129		-	
Investment expenses and charges	5	(1,714)		(89)	
Unrealised losses on investments	5	-		(287)	
Net investment return			**562**		**1,041**
Other income			-		607
Other charges			(1,041)		(526)
Loss on ordinary activities before tax			**(853)**		**(1,297)**
Tax on loss on ordinary activities	8		251		-
Retained loss for the financial year after tax			**(602)**		**(1,297)**

There are no gains and losses arising other than those reported above

Balance Sheet

For the year ended 31 December 2006

Assets

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Investments					
Other financial investments	9	9,727		28,146	
Deposits with ceding undertakings		170		98	
			9,897		**28,244**
Reinsurers' share of technical provisions					
Provision for unearned premiums	16	5,034		6011	
Claims outstanding	16	77,748		124,280	
			82,782		**130,291**
Debtors					
Debtors arising out of direct insurance operations		4,766		7,041	
Debtors arising out of reinsurance operations	10	25,881		3,804	
Other debtors	11	251		36	
			30,898		**10,881**
Other assets					
Cash at bank			**5,598**		**2,378**
Prepayments and accrued income					
Accrued interest		273		572	
Deferred acquisition costs	12	1,051		1,429	
			1,324		**2,001**
Total assets			**130,499**		**173,795**

Liabilities

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Capital and reserves					
Called up share capital	13	18,000		18,000	
Profit and loss account	14	6,676		7,278	
Equity shareholders funds	15		**24,676**		**25,278**
Technical provisions					
Provision for unearned premiums	16	5,593		6,679	
Claims outstanding	16	81,762		130,823	
Equalisation provision	16	66		-	
			87,421		**137,502**
Deposits received from reinsurers			**476**		**518**
Creditors					
Creditors arising out of direct insurance operations		36		441	
Creditors arising out of reinsurance operations	17	15,734		8,001	
Other creditors including taxation	18	1,210		769	
			16,980		**9,211**
Accruals and deferred income					
Reinsurers' share of deferred acquisition costs	12		**946**		**1,286**
Total liabilities			**130,499**		**173,795**

The financial statements on pages 10 to 23 were approved by the Board of Directors on 29 March 2007 and were signed on their behalf by

Tim Carroll
Chairman

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

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

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

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

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

b) Premiums

General business premiums written reflect business incepted during the year and include adjustments to premiums written in prior financial periods and estimates for pipeline premiums

Outward reinsurance premiums, commissions and claims are accounted for in the same financial period as the premium for the related inwards reinsurance business

c) Unearned premiums

The provision for unearned premium comprises the amount representing that part of gross premiums which is estimated to be earned in the following or subsequent financial years Treaty risk attaching business is earned over 24 months Facultative and treaty non-risk attaching business is earned over 12 months reflecting the nature of the relevant risk profile

d) Acquisition costs

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

e) Claims provisions and related reinsurance recoveries

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 claims has happened Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience as adjusted to reflect changes in the underlying exposures

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including

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

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

Large claims impacting each relevant business class are 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

1 Accounting policies (continued)

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

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

Property and accident business

Property and accident business is "short tail", in that 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

Liability claims

Liability claims are longer tail than the classes of business described above and so a larger element of the claims provision relates to incurred but not reported claims Claims estimates for the Company's liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a formula whereby greater weight is given to actual claims experience as time passes The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as exposure changes, premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique The assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort This class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date

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

Provision for future run off expenditure

No provision is made for future administration run off expenditure as these are exceeded by expected future investment returns

1 Accounting policies (continued)

f) Equalisation provision

Amounts are set aside as equalisation provisions in accordance with the FSA's Handbook 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 techncial provisions

g) Investments

Listed investments are stated at mid-market value on the balance sheet date, or on the last stock exchange trading day before the balance sheet date

h) Investment return

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

Realised gains and losses arise from the difference between proceeds and cost Unrealised investment gains and losses are reported in the profit and loss account and are calculated as the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date or purchase price, if acquired during the year Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current year's profit and loss account

i) Exchange rates

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

j) Taxation

Provision is made for deferred tax liabilities in accordance with the provisions of Financial Reporting Standard 19, Deferred Tax (FRS 19) Full provision has been made for deferred tax on material assets and liabilities arising on timing differences

Deferred tax is calculated at the rates at which it is expected that the tax will arise and is recognised in the profit and loss account for the period, except to the extent it is attributable to a gain or loss recognised directly in the statement of total recognised gains and losses In this case the attributable deferred tax is shown separately in the statement of total recognised gains and losses The provision for deferred tax is not discounted

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is, when it is considered more likely than not that there will be sufficient, suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

2 Segmental information for general business

	Direct fire and other damage to property 2006 £'000	Direct third party liability 2006 £'000	Direct marine & aviation 2006 £ 000	Miscellaneous and pecuniary loss 2006 £ 000	Reinsurance Acceptance 2006 £ 000	Total 2006 £'000
Gross premiums written	**1,891**	**182**	**12,749**	**188**	**120**	**15,130**
Gross premiums earned	1,535	182	14,052	233	125	16,127
Gross claims incurred	(2,407)	6,814	(14,503)	(205)	11,343	1,042
Gross operating expenses	(292)	(55)	(2,854)	(31)	(19)	(3,251)
Gross balance	**(1,164)**	**6,941**	**(3,305)**	**(3)**	**11,449**	**13,918**
Reinsurance balance	1,230	(6,649)	2,640	29	(11,476)	(14,226)
Net balance	**66**	**292**	**(665)**	**26**	**(27)**	**(308)**
Change in equalisation provision						(66)
Balance on the technical account						**(374)**

All of the above arise from discontinued activities except for

	Gross premium written £ 000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Aviation	4,721	5,086	(2,693)	(816)	(1,639)	(62)

	Direct fire and other damage to property 2005 £ 000	Direct third party liability 2005 £ 000	Direct marine & aviation 2005 £ 000	Miscellaneous and pecuniary loss 2005 £'000	Reinsurance Acceptance 2005 £'000	Total 2005 £'000
Gross premiums written	**865**	**(71)**	**16,558**	**321**	**94**	**17,767**
Gross premiums earned	1,073	25	16,774	481	242	18,595
Gross claims incurred	(3,565)	768	(30,911)	(341)	(635)	(34,684)
Gross operating expenses	(191)	(81)	(3,954)	(56)	18	(4,264)
Gross balance	**(2,683)**	**712**	**(18,091)**	**84**	**(375)**	**(20,353)**
Reinsurance balance	2,362	(726)	15 700	(55)	439	17,720
Net Balance	(321)	(14)	(2,391)	29	64	(2,633)
Change in equalisation provision						214
Balance on the technical account						**(2,419)**

Notes to the Financial Statements

2 Segmental information for general business
(continued)

All of the above arise from discontinued activities except for

	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Aviation	4,894	5,381	(2,121)	(882)	(2,414)	(36)

The majority of gross premium written in both years has been written in the UK therefore no geographical analysis is necessary

3 Net operating expenses

	2006 £'000	2005 £'000
Administrative costs	121	269
Commissions	2,861	3,879
Ceded commissions	(2,165)	(3,131)
Change in deferred acquisition costs	27	12
Net operating expenses	**844**	**1,029**

The net operating expenses of £843,798 contain £239,251 related to continuing activities (2005 £249,590)

4 Prior years' claim provisions for general business

The under provision for claims at the beginning of the year considering payments and provisions at the end of the year in respect of prior years' claims was exclusively on facultative business and amounted to £671,707

	2006 £ 000
Property reinsurance	(28)
Casualty reinsurance	(326)
Marine reinsurance	1,026
	672

(2005 under provision £890,251)

5 Investment return summary

	2006 £'000	2005 £'000
Investment income		
Income from investments	1,122	1,417
Gains on the realisation of investments	25	-
	1,147	**1,417**
Unrealised gains/(losses) on investments	**1,129**	**(287)**
Investment expenses and charges		
Losses on the realisation of investments	(1,714)	(89)
Total investment return	**562**	**1,041**

6 Loss on ordinary activities before tax

This is stated after charging

Auditors' remuneration

Fees paid to the Company's auditor, PricewaterhouseCoopers LLP, for the current year audit amounted to £27,000 (2005 £nil)

Other fees payable to the Company's auditor and its associates for services other than the statutory audit of the company are not disclosed in Swiss Re Specialty Insurance (UK) Ltd since the consolidated accounts of SRGB plc (which include Swiss Re Specialty Insurance (UK) Ltd), are required to disclose non-audit fees on a consolidated basis

An additional fee of £10,000 (2005 £nil) was incurred by the Company in respect of the audit of the 2005 statutory accounts by the Company's previous auditor There were no other audit or non audit fees payable to the previous auditor

All administration, staff and pension costs, including audit fees, have been incurred by Swiss Re Frankona Management Services (UK) Ltd, a fellow subsidiary undertaking, and all staff have service contracts with that Company Swiss Re Frankona Management Services (UK) Ltd has made a management charge to the Company for its share of these costs

7 Directors' emoluments

The Directors received no emoluments during 2006 in respect of this company (2005 £ nil)

8 Taxation

	2006 £'000	2005 £'000
UK corporation tax at 30% (2005 30%)		
Current tax on income for the period	251	393
Adjustments in respect of prior periods	-	(393)
Current tax credit for the period	**251**	-
Deferred tax origination and reversal of timing differences	-	-
	251	-

Factors affecting the tax charge for the period

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

	2006 £'000	2005 £'000
Non-technical account		
Loss on ordinary activities before tax	**(853)**	**(1,297)**
Adjustments in respect of prior periods	-	(10)
Loss on ordinary activities multiplied by standard rate of corporate tax in the UK of 30% (2005 30%)	(256)	(393)
Expenses not deductible for tax purposes	18	-
Losses surrendered to/(from) group affiliates	-	457
Imputed interest benefit asising from S107 FA 2000 reserves	(13)	-
Tax bases of insurance profits	-	(64)
Current tax charge for the period	**(251)**	-

9 Other financial investments

	Market value 2006 £'000	Cost 2006 £'000	Market value 2005 £'000	Cost 2005 £'000
Debt securities and other fixed income securities	9,727	10,090	28,146	29,639
	9,727	**10,090**	**28,146**	**29,639**
Included in the above were investments				
Listed on the UK Stock Exchange	6,754		28,146	
Listed on overseas Stock Exchanges	2,973		-	
	9,727		**28,146**	

10 Debtors arising out of reinsurance operations

	2006 £ 000	2005 £'000
Group undertakings	25,066	3,804
Non group undertakings	815	-
	25,881	**3,804**

Notes to the Financial Statements

11 Other debtors

	2006 £'000	2005 £'000
Current tax asset	251	-
Other	-	36
	251	**36**

12 Deferred Acquisition Costs

	2006 £'000	2005 £ 000
Gross amount	1,051	1,429
Reinsurance amount	(946)	(1,286)
Net amount	**105**	**143**

13 Share capital

	2006 £'000	2005 £'000
Authorised		
18,000,000 £1 ordinary shares	18,000	18,000
Allotted called up and fully paid		
18,000,000 £1 ordinary shares	18,000	18,000

14. Profit and loss reserves

	2006 £'000	2005 £'000
At the beginning of the year as previously stated	7,278	8,575
Retained loss for the year	(602)	(1,297)
At the end of the year	**6,676**	**7,278**

Notes to the Financial Statements

15 Reconciliation of movements in shareholders' funds

	2006 £ 000	2005 £ 000
Loss for the financial year	(602)	(1,297)
Net addition to shareholders' funds	**(602)**	**(1,297)**
Equity shareholders' funds at the beginning of the year	25,278	26,575
Equity shareholders' funds at the end of the year	**24,676**	**25,278**

16 Technical Provisions

	Provision for unearned premiums	Claims outstanding	Equalisation provision	Total
	£ 000	£ 000	£'000	£'000
Gross				
Balance at 1 January 2006	6,679	130,823	-	137,502
Exchange	(88)	(9,822)	-	(9,910)
Movement in provision	(998)	(39,239)	66	(40,171)
Balance at 31 December 2006	**5,593**	**81,762**	**66**	**87,421**
Reinsurance				
Balance at 1 January 2006	6,011	124,280	-	130,291
Exchange	(80)	(9,559)	-	(9,639)
Movement in provision	(897)	(36,973)	-	(37,870)
Balance at 31 December 2006	**5,034**	**77,748**	-	**82,782**
Net				
Balance at 31 December 2006	**559**	**4,014**	**66**	**4,639**
Balance at 1 January 2006	**668**	**6,543**	-	**7,211**

An equalisation provision has been established in accordance with the requirements of PRU 7 5 This provision which is in addition to the provisions required to meet the anticipated ultimate cost of settlement of claims outstanding at the balance sheet date is required by Schedule 9A to the Companies Act 1985 to be included within the technical provisions in the balance sheet notwithstanding that it did not represent liabilities at the balance sheet date The effect of this provision is to reduce the shareholders' funds by £66,000 (2005 £nil) The increase in the provision during the year had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before taxation by £66,000 (2005 £nil)

Notes to the Financial Statements

17 Creditors arising out of reinsurance operations

	2006 £'000	2005 £'000
Group undertakings	11,686	8,001
Non group undertakings	4,048	-
	15,734	**8,001**

18 Other creditors including taxation and social security

	2006 £'000	2005 £'000
Due to group undertakings	-	756
Other creditors	1,210	13
	1,210	**769**

19 United States trust fund

A trust fund amounting to US$15,040,200 (2005 US$14,328,600) in the name of the Company was held throughout the year as security for future liabilities on insurance contracts for statutory and other purposes

20 Immediate and ultimate parent company

The Company's immediate parent company is Swiss Reinsurance Company UK Limited, registered in England and Wales The Group accounts of the respective holding company of Swiss Reinsurance Company UK Limited, Swiss Re GB Plc, will be available from its registered office at

30 St Mary Axe
London EC3A 8EP

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