



MASTHEAD INSURANCE UNDERWRITING
LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2008



MASTHEAD INSURANCE UNDERWRITING LIMITED

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MASTHEAD INSURANCE UNDERWRITING LIMITED

Company Information

Directors

D J Douetil
P J Goddard
M Scales

Secretary

Brit Corporate Secretaries Limited

Registered Office

55 Bishopsgate
London
EC2N 3AS

Registered Number

2863362

Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

MASTHEAD INSURANCE UNDERWRITING LIMITED

Report of the Directors

The Directors present their report and financial statements for the year ended 31 December 2008.

Principal activities and review of the business

The Company is an intermediate holding company for six direct subsidiaries, each of which is a corporate member that participates in underwriting at Lloyd's. Five of these subsidiaries ceased underwriting at the end of December 1999 and were put into run-off while the sixth subsidiary, Brit UW Limited, commenced underwriting on 1 January 2000.

Each member of Lloyds is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL"). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities. The principal activity of the Company is to hold the FAL required to support the underwriting activities of the Brit Insurance Holdings PLC's corporate member subsidiaries, principally Brit UW Limited. The Company charges Brit UW Limited for the provision of this capital. The income in the year ended 31 December 2008 relates to capital provided during the years from 2005 to 2007 in addition to 2008.

At the end of the year the investments held by the Company can be broken down by investment category as follows:

	2008 £
Listed Equities	39,719,743
Listed Fixed Interest	225,785,397
Certificates of Deposit	75,000,000
Total investments	265,505,140

During the year the Company used a number of investment managers. At the end of the year the amount of investments managed by each investment manager was as follows:

	2008 £
Artemis Investment Management Limited	-
Close Private Asset Management Limited	60,929,438
EPIC Asset Management Limited	204,575,702
Total investments	265,505,140

All investments during the year have been sterling investments.

In the opinion of the Directors, the state of affairs of the Company and its subsidiaries at the end of the year was satisfactory. The Directors do not envisage any changes to the current business model in 2008.

Principal risks and uncertainties

The principal risks confronting the Company are credit risk, interest rate risk and price risk.

Credit risk is the risk that one party to a financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages this risk by having guidelines that specify the maximum percentage of the portfolios that can be invested in any single counterparty.

At the end of the year Company held investments classified according to the credit ratings of the counterparties as follows:

MASTHEAD INSURANCE UNDERWRITING LIMITED

Report of the Directors continued

	2008 £
Government	86,100,577
AAA	20,445,045
AA	18,012,601
A	22,822,485
P1	78,404,690
Not rated	39,719,742
Total	265,505,140

Interest rate risk is the risk that the value and future cash flows of an investment will fluctuate because of changes in interest rates. The Company manages this risk by setting the maximum duration of investments which is an indicator of the sensitivity of the assets to changes in current interest rates.

Price risk is the risk that the value of investments will decrease as a result of changes in market prices. The Company manages this risk by diversifying equity portfolios across sectors and by daily monitoring of the interest rate movements, the credit spreads and the liquidity of each group of fixed income securities.

Masthead Insurance Underwriting Limited had no exposure to investment products that were significantly affected by the recent financial turmoil, such as collateralised debt obligations (CDOs), structured investment vehicles (SIVs), sub-prime related investments and assets backed by single class insurers (monolines).

Employees

All staff in the Group are employed by the Group services company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those accounts. Further information on the Group's employment policies can be found in the accounts of Brit Group Services Limited.

Result and dividend

The profit for the year attributable to shareholders amounts to £15,105,975 (2007: £8,129,897) and is dealt with as shown in the profit and loss account.

The Directors do not recommend a dividend for the year ended 31 December 2008 (2007: £nil).

Directors

The names of the Directors throughout the year and as at the date of this report are listed on page 2. M A Sibthorpe resigned as a Director on 22 May 2008.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Report of the Directors continued

Statement of Directors' responsibilities

The Directors are responsible for preparing the report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

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 these 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

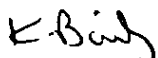
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Statement of Disclosure of Information to Auditors

The Company's Auditor is Ernst & Young LLP. Each person who is a Director at the date of approval of this Report confirms 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 ought to have been taken in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

By Order of the Board



Brit Corporate Secretaries Limited
Secretary
12 March 2009

MASTHEAD INSURANCE UNDERWRITING LIMITED

Independent Auditor's Report

To the Member of Masthead Insurance Underwriting Limited

We have audited the Company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 20. 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 Auditors' 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 report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Report of the Directors.

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 Report of the Directors 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 other information contained in the report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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.

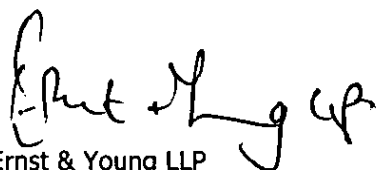
MASTHEAD INSURANCE UNDERWRITING LIMITED

Independent Auditor's Report continued

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 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 Report of the Directors is consistent with the financial statements.



Ernst & Young LLP
Registered auditors
London
12 March 2009

MASTHEAD INSURANCE UNDERWRITING LIMITED

Profit and Loss Account For the Year Ended 31 December 2008

		Year ended 31 December 2008 £	Year ended 31 December 2007 £
	Notes		
Income from other fixed asset investments	1(d) & 2	(3,512,153)	20,661,145
Administrative expenses		(628,296)	(682,990)
Other operating income	3	73,409,916	1,260,000
Interest receivable and similar income	4	761,194	830,147
Interest payable and similar charges	5	(53,670,801)	(11,000,000)
Operating profit			
on ordinary activities before taxation	6	16,359,860	11,068,302
Taxation on profit on ordinary activities	9	(1,253,885)	(2,938,405)
Profit on ordinary activities after taxation		15,105,975	8,129,897

The notes on pages 10 to 16 form part of these accounts.

MASTHEAD INSURANCE UNDERWRITING LIMITED

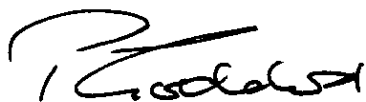
Balance Sheet

As at 31 December 2008

		2008 £	2007 £
	Notes		
Fixed assets			
Investments in group undertakings at cost		5,000	5,000
Other fixed asset investments	10	265,505,140	348,670,326
		<u>265,510,140</u>	<u>348,675,326</u>
Current assets			
Debtors	11	102,548	8,276
Cash at bank, deposits and cash in hand		29,179,912	24,037,084
Prepayments and accrued income		4,217,376	4,811,273
		<u>33,499,836</u>	<u>28,856,633</u>
Creditors: Amounts falling due within one year	12	(234,658,838)	(323,714,102)
Net current liabilities		<u>(201,159,002)</u>	<u>(294,857,469)</u>
Total assets less current liabilities		64,351,138	53,817,857
Provisions for other risks and charges			
Deferred taxation	13	-	(4,572,694)
Net assets		<u>64,351,138</u>	<u>49,245,163</u>
Capital and reserves			
Called up equity share capital	14	10,062,750	10,062,750
Share premium		28,670,103	28,670,103
Profit and loss account		25,618,285	10,512,310
Equity Shareholder's funds	15	<u>64,351,138</u>	<u>49,245,163</u>

The financial statements on pages 8 to 16 were approved by the Board of Directors on 12 March 2009 and signed on their behalf by:-

Director



Director



The notes on pages 10 to 16 form part of these accounts.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments and in accordance with applicable accounting standards. The Company has no recognised gains and losses other than those included in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

(b) Consolidated accounts

The financial statements present information relating to Masthead Insurance Underwriting Limited, not to the group of which it is the parent company. Masthead Insurance Underwriting Limited is exempt from preparing consolidated financial statements under Section 228 of the Companies Act 1985. Brit Insurance Holdings PLC, which is registered in England and Wales and is the ultimate holding company, prepares Group accounts.

(c) Fixed assets

Subsidiary undertakings are stated at cost less provisions for any permanent diminution.

The Company has designated its other fixed asset investments ("investments") at fair value through profit and loss (FVTPL) which is in accordance with the Company's documented investment strategy. Information relating to investments is provided internally to the Company's Directors on this basis.

The holding of investments is an integral part of the strategic operations of the company and therefore they are disclosed as fixed assets.

The fair values of quoted financial investments are based on current bid prices. If the market for an investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

Unquoted equity investments are initially carried at cost as the best estimate of fair value and are adjusted thereafter whenever events or changes in circumstances indicate that the carrying amount may not approximate to fair value.

Gains and losses on investments designated as FVTPL are recognised through the income statement. Investments are held on the balance sheet at fair value.

(d) Income from other fixed asset investments

Interest income is recognised using the effective interest method. Dividend income is recognised when the shareholders' right to receive the payment is established.

Realised gains and losses on the disposal of investments arise from the difference between proceeds and cost. Unrealised gains and losses arise from the marking to market of investments.

The holdings of investments is an integral part of the strategic operations of the company and therefore dividends receivable, interest receivable and realised and unrealised gains and losses relating to these investments are therefore shown as a part of operating activities.

(e) Expenses

All expenses are accounted for on an accruals basis. Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost or proceeds of the investment.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

(f) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(g) Cash flow statement

Masthead Insurance Underwriting Limited is exempt from preparing a cash flow statement under FRS1. Brit Insurance Holdings PLC, the ultimate parent company, prepares a consolidated cash flow statement.

2. Income from other fixed asset investments

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Dividend income	922,259	1,493,998
Interest income	12,827,832	13,008,211
Realised gains	4,781,861	11,285,109
Unrealised losses	(22,044,105)	(5,126,173)
	<u>(3,512,153)</u>	<u>20,661,145</u>

3. Other operating income

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Intragroup income	73,406,515	1,260,000
Sundry income	3,401	-
	<u>73,409,916</u>	<u>1,260,000</u>

The Company provides capital which is held in trust and known as Funds at Lloyds to support the underwriting activities of the Brit Insurance Holdings PLC's corporate member subsidiaries, principally Brit UW Limited, which owns the capacity of Syndicate 2987. The Company charges Brit UW Limited for the provision of this capital. The income in the year ended 31 December 2008 relates to capital provided during the years from 2005 to 2007 in addition to 2008.

4. Interest receivable and similar income

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Interest on cash at bank, deposits and cash in hand	759,727	830,147
Intragroup interest receivable	1,467	-
	<u>761,194</u>	<u>830,147</u>

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

5. Interest payable and similar charges

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Intragroup interest payable	53,670,801	11,000,000

6. Operating profit - continuing operations

The auditor's remuneration is borne by a fellow Group company and amounted to £22,000. (2007: £25,000).

7. Staff costs

There were no staff employed by the Company in the current or prior year.

8. Directors' remuneration

None of the Directors received any remuneration for their services to the Company during the year ended 31 December 2008 (2007: Nil).

9. Taxation

(a) Tax on profit on ordinary activities	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Current tax:		
UK corporation tax at 28.5%	(5,826,579)	(5,045,899)
Adjustments in respect of prior years	-	-
Total current tax (Note 9(b))	(5,826,579)	(5,045,899)
Deferred tax:		
Originating and reversal of timing differences	4,572,694	2,173,610
Effect of future tax rate changes	-	240,668
Adjustments in respect of prior years	-	(306,784)
Total deferred tax (Note 13)	4,572,694	2,107,494
Tax on profit on ordinary activities	(1,253,885)	(2,938,405)

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
(b) Factors affecting current tax charge for period		
Profit on ordinary activities before tax	16,359,860	11,068,302
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(4,662,560)	(3,320,491)
Effects of:		
Non-taxable income	5,728,500	-
Equity dividends not subject to corporation tax	262,844	448,199
Utilisation of previously unrecognised deferred tax assets on capital losses and capital allowances	(7,155,364)	(2,173,610)
Other adjustments to tax charge in respect of prior years	-	-
Realised and unrealised investment losses	-	-
Current tax charge for the period Note 9 (a) above	(5,826,580)	(5,045,899)

(c) Factors that may affect future tax charges

The future tax charge for the Company is dependent on the ability of the Company to utilise tax losses as they become available.

10. Other fixed asset investments

	Total £
Cost at 1 January	330,495,641
Opening unrealised appreciation	18,174,685
Value at 1 January	348,670,326
Purchases at cost	383,100,762
Sales & maturities - proceeds	(449,003,704)
- realised gains on sales	4,781,861
Increase in unrealised appreciation	(22,044,105)
Value at 31 December	265,505,140
Cost at 31 December	269,374,560
Closing unrealised appreciation	(3,869,420)
Value at 31 December	265,505,140

All investments held by the Company are listed investments.

The Directors are of the opinion that the aggregate value of the Company's investments is not less than the amount stated in the Balance Sheet.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

11. Debtors

	2008 £	2007 £
Amounts falling due within one year:		
Amounts due from Group companies	102,548	8,276
	<u>102,548</u>	<u>8,276</u>

12. Creditors

	2008 £	2007 £
Amounts falling due within one year:		
Amounts due to Group companies	234,553,734	323,526,102
Accruals and deferred income	105,104	188,000
	<u>234,658,838</u>	<u>323,714,102</u>

13. Deferred taxation

	2008 £	2007 £
Unrealised gains on investments	-	(4,572,694)
Undiscounted liability for deferred taxation at the start of the period	(4,572,694)	(6,680,188)
Other adjustments in respect of prior years	-	(306,784)
Deferred tax credit in profit and loss account for period	4,572,694	2,414,278
Deferred tax liability at the end of period	<u>-</u>	<u>(4,572,694)</u>

In determining the deferred tax position, it has been assumed that group relief will be available between companies within the Group.

14. Authorised and issued share capital

	2008 £	2007 £
Authorised		
46,000,000 ordinary shares 25p each	<u>11,500,000</u>	<u>11,500,000</u>
Allotted, called up and fully paid:		
40,251,000 ordinary shares 25p each	<u>10,062,750</u>	<u>10,062,750</u>

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

15. Movement in shareholders' funds

Year ended 31 December 2008

	Called up share capital	Share premium	Profit and loss account	Total Shareholder's funds
	£	£	£	£
At 1 January	10,062,750	28,670,103	10,512,310	49,245,163
Retained profit for the year	-	-	15,105,975	15,105,975
At 31 December	10,062,750	28,670,103	25,618,285	64,351,138

Year ended 31 December 2007

	Called up share capital	Share premium	Profit and loss account	Total Shareholder's funds
	£	£	£	£
At 1 January	10,062,750	28,670,103	2,382,413	41,115,266
Retained profit for the year	-	-	8,129,897	8,129,897
At 31 December	10,062,750	28,670,103	10,512,310	49,245,163

16. Financial instruments

The Company has taken advantage of the exemption in Financial Reporting Standard 29 'Financial Instruments: Disclosures' not to provide the disclosures required by this standard. This is by virtue of the entity being included in publicly available consolidated financial statements which include disclosures that comply with this standard.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

17. Subsidiary companies

Details of the Company's subsidiaries are as follows:

Name of company	Nature of business	Proportion of ordinary shares held by the Company %
Masthead A Limited	Lloyd's corporate member	100
Masthead B Limited	Lloyd's corporate member	100
Masthead C Limited	Lloyd's corporate member	100
Masthead D Limited	Lloyd's corporate member	100
Masthead E Limited	Lloyd's corporate member	100
Brit UW Limited	Lloyd's corporate member	100

All the above companies are registered in England and Wales.

18. Controlling party

The immediate and ultimate holding company is Brit Insurance Holdings PLC, a company registered in England and Wales. Copies of the accounts of Brit Insurance Holdings PLC can be obtained from 55 Bishopsgate, London, EC2N 3AS.

19. Related party transactions

As a subsidiary undertaking of Brit Insurance Holdings PLC, the Company has taken advantage of the exemption in FRS 8 "Related party disclosures" from disclosing transactions with other members of the Group.

20. Contingent liabilities

The Company entered into a fixed and floating charge with Lloyd's which supports the deeds of covenant of its corporate member subsidiaries, being Masthead A Limited, Masthead B Limited, Masthead C Limited, Masthead D Limited and Masthead E Limited. This is to guarantee their obligations at Lloyd's.

Brit UW Limited, a direct subsidiary of the Company, is the only active underwriting corporate member for the 2000 and post years of account.

In November 1999, a deed of further charge was entered into to support the underwriting activities of Brit UW Limited and also the corporate members noted above.

Lloyd's has the right to retain the income on charged investments, although it is not expected to exercise this right unless it considers there to be a risk that one or more of the covenants might need to be called and, if called, might not be honoured in full.

On 28 February 2006 the Company entered into a number of deeds of determination, release and substitution in order to reorganise the covenant and charge arrangements between the Company, Lloyd's, Brit UW Limited and other corporate member subsidiaries of the Group. Following the reorganisation, funds are no longer made inter-available between the ceased corporate members and Brit UW Limited. At 31 December 2008 the Company provides standalone Funds at Lloyd's for Brit UW Limited by way of a covenant and charge arrangement for £294,350,625 (2007: £362,533,195), and those ceased corporate members that remain in run-off by way deposits totalling £1,936,591 (2007: £3,291,636).