



MASTHEAD INSURANCE UNDERWRITING
LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2009



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 2009

Principal activities and review of the business

As at the start of the year, the Company was an intermediate holding company for six corporate member subsidiaries participating in underwriting at Lloyd's. Five of these subsidiaries participated in Lloyd's Syndicates that had ceased underwriting at the end of December 1999 while the sixth subsidiary, Brit UW Limited, principally participated in Lloyd's Syndicate 2987 which had been underwriting since 1 January 2000 and run-off Life syndicate 389.

On 10 November 2009, as part of a reorganisation of the UK Group, the Company disposed of these six companies at cost to other Group companies. As a further part of the reorganisation, the Company was sold by Brit Insurance Holdings Limited (formerly PLC) to Brit Investment Holdings Limited.

As a result of a Group reorganisation by way of a Court Approved Scheme of Arrangement approved by the shareholders of Brit Insurance Holdings PLC, which completed on 21 December 2009, Brit Insurance Holdings N.V., is now the ultimate parent of the Company.

A corporate member of Lloyd's 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 was to hold all FAL required to support the underwriting activities at Lloyds of the corporate member entities within the Brit Group.

As at 31 December 2009, the investments held by the Company broken down by investment category were as follows:

	2009 £	2008 £
Listed Equities	27,659,416	39,719,743
Listed Fixed Interest	317,615,498	225,785,397
Certificates of Deposit	89,361,338	75,000,000
Total investments	434,636,252	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:

	2009 £	2008 £
Close Private Asset Management Limited	70,523,761	60,929,438
EPIC Asset Management Limited	364,112,491	204,575,702
Total investments	434,636,252	265,505,140

In the opinion of the Directors, the state of affairs of the Company and its subsidiaries at the end of the year was satisfactory.

Principal risks and uncertainties

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

MASTHEAD INSURANCE UNDERWRITING LIMITED

Report of the Directors continued

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

	2009 £	2008 £
Government	195,411,486	86,100,577
AAA	4,147,199	20,445,045
AA	69,565,923	18,012,601
A	40,826,403	22,822,485
P1	89,361,338	78,404,690
Not rated	35,323,903	39,719,742
Total	434,636,252	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.

The Company 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).

As at 31 December 2009, US dollar assets exceeded US dollar liabilities by USD 202,086,327 and therefore the Company had an exposure to currency risk at that date.

Employees

All staff in the United Kingdom are employed by the Group services company, Brit Group Services Limited, and 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 £130,760,725 (2008: £15,105,975) and is dealt with as shown in the profit and loss account.

During the year the Company paid an interim dividend of £109,917,322.

The Directors do not recommend a final dividend for the year ended 31 December 2009 (2008: £nil)

Post balance sheet events

On 3 February 2010, the Company undertook a reduction of capital the result of which was that the share capital was reduced from 40,251,000 shares of 25p each to 400,000 shares of 25p each and the share premium account was extinguished. A corresponding increase has been made to retained earnings.

The Company's sole responsibility was limited to holding FAL for Group corporate members in run-off and run-off Life syndicate 389 with effect from 12 February 2010. On that date, the Company paid an interim dividend of £87,081,509, repaid its intragroup borrowing and was released from its obligations in respect of Brit UW's participation in Syndicate 2987.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Report of the Directors continued

Directors

The names of the Directors throughout the year and as at the date of this report are listed on page 2

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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
9 March 2010

MASTHEAD INSURANCE UNDERWRITING LIMITED

Independent Auditor's Report

To the Member of Masthead Insurance Underwriting Limited

We have audited the financial statements of Masthead insurance Underwriting Limited for the year ended 31 December 2009 which comprise the profit and loss account and the balance sheet and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

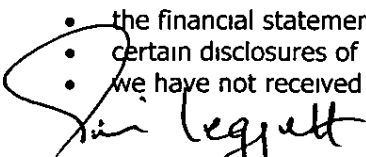
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.


Tim Leggett (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
9 March 2010

MASTHEAD INSURANCE UNDERWRITING LIMITED

Profit and Loss Account For the Year Ended 31 December 2009

		Year ended 31 December 2009 £	Year ended 31 December 2008 £
	Notes		
Income from other fixed asset investments	1(c) & 2	22,065,736	(3,512,153)
Administrative expenses		(679,630)	(628,296)
Other operating income	3	135,604,460	73,409,916
Operating profit		156,990,566	69,269,467
Interest receivable and similar income	4	296,714	761,194
Interest payable and similar charges	5	(20,209,583)	(53,670,801)
Profit on ordinary activities before taxation	6	137,077,697	16,359,860
Taxation on profit on ordinary activities	9	(6,316,972)	(1,253,885)
Profit on ordinary activities after taxation		130,760,725	15,105,975

The Company has no recognised gains and losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses has been presented

The notes on pages 9 to 15 form part of these financial statements.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Balance Sheet As at 31 December 2009

		2009 £	2008 £
	Notes		
Fixed assets			
Investments in group undertakings at cost	17	-	5,000
Other fixed asset investments	10	434,636,252	265,505,140
		<u>434,636,252</u>	<u>265,510,140</u>
Current assets			
Debtors	11	-	102,548
Cash at bank, deposits and cash in hand		15,552,840	29,179,912
Prepayments and accrued income		5,688,741	4,217,376
		<u>21,241,581</u>	<u>33,499,836</u>
Creditors: Amounts falling due within one year	12	<u>(370,172,347)</u>	<u>(234,658,838)</u>
Net current liabilities		<u>(348,930,766)</u>	<u>(201,159,002)</u>
Total assets less current liabilities		85,705,486	64,351,138
Provisions for other risks and charges			
Deferred taxation	13	<u>(510,945)</u>	<u>-</u>
Net assets		<u>85,194,541</u>	<u>64,351,138</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		<u>46,461,688</u>	<u>25,618,285</u>
Equity Shareholder's funds	15	<u>85,194,541</u>	<u>64,351,138</u>

The financial statements on pages 7 to 15 were approved by the Board of Directors on 9 March 2010 and signed on their behalf by:-

Director



Director



The notes on pages 9 to 15 form part of these financial statements

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

(b) Fixed assets

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 fair value where this can be reliably determined. Where fair value can not be reliably determined, cost is used as the best estimate of fair value. This is subsequently adjusted whenever events or changes in circumstances indicate that cost may not approximate to fair value. The fair value of an unquoted equity is calculated using the most appropriate valuation technique, such as reference to current fair values of another instrument that is substantially the same, discounted cash flow analysis or option pricing models

Gains and losses on investments designated as FVTPL are recognised through the income statement

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

(c) 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

(d) 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.

(e) Foreign Currencies

Transactions in foreign currencies other than Sterling are converted at the exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in Sterling are converted at the average rates of the exchange for the period. Assets and liabilities in currencies other than Sterling are converted at the rate of exchange ruling at 31 December of each year. Exchange differences arising on conversion are dealt with in the profit and loss account.

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

(f) Cash flow statement

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

2. Income from other fixed asset investments

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Dividend income	463,610	922,259
Interest income	13,526,588	12,827,832
Realised gains	4,855,304	4,781,861
Unrealised gains/(losses)	3,220,234	(22,044,105)
	<u>22,065,736</u>	<u>(3,512,153)</u>

3. Other operating income

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Intragroup income	21,382,310	73,406,515
Foreign exchange gains	4,252,580	-
Sundry income	52,248	3,401
Dividend from subsidiary	109,917,322	-
	<u>135,604,460</u>	<u>73,409,916</u>

The Company provides capital which is held in trust and known as Funds at Lloyd's to support the underwriting activities at Lloyd's of the corporate member entities within the Brit Group. The Company charges the corporate member entities 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. For further information, see the Report of The Directors.

4. Interest receivable and similar income

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Interest on cash at bank, deposits and cash in hand	296,714	759,727
Intragroup interest receivable	-	1,467
	<u>296,714</u>	<u>761,194</u>

5. Interest payable and similar charges

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Intragroup interest payable	<u>20,209,583</u>	<u>53,670,801</u>

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

6. Operating profit - continuing operations

The auditor's remuneration is borne by a fellow Group company and amounted to £25,000 (2008 £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 2009 (2008 Nil)

9. Taxation

	Year ended 31 December 2009 £	Year ended 31 December 2008 £
(a) Tax on profit on ordinary activities		
Current tax:		
UK corporation tax at 28% (2008 28.5%)	(5,806,026)	(5,826,579)
Total current tax (Note 9(b))	(5,806,026)	(5,826,579)
Deferred tax		
Originating and reversal of timing differences	(510,945)	4,572,694
Adjustments in respect of prior years	-	-
Total deferred tax (Note 13)	(510,945)	4,572,694
Tax on profit on ordinary activities	(6,316,972)	(1,253,885)
(b) Factors affecting current tax charge for period		
Profit on ordinary activities before tax	137,077,697	16,359,860
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 28.5%)	38,381,755	(4,662,560)
Effects of:		
Non-taxable income	-	5,728,500
Equity dividends not subject to corporation tax	(30,832,850)	262,845
Utilisation of previously unrecognised deferred tax assets on capital losses and capital allowances	(510,945)	(7,155,364)
Share disposals	(875,931)	-
Chargeable losses	1,667,017	-
Other adjustments to tax charge in respect of prior years	(2,023,020)	-
Current tax charge for the period Note 9 (a) above	5,806,026	(5,826,579)

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

(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 2009	283,589,563
Opening unrealised appreciation	(18,084,423)
Value at 1 January 2009	265,505,140
Purchases at cost	565,489,724
Sales & maturities - proceeds	(423,281,665)
- realised gains on sales	4,855,304
Increase in unrealised appreciation	22,067,749
Value at 31 December 2009	434,636,252
Cost at 31 December 2009	430,652,926
Closing unrealised appreciation	3,983,326
Value at 31 December 2009	434,636,252

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

11. Debtors

	2009 £	2008 £
Amounts falling due within one year:		
Amounts due from Group companies	-	102,548
	-	102,548

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

12. Creditors

	2009 £	2008 £
Amounts falling due within one year		
Amounts due to Group companies	370,075,347	234,553,734
Accruals and deferred income	97,000	105,104
	<u>370,172,347</u>	<u>234,658,838</u>

13. Deferred taxation

	2009 £	2008 £
Unrealised gains on investments	<u>510,945</u>	<u>-</u>
Undiscounted liability for deferred taxation at the start of the period	-	(4,572,694)
Deferred tax credit in profit and loss account for period	<u>510,945</u>	<u>4,572,694</u>
Deferred tax liability at the end of period	<u>510,945</u>	<u>-</u>

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

14. Issued share capital

	2009 £	2008 £
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 2009

	Called up share capital	Share premium	Profit and loss account	Total Shareholder's funds
	£	£	£	£
At 1 January	10,062,750	28,670,103	25,618,285	64,351,138
Retained profit for the year	-	-	130,760,725	130,760,725
Dividend paid	-	-	(109,917,322)	(109,917,322)
At 31 December	10,062,750	28,670,103	46,461,688	85,194,541

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

On 12 February 2010, the Company reduced its share capital to £100,000 and its share premium to £nil with an equivalent amount being credited to retained earnings. On the same date the Company paid an interim dividend of £87,081,509.

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.

17. Subsidiary companies

During the year the company disposed of all of its subsidiaries at cost as follows:

	£
Cost at 1 January	5,000
Disposal of Masthead A Limited	(1,000)
Disposal of Masthead B Limited	(1,000)
Disposal of Masthead C Limited	(1,000)
Disposal of Masthead D Limited	(1,000)
Disposal of Masthead E Limited	(1,000)
Disposal of Brit Underwriting Limited	-
Cost at 31 December	-

MASTHEAD INSURANCE UNDERWRITING LIMITED

Notes to the Financial Statements

18. Controlling party

The Company is a wholly owned subsidiary of Brit Investment Holdings Limited. The ultimate holding company is Brit Insurance Holdings N.V., a company registered in the Netherlands. Copies of Brit Insurance Holdings N.V. accounts can be obtained by writing to PO Box 79083, 1070 NC, Amsterdam. The Netherlands.

19. Related party transactions

As a subsidiary undertaking of Brit Insurance Holdings N.V., 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

Until 12 February 2010, the Company provided Funds at Lloyd's for Brit UW Limited in respect of syndicate 2987 by way of a covenant and charge arrangement. As at 31 December 2009 this amounted to £447,273,000 (2008: £294,351,000). With effect from 12 February 2010, this covenant and charge arrangement was released. The Company continues to provide FAL for Brit UW Limited in respect of the run-off Life syndicate 389 by way of deposits.

The Company provides Funds at Lloyd's for those ceased corporate members that remain in run-off by way of deposits. As at 31 December 2009, this amounted to £1,500,256 (2008: £1,936,591).

21. Post balance sheet events

On 3 February 2010, the Company undertook a reduction of capital the result of which was that the share capital was reduced from 40,251,000 shares of 25p each to 400,000 shares of 25p each and the share premium account was extinguished. A corresponding increase has been made to retained earnings.

The Company's sole responsibility was limited to holding FAL for Group corporate members in run-off and run-off Life syndicate 389 with effect from 12 February 2010. On that date, the Company paid an interim dividend of £87,081,509, repaid its intragroup borrowing and was released from its obligations in respect of Brit UW's participation in Syndicate 2987.