

# ALBA

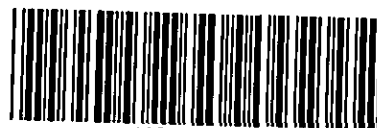
**Alba Underwriting Limited**

(Company number 5775881)

**Financial Statements**

**For the period ended 31<sup>st</sup> December 2006**

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Registered office  
33 Creechurch Lane  
London  
EC3A 5EB

## Directors' Report

The Directors of Alba Underwriting Limited ("Alba") present their report for the period ended 31<sup>st</sup> December 2006. These accounts are presented in US Dollars.

### Results

The result for the period ended 31<sup>st</sup> December 2006 is a loss of \$3,395k.

Alba forms part of a group of companies (the Alba Group) whose main purpose is to underwrite at the Lloyd's of London insurance market via Lloyd's Syndicate no. 4455 (Syndicate 4455). The negative result somewhat obscures the considerable progress that has been made in building a credible 'brand' and the degree of support that has been generated from brokers in the relatively short period since launch. Syndicate 4455 now has a good platform from which to develop the business.

### Principal activity, business review and key performance indicators

Alba's principal activity is to participate in underwriting at Lloyd's on a limited liability basis. Alba currently only participates on Syndicate 4455 and capacity to support Alba has been provided by IAG International Pty Limited, a subsidiary of Insurance Australia Group Limited ("IAG"), which is the ultimate parent of both companies. Diagonal Underwriting Agency Limited ("Diagonal"), formerly Whittington Underwriting Management Limited, is the managing agent for Syndicate 4455 registered under the Lloyd's Act 1982 as a Lloyd's Managing Agent. Diagonal is also part of the Alba Group.

To the extent that the entirety of Alba's business emanates from the operations of Syndicate 4455, the remainder of this section of the Directors' report deals with the performance of Syndicate 4455 during the relevant period, as reported to us by Diagonal.

Syndicate 4455 has accepted all of its business to date via a Binding Authority Agreement with Alba Pte Ltd, a registered Lloyd's Service Company and Coverholder established in Singapore under the Lloyd's Asia Scheme rules. This Agreement runs from the date Syndicate 4455 commenced trading and was, for the 2007 year of account, renewed with effect from 1<sup>st</sup> July 2007. This agreement will run for a twelve month period to 30<sup>th</sup> June 2008, although Diagonal does reserve the right to extend the period if appropriate.

Syndicate 4455 commenced trading on 19<sup>th</sup> June 2006, and the principal activity during the remainder of the year was the transaction of general reinsurance business, underwriting a book of predominantly ASEAN (Association of Southeast Asian Nations), Greater China (China, Hong Kong, Macau and Taiwan), Australasian and GCC (Gulf Co-operation Council) risks. The Syndicate has recently expanded its territorial reach to encompass certain Middle Eastern and African countries. The original business plan anticipated an earlier start date but a delay in recruiting key underwriting personnel resulted in it taking longer for the business to build 'momentum'. At the same time, a softening in the market, due mainly to the benign windstorm season in the US, aggravated the ability to write business with acceptable profit margins still further. Gross written premium income as at the end of December 2006 reached \$9,391k compared with \$19,451k originally forecast. Notwithstanding, premium volume has improved in

## Directors' Report (continued)

the first two months of 2007 and final gross premium on the 2006 year of account will be closer to the revised forecast of \$19,500k at closure

The lower than anticipated level of premium received has had a direct impact on Syndicate 4455's cash flow and has resulted in an extension to the loan facility with IAG International Pty Limited, both in terms of amount and time. Interest payments, charged on a commercial 'arms length' basis, have consequently been higher than budget

The combined impact of these developments accounts for the difference between initial forecast and the actual result for the period now reported

Syndicate 4455 wrote Property, Engineering/Construction, On-shore Energy, Power and Marine Cargo business. Specific trade sectors and specialist areas were developed, with an initial focus on Power and Energy, Infrastructure and Telecommunications. Casualty classes are not underwritten at this stage and the book predominantly comprises short-tail exposures. Although Alba Pte Ltd is established in Singapore, the majority of the business originates 'off-shore' and for 2006 was written as reinsurance of locally licensed insurance carriers. Primary distribution is via major Lloyd's accredited brokers, who collectively account for more than 80% of the business written

The rating environment in the chosen business sectors remains competitive, and Alba Pte Ltd has concentrated on using its premium capacity on excess of loss business where it believes more satisfactory terms and conditions can be found. Lines are normally written on a 'follow' basis behind recognised market leaders and commonly attachment points are in excess of material 'working deductibles'. Primary reinsurance layers are not normally written. Emphasis is on underwriting discipline. The key strategy is to develop a robust operational and underwriting structure upon which to optimise returns when the current insurance cycle improves. Specialist decision makers, who are resident in Asia with extensive Asian and Middle Eastern experience, together with a multi-lingual underwriting team based in Singapore gives Syndicate 4455 its competitive advantage

Key financial performance indicators during the period were as follows

	<b>2006</b>
	<b>\$'000</b>
Gross written premiums	9,391
Net Earned Premium	1,706
Net Claims Incurred	2,303
Syndicate Expenses	4,117
Combined ratio	376.3 %

*Note: The combined ratio is the ratio of net claims incurred and net syndicate expenses to net premiums earned*

## Directors' Report (continued)

A summary of the breakdown of gross premium income by class is shown in the table below

Class	Gross Premium (\$'000)	Percentage of whole
Property	4,112	44%
Engineering	2,584	28%
Energy	2,387	25%
Marine	308	3%

Engineering/Construction risks made up materially more of the account than originally anticipated (the original projection was \$1,765k or 9% of the whole), mainly as a result of the available terms and conditions on this business. We would expect this trend to continue until the overall rating cycle shows improvement, anticipated in 2008/9. The longer term nature of these contracts is such that much of the premium written to date will be earned in calendar year 2007.

At the year end, Syndicate 4455 based Ultimate Loss Ratios upon those utilised in its original Business Plan. Syndicate 4455's actuaries, Ernst & Young, have stress tested these ratios against their own benchmark data and have supported Diagonal's view that the assumptions are not unreasonable. At this early stage in the development of the account, where there is little in the way of actual track record (data sets) to refer to, the underwriters' views of what is likely to be ultimately achieved must be relied on, rather than more actuarial based methods (e.g. chain ladder methodology). Diagonal has decided that it would be prudent for Syndicate 4455 to carry a provision (reserve) for Incurred But Not Reported ("IBNR") claims amounting to \$1,798k. We support this approach, which we believe is fully justified given the relatively low net retained income base and the early stage of development in the account, where the scope for late notification of losses (for example on claims impacting layers immediately below business written by the Syndicate 4455) must be recognised.

### Dividends

The Directors do not propose the payment of a dividend.

### Directors

The Directors of Alba who served during the period ended 31<sup>st</sup> December 2006 were as follows

Mitchell Dowlen	appointed 10 <sup>th</sup> April 2006
Trevor Marsh	appointed 5 <sup>th</sup> June 2006

Jan Van der Schalk was appointed to the Board on 16<sup>th</sup> January 2007

## **Directors' Report (continued)**

### **Directors' interests**

Messrs Dowlen and Marsh accepted invitations in December 2006 to participate in IAG's long term incentive plan (IAG Performance Award Rights ("PARs") and IAG Deferred Award Rights ("DARs")), through which an award of shares in IAG may vest after three to five years. The award of PARs is subject to continuing employment and the achievement of a performance hurdle based on returns delivered to IAG's shareholders. The award of DARs is subject to continuing employment. Further information as to the mechanics of PARs and DARs are included in the report and accounts of IAG.

The shareholding and incentive awards held by Mr Van der Schalk in IAG are disclosed in the consolidated financial statements of IAG, which are publicly available.

None of the directors participate on the 2006 year of account of Syndicate 4455.

Other than the above, the directors did not hold any shares or debentures in any Group companies or have a material interest in any contract with Alba at any time during the period.

### **Directors' statement on the disclosure of information to the auditors**

Each director at the date of the approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all 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.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

### **Auditors**

In accordance with Section 385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for the re-appointment of Mazars LLP as auditors to the Company and to authorise the directors to fix their remuneration.

By Order of the Board



T Marsh  
Secretary  
6<sup>th</sup> July 2007

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual 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. The directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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.

## **Independent auditors' report to the member of Alba Underwriting Limited**

We have audited the financial statements of Alba Underwriting Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

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, whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also 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 transactions with the company is not disclosed.

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

### ***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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

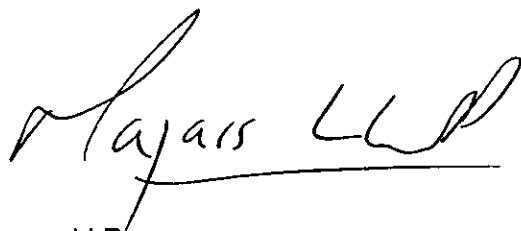


## **Independent auditors' report to the member of Alba Underwriting Limited (continued)**

### ***Opinion***

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, 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 Directors' Report is consistent with the financial statements

A handwritten signature in black ink, appearing to read 'Mazars LLP', is written over a horizontal line.

Mazars LLP  
Chartered Accountants  
and Registered Auditors  
24 Bevis Marks  
London, EC3A 7NR

6<sup>th</sup> July 2007

**Income Statement**For the period ended 31<sup>st</sup> December 2006

	Notes	2006 \$'000
Gross premium earned	1,2	2,264
Reinsurance premium ceded	1,2	(558)
<b>Net earned premium revenue</b>	<b>2</b>	<b>1,706</b>
Investment return	1,3	6
<b>Total income</b>		<b>1,712</b>
Insurance claims and claims settlement expenses	1,4	(2,303)
<b>Net Insurance Claims</b>	<b>4</b>	<b>(2,303)</b>
Expenses for the acquisition of insurance contracts	5	(692)
Other operating expenses	6	(3,359)
<b>Total expense</b>		<b>(4,051)</b>
<b>Results of Operating Activities</b>		<b>(4,642)</b>
Finance Costs	9	(73)
<b>Loss before Tax</b>	<b>10</b>	<b>(4,715)</b>
Tax	11	1,320
<b>Total Recognised Loss for the period</b>		<b>(3,395)</b>

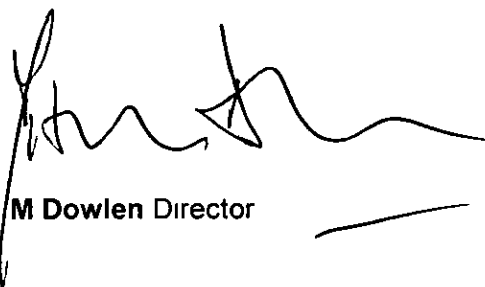
**Statement of changes in equity**For the period ended 31<sup>st</sup> December 2006

	Notes	Share Capital \$'000	Retained Earnings \$'000	Total \$'000
At start of period		-	-	-
Issue of share capital		-	-	-
Loss for the financial period		-	(3,395)	(3,395)
<b>At the end of the period</b>		<b>-</b>	<b>(3,395)</b>	<b>(3,395)</b>

**Balance sheet**  
at 31<sup>st</sup> December 2006

	Notes	2006 \$'000
<b>Assets</b>		
Cash and cash equivalents	13	1,024
Financial investments at fair value through income	14	126
Reinsurance assets		
– reinsurers share of unearned premium	15	1,747
Loans and receivables, including insurance receivables		
– insurance receivables	16	7,706
– loans and receivables	16	141
Deferred tax asset	11	1,320
<b>Total assets</b>		<b>12,064</b>
<b>Equity</b>		
Share capital	17	-
Retained earnings	18	(3,395)
<b>Total equity and reserves</b>		<b>(3,395)</b>
<b>Liabilities</b>		
Insurance contracts		
– outstanding claims	15	2,303
– unearned premium	15	7,127
– creditors arising from insurance operations	15	731
Trade and other payables	19	1,305
Borrowings	20	3,993
<b>Total liabilities</b>		<b>15,459</b>
<b>Total equity, reserves and liabilities</b>		<b>12,064</b>

The financial statements were approved by the Board of Directors and authorised for issue on 6<sup>th</sup> July 2007. They were signed on its behalf by



**M Dowlen** Director



**T Marsh** Director

**Statement of cash flows**  
for the period ended 31<sup>st</sup> December 2006

		2006
	Notes	\$'000
<b>Cash flows from operations</b>	23	(2,902)
Income taxes paid		-
<b>Net cash flows from operations</b>		(2,902)
<b>Cash flows from investing activities</b>		
Interest received		6
<b>Net cash from investing activities</b>		6
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares		-
Proceeds from borrowings		3,920
Repayment of borrowings		-
Interest paid		-
<b>Net cash flows from financing activities</b>		3,920
Net movement in cash and cash equivalents		1,024
Cash and cash equivalents at beginning of period		-
Effect of rate changes on cash and cash equivalents		-
<b>Cash and cash equivalents at end of year</b>	13	1,024

## **Accounting policies**

### **General corporate information**

Alba Underwriting Limited ("Alba") is a company domiciled in England and Wales and incorporated in the United Kingdom. The address of Alba's registered office is 33 Creechurch Lane, London EC3A 5EB. The basis of preparation and significant accounting policies adopted in the preparation of Alba's financial statements are set out below.

### **Summary of significant accounting policies**

#### **Basis of preparation**

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU). The financial statements comply with Article 4 of the EU IAS regulation.

The financial statements have been prepared on the historical cost basis except for financial investments, which are measured at their fair value. The currency of the primary economic environment in which Syndicate 4455 operates is the US Dollar. As the results of Alba are almost entirely reflective of those of Syndicate 4455, the presentation currency for these accounts is also US Dollars. The results of Syndicate 4455 are prepared under UK GAAP and are converted into IFRS for presentation in Alba's financial statements.

As this is Alba's first set of financial statements there have been no impacts from any changes of accounting policy.

#### **International Financial Reporting Standards**

At the date of authorisation of these financial statements a number of standards had been published by the IASB but were not yet effective. These include:

- IFRS 7, Financial Instruments Disclosures, and
- IFRS 8, Operating Segments

Other interpretations issued by the IASB at the date of authorisation include:

- IFRIC 8, which clarifies IFRS 2, Share-Based Payments, and
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions,

The directors anticipate that the adoption of IFRS7 and IFRS8 in future periods and the interpretations IFRIC 8 and IFRIC 11 will have no material impact on the financial statements except for additional disclosures.

In accordance with the standard for insurance contracts (IFRS4), Alba has applied existing accounting practices for insurance contracts, modified, as appropriate, to comply with the IFRS framework and applicable standards.

## **Accounting policies (cont)**

### **Use of estimates**

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

### **Foreign currency translation**

Alba presents its accounts in US Dollars since the net assets, liabilities and income of the Group are currently weighted towards US Dollars. Syndicate 4455 was established in June 2006 under the Lloyd's Asia scheme in Singapore. Both Syndicate 4455 and Alba have adopted US Dollars as their functional currency.

Income and expenditure in Sterling and Singaporean dollars is translated at average rates of exchange for the period. Transactions denominated in other foreign currencies are translated using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated into US Dollars at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at the average rate prevailing in the period in which the asset or liability first arose.

Where contracts to sell currency have been entered into prior to the year end, the contracted rates have been used. Any exchange differences arising from the translation of currencies are included in other operating expenses.

### **Insurance contracts**

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

### **Insurance premium**

Gross written premium comprises premium on insurance contracts incepting during the financial year. The estimated premium income in respect of facility contracts is deemed to be written in full at the inception of the contract. Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. Estimates are included for premium receivable after the period end but not yet notified, as well as adjustments made in the year to premium written in prior accounting periods.

Premium is earned over the policy contract period. Where the incidence of risk is the same throughout the contract, the earned element is calculated separately for each contract on a 365ths basis. Where the incidence of risk over the period of the contract is not expected to be the same, the earned element is calculated based on the estimated risk profile of the individual contracts involved.

The proportion of written premium, gross of commission payable, attributable to periods after

## **Accounting policies (cont)**

### **Insurance premium (cont)**

the balance sheet date is deferred as a provision for unearned premium. The change in this provision is taken to the income statement in order that revenue is recognised over the period of the risk.

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented on the balance sheet net of any provision for impairment.

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off where they are no longer considered to be recoverable.

### **Reinsurance premium ceded**

Reinsurance premium ceded comprises the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premium represents that part of reinsurance premium written which is estimated to be earned in following financial years.

### **Insurance liabilities: claims**

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt.

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on the advice of/valuations performed by, or under the direction of, the appointed Syndicate Actuary. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported ("IBNER"), claims incurred but not reported ("IBNR") and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the year in which the estimates are changed.

## **Accounting policies (cont)**

### **Insurance liabilities: claims (cont)**

Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

### **Liability adequacy test**

At each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the income statement via the provision of an unexpired risks reserve. The provision for unexpired risks is included within "insurance contracts – outstanding claims" as a liability in the balance sheet.

### **Reinsurance and other recoveries**

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims liabilities (notified and not yet notified) are recognised as income. Recoveries receivable on paid claims are presented as part of trade and other debtors net of any provision for impairment based on objective evidence for individual receivables. All recoveries receivable on outstanding claims liabilities are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the balance sheet.

### **Net investment income**

Dividends and any related tax credits are recognised as income on the date the related listed investments are marked ex-dividend. Other investment income, interest receivable, expenses and interest payable are recognised on an accruals basis.

### **Financial investments**

All investments are designated as fair value through profit or loss upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value from the previous reporting date (or cost of acquisition excluding transaction costs if acquired during the financial period) are recognised as realised or unrealised investment gains or losses in profit or loss. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset. Transaction costs for purchases of investments are expensed as incurred. Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

For securities listed in an active market, fair value is determined by reference to published bid price quotations.



## **Accounting policies (cont)**

### **Loans and receivables**

Loans and receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired. These are reversed when payment is received.

### **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between amortised cost and the redemption value is recognised in the income statement over the period of the borrowings. Transaction costs on borrowings are charged through the income statement over the period of the borrowings.

### **Borrowing costs**

Borrowing costs comprise interest payable on loans and bank overdrafts and commissions charged for the utilisation of letters of credit. These costs are charged to the income statement as financing costs, as incurred. In addition fees paid for the arrangement of debt and letter of credit facilities are charged to borrowing costs over the life of the facility.

### **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at fair value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term, highly liquid investments which are subject to insignificant risk of change in fair value.

### **Employee benefits**

Syndicate employees are employed by Diagonal and the cost in relation to the proportion of their time spent on Syndicate 4455 is recharged by Diagonal to Syndicate 4455. The allocation of expenses to syndicates is approved by the Diagonal Board.

## **Accounting policies (cont)**

### **Other income**

Any other income is brought to account on an accruals basis being recognised as revenue on a straight line basis in accordance with the passage of time as the services are provided

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years or that are never taxable or deductible. Alba's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered, or to the extent that it has been utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Alba intends to settle its current tax assets and liabilities on a net basis. Deferred tax and liabilities have not been discounted.

## **Risk Disclosures**

### **a. Underwriting risk**

Alba Underwriting Limited ("AUL") accepts insurance risk in a range of business through Syndicate 4455 (the "Syndicate"). The Syndicate's primary focus is on short tail classes of business, which are property, energy onshore, engineering, and marine cargo. The Syndicate does not write any statutory classes of business, such as motor or workers compensation, and does not write domestic US exposure as part of its focused business plan.

The start-up nature of the Syndicate and the formation of a new underwriting team increase the uncertainty of the eventual outcome. The main risk relates to the ability to meet business targets whilst maintaining an optimum balance between underwriting philosophy and establishing a reputation for market growth. A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income to be written in total and for each class of business. Progress to this plan is monitored on continuous basis and formally reviewed through a number of Committees meeting on regular basis.

AUL recognises that the most significant risk to a start-up Syndicate with limited historic track record relates to underwriting risk and meeting business plan loss ratios. Binding authority arrangements delegate underwriting authority to an agent acting as coverholder who use their judgement to write risks on behalf of the Syndicate under clear authority levels. Underwriters use their established skill and knowledge to evaluate the risks and therefore the premium required to cover claims costs and operating expenses to produce a profit. However, due to the nature of insurance and the relative new establishment of the Syndicate, there is a risk that premiums charged will not be sufficient to cover claims costs. This shortfall may be caused by unexpectedly high levels of claims or insufficient premium.

Active Underwriter 'peer' reviews form part of the underwriting process and acts as an additional control for ensuring that risks are appropriately priced and that the process of underwriting remains transparent.

### **b. Claims risk**

The insurance liabilities underwritten by the Syndicate are reviewed on an individual risk or contract basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio of business is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. This provision is subject to review by senior executives and an independent internal actuarial assessment is carried out by an external actuarial team to determine the adequacy of the provision. Whilst a detailed and disciplined exercise is carried out to provide for claims notified, it is possible that these could exceed the reserves carried. Furthermore there is increased uncertainty in establishing an accurate provision for claims which have been incurred but not reported and there is a possibility that claims may arise which in aggregate exceeds the reserve provision established.

**Risk Disclosures (continued)**

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew and thus reducing income.

**c. Reinsurance risk**

Reinsurance cover protects insurers against the risk of unexpectedly high levels of claims and / or catastrophic losses such as windstorm or earthquake which may impact more than one risk written. The Syndicate has secured a 2006 reinsurance programme, which with the exception of casualty business is placed on a 'Losses Occurring During' basis. The cover has been split into two separate programmes – one to cover single risk losses and the other to cover accumulation or catastrophe losses.

However, there is no guarantee that reinsurance coverage will meet all potential loss circumstances as, for very severe catastrophe losses, it is possible that the full extent of the cover bought is not sufficient. Any loss amount which exceeds the programme would be retained by the Syndicate. It is also possible that a dispute may arise with a reinsurer which reduces the recovery made.

The Syndicate seeks to develop long-term partnerships with its reinsurer and is not seeking to 'trade' (arbitrage) on its protections. The reinsurance programme design and the security utilised is reviewed by the Reinsurance Committee and the target criteria is S&P rating of 'A' for short-tail reinsurance and 'A+' for long-tail. If no S&P rating is available, it accepts AM Best's rating of 'A' as equivalent to S&P 'A+'. Despite the criteria, it is still possible for a reinsurer to unexpectedly fail.

**d. Reserving risk**

The Syndicate, as do most insurers, run a risk of prior year reserves deteriorating and thus becoming inadequate to meet liabilities and requiring additional funds in order to increase reserves. Due to the start-up nature, the current reserving process involves making an assumption of the Syndicate's payment profile, estimating the reserves as at the end of each calendar year and loading the underwriting year capital amounts by including an additional scenario that allows for prior year reserving risk.

**Risk Disclosures (continued)**

The following table shows the reserve levels and the loads that have been applied by Diagonal in the Syndicate's Individual Capital Assessment ("ICA")

<i>All amounts in \$m's</i> Underwriting Year / Calendar Year	Net Unpaid Claims at Year End			
	2006	2007	2008	2009
2006	7.8	7.1	3.5	0.4
2007	0	21.4	16.1	2.9
2008	0	0	26.7	20.2
2009	0	0	0	35.9
2010	0	0	0	0
<b>Total</b>	<b>7.8</b>	<b>28.5</b>	<b>46.3</b>	<b>59.4</b>
<b>Prior Year Reserving Margin %age</b>	<b>50%</b>	<b>40%</b>	<b>35%</b>	<b>30%</b>
<b>Prior Year Reserving Margin</b>	<b>3.9</b>	<b>11.4</b>	<b>16.2</b>	<b>17.8</b>
<b>UW Year</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>

The reserving process involves making an assumption of the Syndicate's payment profile, estimating the reserves as at the end of each calendar year and loading the underwriting year capital amounts by including an additional scenario that allows for prior year reserving risk. As such, a 50% load for the first underwriting year (2007) was applied. Allowing for a maturing book of business and stability of underwriting results, the percentage is reduced each year, reducing to 30% for the 2010 underwriting year.

**e. Credit risk**

Credit risk is the risk that the Syndicate becomes exposed to loss if any party fails to perform its contractual obligations, including failure to perform them in a timely manner. Credit risk could therefore have an impact upon the Syndicate's ability to meet its claims as they fall due, have an adverse effect on its liquidity and ultimately, its profitability.

The Syndicate's exposure to credit risk is primarily related to the receipt of premiums and recovery of reinsurance balances. Whilst terms of credit are applied to each individual case, it is recognised that delays can occur in the collection of premium from brokers, especially if there are a number of insurers involved in individual policies.

Effective credit control remains a high priority and is monitored on a continuous basis and reported into relevant Committees. However, there is a risk that payments may not be collectible due to reasons such as the failure of reinsurers or the failure of broker/s, both of which will lead to an increase in bad debt.

**f. Liquidity risk**

Given the start-up nature of the Syndicate, it is exposed to certain degrees of material liquidity risk. Cashflow may potentially be strained in a number of circumstances, such as the occurrence of a catastrophic loss or a series of large losses or undue delays in collecting premium or reinsurance balances.

The risk is continuously monitored and all associated proximate causes are managed on a daily basis.

**Risk Disclosures (continued)****g. Investment risk**

The management of investments and investment appetite will be closely controlled by an Investment Committee. Due to the small volume of funds received to date, the Syndicate has followed a very conservative investment philosophy with assets held in cash on overnight deposit.

Although modest, there remains a risk that an investment yield of 4% may not be achieved. This is continuously monitored and reported into the Investment Committee. The Syndicate does not invest in corporate bonds or equity type investments and thus, there is no risk of complete asset failure.

The Investment Committee intends to contract with professional Investment Managers when it is deemed that the levels of funds is justifiable, at which point the appetite will also be reviewed.

**h. Foreign exchange risk**

The Syndicate's base currency is US dollar, but in terms of premium accepts the currency in which risks are underwritten, which is generally the currency of the country where the risk is located. As such, the Syndicate is exposed to exchange movements both in terms of premium receipts and payment of claims. Further foreign exchange risk arises when US dollars are converted back into pounds sterling.

The Syndicate's approach is to mitigate foreign exchange risk by retaining key currencies and systematically converting non-US dollar profits into US dollars and to time currency transactions in order to optimise conversion rates.

**i. Operational risk**

It has been recognised that a start-up syndicate is likely to be exposed to additional uncertainties, particularly in the first 2 years of operation. Therefore, operational risk assessments for each stage of the Syndicate's development have been carried and recorded in the Risk Register. Not all operational risks contained within the Risk Register have an associated financial impact. This is either due to their remote possibility or the difficulty associated with estimating a suitable financial impact.

The Risk Register, whilst comprehensive, cannot include each and every risk but does intend to ensure that the main manageable risks are identified and mitigated. Therefore, there is a risk that an adverse, or series of adverse, unexpected circumstances can occur and not have been identified or financially assessed. The Syndicate undertakes the management of risk on a continuous basis and ensures that significant activities that may affect any of the risks identified are reported to appropriate Committees for review and mitigation.

## Notes to the financial statements

### at 31<sup>st</sup> December 2006

#### 1. Segmental analysis

##### (a) Primary segmental information

The tables below show segmental information by business segment. Business segments are primary segments and represent the way in which the business is managed. Each segment underwrites sub-classes of business which fall within the broad classes of property, energy, engineering and marine (cargo). The segments are discussed in more detail in the operating and financial review. For the period ended 31<sup>st</sup> December the portfolio is comprised of reinsurance business only.

<b>Income and expenses by business segment</b>	<i>Property</i>	<i>Energy</i>	<i>Engineering</i>	<i>Marine</i>	<i>Other</i>	<i>Total</i>
Period ended 31 <sup>st</sup> December 2006	\$000	\$000	\$000	\$000	\$000	\$000
<b>Gross premium written</b>	4,112	2,387	2,584	308	-	9,391
Analysed by geographic segment						
ASEAN	561	415	924	245	-	2,145
Greater China	1,693	842	868	9	-	3,412
Gulf Cooperation Council	-	255	476	26	-	757
Australasia	1,858	539	316	-	-	2,713
Other	-	336	-	28	-	364
<b>Total</b>	4,112	2,387	2,584	308	-	9,391
Gross premium earned	1,033	610	551	70	-	2,264
Reinsurance premium ceded	(205)	(125)	(107)	(121)	-	(558)
Net premium earned	828	485	444	(51)	-	1,706
Insurance claims and claims settlement expenses	(443)	(1,547)	(283)	(30)	-	(2,303)
Underwriting expenses	(288)	(195)	(188)	(21)	-	(692)
<b>Profit attributable to underwriting</b>	97	(1,257)	(27)	(102)	-	(1,289)
Investment return	3	2	1	-	-	6
Agency expenses <sup>(1)</sup>	(1,468)	(852)	(923)	(110)	-	(3,353)
Other non-underwriting expenses <sup>(2)</sup>	-	-	-	-	(6)	(6)
Finance costs <sup>(2)</sup>	-	-	-	-	(73)	(73)
Profit before tax	(1,368)	(2,107)	(949)	(212)	(79)	(4,715)
Combined ratio, incl agency exps	265.2%	534.4%	313.7%	(315.7)%	-	376.3%

<b>Assets and Liabilities by business segment</b>	<i>Property</i>	<i>Energy</i>	<i>Engineering</i>	<i>Marine</i>	<i>Other</i>	<i>Total</i>
At 31 <sup>st</sup> December 2006	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>						
Assets attributable to business segments	4,692	2,692	2,968	392	1,320	12,064
<b>Liabilities</b>						
Liabilities attributable to business segments	(6,128)	(4,837)	(3,953)	(462)	(79)	15,459
<b>Total net assets</b>	(1,436)	(2,145)	(985)	(70)	1,241	(3,395)

(1) Agency expenses allocated to segments represent fees and commission payable to Diagonal together with,

(2) Other non-underwriting expenses and finance costs are incurred in support of Alba and have not been allocated to particular segments.

## Notes to the financial statements

### at 31<sup>st</sup> December 2006

#### 1. Segmental analysis (continued)

##### (b) Geographical segmental information

At 31 <sup>st</sup> December 2006	ASEAN \$000	Greater China \$000	Gulf Cooperation Council \$000	Australasia \$000	Other territories \$000	UK \$000	Total \$000
Gross premium written	2,145	3,412	757	2,713	364	-	9,391
Total assets	3,211	3,420	764	2,717	365	1,587	12,064

#### 2 Net earned premium

	2006 \$000
<b>Insurance contracts premium</b>	
Gross premium written	9,391
Change in unearned premium provision	(7,127)
Gross premium earned	2,264
Reinsurance premium payable	(2,305)
Change in unearned reinsurance premium provision	1,747
	(558)
<b>Net earned premium</b>	<b>1,706</b>

#### 3 Investment return

	2006 \$000
Investment income	
Cash and cash equivalents interest income	6
	6



## Notes to financial statements

### at 31<sup>st</sup> December 2006

#### 4. Insurance claims and loss adjustment expenses

	2006 \$000
<b>Gross</b>	
Current year insurance claims and loss adjustment expenses	2,303
Reduced costs for prior period insurance claims	-
	2,303
<b>Total net insurance claims and loss adjustment expenses</b>	<b>2,303</b>

#### 5. Expenses for the acquisition of insurance contracts

	2006 \$000
Expenses for the acquisition of insurance contracts	2,559
Changes in deferred expenses for the acquisition of insurance contracts	(1,867)
	692

#### 6 Other operating expenses

	2006 \$000
<b>Expenses related to underwriting</b>	
Administrative expenses	3,168
Underwriting exchange losses/(gains)	120
	3,288
<b>Other expenses</b>	
Central management and other expenses	6
Depreciation	65
<b>Total</b>	<b>3,359</b>

## Notes to the financial statements

### at 31<sup>st</sup> December 2006

#### 7. Directors' remuneration

None of the Directors received any remuneration or pension contributions from Alba during the period, as they were employed by other group companies

#### 8. Employee benefit expenses

All Syndicate 4455 staff, including the two executive Alba Directors who were in office for the period, are employed by Diagonal and a proportion of these costs are recharged to Syndicate 4455 based on time working on Syndicate 4455 related matters

The following amounts were recharged to the Syndicate by Diagonal in respect of salary costs

	2006 \$000
Wages and salaries	603
Social security costs	65
Other pension costs	86
	<u>754</u>

#### 9. Finance Costs

	2006 \$000
Letter of credit commissions	-
Subordinated bond interest	-
Loan interest	73
	<u>73</u>

#### 10. Profit before tax

Profit before tax is stated after charging/(crediting) the following amounts

	2006 \$000
Depreciation	
– owned assets	65
Auditors' remuneration	
– Company audit	6
– Syndicate audit	104
Foreign exchange losses/(gains)	120

## Notes to the financial statements

### at 31<sup>st</sup> December 2006

#### 11. Taxation

	2006 \$000
<b>Current tax</b>	
UK Corporation tax	-
Foreign tax	-
	-
<b>Deferred tax – current year</b>	
Movement in assets	(1,320)
Movement in liabilities	-
	-
<b>Taxes on income</b>	<b>(1,320)</b>

Underwriting profits or losses are recognised in the technical account on an annual accounting basis, recognising the results in the period in which they are earned. Corporation tax is charged in the period in which the underwriting profits are actually paid by Syndicate 4455 to Alba.

Deferred tax is provided on the annually accounted underwriting result with reference to the forecast ultimate result of each of the years of account included in the annually accounted underwriting result. Where the forecast ultimate result for a year of account is a taxable profit, deferred tax is provided in full on the movement on that year of account included in this period's annually accounted result. Where the forecast ultimate result or a year of account is a loss, deferred tax is only provided for on the movement on that year of account included in this period's annually accounted result.

Deferred tax has been provided on the annually accounted underwriting result for this accounting period of \$1,320k.

#### Reconciliation of tax expense

The UK standard rate of corporation tax is 30%, whereas the current tax assessed for the year ended 31 December 2006 as a percentage of loss before tax is 28%. The reasons for this difference are explained below.

## Notes to the financial statements

### at 31<sup>st</sup> December 2006

#### 11. Taxation (continued)

	2006 \$000
Loss on ordinary activities before tax	(4,715)
Taxation on profit on ordinary activities calculated at the standard rate of corporation tax in the UK of 30%	(1,414)
Effect of change of tax rate for future periods	94
Current Tax credit	(1,320)

Alba's tax provision for 2006 has been prepared on the basis that the result for Syndicate 4455 is initially taxed in Singapore. The corporation tax rate for Singaporean companies is currently 20%. Under UK double taxation treaty rules, an appropriate tax credit is given for this provision.

#### Deferred income tax

The deferred tax asset is attributable to temporary differences arising on the following

	Provision for losses \$000	Total \$000
At beginning of period	-	-
Movements in the year	(4,715)	(4,715)
Movement through equity in the year	-	-
At 31 December 2006	(4,715)	(4,715)

The company has estimated losses of \$6,000 available for carry forward against future trading profits.

## Notes to the financial statements at 31<sup>st</sup> December 2006

### 12. Net foreign exchange (losses)/gains

Alba's incurred foreign exchange losses of \$120k during the year

Alba writes business in many currencies and although a large amount of Alba's balance sheet assets and liabilities are matched, minimising the effect of movements in foreign exchange rates on Alba's result, it is not possible or practical to match exactly all assets and liabilities in currency and accounting standards dictate that certain classes of assets and liabilities be translated at different rates (see Foreign currency translation accounting policy)

### 13. Cash and cash equivalents

	2006 \$000
Cash at bank and in hand	1,024
Short-term bank deposits	-
	1,024

Short-term bank deposits can be recalled within 24 hours

### 14. Financial investments

	Market Value 2006 \$000	Cost 2006 \$000
Other loans	126	126
	126	126
In Syndicate 4455	126	126
In Company	0	0
	126	126

Other loans comprise loans made to the New Lloyd's Central Fund in 2006. The amount of the loan is calculated as 0.75% of the Syndicate's capacity for each open year. Interest is payable on the loan and repayment is at the discretion of the Council of Lloyd's. In normal circumstances it is expected that there will be a rolling repayment of a proportion of the overall debt to coincide with the RITC of a year of account after the loans have been outstanding for three years. Further loans are expected to be made by each new year of account for the foreseeable future and at a rate to be determined by Lloyd's annually. The Directors believe that these loans are recoverable in full.

## Notes to the financial statements at 31<sup>st</sup> December 2006

### 15. Insurance contracts and reinsurance assets

	<i>Claims reserves \$000</i>	<i>Unearned premium reserves \$000</i>	<i>Other insurance assets and liabilities \$000</i>	<i>Total \$000</i>
<b>Insurance liabilities</b>				
At beginning of period	-	-	-	-
Movement in the year	2,303	7,127	731	10,161
Exchange adjustments	-	-	-	-
<b>At 31 December 2006</b>	<b>2,303</b>	<b>7,127</b>	<b>731</b>	<b>10,161</b>
<b>Reinsurance assets</b>				
At beginning of period	-	-	-	-
Movement in the year	-	1,747	-	1,747
Exchange adjustment	-	-	-	-
<b>At 31 December 2006</b>	<b>-</b>	<b>1,747</b>	<b>-</b>	<b>1,747</b>

Other insurance liabilities are comprised principally of premium payable for reinsurance, including reinstatement premium. Other insurance assets are comprised principally of amounts recoverable from reinsurers in respect of paid claims and premium receivable on inward reinsurance business, including reinstatement premium.

Further information on the calculation of claims reserves and the risks associated with them is provided in the risk disclosures section, on pages 19 - 22.

The claims reserves are further analysed between notified outstanding claims and incurred but not reported claims below.

	<i>2006 \$000</i>
Notified outstanding claims	40
Claims incurred but not reported (IBNR)	1,798
	1,838
Provision for unallocated loss adjustment expense (ULAE)	108
Effect of discounting future cash flows	(122)
	1,824
Risk margin (26.3%)	479
<b>Total outstanding claims reserve</b>	<b>2,303</b>

## Notes to the financial statements

### at 31<sup>st</sup> December 2006

#### 16. Loans and receivables, including insurance receivables

	2006 \$000
Receivables arising from insurance contracts	5,838
Deferred acquisition costs	1,868
Insurance receivables	7,706
Other debtors	58
Prepayments and other accrued income	83
	141
	2006 \$000
Current portion	7,848
Non-current portion	54
	7,902

The reconciliation of opening and closing deferred acquisition costs is as follows

	2006 \$000
At beginning of period	-
Exchange adjustments	-
Movements in the year	1,868
At 31 December	1,868

## Notes to the financial statements at 31<sup>st</sup> December 2006

### 17. Share capital

	2006 Number	2006 \$
Authorised ordinary shares of £1 each		
At 31 December	1	2
Allotted, called up and fully paid	Number	\$
At beginning of period	1	2
At 31 December	1	2

### 18. Reserves

	Other \$000	Retained earnings \$000
At beginning of period	-	-
(Loss) for the financial year	-	(3,395)
At 31 December 2006	-	(3,395)

### 19. Trade and other payables and deferred income

	2006 \$000
Trade payables and accrued expenses	1,305
Social security and other tax payables	-
	1,305
	2006 \$000
Current portion	1,305
Non-current portion	-
	1,305



## Notes to the financial statements

### at 31<sup>st</sup> December 2006

#### 20. Borrowings

	2006 \$000
Loans from parent, including accrued interest	3,993
	3,993
	2006 \$000
Current portion	3,993
Non-current portion	-
	3,993

#### 21. Retirement benefit obligations

##### a) The stakeholder defined contribution scheme

The defined contribution scheme operated by Diagonal is a stakeholder arrangement. The total contributions for the year ended 31 December 2006 recharged to Syndicate 4455 were \$86k.

##### b) Other arrangements

Other pension arrangements for Syndicate 4455 staff include an occupational money purchase scheme which provides Death In Service protection for all employees. Regular contributions, expressed as a percentage of employees' earnings, are paid into this scheme and are allocated to accounts in the names of the individual members, which are independent of Syndicate 4455's finances. There were no outstanding contributions at 31 December 2006.

## Notes to the financial statements

### at 31<sup>st</sup> December 2006

#### 22. Principal exchange rates

The principal exchange rates used in translating foreign currency assets, liabilities, income and expenditure in the production of these financial statements were

	Average rate 2006	Year end rate 2006
Australian Dollar	1 31	1 27
Singaporean Dollar	1 57	1 53
UK Pounds	1 89	1 96

#### 23. Cash generated from operations

	2006 \$000
Profit before tax	(4,715)
Depreciation charge	65
Interest received	6
Net purchases of financial investments	(126)
Decrease/(increase) in loans and receivables	(7,848)
Decrease/(increase) in reinsurance contract assets	(1,747)
(Decrease)/increase in insurance contract liabilities	10,161
Increase/(decrease) in trade and other payables	1,304
Other non-cash movements	(2)
Cash generated from operations	(2,902)

## **Notes to the financial statements at 31<sup>st</sup> December 2006**

### **24. Related party transactions**

Managing Agent's fees of \$122k were paid by Syndicate 4455 to Diagonal during the period

Diagonal recharged \$1,795k during the period for expenses incurred directly and indirectly on behalf of Syndicate 4455

The parent of Alba, Alba Group Pte Limited, which is domiciled in Singapore, wholly owns a service company, Alba Pte Limited, which is also resident in Singapore and introduces business to Syndicate 4455. Alba Pte Limited was established in 2006 under the Lloyd's Asia scheme and operates both as a service company and a cover-holder to Syndicate 4455 through a binder agreement. During 2006, Alba Pte charged Syndicate 4455 \$1,300k in commission as a result of this binder agreement. In addition, Syndicate 4455 loaned \$314k to Alba Pte to fund the start up working capital. At the end of the period, repayment of this loan remained outstanding.

In December 2006, Syndicate 4455 placed a proportion of its Catastrophe Excess of Loss Programme with IAG Re Labuan (L) Berhad, a wholly owned subsidiary of IAG resident in Labuan. All reinsurance contracts are agreed on an arms length basis with terms that are consistent with those negotiated with third parties. The total premium payable to IAG Re Labuan (L) Berhad in respect of 2006, all of which was outstanding as at 31 December 2006, was \$10k.

### **25. Ultimate holding company**

The ultimate holding Company is Insurance Australia Group Limited ("IAG"), a company registered and listed in Australia. IAG prepare consolidated financial statements and these are publicly available.