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# Limit plc

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## Annual Report

31 December 2003



Registered Number 2843890

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# ANNUAL REPORT

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## **DIRECTORS AND OFFICERS**

### **DIRECTORS**

Steven P Burns  
Peter E Grove  
David M Lang  
Francis M O'Halloran  
David J Winkett

### **SECRETARY**

Hugh G Pallot

### **REGISTERED OFFICE**

88 Leadenhall Street  
London  
EC3A 3BP

### **AUDITORS**

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
32 London Bridge Street  
London  
SE1 9SY

## DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2003.

### Company's business

The principal activity of the company is to act as a holding company. This will continue to be the principal activity of the company for the foreseeable future.

### Business review and future developments

The results for the company are as set out on page 6.

The company intends to increase its participation, via its Corporate Member subsidiaries, in the Lloyd's syndicates managed by its subsidiary Limit Underwriting Limited.

On 23 February 2004 the company acquired the Ensign group of companies which manage Lloyd's syndicate 980. The right to manage syndicate 980 has been novated to Limit Underwriting Limited as from 1 January 2004. The acquired companies include Ensign Dedicated 1 Limited a Lloyd's corporate member that underwrites solely on syndicate 980. Also on 23 February 2004 in a separate transaction the company acquired SRL Underwriting Limited, a Lloyd's corporate member that underwrites solely on syndicate 980.

On 30 April 2004 the company acquired Tolson Messenger Limited, subsequently renamed Icon Schemes Limited an insurance broker that provides business to syndicate 2000 which is managed by Limit Underwriting Limited.

### Directors

Details of the directors that served during the year are given on page 2.

### Directors' Interests

No director had a beneficial interest in the shares of the company at any time during the year.

No director had a beneficial interest in any shares of subsidiary companies at any time during the year.

The directors are not required to disclose any interests they may have in the shares of the ultimate controlling entity, QBE Insurance Group Limited, which is incorporated in Australia.

### Dividends

The directors do not propose a dividend (year ended 31 December 2002: Nil) for the year ended 31 December 2003.

### Charitable and political donations

Donations for charitable purposes, all in the UK, during the financial year amounted to £1,138 (2002: £895). No political donations were made.

### Creditor payment policy

The company does not follow a published code or standard on payment practice, although its policy is to pay amounts due within the relevant period of credit included in the terms and conditions under which business transactions with suppliers are conducted. This is normally within 30 days of the date of the supplier's invoice. Limit plc has no trade creditors.

## DIRECTORS' REPORT

*continued*

### Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 13<sup>th</sup> March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

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.

By order of the board,



Hugh Pallot  
Secretary  
88 Leadenhall Street  
London  
EC3A 3BP

27 July 2004

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LIMIT PLC**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and related notes, which have been prepared in accordance with the accounting policies set out in the statement of accounting policies.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors report.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards 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.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
32 London Bridge Street  
London  
SE1 9SY

27 July 2004

**PROFIT AND LOSS ACCOUNT***for the year ended 31 December*

	Note	2003 £	2002 £
Administrative expenses		(17,446,278)	(22,232,629)
Other operating income		2,939,572	3,540,728
Income from other fixed asset investments	2	(5,657,466)	(522,643)
Other interest receivable and similar income	3	20,026,173	8,474,962
Interest payable and similar charges	4	(15,989,469)	(9,795,170)
<b>(Loss) on ordinary activities before taxation</b>	5	<b>(16,127,468)</b>	<b>(20,534,752)</b>
Tax on (loss) on ordinary activities	7	6,866,903	(5,342,640)
<b>(Loss) on ordinary activities after taxation</b>		<b>(9,260,565)</b>	<b>(25,877,392)</b>
<b>Retained (loss) for the year</b>		<b>(9,260,565)</b>	<b>(25,877,392)</b>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES***for the year ended 31 December*

	2003 £	2002 £
(Loss) on ordinary activities after taxation	(9,260,565)	(25,877,392)
Unrealised (losses) on investments	(859,696)	(256,827)
<b>Total recognised gains and losses in the year</b>	<b>(10,120,261)</b>	<b>(26,134,219)</b>

All the items in the above statements are derived from continuing activities.

There is no difference between the (loss) on ordinary activities before taxation and the retained (loss) for the year stated above and their historical cost equivalents.

The notes on pages 8 to 16 form an integral part of these financial statements.

# LIMIT PLC

## BALANCE SHEET

as at 31 December

	Note	2003 £	2002 £
<b>Fixed Assets</b>			
Tangible Assets	8	1,570,572	1,672,356
Investments in subsidiary undertakings	9	139,375,671	139,375,671
Other financial investments	10	292,950,194	356,453,930
		433,896,437	497,501,957
<b>Current assets</b>			
Debtors	11	262,953,234	284,405,866
Cash at bank and in hand		46,345,328	30,090,614
		309,298,562	314,496,480
<b>Creditors: amounts falling due within one year</b>	13	(267,567,343)	(323,634,656)
<b>Net current assets</b>		41,731,219	(9,138,176)
<b>Total assets less current liabilities</b>		475,627,656	488,363,781
<b>Creditors: amounts falling due after more than one year</b>	14	(16,797)	(24,297)
<b>Provisions for liabilities and charges</b>	15	(9,837,676)	(12,446,040)
<b>Total net assets</b>		465,773,183	475,893,444
<b>Capital and reserves</b>			
Called up share capital	16	175,552,802	175,552,802
Share premium account	17	216,216,471	216,216,471
Capital redemption reserve	17	8,074,727	8,074,727
Revaluation reserve	17	(1,930,182)	(1,070,486)
Other capital reserve	17	20,027,008	20,027,008
Profit and loss account	17	47,832,357	57,092,922
<b>Total shareholders' funds including non-equity interests</b>	18	465,773,183	475,893,444

These accounts were approved by the board of directors on 27 July 2004 and were signed on its behalf by:



David J Winkett  
Director

The notes on pages 8 to 16 form an integral part of these financial statements.

**ACCOUNTING POLICIES***forming part of the financial statements***Basis of preparation**

These financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets, in accordance with section 226 of, and Schedule 4 to, the Companies Act 1985, the accounting policies set out below, and in accordance with applicable accounting standards.

**Investment income**

Investment income comprises interest and dividends receivable for the period together with realised investment gains and losses.

Dividends are recognised as income on the date the relevant securities are marked ex-dividend. Other investment income is recognised on an accruals basis.

Realised investment gains and losses represent the difference between the net sale proceeds and the market value at the previous balance sheet date or date of acquisition if later.

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date.

**Depreciation of tangible fixed assets**

Depreciation is provided on all tangible fixed assets to write off the cost by equal instalments over the estimated useful economic lives as follows:

Leasehold building refurbishment costs	over life of lease
Furniture, fittings and equipment	3 years
Computer equipment	3 years

**Investments**

Investments have been valued at middle market prices ruling at the close of business at the balance sheet date. Unlisted investments have been valued at the directors' estimate of market value by reference to the market value of similar quoted investments and recent trades in those investments.

Investments in subsidiary undertakings are stated at cost less amounts written off for any impairment in value.

**Taxation**

The charge for taxation is based on the results for the year adjusted for disallowable items. In accordance with the provisions of FRS19, deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities are not discounted.

**Group accounts**

In accordance with Section 228 of the Companies Act 1985, the Company is exempt from preparing group accounts. A controlling entity, QBE International Holdings (UK) plc, incorporated in the UK, has prepared consolidated group accounts for the year ended 31 December 2003 in which the company is included.

**Operating leases**

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

**NOTES TO THE FINANCIAL STATEMENTS***forming part of the financial statements***1. CASH FLOW STATEMENT AND RELATED PARTY DISCLOSURES**

The company is included in the consolidated financial statements of QBE Insurance Group Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions.

**2. INCOME FROM OTHER FIXED ASSET INVESTMENTS**

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Realised (losses) on sale of investments	(5,657,466)	(522,643)
	<b>(5,657,466)</b>	<b>(522,643)</b>

**3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Income from fixed interest securities	18,192,534	3,677,119
Income from variable yield securities	1,578,019	4,347,604
Bank interest receivable	255,620	450,239
	<b>20,026,173</b>	<b>8,474,962</b>

**4. INTEREST PAYABLE AND SIMILAR CHARGES**

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Group interest payable to QBE group company	14,700,803	341,467
Bank loans and overdrafts	-	263
Other interest payable	1,278	22,535
Foreign exchange loss	1,287,388	9,430,905
	<b>15,989,469</b>	<b>9,795,170</b>

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 5. (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

(Loss) on ordinary activities before taxation is stated after charging:

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Depreciation of owned tangible fixed assets	101,784	1,053,000
Operating lease rentals on land and buildings	2,528,387	2,613,377
Auditors remuneration:		
audit fees	305,326	197,500
non-audit services	84,908	85,033
Provision for loan to Standfast Corporate Underwriting Limited	3,931,204	5,263,000
Provision for future cash calls by Standfast	1,420,264	3,864,431

The company indirectly owns approximately a one third economic share of Standfast Corporate Underwriting Limited (SCUL), a corporate capital provider at Lloyd's. The company is required by Lloyd's to provide SCUL with funds for its share of any losses incurred by SCUL when they are called. The loan of these funds has been fully provided for, see Note 11.

SCUL has incurred losses in excess of the amounts called and provision has been made for these based on the latest information available to the directors, see Note 15.

## 6. DIRECTORS EMOLUMENTS

Emoluments of directors of the company are as below:

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Gross emoluments, excluding pension contributions	3,037,584	950,057
Company contributions to money purchase pension schemes	273,206	119,739
Defined benefit pension schemes	319,275	55,270
	<b>3,630,065</b>	<b>1,125,066</b>
The number of directors who are members of a money purchase pension scheme is:	3	3
The number of directors who are members of a defined benefit pension scheme is:	1	1

The emoluments of the highest paid director are as follows:

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Gross emoluments	1,294,330	648,312
Company contributions to money purchase pension schemes	97,900	94,342
	<b>1,392,230</b>	<b>742,654</b>

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 7. TAX ON (LOSS) ON ORDINARY ACTIVITIES

Analysis of (credit)/charge in period	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Current tax:		
UK corporation tax charge at 30% (2002:30%)	(4,881,244)	(3,264,275)
Adjustment to tax in respect of prior period	(2,051,860)	8,790,295
Total current tax	(6,933,104)	5,526,020
Deferred tax:		
Origination and reversal of timing differences	352,610	(215,023)
Adjustment to tax in respect of prior period	(286,409)	31,643
Total deferred tax	66,201	(183,380)
<b>Tax on (loss) on ordinary activities</b>	<b>(6,866,903)</b>	<b>5,342,640</b>

The tax for the period is lower (2002: higher) than the standard rate of Corporation Tax in the UK (30%).

The differences are explained below:

(Loss) on ordinary activities before tax	(16,127,468)	(20,534,752)
(Loss) on ordinary activities before taxation multiplied by standard rate of UK Corporation Tax at 30%	(4,838,240)	(6,160,426)
Effects of:		
Expenses not deductible for tax purpose	567,504	2,758,175
Other timing differences	(352,610)	215,023
Other	(257,898)	(77,047)
Adjustments to tax in respect of prior period	(2,051,860)	8,790,295
Current tax (credit)/charge for the year	(6,933,104)	5,526,020

## 8. TANGIBLE ASSETS

	Refurbishment Costs £	Fixtures and Fittings £	Computers £	Total £
<b>Cost</b>				
<b>At 1 January and 31 December 2003</b>	<b>2,035,586</b>	<b>3,070,257</b>	<b>281,546</b>	<b>5,387,389</b>
<b>Depreciation</b>				
At 1 January 2003	363,230	3,070,257	281,546	3,715,033
Charge for the year	101,784	-	-	101,784
	<b>465,014</b>	<b>3,070,257</b>	<b>281,546</b>	<b>3,816,817</b>
<b>Net book value</b>				
At 1 January 2003	1,672,356	-	-	1,672,356
<b>At 31 December 2003</b>	<b>1,570,572</b>	<b>-</b>	<b>-</b>	<b>1,570,572</b>

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 9. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

		£
<b>Cost</b>		
At 1 January and 31 December 2003		<b>139,375,671</b>

At 31 December 2003 the company had the following subsidiary which operated in and is registered in England and Wales:

Subsidiary	Principal activity	Proportion of ordinary shares held by the company
		%
Limit Holdings Limited	Holding company	100

On 23 February 2004 the company acquired the Ensign group of companies which manage Lloyd's syndicate 980. The right to manage syndicate 980 has been novated to Limit Underwriting Limited as from 1 January 2004. The acquired companies include Ensign Dedicated 1 Limited a Lloyd's corporate member that underwrites solely on syndicate 980. Also on 23 February 2004 in a separate transaction the company acquired SRL Underwriting Limited, a Lloyd's corporate member that underwrites solely on syndicate 980.

On 30 April 2004 the company acquired Tolson Messenger Limited, subsequently renamed Icon Schemes Limited an insurance broker that provides business to syndicate 2000 which is managed by Limit Underwriting Limited.

## 10. OTHER FINANCIAL INVESTMENTS

	Equities £	Fixed interest securities £	Unit trusts £	Total £
Opening book cost	526,060	269,674,957	87,323,399	357,524,416
Opening unrealised appreciation/ (depreciation)	(511,658)	(558,828)	-	(1,070,486)
<b>Opening valuation</b>	<b>14,402</b>	<b>269,116,129</b>	<b>87,323,399</b>	<b>356,453,930</b>
Movements in the year:				
Purchases at cost	-	1,108,459,261	206,960,174	1,315,419,435
Disposals - proceeds	-	(1,154,925,306)	(222,664,152)	(1,377,589,458)
Disposals - realised gains/(losses)	-	(5,659,510)	-	(5,659,510)
Unrealised appreciation/(depreciation)	(14,402)	(845,294)	-	(859,696)
Exchange movement	-	-	(474,017)	(474,017)
<b>Closing valuation</b>	<b>-</b>	<b>216,145,280</b>	<b>71,145,404</b>	<b>287,290,684</b>
Closing book cost	526,060	223,208,912	71,145,404	294,880,376
Closing unrealised appreciation/(depreciation)	(526,060)	(1,404,122)	-	(1,930,182)
	<b>-</b>	<b>221,804,790</b>	<b>71,145,404</b>	<b>292,950,194</b>

The company has given a fixed and floating charge over its investments and other assets to secure its obligations to Lloyd's in respect of its corporate member subsidiaries. Further details are given in note 20.

None of the investments are listed.

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 11. DEBTORS

	At 31 December 2003 £	At 31 December 2002 £
Amounts owed by group undertakings	261,090,407	281,839,472
Corporation tax recoverable	-	426,231
Income tax recoverable	-	17,720
Deferred tax (see note 12)	248,815	315,016
Dividends receivable	15,456	15,455
Interest receivable	1,598,556	1,791,972
	<b>262,953,234</b>	<b>284,405,866</b>

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment. Included within debtors is an amount of £13,757,059 (31 December 2002: £9,825,855) loaned by the company to Standfast Corporate Underwriting Limited in which Limit plc has an indirect interest. The loan has been fully provided for at 31 December 2003 and 31 December 2002.

## 12. DEFERRED TAX

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
<b>Deferred tax asset</b>		
Deferred tax asset as at 1 January	315,016	131,636
Deferred tax credit in profit and loss account	(66,201)	183,380
<b>Deferred tax asset as at 31 December</b>	<b>248,815</b>	<b>315,016</b>
Comprising:		
Accelerated capital allowances	255,201	327,263
Short term timing differences	(6,386)	(12,247)
<b>Undiscounted deferred tax asset</b>	<b>248,815</b>	<b>315,016</b>

## 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	At 31 December 2003 £	At 31 December 2002 £
Amounts owed to group undertakings	260,514,687	321,839,325
Corporation tax payable	5,547,192	-
Other creditors	295,048	295,048
Accruals	1,210,416	1,500,283
	<b>267,567,343</b>	<b>323,634,656</b>

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment, except for a loan from QBE International Holdings (UK) Limited which carried a commercial rate of interest.

## NOTES TO THE FINANCIAL STATEMENTS

continued

## 14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	At 31 December 2003 £	At 31 December 2002 £
Loan notes 2008	16,797	24,297

Loan notes 2008 were issued on 19 May 1998 as part of the immediate consideration paid in respect of the minority interest in Bankside Insurance Holdings Limited acquired on that date. The remaining loan notes 2008 were redeemed in January 2004.

## 15. PROVISIONS FOR LIABILITIES AND CHARGES

	future cash calls £	Other provisions £	Total £
At 1 January 2003	10,814,193	1,631,847	12,446,040
Increase for the year	1,420,264	-	1,420,264
Other movements	(3,931,204)	(97,424)	(4,028,628)
At 31 December 2003	8,303,253	1,534,423	9,837,676

Provision for underwriting losses represents the estimated loss in respect of underwriting on Lloyd's Syndicate 991 supported by the company through its indirect ownership of Standfast Corporate Underwriting Limited. This provision will be used on the closure of 1998, 1999 and 2000 Lloyd's underwriting years of account. This is expected to be in 2004 for the 1998 year of account. The 1999 and 2000 years of account are in run-off and there is currently no date for their closure.

Other provisions represents a rent-free period on the lease of the company's premises. This is being amortised over the length of the lease, 20 years.

## 16. CALLED UP SHARE CAPITAL

	At 1 January and 31 December 2003	
Authorised	Number	£
Ordinary shares of 25p each	440,000,000	110,000,000
Non voting redeemable preference shares of £1 each	110,000,000	110,000,000
	550,000,000	220,000,000

	At 1 January and 31 December 2003	
Allotted and fully paid	Number	£
Ordinary shares of 25p each	275,055,644	68,763,921
Non-voting redeemable preference shares of £1 each	106,788,881	106,788,881
	381,844,525	175,552,802

## NOTES TO THE FINANCIAL STATEMENTS

Continued

## 16. CALLED UP SHARE CAPITAL (continued)

The holders of the preference shares are entitled to participate in any preferential non-cumulative dividend declared by the Directors of the Company.

The Company has the right to redeem the preference shares at any time, after giving 24 hours notice. The redemption price will be determined by the Company.

On a return of capital on winding-up or otherwise, the holders of the preference shares are not entitled to any payment in priority to the holders of any other class of shares.

The preference shares carry no voting rights.

## 17. RESERVES

	Share Premium £	Capital redemption reserve £	Revaluation reserve £	Other capital reserve £	Profit and loss Account £
At 1 January 2003	216,216,471	8,074,727	(1,070,486)	20,027,008	57,092,922
Revaluation in the year	-	-	(859,696)	-	-
Retained for period	-	-	-	-	(9,260,565)
<b>At 31 December 2003</b>	<b>216,216,471</b>	<b>8,074,727</b>	<b>(1,930,182)</b>	<b>20,027,008</b>	<b>47,832,357</b>

## 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Retained (loss) for the year	(9,260,565)	(25,877,392)
Net unrealised (losses)	(859,696)	(256,827)
Net (reduction) to shareholders' funds	(10,120,261)	(26,134,219)
Equity shareholders' funds brought forward	369,104,563	395,238,782
Equity shareholders' funds carried forward	358,984,302	369,104,563
Issue of share capital	-	106,788,881
Non-equity shareholders' funds carried forward	106,788,881	106,788,881
Total shareholders funds including non-equity interests	465,773,183	475,893,444

## 19. OPERATING LEASES

Commitments under leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

Obligations under operating leases comprise:

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Land and buildings - expiring after 5 years	2,488,173	2,488,173

## NOTES TO THE FINANCIAL STATEMENTS

*continued***20. GUARANTEES AND CONTINGENCIES**

The company has entered into a deed of covenant in respect of each of its corporate member subsidiaries to meet each subsidiary's obligations to Lloyd's. The total guarantee given by the company under these deeds of covenant (subject to limited exceptions) amounts to £245.0 million (31 December 2002: £315.7 million). The obligations under the deeds of covenant are secured by a fixed and floating charge over the investments and other assets of the company in favour of Lloyd's. Lloyd's has the right to retain the income on the charged investments although it has not done so in the period covered by these accounts and 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.

**21. FUNDS AT LLOYD'S**

As noted in note 20 above, some of the company's assets are secured under the terms of the Lloyd's Deposit Trust Deed to support the underwriting of the company's corporate member subsidiaries. Under Lloyd's regulations, the amounts of funds at Lloyd's required to support underwriting for the following year and open years of account is determined at the 'coming-into-line' date as prescribed by Lloyd's each year. At 31 December 2003, the aggregate coming-into-line requirements of the company's corporate member subsidiaries amounted to £660.7 million (31 December 2002: £654.9 million), representing 72 per cent (31 December 2002: 78 per cent) of the group's overall premium limit of £917.9 million for the 2004 year of account (2003 year of account: £842.7 million). This requirement was satisfied as follows:

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Letters of credit guaranteed by the ultimate holding company	35,000	270,000
Covenant and charge security arrangement	244,958	315,656
Covenant and charge over ABC securities	307,263	-
Solvency Credit	25,281	-
Cash deposit	48,214	69,207
	<b>660,716</b>	<b>654,863</b>

**ABC securities**

In October 2003, the ultimate holding company of the Group, QBE Insurance Group Ltd, entered into an arrangement with Mantis Reef Limited (MRL) to issue US\$550,000,000 of ABC (Asset Backed Capital) securities to support funds at Lloyd's pursuant to Lloyd's collateral requirements for the Limit's corporate member subsidiaries. This arrangement substantially replaced bank letters of credit.

Proceeds from the sale of the ABC securities to investors have been used to purchase shares in a wholly-owned subsidiary of MRL, Mantis Reef Pledge Limited (MRPL). The proceeds from the sale of shares in MRPL have been used to purchase eligible investments over which security interests, in the form of a fixed and floating charge, have been granted to Lloyd's in support of FAL.

MRL and MRPL are both special purpose entities incorporated with limited liability under the laws of the Cayman Islands. Neither the Group nor the ultimate holding company has an ownership interest in MRL or MRPL, however as quasi-subsidiaries the QBE group is required to consolidate the entities under FRS 5 'Reporting the substance of transactions'.

## NOTES TO THE FINANCIAL STATEMENTS

*continued*

### 22. RELATED PARTIES

The company's ultimate controlling entity is QBE Insurance Group Limited, the ultimate parent company, which is incorporated in Australia. The smallest group of undertakings for which the company's accounts are consolidated is QBE International Holdings (UK) plc, which is incorporated in the United Kingdom.

The consolidated accounts for QBE Insurance Group Limited and QBE International Holdings (UK) plc are available from Corn Exchange, Mark Lane, London EC3R 7NE.

The company's immediate parent company is QBE Corporate Capital Holdings plc, which is incorporated in the United Kingdom.

The average weekly number of people employed by the company during the period was Nil (2002: Nil). As from 1 April 1999 all former Limit plc staff are employed by Limit Underwriting Limited (LUL), a subsidiary of the company. Included in net operating expenses is a management fee of £1,843,674 (2002: £1,799,503) for the services of LUL. Pension schemes for the former employees of the company are operated by LUL and full disclosure of the details of these schemes are given in that company's financial statements.