

**MASTHEAD E LIMITED**

**Registered Number: 2864625**

**DIRECTORS' REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31ST DECEMBER 1997**



## **MASTHEAD E LIMITED**

### **REPORT OF THE DIRECTORS**

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The directors present their Report and Audited Accounts for the year ended 31st December 1997.

#### Business Review

The Company, which is a wholly owned subsidiary of Masthead Insurance Underwriting plc, is a Corporate Member of the Society of Lloyd's. The 1995 underwriting year, the second account in which the Company obtained syndicate capacity, closed on 31st December 1997.

The Company made a profit after taxation of £1,179,512 (1996:£811,226) for the year.

#### Dividends

An interim dividend of £1,179,512 in respect of the year to 31 December 1997 has been declared payable on 25 August 1998 (1996 interim dividend: £811,226).

The directors do not recommend the payment of a final dividend for the year to 31 December 1997. (1996: Nil).

#### Directors

The directors who served during the year are shown below:

Sir Jeffery Bowman  
Sir Ewen Fergusson  
Mr M F Heathcoat Amory  
Mr P D Hill-Wood  
Mr W A C Thomson

None of the directors has a service contract with the Company.

Sir Ewen Fergusson is also a non-executive director of Murray Lawrence Members' Agency, which is the Members' Agent of the Company.

**MASTHEAD E LIMITED**  
**REPORT OF THE DIRECTORS (Cont'd)**

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No other contracts or arrangements existed during or at the end of the year in which any other director of the Company is or was materially interested.

According to the Register of Director's Interests, no director holding office at 31st December 1997 had any beneficial interest in the shares of the Company during the year.

All the directors currently in office, namely Mr P D Hill-Wood, Mr M F Heathcoat Amory, Sir Jeffery Bowman, Sir Ewen Fergusson and Mr W A C Thomson, are directors of Masthead Insurance Underwriting plc, the ultimate parent company.

The interests of the directors in shares of Masthead Insurance Underwriting plc are recorded in the accounts of that company.

Auditors

On 16 May 1995, the Company passed a resolution in accordance with sections 381A and 386 of the Companies Act 1985, dispensing with the requirement to re-appoint auditors annually. Coopers & Lybrand will remain as the Company's auditors until the elective resolution is revoked.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Report of the Auditors, is made to distinguish the responsibilities of the directors for the accounts from those of the Auditors.

The directors are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit for the year.

The accounts must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In addition the directors are required to: (a) select suitable accounting policies and apply them consistently; (b) make judgements and estimates that are reasonable and prudent; (c) state whether applicable accounting standards have been followed; and (d) prepare accounts on a going concern basis unless it is inappropriate to assume the

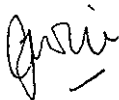
**MASTHEAD E LIMITED**  
**REPORT OF THE DIRECTORS (Cont'd)**

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Company will continue in business. The directors confirm that the accounts comply with the above requirements.

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

By Order of the Board



C J Wise  
for Guinness Flight Hambro  
Investment Trust Managers Limited  
Secretary

*Registered Office*  
Lighterman's Court  
5 Gainsford Street  
London SE1 2NE

11 June 1998

**MASTHEAD E LIMITED**  
**REPORT OF THE AUDITORS**  
**to the members of Masthead E Limited**

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We have audited the accounts on pages 6 to 17.

Respective Responsibilities of Directors and Auditors

As described on pages 3 and 4, the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

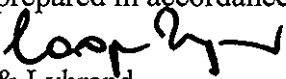
Basis of Opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31st December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
London

11 June 1998

**MASTHEAD E LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**TECHNICAL ACCOUNT - GENERAL BUSINESS**  
**for the year ended 31st December 1997**

	Notes	1997 £'000	1996 £'000
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>			
Gross premiums written:			
- Continuing business	2	10,258	11,589
Outward reinsurance premiums		(3,035)	(2,376)
		-----	-----
Net premiums written		7,223	9,213
Net transfer of investment return from non-technical account		740	679
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>			
Claims paid:			
- Gross amount		(5,775)	(5,230)
- Reinsurers' share		1,377	1,260
		-----	-----
Net paid claims		(4,398)	(3,970)
Change in the provision for claims:			
- Gross amount		4,047	( 752)
- Reinsurers' share		(1,482)	336
		-----	-----
Change in the net provision for claims		2,565	( 416)
<b>CLAIMS INCURRED NET OF REINSURANCE</b>			
Net operating expenses	2	(1,833)	(4,386)
Personal expenses		(2,897)	(3,304)
Investment expenses and charges		(1,146)	(944)
		(9)	(12)
		-----	-----
1995/1994 Underwriting result		2,078	1,246
Adjustments to 1994 account result, principally profit on exchange on realisation in 1997		81	-
Refund of special levy received in 1997, net of profit commissions		174	-
<b>TOTAL BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		----- 2,333 =====	----- 1,246 =====

As set out in Note 1(d), the Company has prepared its financial statements on a three year funded basis. Accordingly any underwriting profits are only recognised when the underwriting account is closed.

The notes on pages 10 to 17 form part of these accounts.

**MASTHEAD E LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**NON-TECHNICAL ACCOUNT**  
**for the year ended 31st December 1997**

	Notes	1997 £'000	1996 £'000
BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS		2,333	1,246
Capital gain on sale of Lloyd's capacity		224	-
Cost at Lloyd's capacity written off		(521)	-
Net Investment Return	3	740	679
Net transfer of investment return to technical account		(740)	(679)
Expenses	1(g)	(35)	(26)
		-----	-----
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
- continuing activities		2,001	1,220
Taxation on profit on ordinary activities	5	(821)	(409)
		-----	-----
PROFIT ON ORDINARY ACTIVITIES - after taxation		1,180	811
Dividend	6	(1,180)	(811)
		-----	-----
Retained profit for the year		-	-
		=====	=====

The Company has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented. There is no difference between the profit on ordinary activities after taxation and the retained profit for the period and their historical cost equivalents.

The notes on pages 10 to 17 form part of these accounts.

**MASTHEAD E LIMITED**  
**BALANCE SHEET**  
**as at 31st December 1997**

	Notes	1997 £'000	1996 £'000
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Intangible Assets	7	-	13
Financial investments	8	9,828	8,932
Deposits with ceding undertakings		22	-
		-----	-----
		9,850	8,945
		-----	-----
<b>TECHNICAL PROVISIONS</b>			
Reinsurance recoveries on outstanding claims		2,515	4,513
<b>DEBTORS</b>			
Debtors arising out of direct insurance operations – other		2,615	3,470
Debtors arising out of reinsurance operations – intermediaries		1,907	2,075
Other debtors	9	407	399
		-----	-----
		4,929	5,944
		-----	-----
<b>OTHER ASSETS</b>			
Cash at bank		1,333	2,259
Other assets		654	795
Prepayments and accrued income		39	28
		-----	-----
<b>TOTAL ASSETS</b>		<b>19,320</b>	<b>22,484</b>
		=====	=====

The notes on pages 10 to 17 form part of these accounts



**MASTHEAD E LIMITED**  
**BALANCE SHEET**  
as at 31st December 1997 (Cont'd)

	Notes	1997 £'000	1996 £'000
<b>LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	1	1
Profit and loss account		-	-
		-----	-----
Shareholders' funds – equity interests		1	1
		-----	-----
<b>TECHNICAL PROVISIONS</b>			
Claims outstanding – gross amount		15,451	19,626
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>			
	11	732	418
<b>CREDITORS</b>			
Creditors arising out of direct business – intermediaries		263	302
Creditors arising out of reinsurance business – intermediaries		675	842
Other creditors	12	2,198	1,295
		-----	-----
<b>TOTAL LIABILITIES</b>		<b>19,320</b>	<b>22,484</b>
		=====	=====

The financial statements on pages 6 to 17 were approved by the board of directors on 11<sup>th</sup> June 1998 and were signed on their behalf by:

Director



SIR JEFFERY BOWMAN

The notes on pages 10 to 17 form part of these accounts.

**MASTHEAD E LIMITED**  
**NOTES TO THE ACCOUNTS**  
**for the year ended 31 December 1997**

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**1. Accounting Policies**

The accounts have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("the Regulations"), and in accordance with applicable accounting standards in the United Kingdom and with the Association of British Insurers Draft Guidance on Accounting for Insurance Business (excluding Accounting for Investments) issued in January 1998. A summary of the more important accounting policies, which have been applied consistently, is set out below:

**(a) Basis of accounting**

These accounts have been prepared in accordance with the historical cost convention modified by the revaluation of certain assets as required by the Regulations.

**(b) Cash flow statement**

The Company meets the conditions prescribed in Financial Reporting Standard No. 1, under which a cash flow statement is not required and accordingly such a statement has not been prepared.

**(c) Basis of preparation**

The information in respect of the company's participation in syndicates at Lloyd's has been taken from information provided by each syndicate and the Company's participations have then been centrally aggregated by Lloyd's.

**(d) Underwriting results**

The underwriting account for all classes of business has been prepared on a three year funded basis. Under this basis, premiums and claims are allocated to each underwriting year beginning 1st January, the results of which are determined and reported when the underwriting year is closed. In accordance with Lloyd's practice, the underwriting year is normally regarded as closed after three years of development, at which time any results are recognised. However, losses on open years are provided in respect of any estimated aggregate net losses from the syndicate participations because the Company's participations are managed together. Surpluses and deficits emerging are transferred to or from the profit and loss account but no surpluses are transferred from the funds during the first two years of development of any underwriting year.

• **Premiums**

Gross premiums written, which are stated gross of acquisition cost but exclusive of premium taxes, relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due

**MASTHEAD E LIMITED**  
**NOTES TO THE ACCOUNTS (Cont'd)**  
**for the year ended 31 December 1997**

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but not yet receivable or notified to the Company by intermediaries.

Outwards reinsurance premiums are accounted for on the same basis and in the same accounting period as the premiums for the direct or inwards reinsurance business to which they relate.

- **Investments**  
Investments in marketable securities in the syndicates are stated at their mid-market value at the balance sheet date.
- **Claims**  
Paid claims represent all claims paid during the year and include claims handling expenses.
- (e) **Intangible assets**  
Intangible assets, which represent the cost of purchased syndicate capacity, are stated at historical values less any amortisation charges. Purchased syndicate capacity is amortised over its expected economic life, which is estimated at one year.
- (f) **Investment return**  
Net investment return comprises investment income, unrealised gains on investments, investment expenses and interest payable. Net investment return is recognised in the non technical account. A proportion of the net investment return is allocated from the non technical account to the technical account to reflect the actual return made in the period on those assets attributable to the Group's underwriting activities through its syndicate participations.
- (g) **Expenses - non-technical account**  
Expenses are accounted for in the non-technical account on the same basis as those in the technical account. All expenses have been paid by Masthead Insurance Underwriting plc and recharged to Masthead E.
- (h) **Technical provisions**  
The excess of premiums written and syndicate investment income over the claims and syndicate expenses paid in respect of business incepting in an underwriting year is carried forward for two years in a fund and no profit is recognised until the end of the third year following the start of each underwriting year. The fund is included as part of outstanding claims. Changes in the technical provisions are included in the technical account. At the end of the third year and thereafter, provision

**MASTHEAD E LIMITED**  
**NOTES TO THE ACCOUNTS (Cont'd)**  
**for the year ended 31 December 1997**

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is made by underwriters for the estimated cost of outstanding claims, claims incurred but not reported (IBNR), anticipated reinsurance recoveries and claims handling expenses at the balance sheet date. The adequacy of the outstanding claims provisions is established using actuarial and statistical projections of the amounts which the Company expects the ultimate settlement will cost, based on the current facts and circumstances and subjective factors such as inflation and new concepts of liability. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent development.

**(i) Reinsurance to close**

To the extent that the Company increases its participation on a syndicate from one Lloyd's year of account to the next, it is a net recipient of premium to reinsure the earlier Lloyd's year of account into the latter. This share of the reinsurance to close premium is recognised as income at the end of the financial period when the related Lloyd's year of account closes and is represented in the balance sheet by the related share of assets and liabilities transferred between the two Lloyd's years of account of the syndicate.

**(j) Foreign currency translations**

Monetary assets and liabilities are translated into sterling at the exchange rates prevailing at the balance sheet date. Income and expenses transactions are translated using the rates prevailing at the date of transaction or appropriate weighted average rates. Gains and losses arising on translation are included in the technical account

**(k) Deferred taxation**

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

**(l) Advisory fees**

Advisory fees paid to the members' agent are charged against the underwriting accounts and are recognised when the relevant year is closed.

**MASTHEAD E LIMITED**  
**NOTES TO THE ACCOUNTS (Cont'd)**  
**for the year ended 31 December 1997**

	GROSS PREMIUMS	INCURRED CLAIMS	OPERATING COSTS	REINSURANCE BALANCE
2. SEGMENTAL INFORMATION 1997	£'000	£'000	£'000	£'000
Analysis of general business by class				
Accident & health	604	(140)	(208)	(109)
Motor (third party liability)	196	(54)	(66)	(2)
Motor (other classes)	426	(137)	(136)	(17)
Marine, aviation & transport	687	408	(150)	(228)
Fire & other damage to property	3,490	(546)	(1,181)	(449)
Third party liability	1,248	(134)	(538)	(276)
Credit & suretyship	89	(6)	(25)	(20)
Legal expenses	18	(4)	(5)	(6)
Assistance	0	0	0	0
Other	(209)	71	72	(15)
Reinsurance Acceptances	3,709	(639)	(660)	(2,018)
RITC	0	(547)	0	0
	-----	-----	-----	-----
	10,258	(1,728)	(2,897)	(3,140)
	-----	-----	-----	-----

	GROSS PREMIUMS	INCURRED CLAIMS	OPERATING COSTS	REINSURANCE BALANCE
SEGMENTAL INFORMATION 1996	£'000	£'000	£'000	£'000
Analysis of general business by class				
Accident & health	1,137	(431)	(366)	(36)
Motor (third party liability)	-	(1)	(1)	-
Motor (other classes)	188	(27)	(66)	4
Marine, aviation & transport	1,446	(2,252)	(390)	3,593
Fire & other damage to property	3,081	(1,709)	(915)	(45)
Third party liability	1,211	634	(515)	831
Credit & suretyship	16	(4)	(8)	109
Legal expenses	12	(6)	(3)	3
Assistance	-	-	-	-
Other	406	(203)	(119)	(236)
Reinsurance Acceptances	4,341	(1,983)	(921)	(5,003)
RITC	(249)	-	-	-
	-----	-----	-----	-----
TOTAL	11,589	(5,982)	(3,304)	(780)
	-----	-----	-----	-----

The geographical distribution of gross premiums underwritten is as follows:-

	UNITED KINGDOM £'000	REST OF THE WORLD £'000
Gross premiums written in		
1997	10,258	-
1996	10,684	905

**MASTHEAD E LIMITED**  
**NOTES TO THE ACCOUNTS (Cont'd)**  
**for the year ended 31 December 1997**

**3. Net Investment Return - Non-Technical Account**

	1997	1996
	£'000	£'000
Net investment return from syndicates	740	679
	=====	=====

Net investment return from syndicates includes the Company's share of investment income and realised and unrealised investment gains and losses arising in the syndicates in which it participates.

**4. Directors' Emoluments**

None of the directors received any emoluments in respect of their services during the year.

As in 1996, other than five directors, the Company had no employees during the period.

**5. Taxation**

	1997	1996
	£'000	£'000
Deferred tax	314	418
Overseas withholding tax	-	7
Double tax relief	-	(7)
Corporation tax	507	-
Group relief	-	(9)
	-----	-----
	821	409
	=====	=====

The Company had no taxable losses to surrender (1996: £26,000) to its parent company, Masthead Insurance Underwriting plc. A payment of £9,000 was made in return in 1996.

**6. Dividends**

	1997	1996
	£'000	£'000
Interim dividend of £1,180 per share (1996: £811)	1,180	811
	=====	=====

**MASTHEAD E LIMITED**  
**NOTES TO THE ACCOUNTS (Cont'd)**  
**for the year ended 31 December 1997**

**7. Intangible Assets**

	1997 £'000	1996 £'000
Cost		
At beginning of year	13	6
Additions	513	7
Disposals	(6)	-
	-----	-----
At end of the year	520	13
	-----	-----
Amortisation		
At beginning of year	-	-
Charged in year	520	-
On disposals	-	-
	-----	-----
At end of the year	520	-
	-----	-----
Net book value at 31 <sup>st</sup> December	-	13
	=====	=====

**8. Financial Investments**

	1997 £'000	1996 £'000
Shares and other variable yield securities	122	391
Debt securities & other fixed income securities	7,820	7,773
Participation in investment pools	635	4
Loans guaranteed by mortgage	-	90
Deposits with credit institutions	730	363
Other	521	311
	-----	-----
	9,828	8,932
	=====	=====

All of the Company's investments and £1,332,000 (1996: £2,258,000) of its cash at bank is contained within Lloyd's Premium Trust funds.

The Company has no access to the trust funds until the funds are distributed upon closure of a year of account.

The share of syndicate investments is shown at market value. Information on the historical cost of investments is not readily available.

**MASTHEAD E LIMITED**  
**NOTES TO THE ACCOUNTS (Cont'd)**  
**for the year ended 31 December 1997**

**9. Other debtors**

	1997	1996
	£'000	£'000
Other syndicate debtors	407	392
US withholding tax	-	7
	-----	-----
	407	399
	=====	=====

**10. Called up Share Capital**

	1997	1996
	£	£
Authorised		
Ordinary shares      1,000 shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
Ordinary shares      1,000 shares of £1 each	<u>1,000</u>	<u>1,000</u>

**11. Provision for Other Risks and Charges**

	1997	1996
	£'000	£'000
Deferred taxation on short term timing differences		
Balance brought forward	418	-
Charged to profit and loss account	314	418
	-----	-----
Balance at 31 December	732	418
	=====	=====

**12. Other creditors**

	1997	1996
	£'000	£'000
Amounts due to parent company	1,148	841
Other syndicate creditors	694	391
Accrued expenses	7	63
Taxation payable	349	-
	-----	-----
	2,198	1,295
	=====	=====



**MASTHEAD E LIMITED**  
**NOTES TO THE ACCOUNTS (Cont'd)**  
**for the year ended 31 December 1997**

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**13. Covenant to Pay**

The Society of Lloyd's and the parent company, Masthead Insurance Underwriting plc ("the Covenantor"), entered into a Master Agreement dated 31 December 1993 which permits Masthead E Limited to provide Lloyd's deposits in the form of a covenant from its parent company which is secured by a mortgage of assets.

On 31 December 1993, the Company executed a corresponding Deed of Charge by way of security for its obligations under such covenant, under which its aggregate liability would not exceed £7,000,000.

On 13 February 1998, the Company executed a Supplemental Deed to the above Deed of Charge, increasing its aggregate liability to £7,226,000. Such covenant remains unchanged up to the date of signing of these accounts.

**14. Ultimate Parent Company**

The Company is a subsidiary undertaking of Masthead Insurance Underwriting plc which is incorporated in Great Britain and registered in England and Wales.

The results of Masthead E Limited are consolidated in the group financial statements of Masthead Insurance Underwriting plc. This is the only group of undertakings which includes the results of Masthead E Limited in its consolidated financial statements.

Copies of the group financial statements of Masthead Insurance Underwriting plc are available from the registered office, Lightermans Court, 5 Gainsford Street, London SE1 2NE.