General Manager's Report

During the past twelve months we have continued with our strategy of diversification. The launch of new initiatives, coupled with steady and sustainable growth in most of our existing portfolios, will provide us with a strong base on which to build the Company's business into the next millennium.

Since the year-end we have strengthened our Credit and Bond reinsurance capability and have established a new facility providing specialist insurance products for the Leisure, Sports and Entertainment industries.

We are realising increased opportunities in Extended Warranty following contraction in that market and, most recently, we have also launched a new private medical insurance product, aimed at medium sized companies in the UK.

Our Paris branch continues to develop in line with expectations. In its first year of operation it has established itself in three distinct facultative markets; property, energy and more recently satellites.

These positive developments, in addition to the expansion of a number of our existing lines of business, contributed to growth in our premiums which totalled £143.1m. Many of the new initiatives are still in their infancy but nonetheless the increased diversity helped cushion us against the high frequency of natural catastrophes which impacted on some of our property portfolios during 1998. Increased loss activity also adversely affected our marine excess of loss portfolios, and a new ruling by the House of Lords necessitated an upgrade to our reserves on our motor excess of loss portfolio. These negative items contributed to a disappointing underwriting loss of £16.8m before tax.

I am pleased to report that despite this difficult trading period, our shareholders' funds now stand in excess of £120m (US$200m) after establishing equalisation provisions of £4.6m net of tax. Our solvency remains very strong at 113% and we continue to enjoy a Standard & Poor's A+ claims paying ability rating.

Throughout 1998 we continued to prepare ourselves for the challenges created by the Year 2000 date recognition problem, focusing on two main aims: assessing the potential for increased loss activity arising from Year 2000 related events, and ensuring that we can continue to service our clients and manage our business over the period in question.

During the year we carried out a thorough review of our portfolios and assessed our possible exposure to losses arising from electronic data recognition (EDR) and related risks. A risk quantification methodology was created for each of our portfolios. This was used to develop an underwriting philosophy and strategy for each line of business and is now being implemented.

General Manager's Report

Additionally, I am pleased to confirm that following extensive testing, the Company's principal data programmes and systems are Year 2000 compliant. Vigilance in this area continues through an on-going programme to monitor the Year 2000 readiness of our suppliers and the development of a detailed contingency plan.

Recognising the increased importance of the effective use of technology and systems in a changing market place, we are progressing with an organisational evaluation and regeneration programme. The aim of this project is to completely review our procedures to improve company-wide processes and service standards. This is to ensure that they can support our businesses well into the next Millennium and improve our services still further to achieve increased efficiencies for the benefit of our clients.

I would like to thank our clients, reinsurers and brokers for the tremendous support they have shown to QBE during 1998. I would also like to express my thanks to everybody at QBE for their dedication and commitment during a challenging year.

R. Grant.

R.M. Grant

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December 1998.

Principal activity and future prospects

The principal activity of the Company is the transaction of insurance and reinsurance business. The Company will continue this activity through the development of its existing lines of business, while actively seeking new opportunities for expansion and growth, to the benefit of its shareholders and policyholders.

Overseas branches

The Company has an overseas branch in France and representative offices in Germany and Poland.

Significant events

On 8th June 1998 the authorised 'A' share capital of the Company was increased by £99,999,900. On 19th June 1998 8,000,000 ordinary 'A' shares of £1 each were issued to QBE International Holdings (UK) Limited. Part of the proceeds were used to acquire a 100% interest in Atlasz Biztosito RT, an insurance company registered in Hungary. This acquisition was completed on 7th October 1998.

Since the year end, the Company acquired a 49% direct interest in QBE-UGBP Insurance, a joint venture insurance underwriting operation incorporated in the Ukraine together with 100% of the shares in Strakh-Consult, a company registered in the Ukraine which holds a further 1% of the issued share capital of QBE-UGBP Insurance.

Results

The results of the Company for the year are set out in the profit and loss account on pages 6 and 7. The profit for the year was £10,279,000 (1997: £5,789,000). A dividend of £5,600,000 (1997: £4,700,000) was declared and paid on 29th December 1998.

Directors

The directors of the Company during the year were as follows:

G.L. Brown	(Chairman)
M.A. Bower	
B.R. Cotterill	Appointed 10th March 1998
E.J. Cloney	Resigned 13th May 1998
R.M. Grant	
F.M. O'Halloran	

At no time during the year did any director have a beneficial interest in the shares of the Company.

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.

Directors' Report

Directors' Report

Secretary

Mr R.J. MacGregor resigned as Company Secretary on 24th July 1998 and Mr H.G. Pallot was appointed in his stead.

Creditor payment policy

The Company's policy on the payment of creditors is to abide by London insurance market practices, including those of Lloyd's, LIRMA and the ILU and settlement terms agreed with other suppliers.

Year 2000

A senior management committee was established in late 1997 to co-ordinate the Company's Year 2000 programme. This programme operates within the framework of the Group's world-wide Year 2000 Project, which also began in 1997, under the direction of the ultimate parent company QBE Insurance Group Limited.

As part of this programme the Company's critical business systems have been evaluated to ascertain their readiness for the Millennium date change and updated where necessary to comply with the British Standard Institute definition of Year 2000 conformity. These systems are now fully tested and in operational use.

The directors believe that the Company is taking all action necessary to ensure business continuity into the new Millennium. Whilst there can be no guarantee that the Company will experience no adverse effects from the Millennium date change, particularly in relation to its dealings with third parties, the Company is addressing the key risk areas through a series of Year 2000 related initiatives. These include the development of a detailed contingency plan and a programme to monitor the readiness of the Company's key suppliers.

In addition to the potential risks to business continuity, the Company (in common with other companies in the Insurance sector) faces a risk of increased claims notifications resulting from the impact of Year 2000 related events.

In order to assess the effect of Year 2000 and other Electronic Data Recognition ("EDR") issues on insurance policies underwritten by the Company, a Year 2000 Coverage Project commenced in early 1998. The project team devised a risk quantification methodology which allows underwriters to assess the effect of Year 2000/EDR-related exposures on any one risk or class, and to use a variety of loss mitigation techniques. The strategy derived from the project now forms an integral part of the Company's general underwriting procedures, and a programme has been put in place for Year 2000/EDR-related underwriting issues to be monitored and reviewed on an ongoing basis.

The total cost of carrying out the Company's Year 2000 programme has not been identified separately. The directors believe, however, that the Company's existing budgeted resources are adequate to ensure timely completion of the remainder of the programme.

Euro

During the year the Company took steps to prepare for the introduction of the Euro on 1st January 1999. As a result, the Company is in a position to accept business in Euros for policies incepting from 1st January 1999 and to conduct renewals in the currency of the client's choice.

The Company's results will continue to be reported in Sterling.

Directors' Report

Statement of directors' responsibilities

Company legislation in the United Kingdom requires that the directors prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

In complying with these requirements, the directors acknowledge their responsibilities for keeping proper accounting records which 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 and for safeguarding the assets of the Company, including the provision of a system of controls such as would be reasonably expected to prevent and detect fraud and other irregularities.

In the opinion of the directors, these financial statements have been prepared using suitable accounting policies which have been consistently applied and supported by reasonable and prudent judgements. The Company's directors confirm that the accounts have been prepared in accordance with all applicable accounting standards and that it is appropriate to use a going concern basis in their preparation.

Auditors

The auditors, formerly Coopers & Lybrand, merged with Price Waterhouse on 1st July 1998 following which Coopers & Lybrand resigned and the Company appointed the new firm, PricewaterhouseCoopers, as auditors.

A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the annual general meeting.

By order of the Board:

H.G. Pallot
Secretary
London

22nd March 1999

Profit and Loss Account – Technical Account – General Business

for the year ended 31st December 1998

	Notes	£'000	Year ended 31st December 1998 £'000	£'000	18 months ended 31st December 1997 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2(a)	143,144		160,835	
Outward reinsurance premiums		(41,344)		(33,869)	
			101,800		126,966
Change in the gross provision for unearned premiums		(1,873)		(11,125)	
Change in the provision for unearned premiums, reinsurers' share		6,811		1,853	
			4,938		(9,272)
Earned premiums, net of reinsurance			**106,738**		**117,694**
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(65,913)		(54,605)	
Reinsurers' share		13,170		12,901	
		(52,743)		(41,704)	
Change in the provision for claims					
Gross amount		(61,249)		(53,771)	
Reinsurers' share		30,677		15,697	
		(30,572)		(38,074)	
Claims incurred, net of reinsurance			**(83,315)**		**(79,778)**
Net operating expenses	4		**(38,224)**		**(36,144)**
Change in equalisation provision	15		**(1,977)**		**(4,816)**
Balance on technical account - general business			**(16,778)**		**(3,044)**

The results above are all derived from continuing operations.

The notes set out on pages 10 to 25 form part of these accounts.

Profit and Loss Account - Non-Technical Account

for the year ended 31st December 1998

	Notes	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
Balance on general business technical account		(16,778)	(3,044)
Investment income	7(a)	24,561	9,139
Unrealised gains on investments		(90)	1,790
Investment expenses and charges	7(b)	(441)	(120)
Other charges		(101)	(157)
Profit on ordinary activities before taxation	8	**7,151**	**7,608**
Tax on profit on ordinary activities	9	3,128	(1,819)
Profit on ordinary activities after taxation		**10,279**	**5,789**
Dividends paid - 'A' shares		(5,600)	(4,700)
Retained profit for the year	14	**4,679**	**1,089**

The results above are all derived from continuing operations.

There are no recognised gains or losses for the current financial year or preceding financial period other than those included in the profit and loss account above and therefore no statement of total recognised gains and losses has been presented.

The notes set out on pages 10 to 25 form part of these accounts.

Balance Sheet

at 31st December 1998

	Notes	31st December 1998 £'000	31st December 1997 £'000
Assets			
Investments			
Shares in group undertakings	10	85,745	83,516
Other financial investments	10	117,107	90,797
Deposits with ceding undertakings		1,873	954
		204,725	**175,267**
Reinsurers' share of technical provisions			
Provision for unearned premiums		17,588	10,777
Claims outstanding		62,372	32,002
		79,960	**42,779**
Debtors			
Debtors arising out of direct insurance operations – intermediaries		32,707	23,504
Debtors arising out of reinsurance operations		42,607	45,473
Other debtors	11	28,576	20,857
		103,890	**89,834**
Other assets			
Tangible assets	12	337	255
Cash at bank and in hand		5,110	2,059
		5,447	**2,314**
Prepayments and accrued income			
Accrued interest and rent		1,263	344
Deferred acquisition costs		13,287	12,690
Other prepayments and accrued income		106	3
		14,656	**13,037**
Total assets		**408,678**	**323,231**

The notes set out on pages 10 to 25 form part of these accounts.

Balance Sheet

as at 31st December 1998

	Notes	31st December 1998 £'000	31st December 1997 £'000
Liabilities			
Capital and reserves			
Called up share capital	13,14	100,507	92,507
Profit and loss account	14	20,334	15,655
Equity shareholders' funds	14	**120,841**	**108,162**
Technical provisions			
Provision for unearned premiums		56,739	54,866
Claims outstanding		193,217	130,690
Equalisation provision	15	6,793	4,816
		256,749	**190,372**
Provisions for other risks and charges	16	1,031	758
Deposits received from reinsurers		1,188	390
Creditors			
Creditors arising out of direct insurance operations – intermediaries		10,719	8,170
Creditors arising out of reinsurance operations		16,624	13,299
Other creditors including taxation and social security	17	1,230	1,920
		28,573	**23,389**
Accruals		296	160
Total liabilities		**408,678**	**323,231**

Approved by the Board on 22nd March 1999 and signed on its behalf:

R.M. Grant
Director

M.A. Bower
Director

The notes set out on pages 10 to 25 form part of these accounts.

1. Accounting policies

(a) Basis of preparation

The accounts have been prepared under the historical cost convention, 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, and in accordance with applicable UK financial reporting standards and statements of standard accounting practice. The Company has adopted the recommendations of the Statement of Recommended Practice issued by the ABI dated December 1998.

In accordance with Section 228 of the Companies Act 1985, the Company is exempt from preparing group accounts. The Company's ultimate European controlling entity, QBE Insurance and Reinsurance (Europe) Limited, incorporated in the Republic of Ireland, has prepared consolidated group accounts for the year ended 31st December 1998 in which the Company is included. The consolidated accounts for QBE Insurance Group Limited, the ultimate parent company, are also publicly available. (See notes 1(b) and 1(n).)

(b) Cash flow statement

No cash flow statement is presented as the Company has taken advantage of the provisions of Financial Reporting Standard 1 (FRS1) (revised) which exempts subsidiary undertakings, 90 per cent or more of whose voting rights are controlled within a group, from producing a cash flow statement, provided the consolidated financial statements in which the subsidiary is included, being the consolidated accounts of QBE Insurance Group Limited, are publicly available.

(c) Underwriting result

The underwriting result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned portion of premiums, net of reinsurance, as described below.

(i) Premiums

Premiums written 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 but not yet received or notified, less an allowance for cancellations.

(ii) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relates to the unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. In the opinion of the directors, the resulting provision is not materially different from one based on the pattern of incidence of risk.

(iii) Acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability and amortised over the period in which the related premiums are earned.

(iv) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

(v) Claims outstanding

Gross provisions for outstanding claims and related reinsurance recoveries have been determined on the basis of actuarial and statistical projections based on information which is currently available, including outstanding loss advices, experience of development of similar claims and the prevailing legal environment. As provisions for claims outstanding are based on the information which is currently available to the directors, the eventual outcome may vary from the original assessment.

(vi) Equalisation provision

Amounts are set aside as equalisation provisions in accordance with the Insurance Companies (Reserves) Act 1995 for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985, to be included within technical provisions.

(vii) Outwards reinsurance

Outwards reinsurance premiums, recoveries and commissions are accounted for so as to match the related inwards transactions.

(d) Expenses

Underwriting acquisition costs, general overheads and other expenses are charged as incurred to the profit and loss technical account, net of the change in deferred acquisition costs. Investment expenses are charged to the profit and loss non-technical account.

(e) Tangible fixed assets

Depreciation is provided at rates calculated to write off the cost less estimated residual values in equal amounts over the estimated useful lives of the tangible assets. The estimated lives are as follows:

Office equipment	from three to thirteen years
Computer equipment	from three to five years
Motor vehicles	five years

(f) Taxation

The charge for taxation is based on the result for the year adjusted for disallowable items. 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 at the rates at which it is expected that the tax will arise.

(g) Investments

Investments in subsidiary undertakings are included in the balance sheet at current value based on the directors having prudent regard for their likely realisable value.

Company policy is to hold fixed interest securities to maturity. Fixed interest securities are included in the balance sheet at amortised cost. The amortisation is calculated so as to write off the difference between the purchase price and the maturity value over the life of the security.

Other investments are included in the balance sheet at market value.

(h) Investment income

Investment income is shown in the profit and loss non-technical account on an accruals basis except for dividends which are taken into account when declared.

(i) Unrealised gains and losses

Unrealised gains and losses represent the difference between the valuation of the investments at the balance sheet date and their purchase price, or if they have been previously valued, their valuation at the last balance sheet date. Unrealised gains and losses are recognised in the profit and loss non-technical account.

(j) Foreign currency transactions

Transactions denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the time of the transactions. Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the balance sheet date. The results, monetary assets and liabilities of foreign branches are translated into Sterling at the year end rate of exchange. Exchange gains or losses are recognised in the profit and loss non-technical account.

(k) Administrative expenses

The management and administration of the Company is principally carried out by QBE Management (UK) Limited, a fellow subsidiary undertaking, who also provides these services to other group companies. Administrative expenses recharged by QBE Management (UK) Limited to the Company and those incurred directly by the Company's branches are charged to the profit and loss account as incurred.

(l) Pensions

QBE Management (UK) Limited operates a defined contribution pension scheme for its employees. Details of the pension scheme can be found in the accounts of QBE Management (UK) Limited. The Company incurred no costs in respect of pension contributions for employees in the Paris branch, Hamburg and Warsaw representative offices other than statutory social security costs.

(m) Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

(n) Related parties

The Company has availed itself of the exemption available under Financial Reporting Standard 8 (FRS8) not to disclose transactions which are with entities that are part of the QBE Group, 90% or more of whose voting rights are controlled within the QBE Group. This exemption is available to the Company as consolidated accounts are publicly available for QBE Insurance Group Limited, the ultimate holding company.

Notes to the Accounts

2. Segmental information

All premiums are written in the London market except for £23,002,000 of direct and facultative premiums which are written by the Company's branch in Paris.

(a) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance:

Year ended 31st December 1998	Accident & health £'000	Marine £'000	Fire and other damage to property £'000	Third party liability £'000	Other £'000	Direct total £'000	R/I £'000	Total £'000
Gross premiums written	56	1,151	48,141	16,970	1,757	68,075	75,069	143,144
Gross premiums earned	28	2,291	40,223	19,875	1,706	64,123	77,148	141,271
Gross claims incurred	(59)	(3,058)	(35,202)	(17,072)	(1,192)	(56,583)	(70,579)	(127,162)
Gross operating expenses	(12)	(652)	(13,903)	(5,732)	(684)	(20,983)	(19,643)	(40,626)
Reinsurance balance	68	1,331	6,670	1,096	87	9,252	2,464	11,716

The balance on the general business technical account includes the change in the equalisation provision of £1,977,000 (1997: £4,816,000), which is not included in the analysis above.

18 months ended 31st December 1997	Accident & health £'000	Marine £'000	Fire and other damage to property £'000	Third party liability £'000	Other £'000	Direct total £'000	R/I £'000	Total £'000
Gross premiums written	(21)	4,996	14,646	24,223	2,066	45,910	114,925	160,835
Gross premiums earned	623	5,246	12,837	22,855	76	41,637	108,073	149,710
Gross claims incurred	69	(6,034)	(9,136)	(17,394)	(110)	(32,605)	(75,771)	(108,376)
Gross operating expenses	(367)	(1,283)	(6,099)	(5,937)	46	(13,640)	(25,291)	(38,931)
Reinsurance balance	22	1,796	(3,516)	(1,320)	—	(3,018)	2,387	(631)

2. Segmental information (continued)

(b) Gross premiums by territory of destination

	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
Europe - United Kingdom	27,686	31,824
- Continental Europe	25,480	28,570
North America	33,202	36,141
Caribbean and Central/South America	8,680	11,454
Asia and Australasia	17,195	22,740
Africa	2,242	2,972
Worldwide	28,659	27,134
	143,144	160,835

(c) Net assets and profit before tax by class of business

Shareholders' funds are held to meet the solvency requirements of the Company as a whole and, therefore, are not regarded as operating net assets for the purposes of segmental reporting. Accordingly, the net assets in relation to the business segments are not shown. It is, therefore, not appropriate to allocate investment income and hence derive profit before tax for the purposes of segmental reporting.

	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
Net operating profit by class of business is as follows:		
Direct insurance	(4,995)	(8,123)
Reinsurance acceptances	(11,783)	5,079
	(16,778)	(3,044)

(d) Analysis by geographic area

	Gross written premiums		Profit/(Loss) before taxation and minority interests		Net assets	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000	1998 £'000	1997 £'000
United Kingdom:						
Direct & Reinsurance	120,142	158,953	11,245	7,778	123,544	108,261
Paris:						
Direct Insurance	23,002	1,882	(4,094)	(170)	(2,703)	(99)
	143,144	160,835	7,151	7,608	120,841	108,162

3. Prior years' claims provisions

Overprovisions of £3,955,000 and £1,102,000 in relation to property classes and third party liability classes respectively were offset by an underprovision of £2,918,000 on marine classes. There were no material movements in prior years' claims provisions during the period ended 31st December 1997.

4. Net operating expenses

	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
Acquisition costs	36,099	37,619
Changes in deferred acquisition costs	(1,002)	(4,288)
Administrative expenses	5,529	5,600
	40,626	38,931
Reinsurance commissions and profit participation	(2,402)	(2,787)
	38,224	36,144

The total commission incurred during the period in respect of direct insurance was £7,052,678 (1997: £7,632,921).

5. Employees

The Company does not employ any staff in its UK, Polish and German operations. All staff based in the UK, Poland and Germany are employed by QBE Management (UK) Limited who recharge the Company for the services provided by those staff. The management charge forms part of administrative expenses (see note 4). However, the Company holds contracts of employment with those staff employed in Paris branch operations.

The average number of staff employed by the Company for the year was:

	1998 Number	1997 Number
Underwriting	8	2
Claims	1	—
Administration	19	1
	28	3

5. Employees (continued)

Total employee costs for the year were:

	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
Wages and salaries	801	160
Social security costs	131	67
Pension costs	231	—
	1,163	227

6. Directors' emoluments

	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
Emoluments (excluding pension contributions and awards under share option schemes and other long term incentive schemes)	374	421
Company pension contributions to money purchase schemes	26	24
	Number	Number
Number of directors – who are members of a money purchase scheme	3	2
	£'000	£'000
Highest paid director: Remuneration	218	262
Company pension contributions to money purchase schemes	12	12

7. Investment income, expenses and charges

	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
(a) Income from investments other than participating interests		
Dividend income:		
From group undertakings	18,100	500
Other	144	190
Interest receivable:		
From group undertakings	482	1,298
Other	5,835	6,573
Gains on realisation of investments	—	578
	24,561	9,139

The accounts reflect the results of a continuing agreement, effective 1st July 1996, extended by an agreement from 1st July 1998, with a parent undertaking, Pitt Nominees Limited (incorporated in Australia), whereby exchange gains and losses on all foreign currency assets and liabilities held by the Company are provided with protection. All foreign exchange gains and losses covered by the agreement are passed to Pitt Nominees Limited.

Under this agreement the amount receivable from Pitt Nominees Limited in respect of exchange gains and losses during the year was £1,250,284 (1997: £10,077,000).

	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
(b) Investment expenses and charges		
Investment management expenses	109	105
Premium payable on foreign exchange agreement	12	54
Net losses on the realisation of investments	9	—
Amortisation of fixed interest securities	179	(130)
Interest payable:		
To group undertakings	129	81
Other	3	10
	441	120

8. Profit on ordinary activities before taxation

	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration for:		
Audit services	103	123
Other services	38	17
Payments under operating leases – land and buildings	1	6
Depreciation:		
Charge in year	55	6
Amortisation of fixed interest securities	179	(130)

Non-audit fees paid to PricewaterhouseCoopers and its associates (being the predecessor partnerships of Price Waterhouse and Coopers & Lybrand) during the year were £38,000 of which £5,000 related to work done by Coopers & Lybrand, the previous auditors, and its associates. Non-audit fees in 1997 comprise solely amounts paid to Coopers & Lybrand.

9. Tax on profit on ordinary activities

	Year ended 31st December 1998 £'000	18 months ended 31st December 1997 £'000
The taxation charged for the year comprises:		
UK Corporation Tax at 31% (1997: 32%)		
Current	(3,111)	1,490
Tax on franked investment income	5	11
Deferred taxation	273	541
Under/(over) provision in respect of prior years:		
Current	(295)	57
Deferred	—	(280)
	(3,128)	1,819

The current tax credit has been reduced by £198,920 (1997: £nil) as a result of group relief.

10. Investments

(a) Investments in subsidiary undertakings

Held by Company	Incorporated in	Class of share	Holding in company	Principal activity
Queensland Insurance (Australia) Pty Limited	Australia	Ordinary	100%	Investment holding company
QBE Reinsurance (UK) Limited	UK	Ordinary	100%	Reinsurance run-off
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	Ordinary	100%	Underwriting management for a reinsurance pool
Atlasz Biztosito RT	Hungary	Ordinary	100%	Insurance business

Held by subsidiaries	Incorporated in	Class of share	Holding in company	Principal activity
QBE Australia Pty Limited	Australia	Ordinary	100%	Holding company
QBE Investments (North America) Inc	USA	Ordinary	100%	Holding company
QBE Insurance Corporation	USA	Ordinary	100%	Reinsurance run-off
Sydney Re Holdings Inc	USA	Ordinary	100%	Holding company
Sydney Re Management Inc	USA	Ordinary	100%	Management company
Sydney Reinsurance Corporation	USA	Ordinary	100%	Reinsurance business

On 7th October 1998, the Company acquired the whole of the issued ordinary share capital of Atlasz Biztosito RT from QBE Insurance (International) Limited, a fellow subsidiary company, for a total cash consideration of £6,130,000.

In the opinion of the directors, the aggregate value of the assets of the Company consisting of shares in, or amounts owing (whether on account of a loan or otherwise) from the Company's subsidiary undertakings, is not less than the aggregate of the amounts at which these assets are stated in the Company's balance sheet.

10. Investments (continued)

(b) Other financial investments

	Cost 1998 £'000	Cost 1997 £'000	Book value 1998 £'000	Book value 1997 £'000
Shares and other variable yield securities	4,612	4,347	7,349	6,911
Debt securities and other fixed interest securities (see note 10(c))	56,122	22,542	55,849	22,654
Deposits with credit institutions	53,909	61,232	53,909	61,232
	114,643	88,121	117,107	90,797

Listed investments	Book value 1998 £'000	Book value 1997 £'000
Shares and other variable yield securities	7,349	6,411
Debt securities and other fixed interest securities	55,849	22,654
	63,198	29,065

(c) Debt securities and other fixed interest securities

	1998 £'000	1997 £'000
Cost	56,122	22,542
Cumulative amortisation	(273)	112
Amortised cost	55,849	22,654
Maturity value	54,886	22,873
Market value	57,446	23,006

11. Other debtors

	1998 £'000	1997 £'000
Amounts due from group undertakings	28,243	19,890
Other debtors	333	967
	28,576	20,857

Amounts due from group undertakings includes £11,327,284 (1997: £8,687,000) due under the foreign exchange stop loss agreement (see note 7(a).)

Other debtors includes a mainstream corporation tax asset of £256,000 (1997:£nil).

12. Tangible fixed assets

	Office equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1st January 1998	109	34	118	261
Additions	—	75	62	137
Transfers to other group company	—	—	—	—
At 31st December 1998	109	109	180	398
Cumulative depreciation				
At 1st January 1998	1	1	4	6
Charge for year	4	23	28	55
Transfers to other group company	—	—	—	—
At 31st December 1998	5	24	32	61
Net book value at 31st December 1998	**104**	**85**	**148**	**337**
Net book value at 31st December 1997	108	33	114	255

13. Share capital

	1998 £	1997 £
Authorised		
199,999,900 (1997: 100,000,000) ordinary 'A' class shares of £1 each	199,999,900	100,000,000
100 ordinary 'B' class shares of £1 each	100	100
	200,000,000	100,000,100
Called up, allotted and fully paid		
100,506,664 (1997: 92,506,664) ordinary 'A' class shares of £1 each	100,506,664	92,506,664
10 ordinary 'B' class shares of £1 each	10	10
	100,506,674	92,506,674

The 'B' class shares have priority with respect to repayment of capital on winding up. In all other respects, their rights are identical to those of 'A' class shares.

During the year 8,000,000 (1997: 34,000,000) ordinary 'A' class shares of £1 each were allotted for cash of £8,000,000 (1997: £34,000,000).

14. Reconciliation of movements in reserves and shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1st January 1998	92,507	15,655	108,162
Share capital issued in year	8,000	—	8,000
Profit in year	—	4,679	4,679
At 31st December 1998	100,507	20,334	120,841

15. Equalisation provision

The equalisation provision required to be made by the Company in accordance with the Insurance Companies (Reserves) Act 1995 is as follows:

	1998 £'000	1997 £'000
At 1st January	4,816	—
Transfers in year	1,977	4,816
At 31st December	6,793	4,816

The creation of this provision has reduced the balance on the general business technical account and profit before tax by £1,977,000 (1997: £4,816,000) and reduced shareholders' funds at 31st December 1998 by £1,364,000 (1997: £3,274,000) net of taxation.

16. Provisions for other risks and charges

	1998 £'000	1997 £'000
Deferred tax		
At 1st January	758	497
Movement in provision – current year	273	541
(Over)/under provision in respect of prior years	—	(280)
At 31st December	1,031	758

Deferred tax is fully provided in the accounts as follows:

	Amount provided 1998 £'000	Amount provided 1997 £'000
On unrealised appreciation of investments	849	795
Excess of capital allowances over depreciation	32	—
Other timing differences	150	(37)
	1,031	758

17. Other creditors including taxation and social security

	1998 £'000	1997 £'000
Amounts due to group undertakings	1,117	1,098
Other creditors	113	822
	1,230	1,920

18. Operating lease commitments

	Land and buildings 1998 £'000	Land and buildings 1997 £'000
Annual commitments of the Company under operating leases are as follows:		
Leases which expire within one year	95	129

19. Commitments and contingent liabilities

The Company has guaranteed the commitments of a fellow subsidiary company, QBE Management (UK) Limited, under a property lease agreement such that in the event of a default by QBE Management (UK) Limited the Company will fulfil the terms of the lease.

20. Charges on assets

The Company has outstanding liabilities covered by the deposit of certain investments, in respect of undrawn letters of credit amounting to US$15,696,152 (£9,445,271) (1997: US$9,202,012 (£5,584,426)).

Additionally, there is a letter of credit for US$5,400,000 (£3,249,488) (1997: US$5,400,000 (£3,277,097)) covered by the deposit of certain investments, which is required by the US insurance regulator. This will only be drawn down in the event of the Company going into liquidation.

21. Pension costs

The management and administration of the Company is principally carried out by QBE Management (UK) Limited, a fellow subsidiary undertaking. QBE Management (UK) Limited operates a defined contribution pension scheme for its employees. Details of the pension scheme arrangements are disclosed in the accounts of QBE Management (UK) Limited.

The total amount of pension contributions charged by QBE Management (UK) Limited to the Company in the year was £587,000 (1997: £476,000).

The Company's employees in the Paris branch are covered by French statutory pension scheme arrangements. The total amount of statutory social security pension costs incurred by the Paris branch in the year was £106,000 (1997: £17,000).

22. Holding company

The Company's ultimate controlling entity is QBE Insurance Group Limited, the ultimate parent company, which is incorporated in Australia. The consolidated accounts for QBE Insurance Group Limited are available from QBE International Insurance Limited's registered office at Corn Exchange, Mark Lane, London EC3R 7NE.

The Company's ultimate European controlling entity is QBE Insurance and Reinsurance (Europe) Limited, which is incorporated in the Republic of Ireland. QBE Insurance and Reinsurance (Europe) Limited has prepared consolidated group accounts for the period ended 31st December 1998, in which the Company is included. These represent consolidated accounts for the smallest group of undertakings of which the Company is a member. The consolidated accounts for QBE Insurance and Reinsurance (Europe) Limited are available from their registered office at St. Stephen's Green House, Earlsfort Terrace, Dublin 2.

The Company's immediate parent company is QBE International Holdings (UK) Limited, which is incorporated in the United Kingdom.

Auditors' Report

Auditors' Report

Auditors' report to the members of QBE International Insurance Limited

We have audited the financial statements on pages 6 to 25, which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 13.

Respective responsibilities of the directors and auditors

As described on page 5 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion on those statements, based on our audit, and to report our opinion to you.

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. 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 misstatement or material inconsistencies with the financial statements.

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.

Auditors' Report

Equalisation provisions

Our evaluation of the presentation of the information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31st December 1998 and the effect of the movement in those provisions during the period on the balance of the general business technical account and profit before tax are discussed in note 15.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31st December 1998 and of the profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place, London WC2N 6NN

22nd March 1999

Extracts from the Financial Statements

presented in U.S. Dollars

The following pages contain extracts from the 1998 financial statements expressed in U.S. Dollars. These are based on the audited financial statements of the Company which are expressed in Sterling after translating non-Sterling amounts at appropriate rates of exchange (see note 1(j) - Accounting policies).

For the purpose of this summary, the Sterling amounts have been converted into U.S. Dollars at the rate at the end of the period of £1 to $1.6618 (1997: $1.6478).

Profit and Loss Account – Technical Account – General Business

for the year ended 31st December 1998

		Year ended 31st December 1998		18 months ended 31st December 1997
	$'000	$'000	$'000	$'000
Earned premiums, net of reinsurance				
Gross premiums written	237,877		265,024	
Outward reinsurance premiums	(68,705)		(55,809)	
		169,172		209,215
Change in the gross provision for unearned premiums	(3,112)		(18,332)	
Change in the provision for unearned premiums, reinsurers' share	11,319		3,053	
		8,207		(15,279)
Earned premiums, net of reinsurance		**177,379**		**193,936**
Claims incurred, net of reinsurance				
Claims paid				
Gross amount	(109,535)		(89,978)	
Reinsurers' share	21,886		21,258	
	(87,649)		(68,720)	
Change in the provision for claims				
Gross amount	(101,784)		(88,603)	
Reinsurers' share	50,979		25,865	
	(50,805)		(62,738)	
Claims incurred, net of reinsurance		**(138,454)**		**(131,458)**
Net operating expenses		**(63,520)**		**(59,558)**
Change in equalisation provision		**(3,285)**		**(7,936)**
Balance on technical account – general business		**(27,880)**		**(5,016)**

Profit and Loss Account – Non-Technical Account

for the year ended 31st December 1998

	Year ended 31st December 1998 $'000	18 months ended 31st December 1997 $'000
Balance on general business technical account	(27,880)	(5,016)
Investment income	40,815	15,059
Unrealised gains on investments	(150)	2,950
Investment expenses and charges	(733)	(198)
Other charges	(168)	(259)
Profit on ordinary activities before taxation	**11,884**	**12,536**
Tax on profit on ordinary activities	5,198	(2,997)
Profit on ordinary activities after taxation	**17,082**	**9,539**
Dividends paid – 'A' shares	(9,306)	(7,745)
Retained profit for the year	**7,776**	**1,794**

Balance Sheet

as at 31st December 1998

	31st December 1998 $'000	31st December 1997 $'000
Assets		
Investments		
Shares in group undertakings	142,491	137,618
Other financial investments	194,608	149,615
Deposits with ceding undertakings	3,113	1,572
	340,212	**288,805**
Reinsurers' share of technical provisions		
Provision for unearned premiums	29,228	17,758
Claims outstanding	103,649	52,733
	132,877	**70,491**
Debtors		
Debtors arising out of direct insurance operations – intermediaries	54,352	38,730
Debtors arising out of reinsurance operations	70,804	74,930
Other debtors	47,488	34,368
	172,644	**148,028**
Other assets		
Tangible assets	560	420
Cash at bank and in hand	8,492	3,393
	9,052	**3,813**
Prepayments and accrued income		
Accrued interest and rent	2,099	567
Deferred acquisition costs	22,081	20,911
Other prepayments and accrued income	176	5
	24,356	**21,483**
Total assets	**679,141**	**532,620**

Balance Sheet

as at 31st December 1998

	31st December 1998 $'000	31st December 1997 $'000
Liabilities		
Capital and reserves		
Called up share capital	167,023	152,433
Profit and loss account	33,791	25,796
Equity shareholders' funds	**200,814**	**178,229**
Technical provisions		
Provision for unearned premiums	94,288	90,408
Claims outstanding	321,088	215,351
Equalisation provision	11,289	7,936
	426,665	**313,695**
Provisions for other risks and charges	1,713	1249
Deposits received from reinsurers	1,974	643
Creditors		
Creditors arising out of direct insurance operations – intermediaries	17,813	13,463
Creditors arising out of reinsurance operations	27,626	21,913
Other creditors including taxation and social security	2,044	3,164
	47,483	**38,540**
Accruals	492	264
Total liabilities	**679,141**	**532,620**