

EULER Trade Indemnity plc

FINANCIAL STATEMENTS

YEAR ENDED 31 December 1999

**1 Canada Square
London E14 5DX**

Company Number 149786



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COMPANIES HOUSE		24/05/00
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COMPANIES HOUSE		17/05/00

EULER Trade Indemnity plc

Year Ended 31 December 1999

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EULER Trade Indemnity plc

DIRECTORS AND OFFICERS

Year Ended 31 December 1999

DIRECTORS

F J M Y Aurillac
R J Benzies
Y de Gaulle
R C Snedden

Chairman
Chief Executive

SECRETARY

V G C Steadman

AUDITORS

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY

REGISTERED OFFICE

1 Canada Square
London E14 5DX

EULER Trade Indemnity plc

REPORT OF THE DIRECTORS

Year Ended 31 December 1999

The Directors present their report together with the audited Financial Statements of the Company for the year ended 31 December 1999.

Principal Activity

The Company carries on the business of credit insurance from the United Kingdom and overseas.

Review of the Business and Future Developments

The results for the year are set out in the non-technical account on page 10. The Directors envisage the Company continuing in the same trade for the foreseeable future.

Dividend and Transfer to Reserve

The Directors recommend the payment of a dividend of £1,700,000 (1998: £4,400,000). After declaring the above dividend a profit of £4,737,000 (1998: £2,282,000) will be retained for the year.

Directors

The following served as Directors during the year:

J E Lanier	Resigned 16 June 1999
R J Benzies	
R C Snedden	
F J M Y Aurillac	
Y de Gaulle	Appointed 17 March 1999

All the current Directors of the Company are also Directors of the holding company, EULER Holdings UK PLC and their interests in its share capital are shown in that company's Financial Statements.

Tangible Assets

The changes in tangible assets are detailed in note 7 to the Financial Statements.

Donations

During the year, the Company made charitable donations of £9,928 (1998: £11,974). No political donations were made.

EULER Trade Indemnity plc

REPORT OF THE DIRECTORS (Cont'd)

Year Ended 31 December 1999

Employees

During the year the Company received the Investors in People Award. This recognises the value placed on our employees and the excellence of training they receive to ensure that their skills meet the needs of our customers.

In addition to bi-annual briefing sessions with all employees, regular briefing sessions are held with senior managers who are then held responsible for effective communication with staff in their operational areas to promote a better understanding of the objectives, activities and performance of the Company.

It is the Company's policy to provide equal opportunities in employment, career development and promotion to all who are eligible on the basis of ability, qualifications and fitness for work, irrespective of race, sex or marital status.

The Company gives fair consideration to all applicants for jobs including those who may be handicapped or disabled provided that their disabilities do not affect their ability to perform the job. Every effort is made to ensure that employees who become disabled can continue their employment. The Company continues to train and promote disabled employees where this is in the best interests of the Company and the individual concerned.

The Company has in place a policy setting out its arrangements for the health, safety and welfare of employees and other persons which is regularly reviewed.

Policy and Practice on Payment of Creditors

It is Company policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. The Company is a signatory to the CBI Code of Practice on Prompt Payment, a copy of which can be obtained from the DTI Publications, Admail 528, London SW1W 8YT.

Suppliers are paid centrally for the UK Group by the Company and the Directors believe it would be helpful to give the disclosures on a Group basis. Trade creditors days of the Group for the year ended 31 December 1999 were 8 days (1998: 11 days), calculated in accordance with the Companies Act 1985.

EULER Trade Indemnity plc

REPORT OF THE DIRECTORS (Cont'd)

Year Ended 31 December 1999

Year 2000

The Company experienced little disruption or malfunctions since the turn of the year arising from its own computer systems or equipment with embedded date-reliant computer chips.

The lack of disruption from the Company's own systems and equipment is attributed to the successful completion of the Year 2000 Project.

The full impact on the Company's business of the year 2000 related failures of clients and their customers both local and foreign is still being assessed.

The total cost incurred, including incremental costs and replacement expenditure, to modify our computer hardware and software is £6.0m. Of this £5.8m had been incurred by the end of 1998 and the remaining £0.2m was incurred in 1999.

In addition to the risk posed by systems failures within the Company, or within third parties on which the Company relies, there is also a risk of increased claims notifications resulting from the impact of year 2000 failures on our policyholders.

Due to the uncertainties surrounding the year 2000 problem it is not possible to quantify the potential magnitude of claims arising from the year 2000 problem that may be notified in the future. To minimise the potential exposure, the Company performed a review of its business to identify existing policy types against which year 2000 related claims may arise and appropriate action has been taken.

Introduction of the Euro

The Company has completed all the necessary formalities to transact business in the Euro which was successfully launched at the beginning of 1999. Any business opportunities arising from the new currency will, therefore, be open to us notwithstanding the UK's position to remain outside the core eleven countries who were committed at the launch.

EULER Trade Indemnity plc

REPORT OF THE DIRECTORS (Cont'd) **Year Ended 31 December 1999**

Auditors

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

By Order of the Board



V G C Steadman
Secretary

Dated: *22 February 2000*

EULER Trade Indemnity plc

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

The Directors are required by the Companies Act 1985 and other regulations to prepare Financial Statements each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year, and its profit for that period. The Financial Statements of insurance companies are prepared in accordance with the requirements of Section 255 of and Schedule 9A (as modified by Part II of Schedule 9A) to the Companies Act 1985.

The Directors confirm that suitable accounting policies have been used and, except for the change in accounting policy for provisions referred to in note 10 to the financial statements, have been applied consistently. The Directors also confirm that reasonable and prudent judgements and estimates have been made in the preparation of the Financial Statements for the year ended 31 December 1999. The Directors also confirm that applicable accounting standards have been followed and that the Financial Statements have been prepared on the going concern basis.

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy at any time the financial position of the Company and 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.

EULER Trade Indemnity plc

REPORT OF THE AUDITORS TO THE MEMBERS OF THE COMPANY

We have audited the Financial Statements on pages 9 to 24 which have been prepared in accordance with the Accounting Policies set out on pages 13 to 15.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 6, this includes responsibility for preparing the Financial Statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 United Kingdom 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.

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.

Equalisation Reserves

Our evaluation of the presentation of information in the Financial Statements has had regard to the statutory requirements for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 1999, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax are disclosed in note 12.

EULER Trade Indemnity plc

REPORT OF THE AUDITORS (Cont'd) TO THE MEMBERS OF THE COMPANY

Opinion

In our opinion the Financial Statements give a true and fair view of the state of the Company's affairs as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants & Registered Auditors,
London

Dated:

22 February 2000

EULER Trade Indemnity plc

TECHNICAL ACCOUNT – GENERAL BUSINESS

Year Ended 31 December 1999

	Notes	1999 £'000	Restated 1998 £'000
Gross premiums written	1(e)	158,360	162,960
Outwards reinsurance premiums		(72,110)	(76,594)
Net premiums written		86,250	86,366
Change in gross provision for unearned premiums		3,849	(776)
Change in provision for unearned premiums, reinsurers' share		(911)	(5,040)
Change in net provision for unearned premiums		2,938	(5,816)
Earned premiums, net of reinsurance		89,188	80,550
Other technical income - information charges		5,156	4,850
		94,344	85,400
Gross claims paid		(78,650)	(59,246)
Reinsurers' share		33,587	24,555
Net claims paid		(45,063)	(34,691)
Change in gross provision for claims		(6,996)	(33,667)
Reinsurers' share		(302)	15,742
Change in net provision for claims		(7,298)	(17,925)
Claims incurred, net of reinsurance		(52,361)	(52,616)
Net operating expenses	2	(42,451)	(46,990)
Change in equalisation provision	12	-	10,966
Balance on the Technical Account		(468)	(3,240)

EULER Trade Indemnity plc

NON-TECHNICAL ACCOUNT Year Ended 31 December 1999

	<u>Notes</u>	<u>1999</u> £'000	<u>Restated</u> <u>1998</u> £'000
Balance on the Technical Account		(468)	(3,240)
Investment income		7,463	7,607
Realised gains on investments		4,182	3,251
Unrealised gains on investments		2,472	5,477
Investment expenses and charges		(182)	(212)
Unrealised losses on investments		(1,269)	(918)
		12,666	15,205
 Other Charges	10	<u>(3,058)</u>	<u>(6,172)</u>
 Profit on ordinary activities before taxation	1	9,140	5,793
 Tax on profit on ordinary activities	3	<u>(2,703)</u>	<u>889</u>
 Profit on ordinary activities for the financial year		6,437	6,682
 Dividend		<u>(1,700)</u>	<u>(4,400)</u>
 Retained profit for the year		4,737	2,282
 Retained profit brought forward	10	36,401	34,119
 Retained profit carried forward		<u><u>41,138</u></u>	<u><u>36,401</u></u>

The results above are all derived from continuing operations.

There are no other recognised gains and losses other than the retained profits stated above.

EULER Trade Indemnity plc

BALANCE SHEET

Year Ended 31 December 1999

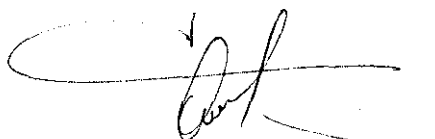
	<u>Notes</u>	<u>1999</u> £'000	<u>Restated</u> <u>1998</u> £'000
ASSETS			
Investments			
Investment in associated undertaking	4	2,603	2,330
Other financial investments	5	154,201	139,043
		156,804	141,373
Reinsurers' share of technical provisions			
Provision for unearned premiums		21,961	22,872
Claims outstanding		87,264	87,566
		109,225	110,438
Debtors			
Arising out of direct insurance operations		58,730	64,622
Arising out of reinsurance operations		6,891	1,486
Other debtors	6	8,366	6,192
		73,987	72,300
Other assets			
Tangible assets	7	7,089	9,145
Cash at bank and in hand		4,929	13,038
		12,018	22,183
Prepayments and accrued income			
Accrued interest		420	466
Deferred acquisition costs		10,277	11,157
Other prepayments		562	66
		11,259	11,689
TOTAL ASSETS		<u>363,293</u>	<u>357,983</u>

EULER Trade Indemnity plc

BALANCE SHEET (Cont'd)
Year Ended 31 December 1999

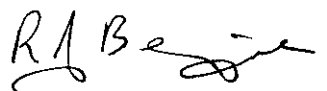
LIABILITIES	Notes	1999 £'000	Restated 1998 £'000
Capital and reserves			
Called up share capital	8	6,709	6,709
Share premium account	9	33,067	33,067
Profit and loss account	10	41,138	36,401
Shareholders' funds attributable to equity interests	11	80,914	76,177
Technical provisions			
Provision for unearned premiums		54,067	57,916
Claims outstanding		166,900	159,904
		220,967	217,820
Provision for other charges - deferred tax	13	4,200	1,460
Creditors			
Arising out of direct insurance operations		7,275	8,893
Arising out of reinsurance operations		16,413	18,855
Other creditors	14	18,401	19,060
		42,089	46,808
Accruals and deferred income			
Unearned reinsurance commission		8,022	8,186
Other accruals		7,101	7,532
		15,123	15,718
TOTAL LIABILITIES		363,293	357,983

Approved by the Board of Directors.


E J M Y Aurillac
 Chairman

Dated:

22 February 2000


R J Benzies
 Chief Executive

Dated:

22 February 2000

EULER Trade Indemnity plc

ACCOUNTING POLICIES

Year Ended 31 December 1999

Basis of Preparation

The requirements of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 have been applied in these Financial Statements.

The Financial Statements are prepared in accordance with applicable accounting standards in the United Kingdom and in accordance with the statement of recommended practice on accounting for insurance business issued by the Association of British Insurers dated December 1998. The Financial Statements have been prepared in accordance with Section 255 of, and Schedule 9A (as modified by Part II of Schedule 9A) to, the Companies Act 1985.

Following the introduction of FRS12 the Company changed its accounting policy for non-insurance provisions. Non-insurance provisions are now only recognised when there is a present obligation as a result of a past event and a reliable estimate can be made at the Balance Sheet date. Previously provisions were raised when the relevant expenditure had been approved by the Directors. The impact of this change is set out in note 10.

The Company has combined certain insurance debtors and creditors balances previously disclosed separately on the balance sheet. Comparatives have been restated accordingly.

Basis of Accounting

The Company accounts for its insurance business on an annual basis.

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 notified to the Company. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

Unearned premiums represent the proportion of premiums written in the year that related to 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.

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 and deductions made for salvage.

Provisions for outstanding claims are established having regard to actuarial methods and statistical projections and other estimates of the ultimate cost of settlement.

EULER Trade Indemnity plc

ACCOUNTING POLICIES (Cont'd)

Year Ended 31 December 1999

Basis of Accounting (cont'd)

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.

Unexpired Risk Provision

An unexpired risk provision is provided only to the extent of any deficiencies arising when unearned premiums, net of associated acquisition costs and future investment return of the investments supporting the unearned premium and unexpired risk provisions, are insufficient to meet expected claims and expenses having regard to events that have occurred up to the Balance Sheet date.

Translation of Currency

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the Balance Sheet date. Transactions are translated at the actual rate on the date of the transactions. All differences on exchange are dealt with through the Non-Technical Account.

Leased Assets

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Depreciation on the relevant assets is charged to operating profit. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the Technical Account. All other leases are operating leases and the annual rentals, net of any incentives, are charged to operating profit on a straight line basis over the lease term.

Tangible Assets

Expenditure incurred in the provision of equipment, motor vehicles and tenants improvements is written off on a straight line basis over their estimated useful lives as follows:

Motor Vehicles	-	4 years
Equipment	-	4 years
Tenants Improvements	-	5 to 10 years

EULER Trade Indemnity plc

ACCOUNTING POLICIES (Cont'd)

Year Ended 31 December 1999

Investments

Listed investments are shown at market value. Unlisted investments are shown at Directors' valuation.

Investment income is accounted for on a receivable basis. Dividends are recognised on the date on which the related investments are marked ex-dividend. Interest income is accrued up to the Balance Sheet date.

Realised gains or losses represent the difference between net sale proceeds and purchase price.

Unrealised gains and losses represent the difference between the valuation of investments at the Balance Sheet date and their valuation at the last Balance Sheet date or purchase price if purchased in the year.

Equalisation Provision

Where applicable, an equalisation provision is established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 in relation to credit and suretyship business to mitigate exceptionally high claims' ratios for classes of business displaying a high degree of claims volatility.

Deferred Taxation

Provision for deferred taxation is calculated on the liability method and is provided only to the extent that it is considered reasonably probable that the liability will become payable within the foreseeable future.

Pension Benefits

The cost of providing pension benefits is charged on a systematic basis, with pension surpluses and deficits allocated over the expected remaining service lives of current employees.

Differences between the amounts charged and payments made to the plans are treated as assets or liabilities in the Balance Sheet.

EULER Trade Indemnity plc

NOTES TO THE FINANCIAL STATEMENTS

Year Ended 31 December 1999

1. Profit before taxation	<u>1999</u>	<u>1998</u>
	£'000	£'000
Profit before taxation is stated after charging/(crediting):		
(a) Depreciation	3,585	3,695
(b) Profit on disposal of fixed assets	(118)	(174)
(c) Finance lease charges	165	159
(d) Operating lease rentals - plant and machinery	1,958	1,862
- land and buildings	1,260	1,120
(e) Segmental reporting:		

All of the Company's business is credit insurance for United Kingdom policyholders and is written in the United Kingdom.

(f) Prior years' claims provisions

Overprovisions/(underprovisions) for claims at the beginning of the year compared with net payments and provisions at the end of the year in respect of prior years' claims are:

	<u>1999</u>	<u>1998</u>
	£'000	£'000
Gross Claims Provisions	4,624	(8,219)
Reinsurers' share	(1,484)	6,405
	<u>3,140</u>	<u>(1,814)</u>

2. Net operating expenses	<u>1999</u>	<u>1998</u>
	£'000	£'000

Net operating expenses comprise:

Acquisition costs	(27,902)	(27,114)
Change in deferred acquisition costs	(250)	75
Administrative expenses	(36,965)	(37,046)
Reinsurance commission	22,666	17,095
	<u>(42,451)</u>	<u>(46,990)</u>

EULER Trade Indemnity plc

NOTES TO THE FINANCIAL STATEMENTS (CONT'D) Year Ended 31 December 1999

3. Taxation	1999	Restated 1998
	£'000	£'000
Taxation (charged)/credit comprises:		
UK corporation tax credit at 30.25% (1998: 31%)	245	788
Taxation on franked investment income	(208)	(313)
	<u>37</u>	<u>475</u>
Deferred taxation (note 13)	(2,740)	414
	<u>(2,703)</u>	<u>889</u>

4. Investment in associated undertaking

	Current Value		Cost	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Shares in associated undertaking	<u>2,603</u>	<u>2,330</u>	<u>1,849</u>	<u>1,849</u>

Investment in associated undertaking represents a 25.1% shareholding in QBE Trade Indemnity Limited, a credit insurance company in Australia, whose accounting reference date is 30 June 1999.

QBE Trade Indemnity Limited has issued 3,765,000 Class A shares and 11,235,000 Class B shares. All Class A shares are held by EULER Trade Indemnity plc. Both Class A and Class B confer equal rights.

EULER Trade Indemnity plc

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1999

5. Other financial investments		Market Value		Cost	
		<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
		£'000	£'000	£'000	£'000
Ordinary shares	- listed	62,910	54,063	50,360	42,251
	- unlisted	-	-	27	27
Unit trusts	- listed	6,542	4,970	5,182	5,070
British government securities	- listed	41,201	-	42,532	-
Other fixed income securities	- listed	88	-	46	-
Foreign government securities	- listed	3,076	-	3,310	-
Certificates of Deposits	- unlisted	16,331	65,191	16,112	65,191
Staff mortgages		62	62	62	62
		<u>130,210</u>	<u>124,286</u>	<u>117,631</u>	<u>112,601</u>
Cash deposits with credit institutions		<u>23,991</u>	<u>14,757</u>	<u>23,956</u>	<u>14,757</u>
		<u>154,201</u>	<u>139,043</u>	<u>141,587</u>	<u>127,358</u>

All listed investments are traded on recognised exchanges.

6. Other debtors	<u>1999</u>	<u>1998</u>
	£'000	£'000
Amounts due from Group undertakings	4,680	2,663
Taxation	3,159	2,902
Sundry debtors	527	627
	<u>8,366</u>	<u>6,192</u>

EULER Trade Indemnity plc

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1999

7. Tangible assets

Tangible assets comprise:	<u>Motor Vehicles</u> £'000	<u>Equipment</u> £'000	<u>Tenants Improvements</u> £'000	<u>Total</u> £'000
Cost at 01.01.99	1,801	9,996	4,920	16,717
Additions	747	947	-	1,694
Disposals	(646)	(1,362)	-	(2,008)
Cost at 31.12.99	<u>1,902</u>	<u>9,581</u>	<u>4,920</u>	<u>16,403</u>
Depreciation at 01.01.99	894	4,708	1,970	7,572
Disposals	(481)	(1,362)	-	(1,843)
Charge for year	475	2,395	715	3,585
Depreciation at 31.12.99	<u>888</u>	<u>5,741</u>	<u>2,685</u>	<u>9,314</u>
Net Book Value at 31.12.99	<u>1,014</u>	<u>3,840</u>	<u>2,235</u>	<u>7,089</u>
Net Book Value at 31.12.98	<u>907</u>	<u>5,288</u>	<u>2,950</u>	<u>9,145</u>

Assets held under finance leases of £1,902,000 (1998: £1,801,000) are included in motor vehicles. Accumulated depreciation on leased assets was £888,000 (1998: £894,000). Depreciation on leased assets of £475,000 (1998: £440,000) has been charged in the year.

8. Called up share capital

At 01.01.99 and 31.12.99:	<u>Number of Shares</u>	<u>£'000</u>
Authorised 25p - ordinary shares	<u>30,000,000</u>	<u>7,500</u>
Allotted, called up and fully paid	<u>26,835,078</u>	<u>6,709</u>

9 Share Premium

	<u>1999 £'000</u>	<u>1998 £'000</u>
At 1 January and 31 December	<u>33,067</u>	<u>33,067</u>

EULER Trade Indemnity plc

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1999

	<u>1999</u>	<u>Restated</u> <u>1998</u>
	£'000	£'000
10. Profit and loss reserve		
As previously reported at 1 January	36,289	30,043
Prior year adjustment	112	4,076
As restated at 1 January	36,401	34,119
Retained profit for the year	4,737	2,282
At 31 December	<u>41,138</u>	<u>36,401</u>

A prior year adjustment of £5,950,000 before taxation (after taxation £4,076,000) was made as a result of the change in method of accounting for non-insurance provisions in compliance with FRS12. Non-insurance provisions are only recognised when there is a present obligation arising from a past event at the Balance Sheet date.

The prior year adjustment represents the reversal of the 1997 provision in respect of costs to be incurred in making our computer systems Year 2000 compliant. Actual costs, amounting to £5,787,000 in 1998 and £163,000 in 1999, have been charged to profit in those years on an incurred basis. These amounts have been included in "other charges" disclosed in the non-technical account.

The effect of the change in accounting policy is to decrease profit after taxation for the year ended 1998 by £3,964,000. In 1999 the profit after taxation for the year has been reduced by £112,000.

	<u>1999</u>	<u>Restated</u> <u>1998</u>
	£'000	£'000
11. Reconciliation of movements in Shareholders' funds		
Profit for the financial year	6,437	6,682
Dividend	(1,700)	(4,400)
Net addition to Shareholders' funds	4,737	2,282
Opening Shareholders' funds	76,177	69,819
Prior year adjustment	-	4,076
Closing Shareholders' funds	<u>80,914</u>	<u>76,177</u>
12. Equalisation provision		
	<u>1999</u>	<u>1998</u>
	£'000	£'000
Opening provision	-	10,966
Transfer to Technical Account	-	(10,966)
Closing provision	<u>-</u>	<u>-</u>

EULER Trade Indemnity plc

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1999

12. Equalisation provision (cont'd)

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These provisions, which are in addition to the provisions to meet the anticipated ultimate cost of settlement of outstanding claims at the Balance Sheet date, are required by Schedule 9A (as modified by part II of Schedule 9A) to the Companies Act 1985 to be included within technical provisions in the Balance Sheet notwithstanding that they do not represent liabilities at the Balance Sheet date.

The movement in equalisation provisions during the year, amounted to £NIL (1998: £10,966,000), and there were no equalisation provisions at the beginning or end of the year.

	<u>1999</u>	<u>Restated</u> <u>1998</u>
	£'000	£'000
13. Deferred taxation		
As previously reported at 1 January	1,409	-
Prior year adjustment	51	1,874
As restated at 1 January	<u>1,460</u>	<u>1,874</u>
Charge/(credit) in year	<u>2,740</u>	<u>(414)</u>
Closing provision at 31 December	<u><u>4,200</u></u>	<u><u>1,460</u></u>

Deferred taxation comprises the tax liability on unrealised investment gains.

	<u>1999</u>	<u>1998</u>
	£'000	£'000
14. Other creditors		
Payable within one year:		
Amounts due to Group undertakings	10,132	8,090
Proposed dividends	1,700	4,400
Other creditors including taxation and social security	5,232	5,375
Finance lease creditors	<u>494</u>	<u>426</u>
	<u><u>17,558</u></u>	<u><u>18,291</u></u>

Payable after more than one year but less than five years:

Finance lease creditors	<u>843</u>	<u>769</u>
	<u><u>18,401</u></u>	<u><u>19,060</u></u>

EULER Trade Indemnity plc

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1999

15. Directors' remuneration

	<u>1999</u>	<u>1998</u>
	£'000	£'000
Directors' emoluments comprise:		
Emoluments	462	1,904
Pension contributions	34	245
	<u>496</u>	<u>2,149</u>

The highest paid Director's emoluments including pension contributions were £261,000 (1998: £1,260,000). The accrued pension entitlement of the highest paid Director at 31 December 1999 was £19,098 (1998: £5,604). Two Directors are members of the Company Defined Benefit Pension Scheme and benefits accrued to them during 1999 under that Scheme amounted to £26,892 (1998: £28,464).

16. Staff numbers and costs

The monthly average number of employees of the Company during 1999 was 404 (1998: 404), analysed as follows:

	<u>1999</u>	<u>1998</u>
<u>Average number of staff</u>		
Underwriting	138	146
Claims	31	31
Administrative	235	227
	<u>404</u>	<u>404</u>

	<u>1999</u>	<u>1998</u>
<u>Staff Costs</u>	£'000	£'000
Wages and salaries	14,345	14,187
Social security costs	1,349	1,286
Other pension costs	2,309	2,464
	<u>18,003</u>	<u>17,937</u>

17. Auditors' remuneration

Auditors' remuneration in respect of audit services amounting to £202,400 (1998: £168,705) has been charged to expenses during the year.

Auditors' remuneration for non-audit services during the year was £151,631 (1998: £198,725).

EULER Trade Indemnity plc

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) **Year Ended 31 December 1999**

18. Pension costs

The Company operates a pension scheme of the funded defined benefit type in the UK.

The total pension cost for the Company was £2,308,000 (1998: £2,464,000). The costs relating to the UK funded scheme which covers 98% of the UK employees are assessed in accordance with the advice of a qualified actuary using the Projected Unit Method.

The latest actuarial valuation of the UK Scheme was as at 1 July 1996. The most significant assumptions were that investment return would be 8.5% p.a. and that salary increases would be 7.0% p.a. and that the rate of discretionary increase on present and future pensions would be 4.0% p.a.

In his valuation at 1 July 1996, the Actuary stated that the actuarial value of the assets of the scheme would be £34,540,000 covering 94% of the benefits accrued to members after allowing for future increases in earnings. The ongoing contribution rate for the scheme will, in the opinion of the Actuary, be sufficient to eliminate the deficit over the average remaining working lifetimes for the existing membership. The market value of the assets of the scheme were £35,601,000 at 1 July 1996.

A valuation has been carried out as at 1 July 1999 which has yet to be agreed by the Scheme Trustees and the Company. However, it is not anticipated that this will require any adjustment to the contributions payable by the Company for 1999.

19. Cash Flow Statement

The Company is a wholly owned subsidiary of EULER Holdings UK PLC and the cash flows of the Company are included in the consolidated Financial Statements of EULER Holdings UK PLC. Consequently, the Company is exempt under the terms of Financial Reporting Standard No.1 (revised) from publishing a Cash Flow Statement.

20. Related Party Transactions

The Company is a wholly owned subsidiary and has taken advantage of the exemptions under Financial Reporting Standard No. 8 from disclosing related party transactions with Group entities.

EULER Trade Indemnity plc

NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1999

21. Operating lease

Annual commitments of the Group under non-cancellable operating leases are as follows:

	<u>Land and Buildings</u>		<u>Other</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	£'000	£'000	£'000	£'000
Leases which expire:				
within 1 year	1,527	1,471	1,916	2,256
within 2 - 5 years	6,109	5,883	980	2,214
after 5 years	8,909	10,050	-	-
	<u>16,545</u>	<u>17,404</u>	<u>2,896</u>	<u>4,470</u>

22 The holding company

The immediate holding company at 31 December 1999 was EULER Holdings UK PLC, which is incorporated in Great Britain and registered in England and Wales, copies of whose consolidated Financial Statements can be obtained from 1 Canada Square, London E14 5DX.

The ultimate holding company at 31 December 1999 was Allianz A. G., which is incorporated and registered in Germany, copies of whose consolidated Financial Statements can be obtained from Königinstraße 28, 80802 München, Germany..