

# **EULER Trade Indemnity plc**

**(Formerly Trade Indemnity plc)**

## **FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 1998**

**1 Canada Square  
London E14 5DX**

*Company Number 149786*



# **EULER Trade Indemnity plc**

**Year Ended 31 December 1998**

---

| <b><u>CONTENTS</u></b>            | <b><u>PAGE</u></b> |
|-----------------------------------|--------------------|
| Directors and Officers            | 1                  |
| Report of the Directors           | 2 – 5              |
| Directors' Responsibilities       | 6                  |
| Report of the Auditors            | 7 - 8              |
| Technical Account                 | 9                  |
| Non-Technical Account             | 10                 |
| Balance Sheet – Assets            | 11                 |
| Balance Sheet – Liabilities       | 12                 |
| Accounting Policies               | 13 – 15            |
| Notes to the Financial Statements | 16 – 24            |

# **EULER Trade Indemnity plc**

**DIRECTORS AND OFFICERS**  
**Year Ended 31 December 1998**

---

**DIRECTORS**

|                  |                 |
|------------------|-----------------|
| J E Lanier       | Chairman        |
| R J Benzies      | Chief Executive |
| F J M Y Aurillac |                 |
| R C Snedden      |                 |

**SECRETARY**

V G C Steadman

**AUDITORS**

PricewaterhouseCoopers  
1 Embankment Place  
London WC2N 6NN

**REGISTERED OFFICE**

1 Canada Square  
London E14 5DX

# **EULER Trade Indemnity plc**

## **REPORT OF THE DIRECTORS** **Year Ended 31 December 1998**

---

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 1998.

### **Change of Name**

The Company changed its name from Trade Indemnity plc to EULER Trade Indemnity plc on 9 March 1998.

### **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 results for the year are set out in the non-technical account on page 10. The Directors recommend the payment of a dividend of £4,400,000 (1997: £4,300,000). After declaring the above dividend a profit of £6,246,000 (1997: £9,014,000) will be retained for the year.

### **Directors**

The following served as Directors during the year:

|                  |                            |
|------------------|----------------------------|
| J E Lanier       | Appointed 1 January 1998   |
| J H Bishop       | Resigned 13 November 1998  |
| R J Benzies      |                            |
| G J Kent         | Resigned 30 September 1998 |
| R C Snedden      |                            |
| F J M Y Aurillac |                            |

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.

### **Charitable Donations**

During the year, the Company made charitable donations of £11,974 (1997:£7,744). No political donations were made.

# **EULER Trade Indemnity plc**

## **REPORT OF THE DIRECTORS (Cont'd)** **Year Ended 31 December 1998**

---

### **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.

Suppliers are paid centrally for the UK Group by EULER Trade Indemnity plc 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 1998 were 11 days (1997: 15 days), calculated in accordance with the Companies Act 1985.

### **Year 2000**

Many computer systems express dates using only the last two digits of the year. These systems require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. The operation of our business depends not only on our computer systems, but also to some degree on those of certain other parties. There is, therefore, an exposure to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues.

# **EULER Trade Indemnity plc**

## **REPORT OF THE DIRECTORS (Cont'd)** **Year Ended 31 December 1998**

---

### **Year 2000 (Cont'd)**

In 1997, the Group established a Year 2000 compliance project committee with a membership from across the business under the chairmanship of the Chief Executive Officer designed to address the impact of the year 2000 on the Group's businesses. The Board of Directors is regularly updated on progress by the project committee, which is controlling the exercise.

As part of the exercise, an analysis of significant risks has been performed to determine the impact of the issue on our activities. From this, prioritised action plans have been developed that are designed to address the key risks in advance of critical dates and without disruption to the underlying business activities. Priority is being given to those systems that could cause a significant financial or legal impact on the Group's business if they were to fail. The plan also includes a requirement for the testing of all business critical systems.

The risk analysis also considers the impact on our business of the year 2000 related failures by other parties.

The total cost, including incremental costs and replacement expenditure, to modify our computer hardware and software is estimated at £6.2m. Of this £6.0m had been incurred by the end of 1998 and the remaining £0.2m will be incurred in 1999.

In addition to the risk posed by systems failures within the Group, or within third parties on which the Group 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 Group has 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 Group 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 1998**

---

## **Directors' & Officers' Liability Insurance**

The Company has purchased and maintains insurance for its Directors and Officers against liability for negligence, default, breach of duty or breach of trust in relation to the Company.

## **Auditors**

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as 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

**16 JUN 1999**

# **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 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 1998. 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 including as described on page 6 the financial statements. Our responsibilities, as independent auditors, are established 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 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 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.

### **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 an equalisation reserve. The nature of equalisation reserves, the amount set aside at 31 December 1998, 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 affairs of the Company as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*

**PricewaterhouseCoopers**  
Chartered Accountants & Registered Auditors,  
London

21 JUN 1999

# EULER Trade Indemnity plc

## TECHNICAL ACCOUNT – GENERAL BUSINESS Year Ended 31 December 1998

|                                                 | <u>Notes</u> | <u>1998</u><br>£'000 | <u>Restated</u><br><u>1997</u><br>£'000 |
|-------------------------------------------------|--------------|----------------------|-----------------------------------------|
| Gross premiums written                          |              | 162,960              | 158,451                                 |
| Outwards reinsurance premiums                   |              | (76,594)             | (77,198)                                |
| <b>Net premiums written</b>                     |              | <b>86,366</b>        | <b>81,253</b>                           |
| Change in gross provision for unearned premiums |              | 1,020                | 4,141                                   |
| Change in reinsurers' share                     |              | (5,040)              | (4,319)                                 |
| Change in net provision for unearned premiums   |              | (4,020)              | (178)                                   |
| <b>Earned premiums, net of reinsurance</b>      |              | <b>82,346</b>        | <b>81,075</b>                           |
| Other technical income - information charges    |              | 4,850                | 4,484                                   |
|                                                 |              | <b>87,196</b>        | <b>85,559</b>                           |
| Gross claims paid                               |              | (59,246)             | (75,298)                                |
| Reinsurers' share                               |              | 24,555               | 37,005                                  |
| <b>Net claims paid</b>                          |              | <b>(34,691)</b>      | <b>(38,293)</b>                         |
| Change in gross provision for claims            |              | (33,667)             | (8,314)                                 |
| Reinsurers' share                               |              | 15,742               | (1,222)                                 |
| Change in net provision for claims              |              | (17,925)             | (9,536)                                 |
| <b>Claims incurred, net of reinsurance</b>      |              | <b>(52,616)</b>      | <b>(47,829)</b>                         |
| Net operating expenses                          | 2            | (48,786)             | (36,399)                                |
| Change in equalisation provision                | 12           | 10,966               | 1,664                                   |
| <b>Balance on the technical account</b>         |              | <b>(3,240)</b>       | <b>2,995</b>                            |

# EULER Trade Indemnity plc

## NON-TECHNICAL ACCOUNT Year Ended 31 December 1998

|                                                             | <u>Notes</u> | <u>1998</u><br>£'000 | <u>Restated</u><br><u>1997</u><br>£'000 |
|-------------------------------------------------------------|--------------|----------------------|-----------------------------------------|
| <b>Balance on the technical account</b>                     |              | (3,240)              | 2,995                                   |
| Investment income                                           | 3            | 7,607                | 6,578                                   |
| Realised gains on investments                               |              | 3,251                | 10,181                                  |
| Unrealised gains on investments                             |              | 5,462                | 2,617                                   |
| Unrealised losses on investments                            |              | (918)                | (2,944)                                 |
| Investment expenses and charges                             |              | (212)                | (299)                                   |
|                                                             |              | 15,190               | 16,133                                  |
| Profit on disposal of shares in subsidiary company          |              | -                    | 3,875                                   |
| Share of associated companies profits/(losses)              |              | 15                   | (114)                                   |
| Provision for Year 2000 Costs                               |              | -                    | (4,950)                                 |
|                                                             |              | 11,965               | 17,939                                  |
| Other Charges                                               |              | (385)                | (885)                                   |
| <b>Profit on ordinary activities before taxation</b>        |              | 11,580               | 17,054                                  |
| Tax on profit on ordinary activities                        | 4            | (934)                | (3,740)                                 |
| <b>Profit on ordinary activities for the financial year</b> |              | 10,646               | 13,314                                  |
| Dividend                                                    |              | (4,400)              | (4,300)                                 |
| Retained profit for the year                                |              | 6,246                | 9,014                                   |
| Retained profit brought forward                             | 10           | 30,043               | 21,029                                  |
| <b>Retained profit carried forward</b>                      |              | 36,289               | 30,043                                  |

The results above are all derived from continuing operations.

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

There is no material difference between the profit as reported and on an historical cost basis.

# EULER Trade Indemnity plc

## BALANCE SHEET

Year Ended 31 December 1998

|                                                  | Notes | 1998<br>£'000  | Restated<br>1997<br>£'000 |
|--------------------------------------------------|-------|----------------|---------------------------|
| <b>ASSETS</b>                                    |       |                |                           |
| <b>Investments</b>                               |       |                |                           |
| Investment in associated undertaking             | 5     | 2,330          | 2,315                     |
| Other financial investments                      | 6     | 139,043        | 129,767                   |
|                                                  |       | 141,373        | 132,082                   |
| <b>Reinsurers' share of technical provisions</b> |       |                |                           |
| Provision for unearned premiums                  |       | 22,872         | 27,912                    |
| Claims outstanding                               |       | 87,566         | 71,824                    |
|                                                  |       | 110,438        | 99,736                    |
| <b>Debtors</b>                                   |       |                |                           |
| Arising out of direct insurance operations       |       | 11,162         | 11,154                    |
| Arising out of reinsurance operations            |       | 1,486          | 1,014                     |
| Pipeline premiums                                |       | 54,153         | 56,805                    |
| Pipeline reinsurance commission                  |       | 6,937          | 15,063                    |
| Due from parent company                          |       | 223            | 15                        |
| Due from fellow subsidiary undertaking           |       | 2,440          | 2,298                     |
| Taxation recoverable                             |       | 2,902          | 2,807                     |
|                                                  |       | 79,303         | 89,156                    |
| <b>Other assets</b>                              |       |                |                           |
| Tangible assets                                  | 7     | 9,145          | 7,242                     |
| Cash at bank and in hand                         |       | 13,038         | 5,608                     |
|                                                  |       | 22,183         | 12,850                    |
| <b>Prepayments and accrued income</b>            |       |                |                           |
| Accrued interest                                 |       | 466            | 382                       |
| Deferred acquisition costs                       |       | 9,361          | 9,701                     |
|                                                  |       | 9,827          | 10,083                    |
| <b>TOTAL ASSETS</b>                              |       | <b>363,124</b> | <b>343,907</b>            |

# EULER Trade Indemnity plc

**BALANCE SHEET (Cont'd)**  
**Year Ended 31 December 1998**

| <b>LIABILITIES</b>                                          | <b>Notes</b> | <b>1998<br/>£'000</b> | <b>Restated<br/>1997<br/>£'000</b> |
|-------------------------------------------------------------|--------------|-----------------------|------------------------------------|
| <b>Capital and reserves</b>                                 |              |                       |                                    |
| Called up share capital                                     | 8            | 6,709                 | 6,709                              |
| Share premium account                                       | 9            | 33,067                | 33,067                             |
| Profit and loss account                                     | 10           | 36,289                | 30,043                             |
| <b>Shareholders' funds attributable to equity interests</b> | 11           | 76,065                | 69,819                             |
| <b>Technical provisions</b>                                 |              |                       |                                    |
| Provision for unearned premiums                             |              | 56,120                | 57,140                             |
| Claims outstanding                                          |              | 159,904               | 126,237                            |
| Equalisation provision                                      | 12           | -                     | 10,966                             |
|                                                             |              | 216,024               | 194,343                            |
| <b>Provision for other charges - deferred tax</b>           | 13           | 1,409                 | -                                  |
| <b>Creditors</b>                                            |              |                       |                                    |
| Arising out of direct insurance operations                  | 14           | 13,004                | 17,418                             |
| Arising out of reinsurance operations                       |              | 5,273                 | 3,241                              |
| Reinsurers' share of pipeline premiums                      |              | 20,519                | 24,757                             |
| Pipeline brokerage                                          |              | 6,164                 | 7,410                              |
| Proposed dividend                                           |              | 4,400                 | 4,300                              |
| Other creditors including taxation and social security      |              | 3,990                 | 9,270                              |
| Due to parent company                                       |              | 2,570                 | 135                                |
| Due to fellow subsidiary undertaking                        |              | 5,520                 | 2,867                              |
|                                                             |              | 61,440                | 69,398                             |
| <b>Accruals and deferred income</b>                         |              |                       |                                    |
| Reinsurance commission unearned                             |              | 8,186                 | 10,347                             |
| <b>TOTAL LIABILITIES</b>                                    |              | <b>363,124</b>        | <b>343,907</b>                     |

Approved by the Board of Directors.

16 JUN 1999

**J E Lanier**  
Chairman




**R J Benzies**  
Chief Executive

16 JUN 1999

# **EULER Trade Indemnity plc**

## **ACCOUNTING POLICIES**

**Year Ended 31 December 1998**

---

### **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.

### **Change in Accounting Policy**

The Company changed its accounting policy for inwards reinsurance business from a fund accounting basis to an annual basis. The policy is now in accordance with the accounting for the company's direct general insurance business. The effect of this change in policy is explained in note 10. Comparative figures have been restated as appropriate.

### **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 receivable or notified to the Group.

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.

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.

Non insurance business is accounted for on an historical basis

# **EULER Trade Indemnity plc**

## **ACCOUNTING POLICIES (Cont'd)** **Year Ended 31 December 1998**

---

### **Unexpired Risk Provision**

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.

### **Interest in Associated Undertaking**

Shares in associated undertakings are included at the Company's share of net assets.

### **Translation of Currency**

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the balance sheet date. 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 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, principally four years.

### **Investments**

Listed investments are shown at market value. Unlisted investments were 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.

# **EULER Trade Indemnity plc**

## **ACCOUNTING POLICIES (Cont'd)** **Year Ended 31 December 1998**

---

### **Investments (Cont'd)**

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. All unrealised gains and losses are included in the non-technical account.

### **Equalisation Provision**

An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 in relation to credit and suretyship business to mitigate exceptional high claims' ratios for classes of business displaying a high degree of claims volatility.

### **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 1998

| 1. Profit before taxation                                     | <u>1998</u>       | <u>1997</u>       |
|---------------------------------------------------------------|-------------------|-------------------|
|                                                               | £'000             | £'000             |
| Profit before taxation is stated after charging or crediting: |                   |                   |
| (a) Depreciation                                              | 3,695             | 2,755             |
| (b) Profit on disposal of fixed assets                        | 174               | 91                |
| (c) Finance lease charges                                     | 159               | 152               |
| (d) Operating lease rentals - plant and machinery             | 1,862             | 1,993             |
| - land and buildings                                          | 245               | -                 |
|                                                               | <u>          </u> | <u>          </u> |

(e) Prior years' claims provisions

(Underprovisions)/overprovisions 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>1998</u>    | <u>1997</u>  |
|-------------------------|----------------|--------------|
|                         | £'000          | £'000        |
| Gross Claims Provisions | (8,219)        | 10,811       |
| Reinsurers' share       | 6,405          | (6,043)      |
|                         | <u>(1,814)</u> | <u>4,768</u> |

2. Net operating expenses

Net operating expenses comprise:

|                                      |                 |                 |
|--------------------------------------|-----------------|-----------------|
| Management expenses                  | (37,046)        | (35,678)        |
| Brokerage on direct insurance        | (21,694)        | (16,937)        |
| Reinsurance commission               | 17,095          | 26,514          |
| Acquisition costs                    | (7,216)         | (10,020)        |
| Change in deferred acquisition costs | 75              | (278)           |
|                                      | <u>(48,786)</u> | <u>(36,399)</u> |

# EULER Trade Indemnity plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

### 3. Investment income

|                                         |              |              |
|-----------------------------------------|--------------|--------------|
| Investment income comprises:            | <u>1998</u>  | <u>1997</u>  |
|                                         | £'000        | £'000        |
| Loss on disposal of investment property | -            | (408)        |
| Income from land and buildings          | -            | 611          |
| Income from other investments           | <u>7,607</u> | <u>6,375</u> |
|                                         | <u>7,607</u> | <u>6,578</u> |

### 4. Taxation

Taxation charged in the non-technical account comprises:

|                                                    |                |                |
|----------------------------------------------------|----------------|----------------|
| UK corporation tax at 31% (1997:31.5%)             | 788            | (2,560)        |
| Taxation on franked investment income              | <u>(313)</u>   | <u>(1,180)</u> |
|                                                    | 475            | (3,740)        |
| Deferred taxation on unrealised gains for the year | <u>(1,409)</u> | <u>-</u>       |
|                                                    | <u>(934)</u>   | <u>(3,740)</u> |

### 5. Investment in associated undertaking

|                                  | Current Value |              | Cost         |              |
|----------------------------------|---------------|--------------|--------------|--------------|
|                                  | <u>1998</u>   | <u>1997</u>  | <u>1998</u>  | <u>1997</u>  |
|                                  | £'000         | £'000        | £'000        | £'000        |
| Shares in associated undertaking | <u>2,330</u>  | <u>2,315</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. The current value represents the Company's share of net assets and post-acquisition reserves, accounted for using the equity method of accounting.

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 this Company representing 100% of that class of shares. Both Class A and Class B confer equal rights.

# EULER Trade Indemnity plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

| 6. Other financial investments         | Market Value   |                | Cost           |                |
|----------------------------------------|----------------|----------------|----------------|----------------|
|                                        | <u>1998</u>    | <u>1997</u>    | <u>1998</u>    | <u>1997</u>    |
|                                        | £'000          | £'000          | £'000          | £'000          |
| Ordinary shares - listed               | 54,063         | 47,506         | 42,251         | 41,140         |
| - unlisted                             | -              | -              | 27             | 27             |
| Unit trusts - listed                   | 4,970          | 4,884          | 5,070          | 5,000          |
| British government securities- listed  | -              | 59,266         | -              | 58,379         |
| Foreign government securities-listed   | -              | 1,077          | -              | 1,046          |
| Certificates of Deposits - unlisted    | 65,191         | -              | 65,191         | -              |
| Staff mortgages                        | 62             | 93             | 62             | 93             |
|                                        | <u>124,286</u> | <u>112,826</u> | <u>112,601</u> | <u>105,685</u> |
| Cash deposits with credit institutions | 14,757         | 16,941         | 14,757         | 16,941         |
|                                        | <u>139,043</u> | <u>129,767</u> | <u>127,358</u> | <u>122,626</u> |

All listed investments are traded on recognised exchanges.

# EULER Trade Indemnity plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

### 7. Tangible assets

| Tangible assets comprise:  | <u>Motor<br/>Vehicles</u> | <u>Equipment</u> | <u>Tenants<br/>Improvements</u> | <u>Total</u>  |
|----------------------------|---------------------------|------------------|---------------------------------|---------------|
|                            | £'000                     | £'000            | £'000                           | £'000         |
| Cost at 01.01.98           | 1,856                     | 6,265            | 4,864                           | 12,985        |
| Additions                  | 734                       | 5,072            | 56                              | 5,862         |
| Disposals                  | (789)                     | (1,341)          | -                               | (2,130)       |
| Cost at 31.12.98           | <u>1,801</u>              | <u>9,996</u>     | <u>4,920</u>                    | <u>16,717</u> |
| Depreciation at 01.01.98   | 1,040                     | 3,434            | 1,269                           | 5,743         |
| Disposals                  | (586)                     | (1,270)          | (10)                            | (1,866)       |
| Charge for year            | 440                       | 2,544            | 711                             | 3,695         |
| Depreciation at 31.12.98   | <u>894</u>                | <u>4,708</u>     | <u>1,970</u>                    | <u>7,572</u>  |
| Net Book Value at 31.12.98 | <u>907</u>                | <u>5,288</u>     | <u>2,950</u>                    | <u>9,145</u>  |
| Net Book Value at 31.12.97 | <u>816</u>                | <u>2,831</u>     | <u>3,595</u>                    | <u>7,242</u>  |

Assets held under finance leases of £1,801,000 (1997: £1,792,000) are included in motor vehicles at cost. Accumulated depreciation on leased assets was £894,000 (1997: £977,000). Depreciation on leased assets of £440,000 (1997: £448,000) has been charged to the technical account for the year.

### 8. Called up share capital

| At 01.01.98 and 31.12.98:          | <u>Number of<br/>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>1998<br/>£'000</u> | <u>1997<br/>£'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 1998

| 10. Profit and loss reserves        | 1998   | Restated<br>1997 |
|-------------------------------------|--------|------------------|
|                                     | £'000  | £'000            |
| As previously reported at 1 January |        | 20,808           |
| Prior year adjustment               |        | 221              |
| As restated at 1 January            | 30,043 | 21,029           |
| Retained profit for the year        | 6,246  | 9,014            |
| At 31 December                      | 36,289 | 30,043           |

The prior year adjustment of £221,000 is made as a result of the change in method of accounting for inwards business from a fund accounting basis to an annual basis and is adjusted to opening reserves. The £221,000 represents the net profit release on the open underwriting years 1996 and prior.

The effect of the change in accounting policy in 1997 is to increase the profit before taxation by £493,000 from £16,561,000 to £17,054,000.

The effect on 1998 is to increase profit before taxation by £147,000 from £11,433,000 to £11,580,000.

### 11. Reconciliation of movements in Shareholders' funds

|                                     |         |         |
|-------------------------------------|---------|---------|
| Profit for the financial year       | 10,646  | 13,314  |
| Dividend                            | (4,400) | (4,300) |
| Net addition to Shareholders' funds | 6,246   | 9,014   |
| Opening Shareholders' funds         | 69,819  | 60,584  |
| Prior year adjustment               | -       | 221     |
| Closing Shareholders' funds         | 76,065  | 69,819  |

### 12. Equalisation provision

|                               |          |         |
|-------------------------------|----------|---------|
| Opening provision             | 10,966   | 12,630  |
| Transfer to technical account | (10,966) | (1,664) |
| Closing provision             | -        | 10,966  |

# EULER Trade Indemnity plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

### 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, amounting to £10,966,000 (1997: £1,664,000), resulted in an increase in the general business technical account result and the profit before taxation. The transfer from equalisation provisions during the year reduced these provisions at the balance sheet date to Nil.

### 13. Deferred taxation

|                   | <u>1998</u>  | <u>1997</u> |
|-------------------|--------------|-------------|
|                   | £'000        | £'000       |
| Opening provision | -            | -           |
| Charge in year    | <u>1,409</u> | <u>-</u>    |
| Closing provision | <u>1,409</u> | <u>-</u>    |

Deferred taxation comprises the tax liability on unrealised investment gains.

### 14. Insurance creditor

|                                                            | <u>1998</u>   | <u>Restated</u><br><u>1997</u> |
|------------------------------------------------------------|---------------|--------------------------------|
|                                                            | £'000         | £'000                          |
| Payable within one year:                                   |               |                                |
| Arising out of direct insurance operations                 | 11,809        | 16,340                         |
| Finance lease creditors                                    | <u>426</u>    | <u>730</u>                     |
|                                                            | 12,235        | 17,070                         |
| Payable after more than one year but less than five years: |               |                                |
| Finance lease creditors                                    | <u>769</u>    | <u>348</u>                     |
|                                                            | <u>13,004</u> | <u>17,418</u>                  |

# EULER Trade Indemnity plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year Ended 31 December 1998

### 15. Directors' remuneration

Directors' fees amounting to £30,000 were paid during the year (1997 : NIL).

|                       | <u>1998</u>  | <u>1997</u>  |
|-----------------------|--------------|--------------|
|                       | £'000        | £'000        |
| Directors' emoluments |              |              |
| Emoluments            | 1,874        | 1,803        |
| Pension contributions | 245          | 178          |
|                       | <u>2,119</u> | <u>1,981</u> |

The highest paid Director's emoluments including pension contributions were £1,260,000 (1997: £506,000). The accrued pension entitlement of the highest paid Director at 31 December 1998 was £5,604 (1997: £24,426). Two Directors are members of the Company Defined Benefit Pension Scheme and benefits accrued to them during 1998 under that Scheme amounted to £28,464 (1997: £89,961).

### 16. Staff numbers and costs

The monthly average number of employees of the Company during 1998 was 404 (1997: 457), analysed as follows:

| <u>Average number of staff</u> | <u>1998</u> | <u>1997</u> |
|--------------------------------|-------------|-------------|
| Underwriting                   | 143         | 153         |
| Inwards reinsurance            | 3           | 3           |
| Other                          | 258         | 301         |
|                                | <u>404</u>  | <u>457</u>  |

|                       | <u>1998</u>   | <u>1997</u>   |
|-----------------------|---------------|---------------|
| <u>Staff Costs</u>    | £'000         | £'000         |
| Wages and salaries    | 14,187        | 13,921        |
| Social security costs | 1,286         | 1,147         |
| Other pension costs   | 2,464         | 2,250         |
|                       | <u>17,937</u> | <u>17,318</u> |

# **EULER Trade Indemnity plc**

## **NOTES TO THE FINANCIAL STATEMENTS (Cont'd)** **Year Ended 31 December 1998**

---

### **17. Auditors' remuneration**

Auditors' remuneration in respect of audit services amounting to £146,700 (1997: £132,700) has been charged to expenses during the year.

Auditors' remuneration for non-audit services during the year was £172,804 (1997: £90,095).

### **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 £2,464,000 (1997: £2,250,000). 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 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.

### **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 1998

---

### 21. Operating lease

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

|                      | <u>Land and Buildings</u> |               | <u>Other</u> |              |
|----------------------|---------------------------|---------------|--------------|--------------|
|                      | 1998                      | 1997          | 1998         | 1997         |
|                      | £'000                     | £'000         | £'000        | £'000        |
| Leases which expire: |                           |               |              |              |
| within 1 year        | 1,471                     | 245           | 2,256        | 2,058        |
| within 2 - 5 years   | 5,883                     | 5,883         | 2,214        | 4,116        |
| after 5 years        | 10,050                    | 11,521        | -            | -            |
|                      | <u>17,404</u>             | <u>17,649</u> | <u>4,470</u> | <u>6,174</u> |

### 22. The holding company

The immediate holding company at 31 December 1998 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 1998 was Allianz A. G., which is incorporated and registered in Germany, copies of whose consolidated financial statements can be obtained from Koniginstrasse 28, 80802 München, Germany.