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Swiss Re

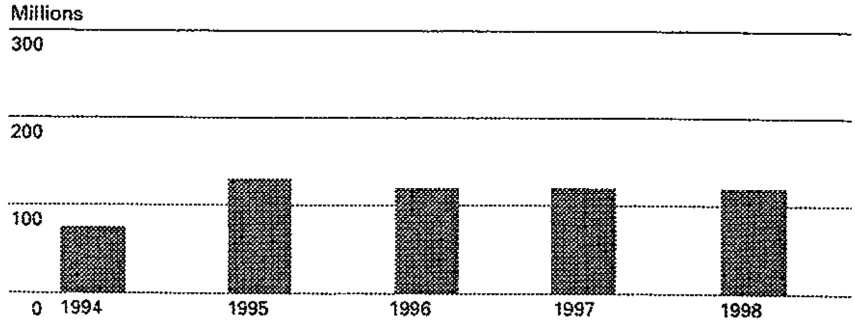
Swiss Reinsurance Company UK Limited
Annual Report 1998

Contents

Financial Highlights
(excluding long term business)

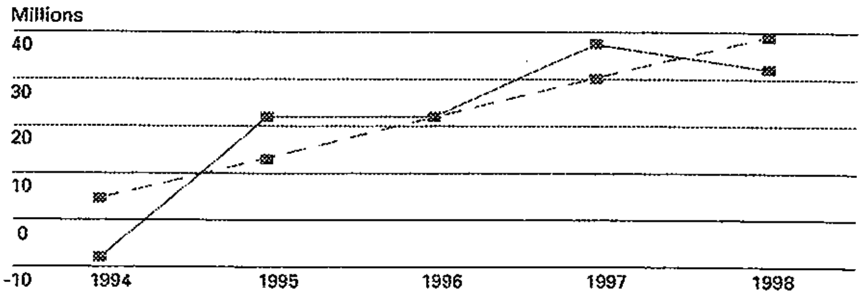
In both 1995 and 1996 the company progressively reduced the amount retroceded to its ultimate parent under quota share arrangements. As a result general business net premiums have increased substantially over the preceding 1992-1994 period. The reduction in premium in 1997 and 1998 arises from the soft market conditions evident in those years.

Net premiums written



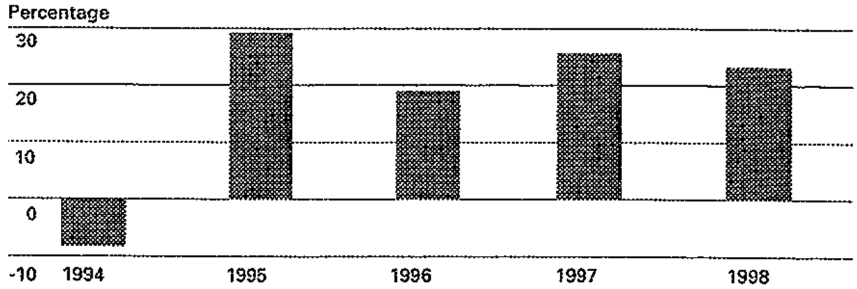
The ordinary result after taxation reflects both the operating and investment results. The trend has been one of a progressive increase in the ordinary result, although 1998 has seen a slight % decline.

Ordinary result after taxation



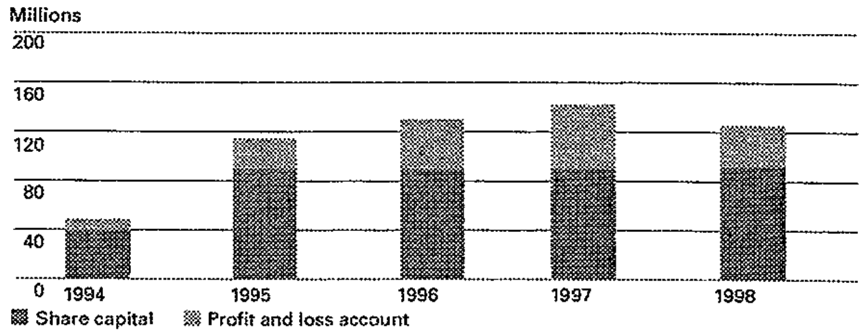
The company has a medium term target return on equity of 15% after tax which has been achieved in each of the last four years.

Return on equity after tax



A £50 million share capital injection in 1995 increased total issued share capital to £91 million. Earnings have increased substantially in the latter years and this has been accompanied by increased dividends, £24.1m for 1997 and £47.0m for 1998.

Shareholder's funds



Chairman's Statement

Allan Bridgewater

London Underwriting Centre

Introduction

These financial statements for Swiss Re UK concentrate for the first time purely on non life activities. All life and health business has been transferred to a new company, Swiss Re Life & Health Limited, which also incorporates the life and health business of The Mercantile & General Reinsurance Company Limited. This operation is based in London and produces separate financial statements. For comparability, the 1997 figures on pages 37-39 have been restated. You will notice that we have introduced a new style to our reporting to improve the transparency of the company's activities and to provide more information about our operations.

I believe 1998 is likely to be regarded as a watershed in the fortunes of Swiss Re UK. Together with our parent company in Zurich, at the end of last year we completed a strategic review of our market-place and of Swiss Re's positioning within it. Further information about the outcome of that review is presented elsewhere in this report, but one immediate result is that Swiss Re UK has significantly revised its operating philosophy, its organisational structure, and it has introduced a new executive management team. The full impact of these changes will take some time to be felt, but the company is already seeing the benefit of a sharper client focus.

Market Conditions

As regards external influences, in 1998 the insurance and reinsurance markets were again characterised by an abundance of capacity and extremely competitive trading conditions. There was an increase in attritional losses in the property market, and hurricanes Georges and Mitch proved costly in the Caribbean region. However, even this significant uplift in claims experience was insufficient to prompt any realistic hardening of rates which is so obviously necessary.

The Lloyd's market recovered much of its former self-confidence, and merger and acquisition activity continued apace amongst insurers, reinsurers and brokers. An increasingly polarised market-place is a demanding environment in which to operate, but it is creating some unique business opportunities.

Overall financial performance

Given the difficult business climate outlined above, I am pleased to be able to report that Swiss Re UK produced operating profits of £19.9 million (1997: £18.3 million) on gross premiums of £114.6 million (1997: £134.1 million). As a consequence of this performance and the net investment result, the Board has proposed and paid a dividend of £47.0 million (1997: £24.1 million) for the full year.

Swiss Re House, London


Swiss Re Management

Integration of Union Re business
Following the Swiss Re Group's implementation of a more explicitly divisional organisation, coupled with a decision to focus on its Swiss Re core brand, Union Re was wound up during 1998. A significant share of Union Re's portfolio of UK and Irish business was transferred to Swiss Re UK. We are grateful to our clients and brokers for their patience and understanding throughout the hand-over period, and I am pleased to report that an overwhelming majority of cedants were happy for Swiss Re UK to absorb the Union Re shares of their reinsurance protections.

Old friends, new friends
My first year as Chairman of Swiss Re UK has been an active and stimulating one from a business point of view and has also entailed a number of changes to those involved. I would like to offer my thanks and best wishes to Stephen Riley, who after a career spanning 21 years with the company, culminating in three years as Chief Executive, left Swiss Re at the end of December 1998 to pursue opportunities outside the Group.

Michael Eves, the company's non-life actuary, has very ably managed the day-to-day running of the organisation pending the appointment of our new Chief Executive, Martin Albers on 7 April 1999.

Martin joined the Swiss Re Group in 1994 and for two years headed the Product Controlling unit, which focused on monitoring product profitability for Swiss Re Zurich, reserve adequacy of Group companies and the development of the Risk Adjusted Capital concept.

In late 1996 he was appointed President and Chief Executive Officer of Swiss Reinsurance Company Canada. During 1997 he swiftly implemented the integration of the Property and Casualty unit of Mercantile & General Reinsurance Company Canada. At the same time he reorganized Swiss Re Canada to better focus on its clients with the introduction of dedicated client teams. He has already been very involved in our recent re-organisation designed to concentrate our efforts in client support and control all London Market activities here in London.

I am pleased to announce that from the beginning of this year Dr Catherine Bell and Prof Sir Colin Campbell have joined the main Swiss Re Boards in the UK as Non-Executive Directors.

Dr Catherine Bell is Head of Competition Policy and Utilities Review Team at the Department of Trade and Industry. She has spent over 20 years at the DTI and took up her present position in 1998.

Vice-Chancellor of the University of Nottingham since 1988, Sir Colin has held academic appointments at a number of other universities and has served on numerous public bodies and committees.

They both bring valuable experience and insight from their respective fields that will complement and support our current and future strategy. I am sure their contribution to the company will be considerable.

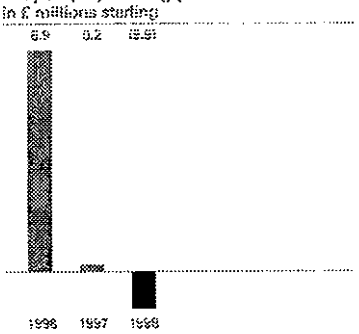
Lastly, on behalf of the Board, I would like to record thanks to each member of the team for their hard work during 1998 to ensure Swiss Re UK's continued success.

Allan Bridgewater
Chairman
23 April 1999

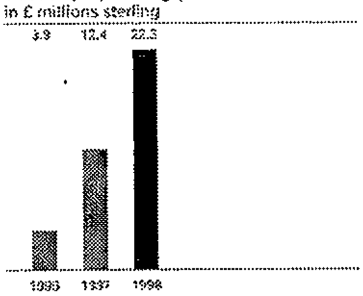
The Chief Executive's Operating and Financial Review

Martin Albers

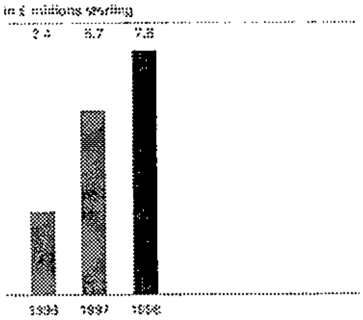
Property operating profit
in £ millions sterling



Casualty operating profit
in £ millions sterling



Marine operating profit
in £ millions sterling



The soft market conditions continued during the 1998 renewals and, in Swiss Re UK, a change in emphasis from proportional to non proportional contracts took place. Both these features impacted the premium volume reported for the year, though it is satisfactory to note that growth was seen on these lines of business selected for development. More important than volume, overall operating profits held up well during the year with a £1.6 million improvement to £19.9 million.

Property

Property business gross premium income fell by £8.7 million, primarily in proportional treaty business. This has masked the growth in the non proportional account, which grew by £7.2 million. A number of significant losses were advised during the year, notably hurricanes Georges and Mitch. However, several attritional losses were advised in the last quarter of 1998 and this has resulted in a technical underwriting loss of £21.6 million. After allocated investment income and equalisation provision this is reduced to an operating loss of £9.9 million (1997: £0.2 million profit).

Casualty

Premium volume on liability business was maintained at a level similar to that written in 1997, but a large reduction in motor proportional treaty business has resulted in the casualty account reporting gross written premiums of £37.9 million, compared with £60.7 million in 1997. Notwithstanding this, the operating result has held up particularly well at £22.3 million, an increase of £9.9 million over that achieved last year.

Marine

The marine and aviation accounts have both produced good results for 1998. Marine account gross premium volume for 1998 has been maintained at levels similar to 1997 while the aviation account has expanded by £12.0 million, on the strength of increased proportional business. Across both lines of business the operating result, at £7.5 million has improved by £1.8 million.


Michael Eves


Investment Centre, London

Reserving Philosophy

The reserving philosophy of Swiss Re UK is to maintain reserves which are expected to be sufficient for the run-off of liabilities in respect of business written up to the valuation date. These reserves consist of case reserves as notified by our cedants, additional case reserves as estimated by our client managers and IBNR reserves. The IBNR reserves are set prudently; based on past development patterns, knowledge of specified claim trends and current market conditions. Whilst there will always be uncertainty in the ultimate cost of claims we believe that the current reserves will provide for an orderly run-off of the current liabilities of the company.

Investment Result

During the course of 1998 Swiss Re concentrated its investment expertise in the major financial centres around the world. The Group operates a specific division, Swiss Re Investors, to service the investment needs of Swiss Re Group companies. In the UK, Swiss Re Asset Management Limited, under the umbrella of Swiss Re Investors, managed the company's Sterling assets, whilst its US dollar assets were managed in New York, mainland European bonds in Zurich and Irish bonds in Dublin.

Technical liabilities are generally matched with fixed interest investments, which have regard to the duration of the liabilities. Shareholder's funds are represented by major UK equities, and similar assets. The main investment markets in which we are represented were very strong in 1998, contributing to an investment return of £83.7 million (1997: £49.3 million).

In the UK Swiss Re Investors Limited recently gained IMRO authorisation for the provision of fund management services in the UK to clients outside the Swiss Re Group.

Transfer of Long Term Business

The loss after tax for the financial year, amounting to £1.2 million, arises from the transfer of the company's long term business to its sister company, Swiss Re Life & Health Limited. No consideration was received in respect of this transfer which has generated a loss of £32.2 million on long term business for the year. This was the value of net assets transferred on 1 January 1998 and is reflected in the result for the year.

Details of the transfer are given in note 27 of the financial statements. Additionally, a re-stated profit and loss account and balance sheet, excluding the long term business elements are set out on pages 37-39.

Risk and financial management at the leading edge

The development of alternative risk transfer and risk financing techniques for larger corporations and insurers continues to gather pace. Swiss Re established Swiss Re New Markets in 1997 to consolidate the Group's expertise in these fields. Swiss Re UK can draw upon these resources to offer clients risk and financial management solutions that integrate capital markets, financial and conventional reinsurance.

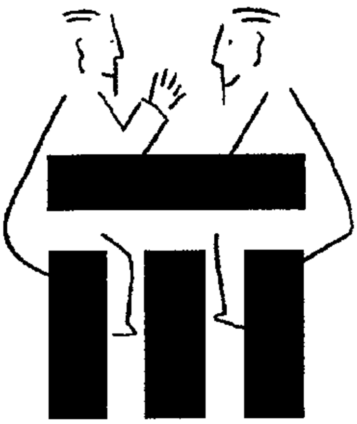
Security

The provision of first class security to our clients is of paramount importance to us. Swiss Re UK continues to benefit from an AAA "insurer financial strength rating" assigned by Standard & Poor's and in December 1998 was assigned an Aaa "insurance financial strength rating" by Moody's Investment Service.

Outlook

With the completion of the major 1999 renewals, we are not expecting a radical change in business volume in the forthcoming year. Our results will be determined by the severity of claims experience and the level of investment returns. The surest thing to predict about both of these factors is that their capacity to surprise will remain undiminished in 1999.

The insurance environment continues to be influenced by consolidation and realignment, making business development ever more challenging. However, this changing scene also presents interesting commercial opportunities and it is on these that the company will focus during 1999.



Looking back, looking forward

Reorganising to face the future

The UK and Irish domestic reinsurance markets are very significant ones for Swiss Re. There are many interesting developments occuring in Lloyd's and the market continues to evolve simultaneously along several dimemsions. More widely, new centres have arisen to challenge London's pre-eminence in the international insurance market, but London's unique advantages mean it remains an important hub in the global risk transfer network. As mentioned in the Chairman's Statement, during 1998 we concluded a comprehensive strategic review of current trends in all these markets and assessed the best positioning for Swiss Re within them.

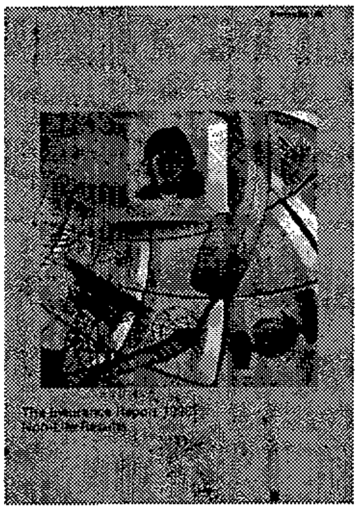
As a result of this review we have reorganised our internal structures with the objective of making our client focus unequivocal and our service delivery seamless. We are changing from a product line orientation and have introduced a new client management approach. A crucial objective for the immediate future is for the staff in Swiss Re UK to breathe life into this revised structure. We will make solving client problems the central tenet of our corporate culture.

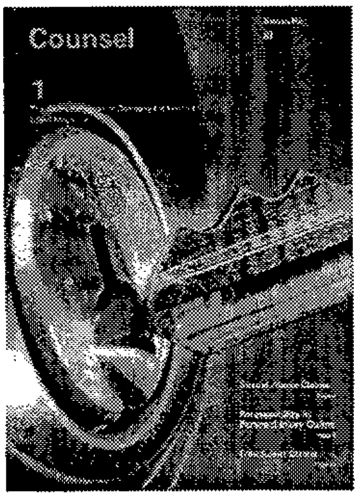
Our Client Managers are the focal point for access to the entire range of Swiss Re's products and services. Each one is dedicated to serving the interests of a particular market segment and, to do so, can draw upon the Swiss Re Group's expertise and resources in London, Zurich and beyond.

Client services

We have aimed for many years to offer more than just underwriting services. For example, we recognise that we need to have the highest quality administrative skills to support our clients and have long invested in market professionals to staff our claims management and technical accounting teams. This tradition of exemplary client service gives us a platform on which to build an even more customer orientated operation.

In an interesting new development, we are working closely with a small number of key clients to design and implement a more proactive approach to the management of claims arising from insureds with catastrophic injuries. Our hope is that we can find mechanisms for improving the recovery prospects of individuals in these unfortunate cases whilst offering cost efficiencies for our cedants. Although decidedly at the prototype stage at the moment, this project has significant potential.


1998 Insurance Report



Counsel Newsletter

Our claims and administrative staff represent a collective store of vast knowledge and experience in all classes of treaty and facultative business. Drawing upon these skills, we have just published the first of what we hope will become a regular series of client newsletters under the 'Counsel' banner. This first edition dealt primarily with the implications for liability insurers of recent legal cases. Future issues will tackle subjects from other lines of business and related matters of wider importance.

Swiss Re has long been associated with the publication of high quality original research and analysis on technical issues. The award-winning Sigma reports are one conduit for this research and our extensive distribution list shows just how well received they are within the financial services industry. The Swiss Re Insurance Report generates insights on current risk management and insurance buying behaviour amongst UK consumers and small businesses. Our business partners can order all Swiss Re publications through our home page on the Internet (see http://www.swissre.com). If required, individual company presentations on particular topics can be organised.

Going forward, we will seek to build on the success of our 1998 client conference. That event brought together over 70 senior members of the industry for presentations and discussions on the strategic outlook for the UK Insurance market.

Swiss Re Group Year 2000 Statement
The Swiss Re Group recognises the Year 2000 problem as a top priority business issue. Group and local management has addressed the millennium question accordingly in all critical areas. Full details on Swiss Re's approach to Year 2000 issues can be found at page 10.

Human Resources
During the forthcoming year, Swiss Re UK will introduce a Management by Objectives programme to enable the staff to optimise their contribution towards the success of our new client focused organisation. We will also introduce a number of mechanisms to support achievement of our strategic objectives including a behavioural framework and management development programme.

Swiss Re UK is a committed adherent to the concept of continuous learning for its staff and there are numerous support schemes in place to encourage people to study for professional and other qualifications.

I would like to express my personal thanks to all staff for their hard work and commitment during the last year. Looking forward, I am confident that through our collective efforts we are building a more successful organisation that will benefit our business partners, shareholders and staff alike.

Martin Albers
Chief Executive Officer
23 April 1999

Swiss Re Group Year 2000 Statement

The Swiss Re Group recognises the Year 2000 problem as a top priority business issue. Group and local management has addressed the millennium question accordingly in all critical areas.

Swiss Re met its first target, achieving compliance as per the British Standards Institution's definition, for all mission-critical systems at the end of 1998. The focus in 1999 will be on the remaining, non-mission critical systems, primarily in end-user computing, residual IT-driven risk analysis and respective Year 2000-specific contingency planning.

The Swiss Re Group's IT-driven Year 2000 Project is managed by the Year 2000 Officer, who reports to the Group Information Officer and the Group IT Steering Committee. Responsibility for achieving Year 2000 compliance targets is broken down by division and location, closely following the business structure. Project managers at all levels of the IT-driven Year 2000 Project organisation work closely together with line managers responsible for addressing the non-IT issues, ie business and logistics-driven. Monthly progress reports to the Executive Board, regular externally conducted Year 2000 "health checks" at all major Swiss Re locations and a formal Year 2000 Compliance Certification Process are the controls with which Swiss Re is ensuring that it will continue to meet its IT-driven Year 2000 compliance targets in time. On the business side, the Swiss Re Group has also been addressing Year 2000-related insurance and reinsurance matters for many months. As a global concern, trading in the risk management and finance arena, we are looking at a multitude of diverse challenges.

Swiss Re experts have explored the technical issues and the relevant insurance and reinsurance implications. Summaries of their findings are available in printed form, as well as on the Internet. Dialogue with clients and insurance associations continues to ensure that the knowledge base and experience with the Year 2000 phenomenon are expanded in support of the development of loss prevention strategies and tools and to generally raise the level of awareness.

Our findings have influenced both the risks assumption by Swiss Re and Swiss Re's portfolio risk assessment. Where clients have demonstrated that they have taken all necessary measures to successfully limit their exposures to losses and the appropriate underwriting criteria have been satisfied, we are prepared in principle to maintain existing coverage, subject to changes in retention levels and other terms and conditions, as may be appropriate. In all other instances, we are committed to working with our clients on a case-by-case basis to achieve satisfactory solutions.

Directors and Officers

April 1999

Board of Directors	Allan Bridgewater, CBE, ACII	Chairman
	Brian T G Prevost	Deputy Chairman
	Martin Albers	Director
	Dr Catherine Bell	Director
	Prof Sir Colin Campbell	Director
	John R Coomber, FIA	Group Executive Board Member
	Rudolf Kellenberger	Group Executive Board Member
	Walter B Kielholz	Group Chief Executive Officer
Company Secretary	Sheree D Whatley, ACA	

Executive Management Team	Martin Albers	Chief Executive Officer
	Andreas Bachofner	Client Team Manager (International Treaty)
	Frédéric A Elsaesser	Chief Operating Officer
	Michael J Eves, FIA	Actuary
	Roger Halms, ACII	Client Team Manager (London Commercial)
	Chris Kaegi	Client Team Manager (UK and Irish Personal Lines)
	Robert S Pierson, FCII	Client Team Manager (Marine)
	Keith Selby	Client Team Manager (Aviation)
	Sheree D Whatley, ACA	Chief Financial Officer
	Walter Wild	Client Team Manager (Globals)

Auditors

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY

Registered Office

71-77 Leadenhall Street
London EC3A 3DE
Telephone 0171 623 3456
Fax 0171 929 4282

Company Registration Number 953475

Directors' Report

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

Principal activity and review of the business

Following the transfer of its life and health business to Swiss Re Life & Health Limited, the principal activity of the company continues to be the transaction of all classes of general reinsurance business.

Directors

The names of the current Directors are listed on page 11. All held office throughout the year with the exceptions of Dr Catherine Bell and Prof Sir Colin Campbell who were appointed on 1 January 1999 and Mr Martin Albers who was appointed on 23 April 1999. Mr Ron Bishop and Mr Tom Roberts CBE served as Chairman and Director respectively until their retirements on 24 April 1998. Mr Allan Bridgewater was appointed Chairman on 24 April 1998. Mr Stephen Riley resigned from the Board and as Managing Director with effect from 31 December 1998. None of the Directors held any disclosable interest in the shares of the company, its immediate holding company or any of its subsidiary companies during the year.

Executive Management

Mr Martin Albers was appointed Chief Executive Officer with effect from 7 April 1999. Mr Michael Eves was Acting Chief Executive Officer from 1 January 1999 until 6 April 1999.

Results and Dividends

The results for the year are set out on pages 17 to 20. A first interim dividend of £3,000,000 was paid on 31 December 1998 on the ordinary shares for 1998 (1997: £3,000,000). A second interim dividend of £43,500,000 was paid on 30 March 1999 on the ordinary shares for 1998 (1997: £ nil). The Directors recommend no further dividends be declared on the ordinary shares for 1998 and that the second interim dividend be declared the final dividend (1997: £20,600,000). An interim dividend of £500,000 was paid on 30 March 1999 on the 10% partly cumulative preference shares for 1998 (1997: £ nil). There being no further dividend due the directors recommend that this be declared final (1997: £500,000).

The company has followed the recommendations of the ABI Statement of Recommended Practice of Accounting for Insurance Business which was issued in December 1998. Where necessary, corresponding amounts have been restated to reflect changes in accounting policy (see note 1).

Donations

The company made no political contributions during the year (1997: £ nil). Donations to UK charities amounted to £64,380 (1997: £35,850).

Employees

The staff are kept informed of corporate developments, both locally and throughout the Swiss Re Group, through regular briefings given by the Chief Executive Officer. These are augmented by electronic bulletin boards, information circulars and a monthly newsletter.

The company also has a formal mechanism, The Employee Liaison Group, which meets regularly to ensure staff have a forum for discussing corporate matters and issues of mutual concern with senior management. This group is elected to ensure effective employee involvement which we believe is integral to the success of our business. All the staff are encouraged to raise matters regarding the company's strategic plans and performance.

It is the company's policy to provide opportunities for employment to people who are disabled. They are given the same opportunities as other employees to progress within the company, due allowance being given for their disability, but subject to their having the necessary skills. For any member of staff who should become disabled, the company would continue their employment, retire them on disability pension, or arrange retraining, whichever is appropriate.

Suppliers payment policy

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been met.

Auditors

Following the merger of Price Waterhouse with Coopers & Lybrand on 1 July 1998, Price Waterhouse resigned as auditors and PricewaterhouseCoopers were appointed to fill the casual vacancy. PricewaterhouseCoopers have expressed their willingness to continue as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Sheree D Whatley
Company Secretary
23 April 1999

Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible 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. They are also responsible for safeguarding the assets of the company and for taking reasonable steps to prevent and detect fraud and other irregularities.

Auditors' Report

To the Members of Swiss Reinsurance Company UK Limited

We have audited the financial statements on pages 17 to 36 which have been prepared in accordance with the accounting policies set out on pages 23 to 25.

Respective responsibility of Directors and Auditors

As described on page 14 the company's Directors are responsible for the preparation of the annual report. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you as established by statute.

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.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts 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 1c) (iii).

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
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge St
London SE1 9SY

23 April 1999

Profit and Loss Account
Technical Account – General Business

For the year ended 31 December 1998

	Notes	1998 £'m	1998 £'m	1997 £'m	1997 £'m
Earned premiums, net of reinsurance					
Gross premiums written	2 (a),(b)	114.6		134.1	
Outward reinsurance premiums		(9.7)		(8.7)	
Net premiums written		104.9		125.4	
Change in the gross provision for unearned premiums		9.0		6.4	
Change in the provision for unearned premiums, reinsurers' share		(2.3)		0.4	
Net change in the provision for unearned premiums		6.7		6.8	
Earned premiums, net of reinsurance			111.6		132.2
Allocated investment return transferred from the non technical account	1(i), 5		41.5		35.9
Claims incurred, net of reinsurance					
Gross claims paid		(122.4)		(110.8)	
Reinsurers' share		18.9		11.9	
Net claims paid		(103.5)		(98.9)	
Change in the gross provision for claims		13.6		(172.2)	
Reinsurers' share		(15.6)		161.1	
Net change in the provision for claims		(2.0)		(11.1)	
Claims incurred, net of reinsurance			(105.5)		(110.0)
Net operating expenses	2(c)		(30.2)		(37.9)
Change in the equalisation provision			2.5		(1.9)
Balance on the technical account for general business			19.9		18.3

Profit and Loss Account
Technical Account – Long Term Business

For the year ended 31 December 1998

	Notes	1998 £'m	1998 £'m	1997 £'m	1997 £'m
Earned premiums, net of reinsurance					
Gross premiums written	3(a),(b)	-		92.0	
Outward reinsurance premiums		-		(19.8)	
Earned premiums, net of reinsurance			-		72.2
Investment income	5		-		25.8
Unrealised gains on investments	5		-		21.0
Other technical income, net of reinsurance	3(f)		-		0.1
Claims incurred, net of reinsurance					
Gross claims paid		-		(69.8)	
Reinsurers' share		-		26.1	
Net claims paid		-		(43.7)	
Gross change in the provision for claims		15.5		(10.1)	
Reinsurers' share		(8.0)		6.9	
Net change in the provision for claims		7.5		(3.2)	
Claims incurred, net of reinsurance			7.5		(46.9)
Change in other technical provisions, net of reinsurance					
Gross long term business provision		260.8		(45.1)	
Reinsurers' share		(68.3)		12.7	
Long term business provision, net of reinsurance		192.5		(32.4)	
Other technical provisions, net of reinsurance					
Technical provision for linked business		149.1		(10.6)	
Change in other technical provisions, net of reinsurance			341.6		(43.0)
Miscellaneous					
Bonuses and rebates, net of reinsurance		-		(4.0)	
Net operating expenses	3(e)	-		(16.5)	
Investment expenses and charges	5	-		(2.5)	
Other technical charges, net of reinsurance	3(g), 27	(381.3)		(0.1)	
Tax attributable to long term business	1(l), 9	-		(3.4)	
			(381.3)		(26.5)
Balance on the technical account for long term business			(32.2)		2.7

All the above amounts derive from discontinued activities.

Profit and Loss Account
Non Technical Account

For the year ended 31 December 1998

	Notes	1998 £'m	1998 £'m	1997 £'m	1997 £'m
Balance on the general business technical account and operating profit from continuing activities			19.9		18.3
Balance on the long term business technical account		(32.2)		2.7	
Tax attributable to balance on the long term business technical account		-		3.4	
Pre tax profit arising on long term business and operating (loss) profit from discontinued activities			(32.2)		6.1
Operating (loss) profit			(12.3)		24.4
Investment income	5	83.7		49.3	
Unrealised (losses) gains on investments	5	(8.4)		28.7	
Investment expenses and charges	5	(7.4)		(14.8)	
Allocated investment return transferred to the general business technical account	5	(41.5)		(35.9)	
Net investment return	5		26.4		27.3
Other income			-		3.2
Other charges			(6.2)		(2.6)
Profit on ordinary activities before tax	6		7.9		52.3
Tax on profit on ordinary activities	9		(9.1)		(14.2)
(Loss) profit for the financial year			(1.2)		38.1
Dividend on preference shares	10	(0.5)		(0.5)	
Dividend on ordinary shares	10	(46.5)		(23.6)	
			(47.0)		(24.1)
Retained (loss) profit for the financial year			(48.2)		14.0
Retained profit brought forward			83.8		69.8
Retained profit carried forward	18		35.6		83.8

There are no other gains or losses arising other than those reported above.

Statement of Historical Cost Profits and Losses

For the year ended 31 December 1998

	Notes	1998 £'m	1997 £'m
Profit on ordinary activities before taxation		7.9	52.3
Net unrealised losses (gains)	5	8.4	(28.7)
Historical cost profit on ordinary activities before tax		16.3	23.6
Historical cost (loss) for the year retained after tax and dividends		(35.8)	(7.8)

Balance Sheet

For the year ended 31 December 1998

Assets

	Notes	1998 £'m	1998 £'m	1997 £'m	1997 £'m
Investments					
Investments in group undertakings and participating interests	11	68.6		61.4	
Other financial investments	12	434.2		656.4	
Deposits with ceding undertakings	13	8.1		5.4	
			510.9		723.2
Assets held to cover linked liabilties	14		-		149.1
Reinsurers' share of technical provisions					
Provision for unearned premiums		2.3		4.7	
Long term business provisions	20	-		68.3	
Claims outstanding	21	339.8		366.9	
			342.1		439.9
Debtors					
Debtors arising out of reinsurance operations	15	72.4		97.2	
Other debtors	16	33.0		9.9	
			105.4		107.1
Other assets					
Cash at bank and in hand			9.1		2.5
Prepayments and accrued income					
Accrued interest and rent		4.2		8.4	
Deferred acquisition costs		8.1		29.3	
Other prepayments and accrued income		0.1		0.5	
			12.4		38.2
Total assets			979.9		1,460.0

Balance Sheet

For the year ended 31 December 1998

Liabilities

	Notes	1998 £'m	1998 £'m	1997 £'m	1997 £'m
Capital and reserves					
Called up share capital	17	91.0		91.0	
Profit and loss account	18	35.6		83.8	
Shareholder's funds					
(Including non equity interests)	19		126.6		174.8
Technical provisions					
Provision for unearned premiums		44.5		53.6	
Long term business provision		-		260.8	
Claims outstanding	21	709.1		741.6	
Equalisation provision		2.7		5.2	
			756.3		1,061.2
Technical provisions for linked liabilties			-		**149.0**
Provisions for other risks and charges					
Provisions for taxation	22	5.8		14.4	
Other provisions	23	2.9		2.3	
			8.7		16.7
Creditors					
Creditors arising out of reinsurance operations	24	17.1		31.0	
Other creditors including taxation					
and social security	25	71.2		25.9	
			88.3		56.9
Accruals and deferred income			-		1.4
Total liabilities			979.9		1460.0

The financial statements on pages 17 to 36 were approved by the Board of Directors on 23 April 1999 and were signed on their behalf by:

Allan Bridgewater
Chairman

Notes to the Financial Statements

1. Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice of Accounting for Insurance Business issued by the Association of British Insurers ("ABI SORP") dated December 1998. The accounting policies adopted reflect UK financial reporting standards and statements of accounting practice applicable at the end of the financial year, as considered appropriate for a reinsurance company.

On 1 January 1998, the company transferred the entire long term business portfolio to Swiss Re Life & Health Limited, a fellow subsidiary. As at 31 December 1997 long term business was reported as a discontinued activity. In 1998, other than the transfer, there has been no long term business activity. Details of the effects of the transfer on the balance sheet are given in note 27.

As a wholly owned subsidiary of another company incorporated in England and Wales, the company is exempt from preparing group financial statements, under Section 228 of the Companies Act 1985.

The company has availed itself of the exemption, under Financial Reporting Standard No 8, not to disclose related party transactions with entities in which 90% or more of the voting rights are controlled by the Swiss Re Group.

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements.

b) Premiums

General business premiums written reflect business incepted during the year and include adjustments to premiums written in prior financial periods and estimates for pipeline premiums.

Long term business premiums, and any related commissions, are accounted for on a receivable basis.

Outward reinsurance premiums, commissions and claims are accounted for in the same financial period as the premium for the related inwards reinsurance business.

c) General business technical provisions

i) Unearned premiums are those proportions of the premiums written in a financial year that relate to periods of risk after the balance sheet date. They are determined principally on a pro-rata basis. The costs of acquiring new insurance contracts and the renewal of existing contracts which are incurred during a financial year but which relate to a subsequent year are deferred to the extent that they relate to unearned premiums at the balance sheet date.

ii) Provision is made for the estimated cost of claims outstanding at the end of the financial year, including those incurred but not reported at that date, and for the related costs of settlement. Claims incurred comprise amounts paid or provided in respect of claims occurring during the current financial year, together with the amount by which settlement or reassessment of claims from previous financial years differs from the provision at the beginning of the financial year.

1. Accounting policies (continued)

Such provisions, although not capable of precise assessment, are made in the light of information made available by cedants, statistically based projections and technical judgement. These are the subject of on-going review and any resulting adjustments are reported in the financial year in which they are identified. Further details of adjustments made to prior years' provisions are shown in note 4.

iii) An equalisation provision has been established and calculated in accordance with the requirements of the Insurance Companies (Reserves) Act 1996 to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility. 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 of the Companies Act 1985, to be included within technical provisions.

d) General business technical result

This is determined on an annual basis and applied consistently across all classes of business.

e) Long term business technical provisions

i) The long term business provision is determined by the company's appointed actuary on the modified statutory basis using recognised actuarial methods with due regard to the actuarial principles set out in the Insurance Companies Regulations 1994. In particular, a prospective net premium valuation method has been adopted for all major classes of business, with the exception of linked contracts where the provisions are based on the market value of related assets. The overall valuation is then modified. Firstly, where the benefit of new business costs incurred will be obtained in subsequent years, such costs are deferred and systematically amortised. Secondly, certain general reserves are excluded from the provision and reported in shareholder's reserves.

ii) At the balance sheet date, provision is made for all notified claims, net of reinsurance, which have not yet been settled.

f) Investments

Listed investments are stated at mid-market value on the balance sheet date, or on the last stock exchange trading day before the balance sheet date. Other investments are valued by the Directors on a prudent basis, having regard to their realisable value. Investments in subsidiaries are included at net asset value.

g) Investment income

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Interest is accrued up to the balance sheet date.

h) Gains and losses on investments

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their average cost. Realised gains or losses represent the difference between net sale proceeds of investments and their average cost.

1. Accounting policies (continued)

i) Allocation of investment return
Investment income, gains and losses (realised and unrealised), investment expenses and charges arising on investments attributed to shareholder's and general business funds, are reported in the non technical account. An allocation is made from the non technical account to the general business technical account of the actual investment return on investments supporting the general business technical provisions and related shareholder's funds.

j) Exchange rates
Assets, liabilities and revenue transactions denominated in foreign currencies are translated into sterling at rates of exchange prevailing at the balance sheet date. Profits and losses arising from the fluctuation of exchange rates are included in the non technical or technical accounts as appropriate.

k) Taxation
The charge for taxation is based on the profit for the year, and takes into account taxation deferred because of timing differences between certain items for taxation and accounting purposes.

l) Deferred taxation
Provision is made for deferred tax only to the extent that it is probable an actual liability will arise in the foreseeable future.

m) Capital expenditure
Capital expenditure is written off in the year in which it is incurred.

n) Pension costs
The company operates a defined benefits pension scheme. The pension fund assets are held in a separate trustee administered scheme. The expected cost of providing staff pensions is recognised over the average remaining service lives of members of the pension scheme.

o) Operating leases
The rental costs relating to operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

2. Segmental information for general business

a) *Analysis by class*

	Property reinsurance 1998 £'m	Casualty reinsurance 1998 £'m	Marine reinsurance 1998 £'m	Total reinsurance 1998 £'m
Gross premiums written	**38.0**	**37.9**	**38.7**	**114.6**
Gross premiums earned	45.9	41.4	36.3	123.6
Gross claims incurred	(45.6)	(37.3)	(25.9)	(108.8)
Gross operating expenses	(14.4)	(8.7)	(7.9)	(31.0)
Gross balance	**(14.1)**	**(4.6)**	**2.5**	**(16.2)**
Reinsurance balance	(7.5)	-	(0.4)	(7.9)
Net balance	**(21.6)**	**(4.6)**	**2.1**	**(24.1)**
Allocated investment return	7.7	26.9	6.9	41.5
Change in equalisation provision	4.0	-	(1.5)	2.5
Balance on the technical account	**(9.9)**	**22.3**	**7.5**	**19.9**

2. Segmental information for general business (continued)

a) Analysis by class (continued)

	Property reinsurance 1997 £'m	Casualty reinsurance 1997 £'m	Marine reinsurance 1997 £'m	Total reinsurance 1997 £'m
Gross premiums written	**46.7**	**60.7**	**26.7**	**134.1**
Gross premiums earned	49.7	63.3	27.4	140.4
Gross claims incurred	(34.1)	(228.2)	(20.7)	(283.0)
Gross operating expenses	(16.8)	(16.2)	(5.5)	(38.5)
Gross balance	**(1.2)**	**(181.1)**	**1.2**	**(181.1)**
Reinsurance balance	(3.3)	169.8	(1.1)	165.4
Net balance	**(4.5)**	**(11.3)**	**0.1**	**(15.7)**
Allocated investment return	6.6	23.7	5.6	35.9
Change in equalisation provision	(1.9)	-	-	(1.9)
Balance on the technical account	**0.2**	**12.4**	**5.7**	**18.3**

b) Gross premiums written by geographic area

	1998 £'m	1997 £'m
United Kingdom	54.7	97.4
Overseas	21.1	10.0
Marine: International	38.8	26.7
	114.6	134.1

All business results from contracts concluded in the United Kingdom.

c) *Net operating expenses*

	1998 £'m	1997 £'m
Acquisition costs	23.5	34.1
Change in deferred acquisition costs	(0.7)	(0.1)
Administrative costs	7.8	4.8
Reinsurance commissions and profit participation	(0.4)	(0.9)
	30.2	37.9

3. Segmental information for long term business

a) *Gross reinsurance premiums written by class*

	1998 £'m	1997 £'m
Life regular premiums	-	57.4
Single life premiums	-	0.6
Permanent health regular premiums	-	34.0
	-	92.0

All premiums are in respect of non-participating contracts.

3. Segmental information for long term business (continued)

b) Gross premiums written by geographic area

	1998 £'m	1997 £'m
United Kingdom	-	65.6
Overseas	-	26.4
	-	92.0

All business results from contracts concluded in the United Kingdom.

c) New business premiums

	Gross 1998 £'m	Net 1998 £'m	Gross 1997 £'m	Net 1997 £'m
Life regular premiums	-	-	29.1	14.9
Life single premiums	-	-	0.6	0.4
Permanent health regular premiums	-	-	8.2	5.7
	-	-	37.9	21.0

In classifying new business premiums the following basis of recognition is adopted:

i) New recurrent single premium contracts are included in regular new business premiums to the extent that they are deemed likely to renew.

ii) Premiums arising from new policies under exisiting reassurance treaties are included as new business as are all increases in premiums under existing policies.

iii) Where the terms of treaties provide for premium rebates to be applied the annualised value is before deduction of these rebates.

iv) Where regular premiums are received other than annually the regular new business premiums are on an annualised basis.

d) Reinsurance balance

	1998 £'m	1997 £'m
Reinsurance balance	-	(18.8)

The reinsurance balance represents the amount on the technical account in respect of outwards business retroceded.

3. Segmental information for long term business (continued)

e) Net operating expenses

	1998 £'m	1997 £'m
Acquisition costs	-	15.3
Change in deferred acquisition costs	-	(2.6)
Administrative expenses	-	4.0
Reinsurance commissions and profit participation	-	(0.2)
	-	16.5

f) Other technical income, net of reinsurance

	1998 £'m	1997 £'m
Change in the excess of the actuarial liabilities under deposit back arrangements over the face amount of the deposit	-	0.1

g) Other technical charges, net of reinsurance

	1998 £'m	1997 £'m
Net assets transferred	381.3	-
Ceding company expenses	-	0.1
	381.3	0.1

4. Prior years' claim provisions for general business

Over or (under) provisions in general business claims provisions, at the beginning of the year by comparison to payments and provisions at the end of the year were:

	1998 £'m	1997 £'m
Property reinsurance	(10.3)	(2.1)
Casualty reinsurance	0.2	(4.9)
Marine reinsurance	(6.8)	(6.3)
	(16.9)	(13.3)

Notes to the Financial Statements

5. Investment return summary

	Non technical account 1998 £'m	Long term business 1998 £'m	Non technical account 1997 £'m	Long term business 1997 £'m
Investment income				
Income from investments	28.8	-	36.6	19.6
Gains on the realisation of investments	54.9	-	12.7	6.2
	83.7	-	49.3	25.8
Unrealised (losses) gains on investments	(8.4)	-	28.7	21.0
Investment expenses and charges				
Investment management expenses	(0.7)	-	(0.5)	(0.1)
Interest payable	-	-	-	(0.9)
Losses on the realisation of investments	(6.7)	-	(14.3)	(1.5)
	(7.4)	-	(14.8)	(2.5)
Total investment return	67.9	-	63.2	44.3
Analysed by				
Allocated investment return transferred to the general business technical account	41.5	-	35.9	-
Investment return in long term business technical account	-	-	-	44.3
Investment return in non technical account	26.4	-	27.3	-
	67.9	-	63.2	44.3

Income from investments includes £4.3 million of group income (1997: £4.7 million).

A transfer has been made from the non technical account to the general business technical account in order to reflect allocated investment income. The calculation of allocated investment return has been based on the actual return on those assets which are attributable to general business, technical provisions and related shareholder's funds. The rate of return assumed for the year was 10.14% (1997: 8.69%).

6. Profit on ordinary activities before tax

This is stated after charging:

	1998 £'m	1997 £'m
Operating lease rental on other leases	1.5	2.0
Auditors' renumeration for audit	0.2	0.1
Auditors' renumeration for other services	0.1	0.1

7. Employee information

The average number of persons employed by the company, including executive directors, during the year was as follows:

	1998	1997
General business	71	68
Business services	52	45
	123	113

7. Employee information (continued)

The aggregate renumeration paid or payable in respect of those employees (including executive Directors) during the year was:

	1998 £'m	1997 £'m
Wages and salaries	6.9	6.5
Social security costs	0.5	0.6
Other pension costs	1.3	1.2
	8.7	8.3

8. Remuneration of Directors

	1998 £'m	1997 £'m
Aggregate emoluments	0.2	0.3

Retirement benefits accrue to one Director under a defined benefits scheme.

Highest paid Director:
The emoluments of the highest paid Director were £196,000 (1997: £173,000). Retirement benefits accruing under a defined pension scheme as at 31 December 1998 were £50,000 (£1997: £50,000).

9. Taxation

	Non technical account 1998 £'m	Long term business 1998 £'m	Non technical account 1997 £'m	Long term business 1997 £'m
UK corporation tax at 31% (1997: 31%)	14.8	-	5.9	1.2
Deferred taxation	(6.0)	-	7.6	0.9
Tax credits on franked investment income	0.3	-	0.7	0.7
Tax credits on foreign income dividend	-	-	-	0.2
Underprovision in respect of prior years	-	-	-	0.4
	9.1	-	14.2	3.4

10. Dividends

	1998 £'m	1997 £'m
Interim dividend paid on ordinary shares	46.5	3.0
Proposed interim dividend on preference shares	0.5	0.5
Proposed final dividend on ordinary shares	-	20.6
	47.0	24.1

Notes to the Financial Statements

11. Investments in group undertakings and participating interests

	Current value 1998 £'m	Cost 1998 £'m	Current value 1997 £'m	Cost 1997 £'m
Shares in subsidiary undertakings	56.3	33.5	49.2	33.5
Loans to subsidiary undertakings	11.3	12.0	11.2	12.0
Loans to parent	1.0	1.0	1.0	1.0
	68.6	46.5	61.4	46.5

12. Other financial investments

	Current value 1998 £'m	Cost 1998 £'m	Current value 1997 £'m	Cost 1997 £'m
Shares and other variable yield securities	137.8	116.9	133.3	89.7
Debt securities and other fixed income securities	285.8	281.8	489.3	483.7
Deposits with credit institutions	10.6	10.6	33.8	33.8
	434.2	409.3	656.4	607.2
Included in the above were investments:				
Listed on the UK Stock Exchange	281.4		504.0	
Listed on overseas Stock Exchanges	142.2		117.8	
	423.6		621.8	

As at 31 December 1998 investments with a market value of £30.4 million were deposited as security for future liabilities on reinsurance contracts for statutory and other purposes (1997: £12.9 million).

13. Deposits with ceding undertakings

	1998 £'m	1997
Non group undertakings	8.1	5.4

14. Assets held to cover linked liabilities

	Current value 1998 £'m	Cost 1998 £'m	Current value 1997 £'m	Cost 1997 £'m
Assets held to cover linked liabilities	-	-	149.1	98.3

15. Debtors arising out of reinsurance operations

	1998 £'m	1997 £'m
Parent undertakings	11.1	2.0
Other reinsurance debtors	61.3	95.2
	72.4	97.2

16. Other debtors

	1998 £'m	1997 £'m
Subsidiary undertakings	14.8	8.5
Fellow subsidiary undertakings	2.5	-
Parent undertakings	-	0.9
Other debtors	15.7	0.5
	33.0	9.9

17. Called up share capital

	1998 £'m	1997 £'m
Authorised:		
140,500,000 £1 Ordinary shares	140.5	140.5
8,000,000 £1 10% Partly cumulative preference shares	8.0	8.0
1,500,000 £1 Redeemable deferred shares	1.5	1.5
	150.0	150.0
Allotted and called up:		
Equity shares:		
83,500,000 £1 Ordinary shares fully paid	83.5	83.5
3,000,000 £1 Ordinary shares 33.3p paid	1.0	1.0
Non equity shares:		
5,000,000 £1 10% Partly cumulative preference shares fully paid	5.0	5.0
1,500,000 £1 Redeemable deferred shares fully paid	1.5	1.5
	91.0	91.0

10% Partly cumulative preference shares

These shares are entitled to a 10% dividend each year. Dividend arrears accumulate at a rate of 5% each year. The shares have no voting rights, rank above all other shares in a winding up and are entitled only to a capital repayment plus any dividend arrears.

Redeemable deferred shares

These shares have no dividend entitlement. The latest date for redemption is 31 December 2004, with no premium payable on redemption. Redemption is at the company's option at three month's notice. The shares have no voting rights, rank below preference and ordinary shares in a winding up and are entitled only to a capital repayment.

18. Reserves

	Profit and loss account £'m
At the beginning of the year	83.8
Retained profit utlilised in the year	(48.2)
At the end of the year	**35.6**

18. Reserves (continued)

	1998 £'m	1997 £'m
Distributable reserves	2.7	12.0
Non distributable unrealised reserves	32.9	39.6
Non distributable long term business reserves	-	32.2
	35.6	83.8

19. Reconciliation of movements in shareholder's funds

	1998 £'m	1997 £'m
(Loss) profit for the financial year	(1.2)	38.1
Dividends	(47.0)	(24.1)
Net (reduction) addition to shareholder's funds	**(48.2)**	**14.0**
Shareholder's funds at the beginning of the year	174.8	160.8
Shareholder's funds at the end of the year	**126.6**	**174.8**
Equity shareholder's funds	120.1	168.3
Non equity shareholder's funds	6.5	6.5
Shareholder's funds at the end of the year	**126.6**	**174.8**

20. Long term business provision

The long term business provision as at 31 December 1997 was calculated by John P Cliff, a Fellow of the Institute of Actuaries and the company's appointed actuary up to the time of transfer of the long term business, using principally the net premium valuation method.

The principal assumptions underlying the calculation were as follows:

Class of business	Risk Parameters	Interest rate
Life assurance	76.5% to 11.7% AM(80)/AF(80) ult	5.25%
	(plus AIDS adjustment 33% R6A)	
	according to smoker status	
Annuities	75% PMA(80)/PFA(80) C2010	5.50%
Critical illness	IC94	5.25%
Permanent health	Claim inceptions: 75% tp 135% CMIR 12	5.25 for
	adjusted for occupation and gender	active lives
	Claim terminations: 30% to 80% CIMIR 12	
	according to deferred period and the time	
	since claim inception	6.00% for
		claims in
	Active life mortality: as for life assurance	payment

The interest rate assumption for overseas business was generally 0.25% lower than that shown.

Experience refunds are charged to the long term business technical account within bonuses and rebates, net of reinsurance.

The long term business provision as at 31 December 1997 included an amount of £4,208,000 in respect of outstanding experience refunds.

21. Claims outstanding

	1998 £'m	1997 £'m
General business		
Gross amount	709.1	726.1
Reinsurance amount	(339.8)	(358.9)
	369.3	367.2
Long term business		
Gross amount	-	15.5
Reinsurance amount	-	(8.0)
	-	7.5
Total		
Gross amount	709.1	741.6
Reinsurance amount	(339.8)	(366.9)
	369.3	374.7

22. Provisions for taxation

	Unrealised gains on investments £'m	Short term timing differences £'m	Deferred acquisition costs £'m	Other general reserves £'m	Total deferred taxation £'m
At the beginning of the year	12.7	(0.9)	2.2	0.4	14.4
Movement in the year	(6.2)	0.3	(2.2)	(0.5)	(8.6)
At the end of the year	6.5	(0.6)	-	(0.1)	5.8

23. Other provisions

Guarantees have been given by the company in favour of The Prudential Assurance Company Limited and the Royal Bank of Scotland (Industrial Leasing) Limited in respect of the leases granted to Market Building Limited. A loss pursuant to the granting of these guarantees has arisen. Of the provision of £2.3 million at the beginning of the year, £0.4 million was utilised during the year leaving a balance of £1.9 million at the end of the year.

A guarantee has been given by the former members of the Institute of London Underwriters to enable it to meet future operating expenses arising from existing commitments. The company's obligation under this guarantee, as a former member, has been calculated at £1.0 million and this has been provided in full.

24. Creditors arising out of reinsurance operations

	1998 £'m	1997 £'m
Parent undertakings	-	4.4
Subsidiary undertakings	-	9.7
Non group undertakings	17.1	16.9
	17.1	31.0

25. Other creditors including taxation and social security

	1998 £'m	1997 £'m
Subsidiary undertakings	2.9	1.4
Fellow subsidiary undertakings	3.9	-
Parent undertakings	0.8	-
Other	4.9	0.3
Dividends payable	44.0	21.1
Taxation	14.7	3.1
	71.2	25.9

26. Capital and other financial commitments

The company's lease agreement for the occupancy of office space in the London Underwriting Centre expired on 24 March 1999. Rental and other payments under the terms of the agreement for the year ending 31 December 1999 amount to £153,000. Negotiations are in hand to renew the lease and, whilst these continue, a licence for continued occupancy under existing terms has been entered into.

Capital expenditure contracted for but not provided amounted to £2.4 million (1997: £ nil).

27. Long term business transfer restatement of comparative figures

On 1 January 1998, the assets and liabilities and business of the long term operations were transferred, for nil consideration, to Swiss Re Life & Health Ltd, a fellow subsidiary undertaking in accordance with Schedule 2C of The Insurance Companies Act 1982. The net assets immediately prior to transfer were as follows:

	1997 £'m	Amounts Transferred £'m	Restated 1998 £'m
Assets			
Investments	723.2	193.1	530.1
Assets held to cover linked liabilities	149.1	149.1	-
Reinsurers' share of technical provisions	439.9	76.3	363.6
Debtors	107.1	29.9	77.2
Other assets	2.5	1.1	1.4
Prepayments and accrued income	38.2	24.8	13.4
Total assets	**1,460.0**	**474.3**	**985.7**
Less: Liabilities			
Technical provisions	(1,061.2)	(276.3)	(784.9)
Technical provisions for linked liabilities	(149.1)	(149.1)	-
Provisions for other risks and charges	(16.7)	(2.6)	(14.1)
Creditors	(56.8)	(13.2)	(43.6)
Accruals and deferred income	(1.4)	(0.9)	(0.5)
Total liabilities	**(1,285.2)**	**(442.1)**	**(843.1)**
Total net assets	**174.8**	**32.2**	**142.6**

Excluding technical provisions, net assets transferred amounted to £381.3 million and is disclosed as other technical charges in the long term business technical account.

28. Pension scheme

The company operates a defined benefit scheme. The total pension cost for the company in 1998 was £1.3 million (1997: £1.2 million). The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was carried out at 31 December 1995. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increases in salaries and pensions. It was assumed that the investment returns would be 9% per annum, that salary increases would average 7% per annum and that present and future pensions would increase at 5% per annum, for amounts in excess of the Guaranteed Minimum Pension (GMP), with statutory increases on the GMP.

The most recent actuarial valuation showed that the market value of the scheme's assets was £26.3 million and that those assets represented 125% of the benefits that had accrued to the members, after allowing for expected future increases in earnings. The valuation was carried out by Bacon & Woodrow.
The contributions of the company and its employees are 20% (1997: 20%) and nil% respectively.

29. Subsidiary undertakings

The whole of the share capital of the following companies was held as at 31 December 1998:

Subsidiary undertakings	Activity
SR International Business Insurance Company Limited	Insurance company
Palatine Insurance Company Limited	Insurance company
Swiss Re (UK) House Limited	Property investment company
SR Mitre	Property investment company

The above companies are registered in England and Wales.

30. Ultimate parent company

The company is a wholly owned subsidiary. The immediate parent company is Swiss Re GB Limited which is registered in England and Wales. The ultimate parent company is Swiss Reinsurance Company which is incorporated in Switzerland.

The financial statements of the immediate and ultimate parent companies may be obtained by applying to the Company Secretary, Swiss Reinsurance Company UK Limited, 71-77 Leadenhall Street, London, EC3A 3DE.

Profit and Loss Account
Non Technical Account
(excluding long term business)

For the year ended 31 December 1998

	1998 £'m	1998 £'m	1997 £'m	1997 £'m
Balance on the general business technical account				
and operating profit from continuing activities		**19.9**		**18.3**
Investment income	83.7		49.3	
Unrealised (losses) gains on investments	(8.4)		28.7	
Investment expenses and charges	(7.4)		(14.8)	
Allocated investment return transferred to the				
general business technical account	(41.5)		(35.9)	
Net investment return		26.4		27.3
Other income		-		3.2
Other charges		(6.2)		(2.6)
Profit on ordinary activities before tax		40.1		46.2
Tax on profit on ordinary shares		(9.1)		(10.8)
Profit for the financial year		31.0		35.4
Dividend on preference shares	(0.5)		(0.5)	
Dividend on ordinary shares	(46.5)		(23.6)	
		(47.0)		(24.1)
Retained (loss) profit for the financial year		(16.0)		11.3
Retained profit brought forward		51.6		40.3
Retained profit carried forward		35.6		51.6

There are no other gains or losses arising other than those reported above.

Balance Sheet
(excluding long term business)

For the year ended 31 December 1998

Assets

	1998 £'m	1998 £'m	1997 £'m	1997 £'m
Investments				
Investments in group undertakings and participating interests	68.6		61.4	
Other financial investments	434.2		464.3	
Deposits with ceding undertakings	8.1		4.4	
		510.9		530.1
Reinsurers' share of technical provisions				
Provision for unearned premiums	2.3		4.7	
Claims outstanding	339.8		358.9	
		342.1		363.6
Debtors				
Debtors arising out of reinsurance operations	72.4		67.3	
Other debtors	33.0		9.9	
		105.4		77.2
Other assets				
Cash at bank and in hand		9.1		1.4
Prepayments and accrued income				
Accrued interest and rent	4.2		5.6	
Deferred acquisition costs	8.1		7.3	
Other prepayments and accrued income	0.1		0.5	
		12.4		13.4
Total assets		979.9		985.7

Balance Sheet
(excluding long term business)

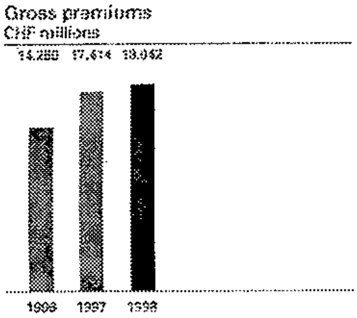
For the year ended 31 December 1998

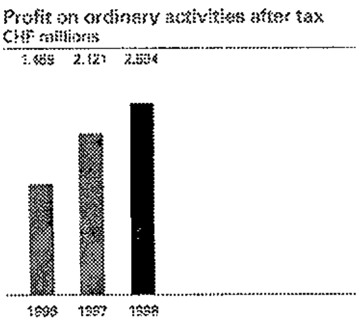
Liabilities

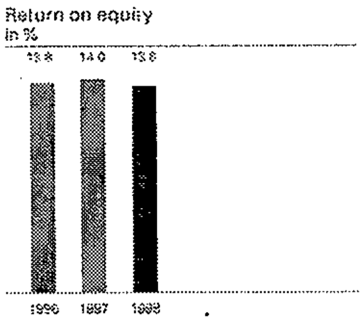
	1998 £'m	1998 £'m	1997 £'m	1997 £'m
Capital and reserves				
Called up share capital	91.0		91.0	
Profit and loss account	35.6		51.6	
Shareholder's funds				
(Including non equity interests)		126.6		142.6
Technical provisions				
Provision for unearned premiums	44.5		53.6	
Claims outstanding	709.1		726.1	
Equalisation provision	2.7		5.2	
		756.3		784.9
Provisions for other risks and charges				
Provisions for taxation	5.8		11.8	
Other provisions	2.9		2.3	
		8.7		14.1
Creditors				
Creditors arising out of reinsurance operations	17.1		17.1	
Other creditors including taxation and social security	71.2		26.5	
		88.3		43.6
Accruals and deferred income		-		0.5
Total liabilities		979.9		985.7

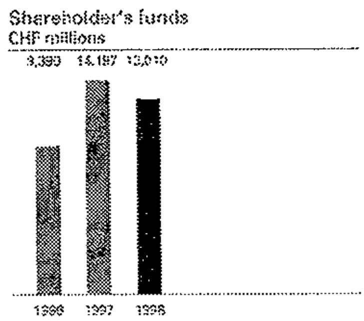
Swiss Re Group Developments


Swiss Re head office, Zurich









1998 Financial Year

The Swiss Re Group again reported a strong increase in profits. The result after tax amounted to CHF 2,504 million, an increase of 18%. Earnings were CHF 175 per share, up by 20.7%.

Swiss Re completes acquisition of Falcon Asset Management

Swiss Re has completed the acquisition of Falcon Asset Management, Baltimore, USA. It was previously owned by The St Paul Companies, Inc. The acquisition advances Swiss Re's strategic aim of developing its business in the field of asset and liability management.

Swiss Re completes acquisition of Netherlands Credit Insurance Group

Swiss Re has completed the acquisition of NCM Holding NV, Amsterdam, with effect from 30 June 1998. Following Swiss Re's agreement to acquire the majority shareholding in NCM, announced on 2 March 1998, Swiss Re has increased its shareholding in NCM from 9.6% to 85.6%.

Acquisition of Reaseguros Alianza completed

Swiss Reinsurance Company (Swiss Re) has completed the acquisition of Reaseguros Alianza, S.A. Mexico (Alianza), which is based in Mexico City. In acquiring Alianza, Swiss Re is expanding its presence and volume of business in the growing Latin America market.

Acquisition of Life Re completed

On 1 December 1998 Swiss Re announced that it had completed the acquisition of Life Re Corporation. Through this transaction, Swiss Re is underlining its commitment to be the pre-eminent life and health reinsurer in North America. The business focus of the newly combined Swiss Re Life & Health America and Life Re will be twofold: (i) traditional life reinsurance, which involves mortality risk-taking on individual and group life sales and insurance in force; and (ii) administrative reinsurance, which involves the acquisition and administration of ceding companies' non-core in-force business.

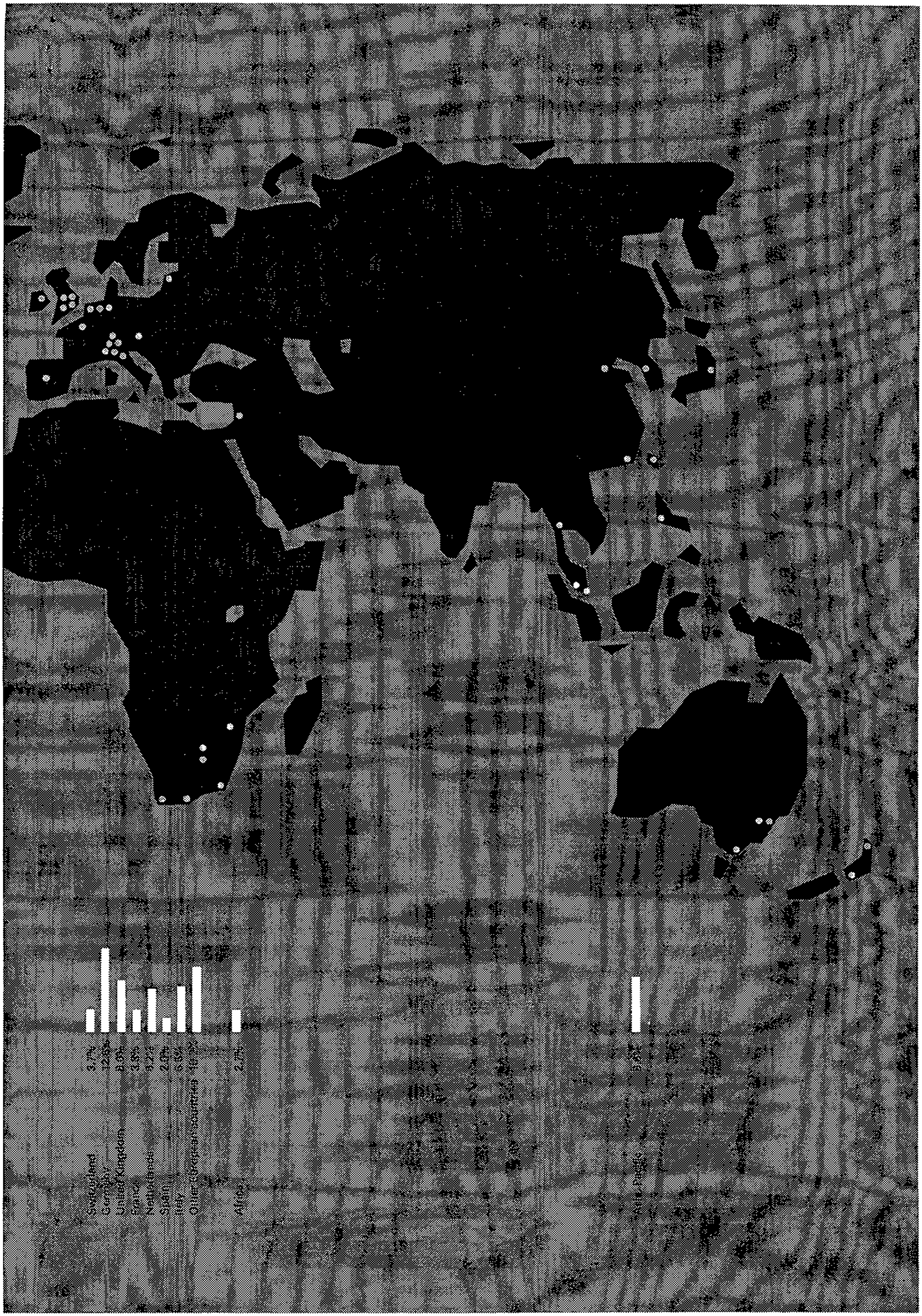
Swiss Re announced an agreement to acquire Fox-Pitt, Kelton Group, London-based investment bank

In March 1999, Swiss Re completed its acquisition of Fox-Pitt, Kelton Group, an integrated investment bank specialising in the financial services industry. Fox-Pitt, Kelton's research and investment banking skills will add important strength to the insurance and financial solutions Swiss Re offers to clients. Since its formation in 1971, the firm's top-ranked securities analysts have developed an outstanding reputation for equity research in both Europe and the United States.

Global Presence

Support from over 70 offices in more than 30 countries

Gross premiums for Swiss Re Group 1996
(percentage share by country/region)


Switzerland
3.7%
Germany
United Kingdom
France
Netherlands
Spain
2.0%
Italy
Other European countries
Africa
2.7%
Asia Pacific