

**RELIANCE NATIONAL INSURANCE
COMPANY (EUROPE) LIMITED**

Report and Financial Statements

31 December 1998

**Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR**



REPORT AND FINANCIAL STATEMENTS 1998

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J A Graziano	Chairman
C L Bach	Managing Director
S L Gordon	
M F Nightingale	
A J Marino	
R T Radsch	
C D Sullo	
J A Welikson	

SECRETARY

C T Stevenson

REGISTERED OFFICE

Reliance National House
80 Leadenhall Street
London, EC3A 3HA

UNDERWRITING ROOMS

Reliance National House 80 Leadenhall Street London EC3A 3HA	Gallery Three Lloyd's of London One Lime Street London EC3M 7HL	Room 129 The Institute of London Underwriters 49 Leadenhall Street London EC3A 2BE
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BRANCH OFFICES

Germany Cologne Direcktion Für Deustchland Kaiser Wilhelm-Ring 50 50672 Köln	Netherlands Rotterdam World Trade Center Postbus 30134 3001 DC Rotterdam	Spain Madrid Paseo De La Castellana 21 Primera Planta 28046 Madrid	Switzerland Zürich Niederlassung Schweiz Tödistrasse 48 CH-8002 Zürich
Munich Ottostrasse 5 2nd Floor 80333 München	Amsterdam Assurantiebeurs Amsterdam Strawinskylaan 10 1077 AX Amsterdam	Barcelona Avda. Diagonal 458 - 8º Barcelona	Sweden Stockholm Kungsgatan 60 5 th Floor SE-111 22 Stockholm

AUDITORS

Deloitte & Touche
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

BANKERS

National Westminster Bank PLC
City of London Office
PO Box 12258
1 Princes Street
London EC2R 8PA

CHAIRMAN'S STATEMENT

I am pleased to report that 1998 was another year of accomplishment for Reliance National Insurance Company (Europe) Ltd.

In the most challenging underwriting environment in recent memory, Reliance National achieved an after tax profit of £6,849,000 on gross written premiums of £133,860,000 and strong investment earnings of £11,905,000. Net written premiums increased 46.5% during 1998 and our ongoing strategy to develop our European Branch Network returned a strong contribution to operating results. Reliance National's underwriting activities in European Community countries increased significantly during the last year, generating £46,269,000 of gross written premium, an increase of 48.7% over 1997.

Our Company is committed to build value for the future.

During 1998, a further capital contribution of £20 million was received from our parent Reliance Group Holdings Inc. Capital and Reserves now stand at £108,554,000, an increase of 27.5% over the prior year, and the Total Assets of Reliance National Insurance Company (Europe) Ltd. have reached a figure in excess of £400 million. Reliance National holds claims paying ratings of "A" from Standard and Poor's and "A-" from A.M. Best Ltd.

Our Company has invested to build value for the future.

Reliance National made two strategic investments during 1998, which demonstrate Reliance Group's commitment to international growth and service for our global customers. RENASA Insurance Company Ltd., our wholly owned subsidiary is a South African registered company and was granted a licence to conduct all lines of insurance in South Africa. This market holds tremendous potential for Reliance National's portfolio of specialised insurance products, which will be underwritten and marketed by a talented team of local managers. RENASA began operations in April and early results are encouraging. Also in 1998, our Company concluded a joint venture arrangement with the Hong Kong Chinese Bank to form The Lippo Reliance Insurance Company. The Hong Kong insurance market promises attractive growth, both locally and as a regional insurance centre, as the Asian economies recover from recent turbulence.

Our Company has continued to build a solid reputation for underwriting innovation and excellence in Specialty lines.

Underwriting success and further market penetration was achieved by Reliance National in the specialised product areas such as Directors & Officers Insurance, Fidelity and Professional Liability Insurance, Bankers Blanket Bonds, and Fine Art and Jeweller's Block coverages. Although our Company was not immune to the turmoil in global Marine and Property lines, mainstream classes of business such as Excess Third Party Liability, UK Property, General Casualty coverages and CAR insurance, returned satisfactory underwriting results. A particularly profitable return and strong growth was achieved on Reliance National's portfolio of Environmental Impairment Risks, underwritten in partnership with Managing General Agent, ECS Underwriting. Reliance National's newest specialty lines, Surety, Trade Credit and Political Risk Insurance also contributed in positive fashion during the year.

Our Company is building business capability across the European Region.

Reliance National's European expansion continued apace during 1998 as our newest branch office in Zurich, Switzerland began underwriting bespoke insurance packages for financial institutions as well as Directors & Officers coverages. Reliance National's existing branches in Spain, Germany, Sweden and the Netherlands became full service operations acquiring the resources and appropriate professional staff while building strong ties to local brokers and insureds. A satellite office was established in Barcelona to broaden access to our range of special commercial insurance products for local Catalan and Spanish brokers and plans to open an office in Liege, Belgium to service a growing International Marine account, remain on track for 1999.


Our Company is building an infrastructure and EDP System that will carry Reliance National through the Millennium.

During 1998, improvements to our desktop architecture and core business applications were instituted in London and the across Europe, the first test; conversion to the EURO on 1 January 1999 was passed without incident. Significant resources were also dedicated to implementing a modern communications network to enhance the link between our branches and London. Our systems environment is likewise prepared for the advent of year 2000 and we are confident there will be no disruption in service to our brokers and customers.

CHAIRMAN'S STATEMENT

Our people are builders.

These significant steps forward in the development of our Company could not have been accomplished without the hard work and dedication of Reliance National's experienced staff of professionals in London, Europe and South Africa. Their unwavering attention to underwriting fundamentals can be counted upon to deliver greater achievement in the years ahead. Finally, we thank our loyal brokers and customers for their continued support and we in turn renew our pledge to maintain our responsible approach to the market and to provide an ever increasing range of specialty commercial insurance products.



J A Graziano

Chairman

15 June 1999

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activity of the company is the provision of general insurance and reinsurance business.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

A review of developments and future prospects is provided in the Chairman's Statement on pages 2 and 3. The results for the year are set out on pages 7 and 8.

YEAR 2000

A project to study the impact of the Year 2000 issue was set up in 1997 which resulted in the formulation of a plan, the prime objective of which is to ensure that all critical systems and services are made Year 2000 compliant by the 3rd Quarter 1999.

The plan includes the assessment, modification and testing of all relevant computer systems, electronic devices and building services as well as enquiries to our business associates as to their preparedness for Year 2000.

All Year 2000 expenses except for the purchase of new assets are expensed as revenue items in the accounts. The costs of new assets are capitalised. The total charges associated with the Year 2000 project have not been specifically identified, but are not considered to be material and are unlikely to adversely impact the future results.

EURO

The Company has introduced the Euro as the base currency in its Branch Operations in Germany, Spain and the Netherlands and the required augmentation of business systems was carried out successfully prior to the year end.

All costs associated with the implementation of the Euro are expensed as revenue items in the accounts and had an immaterial impact on the result for the year.

DIVIDENDS

The directors propose a final dividend of £2,500,000 for the year ended 31 December 1998 (1997-£1,000,000).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown on page 1 and had no disclosable interests in the company or UK group companies to the date of this report with the exception of Mr C L Bach who holds two ordinary £1 shares in the company. Under the provisions of The Companies (Disclosure of Directors' Interests) (Exemptions) Regulations 1985, the directors of the company are exempt from disclosing to this company any interest they may have in shares of the ultimate parent company.

AUDITORS

A resolution to reappoint Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



C T Stevenson

Secretary

15 June 1999

STATEMENT OF 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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the 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; and
- prepare the financial statements on a 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 to 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



AUDITORS' REPORT TO THE MEMBERS OF RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

We have audited the financial statements on pages 7 to 23 which have been prepared under the accounting policies set out on pages 12 to 14.

Respective responsibilities of directors and auditors

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 balance on the general business technical result and profit before tax, are disclosed in note 14.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company 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.

Deloitte & Touche
Chartered Accountants and
Registered Auditors
16 June 1999

PROFIT AND LOSS ACCOUNT

Year ended 31 December 1998

	Note	£'000	1998 £'000	1997 £'000
TECHNICAL ACCOUNT				
Gross premiums written			133,860	104,744
Outward reinsurance premiums			(74,178)	(64,002)
Net premiums written			59,682	40,742
Change in the provision for unearned premiums				
- gross amount		(9,146)	(6,197)	
- reinsurers' share		1,144	3,511	
Change in the net provisions for unearned premiums			(8,002)	(2,686)
Earned premiums, net of reinsurance			51,680	38,056
Claims paid - gross amount		(60,854)	(25,398)	
- reinsurers' share		35,104	10,474	
Net claims paid			(25,750)	(14,924)
Change in the provision for claims				
- gross amount		(41,206)	(33,764)	
- reinsurers' share		29,638	22,198	
Change in the net provision for claims			(11,568)	(11,566)
Claims incurred, net of reinsurance			(37,318)	(26,490)
Net operating expenses	3		(16,000)	(10,594)
Change in equalisation provision	14		223	(600)
Balance on the technical account for general business	2		(1,415)	372

RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 1998

		1998	1997
	Note	£'000	As restated (see note 15) £'000
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		(1,415)	372
Investment income	5	11,905	8,551
Unrealised (losses)/gains on investments		(1,057)	37
Investment expenses and charges		(30)	(28)
Write down of investments in group undertakings	7	(966)	-
Foreign exchange differences		(147)	776
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8,290	9,708
Tax on profit on ordinary activities	6	(1,441)	(2,945)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,849	6,763
Equity dividends paid and proposed		(2,500)	(1,000)
RETAINED PROFIT FOR THE FINANCIAL YEAR	15	4,349	5,763

All activities derive from continuing operations.

RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

BALANCE SHEET
31 December 1998

	Note	£'000	1998 £'000	1997 £'000
ASSETS				
INVESTMENTS				
Group undertakings	7	7,363	-	
Other financial investments	8	160,110	127,150	
			167,473	127,150
REINSURERS' SHARE OF TECHNICAL PROVISIONS				
Provision for unearned premiums		26,068	24,867	
Claims outstanding		99,674	68,863	
			125,742	93,730
DEBTORS				
Debtors arising out of direct insurance operations				
Policyholders		613	382	
Intermediaries		39,817	25,201	
		40,430	25,583	
Debtors arising out of reinsurance operations				
Other debtors	9	38,039	28,227	
		1,608	2,519	
			80,077	56,329
OTHER ASSETS				
Tangible assets	10	2,790	2,846	
Cash at bank and in hand		18,779	29,379	
			21,569	32,225
PREPAYMENTS AND ACCRUED INCOME				
Deferred acquisition costs		7,426	6,493	
Other prepayments and accrued income		2,587	2,152	
			10,013	8,645
TOTAL ASSETS				
			404,874	318,079

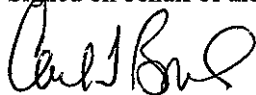
RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

BALANCE SHEET
31 December 1998

	Note	£'000	1998 £'000	1997 As restated (see note 15) £'000
LIABILITIES				
CAPITAL AND RESERVES				
Called up share capital	11	85,100		65,100
Revaluation reserve	15	(306)		-
Profit and loss account	15	23,760		20,038
EQUITY SHAREHOLDERS' FUNDS			108,554	85,138
TECHNICAL PROVISIONS				
Provisions for unearned premiums		48,706		39,689
Claims outstanding		180,645		138,462
Equalisation provision	14	921		1,144
			230,272	179,295
PROVISIONS FOR OTHER RISKS AND CHARGES				
Deferred taxation	6		-	359
CREDITORS				
Arising out of direct insurance operations		10,379		6,828
Arising out of reinsurance operations		33,007		27,410
Amounts owed to group undertakings		5,955		3,664
Other creditors including taxation and social security	12	6,626		4,924
			55,967	42,826
ACCRUALS AND DEFERRED INCOME	13		10,081	10,461
TOTAL LIABILITIES			404,874	318,079

These financial statements were approved by the Board of Directors on 15 June 1999

Signed on behalf of the Board of Directors



C L Bach

Director

RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES **Year ended 31 December 1998**

		1998	1997
	Note	£'000	As restated (see note 15) £'000
Profit for the financial year		6,849	6,763
Revaluation of group undertakings	15	(306)	-
Currency translation differences on foreign currency net assets	15	(627)	187
Total recognised gains and losses relating to the financial year		5,916	6,950

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS **Year ended 31 December 1998**

	1998	1997
	£'000	As restated (see note 15) £'000
Profit for the financial year	6,849	6,763
Equity dividends proposed and paid	(2,500)	(1,000)
	4,349	5,763
Other recognised gains and losses relating to the financial year	(933)	187
New share capital subscribed	20,000	23,000
Net addition to equity shareholders' funds	23,416	28,950
Opening equity shareholders' funds	85,138	56,188
Closing equity shareholders' funds	108,554	85,138

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

1. ACCOUNTING POLICIES

Basis of presentation

The accounts are prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The financial statements are prepared under the historical cost convention, except as modified by the revaluation of certain investments. They have also been prepared in accordance with applicable accounting standards. The company has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 1998 by the Association of British Insurers ("the ABI SORP").

Consolidated financial statements for Reliance National Insurance Company (Europe) Limited have not been prepared as provided by s.228 Companies Act 1985. The company's results are included in the consolidated financial statements of Reliance National (UK) Limited, a company registered in England and Wales.

The particular accounting policies adopted are described below.

Change in accounting policy

In accordance with the ABI SORP, all unrealised gains and losses on listed share investments are now accounted for in the non-technical account. This is a change from the previous policy of accounting for unrealised gains and losses through a revaluation reserve. Comparative amounts have been restated and the effect of this change in accounting policy is disclosed in note 15.

Accounting basis

The results are reported under the annual accounting basis except for marine and aviation business and non-marine non-proportional treaty business for which a fund basis of accounting has been applied.

Premium

Gross premiums written comprise premiums written in respect of risks incepting in the financial year and premium adjustments to prior years' risks. Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums. Estimates are inclusive of "pipeline" premiums due but which have not been notified to the company.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business.

Unearned premium

Premium for business accounted under the annual basis is recognised over the period of the risk covered. A provision for unearned premiums is made which represents the amount of the unexpired term of policies at the balance sheet date and is calculated based on the estimated risk profile of business written. Unearned premiums are stated before deduction of deferred acquisition costs.

Acquisition costs

Expenses which are identified as acquisition costs (including commission) are charged over the same accounting periods as the related premiums are recognised. Therefore, to the extent that they are deemed recoverable, acquisition costs are carried forward at the accounting date.

Claims incurred

Claims incurred comprise claims paid during the year, related claims handling expenses and the movement in the provisions for outstanding claims and settlement expenses.

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

1. ACCOUNTING POLICIES (continued)

Claims outstanding

For business reported under the annual accounting basis full provision is made for outstanding claims and expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. This figure is arrived at by using actuarial estimates with reference to information available. Provisions for claims outstanding are based on information available to the directors and the eventual outcome may vary from the original estimate.

For classes of business written where insufficient information is available on premiums receivable and claims payable, in order that reliable estimates may be made at the end of the financial year, the three year fund basis of accounting is adopted. No profits are recognised until the end of the second year following the underwriting account. Premiums written, less claims payments and related reinsurance and expenses, are included in technical provisions. The adequacy of the fund is assessed for each underwriting year by estimating the total written premium and deducting the estimated ultimate cost of claims and expenses. Additional transfers to the fund from the profit and loss account are made to cover estimated losses on open underwriting years where necessary.

Equalisation provision

An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. It is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that it does not represent a liability at the balance sheet date.

Unexpired risks

For business reported under the annual accounting basis full provision is made for unexpired risks when it is anticipated that the premiums relating to future periods of account, after taking account of investment income, will be insufficient to meet the future claims and expenses of business as at the year end.

Foreign exchange

The profit and loss account includes transactions denominated in foreign currencies and are translated into sterling at the rates ruling at the year end date. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date.

The financial statements of foreign branches are translated into sterling at the closing rates of exchange and the difference arising from the translation of the opening net investment at the closing rate is taken direct to reserves.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Operating leases

Rental costs are recognised in the profit and loss account in equal annual amounts over the periods of the leases.

Pension costs

The company operates an independently administered defined contribution pension scheme. The pension cost charged to the accounts represents contributions payable by the company to the pension fund in respect of the year.

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

1. ACCOUNTING POLICIES (continued)

Fixed assets

Fixed assets are written off over their estimated useful lives on a straight line basis at the following annual rates:

Leasehold property	Period of lease
Computer and office equipment	10% - 33 1/3%
Computer licence	Period of licence

Investments – group undertakings

Investments in group companies are stated at current values. Current values being determined as the company's share of the net asset value of each group undertaking. Valuation movements on investments in group undertakings are accounted for in the revaluation reserve except for any permanent diminution in value which is accounted for in the non-technical account as identified.

Investments - other

Investments in debt securities and other fixed income securities are stated at amortised cost. The amortisation is calculated to write off the difference between the purchase price and the maturity value over the life of the security. Investments in listed shares are stated at market value. Other investments are stated at cost less provision for permanent diminution in value.

Investment return

All investment return is recognised in the non-technical account.

Realised gains or losses represent the difference between the net sales proceeds and purchase price or, for investments valued at amortised cost and previously valued, their valuation at the last balance sheet date.

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current period.

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

2. SEGMENTAL AND GEOGRAPHICAL INFORMATION

Segmental Information	A&H	MAT	Property	Third party liability	Other Classes	Direct Total	Rein-surance Total	Total
1998	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	8,739	9,624	21,026	37,793	3,864	81,046	52,814	133,860
Gross premiums earned	8,116	9,624	20,027	33,901	3,256	74,924	49,790	124,714
Gross claims incurred	5,549	12,289	21,463	15,644	3,076	58,021	44,039	102,060
Gross operating expenses	2,432	2,875	5,173	8,583	1,110	20,173	12,886	33,059
Gross technical result	135	(5,540)	(6,609)	9,674	(930)	(3,270)	(7,135)	(10,405)
Reinsurance balance	(559)	3,081	5,522	(3,952)	17	4,109	4,658	8,767
Technical result	(424)	(2,459)	(1,087)	5,722	(913)	839	(2,477)	(1,638)
Change in equalisation provision								223
Net technical result								(1,415)
1997								
Gross premiums written	4,448	6,938	13,596	32,696	804	58,482	46,262	104,744
Gross premiums earned	4,276	6,938	11,864	31,794	521	55,393	43,154	98,547
Gross claims incurred	2,375	5,094	9,860	13,555	521	31,405	27,757	59,162
Gross operating expenses	1,321	1,753	3,059	7,143	246	13,522	10,790	24,312
Gross technical result	580	91	(1,055)	11,096	(246)	10,466	4,607	15,073
Reinsurance balance	(751)	-	618	(9,293)	(127)	(9,553)	(4,548)	(14,101)
Technical result	(171)	91	(437)	1,803	(373)	913	59	972
Change in equalisation provision								(600)
Net technical result								372
Geographical analysis of gross premiums written								
						1998	1997	
						£'000	£'000	
United Kingdom						57,068	43,139	
Other European Community Countries						46,269	31,111	
Rest of the World						30,523	30,494	
						133,860	104,744	

RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

3. NET OPERATING EXPENSES

	1998 £'000	1997 £'000
Acquisition costs	22,544	16,769
Change in gross deferred acquisition costs	(1,294)	(1,741)
Administrative expenses	11,809	9,284
	<hr/>	<hr/>
Gross operating expenses	33,059	24,312
Reinsurance commissions and profit participation	(17,059)	(13,718)
	<hr/>	<hr/>
	16,000	10,594
	<hr/>	<hr/>
	1998 £'000	1997 £'000
Gross commission payable on direct and facultative business	18,768	14,750
	<hr/>	<hr/>
Administrative expenses above include the following amounts:		
Auditors' remuneration	1998 £'000	1997 £'000
	127	108
As auditors	94	57
Other services	<hr/>	<hr/>
	1998 £'000	1997 £'000
Rentals under operating leases	887	706
Office premises	345	241
Other operating leases	<hr/>	<hr/>
	1,232	947
	<hr/>	<hr/>
	1998 £'000	1997 £'000
Depreciation of tangible fixed assets	988	714
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998	1997
	£'000	£'000
Aggregate emoluments (in respect of directors serving in the United Kingdom)	<u>442</u>	<u>402</u>
Company pension contributions to money purchase schemes	<u>55</u>	<u>42</u>

Retirement benefits are accruing to 3 directors under a money purchase pension scheme.

Highest paid director

Aggregate emoluments and benefits	<u>167</u>	<u>155</u>
Company pension contributions to money purchase scheme.	<u>17</u>	<u>16</u>

Employees

The average monthly number of employees, including executive directors, during the year was made up as follows:

	1998	1997
	No.	No.
Management	8	7
Underwriting	66	51
Claims	11	9
Administration	<u>40</u>	<u>30</u>
	<u>125</u>	<u>97</u>

Staff costs incurred during the year in respect of these employees were:

	1998	1997
	£'000	£'000
Wages and salaries	5,138	3,952
Social security costs	561	425
Other pension costs	<u>348</u>	<u>230</u>
	<u>6,047</u>	<u>4,607</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

5. INVESTMENT INCOME

	1998	1997
	£'000	£'000
Income from other investments	10,153	8,481
Net gains on the realisation of investments	1,752	70
	<u>11,905</u>	<u>8,551</u>

6. TAXATION AND DEFERRED TAXATION

	1998	1997
	£'000	£'000
The taxation charge comprises:		
UK corporation tax at 31% (1997:31%) based on the profit for the year	2,438	3,334
Deferred taxation	(359)	(3)
Overseas taxation	59	67
Adjustment in respect of prior years' tax provisions	(697)	(453)
	<u>1,441</u>	<u>2,945</u>

Deferred taxation

The amount of deferred tax provided in the financial statements and the potential amount not provided are:

	Provided		Unprovided	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Capital allowances in excess of depreciation	45	25	-	-
Other short term timing differences	(45)	334	(51)	-
	<u>-</u>	<u>359</u>	<u>(51)</u>	<u>-</u>
			1998	1997
			£'000	£'000
Deferred taxation movement:				
At 1 January			359	(9)
Credit for the year			(359)	6
Adjustments in respect of prior years			-	362
At 31 December			<u>-</u>	<u>359</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

7. INVESTMENTS IN GROUP UNDERTAKINGS

	1998
	£'000
Cost:	
As at 1 January	-
Acquisitions in year	8,906
	<hr/>
As at 31 December	8,906
	<hr/>
Net asset valuation adjustments	
As at 31 December 1998	
Permanent diminution in value	(966)
Exchange adjustments	(271)
Other valuation adjustments	(306)
	<hr/>
	(1,543)
	<hr/>
Net Asset Value	
As at 1 January	-
	<hr/>
	<hr/>
As at 31 December	7,363
	<hr/>

The Company acquired 35,000,000 ordinary shares in a newly formed South African registered company, Renasa Insurance Company Limited. The shares in this wholly owned subsidiary company were acquired in two tranches on 25 March 1998 and 18 December 1998 for SA Rand 15,000,000 and SA Rand 20,000,000 respectively.

In addition, on 12 March 1999 the Company acquired 50% of the Hong Kong registered Lippo Reliance Insurance Company Limited for a consideration of HK Dollars 65,000,000. This is a joint venture with Hong Kong Chinese Bank Limited.

Group undertaking	Country of incorporation	Activity	Proportion of ordinary shares held
Renasa Insurance Company Limited	South Africa	Provision of general insurance and reinsurance business	100%
Lippo Reliance Insurance Company Limited	Hong Kong	Underwriting of general insurance business	50%

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

8. INVESTMENTS IN OTHER FINANCIAL INVESTMENTS

	Current value 1998 £'000	Current value 1997 £'000	Cost 1998 £'000	Cost 1997 £'000
Shares and other variable yield securities and units in unit trusts	-	1,480	-	430
Debt securities and other fixed income securities	155,565	124,792	155,246	124,087
Cash deposits with credit institutions	4,545	842	4,545	842
Other unlisted investments	-	36	-	36
	<u>160,110</u>	<u>127,150</u>	<u>159,791</u>	<u>125,395</u>

Listed:

Shares and other variable yield securities and units in unit trusts	-	1,480	-	404
Debt securities and other fixed income securities	155,565	124,792	155,246	124,087
	<u>155,565</u>	<u>126,272</u>	<u>155,246</u>	<u>124,491</u>

Investments valued at amortised cost

Details of those fixed income securities valued at amortised cost are as follows:

	1998 £'000	1997 £'000
Cost	155,246	124,087
Cumulative amortisation	319	705
Amortised cost	155,565	124,792
Unamortised maturity value	6,711	319
Maturity value	<u>162,276</u>	<u>125,111</u>

Market value of listed investments:

	1998 £'000	1997 £'000
Shares and other variable yield securities and units in unit trusts	-	1,480
Debt securities and other fixed income securities	158,119	126,961
	<u>158,119</u>	<u>128,441</u>

9. OTHER DEBTORS

	1998 £'000	1997 £'000
Amounts owed by group undertakings	802	2,109
Sundry debtors	806	410
	<u>1,608</u>	<u>2,519</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

10. TANGIBLE ASSETS

	Short leasehold property £'000	Computer Equipment £'000	Computer licence £'000	Furniture, Fittings, tools and equipment £'000	Total £'000
Cost					
At 1 January 1998	588	1,056	128	3,278	5,050
Additions	86	502	(5)	349	932
Disposals	-	-	-	-	-
At 31 December 1998	674	1,558	123	3,627	5,982
Accumulated depreciation					
At 1 January 1998	372	661	101	1,070	2,204
Charge for the year	98	269	2	619	988
At 31 December 1998	470	930	103	1,689	3,192
Net book value					
At 31 December 1998	204	628	20	1,938	2,790
At 31 December 1997	216	395	27	2,208	2,846

11. CALLED UP SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised:		
Ordinary shares of £1 each	100,000	100,000
Issued:		
Ordinary shares of £1 each fully paid	63,333	40,333
Ordinary shares of £1 each 40p paid	1,767	1,767
	65,100	42,100
Shares issued during the year:		
Ordinary shares of £1 each fully paid	20,000	23,000
	85,100	65,100

On 6 February 1998 the company issued 20,000,000 new ordinary shares of £1 each at par to its parent company Reliance National (UK) Limited in order to support future development and strengthen the capital base of the company.

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

12. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1998 £'000	1997 £'000
Current taxation	2,024	2,744
Proposed dividend	2,500	1,000
Other	2,102	1,180
	<u>6,626</u>	<u>4,924</u>

13. ACCRUALS AND DEFERRED INCOME

	1998 £'000	1997 £'000
Deferred reinsurance commissions	6,303	6,386
Other accruals and deferred income	3,778	4,075
	<u>10,081</u>	<u>10,461</u>

14. CLAIMS EQUALISATION PROVISION

An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1996. This provision amounts to £920,924 (1997 - £1,143,771) and is in addition to the provisions required to meet the anticipated ultimate cost of settling outstanding claims at the balance sheet date. It is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that it does not represent a liability at the balance sheet date. The creation of this provision has reduced shareholders' funds at 31 December 1998 by £641,648 net of taxation (1997 -£810,705). The general business technical result and the profit before taxation for the year having been increased by £222,847 (1997 - reduced by £600,314).

15. MOVEMENTS ON RESERVES

	Revaluat- ion reserve £'000	Profit and loss account £'000	1998 Total £'000
Balance at 1 January as previously stated	742	19,296	20,038
Prior period adjustment	(742)	742	-
Balance at 1 January as restated	-	20,038	20,038
Revaluation of group undertakings	(306)	-	(306)
Currency retranslation	-	(627)	(627)
Retained profit for the financial year	-	4,349	4,349
Balance at 31 December	<u>(306)</u>	<u>23,760</u>	<u>23,454</u>

The prior year adjustment arises as a result of the change in accounting policy for unrealised gains and losses on investments, as described in note 1 to the accounts on page 12. The effect of this change has no impact on current year profit before taxation (1997 - increase in the profit before taxation of £37,154).

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

16. OPERATING LEASE COMMITMENTS

The company is committed to making the following payments during the next year in respect of operating leases which expire:

	1998 Property Leases £'000	1998 Other Leases £'000
Within two to five years	417	333
After five years	599	-
	<hr/> 1,016 <hr/>	<hr/> 333 <hr/>

17. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption for greater than ninety percent owned subsidiaries available in Financial Reporting Standard No.8 and has not disclosed related party transactions between itself and its parent companies.

18. PENSIONS

The company operates a defined contribution pension scheme for certain staff members. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £203,793 (1997 - £147,722).

19. CONTINGENT LIABILITIES

As a consequence of its membership of the Institute of London Underwriters the Company has a contingent liability in respect of the Institute's lease commitments over its property at 49 Leadenhall Street, London.

In terms of the membership agreement the Company shares proportionately in the Institute's property liabilities and consequently has a contingent liability of £1,048,780.49 as at 31 December 1998 which is secured by a letter of credit issued by The Royal Bank of Scotland.

20. ULTIMATE PARENT COMPANY

The company's immediate parent company is Reliance National (UK) Limited, a company registered in England and Wales. Copies of the financial statements are available from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The company's ultimate parent and controlling company is Reliance Group Holdings Inc. which is incorporated in the United States of America. Copies of the financial statements are available from Reliance National Insurance Company (Europe) Limited, Reliance National House, 80 Leadenhall Street, London, EC3A 3HA.