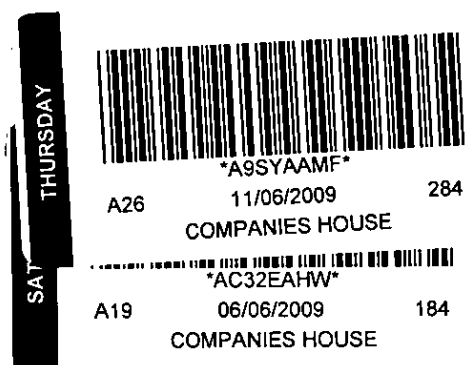

Limit (No.2) Limited

Annual Report

31 December 2008



Registered Number 2842277

LIMIT (NO.2) LIMITED

ANNUAL REPORT

for the year ended 31 December 2008

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LIMIT (NO.2) LIMITED

DIRECTORS AND OFFICERS

Directors

I D Beckerson
S P Burns
D J Winkett

Company secretary

S M Boland

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

LIMIT (NO.2) LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited Financial Statements for the year ended 31 December 2008.

Principal activity

The principal activity of the Company is to act as a corporate member of Lloyd's and to participate in the Lloyd's insurance market through the provision of underwriting capacity to Lloyd's syndicates managed by QBE Underwriting Limited which underwrite insurance and reinsurance business. As at 31 December 2008, the Company had disposed of all its syndicate capacity after the 2004 underwriting year of account, except for Syndicate 566 2000 underwriting year of account which remained open.

The Company does not intend to participate in the Lloyd's insurance market in the future. As a result all underwriting business is treated as discontinued.

Business review and future developments

The results for the Company are set out in the profit and loss account on pages 7 and 8. The retained profit for the year was £7,553,000 (2007: £2,160,000). The directors propose a dividend of £8,000,000 on the Company's Ordinary Share Capital (2007: £56,000,000).

During March 2009, a reinsurance to close contract was concluded enabling the 2000 year of account for Syndicate 566 to close. No adjustment has been made to these financial statements for the RITC premium payable. This premium will be reflected in the following year's financial statements.

The Company's participations in Lloyd's syndicates for the 2000, 2001, 2002, 2003 and 2004 underwriting years of account were as follows:

Managing agent	Syndicate	2000	2001	2002	2003	2004
		allocated capacity £000	allocated capacity £000	allocated capacity £000	allocated capacity £000	allocated capacity £000
QBE Underwriting Limited	566	77,945	-	-	-	-
	456	-	19,347	-	-	-
	1036	-	42,254	52,395	62,873	69,859
		77,945	61,601	52,395	62,873	69,859

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the QBE UK group and are not managed separately. Accordingly, the principal risks and uncertainties of the QBE International Holdings (UK) plc group, which include those of the Company, are discussed as part of the group's annual report which does not form part of this report.

Key Performance Indicators

The Directors of QBE International Holdings (UK) plc manage the group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance and position of the business of Limit (No.2) Limited. The development, performance and position of the QBE International Holdings (UK) plc group, which includes this Company, is discussed as part of the group's annual report which does not form part of this report.

LIMIT (NO.2) LIMITED

DIRECTORS' REPORT (continued)

Directors

Details of the Directors that served during the year are shown on page 2.

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

The Directors are not required to disclose any interests they may have in the shares of the ultimate controlling entity, QBE Insurance Group Limited, which is incorporated in Australia.

Creditor payment policy

The Company's policy on the payment of creditors is to abide by London insurance market practices, including those of Lloyd's and the International Underwriting Association. The Company agrees terms with its other suppliers when it enters into binding purchase contracts, the managing agent seeks to abide by the payment terms agreed with these suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

Auditors

Elective resolutions to dispense with holding annual general meetings and the laying of financial statements before the Company in general meetings are currently in force. The auditors, PricewaterhouseCoopers LLP, will therefore be deemed to have been reappointed at the end of 28 days beginning with the day on which copies of this report and financial statements are sent to members unless a resolution is passed under section 488 of the Companies Act 2006 to the effect that their appointment be brought to an end.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company 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 UK 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

LIMIT (NO.2) LIMITED

DIRECTORS' REPORT (continued)

Statement of disclosure of information to auditors

Each of the persons who is a Director at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board,



S M Boland
Company Secretary
London
2 June 2009

LIMIT (NO.2) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LIMIT (NO.2) LIMITED

We have audited the financial statements of Limit (No.2) Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
2 June 2009

LIMIT (NO.2) LIMITED

PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS *for the year ended 31 December 2008*

	Notes	£'000	2008 £'000	Restated 2007 £'000
Earned premiums, net of reinsurance				
Gross premiums written	2	385		(468)
Outward reinsurance premiums		1,051		(447,147)
Net premiums written			1,436	(447,615)
Earned premiums, net of reinsurance			1,436	(447,615)
Investment return transferred from the non technical account			1,020	1,696
Claims incurred, net of reinsurance				
Claims paid				
Gross amount		(5,553)		(3,874)
Reinsurers' share		1,812		2,152
		(3,741)		(1,722)
Change in provision for claims				
Gross amount		10,783		681,918
Reinsurers' share		(1,623)		(231,421)
		9,160		450,497
Claims incurred, net of reinsurance			5,419	448,775
Net operating expenses	4		968	(1,097)
Balance on technical account – general business			8,843	1,759

The notes set out on pages 11 to 19 form an integral part of these Financial Statements.

LIMIT (NO.2) LIMITED

PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT *for the year ended 31 December 2008*

	Notes	2008 £'000	Restated 2007 £'000
Balance on technical account – general business		8,843	1,759
Investment income	7	1,113	2,519
Unrealised gains/(losses) on investments		6	(32)
Investment expenses and charges	8	(14)	(45)
Investment return – transferred to general business account		(1,020)	(1,696)
Investment return		85	746
Profit on ordinary activities before taxation	9	8,928	2,505
Tax on profit on ordinary activities	10	(1,375)	(345)
Profit on ordinary activities after taxation		7,553	2,160

The results above are derived from discontinued operations.

There is no difference between profits on ordinary activities after taxation and the retained profits for the current and preceding financial year stated above and their historical cost equivalents.

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

The notes set out on pages 11 to 19 form an integral part of these Financial Statements.

LIMIT (NO.2) LIMITED

BALANCE SHEET

as at 31 December 2008

	Notes	2008 £'000	Restated 2007 £'000
Assets			
Investments			
Other financial investments	11	34,270	30,205
Reinsurers' share of technical provisions			
Claims outstanding		40,083	32,005
		40,083	32,005
Debtors			
Debtors arising out of direct insurance operations			
Intermediaries		67	50
Debtors arising out of reinsurance operations		9,802	9,570
Other debtors	12	8,653	86,312
		18,522	95,932
Other assets			
Cash at bank and in hand		79	353
Overseas deposits		440	399
		519	752
Prepayments and accrued income			
Other prepayments and accrued income		218	631
		218	631
Total assets		93,612	159,525

The notes set out on pages 11 to 19 form an integral part of these Financial Statements.


LIMIT (NO.2) LIMITED

BALANCE SHEET

as at 31 December 2008

	Notes	2008 £'000	Restated 2007 £'000
Liabilities			
Capital and reserves			
Called up equity share capital	14,15	-	-
Profit and loss account	15	8,362	56,809
	15	8,362	56,809
Technical provisions			
Claims outstanding		71,542	64,470
		71,542	64,470
Creditors			
Creditors arising out of direct insurance operations		211	155
Creditors arising out of reinsurance operations		4,223	5,327
Other creditors	16	6,794	31,960
		11,228	37,442
Provisions for other risks and charges			
Deferred tax	13	2,480	793
		2,480	793
Accruals and deferred income		-	11
Total liabilities		93,612	159,525

These financial statements on pages 7 to 19 were approved by the board of Directors on 2 June 2009 and signed on its behalf by:



D J Winkett
Director

The notes set out on pages 11 to 19 form an integral part of these Financial Statements.

LIMIT (NO.2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

1. Accounting policies

(a) Basis of preparation

The Financial Statements have been prepared on the going concern basis under the historical cost convention, in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985, and applicable accounting standards. The Company has adopted the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005 (amended December 2006) and Technical Release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles" issued by the Institute of Chartered Accountants in England and Wales.

(b) Restatement of presentation in prior year's comparatives

The prior year comparatives shown in the profit and loss and balance sheet have been restated to more appropriately reflect the underlying business of the syndicates in which the company participates. This reclassification has had no impact on the profit after tax or the net assets for the current and prior year.

(c) Cash flow statement and related party disclosure

The Company is included in the consolidated financial statements of QBE Insurance Group Limited, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard (FRS) 1 (revised 1996). The Company is also exempt under the terms of FRS 8 (revised 2008) from disclosing related party transactions.

(d) Basis of accounting for underwriting business

The technical account – general business set out on page 7 has been prepared by aggregating the Company's share of the underwriting transactions (premiums, claims, reinsurance and expenses) of the Lloyd's syndicate of which the Company is a member.

The Company's share of the underwriting transactions is presented on an annual accounting basis under which insurance profits or losses are recognised as they are earned.

(i) Premiums written

Premiums written comprise premiums on contracts inception during the financial year, together with adjustments made in the year to premiums written in prior years. Premiums are shown gross of commissions payable to intermediaries and exclude taxes and duties levied on them. Estimates are included for premiums due but not yet received or notified, less an allowance for cancellations.

(ii) Reinsurance premiums ceded

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

(iii) Acquisition costs

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

LIMIT (NO.2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

1. Accounting policies (continued)

(d) Basis of accounting for underwriting business (continued)

(iv) Claims provisions and related recoveries

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

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and allows for the expected value of salvage and other recoveries.

Outstanding claims and reinsurance recoveries are estimated by reviewing individual claims and making allowance for claims incurred but not reported using past experience and trends adjusted for foreseeable events.

Case estimates are set by experienced claims technicians, applying their skill and specialist knowledge to the circumstances of individual claims. The ultimate cost of outstanding claims, including claims incurred but not reported, is estimated by the syndicate actuaries who apply recognised actuarial techniques considered appropriate for each portfolio, such as the Chain Ladder and Bornhuetter-Ferguson methods. These methods take into account, amongst other things, statistical analysis of the development of the value and frequency of past claims and the results of analyses undertaken at the point of underwriting. Techniques considered appropriate for specific portfolios include contract by contract analysis, segmentation by subclass, and stochastic analysis. Classes of business are analysed at a level of detail appropriate to their materiality. Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims, for example, one-off occurrences and changes in mix of business, policy conditions or the legal environment.

The syndicate actuaries produce an estimate of reserves, which is reviewed by an independent actuarial firm, and is then assessed by QBE management with input from the syndicate underwriting and claims experts.

As provisions for claims outstanding are based on information which is currently available, the eventual outcome may vary from the original assessment depending on the nature of information received or developments in future periods. For certain classes of business including liability and other long tail classes written by the Company, claims may not be apparent for many years after the occurrence of the event that gave rise to the claim. These classes will typically display greater variation between initial estimates and final outcomes. Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the technical account for the year in which these claims are re-estimated or settled.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

(v) RITC

Following the end of the third year, the underwriting account of each Lloyd's syndicate is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close (RITC) premium is determined by the managing agent, generally by estimating the cost of claims notified but not settled together with the estimated cost of claims incurred but not reported at that date and claims handling costs.

To the extent that the company has increased or decreased its participation from one year of account to the next, the RITC paid is treated as a portfolio transfer from the closing year to the receiving year. The share of the RITC receivable is recognised as income in the period that the RITC contract is concluded, together with related claims incurred under the contract. The share of RITC payable is included in the reinsurance premiums payable with a related reduction in claims incurred.

The payment of an RITC premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle the outstanding claims.

LIMIT (NO.2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

1. Accounting policies (continued)

(d) Basis of accounting for underwriting business (continued)

(v) RITC (continued)

The Directors of the managing agent consider that the likelihood of such a failure of the RITC is extremely remote, and consequently the RITC has been deemed to settle liabilities outstanding at the closure of an underwriting account.

As the reinsurance to close is concluded after the balance sheet date, this is a non-adjusting event under FRS 21, "Events after balance sheet date", and recognised in the period in which it is concluded.

(vi) Profit commission

Profit commission is recognised on an earned basis in relation to each year of account open during the period.

(e) Foreign currency transactions

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange prevailing at the time of the transaction.

Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the balance sheet date with the exception of non-monetary assets and liabilities which are maintained at historic rates.

Exchange differences are included in the technical account.

(f) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price, or if they have previously been valued, their valuation at the previous balance sheet date, together with a reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

(g) Investments

Investments are stated at market value at the balance sheet date. For this purpose, listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

(h) Taxation

The charge for taxation is based on the results for the year adjusted for disallowable items. In accordance with the provisions of FRS19, deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities are not discounted.

LIMIT (NO.2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

2. Segmental analysis – technical account

The following business has all been underwritten in the Lloyd's insurance market, which has been treated as one geographical segment and class of business for the purpose of Statement of Standard Accounting Practice No.25: 'Segmental reporting'.

Segmental information in the format required by the Companies Act 1985 is as follows:

2008	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Direct Insurance:					
Marine, aviation and transport	20	20	8	21	33
Fire and other damage to property	1	1	(3)	3	2
Credit and suretyship	-	-	31	1	(145)
	21	21	36	25	(110)
Reinsurance acceptances	364	364	5,194	943	1,350
	385	385	5,230	968	1,240

Restated 2007	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Direct insurance	-	-	-	-	-
Reinsurance acceptances	(468)	(468)	3,005	(1,097)	(1,377)
Other	-	-	675,039	-	(675,039)
	(468)	(468)	678,044	(1,097)	(676,416)

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2008 £'000	2007 £'000
United Kingdom	-	(146)
Other EU Countries	(25)	(61)
North America	(20)	(104)
Other countries	430	(157)
	385	(468)

LIMIT (NO.2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

3. Claims outstanding

In 2008 there was a positive run-off development of £2,066,000 in property, £2,968,000 in marine and £999,000 in energy against a deterioration of £2,552,000 in casualty.

During 2007 there was a positive run-off development of £1,135,000 in aviation and £179,000 in property, against a deterioration of £317,000 in marine hull.

4. Net operating expenses

	2008 £'000	Restated 2007 £'000
Acquisition costs - direct commission	50	(50)
Administrative expenses	548	327
Foreign exchange (gains)/losses	(1,566)	820
	(968)	1,097

5. Employees

The Company does not employ any staff. All staff were employed by QBE Management Services (UK) Limited, a fellow group undertaking. No recharge has been made to the Company for the services provided by these staff.

6. Directors' emoluments

The emoluments of the Directors are paid by QBE Management Services (UK) Limited for their services to the group as a whole. No emoluments were payable to the Directors in respect of their services to this Company for the year ended 31 December 2008 (2007: £nil).

7. Investment income

	2008 £'000	2007 £'000
Income from other investments	987	2,349
Net realised gains on investments held in syndicate trust funds	126	170
	1,113	2,519

LIMIT (NO.2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

8. Investment expenses and charges

	2008	2007
	£'000	£'000
Investment management fees	14	45
	14	45

9. Profit on ordinary activities before taxation

Remuneration receivable by the Company's auditors for the auditing of these accounts of £4,593 (2007: £14,374) is borne by QBE Management Services (UK) Limited. Fees for the supply of other services are also borne by group companies and are disclosed in total in the QBE International Holdings (UK) plc group financial statements.

10. Tax on profit on ordinary activities

Analysis of charge in period	2008	2007
	£'000	£'000
<i>Current tax:</i>		
UK corporation tax	770	25,146
Adjustment to tax in respect of prior period	(1,082)	(439)
Total current tax	(312)	24,707
<i>Deferred tax:</i>		
Origination and reversal of timing differences	1,730	(24,325)
Change in rate of Corporation Tax at 1 April 2008	(43)	(42)
Adjustment to tax in respect of prior period	-	5
Total deferred tax	1,687	(24,362)
Tax on profit on ordinary activities	1,375	345

Factors affecting tax charge for the period

The tax for the period is lower than the standard rate of corporation tax in the UK, 28.5%.

Profit on ordinary activities before tax	8,928	2,505
Profit on ordinary activities before tax multiplied by standard rate of UK Corporation Tax of 28.5% (2007: 30%)	2,544	751
<i>Effects of:</i>		
Expenses not deductible for tax purpose	97	70
Relievable foreign tax	(141)	-
Other timing differences – deferred tax	(1,730)	24,325
Adjustments to tax in respect of prior period	(1,082)	(439)
Current tax (credit)/charge for the period	(312)	24,707

LIMIT (NO.2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

11. Other financial investments

	Cost 2008 £'000	Market value 2008 £'000	Restated Cost 2007 £'000	Restated Market value 2007 £'000
Shares and other variable yield securities	1,523	1,523	2,807	2,807
Debt securities and other fixed interest securities	30,290	30,335	25,680	25,732
Participation in investment pools	877	877	537	536
Deposits with credit institutions	1,535	1,535	1,130	1,130
	34,225	34,270	30,154	30,205

Shares and other variable yield securities, units in unit trusts, and debt securities and other fixed income securities are all listed on recognised stock exchanges.

12. Other debtors

	2008 £'000	Restated 2007 £'000
Amounts owed by group undertakings	8,645	85,898
Other debtors	8	414
	8,653	86,312

13. Deferred tax

	2008 £'000	2007 £'000
Deferred tax liability as at 1 January	793	25,159
Change in rate of Corporation Tax	(43)	(42)
Adjustments to tax in respect of prior period	-	5
Transferred to corporation tax	-	(4)
Deferred tax charge/(credit) in profit and loss account	1,730	(24,325)
Deferred tax liability as at 31 December	2,480	793
Comprising:		
Lloyd's profits taxed in future years	2,480	793
Undiscounted provision for deferred tax	2,480	793

14. Called up share capital

	2008 £	2007 £
Authorised		
100 Ordinary Shares of £1 each	100	100
1 Pipeline Profits Share of £1 each	1	1
	101	101
Called up, allotted and fully paid		
1 Ordinary Share of £1 each	1	1
1 Pipeline Profits Share of £1 each	1	1
	2	2

The pipeline profits share has ceased to be entitled to any right of participation in the profits of the Company.

LIMIT (NO.2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

15. Reconciliation of movements in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total 2008 £'000	Total 2007 £'000
At 1 January 2008	-	56,809	56,809	54,649
Retained profit for the year	-	7,553	7,553	2,160
Dividend paid	-	(56,000)	(56,000)	-
At 31 December 2008	-	8,362	8,362	56,809

16. Other creditors

	2008 £'000	Restated 2007 £'000
Corporation tax payable	901	25,275
Amounts due to group undertakings	5,893	6,599
Other creditors	-	86
	6,794	31,960

17. ABC securities

In October 2003, the ultimate holding company of the QBE Group, QBE Insurance Group Ltd, entered into an arrangement with Mantis Reef Limited (MRL) to issue US\$550,000,000 of ABC (asset backed capital) securities to support funds at Lloyd's (FAL) pursuant to Lloyd's collateral requirements for QBE's corporate member subsidiaries. This arrangement had substantially replaced bank letters of credit.

Proceeds from the sale of the ABC securities to investors had been used to purchase shares in a wholly-owned subsidiary of MRL, Mantis Reef Pledge Limited (MRPL). The proceeds from the sale of shares in MRPL had been used to purchase eligible investments over which security interests, in the form of a fixed and floating charge, had been granted to Lloyd's in support of FAL.

The ABC securities were redeemed on 14 November 2008 in accordance with the terms of the ABC custody arrangement.

In October 2004, QBE Insurance Group Ltd, entered into an arrangement with Mantis Reef II Limited (MRIIL) to issue US\$220,000,000 of ABC securities to support funds at Lloyd's pursuant to Lloyd's collateral requirements for QBE Holdings (Europe) Limited's corporate member subsidiaries. This arrangement substantially replaced bank letters of credit and assisted in meeting new FAL requirements.

Proceeds from the sale of the ABC securities to investors have been used to purchase shares in a wholly-owned subsidiary of MRIIL, Mantis Reef II Pledge Limited (MRIIPL). The proceeds from the sale of shares in MRIIPL have been used to purchase eligible investments over which security interests, in the form of a fixed and floating charge, have been granted to Lloyd's in support of FAL.

MRIIL and MRIIPL are both special purpose entities incorporated with limited liability under the laws of the Cayman Islands. Neither the QBE group nor QBE Insurance Group Limited has an ownership interest in MRIIL or MRIIPL, however as quasi-subsidiaries the QBE group is required to consolidate the entities under UIG 112 in Australia. FRS 5 'Reporting the substance of transactions' would apply if QBE group were a UK registered company.

LIMIT (NO.2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

18. Guarantees and contingencies

The Company's intermediate holding company, QBE Holdings (Europe) Limited, a fellow subsidiary undertaking, has entered into a deed of covenant to meet the obligations of Limit (No.2) Limited to Lloyd's. The total guarantee given by QBE Holdings (Europe) Limited under the deed of covenant amounts to £16,078,000 (2007: £17,683,000), which together with interim profits of £2,003,000 (2007: £1,309,000) provides the Company with a total FAL of £18,081,000 (2007: £18,992,000).

The obligation under the deed of covenant is secured by a fixed and floating charge over the investments and other assets of QBE Holdings (Europe) Limited in favour of Lloyd's. Similar arrangements have been made in respect of other corporate member subsidiaries of QBE Holdings (Europe) Limited.

Liability under the deed of covenant is limited to a fixed monetary amount. However, the enforcement by Lloyd's of the deed of covenant in the event of a default by Limit (No.2) Limited may result in the appropriation of a share of QBE Holdings (Europe) Limited's FAL that is greater than the proportion which Limit (No.2) Limited's overall premium limit bears to the total overall premium limit of the QBE group. A similar result may occur in the event of default by other corporate member subsidiaries.

Of the assets disclosed in the Company's balance sheet, £84,960,000 (2007: £73,321,000) of which £34,270,000 (2007: £30,205,000) are investments, are subject to Lloyd's Premium Trust Funds or will become subject to them on realisation.

19. Parent undertakings

The Company's ultimate parent undertaking and controlling entity is QBE Insurance Group Limited, which is incorporated in Australia. This is the largest group of undertakings into which the Company's financial statements are consolidated. The smallest group of undertakings into which the Company's financial statements are consolidated is headed by QBE International Holdings (UK) plc, which is incorporated in Great Britain. The consolidated financial statements for QBE Insurance Group Limited and QBE International Holdings (UK) plc are available from the Company's registered office at Plantation Place, 30 Fenchurch Street, London, EC3M 3BD.

The Company's immediate parent Company is Limit Corporate Members Limited, which is incorporated in Great Britain.

20. Post balance sheet event

During March 2009 a reinsurance to close contract was concluded enabling the 2000 underwriting year of account for Syndicate 566 to close. No adjustment has been made to the financial statements for the RITC payable and this transaction will be reflected in the following year's financial statements. This RITC proposal includes a risk premium of £4,127,000.