

MASTHEAD E LIMITED

Registered Number: 2864625

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1996



MASTHEAD E LIMITED

REPORT OF THE DIRECTORS

The directors present their Report and Audited Accounts for the year ended 31st December 1996.

Business Review

The Company, which is a wholly owned subsidiary of Masthead Insurance Underwriting plc, is a Corporate Member of the Society of Lloyd's. The 1994 underwriting year, the first account in which the Company obtained syndicate capacity, closed on 31st December 1996.

The Company made a profit after taxation of £811,226 (1995: £ nil) for the year.

Dividends

An interim dividend of £811,226 in respect of the year to 31 December 1996 was declared and paid on 6 August 1997 (1995 interim dividend: Nil).

The directors do not recommend the payment of a final dividend (1995: Nil).

Directors

The directors who served during the year are shown below:

Sir Jeffery Bowman
Sir Ewen Fergusson
Mr M F Heathcoat Amory
Mr P D Hill-Wood
Mr W A C Thomson

None of the directors has a service contract with the Company.

Sir Ewen Fergusson is also a non-executive director of Murray Lawrence Members' Agency, which is the Members' Agent of the Company.

Mr P D Hill-Wood retired as a non-executive director of Hambros Bank Limited, the financial adviser and investment manager of the Group, on 1st April 1996.

No contracts existed during or at the end of the period in which any other director of the Company is or was materially interested.

According to the Register of Director's Interests, no director holding office at 31st December 1996 had any beneficial interest in the shares of the Company during the year.

MASTHEAD E LIMITED

REPORT OF THE DIRECTORS (Cont'd)

The directors currently in office, namely Mr P D Hill-Wood, Mr M F Heathcoat Amory, Sir Jeffery Bowman, Sir Ewen Fergusson and Mr W A C Thomson, are directors of Masthead Insurance Underwriting plc, the ultimate parent company.

The interests of the directors in shares of Masthead Insurance Underwriting plc are recorded in the accounts of that company.

Accounting Year-end

In April 1995, the ultimate parent company ("MIU") announced its intention to change its accounting year-end to 30th June effective in 1997. All Group subsidiaries changed their year-end accordingly. This was to enable the incorporation in those accounts of the underwriting results for the 1994 year of account which would close at 31st December 1996 but which would not be known until April or May 1997. The Department of Trade and Industry has recently advised companies such as MIU that they have to prepare their accounts in accordance with the requirements for insurance companies under Schedule 9A of the Companies Act 1985 rather than for investment companies under Schedule 4. This means that it is necessary to provide a Technical Account including the Company's proportionate share of the premiums, claims and expenses of each of the syndicates in which the Company participates; in addition, the balance sheet has to include the Company's share of the syndicates' assets and liabilities.

The preparation of this information is not a simple or inexpensive process. To assist its corporate members, Lloyd's has agreed to accumulate the information centrally but, at this stage, has decided to do so only at 31st December. Since it would not be acceptable for the Company to prepare accounts at 30th June with non-coterminous Schedule 9A information at 31st December, the Directors had no alternative but to revert to a 31st December year-end. MIU announced this on 28th May 1997.

Auditors

The Company has passed a resolution in accordance with sections 381A and 386 of the Companies Act 1985, dispensing with the requirement to re-appoint auditors annually. Coopers & Lybrand will remain as the Company's auditors until the elective resolution is revoked.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Report of the Auditors, is made to distinguish the responsibilities of the directors for the accounts from those of the Auditors.

MASTHEAD E LIMITED

REPORT OF THE DIRECTORS (Cont'd)

The directors are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit for the year.

The accounts must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In addition the directors are required to: (a) select suitable accounting policies and apply them consistently; (b) make judgements and estimates that are reasonable and prudent; (c) state whether applicable accounting standards have been followed; and (d) prepare accounts on a going concern basis unless it is inappropriate to assume the Company will continue in business. The directors confirm that the accounts comply with the above requirements.

The directors are also responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



C J Wise
Secretary

Registered office
Lighterman's Court
5 Gainsford Street
London SE1 2NE

11 August 1997

MASTHEAD E LIMITED
REPORT OF THE AUDITORS

to the members of MASTHEAD E Limited

We have audited the accounts on pages 5 to 15.

Respective Responsibilities of Directors and Auditors

As described on pages 2 and 3, the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

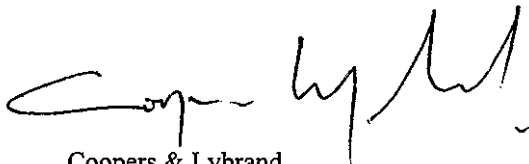
Basis of Opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31st December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
London

11 August 1997

MASTHEAD E LIMITED
PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT - GENERAL BUSINESS
for the year ended 31st December 1996

	NOTES	1996 £'000	1995 RESTATED £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written:			
- Continuing business	2	11,589	17,468
Outward reinsurance premiums		(2,376)	(3,188)
Net premiums written		9,213	14,280
Net transfer of investment return from non - technical account		679	498
CLAIMS INCURRED, NET OF REINSURANCE			
Claims paid:			
- Gross amount		(5,230)	(3,029)
- Reinsurers' share		<u>1,260</u>	<u>862</u>
Net paid claims		(3,970)	(2,167)
Change in the provision for claims:			
- Gross amount		(752)	(12,379)
- Reinsurers' share		<u>336</u>	<u>3,107</u>
Change in the net provision for claims		(416)	(9,272)
CLAIMS INCURRED NET OF REINSURANCE		(4,386)	(11,439)
Net operating expenses	2	(3,304)	(3,331)
Personal expenses		(944)	-
Investment expenses and charges		<u>(12)</u>	<u>(8)</u>
TOTAL BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		<u>1,246</u>	<u>-</u>

As set out in Note 1(e), the Company has prepared its financial statements on a three year funded basis. Accordingly any underwriting profits are only recognised when the underwriting account is closed.

The notes on pages 9 to 15 form part of these accounts.

MASTHEAD E LIMITED**PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT****for the year ended 31st December 1996**

	NOTES	1996 £'000	1995 £'000
BALANCE ON THE TECHNICAL ACCOUNT			
- GENERAL BUSINESS		1,246	-
Net Investment Return	3	679	498
Net transfer of investment return to technical account		(679)	(498)
Expenses	1(h)	<u>(26)</u>	<u>(54)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES			
- before taxation - continuing activities		1,220	(54)
Taxation on profit on ordinary activities	5	<u>(409)</u>	<u>54</u>
PROFIT FROM ORDINARY ACTIVITIES			
- after taxation		811	-
Dividend	6	<u>(811)</u>	<u>-</u>
Retained profit for the year		<u>-</u>	<u>-</u>

The Company has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented. There is no difference between the profit on ordinary activities after taxation and the retained profit for the period and their historical cost equivalents.

The notes on pages 9 to 15 form part of these accounts.

MASTHEAD E LIMITED
BALANCE SHEET
as at 31st December 1996

		1996	1995
	NOTES	£'000	RESTATED £'000
ASSETS			
INVESTMENTS			
Intangible assets	7	13	6
Financial investments	8	<u>8,932</u>	<u>5,367</u>
		<u>8,945</u>	<u>5,373</u>
TECHNICAL PROVISIONS			
Reinsurance recoveries on outstanding claims		4,513	4,188
DEBTORS			
Debtors arising out of direct insurance operations	9	3,470	6,499
Debtors arising out of reinsurance operations - intermediaries		2,075	1,222
Other debtors	10	<u>399</u>	<u>140</u>
		<u>5,944</u>	<u>7,861</u>
OTHER ASSETS			
Cash at bank		2,259	2,299
Other assets		795	909
PREPAYMENTS AND ACCRUED INCOME		<u>28</u>	<u>11</u>
TOTAL ASSETS		<u>22,484</u>	<u>20,641</u>

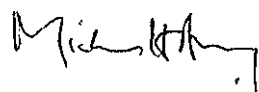
The notes on pages 9 to 15 form part of these accounts.

MASTHEAD E LIMITED
BALANCE SHEET
as at 31st December 1996 (Cont'd)

		1996	1995
	NOTES	£'000	RESTATED £'000
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	11	1	1
Profit and loss account		-	-
Shareholders' funds - equity interests		<u>1</u>	<u>1</u>
TECHNICAL PROVISIONS			
Claims outstanding - gross amount		19,626	19,286
PROVISIONS FOR OTHER RISKS AND CHARGES			
	12	418	-
CREDITORS			
Creditors arising out of direct business - intermediaries		302	289
Creditors arising out of reinsurance business - intermediaries		842	734
Other creditors	13	<u>1,295</u>	<u>331</u>
TOTAL LIABILITIES		<u>22,484</u>	<u>20,641</u>

The financial statements on pages 5 to 15 were approved by the board of directors on 11 August 1997 and were signed on their behalf by:

Director



M F HEATHCOAT-AMORY

The notes on pages 9 to 15 form part of these accounts.

MASTHEAD E LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 1996

1. Accounting Policies

The accounts have been 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 Regulations"), and in accordance with applicable accounting standards in the United Kingdom and with the Association of British Insurers Guidance on Accounting for Insurance Business (excluding Accounting for Investments) issued in December 1995. A summary of the more important accounting policies, which have been applied consistently, is set out below:

(a) Changes in presentation of the accounts

The Company has restated the comparative figures for the year ended 31st December 1995 to reflect the changes in the presentation of the accounts in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985. The restatement of the 1995 figures has had no effect on the results or shareholders funds.

(b) Basis of accounting

These accounts have been prepared in accordance with the historical cost convention modified by the revaluation of certain assets as required by the Regulations.

(c) Cash flow statement

The Company meets the conditions prescribed in Financial Reporting Standard No. 1, under which a cash flow statement is not required and accordingly such a statement has not been prepared.

(d) Basis of preparation

The information in respect of the company's participation in syndicates at Lloyd's has been taken from information provided by each syndicate and the Company's participations have then been centrally aggregated by Lloyd's.

(e) Underwriting results

The underwriting account for all classes of business has been prepared on a three year funded basis. Under this basis, premiums and claims are allocated to each underwriting year beginning 1st January, the results of which are determined and reported when the underwriting year is closed. In accordance with Lloyd's practice, the underwriting year is normally regarded as closed after three years of development, at which time any results are recognised. However, losses on open years are provided in respect of any estimated aggregate net losses from the syndicate participations because the Company's participations are managed together. Surpluses and deficits emerging are transferred to or from the profit and loss account but no surpluses are transferred from the funds during the first two years of development of any underwriting year.

MASTHEAD E LIMITED
NOTES TO THE ACCOUNTS (Cont'd)
for the year ended 31 December 1996

Premiums

Gross premiums written, which are stated gross of acquisition cost but exclusive of premium taxes, relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company by intermediaries.

Outwards reinsurance premiums are accounted for on the same basis and in the same accounting period as the premiums for the direct or inwards reinsurance business to which they relate.

Investments

Investments in marketable securities in the syndicates are stated at their mid-market value at the balance sheet date.

Claims

Paid claims represent all claims paid during the year and include claims handling expenses.

(f) Intangible assets

Intangible assets, which represent the cost of purchased syndicate capacity, are stated at historical values less any amortisation charges. Purchased syndicate capacity will be amortised over its expected economic life commencing from the underwriting year to which the purchased capacity relates.

(g) Investment income and expenses.

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised on the date on which the stock goes ex-dividend. Interest income is accrued up to the balance sheet date.

Investment income and all investment gains and losses relating to syndicate investments and cash are dealt with through the non-technical account and subsequently transferred to the technical account. Other investment income and other realised and unrealised gains and losses are dealt with through the non-technical account.

(h) Expenses - non-technical account

Expenses are accounted for in the non-technical account on the same basis as those in the technical account. All expenses have been paid by Masthead Insurance Underwriting plc and recharged to Masthead E.

MASTHEAD E LIMITED
NOTES TO THE ACCOUNTS (Cont'd)
for the year ended 31 December 1996

(i) **Technical provisions**

The excess of premiums written and syndicate investment income over the claims and syndicate expenses paid in respect of business incepting in an underwriting year is carried forward for two years in a fund and no profit is recognised until the end of the third year following the start of each underwriting year. The fund is included as part of outstanding claims. Changes in the technical provisions are included in the technical account. At the end of the third year and thereafter, provision is made by underwriters for the estimated cost of outstanding claims, claims incurred but not reported (IBNR), anticipated reinsurance recoveries and claims handling expenses at the balance sheet date. The adequacy of the outstanding claims provisions is established using actuarial and statistical projections of the amounts which the Company expects the ultimate settlement will cost, based on the current facts and circumstances and subjective factors such as inflation and new concepts of liability. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent development.

(j) **Foreign currency translations**

Monetary assets and liabilities are translated into sterling at the exchange rates prevailing at the balance sheet date. Income and expenses transactions are translated using the rates prevailing at the date of transaction or appropriate weighted average rates. Gains and losses arising on translation are included in the technical account

(k) **Deferred taxation**

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

(l) **Advisory fees**

Advisory fees paid to the members' agent are charged against the underwriting accounts and are recognised when the relevant year is closed.

MASTHEAD E LIMITED
NOTES TO THE ACCOUNTS (Cont'd)

for the year ended 31 December 1996

	GROSS PREMIUMS £'000	INCURRED CLAIMS £'000	OPERATING COSTS £'000	REINSURANCE BALANCE £'000
2. SEGMENTAL INFORMATION 1996				
Analysis of general business by class				
Accident & health	1,137	(431)	(366)	(36)
Motor (third party liability)	-	(1)	(1)	-
Motor (other classes)	188	(27)	(66)	4
Marine, aviation & transport	1,446	(2,252)	(390)	3,593
Fire & other damage to property	3,081	(1,709)	(915)	(45)
Third party liability	1,211	634	(515)	831
Credit & suretyship	16	(4)	(8)	109
Legal expenses	12	(6)	(3)	3
Assistance	-	-	-	-
Other	406	(203)	(119)	(236)
Reinsurance Acceptances	4,341	(1,983)	(921)	(5,003)
RITC	(249)	-	-	-
TOTAL	11,589	(5,982)	(3,304)	(780)

	GROSS PREMIUMS £'000	INCURRED CLAIMS £'000	OPERATING COSTS £'000	REINSURANCE BALANCE £'000
SEGMENTAL INFORMATION 1995				
Accident & health	1,426	(999)	(384)	(34)
Motor (third party liability)	10	(9)	(2)	1
Motor (other classes)	288	(243)	(74)	10
Marine, aviation & transport	2,232	(2,039)	(422)	(283)
Fire & other damage to property	3,074	(2,684)	(450)	(38)
Third party liability	5,042	(3,968)	(1,288)	25
Credit & suretyship	86	(69)	(16)	(3)
Legal expenses	9	(7)	(2)	1
Assistance	-	-	-	-
Other	502	(349)	(124)	(8)
Reinsurance Acceptances	2,398	(1,477)	(569)	(85)
RITC	2,401	(3,564)	-	1,195
TOTAL	17,468	(15,408)	(3,331)	781

The geographical distribution of gross premiums underwritten is as follows:-

	UNITED KINGDOM £'000	REST OF THE WORLD £'000
Gross premiums written in		
1996	10,684	905
1995	17,468	-

MASTHEAD E LIMITED
NOTES TO THE ACCOUNTS (Cont'd)
for the year ended 31 December 1996

3. Net Investment Return - Non-Technical Account

	1996	1995
	£'000	£'000
Net investment return from syndicates	<u>679*</u>	<u>498</u>

Net investment return from syndicates includes the Company's share of investment income and realised and unrealised investment gains and losses arising in the syndicates in which it participates.

* Includes £69,000 earned on early release of profits.

4. Directors' Emoluments

None of the directors received any emoluments in respect of their services during the year.

As in 1995, other than five directors, the Company had no employees during the period.

5. Taxation

	1996	1995
	£'000	£'000
Deferred tax	418	-
Overseas withholding tax	7	-
Double tax relief	(7)	-
Group relief	<u>(9)</u>	<u>(54)</u>
	<u>409</u>	<u>(54)</u>

The Company has surrendered its taxable losses of £26,000 (1995: £54,000) to its parent company, Masthead Insurance Underwriting plc, in return for a payment of £9,000 (1995: £54,000).

6. Dividends

	1996	1995
	£'000	£'000
Interim dividend of £811 per share (1995: Nil)	<u>811</u>	<u>-</u>

7. Intangible Assets

	1996	1995
	£'000	£'000
Cost at beginning of year	6	-
Additions at cost	7	6
Amortisation charges for the year	<u>-</u>	<u>-</u>
Amortised Cost At 31 December	<u>13</u>	<u>6</u>

MASTHEAD E LIMITED**NOTES TO THE ACCOUNTS (Cont'd)**

for the year ended 31 December 1996

8.	Financial Investments	1996 £'000	1995 £'000
	Shares and other variable yield securities	391	308
	Debt securities & other fixed income securities	7,773	4,498
	Participation in investment pools	4	-
	Loans guaranteed by mortgage	90	14
	Deposits with credit institutions	363	543
	Other	<u>311</u>	<u>4</u>
		<u>8,932</u>	<u>5,367</u>

All of the Company's investments and £2,258,000 (1995 £2,298,000) of its cash at bank is contained within Lloyd's Premium Trust funds.

The Company has no access to the trust funds until the funds are distributed upon closure of a year of account.

The share of syndicate investments is shown at market value. Information on the historical cost of investments is not readily available.

9.	Debtors arising out of Direct Insurance Operations	1996 £'000	1995 £'000
	Amounts owed by intermediaries	29	-
	Other debtors	<u>3,441</u>	<u>6,499</u>
		<u>3,470</u>	<u>6,499</u>

10.	Other debtors	1996 £'000	1995 £'000
	Other syndicate debtors	392	140
	US withholding tax	<u>7</u>	<u>-</u>
		<u>399</u>	<u>140</u>

11.	Called up Share Capital	1996 £	1995 £
	Authorised		
	Ordinary shares 1,000 shares of £1 each	<u>1,000</u>	<u>1,000</u>
	Allotted, called up and fully paid		
	Ordinary shares 1,000 shares of £1 each	<u>1,000</u>	<u>1,000</u>

MASTHEAD E LIMITED**NOTES TO THE ACCOUNTS (Cont'd)**

for the year ended 31 December 1996

12. Provision for Other Risks and Charges

	1996	1995
	£'000	£'000
Deferred taxation on short term timing differences		
Balance brought forward	-	-
Charged to profit and loss account	<u>418</u>	<u>-</u>
Balance at 31 December	<u>418</u>	<u>-</u>

13. Other creditors

	1996	1995
	£'000	£'000
Amounts due to parent company	841	-
Other syndicate creditors	391	331
Accrued expenses	63	-
	<u>1,295</u>	<u>331</u>

14. Covenant to Pay

The Society of Lloyd's and the parent company, Masthead Insurance Underwriting plc ("the Covenantor"), entered into a Master Agreement dated 31.12.93 which permits Masthead E Limited to provide Lloyd's deposits in the form of a covenant from its parent company which is secured by a mortgage of assets.

The existing covenant dated 31.12.93 remains unchanged and the liability of the Company shall not exceed £7,240,000.

15. Ultimate Parent Company

The Company is a subsidiary undertaking of Masthead Insurance Underwriting plc which is incorporated in Great Britain and registered in England and Wales.

The results of Masthead E Limited are consolidated in the group financial statements of Masthead Insurance Underwriting plc. This is the only group of undertakings which includes the results of Masthead E Limited in its consolidated financial statements.

Copies of the group financial statements of Masthead Insurance Underwriting plc are available from the registered office, 41 Tower Hill, London EC3N 4HA.