ACE CAPITAL V LIMITED
(formerly Tarquin Underwriters Limited)

FINANCIAL STATEMENTS

31 DECEMBER 1998

COMPANY REGISTRATION NUMBER : 2949447

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 1998.

PRINCIPAL ACTIVITY

The principal activity of the Company is that of a corporate underwriting member of Lloyd's.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company changed its name from Tarquin Underwriters Limited to ACE Capital V Limited on 21 July 1998.
The Company is the only member of Syndicate 2488 which is managed by ACE Underwriting Agencies Limited (formerly Charman Underwriting Agencies Limited), a fellow subsidiary. The Company's, and therefore, Syndicate 2488's, underwriting capacity for the 1999 account will be £188.4m.
These accounts contain the result of the Company's second underwriting year, 1996, which show a pre-tax profit of £36.4m, or just over 19% of Syndicate 2488's underwriting capacity.
On 9 July 1998 the entire share capital of Tarquin Limited, the Company's U.K. parent, was merged with ACE Limited, a company registered in the Cayman Islands. Tarquin Limited was re-registered as Tarquin and subsequently changed its name to ACE Tarquin. On 1 January 1999, ACE Limited's interest in ACE Tarquin was transferred to a new holding company, ACE Global Markets Limited, and subsequently to its subsidiary ACE Group Holdings Limited. ACE Global Markets Limited is a direct subsidiary of ACE Limited.
During 1998 a reorganisation of all of the syndicates managed by the ACE group was announced. For the 1999 year of account the group's Marine, Non-Marine and Aviation syndicates were merged into single operating units structured around Syndicate 488/2488 (Marine), Syndicate 219 (Non-Marine) and Syndicate 960 (Aviation).

YEAR 2000

In common with all companies within the ACE Global Markets Limited group, the Company has undertaken a review of the risks and uncertainties associated with the impact of the Year 2000 on its business. Business critical systems and facilities are believed to have been compliant since the end of 1998 and it is planned that all group companies will be Year 2000 compliant by 31 December 1999. Certain systems have been identified to be non-compliant and these are scheduled for replacement.The group and its subsidiaries is dependant on a large number of external suppliers whose products and services are required to achieve compliance. Whilst the Group is proactively managing these dependencies, this does not eliminate the possibility of difficulties due to problems being experienced by external suppliers.
Although the Company is expending considerable efforts, as described above, in order to anticipate the risks posed by the Year 2000 issue, the unique nature of the issue and its pervasiveness is such that it is not possible to guarantee that there will not be disruption to the operations of the Company as a result of it.
The directly attributable costs of becoming Year 2000 compliant across the whole group, including the managed syndicates of the group, are estimated to be in the region of £250,000, of which approximately £200,000 has been spent by 31 December 1998.
The managed syndicates of the group may in addition have an exposure to liabilities arising in respect of policies they are party to and which are, or maybe, related to the Year 2000 issue. The assessment of this issue is made in the financial statements of those managed syndicates including Syndicate 2488 and any such liabilities arising therefrom are for the account of the members of those syndicates including this Company.

RESULTS AND DIVIDENDS

The profit for the year to 31 December 1998 after taxation amounted to £23,701,939 (1997:£33,942,569). An interim dividend of £30,000,000 has been declared (1997:£nil).The directors do not recommend the payment of a final dividend (1997:£7,500,000).

DIRECTORS

The following have been directors for the year ended 31 December 1998 unless otherwise indicated:

J R Charman	
J J Lloyd	
W J Loschert	(Appointed 9 July 1998)
S B Gruber	(Resigned 3 July 1998)
T R Palmer	(Resigned 3 July 1998)
J J B Skinner	(Resigned 17 August 1998)
R A Spass	(Resigned 3 July 1998)
P H Warren	(Resigned 3 July 1998)

The company has the benefit of a group directors' and officers' liability insurance policy effected by ACE Limited. No charge was made to the Company during the year.

DIRECTORS' INTERESTS

In accordance with The Companies (Disclosure of Directors' Interests)(Exceptions) Regulations 1985 (SI 1985/802), the directors' interests in ACE Limited, the ultimate holding company, are not disclosed in these financial statements.

AUDITORS

Our auditors, Price Waterhouse, merged with Coopers and Lybrand on 1 July 1998, following which Price Waterhouse resigned and the directors appointed the new firm, PricewaterhouseCoopers as auditors to fill a casual vacancy.
Resolutions to reappoint PricewaterhouseCoopers as auditors and to adopt the elective regime will be proposed at the Annual General Meeting to be held on 23 June 1999.

By Order of the Board

M L Glover
Secretary, 23 June 1999

38 Bishopsgate
London
EC2N 4DL

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for the financial period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 1998.The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

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

REPORT OF THE AUDITORS

to the members of ACE Capital V Limited (formerly Tarquin Underwriters Limited)

We have audited the financial statements on pages 4 to 16 which have been prepared in accordance with the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistancies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 1998 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
London
23 June 1999

ACE CAPITAL V LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

TECHNICAL ACCOUNT - GENERAL BUSINESS

	Note	1998 £	1997 £
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written - continuing business	2	132,835,138	140,183,489
Outward reinsurance premiums		(67,135,643)	(50,843,311)
Net premiums written		65,699,495	89,340,178
INVESTMENT RETURN	3	8,461,070	7,561,056
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid:			
Gross amount	2	(78,237,083)	(52,343,395)
Reinsurers' share		53,110,685	30,890,724
Net paid claims		(25,126,398)	(21,452,671)
Change in the provision for claims:			
Gross amount	2	(292,058,559)	8,934,906
Reinsurers' share		322,583,718	(1,220,306)
Change in the net provision for claims		30,525,159	7,714,600
CLAIMS INCURRED, NET OF REINSURANCE		5,398,761	(13,738,071)
Net operating expenses	4	(45,681,851)	(37,146,230)
Investment expenses and charges		(150,215)	-
TOTAL BALANCE ON THE TECHNICAL ACCOUNT		33,727,260	46,016,933

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

NON-TECHNICAL ACCOUNT

	Note	1998 £	1997 £
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		33,727,260	46,016,933
Investment income	6	3,483,104	3,980,435
Net losses on investments	7	(2,377,280)	(631,526)
Other charges - expenses	8	(267,003)	(198,976)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		34,566,081	49,166,866
Tax on profit on ordinary activities	9	(10,864,142)	(15,224,297)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		23,701,939	33,942,569
Dividend	10	(30,000,000)	(7,500,000)
RETAINED LOSS FOR THE FINANCIAL YEAR		(6,298,061)	26,442,569
Retained profit at beginning of the financial year		31,249,556	4,806,987
RETAINED PROFIT AT END OF THE FINANCIAL YEAR		24,951,495	31,249,556

All of the above results derive from continuing operations.

The Company has no recognised gains or losses other than those presented and hence no separate Statement of Total Recognised Gains and Losses is presented.

There is no difference between the profit on ordinary activities before taxation and the retained loss for the financial period stated above and their historical cost equivalents.

ACE CAPITAL V LIMITED

BALANCE SHEET AT 31 DECEMBER

		Note	1998 £	1997 £
ASSETS				
Intangible assets		11	5,690,188	5,671,156
Investments	- technical	12	104,318,109	131,274,058
	- non-technical	12	31,492,184	56,122,779
			141,500,481	193,067,993
REINSURERS' SHARE OF TECHNICAL PROVISIONS				
Claims outstanding		13	342,881,120	20,297,402
DEBTORS				
Debtors arising out of direct insurance operations - intermediaries			74,739,311	53,881,174
Debtors arising out of reinsurance operations			17,345,939	37,553,252
Other debtors	- technical	14	7,467,001	12,473,978
	- non-technical	14	10,490,691	4,876,068
			110,042,942	108,784,472
OTHER ASSETS				
Cash at bank and in hand		15	17,758,143	6,531,300
TOTAL ASSETS			612,182,686	328,681,167

ACE CAPITAL V LIMITED

BALANCE SHEET AT 31 DECEMBER

	Note	1998 £	1997 £
LIABILITIES			
CAPITAL AND RESERVES			
Called-up share capital	18	4,283,568	4,283,568
Share premium account	18	38,552,102	38,552,102
Profit and loss account	19	24,951,495	31,249,556
Other reserves	19	(2,204,404)	(1,788,148)
TOTAL SHAREHOLDERS' FUNDS - EQUITY	19	65,582,761	72,297,078
TECHNICAL PROVISIONS			
Claims outstanding - gross amount	20	495,343,359	203,284,800
PROVISION FOR OTHER RISKS AND CHARGES	16	10,267,155	14,611,081
CREDITORS			
Creditors arising out of direct insurance operations		10,971,823	1,300,827
Creditors arising out of reinsurance business		7,479,570	16,309,824
Other creditors - technical	17	7,192,469	6,170,034
- non-technical	17	15,345,549	14,707,523
		40,989,411	38,488,208
TOTAL LIABILITIES		612,182,686	328,681,167

The financial statements on pages 4 to 16 were approved by the board of directors on 23 June 1999 and were signed on its behalf by:

W J Loschert
Director

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985 ("the Act"), and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 1998 and technical release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles".
No cash flow statement is presented since FRS 1 (revised) exempts the Company from the requirement to do so as the consolidated financial statements of ACE Limited (the Company's ultimate parent) include a group cash flow statement.

(b) Basis of accounting for underwriting business

Preparing financial statements in accordance with Section 255 of and Schedule 9A to the Act has required the Company to recognise its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ("the Syndicates").
For each such syndicate, the Company's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the Company's profit and loss account. Similarly, its proportion of the Syndicate's assets and liabilities has been reflected in its balance sheet.
The proportion referred to above is calculated by reference to the Company's participation as a percentage of the Syndicate's total capacity.
The underwriting information for the 1998 calendar year comprises the first year of the 1998 underwriting account, the second year of the 1997 underwriting account and the third year of the 1996 underwriting account of the Syndicates of which the Company is a member.
The comparative figures comprise the first year of the 1997 underwriting account, the second year of the 1996 underwriting account and the third year of the 1995 underwriting account.

(i) Premiums

Gross premiums written, which are stated gross of acquisition costs 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 received or notified to the Company by the 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.

(ii) Acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts.

(iii) Claims

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES - continued

(iv) Technical provisions

The excess of premiums written and syndicate investment income over the claims and operating and personal expenses of the Syndicates 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 accounts. At the end of the third year and thereafter, provision is made for the estimated cost of outstanding claims, claims incurred but not reported (IBNR), anticipated reinsurance recoveries and related claims handling expenses at the balance sheet date. The adequacy of the outstanding claims provision 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.
Open year surpluses and deficits are offset in respect of the same underwriting year for catagories of business managed together, and a provision is made if an aggregate deficit arises. In accordance with technical release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles", provision is made for open year losses as soon as they can be foreseen. Losses are estimated by reference to the ultimate result expected from the premiums written.

(v) Reinsurance to Close

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written.
If the Company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the Company has assumed a greater proportion of the business of the Syndicates. If the Company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the Company's exposure to risks previously written by the Syndicates. the excess representing the increase or reduction in percentage participation is shown in the technical account as gross premiums written or reinsurance premiums payable as appropriate.

(vi) Syndicate investment income, expenses and charges

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year.
All syndicate investment gains and losses, including those that are unrealised are attributed to the technical account in accordance with technical release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles".

(c) Investment income, expenses and charges

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.

(d) Costs of capacity purchased at auction

The auction costs relating to syndicate capacity are treated as an intangible asset and written off through the profit and loss account in 20 equal annual instalments commencing at the end of the third calendar year following its purchase. The carrying value of the asset is reviewed annually by the directors and a provision is made where necessary for any permanent impairment in the value of the capacity acquired.

NOTES TO THE FINANCIAL STATEMENTS

(e) Foreign currency transactions

Monetary assets and liabilities and transactions in the technical account are translated into sterling at the exchange rates prevailing at the balance sheet date. Transactions in the non-technical account are translated at rates of exchange ruling at the dates of the transactions. Gains or losses arising on syndicate transactions are included in the technical account. Gains or losses arising on the Company's other transactions and balances are included in the non-technical account. Share capital denominated in United States dollars is translated into sterling at the historic exchange rate in force when it was issued.

(f) Investments

Investments in marketable securities are stated at their mid-market value at the balance sheet date. Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in 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 been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

(g) Deferred taxation

Deferred taxation is accounted for on the liability method on timing differences to the extent that a liability is expected to crystallise within the foreseeable future or an asset is expected to be recovered out of corporation tax payable on profits of the following accounting period.

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENTAL ANALYSIS

The business noted below has all been underwritten in the Lloyd's insurance market or in the United Kingdom, which has been treated as one geographical segment and class of business for the purposes of Statement of Standard Accounting Practice No.25: Segmental Reporting.

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

	Gross premiums £	Gross claims incurred £	Net operating expenses £	Re-insurance balance £
Year to 31 December 1998				
Marine, aviation and transport	54,727,486	(166,474,196)	(19,451,381)	158,353,397
Fire and other damage to property	33,272,807	(86,740,384)	(11,825,904)	65,688,036
Third party liability	15,317,543	(50,188,171)	(5,444,199)	45,550,098
Reinsurance acceptances	12,921,683	(32,064,621)	(4,592,657)	19,169,224
Other	12,346,148	(28,014,622)	(4,388,099)	17,319,864
Accident and health	365,271	(956,540)	(129,826)	744,071
Reinsurance to close	3,884,200	(5,857,108)	-	1,734,070
Total	132,835,138	(370,295,642)	(45,832,066)	308,558,760

	Gross premiums £	Gross claims incurred £	Net operating expenses £	Re-insurance balance £
Year to 31 December 1997				
Marine, aviation and transport	72,110,843	(30,316,969)	(19,771,368)	(10,534,854)
Fire and other damage to property	26,854,965	(5,189,867)	(7,363,101)	(3,923,309)
Third party liability	20,377,403	(2,297,571)	(5,587,081)	(2,976,986)
Reinsurance acceptances	7,869,191	(294,871)	(2,157,577)	(1,149,630)
Other	8,136,101	(120,373)	(2,230,758)	(1,188,623)
Accident and health	132,558	(54,362)	(36,345)	(19,366)
Reinsurance to close	4,702,428	(5,134,476)	-	(1,380,125)
Total	140,183,489	(43,408,489)	(37,146,230)	(21,172,893)

3. INVESTMENT RETURN - TECHNICAL ACCOUNT

	1998 £	1997 £
Syndicate investment income	7,492,605	7,853,210
Syndicate realised gains/(losses)	968,465	(292,154)
Total	8,461,070	7,561,056

NOTES TO THE FINANCIAL STATEMENTS

4. NET OPERATING EXPENSES - TECHNICAL ACCOUNT

	1998 £	1997 £
Acquisition costs	26,849,054	20,320,122
Administrative expenses	1,124,860	782,323
Foreign exchange losses	644,000	3,811,944
Personal expenses	17,063,937	12,231,841
Total	45,681,851	37,146,230

5. DIRECTORS AND EMPLOYEES

The Company has no employees.
The directors received no emoluments for their services to the Company (1997 - £nil).

6. INVESTMENT INCOME

	1998 £	1997 £
Interest receivable on funds held at Lloyd's	477,591	889,120
Bank interest receivable	176,161	374,410
Dividends and interest received on quoted investments	2,829,352	2,716,905
	3,483,104	3,980,435

7. INVESTMENT APPRECIATION AND DEPRECIATION

	1998 £	1997 £
Realised gains	133,267	2,617
Realised losses	(85,427)	(56,039)
Unrealised gains	-	142,636
Unrealised losses	(2,425,120)	(720,740)
	(2,377,280)	(631,526)

8. OTHER CHARGES - EXPENSES

Profit before taxation is stated after charging the following items:	1998 £	1997 £
Investment management expenses	61,188	70,261
Auditors remuneration	3,750	8,375
Other fees paid to auditors	31,750	-
Letter of credit charges	77,674	76,662

NOTES TO THE FINANCIAL STATEMENTS

9. TAXATION

	1998	1997
	£	£
UK Corporation tax:		
Current period:		
UK corporation tax at 31% (1997 - 31.5%)	14,443,285	(47,011)
Tax attributable to franked investment income	186,752	539,351
Write off irrecoverable foreign taxes	247,812	-
Deferred taxation (note 16)	(4,343,926)	14,611,081
(Over)/underprovision in respect of prior years	330,219	120,876
	10,864,142	15,224,297

10. DIVIDENDS

	1998	1997
	£	£
Interim dividend of £4.46 per share (1997:£nil)	30,000,000	-
Final dividend of £nil (1997:£1.12)	-	7,500,000
	30,000,000	7,500,000

11. INTANGIBLE ASSETS

	1998	1997
	£	£
Purchase costs of capacity		
Balance at the beginning of the year	5,671,156	384,690
Additions during the year	19,032	5,286,466
Balance at the end of the year	5,690,188	5,671,156

12. INVESTMENTS

	TECHNICAL 1998	NON TECHNICAL 1998	TECHNICAL 1997	NON TECHNICAL 1997
	£	£	£	£
Funds at Lloyd's				
Cash deposits	-	5,915,854	-	17,561,500
Listed investments	-	19,193,981	-	38,561,279
Syndicate Assets				
Debt securities and other fixed interest securities	79,389,350	-	84,737,033	-
Participation in investment pools	20,898,088	-	42,672,724	-
Overseas deposits	4,030,671	-	3,864,301	-
Other listed investments	-	6,382,349	-	-
	104,318,109	31,492,184	131,274,058	56,122,779

NOTES TO THE FINANCIAL STATEMENTS

12. INVESTMENTS - continued

The syndicates are required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets.

The Company has met its funds at Lloyd's requirement to support its underwriting capacity by way of certain of the assets shown above and letters of credit to the value of £74,629,963 (1997 - £US$79,825,000). The letters of credit have been arranged by ACE Limited and guaranteed by ACE Bermuda Insurance Limited.

13. REINSURERS' SHARE OF TECHNICAL PROVISIONS - Claims Outstanding

	1998 £	1997 £
Balance at the beginning of the period	20,297,402	21,517,708
Movement during the period	322,583,718	(1,220,306)
Balance at the end of the period	342,881,120	20,297,402

14. OTHER DEBTORS

	TECHNICAL 1998 £	NON TECHNICAL 1998 £	TECHNICAL 1997 £	NON TECHNICAL 1997 £
Taxation - due within one year	-	723,738	302,653	1,750,829
Taxation - due after one year	2,489,919	-	4,247,894	-
Due from parent company	-	9,256,835	-	2,223,912
Prepayments and accrued income	79,713	417,381	124,662	581,321
Other debtors	4,897,369	92,737	7,798,769	320,006
	7,467,001	10,490,691	12,473,978	4,876,068

15. CASH AT BANK AND IN HAND

	1998 £	1997 £
Technical - Syndicate premium trust funds	16,990,632	6,363,416
Non-technical - cash and short term deposits	767,511	167,884
	17,758,143	6,531,300

NOTES TO THE FINANCIAL STATEMENTS

16. PROVISIONS FOR OTHER RISKS AND CHARGES

	1998 £	1997 £
Deferred tax	10,267,155	14,611,081
Represented by:		
Taxation due on underwriting profits	11,016,202	14,265,249
Short-term timing differences	(749,047)	345,832
	10,267,155	14,611,081

17. CREDITORS

	TECHNICAL 1998 £	NON TECHNICAL 1998 £	TECHNICAL 1997 £	NON TECHNICAL 1997 £
Amounts due to group undertakings	-	6,945,500	5,512,626	14,372,645
Corporation tax payable	-	8,325,106	-	-
Other creditors	7,192,469	74,943	657,408	334,878
	7,192,469	15,345,549	6,170,034	14,707,523

18. SHARE CAPITAL

	1998 number	1997 number
Authorised		
Ordinary US$1 shares	6,725,202	6,725,202

	1998 US$	1998 £	1997 US$	1997 £
Allotted, called up and fully paid				
Ordinary US$1 shares	6,725,200	4,283,568	6,725,200	4,283,568

	1998 US$	1998 £	1997 US$	1997 £
Share Premium				
at US$9 per ordinary share	60,526,800	38,552,102	60,526,800	38,552,102

NOTES TO THE FINANCIAL STATEMENTS

19. MOVEMENTS IN SHAREHOLDERS' FUNDS

	Other reserves £	Share capital and share premium £	Profit and loss account £	Total £
Result for the financial year	(416,256)	0	(6,298,061)	(6,714,317)
Opening shareholders' funds	(1,788,148)	42,835,670	31,249,556	72,297,078
Closing shareholders' funds	(2,204,404)	42,835,670	24,951,495	65,582,761

20. CLAIMS OUTSTANDING - GROSS AMOUNT

	1998 £	1997 £
Balance at the beginning of the period	203,284,800	212,219,706
Movement during the period	292,058,559	(8,934,906)
Balance at the end of the period	495,343,359	203,284,800

21. CONTINGENT LIABILITIES

(i) The Company has issued a promissory note in favour of ACE Limited in the sum of £2,524,419 in relation to an element of certain of the letters of credit which support the underwriting activities of the Company referred to above. The note was required under the conditions of sale and purchase agreement of ACE Tarquin (formerly Tarquin plc) dated 9 July 1998.

(ii) The taxable results of the Company depend on the taxable results of the syndicates on which it participates. The Inland Revenue is contending that in calculating the syndicates' taxable results the reinsurance to close should be subject to a disallowance to reflect the net presant value of future claims payable. This "discounting" adjustment is being strongly disputed by Lloyd's tax department and the managing agency community. If the Inland Revenue were successful in their contention then there would be a permanent acceleration in the tax payable by the Company. The tax charge has been calculated on the basis that the Inland Revenue will not succeed in its attempt to apply discounting to the reinsurance to close. It is not practical to estimate the increase in the tax charge if the Inland Revenue were to be successful.

22. TRANSACTIONS WITH RELATED PARTIES

Advantage has been taken of the exemption provided in FRS 8 from disclosing details of transactions with ACE Limited and its subsidiary undertakings.

23. ULTIMATE HOLDING COMPANY

The ultimate holding company is ACE Limited, a company registered in the Cayman Islands, with its headquarters in Bermuda and quoted on the New York Stock Exchange. Copies of the company's accounts can be obtained from Investor Relations at The ACE Building, 30 Woodbourne Avenue, Hamilton HM 08, Bermuda.