

CBS UNDERWRITING LIMITED

Reports and Financial Statements

CBS Underwriting Limited

Registered Number: 3751810

31 December 1999



CBS UNDERWRITING LIMITED

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CBS UNDERWRITING LIMITED

Report of the Directors

The directors presents their report and financial statements for the period 31 December 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 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;
- comply with applicable accounting standards subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining 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.

Review of the Business and Future Developments

The company was incorporated on 14 April 1999 as Mexicoflame Ltd and changed its name to CBS Underwriting Ltd on 11 May 1999. The company's principal activity is to carry on the business of underwriting as a corporate member at Lloyd's.

Auditors

In accordance with Section 385 of the Companies Act 1985, the Directors have initially appointed KPMG Audit Plc as its auditors. A resolution to appoint KPMG Audit Plc as the company's auditors will be proposed at the Annual General Meeting.

Results and Dividends

The results for the period and the state of the company's affairs as at 31 December 1999 are shown in the financial statements.

CBS UNDERWRITING LIMITED

Directors

The following have served as directors during the period from incorporation to the date of this report. No director has an interest in the shares of the company. The directors' interests in CBS Insurance Holdings PLC, the holding company, during the year are noted below.

	CBS Insurance Holdings PLC	
	10p Ordinary Shares	
	at 31.12.99	on acquisition
Instant Companies Ltd (appointed 14/4/99 resigned 27/4/99)	-	-
JG Hill (appointed 14/4/99 resigned 6/5/99)	-	-
CAA Harbord-Hamond (appointed 6/5/99)	1,174,721	100,000
Mrs EL Harbord-Hamond (appointed 6/5/99)	1,194,263	100,000
TH Holbech (appointed 6/5/99)	1,192,205	100,000
AJ Sparrow (appointed 6/5/99)	1,174,721	100,000
MJB Watson (appointed 6/5/99)	-	-

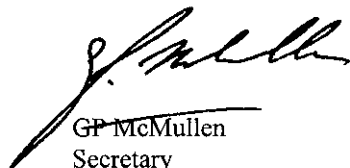
Mrs EL Harbord-Hamond is the wife of CAA Harbord-Hamond.

At the date of the acquisition, each of CAA Harbord-Hamond, Mrs EL Harbord-Hamond, TH Holbech and AJ Sparrow was beneficially interested in 100,000 10p ordinary shares, which were subsequently transferred to an unrelated third party. The amounts shown against their Names at 31 December 1999 include a non-beneficial interest in such shares.

The directors hold the following options on shares and 0% Convertible Stock in CBS Insurance Holdings PLC. These are in an approved share option scheme. All of the options are exercisable between 21 December 2002 and 20 December 2009 at an exercise price of £1 per share. The 0% Convertible Stock is convertible on 30 November 2002, or if earlier the 2003 coming-into-line date, at a rate of 85 shares for each £100 nominal of stock. The Convertible Stock may be converted before 1 December 2000 at a rate of 95 shares, or before 1 December 2001 at a rate of 90 shares, for each £100 nominal of stock.

	Options		0% Convertible Stock	
	at 31.12.99	at 31.12.98	at 31.12.99	at 31.12.98
CAA Harbord-Hamond	400,000	-	-	-
Mrs EL Harbord-Hamond	275,000	-	7,000	-
TH Holbech	400,000	-	17,000	-
AJ Sparrow	400,000	-	-	-
MJB Watson	400,000	-	-	-

BY ORDER OF THE BOARD



GP McMullen
Secretary
Peninsular House
36 Monument Street
London EC3R 8LJ

31 March 2000

CBS UNDERWRITING LIMITED

Auditor's report to the shareholders of CBS Underwriting Ltd

We have audited the financial statements on pages 4 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 1, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you on 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 with the company is not disclosed.

Basis of audit 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 the company's affairs as at 31 December 1999 and of its loss for the period since incorporation on 14 April 1999 to 31 December 1999 and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Registered Auditor
Chartered Accountants

31 March 2000

CBS UNDERWRITING LIMITED

Profit and Loss Account

for the period ended 31 December 1999

	Note	14.4.99 to 31.12.99
		£
TECHNICAL ACCOUNT - GENERAL BUSINESS		
Earned premiums, net of reinsurance		
Gross premiums written		-
Outward reinsurance premiums		-
		<hr/>
Net premiums written		-
Allocated investment return transferred from the non-technical account		-
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		-
Reinsurers' share		-
		<hr/>
		-
Change in the provision for claims:		
Gross amount		
Reinsurers' share		
		<hr/>
		-
Net claims incurred		<hr/>
		-
Net operating expenses		-
Investment expenses and charges		-
		<hr/>
Balance transferred to the non-technical account		-
		<hr/>

The company commenced underwriting on 1 January 2000.

CBS UNDERWRITING LIMITED

Profit and Loss Account

for the period ended 31 December 1999

	Note	14.4.99 to 31.12.99 £
NON TECHNICAL ACCOUNT		
Balance on the general business technical account		-
Investment income		-
Unrealised gains on investments		-
Investment expenses and charges		-
Unrealised losses on investments		-
Allocated investment return transferred to the general business technical account		-
Other income		20,564
Other charges including value adjustments		(509,251)
Loss on ordinary activities before tax	2	(488,687)
Tax on loss on ordinary activities	3	62,131
Loss for the financial year		<u>(426,556)</u>

The company has no gains or losses other than the profit or loss for the year.

All items derive from continuing operations.

No operations were acquired or discontinued in the year.

CBS UNDERWRITING LIMITED

Balance Sheet

as at 31 December 1999

		1999
	Note	£
ASSETS		
INTANGIBLE ASSETS	4	17,894,208
		<u>17,894,208</u>
REINSURERS' SHARE OF TECHNICAL PROVISIONS		
Claims outstanding		-
		<u>-</u>
DEBTORS		
Debtors arising out of direct insurance operations:		
Due from intermediaries		-
Debtors arising out of reinsurance operations		-
Other debtors	5	62,131
		<u>62,131</u>
OTHER ASSETS		
Cash at bank and in hand		357,865
Cash held as Funds at Lloyd's		5,156,086
Other		-
		<u>5,513,951</u>
PREPAYMENTS AND ACCRUED INCOME		
Accrued interest		2,086
Other prepayments and accrued income		80,206
		<u>82,292</u>
TOTAL ASSETS		<u><u>23,552,582</u></u>

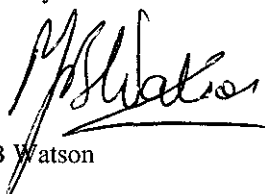
CBS UNDERWRITING LIMITED

Balance Sheet

as at 31 December 1999

		1999
	Note	
LIABILITIES		
CAPITAL AND RESERVES		
Called up share capital	7	2
Profit and loss account	8	(426,556)
Equity Shareholders Funds		<u>(426,554)</u>
TECHNICAL PROVISIONS		
Claims outstanding - gross amount		-
		<u>-</u>
PROVISIONS FOR OTHER RISKS AND CHARGES		
Provision for taxation		-
		<u>-</u>
DEPOSITS RECEIVED FROM REINSURERS		-
CREDITORS		
Creditors arising out of direct insurance operations		-
Creditors arising out of reinsurance operations		-
Other creditors including taxation and social security	10	23,910,986
Proposed final dividend		-
Debenture loans		-
		<u>23,910,986</u>
ACCRUALS AND DEFERRED INCOME		68,150
TOTAL LIABILITIES		<u><u>23,552,582</u></u>

Approved by the board of directors and signed on its behalf by


MJB Watson

31 March 2000

CBS UNDERWRITING LIMITED

Notes to the Financial Statements

For the period ended 31 December 1999

1. ACCOUNTING POLICIES

(a) **Accounting convention**

The financial statements are prepared under the historical cost convention in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 ("the Act") and applicable Financial Reporting Standards (FRS) and Statements of Standard Accounting Practice.

(b) **Basis of accounting for underwriting results**

All classes of insurance business written are accounted for on a three year funded basis because it is the basis most similar to that followed by the Syndicates. The nature of the information Managing Agents make available is insufficient for the company to make reliable estimates of the necessary technical provisions on an annual basis of accounting. Under the three year funded basis followed by the company, the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period ("the underwriting year") is carried forward as a technical provisions until the end of the third year from the inception of the underwriting year. Consequently, no profit is recognised in respect of an underwriting year until that time at the earliest. Profit is only recognised if a syndicate has been able to effect a "reinsurance to close" (see (f) below) in respect of that underwriting year.

If an underwriting year is expected to make a loss, the loss is recognised as soon as it is foreseen by increasing the technical provision to make it sufficient to meet present liabilities and anticipated future claims and expenses.

(c) **Premiums**

Premiums written comprise the total premiums receivable for the whole period of cover provided by the contracts incepting during the financial year, together with any adjustments arising in the year so such premiums receivable in respect of business written in prior years. Premiums are shown gross of commission payable to intermediaries and exclude insurance premium tax.

Gross premiums written may include "reinsurance to close" receivable (see (f) below).

Premiums written by a syndicate may also include the reinsurance of other syndicates on which the company participates. No adjustments have been made to gross premiums written or outward reinsurance premiums (or to gross and reinsurers' claims) to remove this inter syndicate reinsurance.

Outward reinsurance premiums may include "reinsurance to close" payable (see (f) below).

(d) **Claims incurred**

Claims incurred include the costs of claims handling expenses. Recoverable amounts arising out of subrogations or salvage are deducted from the cost of claims. Claims incurred comprise amounts paid or provided in respect of claims occurring during the year to 31 December, together with the amount by which settlement or reassessment of claims from previous years differs from the provision at the beginning of the year.

CBS UNDERWRITING LIMITED

Notes to the Financial Statements

For the period ended 31 December 1999

1. ACCOUNTING POLICIES (continued)

(e) Provision for claims

Provision is made for claims incurred but not paid in respect of events up to 31 December. The provision includes the amounts required to ensure no profit is recognised before the end of the third year under the three year funded basis of accounting (see (b) above).

The provision has been increased as appropriate by the company to the extent that deficits are foreseen on underwriting years before the 36 months point is reached.

In deciding whether any such additional provision is necessary, syndicate participations have been considered in aggregate as all Lloyd's underwriting is managed together.

The provision is based on the Returns and reports from the Managing Agents and the company's Members' Agent. When appropriate, statistical methods have been applied to past experience of claims frequency and severity.

(f) Reinsurance to close

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's syndicates. Under it, underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year), agree with underwriting members who comprise that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge, of the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that syndicate and allocated to be closed year in consideration of:

- (a) a premium; and
- (b) either
 - (i) the assignment, or agreement to assign, to the reinsuring members of all the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitation the right to receive all future premiums, reinsurance and other monies receivable in connection with that insurance business); or
 - (ii) an agreement by the reinsured members that the reinsuring members shall collect on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefits so far as they are not applied in discharge of the liabilities of the reinsured members.

Where the reinsurance to close is between members on successive years of account of the same syndicate, the managing agent has a duty to ensure both sets of members are treated equitably and to set reinsurance to close with the intention that neither a profit nor a loss accrues to either group of members.

To the extent that the company participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

CBS UNDERWRITING LIMITED

Notes to the Financial Statements

For the period ended 31 December 1999

1. ACCOUNTING POLICIES (continued)

(f) Reinsurance to close (continued)

If the company has increased its participations 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 syndicate. 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 syndicate.

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 reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims.

However, payment of a reinsurance to close is conventionally accepted as terminating a reinsured member's participation on a syndicate year of account and it is treated for account purposes as settling all the company's outstanding gross liabilities in respect of the business so reinsured.

(g) Investments

Listed and other traded investments are stated at mid-market values. Other investments are stated at directors' valuations. Unrealised gains and losses are recognised in the profit and loss account.

(h) Investment income

Investment income comprises interest receivable and dividends received plus realised gains on the disposal of investments. Realised gains and losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluation.

Where investments represent the company's share of syndicate investments, they are treated as sold and repurchased at each year end in recognition of the annual venture nature of participation on a syndicate. The cost of these investments is therefore their market value at each 31 December. The realised gains reported by Syndicates are net of any realised losses.

All investment income, net of realised losses, arising on syndicate participation is allocated to the technical account. Other investment income is attributable to the non-technical account.

(i) Investment expenses and charges

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments. Realised losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluations. The realised losses reported by Syndicates are net of any realised gains.

CBS UNDERWRITING LIMITED

Notes to the Financial Statements

For the period ended 31 December 1999

1. ACCOUNTING POLICIES (continued)

(j) Net operating expenses

Operating expenses are recognised when incurred. They include the company's share of syndicate operating expenses, the remuneration payable to Managing Agents (and the company's Members' Agent/licensed adviser) and the direct costs of membership of Lloyd's. Where they relate to the company's underwriting, they are taken into account in calculating the technical provision required under the three year funded basis of accounting.

(k) Other charges

Expenses not attributable to underwriting or investment management are recognised when incurred.

(l) Foreign Currencies

Transactions in foreign currencies other than sterling, United States dollars and Canadian dollars are translated at the rates of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States dollars and Canadian dollars and assets and liabilities in currencies other than sterling are translated at the rates of exchange ruling at the end of the financial year. Exchange differences arising on translation are dealt with in the profit and loss account.

(m) Syndicate participation rights

Where the company has purchased the right to participate on Syndicates, the cost is capitalised and amortised over 20 years commencing in the calendar year which the year of account for which the capacity is purchased is closed.

If, at any time, the directors become aware of a permanent diminution in the value of the company's right to participate on a syndicate, the asset will be written down accordingly.

(n) Taxation

The company is taxed on its share of the underwriting results declared by Syndicates and these are deemed to accrue evenly over the calendar year in which they are declared.

The Inland Revenue determines the taxable results of Syndicates on the basis of computations submitted by the Managing Agent.

Other profits are assessable to corporation tax in the same period as they are recognised for accounting purposes, after adjustment in accordance with tax legislation.

(o) Deferred taxation

Deferred taxation is provided in respect of the tax effect of all timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future, at the rates of tax expected to apply when the timing differences reverse. One such timing difference is that between the time when underwriting results are reported for accounting purposes and when they are declared for tax purposes.

CBS UNDERWRITING LIMITED

Notes to the Financial Statements

For the period ended 31 December 1999

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAX

The loss on ordinary activities before tax is stated after charging

	1999 £
Auditors' remuneration - audit services	2,550
Letter of credit fees	416,101
Lloyd's fees	40,600
	<u>459,251</u>

3. TAXATION

	1999 £
UK corporation tax at 30.25%	62,131
	<u>62,131</u>

4. INTANGIBLE ASSETS - OTHER

Syndicate participation rights

	£
COST	
Additions	17,894,208
As at 31 December 1999	<u>17,894,208</u>

5. OTHER DEBTORS

	1999 £
Corporation Tax	62,131
	<u>62,131</u>

7. SHARE CAPITAL

	Authorised 1999 £	Allotted, issued and fully paid 1999 £
1,000 Ordinary shares of £1 each	1,000	2

CBS UNDERWRITING LIMITED

Notes to the Financial Statement

for the period ended 31 December 1999 (continued)

8. RESERVES

**Profit &
Loss
Account
£**

At 14 April 1999	-
Loss for the period	(426,556)
At 31 December 1999	<u>(426,556)</u>

9. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

**1999
£**

Loss for the period year	(426,556)
Net reduction to shareholders' funds	<u>(426,556)</u>
On incorporation	2
Opening shareholders' funds	-
Closing shareholders' funds	<u>(426,554)</u>

10. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

**1999
£**

Amount due to group undertakings	23,910,986
	<u>23,910,986</u>

11. CONTINGENT LIABILITIES

- i) The company commenced underwriting at Lloyd's on 1 January 2000 with an allocated capacity of £137m. The ability to underwrite is supported by Funds at Lloyd's of £62,429,741 of which £48,123,467 is letters of credit, £5,156,086 cash and £9,150,161 interavailable deposits. £27,499,124 of the letters of credit are secured by a fixed & floating charge on the assets of, CBS Insurance Holdings PLC - the ultimate holding company, Christie Brockbank Shipton Ltd, Aequanimiter Ltd and Chatset Ltd - fellow subsidiaries, in favour of The Royal Bank of Scotland plc and Westdeutsche Landesbank Girozentrale.
- ii) £343,739 of the cash balances are secured in favour of ING Bank NV in respect of a call being made on their letter of credit of £20,624,343. The ING Bank NV letter of credit is further secured by a reinsurance contract with American Re-insurance Company.

CBS UNDERWRITING LIMITED

Notes to the Financial Statement

for the period ended 31 December 1999 (continued)

12. RELATED PARTY TRANSACTIONS

The company writes 4.18% of its aggregate premium limit on Syndicate 2525 managed by Trinity Syndicates Limited. CBS Insurance Holdings PLC, the company's ultimate holding company owns 40% of the share capital of Trinity Syndicates Limited.

The following CBS Insurance Holdings PLC directors had direct participations on Syndicate 2525 as listed below:

	Year of Account
	2000
	£
CAA Harbord-Hamond	25,000
AJ Sparrow	20,000

13. ULTIMATE HOLDING COMPANY

The ultimate holding company is CBS Insurance Holdings PLC which is registered in England and Wales.

CBS UNDERWRITING LIMITED (formerly Mexicoflame Limited)

Detailed Profit & Loss Account for the period ended 31 December 1999

	14.4.99 to 31.12.99
INCOME	
Interest receivable	20,564
	<u>20,564</u>
EXPENDITURE	
Letter of credit fees	416,101
Lloyd's fees	40,600
Legal & professional fees	52,550
	<u>509,251</u>
LOSS BEFORE TAX	<u>(488,687)</u>