

QBE Insurance (Europe) Limited
Annual report 2008

Europe

QBE Insurance (Europe) Limited

QBE vision

To be internationally recognised as:

- A highly successful general insurance and reinsurance group
- A builder of shareholders' wealth
- A developer of "can do" people
- An organisation that excels in the continuous delivery of new and proven quality products and services

QBE values

- Increasing the long term wealth of shareholders
- Customer satisfaction and retention
- Employee motivation
- Integrity

01	QBE Insurance (Europe) Limited overview
02	What makes QBE different?
04	Chief Executive Officer's review
06	Directors and officers
07	Risk management
08	Directors' report
11	Independent auditors' report to the members of QBE Insurance (Europe) Limited
12	Profit and loss account: technical account – general business

13	Profit and loss account: non-technical account
14	Statement of total recognised gains and losses
15	Balance sheet
17	Notes to the financial statements
36	Extracts from the financial statements presented in US dollars (unaudited)
37	Profit and loss account: US dollars (unaudited) technical account – general business
38	Profit and loss account: US dollars (unaudited) non-technical account
39	Statement of total recognised gains and losses US dollars (unaudited)
40	Balance sheet: US dollars (unaudited)



Frank O'Halloran
Chief Executive Officer,
QBE Insurance Group



Steven Burns
Chief Executive Officer,
QBE European Operations

QBE has developed and embedded a unique culture throughout the organisation based on key essential behaviours with a focus on attracting, developing and retaining high quality employees with a can do attitude. This is key to our continuing ability to establish strong client relationships and respond to their specific insurance and risk management needs through the development and delivery of innovative and bespoke products and services.

QBE Insurance Europe Limited (QIEL or company) continues to develop its business by concentrating on specialist risk areas in selected markets where it is able to create differentiation based upon expert response to client needs, outstanding client service, and advanced claims handling capabilities. Along with QBE's Lloyd's division, QIEL forms a major part of QBE European Operations (EO).

EO is one of four geographically focused divisions within QBE Insurance Group, along with Australia and Asia Pacific, managed from Sydney and the Americas, managed from New York.

QBE Insurance (Europe) Limited overview

The strength and depth of our underwriting talent and the commitment of our supporting teams, coupled with the strong contribution from prior year reserve surpluses, have again been the major factors in achieving a solid financial result in 2008.

Market conditions were very challenging during 2008 and the loss environment was far more active than that of 2006 and 2007. Our underwriters therefore retained their focus on discipline, risk selection and key client retention and demonstrated our commitment to a "bottom line" philosophy. We have weathered the challenges of the credit crunch and the economic downturn remarkably well to date.

QBE's underlying business strategy is to maintain operations in the key global insurance markets and, where possible, to be a lead underwriter for selected lines of business. QBE's strategy of diversification by product and geographical exposure is fundamental to managing its insurance and reinsurance risks and has been a vital ingredient in its success.

EO's eight product focused underwriting divisions allow it to leverage the breadth and depth of its capabilities in a coordinated and focused way.

This means brokers and clients have access to:

- A wider distribution network
- All expertise in one place
- A choice of Lloyd's paper or company paper
- The strength and size of QBE
- The individuals who understand their business



What makes QBE different?

1

Strong and growing market presence



Strong

QBE is one of the world's top 25 insurers and reinsurers and has been established in the UK since 1904. At QBE we understand the importance of security in the insurance decision making process and the strength of our ratings and financial backing gives us a real advantage in the market.

QBE is one of the world's leading insurers and reinsurers with offices in 45 countries, backed by A+ ratings by S&P and Fitch. Our approach is one of leading not following, so when it comes to product design or setting the terms and conditions we take the initiative.

2

Entrepreneurial solutions to business risk



Entrepreneurial

We are always looking for solutions to business risks which means working closely with all parties to understand their business and creating the right product for them.

A groundbreaking six year deal signed with a major provider of transport infrastructure provides a graphic illustration of an insurer that has an appetite for tripartite partnerships with brokers and clients built around shared information. This also demonstrates our appetite to tackle risks that others cannot and this deal provided the client with the necessary insurance first to survive and, latterly, the confidence to build for the future.

3

Empowers through a collaborative can do spirit across the business and with all business partners



Empowers

At every stage of the relationship we encourage a "can do" spirit, which means everyone benefits from quicker decision making and faster solutions.

We emphasise the importance of cooperation across all departments and this in turn enables us to provide a bespoke service and excellent customer relations management programme to our clients.

An example of this was provided recently to a major UK based corporate catering company where a flexible, coordinated approach to client care was implemented, including scheduled quarterly meetings backed up by fully transparent management reporting.

The QBE European Operations brand promise strives for excellence in five core areas



4

Delivers reliable and responsive service at every stage of the stakeholder experience



Delivers

By understanding the market better and in particular the risks associated with that product, we are more responsive and able to deliver solutions to everyone's requirements.

Not only do we take great satisfaction from our claims record, we also place a great emphasis on risk management, with regular forums held addressing the key risk issues facing our clients. This emphasis is recognised by brokers who rated QBE fourth for claims handling in a recent study*.

5

Specialist in every business line and consistently across all disciplines



Specialist

Our teams are specialists in every business line, which means they give equal importance to the generation of new business as they do to supporting the retention of key existing business.

Our underwriters are readily accessible and their skills and in depth product knowledge of their sector enable them to provide an answer straight away. The sheer number of underwriters allows us to have specialists for individual subclasses of product and, if an answer is not readily available, then we are always looking for creative solutions.

These key attributes resulted in brokers ranking the QBE underwriters in third place in a recent survey*. So whether it's cover for aviation products or zoos, or anything in between, we can provide a competitive and effective outcome.

*Commercial Insurer Service study 2008 (Insurance Times).

Chief Executive Officer's review



Steven Burns

Chief Executive Officer,
QBE European Operations

QIEL is the principal authorised insurance company underwriting within EO, writing insurance and reinsurance business in the UK and the Republic of Ireland, and insurance business across mainland Europe.

Introduction

During 2008, QIEL acquired the businesses of two fellow subsidiaries of QBE: QBE Atlasz Biztosito ZRT (a Hungarian company) and QBE Kindlustuse Eesti AS (an Estonian company). These businesses are now operated as branches of QIEL.

The company also acquired British Marine Luxembourg SA, British Marine Holdings SA, and British Marine Holdings II SA (collectively the "British Marine companies") from QBE International Holdings plc, the company's parent company. In 2009, the business of the British Marine companies will be transferred to the company, and the British Marine companies will merge with the company in a cross border merger.

In addition following the year-end, we have recently completed two acquisitions:

- Purchase of the Carlife Group, making QIEL one of the largest providers of motor Gap and Warranty insurance in Europe. Over the last ten years, Carlife has established a partner network in the Czech Republic, Slovakia, Hungary and Poland with 800 dealers and brokers now contracted. It provides innovative insurance solutions to dealer and leasing companies, producing in excess of 50,000 insurance contracts a year. QIEL already has a significant share of the gap and warranty market in Eastern Europe, servicing corporate clients such as Iveco and CIB Bank. The acquisition and integration of Carlife will broaden QIEL's access to the Eastern European motor dealer network and will further strengthen the market position of QIEL's branches in Slovakia, Hungary and the Czech Republic. The acquisition brings distribution capability and secures €12m in premiums.

- Purchase of renewal rights to the portfolio of industrial and commercial property business which Endurance Specialty Holdings Ltd's operating subsidiary, Endurance Worldwide Insurance Limited, currently writes out of the London market. The deal is another significant step forward in our drive to build a major UK property underwriting operation. The Endurance portfolio is mainly UK business, generating some £30m of gross written premium income in 2007. Under the move, the London Endurance Insurance Risk Practice team of 30 employees will add to QIEL's existing team of experts.

Strong performance

I am pleased to report another good year for the company where profit before tax was £119m, compared to £124m in 2007.

The company produced a combined operating ratio of 95.4%, compared to 97.7% for 2007, despite an increase in large property risk losses and financial and credit related exposures impacted by the global downturn.

The company's gross written premium was £941m, an increase of £59m or 6.7% on 2007. This represents a sound year in renewals together with the company benefiting from the weakening of sterling (versus US dollar and Euro) on its non-sterling denominated business. This has been offset, in part, by overall average premium rates being reduced due to market competition.

The UK and international (non-US) casualty portfolios continue to produce excellent results despite very competitive market conditions in 2008 and the continued erosion of current underwriting margins. This was offset by losses in UK and international property, trade credit and the asset protection portfolios.

Even in a very competitive market, the motor business produced their strongest ever contribution, a solid sub 100% combined operating ratio boosted by some prior year releases.

Commission rates decreased to 13.9% from 16.0%, predominantly due to changes in the mix of the business. The expense ratio has increased, from 16.1% to 17.9% which predominately relates to continued investment in our strategy for organic growth in our core commercial lines within regional UK and mainland European markets.

Shareholders' funds have increased during 2008 to £1,017m from £977m at 31 December 2007, following a dividend distribution of £90m.

Maintaining a high level of financial strength remains a key priority for QIEL and for the QBE Insurance Group. Standard & Poor's financial strength of "A+" for QIEL was reaffirmed in 2008 and reflects QBE's established track record of solid operating profitability, diversified business model, high level of reserve sufficiency, and detailed underwriting and reserving processes.

Looking ahead...

We expect that we are now past the bottom of the cycle in most classes. The significant renewal season of 1 January 2009 saw a slight increase in overall average premium rates. We are confident that even the most competitive areas of our book, such as UK casualty, property and motor, will be showing rate increases by the end of this year.

We expect gross written premium in 2009 to increase. Furthermore, we are seeing real benefits and growth opportunities from the successful integration of underwriting activities last year.

Key performance indicators

		2008	2007
Gross written premium	£m	941	882
Gross earned premium	£m	875	879
Net earned premium	£m	755	744
Claims ratio	%	63.6	65.6
Commission ratio	%	13.9	16.0
Expense ratio	%	17.9	16.1
Combined operating ratio	%	95.4	97.7

Portfolio mix

Gross earned premium

	2008	2007
	%	%
Accident & health	1.4	1.2
Marine	0.1	0.2
Fire and other damage to property	12.9	9.8
Third party liability	44.4	46.6
Motor	23.8	25.3
Other direct	7.6	6.4
Reinsurance	9.8	10.5

This, coupled with our expanded National and European Markets distribution teams, will ensure that we are successfully positioned to return to strong growth as the cycle turns.

In addition, we continue to actively seek acquisition opportunities that meet our strict criteria. It is encouraging to report that, as well as the recently completed Carlife and Endurance acquisitions, we are now seeing a much higher number of potential new acquisition opportunities emerging.

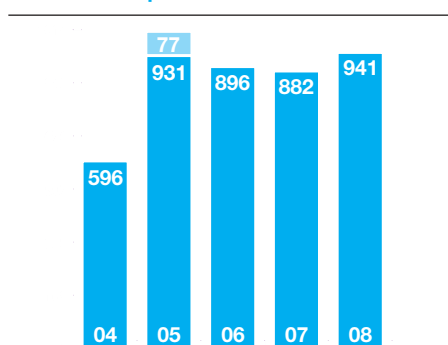
The final positive element for our growth plans is that the strengthening of the US dollar and Euro in the latter part of 2008 should significantly boost this year's converted sterling GWP.

Our 2009 exposure to major catastrophes is largely unchanged from 2008. We maintain a conservative approach to reinsurance purchasing and our retentions for large individual risk losses and catastrophes. This together with our comprehensive segmentation of every portfolio and our philosophy of cautious reserving of prior year exposures gives us confidence regarding our results for 2009.

S.P. Burns

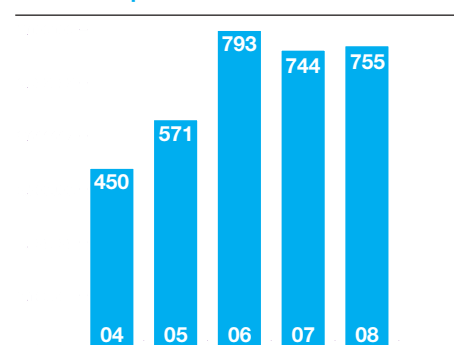
Steven Burns
Chief Executive Officer

Gross written premium £m



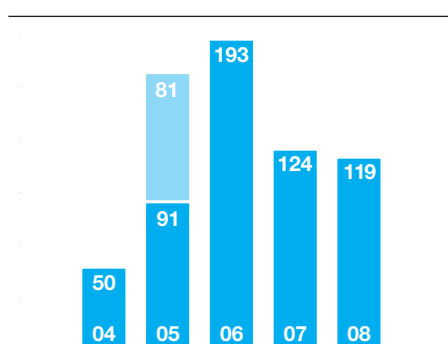
■ Impact of part vii transfer
■ Underlying business operations

Net earned premium £m



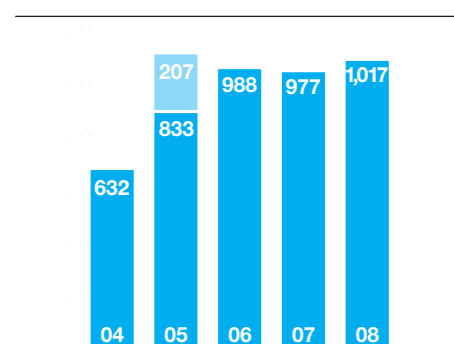
■ Impact of part vii transfer
■ Underlying business operations

Profit before tax £m



■ Impact of QICL dividend and investment revaluation in 2005
■ Underlying business operations

Shareholders' funds £m



■ Impact of sub-group disposal by QIE in 2005
■ Underlying business operations

Directors and officers

Directors

A M Bathia	
I D Beckerson	
S P Burns	
D A Constable	Appointed 1 January 2008
D E Cooney	Resigned 1 January 2008
M F Crane	
E Di Silvio	Appointed 1 January 2008
P A Dodridge	
D Grossman	
P E Grove	
R Johnston	Appointed 10 March 2009
M S Kang	Resigned 1 January 2008
B Mageean	Appointed 11 June 2008
A J C McBride	Resigned 1 January 2008
V McLenaghan	
J D Neal	
C R O'Farrell	Appointed 1 January 2008
F M O'Halloran	
P V Olsen*	
P J O'Neill	Resigned 11 June 2008
J W Parry	Appointed 1 January 2008
B W Pomeroy*	
H M Posner*	
G S Rayner	
T J Whittaker	Appointed 1 January 2008
D J Winkett	

* non-executive directors

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

Risk management

The company's activities expose the business to a number of key risks which have the potential to affect the company's ability to achieve its business objectives. The board, supported by the risk management committee, is responsible for ensuring that an appropriate structure for managing these risks is maintained. The board acknowledges that it is not realistic or possible to eliminate risk entirely, and therefore seeks to ensure that the appropriate controls are in place to effectively manage risks in line with the agreed tolerance.

The company continues to develop its risk management capability to ensure that an effective framework exists to support the management of all types of risk. Elements of this framework include the regular identification and assessment of the key risks and controls and clearly defined ownership of both the risks and controls.

Risk groups

The key risks can be grouped under the following headings.

Insurance risk

The company's business is to accept insurance risk which is appropriate to enable it to meet its objectives. In line with the QBE Group risk strategy, the company seeks to balance insurance risk with reward. All underwriting divisions are set specific and measurable performance targets which they are expected to achieve by operating within the parameters of their approved business plan.

Credit risk

In addition to the insurance terms of trade offered as standard, a certain amount of credit risk is unavoidable, as it can arise as a result of the inability or slow payment of any of the company's counterparties. The company therefore seeks to limit exposure as far as is practical, and therefore has established detailed guidelines, procedures, limits and monitoring requirements to mitigate credit risk.

Capital and liquidity risk

Capital and liquidity risk is the risk of loss arising out of capital inadequacies, loss of principle amount invested or lack of marketability of an investment, or that sufficient liquid resources are not maintained to meet liabilities as they fall due. The objective of the company's capital and liquidity risk management is to ensure that capital is optimally managed, that the business remains solvent by a significant margin and that all withdrawals and funding requirements can be met out of readily available sources of funding. The company seeks to maintain a strong liquidity position by holding its assets predominantly in liquid funds.

Market risk

The company's exposure to financial market risk arises out of the investment decisions made in relation to the company's investment assets. Exposure to market risk is managed through the investment strategy, which reflects the appetite of the board. The strategy is deliberately conservative in order to eliminate potential volatility from market fluctuations as much as possible.

Operational risk

The company seeks to mitigate exposure to operational risks through ensuring that an effective infrastructure, robust systems and controls and appropriately experienced and qualified individuals are in place throughout the organisation.

Cash flow risk

The company's exposure to cash flow risk is addressed under the heading of capital and liquidity risk.

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activity and future developments

The principal activity of the company is the transaction of insurance and reinsurance business. The company will continue this activity through the development of its existing lines of business, while actively seeking new opportunities for expansion and growth, to the benefit of its shareholders and policyholders.

Business review

The results of the company for the year are set out in the profit and loss account on pages 12 and 13. The profit on ordinary activities after taxation for the year was £84,456,000 (2007 £90,872,000). A dividend paid on the ordinary shares for the year was £90,000,000 (2007 £140,000,000).

On 1 October 2008, the company bought the businesses of QBE Atlasz Biztosito ZRT (a Hungarian company) and on 1 November 2008 QBE Kindlustuse Eesti AS (an Estonian company), both fellow QBE Insurance Group subsidiaries. Both have been treated as portfolio transfers. These are now both run as branches of the company. Full details of these two purchases can be found in note 23 to these financial statements.

Detailed business review and key performance indicators can be found within the Chief Executive Officer's review.

Overseas branches

The company has overseas branches in France, Ireland, Bulgaria, Italy, Spain, Germany, Sweden, Estonia, and established new branches during 2008 in the Czech Republic, Romania, Slovakia, Hungary and Switzerland. It is planned that a branch in Dubai will be set up later in 2009.

Directors

Details of the directors that served during the year are shown on page 6.

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 company 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.

Risk management

Details of the principal risks and uncertainties facing the company are shown on page 7.

Internal audit

An independent internal audit function provides assurance to the internal audit committee chaired by a non-executive director as to the effectiveness of internal systems and controls, makes recommendations for improvement and monitors progress towards completion via management action plans. Internal audit also provides independent feedback on the risk management process.

Corporate governance

The board is committed to high standards of corporate governance and has established a practical governance framework which includes the delegation of considerable authority to Divisional Product Management Committees and a number of other authorised committees. All of the committees comprise appropriately skilled and experienced members, and operate under formal terms of reference. The board comprises 19 executive directors and three non-executive directors and meets seven times a year.

Divisional product management committees

These committees are responsible for the reporting and review of all aspects of the division's day to day management of underwriting. Each committee is chaired by the divisional Managing Director and comprises senior underwriting and management representatives of the division, together with representatives of the main board.

Other committees

- **Strategic underwriting committee:** the committee is responsible for developing the business strategy of the company and agrees and oversees the implementation of appropriate policies and controls for underwriting activities. The committee is chaired by the Chief Operating Officer.
- **General business committee:** the committee reviews and approves routine matters and regulatory returns which do not require board approval; reviews and approves matters where the board has delegated authority to the committee; and makes recommendations as such where board approval is required. The committee is chaired by the Compliance and Risk Management Director.
- **Group security committee:** the committee is responsible for establishing and monitoring procedures and systems for the evaluation of all reinsurance security and outwards reinsurance intermediaries to be utilised by regulated entities within the Group. The committee is chaired by the Chief Underwriting Officer.
- **Information technology committee:** the committee is responsible for reviewing and recommending the IT strategy to the board, recommending the annual IT plan, implementing strategy and providing oversight of material IT projects. The committee is chaired by the Chief Operating Officer.
- **Investment committee:** the committee is responsible for making recommendations to the board as to the appropriate investment policy and guidelines for each of the companies' and subsidiary companies' funds and to take responsibility for the day to day implementation and monitoring of the agreed strategy. The committee is chaired by the Chief Financial Officer.
- **Audit committee:** the committee, which is constituted solely by non-executive directors of QIEL and a non-executive director of QBE Insurance Group Limited, is responsible for assisting the boards in discharging their oversight responsibilities, by overseeing the financial reporting process and reviewing the effectiveness of the internal financial control and risk management system, the effectiveness of the internal audit function, the independent audit process including recommending the appointment and assessing the performance of the external auditor, and the company process for monitoring compliance with laws and regulations. The committee is chaired by a non-executive director.

The following four committees report to the audit committee:

- **Reserving committee:** the committee is primarily responsible for undertaking a review of the reserve information in support of the accounts and the calculation of total reserves ensuring consistency with the standards required to attain satisfactory audit and actuarial opinions. The committee is chaired by the Chief Actuarial Officer.
- **Capital committee:** the committee is responsible for providing guidance and review on capital assessment issues in relation to the Financial Services Authority regime. The committee is chaired by the Chief Actuarial Officer.
- **Risk management committee:** the committee is responsible for ensuring that all risks to the business' objectives are identified, assessed and monitored in accordance with the overall risk policy. The committee is chaired by a non-executive director.
- **Internal audit committee:** the committee provides assurance that an appropriate control framework is in place to mitigate business risk and that these controls are both functioning in practice and consistent with QBE Group and QIEL procedures together with legislative and regulatory requirements. The committee is chaired by a non-executive director.

Other governance issues

The company has adopted a code of conduct which outlines a set of general business ethics that apply to all employees when conducting any activity on behalf of the company. The code of conduct requires employees to carry on business in an open and honest manner with customers, shareholders, employees, regulatory bodies, outside suppliers, intermediaries and the community at large. The code also deals with a number of other requirements including whistle-blowing, confidentiality, disclosure of information, conflicts of interest and treating customers fairly. Other policies are in place to cover areas such as health and safety, harassment, equal opportunities and financial crime.

Employees – disabled persons

Applications for employment by disabled persons are always considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should as far as possible, be identical to that of a person who does not suffer from a disability.

Employees – employee involvement

Communication with all employees continues through internal announcements and distribution of the information concerning the performance of the QBE Group, with the aim of ensuring that all employees are aware of the financial and economic performance of their business units and of the QBE Group as a whole. Involvement in the performance of the company is encouraged through share schemes and performance related bonus schemes. Employee representatives are consulted to ensure employee views are considered in decision making likely to affect their interests.

Directors' report continued

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; and
- 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.

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

Independent auditors' report to the members of QBE Insurance (Europe) Limited

We have audited the financial statements of QBE Insurance (Europe) Limited for the year ended 31 December 2008 which comprise the profit and loss account, the statement of recognised gains and losses, 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 annual report and 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 within the directors' report.

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. The information given in the directors report includes the specific information presented in the Chief Executive Officer's review that is cross referenced for the business review section of the director's report.

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 other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises the directors' report, the Chief Executive Officer's review and extracts from the financial statements presented in US dollars (unaudited). We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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.

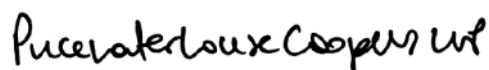
Equalisation reserves provision

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserve provisions in respect of general insurance business. The nature of equalisation reserves, the amount set aside at 31 December 2008, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in notes 1(c) (vii) and 17 respectively.

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, United Kingdom

2009

Note

The maintenance and integrity of the QBE website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Profit and loss account: technical account – general business

For the year ended 31 December 2008

	Notes	2008		2007	
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	3 a) b)				
Continuing operations		926,944		881,547	
Acquired operations	23 a)	14,348		–	
		941,292		881,547	
Outward reinsurance premiums		(194,036)		(137,703)	
Net premiums written			747,256		743,844
Change in the gross provision for unearned premiums		(66,093)		(2,713)	
Change in the provision for unearned premiums, reinsurers' share		73,731		3,126	
			7,638		413
Earned premiums, net of reinsurance			754,894		744,257
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(583,907)		(562,622)	
Reinsurers' share		88,589		154,502	
		(495,318)		(408,120)	
Change in the provision for claims					
Gross amount		(39,867)		(23,853)	
Reinsurers' share		55,079		(55,942)	
		15,212		(79,795)	
Claims incurred, net of reinsurance			(480,106)		(487,915)
Net operating expenses	5		(240,284)		(239,347)
Change in equalisation provision	17		(2,445)		–
Balance on technical account – general business					
Continuing operations	23 a)	33,203			16,995
Acquired operations	23 a)	(1,144)			–
Balance on technical account – general business			32,059		16,995

The notes on pages 17 to 35 form an integral part of these financial statements.

Profit and loss account: non-technical account

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Balance on technical account – general business		32,059	16,995
Investment income	8 a)	107,776	114,013
Investment expenses and charges	8 b)	(4,809)	(2,954)
Unrealised losses on investments		(16,869)	(3,671)
Other income		518	
Continuing operations		117,152	124,383
Acquired operations	23 a)	1,523	–
Profit on ordinary activities before taxation	9	118,675	124,383
Tax on profit on ordinary activities	10	(34,219)	(33,511)
Profit on ordinary activities after taxation	16	84,456	90,872

The notes on pages 17 to 35 form an integral part of these financial statements.

Statement of total recognised gains and losses

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Profit on ordinary activities after taxation		84,456	90,872
Revaluation of subsidiaries	16	23,727	37,293
Total recognised gains for the year		108,183	128,165

The notes on pages 17 to 35 form an integral part of these financial statements.

Balance sheet

As at 31 December 2008

Assets	Notes	2008 £000	2007 £000
Investments			
Shares in Group undertakings	11 a)	449,217	389,249
Other financial investments	11 b)	2,148,811	2,005,408
Deposits with ceding undertakings		11,634	11,431
		2,609,662	2,406,088
Reinsurers' share of technical provisions			
Provision for unearned premiums		125,380	50,979
Claims outstanding		488,475	400,403
		613,855	451,382
Debtors			
Debtors arising out of direct insurance operations – policyholders		6,142	18,059
Debtors arising out of direct insurance operations – intermediaries		260,230	257,961
Debtors arising out of reinsurance operations		79,679	85,134
Deferred tax	12	329	1,800
Other debtors	13	26,230	24,104
		372,610	387,058
Other assets			
Tangible assets	14	2,494	879
Cash at bank and in hand		70,621	42,510
		73,115	43,389
Prepayments and accrued income			
Accrued interest		43,365	64,291
Deferred acquisition costs		127,944	103,747
Other prepayments and accrued income		2,261	1,402
		173,570	169,440
Total assets		3,842,812	3,457,357

The notes on pages 17 to 35 form an integral part of these financial statements.

Balance sheet continued

As at 31 December 2008

Liabilities	Notes	2008 £000	2007 £000
Capital and reserves			
Called up share capital	15	511,905	511,905
Revaluation reserve	16	306,485	282,758
Capital redemption reserve	16	80,000	80,000
Profit and loss account	16	96,327	101,871
Other reserves	16	22,449	–
Total shareholders' funds	16	1,017,166	976,534
Technical provisions			
Provision for unearned premiums		587,366	503,351
Claims outstanding		1,975,228	1,759,868
Equalisation provision	17	2,445	–
		2,565,039	2,263,219
Creditors			
Creditors arising out of direct insurance operations – intermediaries		30,988	47,251
Creditors arising out of reinsurance operations		160,466	87,699
Deposits received from reinsurers		2,297	1,608
Other creditors including taxation and social security	18	63,150	78,756
		256,901	215,314
Accruals and deferred income		3,706	2,290
Total liabilities		3,842,812	3,457,357

The financial statements were approved by the board of directors on 26 March 2009 and signed on its behalf by:



D J Winkett
Director

The notes on pages 17 to 35 form an integral part of these financial statements.

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 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 (ABI SORP) dated December 2005 (as amended in December 2006).

In accordance with Section 228 of the Companies Act 1985, the company is exempt from preparing Group financial statements. The company's immediate parent company, QBE International Holdings (UK) PLC, incorporated in Great Britain, prepares consolidated Group financial statements for the year ended 31 December 2008, in which the company is included. The consolidated financial statements for QBE Insurance Group Limited, the ultimate parent company, are also publicly available.

b) Cash flow statement and related party disclosures

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 1 (revised 1996) (FRS). The company is also exempt under the terms of FRS 8 from disclosing related party transactions.

c) Basis of accounting for insurance

The result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned portion of premiums, net of reinsurance, as described below.

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) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relates to the unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. In the opinion of the directors, the resulting provision is not materially different from one based on the pattern of incident of risk.

iii) Acquisition costs

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

iv) Claims incurred

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.

v) Claims provisions and related reinsurance recoveries

Provision is made at the yearend 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 a deduction 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 company's 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 company's 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 company's underwriting and claims experts.

Notes to the financial statements continued

For the year ended 31 December 2008

1 Accounting policies continued

v) Claims provisions and related reinsurance recoveries continued

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 event giving rise to the claim has happened. 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.

vi) Unexpired risks provision

Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together.

vii) Equalisation provision

Amounts are set aside as equalisation provisions in accordance with the Financial Services Authority Handbook for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions.

viii) Outwards reinsurance

Outwards reinsurance premiums written relate to business ceded during the year, including an estimate of any adjustment premiums payable, together with any differences between estimates in the prior years and that actually ceded. Outwards premiums are recognised as earned over the period of the policy having regard to the incidence of risk. Policies that respond with reference to the attachment point are earned in line with the related inwards written premiums. Policies that respond in relation to the date of loss are earned on a time apportionment basis unless there is a marked unevenness in the incidence of risk over the period of cover, when a basis which reflects the profile of risk is used. The unexpired proportion of the outwards premiums at the balance sheet date is carried forward as reinsurers' share of unearned premiums provision.

d) Expenses

Acquisition costs, general overheads and other expenses are charged as incurred to the profit and loss technical account, net of the change in deferred acquisition costs. Investment expenses are charged to the profit and loss non-technical account.

e) Tangible assets

Depreciation is provided at rates calculated to write off the cost less estimated residual values in equal amounts over the estimated useful lives of the tangible assets. The estimated lives are as follows:

Office equipment	from three to thirteen years
Computer equipment	from three to five years
Motor vehicles	five years

f) Taxation

The charge for taxation is based on the result for the year adjusted for disallowable items. Deferred taxation is provided in full on all timing differences at the rate at which it is expected that the tax liability or benefit will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. No deferred tax is provided in relation to unrealised gains or losses arising from revaluations of subsidiary undertakings. Deferred tax assets and liabilities are not discounted.

1 Accounting policies continued

g) Financial assets

Financial assets are managed on a fair value basis in accordance with the company's investment strategy. The company has therefore elected to measure all financial assets at fair value through the profit and loss non-technical account, except where noted below.

Listed investments are stated at fair value on current bid prices quoted by the relevant exchanges. Unlisted investments are valued at directors' valuation.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently stated at fair value obtained from quoted market prices in active markets.

Loans to Group undertakings are stated at current value based on the relevant exchange rates at balance sheet date.

h) Shares in Group undertakings

Shares in Group undertakings are included in the balance sheet at net asset value based on the directors having prudent regard for their likely realisable value. Any unrealised gains or losses are taken to the revaluation reserve through the statement of total recognised gains and losses. Dividends from Group undertakings are taken into account when approved.

i) Investment income

Investment income is taken into account in the profit and loss non-technical account on an accruals basis, except for dividends which are taken into account when quoted ex dividend.

j) Financial liabilities

Creditors are initially recognised at fair value, net of directly attributable transaction costs, and are subsequently stated at amortised cost through the profit and loss account using the effective interest method.

k) Realised and unrealised gains and losses

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price.

Unrealised gains and losses represent the difference between the valuation of the investment 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 a reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

All realised and unrealised gains and losses are recognised in the profit and loss non-technical account, except those arising upon the revaluation of non-impaired subsidiaries, which are included in the revaluation reserve.

l) Foreign currency transactions

The functional currency of the company and its branches is the UK pound sterling (£), with the exception of the European branches where the functional currency is as per the individual country currency.

The European branches are Bulgaria (Bulgarian Lev), Czech Republic (Czech Koruna), Estonia (Estonian Kroon), France (Euro), Germany (Euro), Hungary (Forint), Ireland (Euro), Italy (Euro), Romania (New Leu), Slovakia (Slovakian Koruna), Spain (Euro), Sweden (Swedish Kroner) and Switzerland (Swiss Franc).

The company presents its accounts in thousands of pounds sterling.

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the time of the transactions. 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 items which are maintained at historic rates.

Items included in the financial statements of each of the company's branches are measured using the currency of the primary economic environment in which the branch operates. The results and financial positions of the foreign branches are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date; and
- income and expenses are translated at the average rate of exchange during the year.

All resulting exchange gains or losses are recognised through the STRGL as a separate component of equity, except those arising upon the revaluation of subsidiaries, which are included in the revaluation reserve.

Notes to the financial statements continued

For the year ended 31 December 2008

1 Accounting policies continued

m) Administrative expenses

The management and administration of the company is principally carried out by QBE Management Services (UK) Limited (formerly QBE Management (UK) Limited), a fellow subsidiary undertaking, which also provides these services to other Group companies. Administrative expenses, where recharged by QBE Management Services (UK) Limited to the company, and those incurred directly by the company's branches are taken into account on an accruals basis. These expenses include the costs of staff, who are employed by QBE Management Services (UK) Limited. QBE Management Services (UK) Limited operates both defined benefit and defined contributions pension schemes, the expense of which is included in the recharges.

n) Dividends

Interim dividends are recognised when paid and final dividends are recognised as a liability when they are approved by the members passing a written resolution.

o) Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

2 Capital

The total amount of capital of the company is £1,017,166,000 (2007 £976,534,000) consisting of its net tangible assets.

Each Registered insurance company regulated by the Financial Services Authority (FSA) is required to carry out a self assessment of the capital it requires, the Individual Capital Assessment (ICA). This is required to reflect the level of capital needed to ensure that the entity will be solvent in 99.5% of future foreseeable scenarios.

QBE has developed a sophisticated stochastic risk-based capital model over the past three years, which incorporates the key risks being faced by each of the legal entities. The output from this model, which is tailored to QBE's risk profile, is reported to the capital committee, which in turn recommends it to the QBE boards for adoption. The ICAs have been reviewed by the FSA and form the basis of the minimum capital required by the company.

All externally imposed capital requirements have been complied with during the year.

QBE's capital model has been embedded in the business, and as well as assessing minimum capital requirements for QBE entities, it has also been used to:

- allocate capital to class of business for business planning and performance monitoring
- assess the effectiveness of existing reinsurance protections and new reinsurance strategies
- consider the implications of Solvency II on the business

3 Segmental information

a) Analysis by geographic area

	Gross premiums written		Profit before taxation		Net assets	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Bulgaria	6,385	4,740	580	927	84	(316)
Czech Republic	2,552	–	(166)	–	(140)	–
Estonia	3,664	198	(1,178)	(17)	(906)	(18)
France	79,475	51,973	8,013	(791)	9,066	3,219
Germany	18,913	10,569	(6,998)	(1,394)	(8,534)	(1,048)
Hungary	10,700	–	2,013	–	2,014	–
Republic of Ireland	6,966	5,030	949	2,418	6,566	7,595
Italy	37,771	294	12,344	(26)	8,958	(20)
Romania	1,105	–	(305)	–	(223)	–
Slovakia	2,241	–	52	–	41	–
Spain	5,591	3,323	327	142	4	107
Sweden	–	1,998	(171)	(549)	(552)	(413)
United Kingdom	765,929	803,422	103,215	123,673	1,000,788	967,427
	941,292	881,547	118,675	124,383	1,017,166	976,533

b) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance:

	Accident and health £000	Marine £000	Fire and other damage to property £000	Third party liability £000	Motor £000	Other £000	Direct total £000	R/I £000	Total £000
2008									
Gross premiums written	15,147	381	122,966	422,875	210,909	83,917	856,195	85,097	941,292
Gross premiums earned	11,906	442	112,725	388,554	208,924	66,331	788,882	86,317	875,199
Gross claims incurred	(3,296)	221	(110,112)	(227,317)	(140,971)	(104,432)	(585,907)	(37,867)	(623,774)
Gross operating expenses	(2,315)	(355)	(31,592)	(102,218)	(43,726)	(28,393)	(208,599)	(31,494)	(240,093)
Reinsurance balance	(8,041)	202	17,708	(6,521)	3,553	30,677	37,578	(14,406)	23,172

	Accident and health £000	Marine £000	Fire and other damage to property £000	Third party liability £000	Motor £000	Other £000	Direct total £000	R/I £000	Total £000
2007									
Gross premiums written	12,684	2,208	80,181	435,292	205,707	58,123	794,195	87,352	881,547
Gross premiums earned	10,463	2,112	85,987	409,296	222,551	56,098	786,507	92,327	878,834
Gross claims incurred	(3,342)	1,026	(81,656)	(263,794)	(157,854)	(39,657)	(545,277)	(41,198)	(586,475)
Gross operating expenses	(3,927)	(903)	(25,780)	(107,384)	(44,815)	(28,789)	(211,598)	(30,411)	(242,009)
Reinsurance balance	(1,975)	(1,177)	(696)	(9,518)	(2,440)	(622)	(16,428)	(16,927)	(33,355)

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards.

Notes to the financial statements continued

For the year ended 31 December 2008

3 Segmental information continued

c) Gross premiums by territory of destination

	2008 £000	2007 £000
Europe: United Kingdom	470,890	467,616
Other	221,254	158,069
Worldwide	165,818	154,176
Asia, Middle East and Australasia	40,671	50,840
North America	14,766	26,948
Caribbean and Central/South America	25,407	20,199
Africa	2,486	3,699
	941,292	881,547

d) Net assets and profit before tax by class of business

Shareholders' funds are held to meet the solvency requirements of the company as a whole and, therefore, are not regarded as operating net assets for the purposes of segmental reporting. Accordingly, the net assets in relation to the business segments are not shown. It is, therefore, not appropriate to allocate investment income and hence derive profit before tax for the purposes of segmental reporting.

Balance on general business technical account by class of business, before equalisation provision, is as follows:

	2008 £000	2007 £000
Direct insurance	31,954	13,204
Reinsurance acceptances	2,550	3,791
	34,504	16,995

4 Significant changes in prior years' claims provisions

During the year a positive run-off development of £26,966,000 was experienced in respect of employer's liability business together with £22,047,000 in respect of motor business. This was partially offset by an adverse run-off development of £15,900,000 on casualty (International and UK) business and £11,722,000 on leisure and sport business.

Last year a positive net run-off development of £41,900,000 was experienced in respect of employer's liability business together with £8,800,000 in respect of schemes business. This was partially offset by an adverse net run-off development of £22,126,000 in respect of professional liability business and £4,400,000 in respect of European Property business.

5 Net operating expenses

	2008 £000	2007 £000
Acquisition costs	173,275	180,199
Changes in deferred acquisition costs	(20,672)	(3,145)
Administrative expenses	88,848	65,422
Reinsurance commissions and profit participation	(1,167)	(3,129)
	240,284	239,347

Included in acquisition costs are commissions for direct insurance amounting to £90,512,000 (2007 £107,304,000).

6 Employees

The company does not employ any staff in its UK or Irish operations. All staff based in the UK are employed by QBE Management Services (UK) Limited. The Irish Branch staff are employed by QBE Management (Ireland) Limited. The company is recharged for the services provided by these staff.

The Company holds contracts of employment with those staff employed in France, Bulgaria, Italy, Spain, Germany, Sweden, Estonia, Czech Republic, Romania, Slovakia, Hungary and Switzerland Branch operations. Total employee costs for the year including those recharged from QBE Management Services (UK) Limited were:

	2008 £000	2007 £000
Wages and salaries	77,625	64,061
Social security costs	12,256	10,723
Pension costs	6,345	5,866
	96,226	80,650

Employee costs which have been recharged include amounts in respect of share based payments granted by the ultimate parent company. Full details of these share based payments are included in the accounts of QBE Management Services (UK) Limited as this is the company which employs the staff.

The average number of these staff directly employed by the company for the year was:

	2008 Number	2007 Number
Underwriting	111	72
Claims	23	11
Administration	60	43
	194	126

It is not practicable to allocate employee numbers for the above recharged costs, so these have been disclosed in aggregate in the statutory accounts of QBE Management Services (UK) Limited.

7 Directors' emoluments

The following aggregate emoluments were paid to directors of this company, by QBE Management Services UK Limited, in respect of services as directors of this company for the year to 31 December.

	2008 £000	2007 £000
Aggregate emoluments (excluding pension contributions)	7,745	9,125
Company pension contributions to money purchase scheme	256	303
	8,001	9,428
	Number	Number
Number of directors who are members of a money purchase scheme	11	13
	£000	£000
Highest paid director:		
Aggregate emoluments (excluding pension contributions)	1,851	2,687
Company pension contributions to money purchase scheme	48	44

Notes to the financial statements continued

For the year ended 31 December 2008

8 Investment income, expenses and charges

a) Investment income

	2008 £000	2007 £000
Dividend income:		
Other than from Group undertakings	4,758	6,470
Interest receivable:		
From Group undertakings	1,873	473
Other	101,145	99,621
Gains on realisation of investments	–	7,449
	107,776	114,013

b) Investment expenses and charges

	2008 £000	2007 £000
Other investment expenses	3,004	2,657
Interest payable:		
To Group undertakings	–	190
Losses on realisation of investments	1,783	–
Other	22	107
	4,809	2,954

9 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2008 £000	2007 £000
Fees payable to the company's auditors for the audit of the company's annual accounts and regulatory returns	782	583
Payments under operating leases – land and buildings	836	752
Depreciation:		
Charge in year	1,143	282

Fees paid to the auditors for the supply of other services are borne by other Group companies and are disclosed in total in the QBE International Holdings (UK) PLC Group financial statements.

10 Tax on profit on ordinary activities

	2008 £000	2007 £000
Analysis of charge in period		
Current tax:		
UK corporation tax at 28.5% (2007 30%)	34,185	35,397
Adjustment to tax in respect of prior period	(1,442)	(1,649)
Double tax relief	(376)	(209)
Foreign tax	381	209
Total current tax	32,748	33,748
Deferred tax:		
Origination and reversal of timing differences	(3)	246
Adjustments to tax in respect of prior period	1,474	(483)
Total deferred tax	1,471	(237)
Tax on profit on ordinary activities	34,219	33,511

Factors affecting tax charge for the period

The current tax charge for the period is lower (2007 lower) than the standard rate of corporation tax in the UK 28.5% (2007 30%). The differences are explained below:

Profit on ordinary activities before tax	118,675	124,383
Profit on ordinary activities before tax multiplied by standard rate of UK corporation tax of 28.5% (2007 30%)	33,822	37,315
Effects of:		
Differences in tax rates	18	(84)
Timing differences	3	(246)
Expenses not deductible for tax purposes	1,594	253
Income exempt from tax	(1,247)	(1,841)
Adjustments to tax in respect of prior period	(1,442)	(1,649)
Current tax charge for the period	32,748	33,748

11 Investments

a) Shares in Group undertakings

	2008		2007	
	Net asset value £000	Cost of investment £000	Net asset value £000	Cost of investment £000
At 1 January 2008	389,249	106,491	352,996	109,881
QBE Investments (Australia) Pty Limited	15,990	–	37,821	–
Transferred shares in Group undertakings	36,240	36,240	–	–
Disposals of shares in Group undertakings	–	–	(1,040)	(3,390)
Other movements in net asset value	7,738	–	(528)	–
At 31 December 2008	449,217	142,731	389,249	106,491

On 3 December 2008, the company acquired British Marine Luxembourg SA, British Marine Holdings SA, and British Marine Holdings II SA. These companies were formerly owned by QBE International Holdings plc, the company's parent company. The ownership of these companies was transferred in specie to the company. This contribution from the parent company has been accounted for as a capital contribution which has been credited to reserves (note 16), with an increase in the cost of investment in Group undertakings above.

Notes to the financial statements continued

For the year ended 31 December 2008

11 Investments continued

a) Shares in Group undertakings continued

In the first half of 2009, the directors of the company intend to seek approval from the Luxembourg authorities and the High Court for two transactions. Firstly the business of the British Marine companies will be transferred to the company. Secondly, the British Marine companies will merge with the company in a cross border merger.

On 30 March 2007, the company disposed of its investment in the issued share capital of Insurance Consult S.R.L. and its subsidiary undertaking QBE ASITO SA for £1,028,000 resulting in a loss of £12,000.

On 5 January 2007, Queensland Insurance (Australia) Pty Limited changed its name to QBE Investments (Australia) Pty Limited.

Held by company	Incorporated in	Class of share	Holding in company	Principal activity
Iron Trades Management Services Limited	Great Britain	Ordinary	100%	Management services
QBE Insurance Company (UK) Limited	Great Britain	Ordinary	100%	Dormant
QBE Reinsurance (UK) Limited	Great Britain	Ordinary	100%	Reinsurance Run-off
QBE Investments (Australia) Pty Limited (formerly Queensland Insurance (Australia) Pty Limited)	Australia	Ordinary	100%	Investment company Underwriting management
Ridgwell Fox & Partners (Underwriting Management) Limited	Great Britain	Ordinary	100%	for a reinsurance pool
Strakh-Consult	Ukraine	Ordinary	100%	Dormant
British Marine Holdings SA	Luxembourg	Ordinary	100%	Investment company
British Marine Holdings II SA	Luxembourg	Ordinary	100%	Investment company
British Marine Luxembourg SA	Luxembourg	Ordinary	100%	Investment company

Held by subsidiaries	Incorporated in	Class of share	Holding in company	Principal activity
QBE Investments (UK) Limited	New Zealand	Ordinary	100%	Investment company

b) Other financial investments

	Purchase price		Carrying value	
	2008 £000	2007 £000	2008 £000	2007 £000
Shares and other variable yield securities	149,701	178,688	128,034	182,514
Derivative financial instruments (see note 11d))	–	–	1,276	(2,327)
Debt securities and other fixed income securities	787,377	418,676	781,133	419,239
Deposits with credit institutions	1,223,722	1,403,460	1,238,368	1,405,982
	2,160,800	2,000,824	2,148,811	2,005,408

Listed investments				
	2008 £000	2007 £000	2008 £000	2007 £000
Shares and variable yield securities			128,034	182,514
Derivative financial instruments			1,276	(2,327)
Debt securities and other fixed interest securities			781,133	419,239
			910,443	599,426

11 Investments continued

c) Financial risk management

The activities of the company expose it to financial risks such as market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The company's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company.

The key objectives of the company's asset and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the company's obligations, including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for the company.

i) Market risk

Currency risk

The company is exposed to foreign currency risk in respect of its foreign currency exposures and forward foreign exchange derivatives are used to protect the currency positions.

The risk management process covering forward foreign exchange derivatives involves close senior management scrutiny, including regular board and other management reporting. All forward foreign exchange derivatives are subject to delegated authority levels provided to management, and levels of exposure are reviewed on an ongoing basis.

The table below shows the impact on profit/(loss) and equity of changes in the value of the company's financial instruments as a result of movements in foreign exchange rates.

	Movement in variable %	2008 Profit/(loss) £000	Equity £000	2007 Profit/(loss) £000	Equity £000
Australian dollar	+10	(3,994)	(3,994)	(3,896)	(3,896)
	-10	3,994	3,994	3,896	3,896
Euro	+10	(21,901)	(21,901)	(11,908)	(11,908)
	-10	21,901	21,901	11,908	11,908
US dollar	+10	(8,116)	(8,116)	(9,192)	(9,192)
	-10	8,116	8,116	9,192	9,192

The above is shown net of taxation at the standard rate of 28.5% (2007 30%)

The Company manages its exposure to foreign currencies based on the balance sheet by currency which also include insurance assets and liabilities.

The impact of equivalent movements in exchange rates, as shown above, on the net assets of the Company is less than £1,000,000 in 2008 (2007 less than £1,000,000).

Interest rate risk

The company is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the company to cash flow interest rate risk. Fixed interest rate assets expose the company to fair value interest rate risk. The company's strategy is to invest in high quality, liquid fixed interest securities and cash and to actively manage duration. The investment portfolios are actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business.

Notes to the financial statements continued

For the year ended 31 December 2008

11 Investments continued

c) Financial risk management continued

Interest rate risk

The company's exposure to interest rate risk and the effective weighted average interest rates for each significant class of interest bearing financial assets and liabilities is as follows:

	Floating interest rate £000	1 year or less £000	Fixed interest rate maturing in		Over 3 years £000	Total £000
			1 to 2 years £000	2 to 3 years £000		
2008						
Interest bearing assets	336,847	1,582,989	39,787	179,556	3,479	2,142,658
Weighted average interest rate	3.01%	3.35%	3.72%	3.92%	5.16%	3.35%
Financial liabilities	(25,414)	–	–	–	–	(25,414)
Weighted average interest rate	1.57%	–	–	–	–	1.57%
Net interest bearing financial assets	311,433	1,582,989	39,787	179,556	3,479	2,117,244
	Floating interest rate £000	1 year or less £000	Fixed interest rate maturing in		Over 3 years £000	Total £000
			1 to 2 years £000	2 to 3 years £000		
2007						
Interest bearing assets	245,044	1,573,106	86,384	37,826	–	1,942,360
Weighted average interest rate	5.48%	5.15%	5.31%	5.44%	–	5.21%
Financial liabilities	(44,244)	–	–	–	–	(44,244)
Weighted average interest rate	6.00%	–	–	–	–	6.00%
Net interest bearing financial assets	200,800	1,573,106	86,384	37,826	–	1,898,116

The above is shown net of taxation at the standard rate of 28.5% (2007 30%).

The company's sensitivity to movements in interest rates in relation to the value of fixed interest securities is shown in the table below.

	Movement in variable %	2008 Profit (loss) £000	Equity £000	2007 Profit (loss) £000	Equity £000
Interest rate movement – fixed interest securities	+1.5	(13,058)	(13,058)	(6,260)	(6,260)
	-1.5	13,058	13,058	6,260	6,260

The above is shown net of taxation at the standard rate of 28.5% (2007 30%).

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The company is exposed to price or market value risk on its investment in equities and fixed interest securities and uses forward contracts and options to manage this exposure. The risk management processes over these forward contracts and options are the same as those explained under currency risk.

The potential impact of movements in the market value of equities on the profit and loss account and balance sheet is shown in the sensitivity analysis below. The price risk in relation to unlisted securities is immaterial in terms of the possible impact on profit and loss and has not been included in the sensitivity analysis.

11 Investments continued

c) Financial risk management continued

Price risk continued

The impact has been shown on the basis that equity funds are fully exposed to market price fluctuations. Equity portfolios are from time to time hedged in order to mitigate against this exposure. Exchange traded futures contracts used to provide the hedge is not perfectly correlated to the composition of the underlying equity fund.

	Movement in	2008 Profit/(loss)	Equity	2007 Profit/(loss)	Equity
FTSE 100	+20	12,609	12,609	17,073	17,073
	-20	(12,609)	(12,609)	(17,073)	(17,073)
DJEURO STOXX	+20	1,299	1,299	290	1,160
	-20	(1,299)	(1,299)	(290)	(1,160)

The above is shown net of taxation at the standard rate of 28.5% (2007 30%).

ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation.

Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. 97% (2007 98%) of total fixed interest and cash investments are with counterparties having a Moody's rating of Aa or better. The company does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings. The company only uses derivatives in highly liquid markets.

The reinsurers share of claims outstanding is also exposed to credit risk. 28.4% (2007 29.7%) of the reinsurers share of claims outstanding is with fellow Group undertakings and 91.9% (2007 90.8%) of the remaining balance is with reinsurers with a standard rating of A- or greater.

The following table provides information regarding the carrying value of the company's financial assets, excluding amounts in respect of insurance contracts. All amounts are neither past due nor impaired at the balance sheet date.

	2008 £000	2007 £000
Cash and cash equivalents	1,339,759	1,523,121
Interest bearing investments	781,138	419,239
Derivative financial instruments	1,276	(2,327)
Other receivables	72,349	69,239

iii) Liquidity risk

In addition to the treasury cash held for working capital requirements, a minimum percentage of the company's total financial assets is held in liquid, short term money market securities to ensure there are sufficient liquid funds available to meet current obligations.

The table below summarises the maturity profile of all financial liabilities based on the remaining contractual obligations.

	2008		2007	
	Within one year £000	Over one year £000	Within one year £000	Over one year £000
Trade and other payables	(66,491)	-	(87,144)	-
Derivative financial instruments	(729)	-	(2,327)	-
Borrowings	-	-	-	-

The company has no significant concentration of liquidity risk.

Notes to the financial statements continued

For the year ended 31 December 2008

11 Investments continued

d) Derivative financial instruments

Fair value	2008 £000	2007 £000
Foreign currency derivatives		
Other financial investments (see note 11(b))	1,276	198
Other creditors including taxation and social security	(729)	(212)
Equity derivatives		
Other financial investments (see note 11(b))	-	(2,327)

Foreign currency derivatives

The company uses forward foreign exchange derivatives in order to hedge its exposure to foreign currencies. These are valued using the underlying foreign exchange rates at the year end. Contractual amounts for foreign currency exchange derivatives outstanding at the balance sheet date include foreign exchange contracts to transact the net equivalent of £5,506,000 (2007 £5,579,000), as broken down by local currency in the following table:

	2008		2007	
	Local currency '000 Purchase	Sell	Local currency '000 Purchase	Sell
Australian dollar	3,100	-	2,400	-
Brazilian real	2,900	-	-	(900)
Bulgarian lev	6,143	-	-	-
Canadian dollar	-	-	5,100	-
Chinese renminbi	-	(700)	-	-
Colombian peso	816,000	-	995,400	-
Danish krone	0	(12,100)	-	(3,700)
Egyptian pound	1,500	-	1,500	-
European euro	-	(3,398)	200	-
Hong Kong dollar	-	(1,600)	7,200	-
Hungarian forint	1,429,736	-	-	-
Indian rupee	273,900	-	279,200	-
Indonesian rupiah	4,987,000	-	5,102,200	-
Korean won	492,000	-	1,498,500	-
Japanese yen	-	(337,000)	-	(151,800)
Malaysian ringgit	-	(600)	-	-
Mexican peso	1,700	-	1,600	-
New Zealand dollar	-	(1,400)	-	-
Norwegian krone	-	(2,500)	-	(4,700)
Philippine peso	-	-	-	(4,700)
Slovakian koruna	4,400	-	-	(8,700)
South African rand	-	-	-	(2,300)
Swedish kroner	-	-	-	(21,700)
Swiss franc	1,300	-	-	-
Thai baht	-	-	-	(31,900)
US dollar	-	(3,522)	1,200	-

The net sterling position of the above transaction is a buy (2007 sell) position of £4,958,000 (2007 £5,593,000).

The forward foreign exchange derivatives outstanding at year end expire by 6 February 2009 (2007 8 February 2008).

During the year a profit of £384,000 (2007 £1,843,000) relating to such contracts was recognised. This is included in the net foreign exchange gain of £738,000 (2007 £973,000) in the profit and loss non-technical account.

11 Investments continued

d) Derivative financial instruments continued

Equity derivatives

The company entered into equity derivative future contracts in order to protect the equity portfolios within the company from the risk of downside movements in the share markets. Contractual amounts for derivatives outstanding at the balance sheet date were £nil (2007 £129,769,071).

The equity derivatives outstanding at 31 December 2007 expired in March 2008. The equity derivatives held were exchange traded contracts.

During the year a profit of £11,090,000 (2007 £1,701,000) was included in the profit and loss non-technical account relating to these derivatives.

12 Deferred tax

	2008 £000	2007 £000
Deferred tax asset at start of year	1,800	1,563
Deferred tax (charge)/credit in profit and loss account	(1,471)	237
Deferred tax asset as at end of year	329	1,800
Comprising:		
Accelerated capital allowances	193	255
Other provisions	136	1,545
Undiscounted deferred tax asset	329	1,800

13 Other debtors

	2008 £000	2007 £000
Amounts due from Group undertakings	21,762	22,358
Other debtors	4,468	1,746
	26,230	24,104

Notes to the financial statements continued

For the year ended 31 December 2008

14 Tangible assets

	Office equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2008	514	1,061	366	1,941
Additions	552	1,704	570	2,826
Disposals	(16)	(30)	(142)	(188)
At 31 December 2008	1,050	2,735	794	4,579
Cumulative depreciation				
At 1 January 2008	334	647	81	1,062
Charge for year	122	861	160	1,143
Disposals	(14)	(30)	(76)	(120)
At 31 December 2008	442	1,478	165	2,085
Net book value at 31 December 2008	608	1,257	629	2,494
Net book value at 31 December 2007	180	414	285	879

15 Share capital

	2008 £000	2007 £000
Authorised 550,000,000 (2007 550,000,000) ordinary shares of £1 each	550,000	550,000
Called up, allotted and fully paid 511,905,271 (2007 511,905,271) ordinary shares of £1 each	511,905	511,905
	511,905	511,905

16 Reconciliation of movements in reserves and shareholders' funds

	Ordinary share capital £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Other reserves £000	Total £000
2008						
At 1 January 2008	511,905	282,758	80,000	101,871	–	976,534
Dividend paid	–	–	–	(90,000)	–	(90,000)
Revaluation of subsidiaries	–	23,727	–	–	–	23,727
Subsidiaries transferred (note 11a)	–	–	–	–	22,449	22,449
Retained profit for the year	–	–	–	84,456	–	84,456
At 31 December 2008	511,905	306,485	80,000	96,327	22,449	1,017,166

No deferred tax has been provided in respect of the revaluation of subsidiaries.

An interim dividend paid on the ordinary shares for the year was £90,000,000 (2007 £140,000,000), 18 pence per share (2007 27 pence).

16 Reconciliation of movements in reserves and shareholders' funds continued

	Ordinary share capital £000	Revaluation reserve £000	Capital reserve redemption £000	Profit and loss account £000	Total £000
2007					
At 1 January 2007	511,905	243,115	80,000	153,349	988,369
Dividend paid	–	–	–	(140,000)	(140,000)
Revaluation of subsidiaries	–	37,293	–	–	37,293
Loss realised on sale of shares in subsidiaries	–	2,350	–	(2,350)	2,350
Retained profit for the year	–	–	–	90,872	90,872
At 31 December 2007	511,905	282,758	80,000	101,871	976,534

17 Equalisation provision

The equalisation provision required to be made by the company in accordance with the Financial Services Authority Handbook is as follows:

	2008 £000	2007 £000
At 1 January	–	–
Transfers in year	2,445	–
At 31 December	2,445	–

The provision this year has increased and has the effect of reducing on the balance on the general business technical account and the profit before tax by £2,445,000 (2007 none).

18 Other creditors including taxation and social security

	2008 £000	2007 £000
Amounts due to Group undertakings	39,208	44,244
Other creditors	23,942	34,512
	63,150	78,756

19 Operating lease commitments

Annual commitments of the company under operating leases are as follows:

	2008 £000	2007 £000
Land and buildings		
Leases which expire:		
Within one year	168	54
Between one and five years	361	183
After five years	605	557
	1,134	794

Notes to the financial statements continued

For the year ended 31 December 2008

20 Commitments and contingent liabilities

The company has guaranteed the commitments of a fellow subsidiary company, QBE Management Services (UK) Limited, under property lease agreements such that in the event of a default by QBE Management Services (UK) Limited the company will fulfil the terms of the leases. Details of these commitments can be found in the financial statements of QBE Management Services (UK).

Commitments for foreign exchange derivatives are discussed under note 11(d), (i).

21 Charges on assets

The company has outstanding liabilities covered by the deposit of certain investments, in respect of undrawn letters of credit amounting to:

	2008 Original currency LC'000	Reporting currency £000	2007 Original currency LC'000	Reporting currency £000
Great Britain pound	15,000	15,000	–	–
United States dollar	71,679	49,081	87,200	43,928
Euro	37,721	36,103	43,221	31,794
Canadian dollar	130	73	150	76

Additionally there are charges over fixed income securities of US\$58,718,800 (£40,207,505) (2007 US\$37,054,375 (£18,666,721)) backing the company's Excess and Surplus lines business in the USA, which are required by the US insurance regulatory authorities.

22 Pension costs

The management and administration of the company is principally carried out by QBE Management Services (UK) Limited, a fellow subsidiary undertaking. QBE Management Services (UK) Limited operates defined contribution pension schemes and defined benefit pension schemes for its employees. Details of the pension scheme arrangements are disclosed in the financial statements of QBE Management Services (UK) Limited along with the total amount of pension contributions paid.

The company's employees in the branches are covered by statutory pension scheme arrangements. The branches also operate a defined contribution pension scheme for its employees.

	2008		2007	
	Statutory pension costs £000	Defined contribution costs £000	Statutory pension costs £000	Defined contribution costs £000
France	34	444	31	338
Bulgaria	29	–	14	–
Sweden	–	15	–	52
Spain	26	7	–	1
Germany	–	–	82	–
Italy	49	–	97	–
Czech Republic	–	1	–	–
Hungary	7	–	–	–
Romania	21	6	–	–
Slovakia	–	1	–	–
	166	474	224	391

23 Purchase of business

a) Eastern Europe

On 1 October 2008, there was a portfolio transfer of all of the insurance assets and liabilities of QBE Atlasz Biztosito ZRT (a Hungarian company) and on 1 November 2008 QBE Kindlustuse Eesti AS (an Estonian company), both fellow QBE Insurance Group subsidiaries to the company. These are now both run as branches of the company. These two businesses were transferred at an independently determined fair value as follows:

	£000 Hungary	£000 Estonia	£000 Total
Purchase price	186	1,479	1,665
Value of net assets purchased			
Portfolio claims	(4,746)	(2,423)	
Portfolio premiums	(7,293)	(2,523)	
Other assets and liabilities	12,225	6,425	
	186	1,479	1,665

The transfer of these two businesses has been accounted for as a portfolio transfer under the ABI SORP. For this, the monies paid have been split between portfolio claims, transferred to the balance sheet, portfolio premiums, in respect of claims arising in a future date, and the other assets and liabilities transferred.

b) Motor

In the period 2001 to 2004, Syndicate 980, trading as Ensign, co-insured a portion of its business with Great Lakes Reinsurance (UK) plc (Great Lakes), a UK subsidiary of Munich Re. In 2004, QBE International Holdings (UK) PLC, QIEL's holding company, purchased the business of Ensign. Syndicate 980 has subsequently reinsured to close its business into sub-syndicate 1886, a syndicate in which all of the capacity is provided by fellow QBE Group members.

On 30 July 2008 the High Court approved a Financial Markets and Services Act 2000 (FMSA) Part VII transfer of the relative share of the liabilities held by Great Lakes to the company. This transfer was effected in 1 August 2008 with the payment of £27,465,000 to the company, and the corresponding technical provisions.

The business of Ensign is now written by the company, so this has been treated as part of continuing activities.

24 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 QBE International Holdings (UK) PLC, which is incorporated in Great Britain.

Extracts from the financial statements presented in US dollars (unaudited)

The following pages contain extracts from the 2008 financial statements expressed in US dollars. These are based on the audited financial statements of the company which are expressed in sterling.

For the purpose of this illustrative summary, the sterling amounts have been converted into US dollars at the year end rate of £1 to US\$1.460394 (2007 US\$1.98505).

Profit and loss account: US dollars (unaudited) technical account – general business

For the year ended 31 December 2008

	2008		2007	
	US\$000	US\$000	US\$000	US\$000
Earned premiums, net of reinsurance				
Gross premiums written	1,374,657		1,749,914	
Outward reinsurance premiums	(283,369)		(273,347)	
Net premium written		1,091,288		1,476,567
Change in the gross provision for unearned premiums	(96,522)		(5,386)	
Change in the provision for unearned premiums, reinsurers' share	107,676		6,205	
		11,154		819
Earned premiums, net of reinsurance		1,102,442		1,477,386
Claims incurred, net of reinsurance				
Claims paid				
Gross amount	(852,734)		(1,116,832)	
Reinsurers' share	129,375		306,693	
		(723,359)		(810,139)
Change in the provision for claims				
Gross amount	(58,222)		(47,349)	
Reinsurers' share	80,437		(111,047)	
	22,215		(158,396)	
Claims incurred, net of reinsurance		(701,144)		(968,535)
Net operating expenses		(350,909)		(475,116)
Change in equalisation provision		(3,571)		–
Balance on technical account – general business		46,818		33,735

The results above are all derived from continuing operations.

Profit and loss account: US dollars (unaudited) non-technical account

For the year ended 31 December 2008

	2008 US\$000	2007 US\$000
Balance on technical account – general business	46,818	33,735
Investment income	157,395	226,321
Loss on disposal of shares in Group undertakings	–	(24)
Investment expenses and charges	(7,023)	(5,841)
Unrealised losses on investments	(24,635)	(7,287)
Other income	757	–
Profit on ordinary activities before taxation	173,312	246,904
Tax on profit on ordinary activities	(49,973)	(66,520)
Profit on ordinary activities after taxation, retained for the financial year	123,339	180,384

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

The underwriting year has closed: all items therefore relate to discontinued operations.

Statement of total recognised gains and losses US dollars (unaudited)

For the year ended 31 December 2008

	2008 US\$000	2007 US\$000
Profit on ordinary activities after taxation, retained for the financial year	123,339	180,384
Movement in revaluation reserve	34,651	74,028
Total recognised gains for the year	157,990	254,412

Balance sheet: US dollars (unaudited)

As at 31 December 2007

	2008 US\$000	2007 US\$000
Assets		
Investments		
Shares in Group undertakings	656,034	772,679
Other financial investments	3,138,111	3,980,835
Deposits with ceding undertakings	16,990	22,691
	3,811,135	4,776,205
Reinsurers' share of technical provisions		
Provision for unearned premiums	183,104	101,195
Claims outstanding	713,366	794,820
	896,470	896,015
Debtors		
Debtors arising out of direct insurance operations – policyholders	8,970	35,848
Debtors arising out of direct insurance operations – intermediaries	380,038	512,065
Debtors arising out of reinsurance operations	116,363	168,995
Deferred tax	480	3,573
Other debtors	38,306	47,849
	544,157	768,330
Other assets		
Tangible assets	3,642	1,745
Cash at bank and in hand	103,134	84,385
	106,776	86,130
Prepayments and accrued income		
Accrued interest and rent	63,330	127,620
Deferred acquisition costs	186,849	205,942
Other prepayments and accrued income	3,302	2,783
	253,481	336,345
Total assets	5,612,019	6,863,025

	2008 US\$000	2007 US\$000
Liabilities		
Capital and reserves		
Called up share capital	747,583	1,016,157
Revaluation reserve	447,589	561,289
Capital redemption reserve	116,831	158,804
Profit and loss account	140,675	202,216
Other reserves	32,784	–
Equity shareholders' funds	1,485,462	1,938,466
Technical provisions		
Provision for unearned premiums	857,786	999,177
Claims outstanding	2,884,611	3,493,426
Equalisation provision	3,571	–
	3,745,968	4,492,603
Creditors		
Creditors arising out of direct insurance operations – intermediaries	45,255	93,795
Creditors arising out of reinsurance operations	234,344	174,087
Deposits received from reinsurers	3,354	3,192
Other creditors including taxation and social security	92,224	156,335
	375,177	427,409
Accruals and deferred income	5,412	4,547
Total liabilities	5,612,019	6,863,025

Designed and produced by 85four www.85four.com

Printed in England by Cousin www.cousin.uk.com

Cousin is a carbon neutral company with ISO 14001 accreditation: it recycles all solvents used in the printing process, making any waste pH neutral, and also hold fsc status.

This report is printed on paper made from totally chlorine-free (TCF) and elemental chlorine-free (ECF) pulp, sourced from sustainable forests. It is recyclable and biodegradable.

QBE Insurance (Europe) Limited

Plantation Place
30 Fenchurch Street
London EC3M 3BD

tel +44 (0)20 7105 4000
fax +44 (0)20 7105 4019

For more information:

e-mail enquiries@uk.qbe.com

or visit www.QBEurope.com

