

**QBE International Holdings (UK) plc**  
**Annual report 2008**

# Holdings

# QBE International Holdings (UK) plc

## 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

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**Frank O'Halloran**  
Chief Executive Officer,  
QBE Insurance Group



**Steven Burns**  
Chief Executive Officer,  
QBE European Operations

## QBE International Holdings (UK) plc is the holding company of QBE European Operations, part of the QBE Insurance Group.

QBE European Operations' 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 UK International 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

**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 strong 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 International Holdings (UK) plc is the holding company for the European Operations ("EO") division of QBE Insurance Group Limited. 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'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.

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.

EO comprises general insurance and reinsurance business written in the United Kingdom, Ireland and mainland Europe. It also includes general insurance and reinsurance business written in the Lloyd's market where we remain the largest manager of capacity.

The combined operating ratio was 91.8% compared with 87.7% last year. The underwriting results have been assisted by continued low attritional claims and savings on prior year claims provisions, offset by an increase in large individual risk and catastrophe claims.

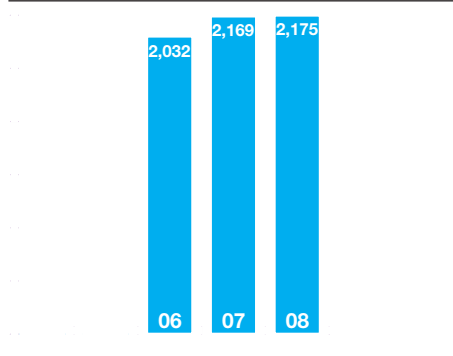
Gross written premium increased by 0.3% to £2,175m. This represents a sound year in renewals together with the Company benefiting from the weakening of sterling (versus US dollar and euro) on its non-sterling denominated business. This has been offset, in part, by overall average premium rates being reduced due to market competition.

The significant downturn in the capital markets during the year has seen the Group's investment return decreased 10.5% year on year to £173,205,000. The focus during 2008 was on the quality of the investment portfolio rather than its yield which has resulted in the Group not incurring any defaults or write downs on cash or its fixed interest portfolios.

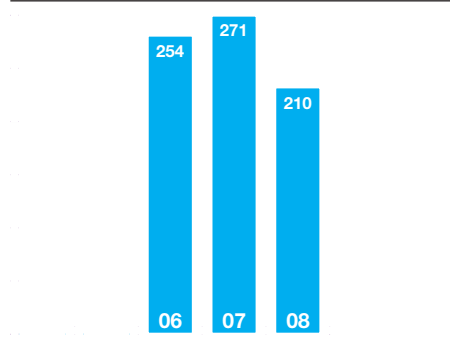
## Key performance indicators

		2008	2007
Gross written premium	£m	2,175	2,169
Gross earned premium	£m	2,068	2,177
Net earned premium	£m	1,390	1,594
Claims ratio	%	60.5	57.4
Expense and commission ratio	%	31.3	30.3
Combined operating ratio	%	91.8	87.7

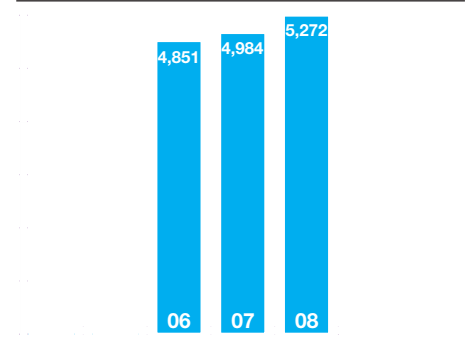
### Gross written premium £m



### Profit after tax £m



### Total cash and investments £m



We now have a significant number of operations in mainland Europe, in Bulgaria, the Czech Republic, Denmark, Estonia, France, Germany, Hungary, Italy, Romania, Slovakia, Spain, Sweden and Switzerland. We also have seven regional offices in the United Kingdom in Birmingham, Bristol, Chelmsford, Glasgow, Leeds, Manchester and Stafford. Our mainland European businesses produced gross written premium of around £175 million and our UK regional offices around £230 million.

We are anticipating overall premium rate increases of around 4% for 2009, partly offset by expected lower premiums from lower sales turnover and increased self-insurance by some of our clients. These, together with the recent acquisitions of the Carlisle Group (one of the largest providers of motor Gap and Warranty insurance in Europe) and the Endurance property team and portfolio in the United Kingdom, and the success of our distribution of our core products outside of the London market, are likely to result in growth of around 15% in 2009.

We have a number of new initiatives to build our distribution throughout Europe. Our collaboration with our Asia Pacific, Australian and the Americas divisions is also generating new opportunities. Our 2009 detailed financial plans show that all classes of business are targeted to meet QBE's minimum requirements for return on allocated capital. We continue to segment our business and look for ways to improve our profitability and our efficiency. Subject to achieving our premium rate expectations and large individual risk and catastrophe claims not exceeding the allowance in our business plans, we are optimistic of delivering another strong result in 2009.

The results that we have achieved in the past few years are due to the excellent team of professional underwriters supported by strong claims management, actuarial, finance and operations support staff. I sincerely thank the team for the enormous support I receive and the contribution they have made to another excellent result.

**Steven Burns**  
Chief Executive Officer  
QBE International Holdings (UK) plc  
London  
19 June 2009

# Directors and officers

## Directors

S P Burns

P A Dodridge

P E Grove

M S Kang

K M Lisson appointed 19 June 2009

V McLenaghan

J D Neal

F M O'Halloran

D J Winkett

## Company secretary

A C H Williams

resigned 1 June 2009

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 Group's activities expose the business to a number of key risks which have the potential to affect the Group'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 Group 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.

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### Insurance risk

The Group's business is to accept insurance risk which is appropriate to enable it to meet its objectives. The Group 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.

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### 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 Group's counterparties. The Group therefore seeks to limit exposure to credit risk as far as practical and has established detailed guidelines, procedures, limits and monitoring requirements to mitigate credit risk.

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### Capital and liquidity risk

Capital and liquidity risk is the risk of loss arising out of capital inadequacies, loss of principal 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 Group'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.

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### Market risk

The Group's exposure to financial market risk arises out of the investment decisions made in relation to the Group's funds. 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.

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### Operational risk

The Group 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.

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### Cash flow risk

The Group's exposure to cash flow risk is addressed under the heading of Capital and Liquidity risk.

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# Directors' report

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

## Principal activity and future developments

QBE International Holdings (UK) plc (the "Company") is an investment holding company and the principal activity of its subsidiary undertakings continues to be the transaction of insurance and reinsurance business (together the "Group"). The Company and Group will continue these activities for the foreseeable future.

## Business review and future developments

The results of the Group for the year are set out in the group profit and loss account and the statement of group total recognised gains and losses on pages 12 to 14. The profit after tax for the year was £210,121,000 (2007: £270,651,000). A dividend paid on the ordinary shares for the year was £356,497,000 (2007: £1,045,000,000) and a dividend of £13,247,000 was paid on the preference shares (2007: £nil). Details of movements on reserves are set out in note 21.

On 1 October 2008, the Group acquired 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 Limited subsidiaries. Both have been treated as portfolio transfers. These are now both run as branches of QBE Insurance (Europe) Limited, a direct subsidiary of the Company.

Detailed business review and key performance indicators can be found within the CEO Review on pages 4 to 5.

The Company is wholly owned by QBE Insurance Group Limited, an Australian listed company that prepares consolidated financial statements using Australian equivalents to International Financial Reporting Standards. These consolidated financial statements are prepared using UK Generally Accepted Accounting Principles.

## Post balance sheet events

Following the year end, the Group has completed two acquisitions:

- The purchase of the Carlife Group. 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. The maximum consideration payable is approximately £5,000,000.
- The 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 Endurance portfolio is mainly UK business, generating some £30 million of gross written premium income in 2007. The maximum consideration payable is approximately £5,000,000.

In early 2009, through its participations on Syndicate 2999 the Group accepted the RITC of Syndicate 566's 2000 and prior underwriting years of account.

Subsequent to the year end a dividend has been declared from its subsidiary undertaking QBE Insurance (Europe) Limited of £75,000,000.

On 5 June 2009 QBE Insurance Group Limited subscribed for the sterling equivalent of approximately US\$1,900,000,000 of ordinary share capital in QBE International Holdings (UK) plc.

## Directors

Details of the current directors and those 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 Group'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 Group agrees terms with its other suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The Group has on average 21 days creditors outstanding at 31 December 2008 (2007: 30 days) based on the average daily amount invoiced by suppliers during the year.

## Charitable donations

During the year the Group made donations for charitable purposes of £56,900 (2007: £37,500).

## 08

## Corporate Governance

The Group 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.

## 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 activity. 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 companies and agrees and oversees the implementation of appropriate policies and controls for underwriting activities.
- **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 where board approval is required.
- **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.
- **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.
- **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.
- **Audit committee:** the committee 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 process for monitoring compliance with laws and regulations.

The following four committees report to the audit committee:

- **Reserving committee:** the committee is primarily responsible for undertaking a review of the reserve information (including reinsurance to close and open year reserve information produced by each managed syndicate) in support of the accounts and calculation of total reserves, and to be satisfied that the level of total closed and open year reserves have been calculated, where appropriate having regard to Lloyd's Code for Management for Reserving Risks, Regulations and Byelaws, and are consistent with the standards required to attain satisfactory audit and actuarial opinions.
- **Capital committee:** the committee is responsible for providing guidance and review on capital assessment issues in relation to the Financial Services Authority and Lloyd's regimes.
- **Risk management committee:** the committee is responsible for ensuring that all risks to the achievement of business objectives are identified, assessed and monitored in accordance with the overall risk policy.
- **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 QBE European Operations procedures together with legislative and regulatory requirements.

## Risk management

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

## Internal audit

An independent Internal Audit function provides assurance to the Internal Audit Committee 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.

## Other governance issues

The Group 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 Group. The code of conduct requires employees to carry out business in an open and honest manner with customers, shareholders, other 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.

# Directors' report continued

## 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 information concerning the performance of the Group, with the aim of ensuring that all employees are aware of the financial and economic performance of their business units and of the 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.

## 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

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the parent company and of the Group's profit or loss for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable 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.

The directors confirm 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Where the financial statements are published on a website, the directors are responsible for the maintenance and integrity of the website. The legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Statement of disclosure of information to auditors

Each person who is a director at the date of this report confirms that:

- so far as each of the directors is aware, there is no information relevant to the audit of the Company's consolidated financial statements for the year ended 31 December 2008 of which the auditors are unaware; and
- the director has taken all the steps that he ought to have taken in his duty 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**  
Secretary

London  
19 June 2009

# Independent auditors' report to the members of QBE International Holdings (UK) plc

We have audited the Group and Parent Company financial statements (the "financial statements") of QBE International Holdings (UK) plc for the year ended 31 December 2008, which comprise the Group profit and loss account, the statement of Group total recognised gains and losses, the reconciliation of movement in Group shareholders' funds, the Group and Company balance sheets 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 in 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 referred from the business review section of the directors' 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 only the directors' report, the Chief Executive Officer's review, and all of the other information listed in the contents page. 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 Group's and 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.

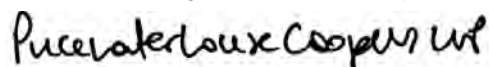
## Equalisation provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amount set aside at 31 December 2008, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in notes 1(d) (vii) and 22 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 Group's and the parent Company's affairs as at 31 December 2008 and of the Group's 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  
19 June 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Profit and loss account: technical account – general business

For the year ended 31 December 2008

	Notes	2008		2007	
		£000	£000	£000	£000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written					
Continuing operations		2,174,898		2,142,314	
Acquired operations		–		25,634	
Discontinued operations		–		1,160	
Outward reinsurance premiums	4	2,174,898		2,169,108	
		(747,298)		(589,621)	
			1,427,600		1,579,487
Change in the gross provision for unearned premiums		(106,864)		7,526	
Change in the provision for unearned premiums, reinsurers' share		69,022		6,677	
Change in the net provision for unearned premiums			(37,842)		14,203
Earned premiums, net of reinsurance	3		1,389,758		1,593,690
Allocated investment return transferred from the non-technical account	3		133,341		140,017
<b>Total technical income</b>			<b>1,523,099</b>		<b>1,733,707</b>
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount		(1,255,699)		(1,108,577)	
Reinsurers' share		397,361		410,055	
Net claims paid		(858,338)		(698,522)	
Change in the provision for claims					
Gross amount		(184,586)		(158,927)	
Reinsurers' share		202,547		(57,107)	
Changes in the net provision for claims		17,961		(216,034)	
Claims incurred, net of reinsurance	3		(840,377)		(914,556)
Net operating expenses	3,6		(430,614)		(479,181)
Other technical charges, net of reinsurance	3,15		(1,659)		(3,489)
Change in equalisation provision	3,22		(2,445)		–
<b>Total technical charges</b>			<b>(1,275,095)</b>		<b>(1,397,226)</b>
Balance on technical account for general business					
Continuing operations	3	248,004		333,131	
Acquired operations	3	–		3,310	
Discontinued operations	3	–		40	
<b>Balance on technical account – general business</b>	3		<b>248,004</b>		<b>336,481</b>

The notes on pages 18 to 53 form an integral part of these financial statements.

# Profit and loss account: non-technical account

For the year ended 31 December 2008

	Notes	2008		2007	
		£000	£000	£000	£000
<b>Balance on technical account – general business</b>			<b>248,004</b>		336,481
Investment income	3,11(a)		<b>364,306</b>		318,761
Unrealised gains on investments	3		–		7,041
Unrealised losses on investments	3		<b>(59,688)</b>		–
Investment expenses and charges	3,11(b)		<b>(131,413)</b>		(132,194)
Allocated investment return transferred to the general business technical account	3		<b>(133,341)</b>		(140,017)
Other charges	3		<b>(8,617)</b>		(8,270)
Loss on sale of operations	16		–		(5,624)
Continuing operations	3	<b>279,251</b>		378,173	
Acquired operations	3	–		3,589	
Discontinued operations	3	–		(5,584)	
<b>Profit on ordinary activities before tax</b>	3,4,12		<b>279,251</b>		376,178
Tax on profit on ordinary activities	13		<b>(69,130)</b>		(105,527)
<b>Profit on ordinary activities after tax</b>			<b>210,121</b>		270,651

The notes on pages 18 to 53 form an integral part of these financial statements.

# Statement of Group total recognised gains and losses

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
<b>Profit for the financial year</b>		<b>210,121</b>	270,651
Actuarial loss recognised in the pension schemes	9,21	<b>(3,197)</b>	–
Corporation tax relief associated with movement on pension schemes	9,21	<b>911</b>	–
Movement in cash flow hedge	21	<b>5,479</b>	519
Currency translation differences	21	<b>34,698</b>	30,433
Unrealised loss on revaluation of properties		–	(946)
<b>Total recognised gains for the year</b>		<b>248,012</b>	300,657

The notes on pages 18 to 53 form an integral part of these financial statements.

# Reconciliation of movement in Group shareholders' funds

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
<b>Profit for the financial year</b>		<b>210,121</b>	270,651
Other recognised gains	21	<b>37,891</b>	30,006
Dividends	21	<b>(369,744)</b>	(1,045,000)
Issue of ordinary share capital	21	–	250,000
Net reduction in shareholders' funds		<b>(121,732)</b>	(494,343)
<b>Opening shareholders' funds</b>		<b>756,655</b>	1,250,998
<b>Closing shareholders' funds</b>		<b>634,923</b>	756,655

The notes on pages 18 to 53 form an integral part of these financial statements.

# Balance sheets


As at 31 December 2008

Assets	Notes	Group		Company	
		2008 £000	2007 £000	2008 £000	2007 £000
<b>Intangible assets</b>	15	<b>156,585</b>	166,162	<b>1,062</b>	1,191
<b>Investments</b>					
Land and buildings	16(a)	324	262	–	–
Shares in group undertakings	16(b)	–	–	<b>1,958,543</b>	2,004,329
Other financial investments	16(c)	<b>4,789,361</b>	4,210,567	–	–
Other investments other than loans	16(c)	–	–	<b>140,176</b>	43,807
ABC investments pledged for funds at Lloyd's	17	<b>120,344</b>	397,416	–	–
Deposits with ceding undertakings		<b>7,775</b>	14,464	–	–
		<b>4,917,804</b>	4,622,709	<b>2,098,719</b>	2,048,136
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		<b>284,822</b>	201,723	–	–
Claims outstanding		<b>2,045,323</b>	1,322,287	–	–
		<b>2,330,145</b>	1,524,010	–	–
<b>Debtors</b>					
Debtors arising out of direct insurance operations		<b>798,749</b>	861,082	–	–
Debtors arising out of reinsurance operations		<b>114,530</b>	101,858	–	–
Other debtors including taxation	18	<b>844,931</b>	720,035	<b>534,998</b>	469,693
		<b>1,758,210</b>	1,682,975	<b>534,998</b>	469,693
<b>Other assets</b>					
Tangible assets	19	<b>34,185</b>	36,507	–	–
Cash at bank and in hand		<b>354,535</b>	361,531	<b>1,337</b>	1,719
		<b>388,720</b>	398,038	<b>1,337</b>	1,719
<b>Prepayments and accrued income</b>					
Accrued interest and rent		<b>79,680</b>	115,798	–	–
Deferred acquisition costs		<b>198,919</b>	177,268	–	–
Other prepayments and accrued income		<b>15,590</b>	16,522	<b>1,506</b>	374
		<b>294,189</b>	309,588	<b>1,506</b>	374
<b>Total assets</b>		<b>9,845,653</b>	8,703,482	<b>2,637,622</b>	2,521,113

The notes on pages 18 to 53 form an integral part of these financial statements.

Liabilities	Notes	Group		Company	
		2008 £000	2007 £000	2008 £000	2007 £000
<b>Capital and reserves</b>					
Called up share capital	20,21	600,045	600,045	600,045	600,045
Share premium account	21	361,550	361,550	361,550	361,550
Other reserves	21	54,065	13,888	1,352	(4,127)
Profit and loss account	21	(380,737)	(218,828)	18,997	(27,474)
<b>Total shareholders' funds</b>		<b>634,923</b>	756,655	<b>981,944</b>	929,994
<b>Equity minority interests</b>		-	-	-	-
<b>Technical provisions</b>					
Provision for unearned premiums		1,131,840	986,199	-	-
Claims outstanding		5,347,592	4,477,536	-	-
Equalisation provision	22	2,445	-	-	-
		<b>6,481,877</b>	5,463,735	-	-
<b>Deposits received from reinsurers</b>		<b>16,456</b>	12,578	-	-
<b>Creditors</b>					
Creditors arising out of direct insurance operations		170,437	150,866	-	-
Creditors arising out of reinsurance operations		644,701	354,479	-	-
Loan notes	24	191,788	159,695	191,788	159,695
Amounts owed to credit institutions	25	367,519	327,629	-	-
ABC securities for funds at Lloyd's	17	150,645	387,901	-	-
Other creditors including tax and social security	26	1,090,937	1,011,622	1,463,890	1,431,424
		<b>2,616,027</b>	2,392,192	<b>1,655,678</b>	1,591,119
<b>Provisions for other risks and charges</b>					
Deferred taxation	23	96,370	78,322	-	-
		<b>96,370</b>	78,322	-	-
<b>Total liabilities</b>		<b>9,845,653</b>	8,703,482	<b>2,637,622</b>	2,521,113

These financial statements on pages 12 to 17 were approved by the board of directors on 19 June 2009 and signed on its behalf by:



**S P Burns**  
Director



**D J Winkett**  
Director

The notes on pages 18 to 53 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

These financial statements have been prepared in accordance with the provisions of section 255A of, and schedule 9A to, the Companies Act 1985, and applicable accounting standards. The Group has adopted the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005 (as amended in December 2006).

The balance sheet of the Company has been prepared in accordance with section 226 of, and schedule 4 to, the Companies Act 1985.

### b) Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, and results of the Company and its subsidiary undertakings, and are drawn up to 31 December each year. The results of subsidiary undertakings acquired or sold during the period are included in the consolidated results from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. A subsidiary subject to severe long-term restrictions over the Group's rights is not consolidated.

### c) Cash flow statement and related party disclosures

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

### d) Basis of accounting for insurance

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

#### i) Premiums written

Premiums written comprise premiums on contracts incepted 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 relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns.

#### iii) Acquisition costs

Acquisition costs, which represent commission and other related expenses, 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 year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group. 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 cases 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 Group'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

## 1 Accounting policies continued

### d) Basis of accounting for insurance continued

#### v) Claims provisions and related reinsurance recoveries continued

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 best estimate of reserves for the Group is produced and reviewed by a combination of internal and external actuarial review and is then assessed by QBE management with input from underwriting and claims experts.

As provisions for claims outstanding are based on information which is currently available, the eventual outcome may vary from the original assessment depending on the nature of information received or developments in future periods. For certain classes of business including liability and other long-tail classes written by the Group, 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

Provisions are 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) Reinsurance to close ("RITC")

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

To the extent that the Group has increased or decreased its participation in a syndicate from one year of account to the next, the RITC paid is treated as a portfolio transfer from the closing year to the receiving year. Under FRS 21, the share of the RITC receivable is recognised as income in the period that the RITC contract is concluded, together with related claims incurred under the contract.

The payment of an RITC premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle the outstanding claims. The directors consider that the likelihood of such a failure of the RITC is remote, and consequently the RITC has been deemed to settle liabilities outstanding at the closure of an underwriting account.

As the RITC is concluded after the balance sheet date, this is a non-adjusting event under FRS 21 "Events after Balance Sheet Date", and recognised in the period in which it is concluded.

#### ix) 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.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 1 Accounting policies continued

### e) 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.

### f) Intangible assets

Goodwill represents the difference between the cost of an acquired entity and the aggregate of the fair values of that entity's identifiable assets and liabilities and is capitalised in the balance sheet at cost and amortised through the profit and loss account over 20 years. Carrying values are reviewed regularly for signs of impairment. The gain or loss on any subsequent disposal of subsidiary or associated undertakings will include any attributable unamortised goodwill.

Other goodwill relates to the discounting of certain technical provisions arising from the fair value exercise carried out following certain acquisitions. These technical provisions were discounted solely to satisfy the requirements of FRS 7 "Fair Values in Acquisition Accounting". The criteria adopted for estimating the period that will elapse before the claims are settled were based on the class of business, the historic settlement rate and the consideration of whether the historic settlement pattern would be appropriate into the future. The period of time which will elapse before the technical provisions are settled was estimated by modelling the settlement patterns of the underlying claims and related reinsurance recoveries.

The cost of the purchased syndicate participation is written off over 20 years from the start of the underwriting year to which that capacity relates, being management's best estimate of its useful economic life.

Amortisation of other goodwill is included in other technical charges in the technical account. Amortisation of goodwill and purchased syndicate participation is included in other charges in the non-technical account.

### g) Tangible assets

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

Office equipment	from three to ten years
Computer equipment	from three to five years
Motor vehicles	five years
Leasehold improvements	life of lease

### h) 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. Deferred tax assets and liabilities are not discounted.

### i) Financial assets

Financial assets are managed on a fair value basis in accordance with the Group's investment strategy. The Group 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 carried at the directors' estimate of the current fair value, except as stated below.

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.

Investments in land and buildings are valued at the directors' valuation. Gains and losses on investment properties are taken to the profit and loss account.

Loans to Group undertakings are stated at amortised cost converted at the relevant exchange rates at balance sheet date. This is not materially different from their fair value.

Financial assets are derecognised when the right to receive future cash flows from the assets has expired, or has been transferred, and the Group has transferred substantially all the risks and rewards of ownership.

## 1 Accounting policies continued

### j) Hedging transactions

Derivatives held for risk management purposes which meet the criteria specified in FRS 26 are accounted for using cash flow hedge accounting.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used for hedging are highly effective in offsetting changes in cash flows of hedged items. Hedge accounting is discontinued when:

- it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated or exercised; or
- the hedged item matures, is sold or repaid.

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially directly in reserves and transferred to the profit and loss account in the period when the hedged item will affect profit or loss. The gain or loss on any ineffective portion of the hedging instrument is recognised in the profit and loss account immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in reserves and is recognised when the hedged item affects the profit and loss account. When a transaction is no longer expected to occur, the cumulative gain or loss that was recognised in reserves is immediately transferred to the profit and loss account.

### k) 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.

### l) Shares in Group undertakings

Shares in Group undertakings are included in the Company's balance sheet at cost less any impairment, based on the directors having prudent regard for their likely realisable value. Dividends from Group undertakings are taken into account when approved.

### m) 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.

A transfer is made from the non-technical account to the technical account of the return on investments supporting the insurance technical provisions.

### n) 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 on investments are initially recorded in the profit and loss non-technical account. A transfer is made from the non-technical account to the technical account of the realised and unrealised gains and losses on investments supporting the insurance technical provisions.

### o) Foreign currency translations

The functional currency of the Company is UK pound sterling (£). The Company and Group present 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. The results of subsidiary undertakings are translated into sterling at average rates of exchange, subsidiary assets and liabilities are translated at the balance sheet date rates of exchange. Unclosed foreign exchange derivatives are marked to market at year end date.

Exchange gains or losses are recognised in the profit and loss non-technical account, including gains and losses on foreign exchange derivatives, except those arising upon the revaluation of subsidiary undertakings, which are included in the foreign currency translation reserve.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 1 Accounting policies continued

### p) Pensions

The Group operates defined contribution pension schemes for certain employees. The pension entitlement of employees is secured through contributions by the Group to a separately administered pension fund. Payments are charged as expense as they fall due.

The Group also operates two defined benefit pension schemes. The costs of the defined benefit pension schemes are determined using the projected unit credit method. Actuarial gains and losses are recognised in the statement of total recognised gains and losses in the year they arise. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of scheme's assets.

A surplus is only recognised if it is either recoverable from reductions in future contributions, or if agreement is in place to recover it from the scheme.

### q) Share based payments

The Group participates in a QBE Group wide equity settled, share based compensation plan. No expense is recognised for options and conditional rights granted before 7 November 2002 and/or vested before 1 January 2005. For all other options and conditional rights, the fair value of the employee services received in exchange for the grant of those instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. The fair value at grant date of the options and conditional rights is calculated using a binomial model. The fair value of each instrument is expensed evenly over the period between grant and vesting dates. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable.

The Group recognises the impact of the revision of original estimates, if any, in the profit and loss technical account.

### r) Operating leases

Costs in respect of operating leases are charged to the profit and loss technical account on a straight line basis over the lease term.

## 2 Capital

Each registered insurance company regulated by the Financial Services Authority ("FSA") and each syndicate in Lloyd's 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 remain solvent for the next 12 months in 99.5% of future foreseeable scenarios.

The Group has developed a sophisticated stochastic risk based capital model over the past four years, which incorporates the key risks being faced by each of the legal entities. The output from this model, which is tailored to the Group's risk profile, is reported to the Capital Committee, which in turn recommends it to the relevant Boards for adoption. The ICAs have been reviewed by the FSA and Lloyd's, and form the basis of the minimum capital required by the Company and syndicates.

Lloyd's corporate members are required to hold capital, Funds at Lloyd's ("FAL"), in a trust at Lloyd's. These funds are intended to cover circumstances where syndicate assets prove insufficient to meet their liabilities. The level of FAL is dependent on corporate member's participations on syndicates and the level of the syndicate ICAs after they have been reviewed and accepted by Lloyd's.

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

The Group's capital model has been embedded in the business, and as well as assessing minimum capital requirements for Group undertakings, 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; and
- consider the implications of Solvency II on the business.

### 3 Analysis of continuing and discontinued operations

	2008 Total £000	Continuing £000	2007 Discontinued £000	Total £000
Earned premiums, net of reinsurance	1,389,758	1,592,585	1,105	1,593,690
Allocated investment return transferred from the non-technical account	133,341	140,017	–	140,017
Claims incurred, net of reinsurance	(840,377)	(914,067)	(489)	(914,556)
Net operating expenses	(430,614)	(478,605)	(576)	(479,181)
Other technical charges, net of reinsurance	(1,659)	(3,489)	–	(3,489)
Change in equalisation provision	(2,445)	–	–	–
<b>Balance on the technical account for general business</b>	<b>248,004</b>	336,441	40	336,481
Investment income	404,130	318,750	11	318,761
Unrealised (losses)/gains on investments	(59,688)	7,045	(4)	7,041
Investment expenses and charges	(171,237)	(132,187)	(7)	(132,194)
Allocated investment return transferred to the general business technical account	(133,341)	(140,017)	–	(140,017)
Other charges	(8,617)	(8,270)	–	(8,270)
Loss on sale of operations	–	–	(5,624)	(5,624)
<b>Profit on ordinary activities before tax</b>	<b>279,251</b>	381,762	(5,584)	376,178

During 2008, all operations have been treated as continuing.

During 2007, discontinued operations related to subsidiaries sold or transferred to QBE Insurance Group Limited.

The figures for continuing operations during 2007 include the following amounts relating to acquisitions: net earned premiums of £8,042,000, net claims incurred £2,058,000, net operating expenses £4,926,000, investment income £2,363,000, unrealised gains on investments £121,000, investment expenses and charges £47,000. The investment income allocated from the non-technical account to the technical account in respect of the acquisitions was £2,252,000.

### 4 Analysis by geographical area

#### By origin:

	Gross premiums written		Profit before taxation		Net assets	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
United Kingdom	1,940,842	2,064,188	267,659	358,679	191,652	345,171
Other EU member countries	234,056	103,760	14,184	3,508	63,056	57,958
Other Countries	–	1,160	(2,592)	13,991	380,215	353,526
	<b>2,174,898</b>	2,169,108	<b>279,251</b>	376,178	<b>634,923</b>	756,655

#### By destination:

	2008 £000	2007 £000
United Kingdom	663,026	916,146
Other EU member countries	375,623	265,097
North America	230,448	238,262
Other countries	905,801	749,603
	<b>2,174,898</b>	2,169,108

The directors have deemed general insurance to be one class of business under SSAP 25 and as a result no additional class of business analysis is given.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 5 Movements in prior years' net claims provisions

During the year a positive/(adverse) run-off development was experienced in respect of the following portfolios:

	£000
<b>2008</b>	
Employer's Liability	26,966
Motor	22,047
Casualty	18,823
Leisure & Sport	(11,722)
UK Lloyd's Third Party Liability	28,259
UK Lloyd's Marine	3,401
UK Lloyd's Energy	1,145
UK Lloyd's Property	2,367
Reinsurance Acceptances	101,148
<b>2007</b>	
Employer's Liability	41,900
Schemes	8,800
Professional Liability	(22,126)
UK Lloyd's Third Party Liability	55,999
Reinsurance Acceptances	42,123

## 6 Net operating expenses

	2008 £000	2007 £000
Acquisition costs	410,289	414,382
Changes in deferred acquisition costs	(7,576)	(5,782)
Administrative expenses	97,376	121,330
	500,089	529,930
Reinsurance commissions and profit participation	(56,506)	(38,806)
Other fee income	(12,969)	(11,943)
	430,614	479,181

Included in acquisition costs are commissions for direct insurance amounting to £154,159,000 (2007 £173,985,000).

## 7 Employees

The average number of persons (including executive directors) employed by the Group for the year was:

	2008 Number	2007 Number
Underwriting	809	745
Claims	538	466
Administration	849	742
	<b>2,196</b>	1,953

Total employee costs for the year were:

	2008 £000	2007 £000
Wages and salaries	153,296	136,441
Social security costs	20,289	21,844
Pension costs	11,258	10,608
	<b>184,843</b>	168,893

## 8 Directors' emoluments

	2008 £000	2007 £000
Aggregate emoluments (excluding pension contributions)	6,360	6,072
Company pension contributions to money purchase schemes	169	215
	<b>2008 Number</b>	2007 Number
Number of directors who are members of a money purchase scheme	4	4
	<b>2008 £000</b>	2007 £000
Highest paid director:		
Aggregate emoluments (excluding pension contributions)	1,741	1,537

# Notes to the financial statements continued

For the year ended 31 December 2008

## 9 Pension costs

### a) Defined benefit schemes

The Company's subsidiaries operate two defined benefit pension schemes. The Iron Trades scheme relates to former employees of QBE Insurance Company (UK) Limited, and the Janson Green scheme relates to former employees of QBE Underwriting Limited.

The pension contributions relating to each scheme are assessed in accordance with the advice of an independent qualified actuary so as to spread the cost over the service lives of employees.

Both schemes were closed to future benefit accruals on 31 May 2006. The Group retains the risk on employee service in the defined benefit schemes up until 31 May 2006. During the year, a full actuarial review was performed by qualified actuaries which found that both schemes were in deficit, using assumptions that are stricter than those required to be used under FRS 17 for these accounts. As a result, five year agreements between the Group and the schemes were agreed: annual payments of £1,100,000 to the Iron Trades scheme over the next five years, and annual payments of £2,052,000 to the Janson Green scheme over the next five years. At the year end, the first set of annual payments had been made.

The actuarial valuations were reviewed and updated by independent external actuaries as at 31 December 2008 for the purposes of inclusion in these accounts.

The principal actuarial assumptions used at the year end were:

	2008 %	2007 %
Rate of increase to pensions in payment accrued before 1 September 2002 in Janson Green scheme	5.0	5.0
Rate of increase in other pensions in payment	3.1	3.3
Expected return on plan assets	5.8	5.5
Rate of increase in deferred pensions	3.1	3.3
Discount rate	6.15	5.7
Inflation	3.1	3.3

The assumption as to the rate of increase in salaries is no longer applicable, as benefits are no longer based on the final salary after 31 May 2006.

In accordance with FRS 17, the valuation of the schemes' liabilities has been determined using the Projected Unit Method.

In addition, an assumption is made as to the life expectancy of members of the schemes. In conjunction with the scheme actuaries, the mortality tables used to calculate the liabilities as at 31 December 2008 are the PXA92 Long Cohort tables, projected forward based on the year of birth.

Under FRS 17, a surplus can only be recognised if it leads to reduced future contributions, or if a refund has been agreed at the year end. As neither condition was satisfied last year, the then surplus was not recognised. As required by FRS 17 the effect of this was, firstly, to reduce the expected return on assets so that it did not exceed the interest costs, and, secondly, to recognise the remainder in the statement of total recognised gains and losses.

The scheme assets do not include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

The following disclosures relate to the two schemes combined.

	Market value 2008 £000	Market value 2007 £000
Equities	42,923	44,788
Bonds	181,171	187,797
Others	5,512	9,989
Total market value of assets	229,606	242,574

## 9 Pension costs continued

### a) Defined benefit schemes continued

The overall expected rate of return on scheme assets is based on historical and future expectations of returns for each of the major asset classes as well as the expected and actual allocation of scheme assets to these major classes.

	2008 £000	2007 £000
<b>Analysis of the amount credited to other finance income:</b>		
Expected return on scheme assets	13,344	12,715
Interest on scheme liabilities	(12,717)	(11,914)
Restriction on expected return under FRS 17	(627)	(801)
Net return – credit	–	–
	2008 £000	2007 £000
<b>Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL):</b>		
Actuarial gains/(losses)	(6,040)	11,400
Restriction on recognising surplus under FRS 17	2,843	(11,400)
Actuarial loss recognised in the STRGL	(3,197)	–

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses is a loss of £31,193,000 (2007 £25,153,000).

### History of assets and liabilities

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Fair value of scheme assets	229,606	242,574	240,610	187,766	145,337
Present value of scheme liabilities	(216,296)	(227,048)	(237,285)	(249,331)	(217,207)
Surplus/(deficit) at 31 December	13,310	15,526	3,325	(61,565)	(71,870)
Surplus not recognised	(13,310)	(15,526)	(3,325)	–	–
Deficit per balance sheet	–	–	–	(61,565)	(71,870)
Related deferred tax asset	–	–	–	18,469	21,611
Net pension liability	–	–	–	(43,096)	(50,259)

# Notes to the financial statements continued

For the year ended 31 December 2008

## 9 Pension costs continued

### a) Defined benefit schemes continued

	2008 £000	2007 £000
<b>Wholly funded defined benefit obligation at 1 January</b>	<b>(227,048)</b>	(237,285)
Interest cost	<b>(12,717)</b>	(11,914)
Actuarial gains	<b>15,654</b>	13,351
Benefits and expenses paid	<b>7,815</b>	8,800
<b>Wholly funded defined benefit obligation at 31 December</b>	<b>(216,296)</b>	(227,048)
<b>Fair value of scheme assets at 1 January</b>	<b>242,574</b>	240,610
Expected return on scheme assets	<b>13,344</b>	12,715
Actuarial losses on scheme assets	<b>(21,694)</b>	(1,951)
Benefits and expenses paid	<b>(7,815)</b>	(8,800)
Employer contributions	<b>3,197</b>	–
<b>Fair value of scheme assets at 31 December</b>	<b>229,606</b>	242,574
<b>Net surplus at 31 December</b>	<b>13,310</b>	15,526
Surplus not recognised	<b>(13,310)</b>	(15,526)
<b>Surplus in the balance sheet at 31 December</b>	<b>–</b>	–

### History of experience gains and losses

(Excludes restriction on recognising surplus)

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
<b>Difference between the expected and actual return on scheme assets</b>					
Amount	<b>(21,694)</b>	(1,951)	(4,631)	12,232	2,139
Percentage of scheme assets	<b>(9.4%)</b>	(0.8%)	(1.9%)	6.5%	1.5%
<b>Experience gain on scheme liabilities</b>					
Amount	<b>1,472</b>	(510)	(471)	(766)	(1,234)
Percentage of the present value of liabilities	<b>0.7%</b>	(0.2%)	(0.2%)	(0.3%)	(0.6%)
<b>Total actuarial gain/(loss) recognised in the STRGL</b>					
Amount	<b>(6,040)</b>	11,400	3,003	(14,938)	(8,910)
Percentage of the present value of liabilities	<b>(2.8%)</b>	4.8%	1.3%	(6.0%)	(4.1%)

### b) Defined contribution schemes

For those members of staff who are not members of the defined benefit schemes, the Group operates defined contribution schemes. The pension entitlement of employees is secured through contributions to separately administered pension funds as appropriate. There are no outstanding pension accruals or prepayments for these schemes as at 31 December 2008 (2007 nil). The charge for the year in respect of the money purchase schemes was £11,714,000 (2007 £10,608,000).

The Group has no significant exposure to any other post-retirement benefits obligations.

## 10 Share based payments

### a) Employee Share and Option Plan

The Group and Company's ultimate parent undertaking and controlling entity, QBE Insurance Group Limited, at its 1981 AGM, approved the issue of shares from time to time under an Employee Share and Option Plan ("the Plan"), up to 5% of the issued ordinary shares in its capital. Any full time or part time employee of the Group who is offered shares or options pursuant to the offer document of the Plan is eligible to participate in the Plan. This includes UK employees employed by the Group. The Company does not directly employ any staff.

Under the Plan, ordinary shares of QBE Insurance Group Limited are offered at the weighted average market price during the five trading days up to the date of the offer. Likewise, the exercise price for options offered under the Plan is the weighted average market price during the five trading days up to the date of the offer.

In accordance with the terms of the Plan, interest free loans are granted to employees to subscribe for shares issued under the Plan. Prior to 20 June 2005, the terms of the loans were either personal recourse or non-recourse. With effect from 20 June 2005, only personal recourse loans are granted to employees to subscribe for shares under the Plan. The loans are repayable in certain circumstances as set out in the Plan, such as termination of employment or breach of condition.

The Group is charged, by QBE Insurance Group Limited, the accounting cost of the options issued to its employees, as calculated using FRS 20, and it is this cost that appears in these financial statements.

Currently there are two schemes operating within the Plan:

#### i) Deferred Compensation Plan

Senior management are invited to participate in the Deferred Compensation Plan ("DCP"). Under the DCP, the directors can issue conditional rights to shares and grant options to senior management who have already achieved predetermined performance criteria. The terms of the DCP may vary to take into account the requirements and market conditions of the locations of senior management, but the general terms of the DCP conditional rights and options are set out below.

- The conditional rights entitle relevant employees to receive shares on the third anniversary of the grant of the rights. Further shares are issued in relation to the conditional rights to reflect dividends paid on ordinary shares of QBE Insurance Group Limited in the period commencing from the date of the grant of the conditional rights. The shares issued pursuant to the conditional rights are issued without payment being made by senior management (i.e. at a nil exercise price).
- The options are subject to the terms and conditions of the Plan. Options issued in 2004 and prior can be exercised after three years, whilst any options issued in 2005 and thereafter will generally be exercisable after five years. They must be exercised within a 12 month period after vesting. Interest free personal recourse loans are granted on the terms permitted by the Plan as described above to persons who hold options to fund the exercise of options. As a result of approved changes to the DCP, options and loans will not be issued with effect from 1 January 2010.

The shares issued pursuant to the conditional rights and options will only be issued if the individual has remained in the Group's service throughout the vesting period (unless they leave due to redundancy, retirement through ill health or age, or death) and is not subject to disciplinary proceedings or notice on that date.

Shareholder approval of the DCP was given at the 2006 QBE Insurance Group Limited AGM.

#### ii) Share Incentive Plan

Generally, all full time or part time employees with a minimum of one year's service are invited to participate in the Share Incentive Plan ("the SIP"). Under the SIP, directors can provide shares up to A\$1,000 to employees without payment being made by employees. The allocation of shares is based on the period of service. The shares are purchased on market and held in trust for the employee for a minimum of three years or until cessation of employment, whichever is earlier. Further details are provided in note (e) below.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 10 Share based payments continued

### b) Employee options

During the year, the Group granted to 217 (2007 226) qualifying employees of this Group options over ordinary shares of QBE Insurance Group Limited with a total market value of A\$25,636,000 (2007 A\$32,447,000), based on the quoted market price at the date the options were granted. The weighted average fair value of options granted during the year ended 31 December 2008 was A\$4.61 (2007 A\$6.38).

The market value of the options outstanding at the balance sheet date was A\$127,788,000 (2007 A\$134,731,000), calculated by reference to the quoted market value of the underlying shares at that date.

Details of the number of employee options granted, exercised and forfeited or cancelled during the year, including those issued under the DCP, were as follows:

#### 2008

Grant date	Exercise price A\$	Balance at 1 January 2008	Granted in the year	Exercised in the year	Cancelled/ forfeited in the year	Balance at 31 December 2008
3 March 2004	11.08	37,237	–	(23,737)	–	13,500
3 March 2005	8.04	173,739	–	(38,156)	–	135,583
3 March 2005	11.08	186,500	–	(36,190)	–	150,310
3 March 2005	14.85	1,308,340	–	(77,362)	–	1,230,978
2 March 2006	20.44	1,332,187	–	(88,574)	(1,000)	1,242,613
2 March 2007	32.68	983,117	–	–	(46,612)	936,505
2 March 2007	20.44	20,000	–	–	–	20,000
4 March 2008	24.22	–	1,230,520	–	(28,904)	1,201,616
4 March 2008	20.44	–	20,000	–	–	20,000
		4,041,120	1,250,520	(264,019)	(76,516)	4,951,105
Weighted average exercise price A\$		20.56	24.16	14.89	29.32	21.63

The weighted average share price at the date of exercise of options during the year was A\$24.31 (2007 A\$31.36). The weighted average remaining contractual life of total options outstanding at 31 December 2008 was 3.56 years (2007 4.02 years).

Employee options outstanding at 31 December 2008 were as follows:

Year of expiry	DCP	Other	Total options
2011	1,556,871	–	1,556,871
2012	1,242,613	–	1,242,613
2013	936,505	–	936,505
2014	1,201,616	–	1,201,616
2024	–	13,500	13,500
	4,937,605	13,500	4,951,105
Vested and exercisable at 31 December 2008	–	13,500	13,500

The future performance options have been issued subject to the achievement of specific performance criteria.

Other options were issued to Irish employees in 2004 in lieu of shares under the Plan. The options vested immediately and are exercisable until March 2024.

## 10 Share based payments continued

### b) Employee options continued

Details of the number of options granted, exercised and forfeited or cancelled during the prior year, including those issued under the DCP, were as follows:

#### 2007

Grant date	Exercise price A\$	Balance at 1 January 2007	Granted in the year	Exercised in the year	Cancelled/forfeited in the year	Balance at 31 December 2007
10 December 2001	7.27	500,000	–	(500,000)	–	–
3 March 2004	8.04	164,447	–	(164,447)	–	–
3 March 2004	11.08	1,479,521	–	(1,420,438)	(21,846)	37,237
3 March 2005	8.04	173,739	–	–	–	173,739
3 March 2005	11.08	186,500	–	–	–	186,500
3 March 2005	14.85	1,418,252	–	(22,791)	(87,121)	1,308,340
2 March 2006	20.44	1,403,207	–	(8,267)	(62,753)	1,332,187
2 March 2007	32.68	–	1,015,642	–	(32,495)	983,117
2 March 2007	20.44	–	20,000	–	–	20,000
		5,325,666	1,035,642	(2,115,943)	(204,215)	4,041,120
Weighted average exercise price A\$		14.00	32.44	10.02	19.00	20.56

Employee options outstanding at 31 December 2007 were as follows:

Year of expiry	DCP	Other	Total options
2008	23,237	–	23,237
2011	1,689,579	–	1,689,579
2012	1,331,187	–	1,331,187
2013	983,117	–	983,117
2024	–	14,000	14,000
	4,027,120	14,000	4,041,120
Vested and exercisable at 31 December 2007	23,237	14,000	37,237

### c) Conditional rights

Details of the number of employee entitlements to conditional rights to ordinary shares under the DCP granted, vested and transferred to employees during the year were as follows:

#### 2008

Grant date	Date exercisable	Fair value per right at grant date A\$	Balance at 1 January 2008	Granted in the year	Dividends attaching in the year	Vested and transferred to employee in the year	Cancelled in the year	Balance at 31 December 2008
3 March 2005	2 March 2008	17.51	547,829	–	–	(547,829)	–	–
3 March 2005	2 March 2008	15.30	72,750	–	–	(72,750)	–	–
3 March 2005	2 March 2008	15.86	78,095	–	–	(78,095)	–	–
3 March 2006	1 March 2009	23.09	535,485	–	28,845	(47,971)	–	516,359
2 March 2007	1 March 2010	32.68	506,241	–	27,298	(34,983)	(13,959)	484,597
4 March 2008	3 March 2011	24.22	–	760,748	43,335	(1,993)	(15,026)	787,064
			1,740,400	760,748	99,478	(783,621)	(28,985)	1,788,020

The weighted average share price at the date of vesting of conditional rights during the year ended 31 December 2008 was A\$21.86 (2007 A\$31.36).

The weighted average fair value of conditional rights granted during the year ended 31 December 2008 was A\$24.22 (2007 A\$32.68).

# Notes to the financial statements continued

For the year ended 31 December 2008

## 10 Share based payments continued

### c) Conditional rights continued

Details of the number of employee entitlements to conditional rights to ordinary shares under the DCP granted, vested and transferred to employees during the prior year were as follows:

#### 2007

Grant date	Date exercisable	Fair value per right at grant date A\$	Balance at 1 January 2007	Granted in the year	Dividends attaching in the year	Vested and transferred to employee in the year	Cancelled in the year	Balance at 31 December 2007
3 March 2004	2 March 2007	12.49	8,173	–	–	(8,173)	–	–
3 March 2004	2 March 2007	11.65	69,195	–	–	(69,195)	–	–
3 March 2004	2 March 2007	12.96	597,129	–	–	(596,110)	(1,019)	–
3 March 2005	2 March 2008	17.51	573,792	–	19,374	(9,220)	(36,117)	547,829
3 March 2005	2 March 2008	15.30	70,292	–	2,458	–	–	72,750
3 March 2005	2 March 2008	15.86	75,456	–	2,639	–	–	78,095
3 March 2006	1 March 2009	23.09	556,919	–	18,730	(3,213)	(36,951)	535,485
2 March 2007	1 March 2010	32.68	–	508,460	17,635	(3,124)	(16,730)	506,241
			1,950,956	508,460	60,836	(689,035)	(90,817)	1,740,400

### d) Fair value of options and conditional rights

The fair value of both options and conditional rights is determined using a binomial model. The fair value is earned evenly over the period between grant and vesting. For those options and conditional rights granted during the year to 31 December 2008, the following significant assumptions were used:

		Options 2008 £000	Options 2007 £000	Conditional rights 2008 £000	Conditional rights 2007 £000
Share price on grant date	A\$	20.50 – 25.19	31.33 – 32.62	20.50 – 25.19	31.33 – 32.62
Fair value of instrument at grant date	A\$	3.36 – 5.16	5.05 – 12.55	24.22 – 27.00	32.68
Risk free interest rate	%	6.2 – 6.5	5.8 – 5.9	6.2 – 6.5	5.8 – 5.9
Expected share price volatility	%	25.0	20.0	25.0	20.0
Expected dividend yield	%	5.0	3.5	5.0	3.5
Expected life of instrument	Years	3.0 – 5.0	3.0 – 5.0	3.0	3.0

Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

### e) Share incentive plan

The SIP was introduced during 2005 and is a global reward scheme available to eligible permanent employees who have met minimum service conditions at the annual grant date. Under the terms of the SIP, eligible employees may be offered up to A\$1,000 of fully paid ordinary shares in QBE Insurance Group Limited annually for no cash consideration. The market value of shares issued under the terms of the SIP is expensed in the period in which the shares are granted. The total number of shares issued to participating employees in the year was 33,940 (2007 27,540). The weighted average market price on the issue date was A\$23.76 (2007 A\$32.00).

### f) Share based payment expenses

Total expenses arising from share based payment transactions during the year included in expenses were as follows:

	2008 £000	2007 £000
Options provided under the DCP	2,744	2,246
Conditional rights provided under the DCP	6,389	4,716
Shares provided under the SIP	370	369
	9,503	7,331

## 11 Investment income, expenses and charges

### a) Income from investments other than participating interests

	2008 £000	2007 £000
Dividend income	9,692	12,411
Interest receivable:		
From Group undertakings	39,877	43,757
Other	259,151	248,535
Gains on realisation of investments	19,228	10,548
Foreign currency exchange gains	34,734	2,039
Other investment income	1,624	1,471
	<b>364,306</b>	318,761

### b) Investment expenses and charges

	2008 £000	2007 £000
Investment management expenses	6,228	25,242
Interest payable:		
To Group undertakings	68,347	59,054
Other	56,838	47,898
	<b>131,413</b>	132,194

## 12 Profit on ordinary activities before tax

Profit on ordinary activities before taxation is stated after charging:

	2008 £000	2007 £000
Auditors' services:		
Auditors' remuneration in respect of audit services	136	166
Other services:		
Audit of the company's subsidiaries, pursuant to legislation	1,530	1,441
Other services supplied pursuant to legislation	516	471
Services relating to taxation	144	168
Other services not covered above	255	277
Payments on operating leases – land and buildings	14,799	12,860
Payments on operating leases – other	248	262
Depreciation:		
Charge in year	14,308	12,791
Net loss on disposal of fixed assets – other	22	56

# Notes to the financial statements continued

For the year ended 31 December 2008

## 13 Tax on profit on ordinary activities

Analysis of charge in period	2008 £000	2007 £000
<b>Current tax:</b>		
UK corporation tax	58,610	74,878
Adjustments to tax in respect of prior period	(8,007)	10,047
Double tax relief	–	37
	<b>50,603</b>	84,962
Foreign tax	106	(196)
	<b>106</b>	(196)
Total current tax	<b>50,709</b>	84,766
<b>Deferred tax:</b>		
Origination and reversal of timing differences	19,378	29,319
Impact in change of UK tax rate	–	(5,271)
Adjustments to tax in respect of prior period	(957)	(3,287)
Total deferred tax	<b>18,421</b>	20,761
Tax on profit on ordinary activities	<b>69,130</b>	105,527

### Factors affecting tax charge for the period

The current year 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:

	2008 £000	2007 £000
Profit on ordinary activities before tax	279,251	376,178
Profit on ordinary activities before tax multiplied by standard rate of UK corporation tax of 28.5% (2007 30%)	79,586	112,853
<b>Effects of:</b>		
Difference in tax rate	(457)	–
Expenses not deductible for tax purposes	3,586	9,066
Income exempt from tax	(3,499)	(7,772)
Other timing differences	(19,378)	(29,785)
Group relief for nil consideration	–	2,831
Other permanent differences	(855)	(12,408)
Overseas tax rate adjustments	(267)	(66)
Adjustments to tax in respect of prior period	(8,007)	10,047
Current tax charge for year	<b>50,709</b>	84,766

## 14 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's profit for the financial year was £416,215,000 (2007 £895,938,000).

## 15 Intangible assets

Group	Goodwill £000	Intangible £000	Other goodwill £000	Purchased syndicate participation £000	Total 2008 £000	Total 2007 £000
<b>Cost</b>						
At 1 January	137,152	1,300	129,900	59,716	<b>328,068</b>	289,178
Purchases at cost	–	–	–	–	–	1,300
Purchases of subsidiary undertakings	–	–	–	–	–	37,463
Exchange difference	–	–	22	–	<b>22</b>	–
Deferred consideration movements	–	–	–	–	–	127
<b>At 31 December</b>	<b>137,152</b>	<b>1,300</b>	<b>129,922</b>	<b>59,716</b>	<b>328,090</b>	<b>328,068</b>
<b>Amortisation</b>						
At 1 January	(24,922)	(109)	(120,223)	(16,652)	<b>(161,906)</b>	(150,147)
Amortisation during the year	(4,832)	(129)	(1,659)	(2,979)	<b>(9,599)</b>	(11,759)
<b>At 31 December</b>	<b>(29,754)</b>	<b>(238)</b>	<b>(121,882)</b>	<b>(19,631)</b>	<b>(171,505)</b>	<b>(161,906)</b>
<b>Amortised cost at 31 December</b>	<b>107,398</b>	<b>1,062</b>	<b>8,040</b>	<b>40,085</b>	<b>156,585</b>	<b>166,162</b>

Goodwill represents the difference between the cost of the acquired entity and the aggregate of the fair values of that entity's identifiable assets and liabilities. An element of this balance (described as "other goodwill" above) relates to the discounting of certain technical provisions arising from the fair value exercise carried out following the acquisitions of QBE Reinsurance (UK) Limited in 1996, QBE Holdings (Europe) Limited (formerly Limit plc) in 2000, and QBE Insurance Company Limited (formerly Iron Trades Insurance Company Limited) in 2000. These technical provisions were discounted solely to satisfy the requirements of FRS 7 "Fair Values in Acquisition Accounting". The criteria adopted for estimating the period that will elapse before the claims are settled were based on the class of business, the historic settlement rate and the consideration of whether the historic settlement pattern would be appropriate into the future. The period of time which will elapse before the technical provisions are settled was estimated by modelling the settlement patterns of the underlying claims and related reinsurance recoveries.

Amortisation of other goodwill is included in other technical charges in the technical account. Amortisation of goodwill and purchased syndicate participation is included in other charges in the non-technical account.

Company – intangible	Total 2008 £000	Total 2007 £000
<b>Cost</b>		
At 1 January	<b>1,300</b>	–
Purchases at cost	–	1,300
<b>At 31 December</b>	<b>1,300</b>	<b>1,300</b>
<b>Amortisation</b>		
At 1 January	<b>(109)</b>	–
Amortisation during the year	<b>(129)</b>	(109)
<b>At 31 December</b>	<b>(238)</b>	<b>(109)</b>
<b>Amortised cost at 31 December</b>	<b>1,062</b>	<b>1,191</b>

On 28 February 2007, the Company purchased intellectual property, business information and a business databases relating to the motor underwriting market, for total consideration of £1,300,000. The full purchase price has been treated as intangible.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 16 Investments

### a) Land and buildings

	2008 £000	Group 2007 £000
<b>Cost or valuation</b>		
As at 1 January	262	5,173
Disposal of entities	–	(4,932)
Surplus/(deficit) on revaluation	(13)	25
Exchange difference	75	(4)
<b>As at 31 December</b>	<b>324</b>	<b>262</b>

If the investment properties had not been revalued, they would have been included at the following amounts:

	2008 £000	Group 2007 £000
Cost	317	317
Aggregate depreciation based on cost	(94)	(70)
<b>Net book value</b>	<b>223</b>	<b>247</b>

### b) Shares in Group undertakings

	2008 £000	2007 £000
At 1 January	2,004,329	618,465
Transfer of deferred consideration for Ensign Holdings Limited	–	2,502
Reduction in deferred consideration for MBP Holdings Limited	–	(2,385)
Purchase of QBE Funding IV Limited shares	–	50
Sale of QBE Corporate Holdings Ltd	–	(800)
Purchase of QBE Holdings (Europe) Limited shares	–	1,350,000
Purchase of British Marine Holdings SA and British Marine Holdings II SA shares	–	53,168
Purchase of Anex Jenni & Partner AG and HP Jenni & Partner AG shares	–	1,825
Impairment of investment in QBE Funding Limited	–	(11,409)
Impairment of investment in QBE Funding II Limited	–	(7,087)
Impairment of Greenhill International Insurance Holdings Limited	(13,935)	–
Impairment of Ensign Holdings Limited	(20,410)	–
Impairment of Minibus Plus Holdings Limited	(11,201)	–
Liquidation of Energy Insurance Services Limited	(240)	–
At 31 December	<b>1,958,543</b>	<b>2,004,329</b>

#### i) Purchases of subsidiary undertakings

##### 2008

During the year, the Company acquired Hackremco (No. 2584) Limited for £1, and renamed it QBE Holdings (EO) Limited. This company is non-trading.

##### 2007

On 5 July 2007, the Company acquired, from a fellow QBE Insurance Group Limited undertaking, all of the issued share capital of British Marine Holdings SA and British Marine Holdings II SA, both holding companies of British Marine Luxembourg SA an insurance company in Luxembourg, for a total cash consideration of £53,168,000. The Group has used acquisition accounting to account for the purchase. Goodwill recognised on purchase was £35,359,000.

British Marine Holdings SA and British Marine Holdings II SA audited results for the financial year ended 31 December 2007 was a profit/(loss) after tax of US\$(1,544) and US\$2,484,000 respectively. The audited results for the financial year ended 31 December 2006 was a profit/(loss) after tax of US\$(14,980) and US\$(8,094) respectively.

## 16 Investments continued

### b) Shares in Group undertakings continued

#### i) Purchases of subsidiary undertakings continued 2007 continued

On 10 July 2007, the Company acquired all of the issued share capital of HP Jenni & Partner AG and Anex Jenni & Partner AG, both underwriting companies of motor and general risks in Switzerland, for a total cash consideration of £1,825,000. The Group has used acquisition accounting to account for the purchase. Goodwill recognised on purchase was £2,104,000.

HP Jenni & Partner AG and Anex Jenni & Partner AG audited results for the financial year ended 31 December 2008 was a profit after tax of £nil.

The total assets and liabilities purchased at the date of acquisitions were as follows:

Book value and fair value of net assets on acquisition	British Marine £000	HP Jenni £000
Cash and investments	67,031	1,233
Reinsurers' share of technical provisions	63,950	–
Debtors	34,957	361
Other assets	37,509	251
Technical provisions	(115,065)	–
Creditors and accruals	(70,573)	(2,142)
Net assets acquired	17,809	(279)
Cost of acquisition	53,168	1,825
<b>Goodwill arising on acquisition</b>	<b>35,359</b>	<b>2,104</b>

In 2007, deferred consideration payable in respect of the acquisition of Ensign Holdings Limited, a former subsidiary of the Company, was transferred from a subsidiary company QBE Holdings (Europe) Limited. The transfer of ownership of Ensign Holdings Limited took place during 2006.

Also in 2007, the Company paid the final amount owing of deferred consideration for MBP Holdings Limited. All payments under the contract have now been settled hence the reversal of the remaining deferred consideration.

On 5 July 2007, the Company acquired, from a fellow QBE Insurance Group Limited undertaking, all of the issued share capital of British Marine Holdings SA and British Marine Holdings II SA, both holding companies of British Marine Luxembourg SA an insurance company in Luxembourg, for a total consideration of £53,168,000. Goodwill recognised on purchase was £35,359,000.

On 10 July 2007, the Company acquired all of the issued share capital of HP Jenni & Partner AG and Anex Jenni & Partner AG, both underwriting companies of motor and general risks in Switzerland, for a total consideration of £1,825,000. Goodwill recognised on purchase was £2,104,000.

#### ii) Disposals of subsidiary undertakings 2008

Energy Insurance Services Limited was put into members' voluntary liquidation during the year.

On 3 December 2008, the Company disposed of British Marine Luxembourg SA, British Marine Holdings SA, and British Marine Holdings II SA to QBE Insurance (Europe) Limited, a subsidiary of the Company. The ownership of these companies was transferred in specie to QBE Insurance (Europe) Limited. As a result, the carrying value of the investment in these companies, £53,168,000, has been transferred to the carrying value of the investment in QBE Insurance (Europe) Limited.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 16 Investments continued

### b) Shares in Group undertakings continued

#### ii) Disposals of subsidiary undertakings continued 2007

On 30 March 2007, the Group disposed of its investment in the issued share capital of QBE Asito SA for a total consideration of £1,028,000. The profit on sale of £786,000 was recognised in the profit and loss non-technical account.

During 2007, the Company recognised an additional loss of £5,610,000 from the disposal of a related entity, Garwyn Limited, during 2005. The loss arises on additional expenses incurred due to contractual obligations under the trading agreement included within the sale agreement.

Also during 2007, the Group recognised a loss of £800,000 on the sale of two subsidiary undertakings to a fellow subsidiary undertaking of QBE Insurance Group Limited, refer to note 21.

Last year the Company sold two subsidiary undertakings, QBE Corporate Capital Holdings Limited and QBE Corporate Holdings Limited, to a fellow subsidiary undertaking of QBE Insurance Group Limited for total consideration of £802,126,000.

During 2007, the Company purchased the entire share capital of Standfast Corporate Underwriters Limited ("SCUL"). The Company is restricted in its ability to exercise its shareholder rights under an agreement with Lloyd's. Consequently, the investment has not been consolidated in these accounts but has been included based on the Group's effective share of SCUL's results and net assets. SCUL is a corporate member of Syndicate 991, a Lloyd's syndicate in run-off. There have been no transactions between SCUL and the rest of the Group since the shares were purchased, and there is no balance at the year end.

At 31 December 2008 the Company carried out an impairment review of its investments in subsidiaries, the investments in Greenhill International Insurance Holdings Limited, Ensign Holdings Limited, and Minibus Plus Holdings Limited have been impaired in the year to reflect their net asset values at the balance sheet date. A similar review in 2007 found it was necessary to write down the carrying value of its investment in QBE Funding Limited and QBE Funding II Limited.

Held by company	Country of incorporation	Equity holdings %	Principal activity
Anex Jenni & Partner AG	Switzerland	100	Underwriting agency
Ensign Holdings Limited	Great Britain	100	Non-operating
Greenhill International Insurance Holdings Limited	Great Britain	100	Holding company
HP Jenni & Partner AG	Switzerland	100	Underwriting agency
MBP Holdings Limited	Great Britain	100	Holding company
Minster Court Asset Management (UK) Limited	Great Britain	100	Investment management
QBE Funding Limited	Jersey	100	Issuer of zero coupon bonds
QBE Funding II Limited	Jersey	100	Issuer of zero coupon bonds
QBE Funding III Limited	Jersey	100	Issuer of zero coupon bonds
QBE Funding IV Limited	Jersey	100	Issuer of zero coupon bonds
QBE Holdings (EO) Limited	Great Britain	100	Holding company
QBE Insurance (Europe) Limited	Great Britain	100	Insurance and reinsurance business
QBE Management Services (UK) Limited	Great Britain	100	Service company
Standfast Corporate Underwriters Limited	Great Britain	100	Corporate member of Lloyd's

Held by subsidiaries	Country of incorporation	Equity holdings %	Principal activity
AE Grant Underwriting Agency Limited	Great Britain	23.34	Underwriting agency
Atlasz Real Estate and Management Limited Company	Hungary	100	Property holding company
British Marine Holding SA	Luxembourg	100	Holding company
British Marine Holdings II SA	Luxembourg	100	Holding company
British Marine Luxembourg SA	Luxembourg	100	
Ensign Dedicated 1 Limited	Great Britain	100	Corporate member of Lloyd's
Greenhill BAIA Underwriting GmbH	Germany	100	Insurance intermediary
Greenhill Sturge Underwriting Limited	Great Britain	100	Insurance intermediary
Greenhill Underwriting Espana Limited	Great Britain	100	Insurance intermediary
Iron Trades Management Services Limited	Great Britain	100	Service company
Limit (No.1) Limited	Great Britain	100	Corporate member of Lloyd's

## 16 Investments continued

### b) Shares in Group undertakings continued

Held by subsidiaries <i>continued</i>	Country of incorporation	Equity holdings %	Principal activity
Limit (No.2) Limited	Great Britain	100	Corporate member of Lloyd's
Limit (No.3) Limited	Great Britain	100	Corporate member of Lloyd's
Limit (No.4) Limited	Great Britain	100	Corporate member of Lloyd's
Limit (No.5) Limited	Great Britain	100	Corporate member of Lloyd's
Limit (No.6) Limited	Great Britain	100	Corporate member of Lloyd's
Limit (No.7) Limited	Great Britain	100	Corporate member of Lloyd's
Limit (No.10) Limited	Great Britain	100	Corporate member of Lloyd's
Limit Corporate Members Limited	Great Britain	100	Holding company
Limit Holdings Limited	Great Britain	100	Holding company
Limit Properties Limited	Great Britain	100	Property company
Mantis Reef Limited	Cayman Islands	–	Special purpose entity
Mantis Reef II Limited	Cayman Islands	–	Special purpose entity
Mantis Reef Pledge Limited	Cayman Islands	–	Special purpose entity
Mantis Reef II Pledge Limited	Cayman Islands	–	Special purpose entity
QBE Corporate Limited	Great Britain	100	Corporate member of Lloyd's
QBE Funding Trust	Jersey	–	Special purpose entity
QBE Funding Trust II	Jersey	–	Special purpose entity
QBE Funding Trust III	Jersey	–	Special purpose entity
QBE Funding Trust IV	Jersey	–	Special purpose entity
QBE Holdings (Europe) Limited	Great Britain	100	Holding company
QBE Insurance Company (UK) Limited	Great Britain	100	Non-operating
QBE Investments (Australia) Pty Limited	Australia	100	Investment holding company
QBE Investments (UK) Limited	New Zealand	100	Investment holding company
QBE Reinsurance (UK) Limited	Great Britain	100	Reinsurance run-off
QBE (Stafford) Limited	Great Britain	100	Insurance intermediary
QBE European Underwriting Services (Australia) Pty Limited	Australia	100	Service company
QBE Underwriting Limited	Great Britain	100	Lloyd's managing agent
QBE Underwriting Services Limited	Great Britain	100	Service company
QBE Underwriting Services (Ireland) Limited	Ireland	100	Service company
QBE Underwriting Services (UK) Limited	Great Britain	100	Service company
			Underwriting management
Ridgwell Fox & Partners (Underwriting Management) Limited	Great Britain	100	for a reinsurance pool
SRL Underwriting Limited	Great Britain	100	Corporate member of Lloyd's
Standfast Holdings Limited	Great Britain	23.34	Non-operating
Star Trust	Cayman Islands	–	Special purpose entity
Strakh-Consult	Ukraine	100	Holding company
The Minibus & Coach Club Limited	Great Britain	100	Insurance intermediary
Torch Dedicated Corporate Member Limited	Great Britain	100	Corporate member of Lloyd's
Visionex 2000 Limited	Great Britain	100	Holding company

Included in the above listing are investments in participating interests, being AE Grant Underwriting Agency Limited and Standfast Holdings Limited.

In the opinion of the directors, the aggregate value of the assets of the Company consisting of shares in, or amounts owing (whether on account of a loan or otherwise) from the Company's subsidiary undertakings, is not less than the aggregate of the amounts at which these assets are stated in the Company's balance sheet.

In accordance with the requirements of FRS 5 "Reporting the Substance of Transactions" – special purpose entities, Mantis Reef Limited, Mantis Reef II Limited, Mantis Reef Pledge Limited, Mantis Reef II Pledge Limited, QBE Funding Trust, QBE Funding Trust II, QBE Funding Trust III, QBE Funding Trust IV and Star Trust, as quasi-subidiaries, have been included in the consolidated financial statements.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 16 Investments continued

### b) Shares in Group undertakings continued

As required by FRS 5, the profit and loss for Mantis Reef Limited, Mantis Reef II Limited, Mantis Reef Pledge Limited and Mantis Reef II Pledge Limited before consolidation is set out below.

	Mantis Reef Limited £000	Mantis Reef Pledge Limited £000	Mantis Reef II Limited £000	Mantis Reef II Pledge Limited £000
Investment income	18,439	48,602	6,945	6,225
Expenses – ABC's	(15,297)	(45,673)	(171)	(111)
Finance costs	–	(493)	(6,774)	(6,114)
<b>Profit before tax</b>	<b>3,142</b>	<b>2,436</b>	<b>–</b>	<b>–</b>
Taxation	(942)	(731)	–	–
<b>Profit after tax</b>	<b>2,200</b>	<b>1,705</b>	<b>–</b>	<b>–</b>

### c) Other financial investments

Group	Cost 2008 £000	Carrying value 2008 £000	Cost 2007 £000	Carrying value 2007 £000
Shares and other variable yield securities – listed	232,164	183,294	239,429	249,956
Shares and other variable yield securities – unlisted	2,267	2	2,267	2
Debt securities and other fixed income securities (note 16 (d)) – listed	958,715	949,859	805,657	805,025
Deposits with credit institutions	3,547,228	3,556,084	3,121,639	3,130,209
Derivatives	–	100,122	–	25,375
	<b>4,740,374</b>	<b>4,789,361</b>	4,168,992	4,210,567

Company	Cost 2008 £000	Carrying value 2008 £000	Cost 2007 £000	Carrying value 2007 £000
Deposits with credit institutions	53,572	53,513	22,697	22,834
Derivatives	–	86,663	–	20,973
	<b>53,572</b>	<b>140,176</b>	22,697	43,807

### d) Debt securities and other fixed income securities

	2008 £000	Group 2007 £000
Cost	958,715	805,657
Gross market value surplus/(deficit)	(8,856)	(632)
Carrying value	<b>949,859</b>	805,025

## 16 Investments continued

### e) Financial risk management

The activities of the Group 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 Group's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

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

### 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 Groups financial instruments as a result of movements in foreign exchange rates. This sensitivity analysis is presented gross of any interdependencies between financial assets and liabilities.

	Movement in variable %	2008		2007	
		Profit/(loss) £000	Equity £000	Profit/(loss) £000	Equity £000
Australian dollar	+10	20,164	20,164	20,967	20,967
	-10	(20,164)	(20,164)	(20,967)	(20,967)
Canadian dollar	+10	17,928	17,928	13,561	13,561
	-10	(17,928)	(17,928)	(13,561)	(13,561)
Euro	+10	45,453	45,453	29,760	29,760
	-10	(45,453)	(45,453)	(29,760)	(29,760)
US dollar	+10	100,788	100,788	99,728	99,728
	-10	(100,788)	(100,788)	(99,728)	(99,728)

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

#### Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the Group to cash flow interest rate risk. Fixed interest rate assets expose the Group to fair value interest rate risk. The Group'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

## 16 Investments continued

### e) Financial risk management continued

#### i) Market risk continued

The Group'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:

2008	Floating interest rate	1 year or less	Fixed interest rate maturing in			Total
	£000	£000	1 to 2 years	2 to 3 years	5 years or more	£000
Interest bearing securities (excluding ABC financial assets)	1,166,971	3,363,722	51,859	270,988	6,938	4,860,478
Weighted average interest rate	2.05%	3.83%	4.47%	5.41%	7.77%	4.29%
Financial liabilities (excluding ABC securities)	–	(82,496)	–	–	(1,164,811)	(1,247,307)
Weighted average interest rate	–	2.00%	–	–	6.98%	6.65%
Net interest bearing financial assets/(liabilities)	400,014	3,250,792	60,487	267,077	(1,164,811)	2,813,559

2007 Restated	Floating interest rate	1 year or less	Fixed interest rate maturing in			Total
	£000	£000	1 to 2 years	2 to 3 years	5 years or more	£000
Interest bearing securities (excluding ABC financial assets)	813,178	3,313,144	120,169	50,274	–	4,296,765
Weighted average interest rate	5.05%	4.71%	5.36%	5.54%	–	5.05%
Financial liabilities (excluding ABC securities)	–	(59,591)	–	–	(1,015,785)	(1,075,376)
Weighted average interest rate	–	2.0%	–	–	6.94%	6.66%
Net interest bearing financial assets/(liabilities)	824,253	3,253,553	120,169	50,274	(1,015,785)	3,232,464

The Group'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		2007	
		Profit/(loss) £000	Equity £000	Profit/(loss) £000	Equity £000
Interest rate movement – fixed interest securities	+1.5	26,369	26,369	23,387	23,387
	–1.5	(26,369)	(26,369)	(23,387)	(23,387)

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 Group is exposed to price or market value risk on its investment in equities and fixed interest securities and uses derivatives 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.

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 are not perfectly correlated to the composition of the underlying equity fund.

## 16 Investments continued

### e) Financial risk management continued

#### i) Market risk continued

##### Price risk continued

	Movement in variable %	Financial impact			
		2008 Profit/(loss) £000	Equity £000	2007 Profit/(loss) £000	Equity £000
ASX 100	+20	-	-	9,095	9,095
	-20	-	-	(9,095)	(9,095)
FTSE 100	+20	18,314	18,314	24,818	24,818
	-20	(18,314)	(18,314)	(24,818)	(24,818)
EUR – DJEURO STOXX	+20	1,299	1,299	-	-
	-20	(1,299)	(1,299)	-	-

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 96%) of total fixed interest and cash investments are with counterparties having a Moody's rating of Aa or better. The Group does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings. The Group only uses derivatives in highly liquid markets.

The reinsurers share of claims outstanding is also exposed to credit risk. 11% (2007 26%) of the reinsurers share of claims outstanding is with fellow Group undertakings. 81% (2007 94%) 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 Group'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	3,491,740	4,200,650
Interest bearing investments	949,859	805,025
Derivative financial instruments	100,122	25,375
ABC financial assets pledged for funds at Lloyd's	120,344	397,416
Other Receivables	100,122	143,445

#### iii) Liquidity risk

In addition to the treasury cash held for working capital requirements, a minimum percentage of the Group'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 1 year £000	Over 1 year £000	Within 1 year £000	Over 1 year £000
Trade and other payables	(394,630)	-	(411,542)	-
Borrowings	(82,496)	(1,164,811)	(59,591)	(1,015,785)
Swaps relating to ABC securities	-	-	(12,028)	-
ABC securities for funds at Lloyd's	(120,344)	-	(277,072)	(110,829)

The consolidated entity has no significant concentration of liquidity risk.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 16 Investments continued

### f) Derivative financial instruments

#### Fair value

	2008 £000	2007 £000
<b>Foreign currency derivatives</b>		
Other financial investments – derivatives	42,275	5,600
Other creditors	(74,728)	(13,746)
<b>Equity derivatives</b>		
Shares and other variable yield securities – listed	–	(2,067)
<b>Guaranteed Floating Rate notes derivatives</b>		
Other financial investments – derivatives	57,347	19,775
<b>ABC derivatives</b>		
Other creditors	–	(12,028)
Other debtors	32,469	–

#### Foreign currency derivatives

The Group 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 £392,373,000 (2007 £293,801,000), as broken down by local currency in the following table:

	2008		2007	
	Local currency 000 Purchase	Local currency 000 Sell	Local currency 000 Purchase	Local currency 000 Sell
Australian dollar	–	(219,800)	–	(60,800)
Brazilian real	2,900	–	–	(900)
Bulgarian lev	6,143	–	–	–
Canadian dollar	–	(157,800)	–	(167,100)
Chinese renminbi	–	(700)	–	–
Colombian peso	816,000	–	995,400	–
Danish krone	–	(11,700)	–	(3,700)
Egyptian pound	1,500	–	1,500	–
European euro	67,102	–	50,700	–
Hong Kong dollar	–	(600)	7,200	–
Hungarian forint	1,016,836	–	–	(468,900)
Indian rupee	273,900	–	282,800	–
Indonesian rupiah	4,987,000	–	5,102,200	–
Korean won	492,000	–	1,498,500	–
Japanese yen	–	(321,900)	–	(103,200)
Malaysian ringgit	300	–	1,000	–
Mexican peso	1,700	–	1,600	–
New Zealand dollar	–	(1,200)	–	(900)
Norwegian krone	–	(1,500)	–	(2,400)
Philippine peso	–	–	–	(13,800)
Singapore dollar	–	–	200	–
Slovakian koruna	4,400	–	–	(14,700)
South African rand	8,400	–	305,100	–
Swedish kroner	–	–	–	(24,000)
Swiss franc	2,000	–	4,800	–
Thai baht	–	–	–	(31,900)
US dollar	–	(2,300)	–	(500,347)

## 16 Investments continued

### f) Derivative financial instruments continued

#### Foreign currency derivatives continued

The forward foreign exchange derivatives outstanding at year end expired in February 2009 (2007 February 2008).

During the year a loss of £78,005,000 (2007 loss of £11,868,000) relating to such contracts was recognised. This is included in the net foreign exchange gain of £34,734,000 (2007 gain £2,039,000) in the profit and loss non-technical account.

#### Equity derivatives

During the year the Group entered into equity derivative contracts in order to protect the equity portfolios within the Group from the risk of downside movements in the share markets. At the year end there were no equity derivative contracts in place and therefore no derivative contractual amounts were outstanding at the balance sheet date (2007 £183,756,000).

During the year a profit of £24,176,000 (2007 £1,913,000) was included in the profit and loss non-technical account relating to these derivatives.

#### Guaranteed floating rate notes derivatives

Information on the Guaranteed Floating Rate Notes derivatives is included in note 24.

During the year, a gain of £37,572,000 (2007 loss of £14,184,000) was recognised in equity relating to the movements in the fair value of the swaps.

#### ABC derivatives

Information on the ABC derivatives is included in note 17.

## 17 ABC investments pledged and securities for funds at Lloyd's

	US\$000	2008 £000	2007 £000
<b>Investments</b>			
ABC investments pledged for funds at Lloyd's interest bearing short term money			
Due 2008		-	277,072
Due 2009		120,344	120,344
		<b>120,344</b>	397,416
<b>Creditors – due within one year</b>			
ABC securities for funds at Lloyd's			
Due 2008	(550,000)	-	(277,072)
Due 2009	(220,000)	(150,645)	(110,829)
	(770,000)	<b>(150,645)</b>	(387,901)
Value of swap included in other debtors/(creditors)		32,469	(12,028)
		<b>(118,176)</b>	(399,929)

#### ABC securities (redeemed 2008)

In October 2003, the Group's ultimate parent company, QBE Insurance Group Limited, entered into an arrangement with Mantis Reef Limited ("MRL") to issue US\$550,000,000 of Asset Backed Capital ("ABC") securities to support FAL pursuant to Lloyd's collateral requirements for the Group's Lloyd's operations. This arrangement substantially replaced bank letters of credit.

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

These ABC securities were redeemed on 14 November 2008 in accordance with the terms of the ABC custody arrangement. Details of the eligible investments included in the asset portfolio at 31 December 2007 are shown above as ABC investments pledged for FAL.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 17 ABC investments pledged and securities for funds at Lloyd's continued

### ABC securities (redeemed 2008) continued

MRL and MRPL are both special purpose entities incorporated with limited liability under the laws of the Cayman Islands. Neither the Group nor QBE Insurance Group Limited has an ownership interest in MRL or MRPL, however, as they are quasi-subidiaries, the Group is required to consolidate the entities under FRS 5 "Reporting the Substance of Transactions" (see note 16 (b)).

QBE Insurance Group Limited has entered into certain other related arrangements with MRL and MRPL, and other third parties. These are disclosed in the financial statements for QBE Insurance Group Limited for the 12 months to 31 December 2008.

### ABC securities (due 2009)

In October 2004, QBE Insurance Group Limited entered into an arrangement with Mantis Reef II Limited ("MR(II)L") to issue US\$220,000,000 of ABC securities to support FAL pursuant to Lloyd's collateral requirements for the Group's Lloyd's operations.

Proceeds from the sale of the ABC securities to investors have been used to purchase shares in a wholly owned subsidiary of MR(II)L, Mantis Reef II Pledge Limited ("MR(II)PL"). The proceeds from the sale of shares in MR(II)PL have been used to purchase eligible investments over which security interests, in the form of a fixed and floating charge, have been granted to Lloyd's in support of FAL. Details of the eligible investments included in the asset portfolio are shown above as ABC investments pledged for FAL.

MR(II)L and MR(II)PL are both special purpose entities incorporated with limited liability under the laws of the Cayman Islands. Neither the Group nor QBE Insurance Group Limited has an ownership interest in MR(II)L or MR(II)PL, however, as they are quasi-subidiaries, the Group is required to consolidate the entities under FRS 5 "Reporting the Substance of Transactions" (see note 16 (b)).

QBE Insurance Group Limited has entered into certain other related arrangements with MR(II)L and MR(II)PL, and other third parties. These are disclosed in the financial statements for QBE Insurance Group Limited for the 12 months to 31 December 2008.

### Swaps relating to ABC securities

There are swap agreements in place between MRL and MR(II)L and QBE Insurance Group Limited.

For the ABC Securities redeemed in 2008, there was a swap agreement under which MRL received a fixed rate of interest, 3.407%, on US\$550,000,000 in return for paying a floating rate on the same amount.

For the ABC Securities due in 2009, there is a swap agreement in which MR(II)L receives a fixed rate of interest, 3.609%, on US\$220,001,000 in return for paying a floating rate on £120,344,073.

Both of these swaps are valued at fair value at the year end. They are not designated as hedges, and therefore gains and losses are taken to the profit and loss account. At the year end they were valued at £32,469,000 (2007 liability £12,028,000), and are disclosed as part of other debtors.

During the year a profit of £44,669,000 (2007 £9,038,000) was included in the profit and loss non-technical account relating to these derivatives.

## 18 Other debtors including taxation

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Corporation tax	–	–	15,424	8,327
Amounts owed by Group undertakings	801,507	708,910	509,630	450,296
Other	43,424	11,125	9,944	11,070
	<b>844,931</b>	720,035	<b>534,998</b>	469,693

## 19 Tangible assets – Group

	Motor vehicles £000	Office equipment £000	Plant and equipment £000	Leasehold improvements £000	Total £000
<b>Cost or revaluation</b>					
At 1 January 2008	1,343	47,622	2,866	16,293	68,124
Exchange adjustments	153	996	155	133	1,437
Additions	631	1,126	8,119	1,655	11,531
Disposals	(332)	(30)	(16)	–	(378)
<b>At 31 December 2008</b>	<b>1,795</b>	<b>49,714</b>	<b>11,124</b>	<b>18,081</b>	<b>80,714</b>
<b>Cumulative depreciation</b>					
At 1 January 2008	(528)	(22,748)	(2,727)	(5,614)	(31,617)
Exchange adjustments	(62)	(787)	(96)	63	(882)
Charge for year	(278)	(10,213)	(1,796)	(2,021)	(14,308)
Disposals	232	30	16	–	278
<b>At 31 December 2008</b>	<b>(636)</b>	<b>(33,718)</b>	<b>(4,603)</b>	<b>(7,572)</b>	<b>(49,529)</b>
<b>Net book value at 31 December 2008</b>	<b>1,159</b>	<b>15,996</b>	<b>6,521</b>	<b>10,509</b>	<b>34,185</b>
<b>Net book value at 31 December 2007</b>	<b>815</b>	<b>24,874</b>	<b>139</b>	<b>10,679</b>	<b>36,507</b>

The charge for depreciation for the year ended 31 December 2008 was £14,308,000 (2007 £12,791,000).

## 20 Share capital

	2008 £000	2007 £000
<b>Authorised</b>		
“A” class ordinary shares – 350,000,000 shares of £1 each	<b>350,000</b>	350,000
“B” class ordinary shares – 147,200,000 shares of £1 each	<b>147,200</b>	147,200
Non-voting ordinary shares – 52,800,000 shares of £1 each	<b>52,800</b>	52,800
Floating rate non-voting preference shares – 150,000,000 shares of £1 each	<b>150,000</b>	150,000
	<b>700,000</b>	700,000
<b>Called up, allotted and fully paid</b>		
“A” class ordinary shares – 330,000,000 shares of £1 each	<b>330,000</b>	330,000
“B” class ordinary shares – 124,484,853 shares of £1 each	<b>124,485</b>	124,485
Non-voting ordinary shares – 23,300,000 shares of £1 each	<b>23,300</b>	23,300
Floating rate non-voting preference shares – 122,260,000 shares of £1 each	<b>122,260</b>	122,260
	<b>600,045</b>	600,045

The holders of the non-voting ordinary shares have the following restrictions on their rights:

- i) they have the right to participate in any dividend or other distribution of profits of the Company if and to the extent resolved by the directors of the Company in their absolute discretion; and
- ii) they have no rights to vote at general meetings of the Company.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 20 Share capital continued

The holders of the floating rate non-voting preference shares have the following restrictions on their rights:

- i) they have no rights to vote at general meetings of the Company;
- ii) they are entitled to receive, out of profits legally available for that purpose if and when declared by the directors of the Company, preferential cumulative dividends that accrue rateably on a daily basis and are payable in cash, semi-annually in arrears from 30 June 2004;
- iii) they are not entitled to any dividends in excess of the full non-cumulative dividends declared on the floating rate non-voting preference shares;
- iv) on a return of capital on winding-up (other than on redemption or purchase of shares) or otherwise, they will be entitled to any payment in priority to the holders of any other class of shares; and
- v) they will not share in the balance of assets remaining after the payments due in (iv) above.

## 21 Share premium account and other reserves

Group	Called up share capital £000	Share premium reserve £000	Foreign currency translation reserve £000	Cash flow hedge reserve £000	Profit and loss account £000	Total £000
At 1 January 2008	600,045	361,550	18,015	(4,127)	(218,828)	756,655
Retained profit for the year	–	–	–	–	210,121	210,121
Movement on cash flow hedge	–	–	–	5,479	–	5,479
Currency translation differences	–	–	34,698	–	–	34,698
Actuarial loss on pension scheme/payments	–	–	–	–	(2,286)	(2,286)
Dividend	–	–	–	–	(369,744)	(369,744)
<b>At 31 December 2008</b>	<b>600,045</b>	<b>361,550</b>	<b>52,713</b>	<b>1,352</b>	<b>(380,737)</b>	<b>634,923</b>

The cash flow hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in reserves, refer to note 24.

Company	Called up share capital £000	Share premium reserve £000	Cash flow hedge reserve £000	Profit and loss account £000	Total £000
At 1 January 2008	600,045	361,550	(4,127)	(27,474)	929,994
Retained profit for the year	–	–	–	416,215	416,215
Movement on cash flow hedge	–	–	5,479	–	5,479
Dividend	–	–	–	(369,744)	(369,744)
<b>At 31 December 2008</b>	<b>600,045</b>	<b>361,550</b>	<b>1,352</b>	<b>18,997</b>	<b>981,944</b>

During the year the Company declared a dividend based on interim accounts of £369,744,000.

## 22 Equalisation provision

The equalisation provision required to be made by the Group in accordance with the FSA 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 the balance on the general business technical account and decreased the profit before tax by £2,445,000 (2007 £nil).

## 23 Deferred tax

	Group 2008 £000	2007 £000
<b>Movements in deferred tax are made up as follows:</b>		
Deferred tax (liability)/asset at start of period	(78,322)	(55,452)
Deferred tax (charge)/credit in profit and loss account	(18,421)	(20,761)
Movement in provisions – other	373	(2,109)
Deferred tax liability at end of period	(96,370)	(78,322)
<b>The elements of deferred tax are made up as follows:</b>		
Accelerated capital allowances	(6,938)	7,138
Short term timing differences	(92,858)	(88,301)
Employee compensation and benefits	3,426	2,841
<b>Liability in balance sheet</b>	<b>(96,370)</b>	<b>(78,322)</b>

## 24 Loan notes

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
<b>Amounts due in more than one year</b>				
Guaranteed Floating Rate notes	191,788	159,695	191,788	159,695
	<b>191,788</b>	159,695	<b>191,788</b>	159,695

During 2000, the Company issued €115,000,000, A\$150,000,000 and A\$20,000,000 sub-ordinated Guaranteed Floating Rate (“GFR”) notes. In each case, the notes are jointly and severally guaranteed on a sub-ordinated basis by each of QBE Insurance (Australia) Limited and QBE Holdings (Australia) Pty. Limited, affiliated companies of the Group.

The Company is exposed to interest rate and currency risk in respect of these GFR notes. Accordingly, the Company has entered into swap agreements which result in the Company’s financial liabilities being fixed at sterling amounts until 2010, at which point the Company will be liable for the original Australian dollar and euro amounts in the underlying financing arrangements. The facility can be extended for a further ten years to 2020. Under the swap agreements, the variable interest rates of between 1.8% and 2.0% above the wholesale interbank rate are swapped to fixed rates of between 8.4% and 8.6% payable quarterly until 2010. The timing of the payments under the swap agreements matches the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The underlying financial liabilities are measured at amortised cost in sterling. The swaps are measured at fair value. The swaps are designated as cash flow hedges and have satisfied the relevant hedge effectiveness tests throughout the year and at the balance sheet date. The gain or loss on the cash flow hedges is recognised directly in equity. Any ineffectiveness in the cash flow hedges is recognised directly in the income statements.

# Notes to the financial statements continued

For the year ended 31 December 2008

## 25 Amounts owed to credit institutions

	2008 £000	Group 2007 £000
<b>Amounts due in less than one year</b>		
QBE Funding Trust (LYONs) (i)	133	95
QBE Funding Trust III (SCSs) (ii)	–	59,496
	<b>133</b>	<b>59,591</b>
<b>Amounts due in more than one year</b>		
QBE Funding Trust III (SCSs) (ii)	82,496	–
QBE Funding Trust IV (LYONs) (iii)	284,890	268,038
	<b>367,386</b>	<b>268,038</b>
	<b>367,519</b>	<b>327,629</b>

- i) During 2002, QBE Funding Trust and QBE Funding Trust II received a total of US\$470,893,134 from the issue of 20 year Liquid Yield OptionTM Securities (“LYONs”). The LYONs were issued at a unit price of US\$551.00 to US\$593.58 and have a principal amount at maturity of US\$1,000.00 each. The issue price and principal amount of each LYON represents a yield to maturity of 2.625% to 3.065% per annum, compounded semi-annually, calculated from date of issue. Under certain conditions the LYONs can be converted into QBE Insurance Group Limited ordinary shares at either the request of the QBE Insurance Group Limited or the investor. QBE Insurance Group Limited and QBE Reinsurance (Europe) Limited have, jointly and severally, fully and unconditionally guaranteed the Group’s obligations under the LYONs. During 2008, none of the originally issued LYONs were converted to QBE Insurance Group Limited shares (2007 25.92%).
- ii) During 2004, QBE Funding Trust III received a total of US\$375,000,329 from the issue of 20 year Senior Convertible Securities (“SCSs”). The SCSs were issued at a unit price of US\$671.65 and have a principal amount at maturity of US\$1,000.00 each. The issue price and principal amount of each SCS represents a yield to maturity of 2.0% per annum, compounded semi-annually, calculated from date of issue. Under certain conditions the SCSs can be converted into QBE Insurance Group Limited ordinary shares at either the request of the QBE Insurance Group Limited or the investor. QBE Insurance Group Limited has fully and unconditionally guaranteed the Group’s obligations under the SCSs. During 2008, none of the originally issued SCSs were converted to QBE Insurance Group Limited shares (2007 70.5%).
- iii) During 2007, QBE Funding Trust IV received a total of £257,948,027 from the issue of 20 year LYONs. The LYONs were issued at a unit price of £295.31 and have a principal amount at maturity of £1,000 each. The issue price and principal amount of each LYON represents a yield to maturity of 6.1925% per annum, compounded semi-annually, calculated from date of issue. Under certain conditions the LYONs can be converted into QBE Insurance Group Limited ordinary shares at either the request of the QBE Insurance Group Limited or the investor. QBE Insurance Group Limited has fully and unconditionally guaranteed the Group’s obligations under the LYONs. There have been no conversions to-date.

## 26 Other creditors including tax and social security

	2008 £000	Group 2007 £000	2008 £000	Company 2007 £000
Corporation tax	15,004	33,812	–	–
Amounts due to fellow QBE Insurance Group Limited subsidiaries	181,143	157,351	379,089	495,988
Amounts due to fellow QBE Insurance Group Limited subsidiaries (i)	309,388	309,412	309,388	309,412
Amounts due to fellow QBE Insurance Group Limited subsidiaries (ii)	378,743	278,640	378,743	278,640
Amounts due to subsidiary undertakings (iii)	–	–	384,866	337,010
Other creditors	206,659	232,407	11,804	10,374
	<b>1,090,937</b>	<b>1,011,622</b>	<b>1,463,890</b>	<b>1,431,424</b>

- i) In 2006, the Company issued £300,000,000 of capital securities to a fellow QBE Insurance Group Limited subsidiary. The securities have no fixed redemption date and may not be called for redemption or conversion by the investors. The securities are subordinated. Distributions are deferrable and not cumulative. However, if a distribution or principal amount is not paid by the Company and the guarantor does not pay the amount under the guarantee, then the capital securities are to be redeemed for QBE Insurance Group Limited preference shares. QBE Insurance Group Limited has fully and unconditionally guaranteed the Group’s obligations under the capital securities.

## 26 Other creditors including tax and social security continued

ii) In 2007, the Company issued US\$550,000,000 of capital securities to a fellow QBE Insurance Group Limited subsidiary. The securities have no fixed redemption date and may not be called for redemption or conversion by the investors. The securities are subordinated. Distributions are deferrable and not cumulative. However, if a distribution or principal amount is not paid by the Company and the guarantor does not pay the amount under the guarantee, then the capital securities are to be redeemed for QBE Insurance Group Limited preference shares. QBE Insurance Group Limited has fully and unconditionally guaranteed the Group's obligations under the capital securities.

iii) In 2002, the Company issued zero coupon debt securities ("QBE Zeros") to QBE Funding Limited and QBE Funding II Limited, subsidiary undertakings. The QBE Zeros will mature on 15 April 2022. The QBE Zeros were purchased at a unit price of US\$551.00 to US\$593.58 and have a repayment value at maturity of US\$1,609.42 each. The issue price and principal amount of each QBE Zero represents a yield to maturity of 5.05% to 5.546% per annum, compounded semi annually, calculated from 15 April 2002 or 10 September 2002. An additional cash element of interest is paid semi annually at a rate of 0.02%.

During 2004, the Company issued zero coupon debt securities (QBE Zeros) to QBE Funding III Limited, a subsidiary undertaking. The QBE Zeros will mature on 24 September 2024. The QBE Zeros were purchased at a unit price of US\$675.65 and have a repayment value at maturity of US\$2,216.62 each. The issue price and principal amount of each QBE Zero represents a yield to maturity of 6% per annum, compounded semi annually, calculated from 24 September 2004. An additional cash element of interest is paid semi-annually at a rate of 0.085%.

During 2007, the Company issued zero coupon debt securities (QBE Zeros) to QBE Funding IV Limited, a subsidiary undertaking. The QBE Zeros will mature on 16 May 2027. The QBE Zeros were purchased at a unit price of £295.31 and have a repayment value at maturity of £1,053.56 each. The issue price and principal amount of each QBE Zero represents a yield to maturity of 6.566% per annum, compounded semi annually, calculated from 16 May 2007. An additional cash element of interest is paid semiannually at a rate of 0.085%.

## 27 Operating lease commitments

	Group		Land and buildings	
	2008 £000	2007 £000	2008 £000	2007 £000
<b>Annual commitments under operating leases are:</b>				
Leases which expire within one year	168	54	–	–
Leases which expire between one and five years	1,331	800	–	–
Leases which expire after five years	12,003	11,783	–	–
	<b>13,502</b>	<b>12,637</b>	<b>–</b>	<b>–</b>

	Group		Other	
	2008 £000	2007 £000	2008 £000	2007 £000
<b>Annual commitments under operating leases are:</b>				
Leases which expire within one year	4	27	–	–
Leases which expire between one and five years	140	84	–	–
Leases which expire after five years	–	–	–	–
	<b>144</b>	<b>111</b>	<b>–</b>	<b>–</b>

# Notes to the financial statements continued

For the year ended 31 December 2008

## 28 Guarantees and contingencies

Of the total assets disclosed on the Group's balance sheet £4,440,582,000 (2007: £3,501,216,000) are subject to Lloyd's Premium Trust Funds, or will become subject to them on realisation, of which £2,279,737,000 (2007: £2,054,318,000) are investments.

The Group has liabilities covered by the deposit of certain investments and cash, in respect of undrawn letters of credit amounting to:

	2008		2007	
	Original currency £000	Reporting currency £000	Original currency £000	Reporting currency £000
US dollar	72,427	49,593	87,968	44,315
euro	38,179	36,541	43,680	32,131
Canadian dollar	218	123	239	121
Pound sterling	15,000	156	156	156
		<b>86,413</b>		76,723

Additionally there are charges over fixed income securities of US\$58,718,000, equivalent to £40,207,505 (2007 US\$37,054,000 equivalent to £18,667,000) backing the Group's Excess and Surplus lines business in the USA, which are required by the US insurance regulatory authorities.

The Company guarantees the liquidity risks arising from the issuance of the Funding Limited III Zeros and Funding Limited IV Zeros to the extent not paid by the subsidiaries QBE Funding III Limited and QBE Funding IV Limited respectively, up to a maximum of the principal amount due on maturity of the Zeros. For further information refer to note 26.

## 29 Funds at Lloyd's

FAL are those of the Group's funds which are subject to the terms of the Lloyd's Deposit Trust Deed and which are used to support the underwriting of the Group's corporate member subsidiaries. Under Lloyd's regulations, the amounts of FAL required to support underwriting for the following year and open years of account is determined at the "coming into line" date as prescribed by Lloyd's each year. At 31 December 2008, these amounted to £710,646,000 (2007 £676,762,000). This requirement was satisfied as follows:

	2008 £000	2007 £000
Letters of credit guaranteed by the ultimate holding company	459,608	125,000
Covenant and charge security arrangement	70,591	77,637
Covenant and charge over ABC securities	120,344	406,802
Cash deposit	-	4
Interim profits	59,597	54,871
Central fund loan	-	12,448
Withheld profits	506	-
	<b>710,646</b>	676,762

## 30 Parent undertaking

The Company's immediate, and ultimate, controlling entity is QBE Insurance Group Limited, which is incorporated in Australia. The consolidated accounts for QBE Insurance Group Limited are available from the Company's registered office at Plantation Place, 30 Fenchurch Street, London EC3M 3BD.

## 31 Reinsurance to close

In 2007, through its participations on Syndicate 2999, the Group accepted the RITC of two syndicates, Syndicate 456 and Syndicate 980.

Syndicate 456 ceased writing in 2001 and had three years of account open, 1999, 2000 and 2001. It wrote mainly following lines on US and UK liability classes. The RITC of all these years totalled £48,967,000 which included a risk premium of £3,500,000. The RITC premium received on the increased participation was £16,063,000.

Syndicate 980 ceased writing at the end of 2004 when its business was transferred from the Lloyd's market. It wrote mainly motor business. The Group's participation on Syndicate 980 increased to 100% in 2005. The RITC of £91,926,000 did not include a risk premium. The RITC premium received on the increased participation was £57,585,000.

## 32 Post balance sheet events

Following the year end, the Group has completed two acquisitions:

- the purchase of the Carlife Group. Over the past 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. The maximum consideration payable is approximately £5,000,000; and
- the 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 Endurance portfolio is mainly UK business, generating some £30 million of gross written premium income in 2007. The maximum consideration payable is approximately £5,000,000.

In early 2009, through its participations on Syndicate 2999 the Group accepted the RITC of Syndicate 566's 2000 and prior underwriting years of account.

Subsequent to the year end a dividend has been declared from its subsidiary undertaking QBE Insurance (Europe) Limited of £75,000,000.

On June 5 2009 QBE Insurance Group Limited subscribed for the sterling equivalent of approximately US\$1,900,000,000 of ordinary share capital in QBE International Holdings (UK) plc.

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