Report & Accounts

for the year ended 31 March 1999

EQUITAS

Open Meeting of Reinsured Names

The annual Open Meeting of Reinsured Names will be held at 10.30am on Friday 17 September 1999 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London. All Reinsured Names are invited to attend. A card with complete details of the meeting accompanies this report. Reinsured Names who wish to attend the meeting are asked to return the reply-paid section of the card by 7 September 1999.

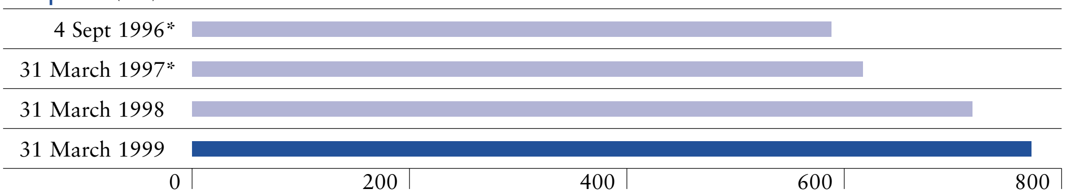
Contents

Overview

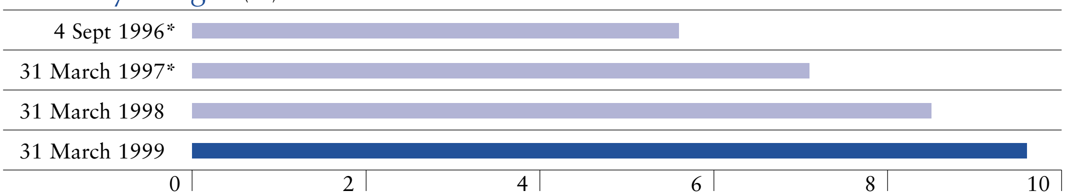
Equitas was formed to reinsure and run off the 1992 and prior years' non-life liabilities of Lloyd's syndicates. In the year ended 31 March 1999:

- Accumulated surplus after tax increased by £54 million to £772 million; and
- The solvency margin (the ratio of surplus to net outstanding liabilities) increased from 8.5 per cent to 9.6 per cent.

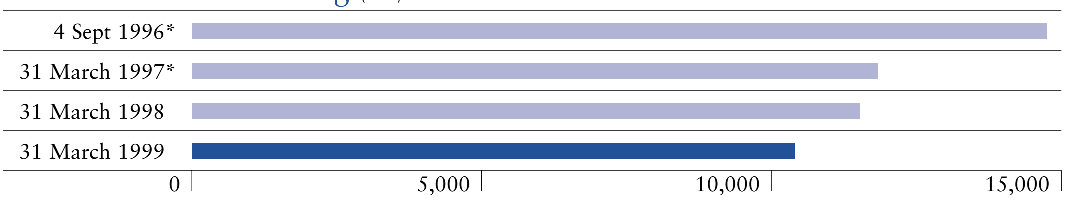
Surplus (£m)



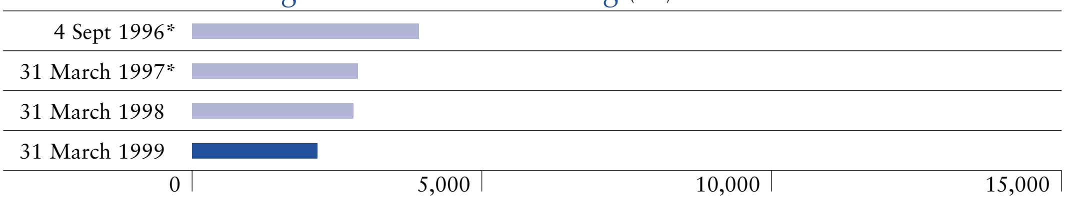
Solvency margin (%)



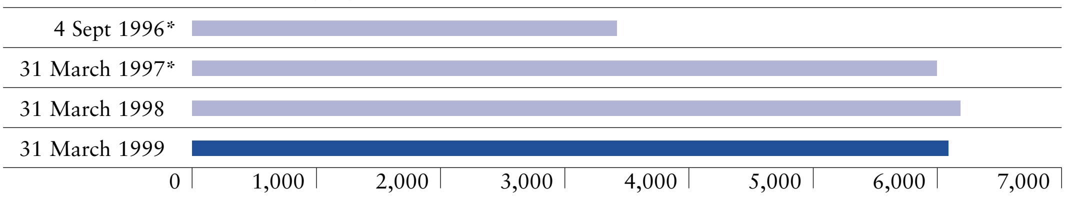
Gross claims outstanding (£m)



Reinsurers' share of gross claims outstanding (£m)



Financial investments (£m)



* Does not include Lioncover business

Chairman's statement

Hugh Stevenson

Results

I am pleased to be able to report a year of further progress:

- Accumulated surplus after tax increased from £718 million to £772 million; and
- The solvency margin, being the ratio of surplus to net outstanding liabilities, increased from 8.5 per cent to 9.6 per cent as surplus grew and liabilities decreased as claims were paid.

During the year we received a payment of £66 million from Lloyd's. This was an early settlement of Lloyd's prior undertaking to provide Equitas with up to £100 million in February 2002 to protect Equitas from adverse movements in interest rates and a possible shortfall in certain deferred payments.

It has been an extremely busy period in each of our principal activities – claims management, reinsurance recovery and the management of our investment portfolio. Each of these is described in detail by Michael Crall in his Chief Executive Officer's Review on pages 4 to 9.

We have again carried out a comprehensive review of the outstanding claims liabilities as well as the reinsurance we expect to recover. This review has been conducted both by our own actuarial team and by independent professionals, where appropriate. As was the case last year, the review concluded that reserves for some classes of business were conservative, while reserves for other classes needed strengthening. No material changes to the Group's reserves were considered to be necessary in the aggregate.

As in previous years, our Auditors have qualified their report on the Group's accounts, both because of the uncertainty inherent to the business and because of the quality of the data which we inherited. The terms of the audit qualification remain largely unchanged from previous years.

Board of Directors

Sir Roger Neville and Alan Pollard will retire as Directors following the Open Meeting of Reinsured Names. Sir Roger joined the Board as a Non-Executive Director in April 1996, and we are very grateful for his outstanding contribution. Alan, who was previously Managing Director of Syndicate Underwriting Management Ltd., has headed the Run-off Operations Division since February 1996 and has been responsible for much of the Group's reinsurance management strategy. We thank him for his stalwart efforts and we are pleased that he will remain actively involved with Equitas, representing us in our dealings with a number of major reinsurers.

Paul Jardine, who has been our Chief Actuary since December 1996, joined the Board in February. He has assumed the additional role of Commutations Director and will be responsible for this important part of our activities.

People

Thanks in large measure to the efforts of my predecessor, David Newbigging, the Group has a strong management team in place. They have already done a remarkable job in setting up Equitas, and I am confident that they have the necessary skills, dedication and creativity for the next stage. We have assembled a team of professional specialists from a variety of disciplines who, despite their different backgrounds, have been able to combine their talents to produce these results. Our progress depends on the people who work for Equitas and to all of them I offer my sincere thanks.

Outlook

Our prime objective is to reduce the financial uncertainties associated with Equitas to such an extent that Reinsured Names can disregard the risks which they still face from their underwriting at Lloyd's in respect of 1992 and prior years of account. A further objective is, in time, to create sufficient surplus to enable a return of premium to be made to Reinsured Names. These objectives remain distant goals and the satisfactory results to date cannot be considered as an indicator of Equitas' ultimate success. This is especially true in the light of the inherent uncertainty associated with the long-tail nature of the asbestos, pollution and health hazard (APH) claims which now represent over 50 per cent of the business Equitas has reinsured.

Equitas has accomplished much in its short history, but we still have a long way to go. All of us must recognise the many challenges which remain and the great degree of uncertainty which continues to be inherent to Equitas. Success cannot be guaranteed, but the Equitas team have been set clear objectives and they are working with professionalism and commitment to achieve them.

Hugh Stevenson
Chairman
20 July 1999

Chief Executive Officer's review

Michael Crall

Equitas has taken a number of significant steps forward during the past year. We have met or exceeded most of the short term goals that we had set for ourselves, and we have successfully built upon the systems and strategies established in the Group's first 2½ years of operations to establish a solid platform for the future. Each of our core activities – claims management, reinsurance recovery and investment management – made positive contributions to the results we achieved during the year.

We have tested the structure, systems and controls that we put in place in our early days and have found that, with some fine tuning, they work well. We have strengthened our management team, and our organisation is staffed with individuals of recognised talent and professionalism. We have also re-examined all elements of our operating strategy in light of our experience thus far, making changes where necessary. We are satisfied with the results of this process, and we are optimistic that Equitas can consistently create value in the years ahead and advance towards our goal of achieving long term security for Reinsured Names.

We continue to refine our business processes to ensure that they are effective and efficient. We have made considerable progress in converting many of the market based activities we inherited into operating processes suitable for a single, integrated company. We are beginning to take advantage of the efficiency and economies of specialisation and scale that the formation of Equitas promised. This re-engineering work continues in the current year, and we are optimistic that these efforts will make a material positive contribution to results in years to come. Through these efforts we are improving the quality of the data which supports our decision making and reducing the cost of managing the process. We are seeing the positive effects of these initiatives including, for example, the ability to produce these accounts two months earlier than last year.

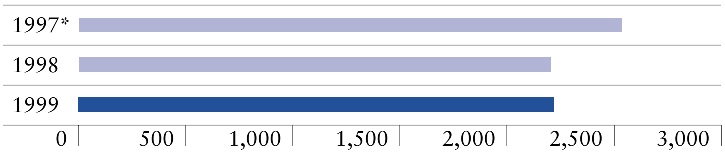
We are optimistic that Equitas can consistently create value in the years ahead and advance towards our goal of achieving long term security for Reinsured Names.

Claims management

Our policy is to pay valid claims as quickly as possible, while resisting invalid claims with all means available to us. This black and white statement, however, fails to deal with the very large area of grey in which most of our major claims reside. Coverage, indemnity and allocation issues relating to many claims – especially complex asbestos, pollution and health hazard (APH) claims – are very often unclear and subject to dispute. Our goal in these cases is to negotiate directly with claimants in an attempt to achieve a solution, and to do so at the earliest appropriate time and at the appropriate value. When a policyholder has many claims stemming from a particular type of hazard, we normally attempt to negotiate a comprehensive settlement, including a release from further liability for both known and future claims.

Our experience indicates that this strategy will lead to the best financial results for Equitas. Of equal importance, each settlement reduces uncertainty and potential volatility, and increases our confidence in the accuracy of our reserves. To date we have succeeded in containing aggregate claims payments within the reserves associated with these claims.

Gross claims paid (£m)



* Seven month period

Gross claims paid, including operating costs, totalled £2.25 billion in the year ended 31 March 1999, compared with £2.23 billion during the previous year. This is in line with our expectations. While claims payments are expected to decrease gradually as relatively ‘short tail’ claims are settled, our strategy means that some long tail claims will be settled before they might otherwise have been paid. In spite of the loss of investment income implied by advancing claims settlements, our analysis supports the view that our strategy is financially advantageous to Equitas as measured by the relative net present value of claims costs.

In the past year we have had considerable success in negotiating settlements with major policyholders with complex APH claims issues. For example, of over 650 open direct pollution claims at the beginning of the year, we have closed 134, including nearly a third of those cases whose reserves exceeded $10 million. We continue to track issues which could potentially lead to claims, including tobacco liability and Year 2000 computer problems. Neither of these issues is expected to create a significant liability for Equitas. We can also confirm that there have been no material adverse claims developments since the balance sheet date.

A major accomplishment in the past year has been the development and implementation of rigorous case valuation methodologies applicable to many of our claims. Managed by our claims management staff, working closely with our reserving specialists and our attorneys, these methodologies allow us to value more accurately the expected settlement cost of major claims and also assist us in establishing our negotiating position with these claimants. We intend to develop similar methodologies dealing with additional claims in the coming year.

During the past year we have substantially reduced the number of contractors handling our claims. We have also enhanced our quality control procedures in our continuing effort to ensure high quality, professional claims handling. At the same time, we have negotiated significant reductions in contracting costs in this and in coming years. We have reviewed the performance of our outside counsel, established performance standards for the future and reassigned responsibilities, where appropriate. Additionally, we have implemented a system of task based billing for counsel fees and are using this system to manage legal costs more effectively.

Reinsurance management

Reinsurers' share of claims paid amounted to £952 million in the year ended 31 March 1999, an increase from £660 million in the previous year, even though gross claims paid remained largely unchanged.

Reinsurers' share of claims paid (£m)

* Seven month period

Our reinsurance asset is substantial, and realisation of amounts owed by reinsurers is critical to Equitas' success. The complexity of the syndicates' reinsurance programmes, which were written by approximately 3,000 reinsurers and 2,000 reinsurance 'pools', means that identification of reinsurance attaching to a given loss is often less than straightforward, and the reinsurance collection process can be both costly and time consuming. For this reason it is often in the interest of both Equitas and reinsurers to commute individual contracts or to use commutations to close relationships once and for all. Where appropriate, we may use the opportunity to commute inward claims as well. Our strategy is to accelerate the rate of reinsurance realisation through the active pursuit of commutation opportunities.

Our commutation activities increased significantly in the past year, focused mainly on unique time sensitive situations that demanded attention. Improvements in the quality of the data we can readily access allow us to extend this strategy to a broader range of counterparties, and we expect commutations to have a much more significant impact on our balance sheet in future years. Successful implementation of this strategy will allow us to reduce substantially the uncertainty inherent to the reinsurance collection process, to improve cashflow and to reduce administrative costs.

It is often in the interest of both Equitas and reinsurers to commute individual contracts or to use commutations to close relationships once and for all.

We are also taking additional steps to increase the amount of reinsurance collected by traditional means, to reduce collection delays and to lower the costs associated with collections. A major part of this strategy has been the formation of the Reinsurance Front Desk (RFD), whose goal is to identify and remove barriers to reinsurance collection. Primarily this consists of ensuring that reinsurers' queries are answered quickly and accurately. In addition, RFD's responsibilities include developing reinsurance recovery strategies for all material inwards claims paid by Equitas and providing reinsurers with timely, consistent, high quality information concerning specific claims, with the objective of pre-empting as many queries as possible.

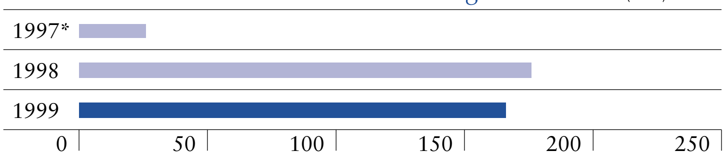
In last year's Report & Accounts, we mentioned two specific changes to the reinsurance collection process, which we hoped would save more than £30 million annually. Both of these changes – increasing the minimum value of our reinsurance billings and reducing processing activity for syndicates with low reinsurance values – have been successfully implemented. We are planning to broaden these initiatives in the coming year, which will result in additional cost savings.

We have continued to improve reinsurance administration during the year. We now have just two external contractors, each operating within agreed service quality standards. Brokers' activity in support of reinsurance collections is being brought under tighter control. Performance by individual reinsurers is monitored closely and, where we are not getting an appropriate response, we are actively initiating arbitration or litigation.

Investment management

Investment return, including £64 million allocated from the early settlement from Lloyd's, amounted to £714 million in the year ended 31 March 1999. While that was lower than the £932 million earned in the previous financial year, our investment performance was once again excellent. Our securities portfolio produced a total return of 9.5 per cent, compared with 13.4 per cent the previous year, largely as a result of the continued strength of bond markets in the UK and the US, particularly in the first half of the financial year. Our investment managers in aggregate again exceeded the benchmark returns against which we measure their overall performance.

Investment return in excess of unwinding of discount (£m)



* Seven month period

Perhaps most importantly, the investment return in the past year was more than sufficient to match the 'unwinding' of the discount applied to our claims liabilities, which totalled £484 million. The continuing decline in bond yields caused the Group to lower the rate at which claims liabilities are discounted to 5 per cent at 31 March 1999 from 5.25 per cent at 31 March 1998, thereby increasing the present value of our liabilities by £104 million. The Financial Review on page 10 explains in greater detail the effects of discounting on the Group's results.

We completed the development of the Equitas Financial Model (EFM) during the past year. EFM is a proprietary asset-liability model which integrates our expectations for financial markets with our analysis of the risks and opportunities associated with our liabilities. Using EFM, we have reviewed and refined our investment strategy in a manner which seeks to maximise the probability that our resources will be sufficient to meet our liabilities.

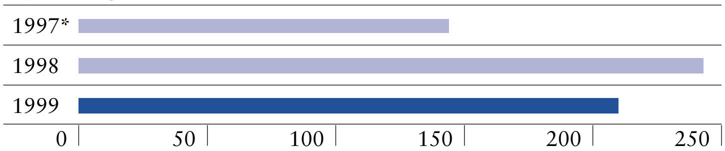
This strategic review led to our decision to invest a portion of our surplus in equity investments. Previously, our portfolio had been composed solely of fixed income instruments. We were able to take advantage of the autumn correction in global equity markets to begin to build our equity portfolio, financed by sales at advantageous prices of long term government bonds. Market conditions since the implementation of this strategy have enabled the equity portfolio to appreciate in value. As we have previously indicated, our intention is to invest only a portion of the Group's surplus in equities.

Our portfolio of non-Sterling European currency assets was restructured to reflect the introduction of the euro on 1 January 1999. This portfolio now consists wholly of high quality fixed income securities denominated in euros.

Expense management

The Group's operating expenses amounted to £210 million in the year ended 31 March 1999, slightly lower than budgeted and a reduction from £243 million in the previous year.

Operating costs (£m)



* Seven month period

To meet our financial objectives we are required to reduce costs by approximately 15 per cent each and every year. This is a demanding and relentless requirement, and all areas of the Group accord a priority to expense control. During this past year and the current one, we are achieving our expense targets mainly by eliminating outside service providers and by bringing activities in house. For example, during the past year we reduced the number of reinsurance administration contractors from 35 to two. And by the end of 1999 we expect to bring in house most services up to now provided to Equitas by the Lloyd's Claims Office and the Lloyd's Policy Signing Office.

Orphan Syndicates

As set out in the Settlement Offer Document issued by Lloyd's in July 1996, Equitas is committed to quote on the reinsurance of 1993, 1994 and 1995 Orphan Syndicates after 60 months. The vast majority of Orphan Syndicates has been reinsured by the ongoing market, eliminating the need for an Equitas quote. We have issued indicative quotes for two Orphan Syndicates, both of which have been rejected by the syndicates. We are in the process of preparing an indicative quote for a third Orphan Syndicate.

Employees

The inter-connectivity of the various elements of our business requires that we apply highly specialised individual technical skills in a co-ordinated fashion on a corporate-wide basis. As Equitas matures and all of us gain a fuller understanding of the business, we increasingly operate through cross-functional teams of employees from a variety of departments and disciplines, rather than through traditional departmental structures. To foster this essential teamwork, we have adopted a management process and culture that combine appropriate levels of control with an environment of open communication, experimentation and creativity.

Perhaps our most important accomplishment to date has been to assemble a team of professionals with the talents and creativity that is required for Equitas to succeed.

Our compensation and incentive structures are designed to reward good performance and to align the financial interests of our employees with those of Reinsured Names. We pay salaries at or near the median for the types of skills we require. Bonuses, which may represent a significant part of total compensation, are paid if individual, departmental and Group objectives are met or exceeded.

Perhaps our most important accomplishment to date has been to assemble a team of professionals with the talents and creativity that are required for Equitas to succeed. The complexity of our business requires that we must devise innovative solutions to the issues that confront us. Our employees have consistently responded to these challenges. They approach their work with enthusiasm, with a sense of excitement and with a strong commitment to achieve positive results. I am confident that we have the employees to meet our business objectives, and I thank them for their hard work and outstanding effort.

Conclusion

Equitas has made encouraging progress in the past year. We believe that we have the strategy and systems in place to fulfil our objectives, and our employees have both the skills and the determination to achieve positive results. Notwithstanding an external environment which is characterised by large elements of uncertainty, our confidence in our ability to meet our obligations to Reinsured Names and other stakeholders continues to grow.

Michael Crall
Chief Executive Officer
20 July 1999

Financial review

Jane Barker

The Group has continued to make progress, generating a surplus of £54 million after tax compared with £101 million in 1998.

Technical account

The Companies Act requires that we split the profit and loss account into the technical account and the non-technical account. Details of insurance business transactions are provided in the technical account; non-insurance transactions are detailed in the non-technical account.

Set out below is a description of some of the key items included in the technical account shown on page 30.

Gross written and earned premium

No premium was earned in the year ended 31 March 1999. The gross written and earned premium of £622 million in the year ended 31 March 1998 represented the premium collected by Equitas Reinsurance Limited for the reinsurance of the liabilities of Lioncover Insurance Company Limited on 18 December 1997.

Investment return

Our investments produced a return of £714 million during the year. Management commentary on investment performance appears on page 7. Included in investment return is £64 million of the £66 million received from Lloyd's in early settlement of the agreement by which Lloyd's had undertaken to provide up to £100 million in February 2002 to protect the Group against a possible shortfall in certain deferred payments and changes in future interest rates. This contingent asset was not included in the 1998 balance sheet.

Claims paid

Gross claims paid are £2,247 million compared with £2,232 million in 1998. The reinsurers' share of the gross claims paid is £952 million (1998: £660 million).

During the year commutation activity increased significantly. Through this activity we agree with a reinsurer the value to be placed on contracts written between the reinsurer and syndicates. Thus, a commutation will often involve both inwards and outwards claims. We treat the payment or proceeds in respect of a commutation as a claim or recovery, respectively. Once a commutation has been agreed, in most cases no further claims can be made in respect of the commuted contracts. As our commutation strategy gathers pace, the amount of reinsurance which will be available in respect of future claims paid will reduce substantially.

The table below shows an analysis of gross claims paid and reinsurers' share in the past year, analysed between the major components of each amount.

	£m
Claims paid	1,623
Commutation payments	414
Operating expenses	210
Total gross amount of claims paid	2,247
Reinsurers' share of claims paid	513
Commutation receipts	439
Total reinsurers' share	952

The reinsurance recovery percentage of claims paid will vary over time as a result of a number of factors in addition to commutation activity. It is also affected by the mix of claims paid, since reinsurance recoverability varies by category of business through a combination of different types of protection and different types of losses being presented.

Change in the provision for claims

The change in the provision for claims results from the reassessment of future insurance claims and reinsurance recoveries by major category and currency, including an adjustment for payments, receipts and accruals during the year.

Since the liabilities are expected to be settled over a long period of time, they have been discounted to acknowledge the time value of money. The return to be earned in future on the investments which are held to meet these liabilities is anticipated through this process of discounting. As stated in the Group's accounting policies, the discount rate applied to the liabilities is determined having regard to current prospective yields on the asset portfolio. This rate is reviewed each year to ensure that it remains a prudent estimate of the average annual return expected to be achieved for the period for which these assets are likely to be held. For the year under review, we have revised the discount rate to 5 per cent per annum from 5.25 per cent to reflect current market yields.

Two elements make up the discount adjustment, which is referred to as the 'unwinding' of the discount.

	£m
Reduction of one year in period over which net liabilities are discounted	380
Effect of change in the discount rate from 5.25% to 5%	104
Unwinding of the discount	**484**

The last element in the change in provision for claims arises from our re-evaluation of the discounting effect of the likely timing of future payments and receipts.

Other technical charges

The other technical charges are made up of foreign exchange gains and losses. Liabilities are denominated in a number of currencies, and the Group's policy is to match our assets to the currencies of our liabilities as closely as possible. Thus the effect of exchange fluctuations on the provisions for claims was largely neutralised by exchange fluctuations in the value of assets. For the most significant foreign currency, the closing exchange rate used for translation of the balance sheet at 31 March 1999 was US$1.61 to £1 Sterling compared with US$1.67 at 31 March 1998.

The balance on the technical account is then carried forward to the non-technical account.

Surplus

The Group's surplus after tax increased to £772 million at 31 March 1999. The movements were as follows:

	£m	£m
Retained surplus at 1 April 1998		**718**
Investment return in excess of unwinding of the discount (including the Lloyd's settlement)		230
Reassessment of:		
Claims, including expenses (see below)	57	
Reinsurances (see below)	16	
Timing of net future payments	(217)	
		(144)
Exchange losses		(1)
Taxation		(31)
Retained surplus at 31 March 1999		**772**

Provision for claims outstanding

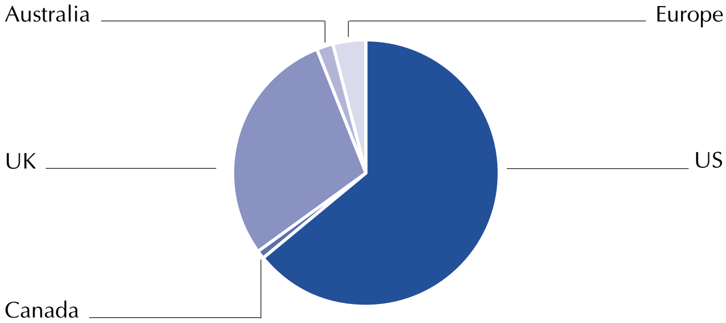
The provision for claims outstanding remains the most significant item on the Group's balance sheet. It should be considered together with the reinsurers' share of claims outstanding. Movements in these provisions from one year to the next comprise the following:

- payments, receipts and accruals in the year;
- adjustments in estimates of liabilities and associated reinsurances;
- changes in discount; and
- movements in exchange rates.

	Claims £m	Reinsurance £m	Net £m
Provisions at 1 April 1998	**11,521**	**(3,046)**	**8,475**
Payments, receipts and accruals	(2,247)	952	(1,295)
Unwinding of the discount	671	(187)	484
Reassessment of:			
Liabilities and reinsurances	(57)	(16)	(73)
Timing of net future payments	142	75	217
Exchange and other movements	318	(90)	228
Provisions at 31 March 1999	**10,348**	**(2,312)**	**8,036**

Financial investments

Financial investments by currency



In accordance with the revised investment policy discussed on page 7, the Group began to accumulate equity investments during the year. At 31 March 1999 these amounted to £100 million, representing 1.6 per cent of the market value of our investment portfolio and 13 per cent of our retained surplus. Market conditions since this strategy was initiated have enabled the Group to record gains in the period. Our intention remains to invest only a portion of our surplus in equities. The major part of the investment portfolio remains largely invested in high quality fixed interest instruments.

The Group's investment policy is to match its expected liabilities by duration and currency. The aims of the investment strategy are to:

- earn an investment return which matches or exceeds the unwinding of the discount. This return is credited to the technical account; and
- provide adequate funds as investments mature to pay claims.

The Group continually assesses the performance of its fund managers against pre-determined benchmarks which are established in the light of the overall investment strategy.

During the year under review, the overall rate of return exceeded expectations. The bond markets in which the funds were mainly invested benefited from a further improvement in long term inflation expectations. The investment return also benefited by £64 million as a result of a one off receipt from Lloyd's in early settlement of an obligation under the Reconstruction and Renewal Agreement to protect Equitas from adverse movements in interest rates.
This together with the combination of a strong performance from global bonds, favourable returns from our initial investment in equities and a higher-than-expected fund size contributed to a good investment result.

Bad debts

We have reassessed our estimates of the amount to be provided for bad or doubtful reinsurance debts. After removing the amounts allocated to reinsurance debts which have since been commuted, the amount which was deducted from the reinsurance asset in the Group's opening accounts remains the best estimate of a prudent bad debt provision and accordingly no further adjustments have been made.

The euro

As expected, the Group did not experience any significant business impact as a result of the introduction of the euro, and all the requisite changes to systems and procedures were carried out successfully.

Data quality

We continue to experience problems in improving the quality of data inherited in respect of the reinsured business, but we are making progress. The aim remains to improve quality levels to facilitate the efficient management of our business.

Financial risk management

The principal risk to the Group remains that it may not be able to settle its liabilities in full. We have in place a system of controls over insurance transactions such as claims, reinsurance and commutations, investment transactions and operational transactions. These are reviewed and changed where necessary in the light of any new circumstances.

Insurance claims and associated reinsurance recoveries are periodically assessed by major category and currency against provisions held. New types of claims and any changes in settlement trends are examined carefully and their impact on provisions evaluated.

Other financial risks include counterparty risks such as amounts due from reinsurers, balances at banks and custodians, and obligations of specific insurers. These risks are managed by regular review and assessment of relevant balances against established criteria.

Jane Barker
Finance Director
20 July 1999

Board of Directors

Hugh Stevenson [‡§]

Chairman; joined the Board in April 1998. He was formerly Chairman of Mercury Asset Management Group plc, a Managing Director of S G Warburg Group plc's investment banking business and with Linklaters & Paines. He is a Director of The Standard Life Assurance Company and the Investment Management Regulatory Organisation. Age 56.

Michael Crall [#Δ*]

Chief Executive Officer; joined the Board in December 1995. He was formerly President and Chief Executive Officer of Argonaut Insurance Company in California and a senior executive at CIGNA Corporation. Age 55.

Dick Barfield [†Δ]

Non-Executive Director; joined the Board in April 1997. He is currently a Director of Baillie Gifford Japan Trust plc, Marshalls plc, The Merchants Trust plc, New Look Group plc, Quintain Estates & Development plc and Rio Tinto Pension Investments. He was formerly Chief Investment Manager of The Standard Life Assurance Company. Age 52.

Jane Barker [Δ*]

Finance Director; joined the Board in December 1995. She was formerly Chief Financial Officer and Chief Operating Officer of the London Stock Exchange and Chief Financial Officer of the insurance broking operations of Marsh & McLennan Inc outside of the Americas. Age 49.

Stephen Catlin [#‡]

Lloyd's Appointed Non-Executive Director; joined the Board in October 1996. He is Chairman of Catlin Underwriting Agencies Limited and Catlin Holdings Limited and Underwriter of Lloyd's Syndicates 1003 and 2003. Age 45.

Michael Deeny [#‡§]

Trustees-nominated Non-Executive Director; joined the Board in October 1996. He is Chairman of Multi Media Television plc, Chairman of the Association of Lloyd's Members and Chairman of the Gooda Walker Action Group. He is also Deputy Chairman of The Equitas Trust and a former member of the Council of Lloyd's. Age 54.

Paul Jardine [*]

Commutations Director and Chief Actuary; joined the Board in February 1999. He joined Equitas as Chief Actuary in December 1996. He was formerly a Partner in Coopers & Lybrand's Actuarial Insurance Services Group and an Actuary with Prudential Assurance Company Limited. He is a Fellow of the Institute of Actuaries and a Member of the American Academy of Actuaries. Age 38.

James Joll [†§]

Non-Executive Director; joined the Board in June 1996. He is Chairman of AIB Asset Management Holdings, Deputy Chairman of Jarvis Hotels plc and a senior advisor to Donaldson, Lufkin & Jenrette. He was formerly Finance Director of Pearson plc. Age 62.

Scott Moser *

Claims Director; joined the Board in May 1997. He was formerly President of Envision Claims Management Corporation; Vice President of Environmental/Excess Claims at Aetna Casualty & Surety Company; and a Partner with the law firm Day, Berry & Howard. Age 48.

Sir Roger Neville Δ§

Non-Executive Director; joined the Board in April 1996. He was formerly Group Chief Executive of Sun Alliance Group plc; Deputy Chairman of the Association of British Insurers; Chairman of the Policyholders Protection Board; and Chairman of Pool Reinsurance Company Limited and Pool Nuclear Limited. Age 67.

Sir Bryan Nicholson #‡

Non-Executive Director; joined the Board in October 1996. He is Chairman of the British United Provident Association (BUPA) and Cookson Group plc. He is also a Director of GKN and Newsquest plc. He was formerly President of the Confederation of British Industry; Chairman of the Manpower Services Commission; and Chairman and Chief Executive of the Post Office. Age 67.

Alan Pollard *

Run-off Operations Director; joined the Board in June 1996. He was formerly Managing Director of Syndicate Underwriting Management Limited. Age 64.

Richard Spooner †Δ

Trustees-nominated Non-Executive Director; joined the Board in October 1996. He is Managing Director of Team User Systems Company Limited. He was formerly a member of the Names Committee and the Assistance and Recovery Committee of Lloyd's. Age 52.

† Member of Audit and Compliance Committee
# Member of Claims and Commutations Committee
Δ Member of Investment Committee
‡ Member of Nominations Committee
§ Member of Remuneration Committee
* Executive office held with Equitas Limited

Directors' report
for the year ended 31 March 1999

The Directors present their report and the audited financial statements for the financial year ended 31 March 1999.

Principal activities

The Equitas Group was formed as part of the Lloyd's Reconstruction and Renewal Plan to reinsure the liabilities of Lloyd's of London syndicates allocated to the 1992 and prior years of account, other than life syndicates, and to perform the run-off of these liabilities. Equitas Reinsurance Limited completed the reinsurance of the 1992 and prior years' business, except business previously reinsured by Lioncover Insurance Company Limited ('Lioncover business'), with effect from 3 September 1996 and reinsured the Lioncover business with effect from 18 December 1997. It retroceded these businesses to Equitas Limited, which is the main operating company of the Group. Equitas Reinsurance Limited and Equitas Limited are regulated under the Insurance Companies Act 1982 by the Financial Services Authority (the body which has day to day responsibility for the regulation of insurance in the United Kingdom) on behalf of HM Treasury. Equitas Reinsurance Limited and Equitas Limited are only authorised to effect these reinsurances and related activities and to perform the run-off of the reinsured liabilities.

Business review and future developments

The Chairman's Statement, the Chief Executive Officer's Review and the Financial Review on pages 2 to 14 report on the progress of the business during the financial year and outline future developments.

Results

The Equitas Group made a surplus after tax of £54 million for the year ended 31 March 1999 (1998: £101 million) which is being retained in the business. The Company's Articles of Association do not permit the payment of a dividend.

Share capital

The share capital of the Company comprises two ordinary shares of £50 each, which were issued at par on incorporation and which are fully paid, and one deferred share of £1, which was allotted on 2 September 1996 and which is fully paid. The ordinary shares carry voting rights, but no dividends may be paid on these shares. The deferred share carries neither voting nor dividend rights.

Substantial shareholding

Ownership of the entire issued ordinary share capital of the Company was transferred on 3 September 1996 from the Corporation of Lloyd's to the seven Trustees of The Equitas Trust who hold these shares jointly.

The Corporation of Lloyd's owns the one deferred share in the capital of the Company, which carries the right to appoint one Director.

Directors

The names of the Directors at the date of this report, together with brief biographical details, are listed on page 15.

Messrs ME McL Deeny and RB Spooner are the Trustees-nominated Directors. Mr SJO Catlin is the Lloyd's appointed Director.

Messrs HA Stevenson and PA Jardine joined the Board on 1 April 1998 and 1 February 1999, respectively.

Messrs RA Barfield, SP Moser and Sir Bryan Nicholson retire by rotation and Mr PA Jardine, having been appointed a Director during the year, retires pursuant to Article 72 of the Articles of Association. They offer themselves for re-appointment at the forthcoming Annual General Meeting.

Mr AC Pollard has indicated his intention to retire from full time employment with the Group with effect from 31 July 1999 and will step down as a Director following the Open Meeting of Reinsured Names in September 1999. He will continue to represent the Group in dealings with major reinsurers. Sir Roger Neville has also indicated his intention to step down as a Director following the Open Meeting of Reinsured Names.

All Directors of the Company also hold office as directors of Equitas Reinsurance Limited and Equitas Limited.

Chairman

Mr DK Newbigging, who also held office as a Director during the year having served as Chairman since the establishment of the Group, retired from the Board on 31 October 1998. The Board appointed Mr HA Stevenson as Chairman with effect from 1 November 1998.

Directors' interests

Mr ME McL Deeny has an interest in the business of the Group as an underwriting member of Lloyd's who resumed underwriting in 1999 after having ceased to do so in 1994. Messrs SJO Catlin, JAB Joll and RB Spooner also have an interest in the business of the Group as former underwriting members of Lloyd's who ceased underwriting in 1997, 1991 and 1993, respectively. Mr Catlin has a continuing interest in Syndicate 2003 through his shareholding in Catlin Westgen Limited, the sole member of Syndicate 2003. Mr DK Newbigging had an interest in the business of the Group as an underwriting member of Lloyd's since 1985.

Directors appointed prior to September 1997 were provided with indemnities by the Company, Equitas Reinsurance Limited, Equitas Limited and the Corporation of Lloyd's in respect of liabilities arising out of or connected with the Lloyd's Reconstruction and Renewal Plan.

None of the Directors has an interest in shares in any Group company other than Messrs ME McL Deeny and RB Spooner who, since 3 September 1996, have held the two ordinary shares in the Company jointly with the other Trustees of The Equitas Trust.

Corporate governance

The Board supports the Combined Code published by the Committee on Corporate Governance chaired by Sir Ronald Hampel. The Group has in place a framework for sound corporate governance which incorporates many of the principles and provisions of the Code.

The Board

The Board comprises five Executive Directors and eight Non-Executive Directors, including two Trustees-nominated Directors and one Director appointed by the Corporation of Lloyd's. The Board meets regularly and receives detailed reports from management, including in those months in which no Board meeting is held. The roles of Chairman and Chief Executive Officer are split.

The Board is responsible for policy and strategy and for monitoring the performance of executive management. Certain matters are reserved to the Board for collective decision. In addition, there are matters which require the consent of the holders of the ordinary shares pursuant to the Company's Articles of Association. Day to day management is delegated to the Chief Executive Officer.

Non-Executive Directors are appointed for an initial three year term, which may be renewed, and all Directors, except the Lloyd's appointed Director, are subject to the re-election provisions of the Company's Articles of Association.

A procedure is in place for Directors to take independent professional advice, if necessary.

Company Secretary

The Board is supported in its work by the Company Secretary who co-ordinates the supply of timely information and provides advice. Mrs GMA Gledhill resigned from office as Company Secretary with effect from 31 March 1999. Mr SJ Britt was appointed to that office with effect from 1 April 1999.

Board committees

The Board has established five committees with clearly defined terms of reference:

1 The Audit and Compliance Committee

JAB Joll (Chairman), RA Barfield, RB Spooner

The committee meets at least three times a year and reviews the annual financial statements, the interim financial information and the system of internal controls. The Chief Executive Officer, the Finance Director, the external Auditors and the Head of Internal Audit attend meetings as appropriate.

2 The Claims and Commutations Committee

Sir Bryan Nicholson (Chairman), SJO Catlin, MJ Crall, ME McL Deeny

The committee has certain decision making authorities delegated to it by the Board in respect of the adjustment and settlement of major claims, commutations, and the initiation of significant litigation or arbitration. It meets at approximately quarterly intervals. Mr JAB Joll also served as a member of the committee during the past year.

3 The Investment Committee

RA Barfield (Chairman), JV Barker, MJ Crall, Sir Roger Neville, RB Spooner

The committee formulates and decides the strategy for the management of the Equitas Group's investment assets within a broad framework agreed by the Board, develops policies for the management of investment risks, appoints external fund managers and custodians, and monitors their performance. It meets at approximately quarterly intervals.

4 The Nominations Committee

HA Stevenson (Chairman), SJO Catlin, ME McL Deeny, Sir Bryan Nicholson

The committee is responsible for making recommendations to the Board on the appointment of new Board members other than Directors nominated by the Trustees or appointed by the Corporation of Lloyd's. It meets as necessary.

5 The Remuneration Committee

HA Stevenson (Chairman), ME McL Deeny, JAB Joll, Sir Roger Neville

The committee decides on the remuneration and other terms of service of the Executive Directors within a framework agreed by the Board and operates the performance-related incentive arrangements. It also advises on remuneration policy for senior executives. It meets as necessary.

Internal controls

The Group has in place a system of internal controls which, inter alia, defines accountability and authority levels. Compliance is monitored on a regular basis by the Audit and Compliance Committee. The Board intends in due course to consider what, if any, changes may be appropriate to the system of internal controls when final guidance is available from the working party chaired by Mr Nigel Turnbull.

Directors' responsibilities

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 a going concern basis unless it is inappropriate to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors' responsibility for the accounting records in relation to the reinsured liabilities commenced on 3 September 1996 on execution of the Reinsurance and Run-off Contract. The accounting policies on page 35 set out the issues relevant to the going concern basis for the preparation of the financial statements.

Indemnification of Trustees

The Trust Deed constituting The Equitas Trust provides for indemnification of the Trustees against liabilities arising from or connected with the proper performance of their duties as Trustees. The Trustees have been granted a charge over a £10 million bank deposit as security for this indemnity.

Employees

The Group is committed to a pro-active programme for involving employees. This includes regular communication through briefings and consultation with staff at all levels. During the year the Group established a computer-based internal communications system which provides information to all employees on work related issues and on matters of general interest. Suggestion schemes are in operation, providing a regular flow of ideas for improving efficiency and performance.

The Group recognises its responsibilities towards disabled people, who receive full and fair consideration for job vacancies for which they are suitable applicants. Employees who become disabled during their working life will be retained in employment and given help with any necessary rehabilitation retraining.

Suppliers

It is the policy of the Group to establish terms of payment with suppliers when agreeing the terms of business transactions. The aim is to effect payment in accordance with agreed terms.

Charitable and political donations policy

The Group has not made any charitable or political donations in the year and will not make any political donations. The Directors do not intend to make any charitable donations, but will keep this under review.

Year 2000

The Group commenced work on Year 2000 compliance in June 1997 and established a dedicated project team of IT specialists who are working to ensure that all business critical systems are Year 2000 compliant. Priority has been given to updating core internal systems and to monitoring the compliance efforts of key external service providers.

As the Group commenced operations in 1996, many of its systems were designed with the Year 2000 in mind. The Group completed its review of the Year 2000 compliance of business critical internal systems and facilities by December 1998.

The consolidation of reinsurance administration services among key service providers – all of which have given assurances regarding the ability of their respective systems and infrastructures to cope with Year 2000 problems – has substantially reduced the amount of monitoring work required by the project team. The systems of providers of other services have also been reviewed. In cases in which key dependencies were identified, the Year 2000 compliance programmes of those service providers have been monitored and, in critical cases, discussed with the managements of those organisations. In cases where services were identified as being essential, binding assurances have been requested.

The Group has provided regular reports on its Year 2000 compliance programme to the Financial Services Authority. In recognition of the important role the Group plays in the London insurance market, members of the Year 2000 project team have worked closely with the Lloyd's Year 2000 Programme Office since 1997.

Because of the inherent uncertainty that exists regarding the extent to which the general business environment may be disrupted by Year 2000 problems, the Group is preparing contingency plans designed to enable it to continue operations as normally as circumstances permit should a general disruption occur.

The total cost of the Group's Year 2000 compliance efforts is estimated to be approximately £4 million. The cost in connection with compliance work is written off to the profit and loss account as incurred. The cost incurred during the year ended 31 March 1999 was £1.9 million (1998: £0.5 million).

Auditors

A resolution to reappoint PricewaterhouseCoopers as auditors to the Company will be put to the forthcoming Annual General Meeting.

As permitted by the Company's Articles of Association, indemnities have been given to PricewaterhouseCoopers against costs and liabilities incurred or arising out of their work as auditors in circumstances where a court finds in their favour.

By Order of the Board
Stephen Britt
Company Secretary
20 July 1999

Board report on Directors' remuneration

for the year ended 31 March 1999

Policy on Executive Directors' remuneration

The Equitas Group operates in an international environment. In framing its policy on remuneration, the Group aims to:

- set reward structures which enable the Group to attract, retain and motivate executives with the appropriate skills, background and experience to operate effectively in a run-off environment;
- pay basic salaries approximately at the median of market rates for companies in the same industry and of similar size; and
- provide a significant bonus opportunity based on the achievement of measurable goals and an executive's personal contribution to the Group's overall performance.

The Remuneration Committee, which comprises Messrs HA Stevenson, ME McL Deeny, JAB Joll and Sir Roger Neville, is responsible for setting the remuneration and other terms of service of the Executive Directors. It consults with the Chief Executive Officer on executive remuneration and seeks independent external professional advice, as appropriate, on market comparisons and developments in remuneration practice.

Performance-related incentive arrangements

The Group has an annual cash bonus plan in which all permanent employees participate. Awards are subject to achievement of financial goals and personal performance criteria.

In addition, the Group operates a long-term incentive plan (LTIP) for senior executives. This provides for cash payments based on a strengthening of surplus over a 12 month period with payout deferred for a further 24 months and subject to the strengthening of surplus being maintained. The payment of an award is conditional upon the participant continuing in the employment of the Group up to and including the vesting date other than in certain circumstances, in which case the entitlement will be pro-rated. The first payments, relating to the year ended 31 March 1998 and for which provision has been made in the year ended 31 March 1999, are expected to be made after 31 March 2000, being the first vesting date. No awards have yet been made in respect of the year ended 31 March 1999.

The Remuneration Committee administers the annual cash bonus plan and the LTIP under its delegated powers and decides on participation and the amounts of incentive payments. The Board determines the increase in surplus which is available to be awarded under the LTIP.

Payments under performance-related incentive arrangements are not pensionable.

Service agreements

Messrs MJ Crall, PA Jardine, SP Moser and AC Pollard and Mrs JV Barker have service agreements with Equitas Management Services Limited which are subject to 12 months' notice on a rolling basis. It is proposed that Mr Pollard's current service contract will come to an end by agreement from 31 July 1999. Mr DK Newbigging, who also held office as a Director during the year, was party to, and had an interest in, an agreement for the provision of his services between

Kennedy Financial Services Limited and Equitas Management Services Limited. That agreement terminated when Mr Newbigging stepped down as Chairman and a Director on 31 October 1998.

Non-Executive Directors' fees

Non-Executive Directors, including the Chairman, do not have service agreements. They do not have bonus or pension arrangements. The Chairman's fee is £125,000 per annum, inclusive of the Director's fee. Non-Executive Directors receive a fee of £30,000 per annum, unchanged from March 1998 levels. Non-Executive Directors who chaired Board committees received an additional fee of £10,000 per annum for these services, which was also unchanged from 1998 levels. Mr HA Stevenson did not receive an additional fee for chairing committees.

Payment for the services of the previous Chairman, Mr DK Newbigging, was made to Kennedy Financial Services Limited. This comprised a Chairman's fee of £150,000 per annum (inclusive of the Director's fee) and a fee of £50,000 per annum for the provision by Kennedy Financial Services Limited of office, secretarial, benefits and other overheads for Mr Newbigging in support of his duties as Chairman.

Directors' remuneration

Directors' remuneration in respect of the financial year ended 31 March 1999 was:

	Salary/ Fees £	*Bonus* £	*Benefits-in-kind* £	*Total emoluments* £	*Pension contribution* £	*Total for year ended 31 March 1999* £	*Total for year ended 31 March 1998* £
Chairman							
HA Stevenson	69,583			69,583		69,583	–
DK Newbigging	116,667			116,667		116,667	200,000
Executive Directors							
MJ Crall	320,000	150,000	5,594	475,594	80,000	555,594	495,916
JV Barker	211,250	100,000	1,209	312,459	52,813	365,272	317,646
PA Jardine	35,000	16,667	168	51,835	8,750	60,585	–
SP Moser	255,000	125,000	2,057	382,057	63,750	445,807	564,250
AC Pollard	195,000	85,000	238	280,238	48,750	328,988	276,939
J Teff						–	35,112
Non-Executive Directors							
RA Barfield	40,000			40,000		40,000	35,160
SJO Catlin	30,000			30,000		30,000	26,250
ME McL Deeny	30,000			30,000		30,000	26,250
JAB Joll	40,000			40,000		40,000	36,250
Sir Roger Neville	30,000			30,000		30,000	27,391
Sir Bryan Nicholson	40,000			40,000		40,000	36,250
RB Spooner	30,000			30,000		30,000	26,250
Total	1,442,500	476,667	9,266	1,928,433	254,063	2,182,496	2,103,664

Based on the results for the year ended 31 March 1998, a total amount of £545,106 has been provided as follows for awards under the LTIP to the current Executive Directors:

	Provisions made during the year and still outstanding £
MJ Crall	147,674
JV Barker	94,000
PA Jardine	94,000
SP Moser	128,874
AC Pollard	80,558
Total	545,106

The amounts shown above are payable in 2000 provided the surplus, determined as being available for LTIP purposes for the year ended 31 March 1998, is maintained during the 24 months to 31 March 2000.

Messrs ME McL Deeny and RB Spooner also received fees for services as Trustees of The Equitas Trust. Details are shown on page 26.

Under a programme for interest-free season ticket loans available to all employees, a subsidiary company made a season ticket loan to Mr AC Pollard of which £2,447 was outstanding at 31 March 1998. This loan was fully repaid by 31 March 1999.

No Director waived any emoluments during the period ended 31 March 1999.

The Group provides Executive Directors with benefits-in-kind including medical and death-in-service benefits, and contributes towards their pension arrangements which are based on defined contributions. A percentage of basic salary is paid into the Group's pension scheme or at the direction of the Executive Director concerned.

The Equitas Trustees

The Trust Deed constituting The Equitas Trust contains provisions entitling the Trustees to remuneration and the discharge of expenses properly incurred by them in acting as Trustees. These are met by the Group and are defined as related party transactions under Financial Reporting Standard 8.

The remuneration and expenses met by the Group in the year ended 31 March 1999 were in respect of the following:

	Year to 31 March 1999 £	*Year to 31 March 1998* £	*Period to 31 March 1997 charged in year to 31 March 1998* £	*Total year to 31 March 1998* £
Trustees' fees	200,000	171,666	109,583	281,249
Trustees' legal, professional and other costs and expenses	441,964	460,589	110,144	570,733
Total	641,964	632,255	219,727	851,982

Messrs ME McL Deeny and RB Spooner, who are also Directors of the Company, received fees of £33,340 each for the year ended 31 March 1999 (1998: £27,228 each). They received expenses for secretarial, office and other overheads of £12,266 and £15,919, respectively (1998: £13,037 and £13,917, respectively).

Report of the Auditors
to the Members of Equitas Holdings Limited

1. We have audited the financial statements on pages 30 to 46 which have been prepared in accordance with the accounting policies set out in note 1 on page 35.

Respective responsibilities of directors and auditors

2. The directors are responsible for preparing the Annual Report, including as described on page 20 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

3. 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 if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

Basis of opinion

5. We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below. Furthermore in the light of the exceptional circumstances of the Group, our opinion is qualified in respect of the uncertainties described below. 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 circumstances of the Group, consistently applied and adequately disclosed.

6. We planned 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.

Uncertainties and limitations in our audit of claims outstanding, reinsurers' share of claims outstanding and reinsurance recoveries

Uncertainties

7. In forming our opinion, we have considered the uncertainties, described in notes 1 and 15 to the financial statements, relating to the provision for claims outstanding of £10,348 million, reinsurers' share of claims outstanding of £2,312 million and reinsurance debtors of £1,627 million. Future experience may show material adjustments are required to these amounts particularly in respect of:

(a) assumptions made in estimating provisions and the reliability of the underlying data upon which estimates are based;

(b) the potential for unforeseen change in the legal, judicial, technological or social environment and the potential for new sources or types of claim to emerge;

(c) assumptions in relation to expected interest yields and the timing of settlement of claims and reinsurance recoveries which influence the discount calculation; and

(d) assumptions in relation to estimating the reinsurers' share of claims outstanding and the appropriate provision in respect of these and amounts due from reinsurers.

Limitations

8. Underlying data, some of which was inherited from the Reserving Project, established by Lloyd's in connection with the Reconstruction and Renewal Plan, is not complete and accurate in all respects.

9. As a consequence, the evidence we considered necessary for our audit is not wholly available in respect of the following:
   (a) the provision for claims outstanding in respect of non-APH liabilities;
   (b) reinsurers' share of claims outstanding; and
   (c) exposure to individual reinsurers and consequently the appropriate level of bad debt provisions.

10. Had we been able to obtain all the evidence necessary to satisfy ourselves in respect of these matters we might have concluded that material increases or decreases are required to the relevant amounts included in the balance sheet.

Consequences of uncertainties and limitations

11. The potential adjustments referred to in paragraphs 7 and 10, if adverse in the aggregate, could be material enough to exceed the amount of the shareholders' funds at 31 March 1999 of £772 million. If at any time the directors determine that there are insufficient assets to meet liabilities in full then, under the contract by which the Group reinsured the 1992 and prior years' liabilities, the directors may implement a proportionate cover plan under which the Group will then be entitled to pay claims at a reduced rate, and liabilities under the Reinsurance Contract will be restricted in aggregate to assets available such that shareholders' funds would not become negative though they may be reduced to nil.

Qualified opinion arising from uncertainties and limitations in our audit

12. In respect alone of the limitations on our work described in paragraphs 8 and 9 above:
   (a) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
   (b) we were therefore unable to determine whether proper accounting records had been maintained.

13. Except for material adjustments in respect of the matters described in paragraphs 7 to 10 above, which may ultimately be required to the provision for claims outstanding, reinsurers' share of claims outstanding, reinsurance recoveries and consequent adjustments to shareholders' funds and the surplus for the year, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 1999 and of the surplus and cashflows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
20 July 1999

Group profit and loss account

for the year ended 31 March 1999

Technical account – general business

	Note	£m	1999 £m	£m	1998 £m
Gross written and earned premiums	2		–		622
Investment return transferred from non-technical account			**714**		932
Other technical income	3		–		122
Claims paid					
Gross amount		**(2,247)**		(2,232)	
Reinsurers' share		**952**		660	
Net claims paid		**(1,295)**		(1,572)	
Change in the provision for claims					
Claims accepted for premiums written and earned during the year					
Gross amount		–		(682)	
Reinsurers' share		–		130	
Other changes in the provision					
Gross amount		**2,304**		2,241	
Reinsurers' share		**(936)**		(646)	
Unwinding of the discount		**(484)**		(756)	
Timing of net future payments		**(217)**		(212)	
Change in the net provision for claims	15	**667**		75	
Claims incurred, net of reinsurance			**(628)**		(1,497)
Other technical charges	3		**(1)**		(15)
Balance on the technical account for general business			**85**		164

The accounting policies and notes on pages 35 to 45 form an integral part of these financial statements.

Group profit and loss account

for the year ended 31 March 1999

Non-technical account – general business

	Note	£m	1999 £m	£m	1998 £m
Balance on the technical account for general business			**85**		164
Income from financial investments		**349**		370	
Gains on realisation of investments		**367**		114	
Movement on unrealised investment gains and losses		**(155)**		305	
Return on financial reinsurances		**89**		143	
Other financial income	4	**64**		–	
Investment return		**714**		932	
Allocated investment return transferred to general business technical account		**(714)**		(932)	
Investment return retained			**–**		–
Surplus on ordinary activities before tax	5		**85**		164
Tax on surplus on ordinary activities	8		**(31)**		(63)
Retained surplus for the year	14		**54**		101

No gains and losses have been recognised other than through the profit and loss account and the Group has no discontinued activities.

The accounting policies and notes on pages 35 to 45 form an integral part of these financial statements.

Group balance sheet

as at 31 March 1999

Assets

	Note	1999 £m	1998 £m
Investments			
Financial investments	9	**6,089**	6,187
Financial reinsurances	10	**1,262**	1,367
		7,351	7,554
Reinsurers' share of technical provisions			
Claims outstanding	15	**2,312**	3,046
Debtors			
Debtors arising out of reinsurance operations	12	**1,737**	1,673
Other debtors		**116**	258
		1,853	1,931
Other assets			
Tangible assets		**14**	12
Cash at bank and in hand		**40**	65
		54	77
Prepayments and accrued income			
Accrued interest		**83**	89
Other prepayments and accrued income		**7**	3
		90	92
		11,660	12,700

The accounting policies and notes on pages 35 to 45 form an integral part of these financial statements. The Company's balance sheet is shown on page 46.

Group balance sheet

as at 31 March 1999

Liabilities

	Note	*1999* *£m*	*1998* *£m*
Capital and reserves			
Called up share capital	13	**–**	–
Retained surplus	14	**772**	718
Shareholders' funds – non-equity interests		**772**	718
Technical provisions			
Claims outstanding	15	**10,348**	11,521
Deposits received from reinsurers		**15**	15
Creditors			
Creditors arising out of reinsurance operations	16	**343**	152
Other creditors including taxation and social security	17	**182**	294
		525	446
		11,660	12,700

The financial statements on pages 30 to 45 were approved by the Board on 20 July 1999 and were signed on its behalf by:

HA Stevenson
MJ Crall
JV Barker

The accounting policies and notes on pages 35 to 45 form an integral part of these financial statements.

Group cashflow statement

for the year ended 31 March 1999

Reconciliation of surplus on ordinary activities before tax to net cash outflow from operating activities

	Note	£m	1999 £m	£m	1998 £m
Surplus on ordinary activities before tax			**85**		164
Depreciation of tangible fixed assets	5	**4**		2	
Exchange gains on retranslation of opening balances		**(1)**		(2)	
Movement on unrealised investment gains and losses		**155**		(305)	
Return on financial reinsurances		**(89)**		(143)	
Decrease in provision for claims outstanding		**(1,522)**		(143)	
Decrease in reinsurers' share of technical provisions					
– claims outstanding		**838**		35	
Decrease in debtors		**136**		10	
Increase in creditors		**72**		132	
			(407)		(414)
Net cash outflow from operating activities			**(322)**		(250)
Taxation paid			**(33)**		(31)
Capital expenditure			**(6)**		(10)
Net cash outflow for the year			**(361)**		(291)
Cashflows were invested/(realised) as follows:					
Decrease in cash holdings	19		**(25)**		(6)
Net portfolio investment					
Deposits with credit institutions		**284**		156	
Financial reinsurances		**(244)**		(241)	
Shares and other variable yield securities and units in unit trusts		**82**		(4)	
Debt securities and other fixed-interest securities		**(458)**		(196)	
	19		**(336)**		(285)
Net realisation of cashflows	20		**(361)**		(291)

The accounting policies and notes on pages 35 to 45 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 March 1999

1 Accounting policies

Going concern

Significant uncertainties exist as to the accuracy of the provision for claims outstanding established by Equitas Limited and recoveries due from reinsurers shown in the balance sheet, further details of which are set out in note 15 to the financial statements. The ultimate cost of claims and the amounts ultimately recovered from reinsurers could vary materially from the amounts established and could, therefore, have a materially adverse effect on the ability of Equitas Limited to meet the reinsured liabilities in full.

In addition, there is uncertainty as to whether actual investment yields and the actual timing of claims settlements and reinsurance recoveries will match those assumed in discounting the provision for claims outstanding and reinsurance recoveries. Further details of these uncertainties are set out in note 15 to the financial statements.

If at any time the Directors of Equitas Reinsurance Limited believe that the reinsured liabilities cannot be met in full, they may consider implementing a proportionate cover plan. At the date of this report, the Directors believe that the assets should be sufficient to meet all liabilities in full.

Basis of accounting

The financial statements of the Group have been prepared in accordance with applicable accounting standards in the United Kingdom, the Statement of Recommended Practice on accounting for insurance business issued by the Association of British Insurers in December 1998 and in accordance with Section 255A of, and Schedule 9A to, the Companies Act 1985. The balance sheet of the Parent Company has been prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985. A summary of the more important accounting policies, which have been applied consistently, is set out below.

The financial statements have been prepared in accordance with the historical cost convention modified by the revaluation of certain assets and liabilities. An annual basis of accounting has been adopted.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries from 1 April 1998 to 31 March 1999.

(b) Premiums

Gross premiums receivable are earned when reinsurance business is written and are credited in full to the profit and loss account. Outward reinsurance premiums payable are charged in full to the profit and loss account when incurred.

(c) Claims and related reinsurance recoveries

The provision for claims outstanding in the consolidated balance sheet is based upon the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling expenses. Provisions for claims outstanding are stated gross of recoveries to be made on reinsurance contracts purchased by the reinsured syndicates in recognition of the fact that they are separate liabilities and assets of the Group.

Claims incurred include all operational expenses relating to the run-off of the reinsured liabilities. Deductions are made for salvage and other recoveries. Additional premiums receivable and payable by syndicates in respect of risks accepted under the Reinsurance and Run-off Contract are included within the movement of claims incurred.

The adequacy of the provision for claims outstanding is assessed by reference to actuarial and other studies of the ultimate cost of liabilities, which use exposure based and statistical techniques. Significant delays occur in the notification and settlement of certain claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The gross provision for claims outstanding and the related reinsurance recoveries are determined on the basis of information currently available; however, it is inherent in the nature of the business written that the estimates of the ultimate liabilities will vary as a result of subsequent developments.

(d) Discounting

As the reinsured liabilities will not be fully settled for many years, the provisions for claims outstanding and related reinsurance recoveries have been discounted (see note 15). The Group has structured its asset portfolio to match its expected liability stream. Accordingly the rate of discount applied to those liabilities is calculated having regard to the current prospective yields associated with its asset portfolio.

(e) Tangible assets

Tangible assets are stated at cost less accumulated depreciation. The cost of tangible assets is their purchase cost together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned.

(f) Deferred taxation

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

(g) Investments

Listed investments are stated at mid-market value based on prices quoted by the relevant exchanges. Other investments are stated at prices quoted by various recognised sources. In the Company's accounts, investments in Group undertakings are stated at cost.

(h) Financial reinsurances

In accordance with Financial Reporting Standard 5 – Reporting the Substance of Transactions, financial reinsurance policies are accounted for as investment assets. They are stated at the value of the expected receipts discounted at market yields to recognise the period until receipt.

The change in the amount by which these assets are discounted from one period end to the next is recognised as investment return.

(i) Investment return

The return from investments, which is reported on an accruals basis, is transferred together with the related tax credit to the technical account.

(j) Foreign exchange

Assets and liabilities are translated into Sterling at the rates of exchange ruling at the balance sheet date and the exchange differences taken to the profit and loss account. Transactions during the period are translated into Sterling using the rate of exchange prevailing at the time of the transaction, with the exchange differences taken to the profit and loss account.

(k) Pension costs

The Group operates a defined contribution pension scheme. Contributions payable to the scheme are charged in the period in which they are incurred.

The Group provides no other post-retirement benefits to its employees.

(l) Leases

Operating lease costs are charged in the period in which they are incurred.

2 Segmental information

The Group transacts only one class of business, being 100% proportional reinsurance written in the United Kingdom.

3 Other technical income and charges

Other technical income in the prior year represents recoveries on assets in excess of their respective book values. This included the release of £103 million from a prudent provision in the Group's opening accounts.

Other technical charges relate to foreign exchange differences.

4 Other financial income

As part of the Reconstruction and Renewal Completion Agreement, Lloyd's had an obligation to make a payment to Equitas Limited of up to £100 million in February 2002 to protect it from adverse movements in interest rates and the possible shortfall in some deferred payments. Following an agreement in August 1998, Lloyd's paid Equitas Limited £66 million in early settlement of this obligation. Of the amount received, £64 million represented other financial income, leaving £2 million to fund the possible shortfall in deferred payments.

5 Surplus on ordinary activities before tax

The surplus is stated after charging:

	Group 1999 £m	Group 1998 £m
Auditors' remuneration – audit fees	**2.8**	3.5
– non-audit fees	**0.6**	1.5
	3.4	5.0
Depreciation – tangible owned fixed assets	**3.8**	2.2
Operating lease rentals incurred – property	**3.0**	2.9
– other	**0.4**	0.9

The audit fees for the Company were borne by a subsidiary company.

Details of related party transactions, as defined by Financial Reporting Standard 8, are given on page 25.

6 Employees

The monthly average number of persons employed by the Group, including Directors, was 828 for the year ended 31 March 1999 (1998: 723), all of whom were engaged in run-off and related activities.

Total staff costs, including those for Directors, comprised the following:

	Group 1999 £m	Group 1998 £m
Wages and salaries	**35**	26
Social security costs	**3**	2
Pension contributions	**4**	3
	42	31

7 Directors' emoluments

The aggregate remuneration of the Directors was as follows:

	Group 1999 £000	Group 1998 £000
Executive Directors – remuneration	**1,502**	1,462
– pension contributions	**254**	228
Non-Executive Directors – fees	**426**	414
	2,182	2,104

In addition to the above amounts, conditional awards under the LTIP were made to the Directors as detailed on page 25. Full details of the remuneration of, and transactions with, Directors are given in the Board Report on Directors' Remuneration on page 23.

8 Tax on surplus on ordinary activities

	Group 1999 £m	Group 1998 £m
United Kingdom corporation tax at 31%		
Current	**31**	29
Underprovision in respect of prior years	**–**	34
	31	63

9 Investments: financial investments

	Group 1999 £m	Group 1998 £m
Shares and other variable yield securities and units in unit trusts	**100**	–
Debt securities and other fixed interest securities	**5,203**	5,691
Deposits with credit institutions	**786**	496
	6,089	6,187

At 31 March 1999 the cost of the above investments, which are stated at their market value, was £6,006 million (1998: £5,950 million). These investments include Sterling denominated assets of US$410 million equivalent which are charged in favour of the New York Insurance Department and A$325 million equivalent which are charged in favour of Citibank NA to support obligations undertaken in Australia on the Group's behalf.

Included above are investments listed on a recognised stock exchange in Great Britain with a market value as follows:

	Group 1999 £m	Group 1998 £m
Shares and other variable yield securities and units in unit trusts	**100**	–
Debt securities and other fixed-interest securities	**1,097**	1,451
	1,197	1,451

Certain investments are held in trust funds as described in note 11.

10 Investments: financial reinsurances

The average prospective rate of return on financial reinsurances is 6 per cent (1998: 6.3 per cent) per annum. The mean term is five (1998: five) years. The value of the expected receipts from financial reinsurances, before discounting at market yields to recognise the period until receipt, is £1,618 million (1998: £1,808 million).

11 Trust funds

Financial investments amounting to £3,116 million (1998: £3,158 million) and cash amounting to £nil (1998: £3 million) were held in trust funds in the United States and Canada. In addition, all proceeds of financial reinsurances are assigned to a trust fund in the United States. These trust funds were established under the laws of those countries for the settlement of claims relating to those jurisdictions. The amounts held in these trust funds cannot be used for any other purpose and can only be released with the appropriate regulatory consent if there is a surplus of assets over the liabilities they support.

12 Debtors arising out of reinsurance operations

	Group 1999 £m	*Group 1998 £m*
Unpaid premium	**54**	97
Reinsurance recoveries	**1,627**	1,509
Other	**56**	67
	1,737	1,673

The unpaid premium is being collected by the Corporation of Lloyd's on the Group's behalf and includes £10.3 million (1998: £14.5 million) receivable through a structured payment plan secured upon bank guarantees. The remaining amount consists mainly of brokers' contributions under deferred payment arrangements.

Reinsurance recoveries are stated after elimination of inter-syndicate transactions.

13 Called up share capital

	Company 1999 £	*Company 1998 £*
Authorised, allotted and called up		
1 deferred share of £1	**1**	1
2 ordinary shares of £50 each	**100**	100
	101	101

All of these shares were issued at par and are fully paid.

The deferred share carries the right to appoint and remove one Director of Equitas Holdings Limited (who will also serve as a Director of Equitas Reinsurance Limited and Equitas Limited) and is held by the Corporation of Lloyd's. On winding up, the deferred share carries no rights to any portion of surplus assets of the Company other than a return of the par value; it is accordingly a non-equity share.

The ordinary shares bear the right to appoint and remove the remaining Directors of the Company and to decide all matters reserved for decision by shareholders. The Articles of Association do not permit the payment of a dividend on the ordinary shares. Accordingly, these are non-equity shares.

14 Retained surplus

	Company £	Group £m
At 1 April 1998	–	718
Retained surplus for the year	–	54
At 31 March 1999	–	772

The retained surplus is not distributable.

15 Provision for claims outstanding

	Claims £m	Reinsurance £m	Group 1999 Net £m	Claims £m	Reinsurance £m	Group 1998 Net £m
Provisions before discounting	**14,316**	**3,225**	**11,091**	16,296	4,245	12,051
Discount	**(3,968)**	**(913)**	**(3,055)**	(4,775)	(1,199)	(3,576)
	10,348	**2,312**	**8,036**	11,521	3,046	8,475

Provision has been made for the estimated cost of all future claims liabilities including those incurred but not reported ('IBNR') at the balance sheet date and for the operational cost of handling and settling these liabilities. The provision for claims outstanding is based on actuarial and other assessments of ultimate claims costs including exposure based and statistical methods. While the Group has taken into account all available information within its assessment of future claims liabilities, there is nevertheless significant inherent uncertainty. The ultimate liability may vary as a result of subsequent information and events which may result in significant adjustments being made to the amounts provided.

(a) Claims

Claims are stated after elimination of inter-syndicate transactions.

The provision for claims outstanding includes significant amounts in respect of notified and potential IBNR claims relating to long-tail liabilities. These claims are not expected to be settled for many years, and there is considerable uncertainty as to the amounts at which they will be settled. The principal components of long-tail liabilities are asbestos, pollution and health hazard (APH) liabilities, which comprised approximately 55 per cent (1998: 50 per cent) of the net discounted provision for claims outstanding.

Potential APH liabilities have been estimated by means of exposure based analyses of the global losses and potential insurance claims arising from these causes and the Lloyd's market share of these claims. These analyses involved the use of many critical assumptions which have a significant effect on the quantification of claims liabilities. These assumptions included those in respect of numbers of and average costs per claim, the basis of liability, and insurance coverage issues. Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or decrease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge.

Non-APH liabilities comprised approximately 45 per cent (1998: 50 per cent) of the net discounted provision for claims outstanding. The estimation of the majority of these liabilities involved the analysis of separate homogeneous sub-divisions of the underlying syndicate historical claims experience by underwriting year and currency. This assessment also included the review of the results of independent actuarial studies undertaken for a number of syndicates and the establishment of market benchmarks against which to compare the estimates of liabilities. Notwithstanding the analytical nature of the methodologies adopted, significant judgment was required to determine the necessary level of provision for claims outstanding.

The provision for the cost of handling and settling the claims to extinction was based on an analysis of the expected costs to be incurred in run-off activities and adjusted to reflect savings expected to arise as a result of centralisation and reduction of transaction volumes over time. There are inherent uncertainties in projecting future costs which will be incurred over an extended period of time.

(b) Reinsurance recoveries

Reinsurance recoveries are stated after elimination of inter-syndicate transactions.

In determining the expected reinsurance recoveries on claims outstanding, assumptions have been made about the distribution of these claims based on a combination of historical claims experience and the reinsurance programmes of the Lloyd's syndicates which were reinsured. The reinsurance policies were purchased from approximately 3,000 reinsurers and 2,000 reinsurance 'pools', some of which are no longer paying claims or are subject to insolvency procedures. Provision has been made where companies are currently, or are considered to be at risk of being in the future, unable or unwilling to settle their liabilities in full when due. No single reinsurer accounts for more than 4 per cent (1998: 4 per cent) of the total expected recoveries before discounting.

If the actual experience differs from these assumptions, material adjustments may be required to the amount of reinsurance recoveries, including those amounts within debtors arising out of reinsurance operations.

(c) Discounting

The provision for claims outstanding and the cost of undertaking the run-off has been discounted at a rate of 5 per cent (1998: 5.25 per cent) per annum compound to reflect the time value of money. An adjustment for non-interest bearing assets has been made. The period of time which will elapse before the liabilities are settled has been modelled using the estimated settlement patterns of the underlying claims and associated reinsurance recoveries separately. The long-tail liabilities are expected to be paid out over a period in excess of 40 years with the majority of the remaining liabilities expected to be settled in the next several years. As at 31 March 1999, the mean term of the liabilities, that is the weighted average period to settlement where the weights are the undiscounted expected cashflows in each future period, was approximately seven (1998: eight) years.

At each balance sheet date a portion of the increase in the liability for claims outstanding compared to those outstanding at the previous reporting date will relate to discounted claims not yet settled being one period closer to settlement. In effect, one year's interest at the previously assumed discount rate has to be credited to discounted claims which are still outstanding in order to revalue them to the balance sheet date. In addition, any change to the discount rate employed compared to the previous balance sheet date will, other things being equal, result in an increase or decrease to the discounted liability. The combination of these two features is referred to as the 'unwinding' of the discount.

The ability to settle the liabilities in full is also dependent upon the generation of sufficient investment income to match the increase in insurance liabilities that will result each year from the unwinding of the discount. There are uncertainties in forecasting the generation of such investment income, which may vary due to changes in interest rates, exchange rates, the ultimate cost of claims, and the timing of liability settlements and reinsurance recoveries. If there is insufficient investment income to offset the increase in the discounted liabilities arising from the unwinding of the discount, the resulting shortfall will be accounted for through the profit and loss account.

16 Creditors arising out of reinsurance operations

	Group 1999 £m	*Group 1998 £m*
Amounts due in less than one year	**332**	142
Amounts due in more than one year but less than five years	**4**	2
Amounts due in more than five years	**7**	8
	343	152

17 Other creditors including taxation and social security

These balances include corporation tax payable of £30 million (1998: £32 million), of which £21 million is payable in more than one year.

18 Reconciliation of movements in shareholders' funds

	Group 1999 £m	*Group 1998 £m*
Opening shareholders' funds	**718**	617
Surplus for the year (see note 14)	**54**	101
Closing shareholders' funds	**772**	718

The Company made neither a profit nor a loss for the year. As permitted by Section 230 of the Companies Act 1985, the Company does not present its own profit and loss account.

19 Movement in opening and closing portfolio investments net of financing

	Group 1999 £m	*Group 1998 £m*
Net cash outflow for the year (see note 20)	**(25)**	(6)
Movement arising from cashflows of portfolio investments	**(336)**	(285)
Changes to market values and discount (see note 20)	**(66)**	448
Other changes, including exchange rate effects (see note 20)	**200**	(85)
Total movement in portfolio investments net of financing	**(227)**	72
Opening portfolio investments net of financing (see note 20)	**7,603**	7,531
Closing portfolio investments net of financing (see note 20)	**7,376**	7,603

20 Movement in cash, portfolio investments and financing

	At 31 Mar 1998 £m	*Cashflow £m*	*Changes to market values and discount £m*	*Other changes, including exchange rate effects £m*	*At 31 Mar 1999 £m*
Cash at bank and in hand	49	(25)	–	1	**25**
Deposits with credit institutions	496	284	–	6	**786**
Financial reinsurances	1,367	(244)	89	50	**1,262**
Shares and other variable yield securities and units in unit trusts	–	82	18	–	**100**
Debt securities and other fixed-interest securities	5,691	(458)	(173)	143	**5,203**
	7,603	(361)	(66)	200	**7,376**

During the year debt securities and other fixed-interest securities of £12,190 million (1998: £9,842 million) were purchased and £12,648 million (1998: £10,038 million) were sold. Cash at bank and in hand as at 31 March 1999 shown above is stated net of £15 million (1998: £16 million) of overdrafts.

21 Contingent liabilities

The Group has granted certain indemnities to Trustees, Directors, Employees and the Auditors.

Apart from these indemnities, the Group had no contingent liabilities outside the normal course of business at the balance sheet date.

22 Investments in Group undertakings

Company Name	*Class and proportion of shares held*	*Country of incorporation*	*Business activities*
Equitas Reinsurance Limited	Ordinary 100%	England	Reinsurance
Equitas Limited*	Ordinary 100%	England	Reinsurance Run-off
Equitas Management Services Limited	Ordinary 100%	England	Provision of administrative services
Equitas Policyholders Trustee Limited	Ordinary 100%	England	Trustee

**Held via a subsidiary*

No dividends may be paid or capital distributions made by Equitas Reinsurance Limited or Equitas Limited. Any surplus assets would be applied by Equitas Reinsurance Limited towards the payment of a return premium to Reinsured Names. Such a payment would require the consent of the Financial Services Authority on behalf of HM Treasury.

23 Financial commitments

	Group 1999 £m	*Group 1998 £m*
Expiring within one year	**–**	1
Expiring between two and five years inclusive	**1**	1
Expiring in over five years	**3**	2
	4	4

Company balance sheet
as at 31 March 1999

	Note	*1999* £	*1998* £
Fixed assets			
Investments – investments in Group undertakings	22	**300**	300
Current assets			
Amounts due from a Group undertaking		**1**	1
Net current assets		**1**	1
Total assets less current liabilities		**301**	301
Creditors – amounts falling due after more than one year			
Amounts owed to Group undertakings		**200**	200
Net assets		**101**	101
Capital and reserves			
Called up share capital	13	**101**	101
Profit and loss account	14	**–**	–
Shareholders' funds – non-equity interests		**101**	101

The financial statements on pages 35 to 46 were approved by the Board on 20 July 1999 and were signed on its behalf by:

HA Stevenson
MJ Crall
JV Barker

The accounting policies and notes on pages 35 to 45 form an integral part of these financial statements.

Equitas information

Chairman
Hugh Stevenson

Executive Directors
Michael Crall, *Chief Executive Officer*
Jane Barker, *Finance Director*
Paul Jardine, *Commutations Director*
Scott Moser, *Claims Director*
Alan Pollard, *Run-off Operations Director*

Non-Executive Directors
Dick Barfield
Stephen Catlin
Michael Deeny
James Joll
Sir Roger Neville
Sir Bryan Nicholson
Richard Spooner

Company Secretary
Stephen Britt

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Auditors
PricewaterhouseCoopers

Bankers
Midland Bank plc
Barclays Bank plc
Citibank NA
Royal Trust Corporation of Canada
Bankers Trust Company

Fund Managers
BlackRock Financial Management Inc
Capital International Limited
Dodge & Cox
Fidelity Institutional Asset Management
HSBC Asset Management Europe Limited
Merrill Lynch Mercury Asset Management Limited
Prudential Portfolio Managers Limited
Rothschild Asset Management Limited
RT Capital Management Inc
Scudder Kemper Investments Inc
State Street Global Advisors UK Limited
UBS Brinson Limited
Wellington Management Company LLP

Notice to Reinsured Names

Reinsured Names should note that the Reinsurance and Run-off Contract dated 3 September 1996 requires them to notify Equitas Reinsurance Limited of a change of address or, if so required, to provide written confirmation of their addresses. Equitas Reinsurance Limited does not require written confirmation of a Reinsured Name's address at this time, but changes in address in the past 12 months (unless previously notified) should be sent to the Company Secretary, Equitas Reinsurance Limited, 33 St Mary Axe, London EC3A 8LL within 21 days from receipt of this report.

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Equitas Holdings Limited
33 St Mary Axe
London EC3A 8LL