78950

# PROVINCIAL
INSURANCE

REPORT
&
ACCOUNTS
1989

*Founded in 1903 as a fire insurance company by Sir James Scott, Bt., Provincial Insurance, a subsidiary of Provincial Group PLC, is now one of the largest privately-owned general insurance companies in the United Kingdom and has an outstanding record of financial strength.*

*The Company and its subsidiaries offer a comprehensive range of contracts to both private and commercial customers in the United Kingdom and overseas – principally in continental Europe and the Commonwealth.*

*The Company's aim is to provide expertise and decision-making ability at the point of sale for commercial business and a fast, high-quality service to personal lines customers, supported by fair and efficient claims handling.*

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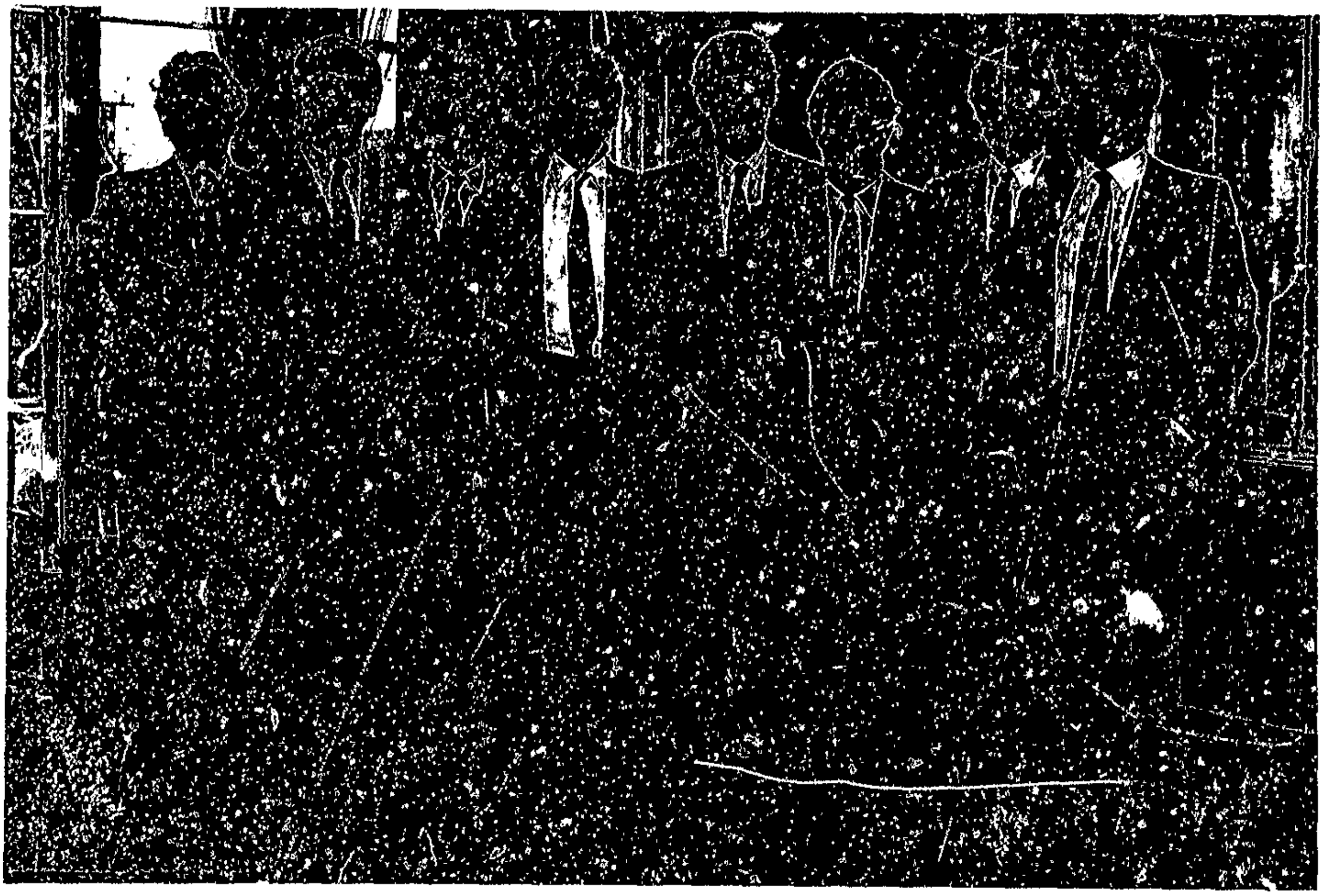
## THE BOARD OF DIRECTORS



*The Board of Directors: from left to right: P E Judkins, D Potts, C J Scott, C F E Shakerley (Chairman), P V Hoyle, M Hart (Managing Director), G C Whitwham (Secretary), J H Maxwell.*

## CONSOLIDATED GENERAL INSURANCE REVENUE ACCOUNT

**for the year ended 31st December 1989**

| | Notes | 1989 £m | 1989 £m | *1988 £m* | *1988 £m* |
|---|---|---|---|---|---|
| Premiums written | 1 | | 288.5 | | *250.1* |
| Premiums earned | | | 277.1 | | *238.5* |
| Claims incurred | | 194.9 | | *165.7* | |
| Commission | | 49.4 | | *42.7* | |
| Expenses | | 51.6 | 295.9 | *44.5* | *252.9* |
| Underwriting loss | | | (18.8) | | *(14.4)* |

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

**for the year ended 31st December 1989**

| | Notes | 1989 £m | *1988 £m* |
|---|---|---|---|
| General insurance | | | |
| Underwriting loss | | (18.8) | *(14.4)* |
| Investment income | | 30.5 | *23.4* |
| Realised investment profits | | 11.4 | *12.4* |
| **Profit before taxation** | 2 | 23.1 | *21.4* |
| Taxation | 3 | 7.4 | *8.4* |
| **Profit after taxation** | 4 | 15.7 | *13.0* |
| Minorities | | – | *0.1* |
| | | 15.7 | *13.1* |
| Dividends | | 4.5 | *4.2* |
| **Transfer to revenue reserves** | 5 | 11.2 | *8.9* |

*(f) Depreciation*

Expenditure on motor vehicles and other equipment is written off in the year in which such expenditure is incurred.

Properties owned and occupied by the group for the purposes of its business are classified as investments and revalued annually; accordingly, no depreciation is charged and any movements in valuations are taken to revaluation reserve.

*(g) Exchange rates*

In the revenue and profit and loss accounts, foreign currency profits and losses are translated at the average rates of exchange applicable during the year. Investments, other assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the year end. Differences on translation and realised exchange profits and losses after allowing for taxation are taken to investment reserve.

*(h) Taxation*

Corporation tax is provided on the chargeable profits of the year and of all prior years at the appropriate rates. Deferred taxation is calculated on the liability basis and is provided only where it is likely that the amount will become payable in the foreseeable future.

# ACCOUNTING POLICIES

### *(a) Basis of presentation*

The accounts are prepared in accordance with Chapter II of Part VII of the Companies Act 1985 and advantage is taken of certain of the disclosure exemptions available to insurance companies under that Act.

The company's interests in subsidiary companies are revalued in the parent company's balance sheet, and the adjustment, from cost less amounts written off to net asset value, is included in the revaluation reserve.

### *(b) Basis of consolidation*

The consolidated accounts incorporate the audited accounts of all subsidiaries. The company's interests in associated companies, which are not significant in the context of the accounts, are dealt with as investments and are included in the balance sheets at cost.

### *(c) General insurance*

The consolidated general insurance revenue account is stated net of reinsurance and includes business accounted for on one year and three year bases, but excludes discontinued business which is dealt with in Note 10 to the accounts.

#### *One year business*

The underwriting result is stated after taking account of unearned premiums and outstanding claims.

The provision for unearned premiums is stated after allowing for acquisition costs and is calculated on the 24ths or equivalent basis as appropriate, suitably modified for contracts over one year (except where overseas subsidiaries adopt different bases to comply with local requirements). The provision is carried forward in general insurance funds.

The provision for outstanding claims includes the estimated cost of claims notified but not settled and of claims incurred but not notified at the date of the balance sheet estimated on the basis of the best information available at that date. Differences between the provision for outstanding claims and subsequent re-estimates or settlements are included in the revenue account in the year in which the claims are re-estimated or settled.

Claims incurred includes claims handling expenses.

#### *Three year business*

The underwriting result of business accounted in a year is determined after a period of two years from the end of that year. Premiums received less claims and expenses paid to date, together with provision when necessary for any estimated deficiencies, are carried forward in general insurance funds.

### *(d) Investment income*

Investment income comprises interest, dividends and net rents due to be received in the year, except for income from Government securities, loans and deposits which is dealt with on an accruals basis and in 1988 includes notional interest representing the subsidy on staff housing loans. Interest payable and expenses incurred in the management of investments are deducted from investment income.

Investment income, except for income arising from discontinued business shown in Note 10 to the accounts, is credited to the profit and loss account.

### *(e) Investments*

Investments are stated in the balance sheets at market values, comprising stock exchange values for listed securities, open market valuations by the group's qualified surveyors for properties and directors' valuations for other investments. The surplus of the market value over the cost of investments is taken to revaluation reserve.

Profits less losses, after taxation, on realisations of investments are taken to investment reserve which, in the balance sheets, is included within the revaluation reserve. One-fifth of the investment profits less losses realised by the company and its UK general insurance subsidiary in the year and in each of the preceding four years, is transferred annually from investment reserve to profit and loss account, together with attributable taxation.

In addition, at 31st December 1989 the following directors, who were not at that date directors of the ultimate holding company, held rights granted on 3rd November 1986, 14th May 1987 and 14th September 1987 under the Provincial Group PLC Executive Share Option Scheme to subscribe for the following numbers of 'B' ordinary shares in Provincial Group PLC at prices ranging from 115p to 129p per share, such rights being exercisable variously, under the rules of the scheme, until 13th September 1997: Mr P V Hoyle – 95,000 shares; Mr D Potts – 33,914 shares; and Mr C Woodcock – 65,000 shares.

No director, who is not a director of the ultimate holding company, beneficially owns any shares in the company or in other subsidiaries of Provincial Group PLC.

### EMPLOYMENT OF DISABLED PERSONS

The company's policy for the employment of disabled persons gives full and fair consideration to all applications for employment made by such persons, having regard to their aptitudes and abilities and to the company's operational requirements.

During the year, the company continued to employ disabled persons who were afforded the same opportunities available to all employees in regard to training, career development and promotion. Where necessary special facilities were made available to assist job performance and ensure the safety of disabled employees.

### EMPLOYEE INVOLVEMENT

During the year, regular consultations and briefings took place with employees and their representatives to assist their knowledge and understanding of the company's performance and the financial and economic factors which affect it, and to enable the company to take into account the views of employees and their representatives when making decisions likely to affect employees' interests. Staff received an annual employee report, copies of the Preliminary Announcement and Interim Report of the group results and a bi-monthly Staff Newsletter. The interests of employees in the Pension Fund were represented throughout the year by the Fund's Trustees, three of whom were nominated by Fund members.

In May 1989, 744 of the company's staff participated in an appropriation of shares under the Provincial Group Profit Sharing Scheme, based upon the allocation of profits arising in 1988.

In July 1989, some 375,000 shares in each of Provincial Group PLC and Prolific Group plc were transferred by the Trustees of the Scheme to participants on the release of shares representing those appropriated in 1984.

No rights to subscribe for 'B' ordinary shares in Provincial Group PLC were granted to employees of the company under the Provincial Group PLC Executive Share Option Scheme during 1989. During the year, 2 employees of the company exercised their rights to subscribe for a total of 35,000 such shares. Since the introduction of the Scheme in 1986, options have been granted to 17 employees of the company to subscribe for a total of 621,000 such shares in Provincial Group PLC.

### CHARITABLE DONATIONS

The sum given during the year by the company to charitable organisations in the United Kingdom was £57,049.

### AUDITORS

On 1st January 1990, the company's auditors changed the name under which they practise to KPMG Peat Marwick McLintock, and accordingly have signed their report in their new name. The directors recommend that KPMG Peat Marwick McLintock be re-appointed the company's auditors in accordance with Section 384(1) of the Companies Act 1985.

C. F. E. Shakerley

27th April 1990

C F E SHAKERLEY
Chairman

The directors present their report together with the consolidated accounts of the company and its subsidiaries for the year ended 31st December 1989.

## ACTIVITIES

The principal activity of the company and its subsidiaries is the transaction of general insurance business. There have been no changes during the year.

## SUMMARY OF RESULTS

| | 1989 £m | *1988 £m* |
|---|---|---|
| Profit before tax | 23.1 | *21.4* |
| Tax and minorities | 7.4 | *8.3* |
| Profit after tax and minorities | 15.7 | *13.1* |
| Dividends | 4.5 | *4.2* |
| Transfer to revenue reserves | 11.2 | *8.9* |

The geographical distribution of net premiums written and underwriting results is as follows:

| | Premiums 1989 £m | Results 1989 £m | Premiums *1988 £m* | Results *1988 £m* |
|---|---|---|---|---|
| UK | 239.5 | (11.8) | *207.4* | *(6.2)* |
| Other European | 11.5 | (0.3) | *11.9* | *(2.7)* |
| Canada | 25.1 | (4.6) | *20.2* | *(4.2)* |
| Africa | 1.8 | (0.2) | *1.9* | *(0.5)* |
| Asia | 4.0 | (0.7) | *2.5* | *(0.1)* |
| Australia | 4.2 | (0.7) | *3.5* | *(0.5)* |
| Other International | 2.4 | (0.5) | *2.7* | *(0.2)* |
| | 288.5 | (18.8) | *250.1* | *(14.4)* |

## ORDINARY DIVIDEND

The directors recommend a final dividend costing £2.9m payable on 29th June 1990. With the interim dividend, costing £1 6m, paid on 31st October 1989, this makes a total dividend for the year 1989 of £4.5m, equivalent to a dividend of 7.76p per share (1988: 7.17p per share).

## DIRECTORS

The names of the company's directors at the date of this report are listed on page 3.

The only changes which have taken place since 31st December 1988 are the appointment of Mr C J Scott on 7th September 1989 and the retirement of Mr C Woodcock on 31st December 1989.

The director who retires by rotation under Article 85 is Mr C F E Shakerley. Mr C J Scott, who was appointed since the last annual general meeting, retires under Article 91. Both are eligible and offer themselves for re-election.

The following directors, who were not directors of the ultimate holding company at 31st December 1989, had the undermentioned interests in the share capital of Provincial Group PLC:

| | Nature of interest | 1.1.1989 'A' Ordinary | 31.12.1989 'A' Ordinary | 1.1.1989 'B' Ordinary | 31.12.1989 'B' Ordinary |
|---|---|---|---|---|---|
| P V Hoyle | Beneficial | – | – | 53,010 | 56,425 |
| D Potts | Beneficial | – | – | 34,954 | 37,703 |
| C J Scott | Beneficial | 2,471,858* | 2,471,858 | 247,184* | 247,184 |
| | Trustee | 1,513,789* | 1,513,789 | 1,166,364* | 1,166,364 |
| C Woodcock | Beneficial | – | – | 11,892 | 15,424 |

Shares marked with an asterisk indicate the interest of that director on the date of his appointment.

## INVESTMENT REVENUE

Investment income, at £30.5m, showed an increase of 30.3% over 1988 (28.4% after allowing for currency movements). This excellent performance arose from continued strong cash flow, together with good increases in UK equity dividends and high worldwide interest rates.

Realised investment profits, which are credited to the profit and loss account on a five-year average basis, were considerably lower than 1988 at £11.4m against £12.4m.

## SHAREHOLDERS' FUNDS AND SOLVENCY RATIO

Shareholders' funds at 31st December 1989 amounted to £250.8m. This represents an increase of £68.7m, of which £11.2m is retained profit.

## BOARD CHANGES

During the year we welcomed Mr Christopher Scott to the Board. Mr Scott was formerly a director of Provincial Group. Mr Clifford Woodcock retired as a director and general manager of the company on 31st December 1989. Mr Woodcock had over 40 years' service with the company and made a major personal contribution to its progress and profitability. The Board wishes to record its appreciation of his valuable service.

## PROSPECTS

In the UK, rating levels for practically all classes of business continued to soften during 1989, but particularly in respect of commercial property and private motor business. This development will inevitably impact on the 1990 result. Additionally, late January and February 1990 witnessed some of the severest sustained windstorms and floods for many years. Although we have adequate catastrophe reinsurance cover for the main events, the prolonged nature of the bad weather will inevitably have a negative impact on the net underwriting result.

Overseas, the steps which have already been taken to improve results are expected to bear fruit in 1990, although Denmark suffered to a small extent from the bad weather which affected Northern Europe in the early part of 1990. The results from our share of the Wright Underwriting Group reinsurance account will also be adversely affected by the storms.

The bad weather in the UK in the early part of this year will also have a significant impact on cash flow which, in turn, will affect investment income growth. Also, we do not anticipate the same level of increase in UK equity dividends which has occurred in the last two years. These factors combine to make it unlikely that the strong increase in investment income seen in 1988 and 1989 will continue in 1990.

In the longer term we remain confident that our high underwriting standards, allied to a continuing drive to reduce the expense ratio and improve the service to our customers through high-quality staff and sophisticated computer systems, will ensure an improving return on capital.

During 1989 we continued to meet the demands of our customers in a changing market driven by the introduction of new products and rapid developments in computer and telecommunication technology. We achieved this through the commitment of an excellent team of Provincial people and the support of our intermediaries. We extend our thanks, both to our staff and intermediary friends.

C F E SHAKERLEY
Chairman

M HART
Managing Director

## RESULTS FOR THE YEAR

In 1989, the company successfully pursued its long term strategic objectives. Towards this end, the restructuring of the UK organisation to enable the company to align itself with the changing market environment continued, with the result that the re-organisation of our business into two divisions – one for commercial business and one for motor and personal lines – is now largely completed.

In addition, a major review of the information technology requirements necessary to underpin the company's business strategy took place during the year. The company is now in the process of implementing the IT strategy emanating from this review.

The level of profitability improved for the third successive year. Pre-tax profit for the year was £23.1m compared with £21.4m in 1988. Whilst the underwriting result deteriorated and realised investment gains were at a lower level than in 1988, these were more than offset by a substantial increase in investment income. Worldwide, premium income rose by £37.6m to £288.7m, an increase of 15.0%.

The main features of the result were the continued good underwriting experience in the UK commercial and personal property accounts, a marked improvement in the liability account and strong growth in investment income. Overseas, the results were again mixed: Canada performed badly, whilst Denmark produced a good trading result.

## UNITED KINGDOM

UK premium income increased by 15.4% to £239.5m. Net premium growth from the commercial business account remained strong, despite a progressively softening market. Growth from the motor and personal lines accounts was not up to expectations and reflected keen competition in these markets.

The underwriting loss was £11.8m and included provision for future expenses relating to computer systems.

The commercial property account performed well, but not at the exceptional level of 1988. There was, however, a substantial improvement in the liability account, although, because of its long term nature, it is difficult to judge the profitability of this account based on a single year.

The transit account suffered an underwriting loss for the first time for a number of years, reflecting increased competition.

As already stated, the motor and personal lines accounts were subject to severe competition. Rating levels for motor business failed to keep pace with inflation, and this is bound to have an effect on the results for 1990 and 1991. Competition for large blocks of personal lines business was fierce. Despite this and a higher incidence of subsidence claims resulting from the exceptionally dry summer weather, the personal property account again made an underwriting profit.

A feature of the UK motor and personal lines markets during the year was the entry of a number of new direct marketing operations, which particularly affected motor business. Given the increasing proportion of the insuring public who buy direct, several existing major players in these markets, including ourselves, considered it necessary to respond to this development in order to maintain market share. Unlike most of our competitors, however, we have continued to offer our broker intermediaries similar products at the same price. Whilst we are seeking to exploit the new opportunities available through direct marketing, we are, and intend to remain, firmly committed to the broker market.

## OVERSEAS

Aided by currency movement, premium income grew by 15.3% from £41.6m to £48.1m. Underlying growth was 5.7%, reflecting corrective action taken to constrain expansion in the three major territories of Australia, Canada and Denmark.

In Australia, a subsidiary company was formed to take over the operation of our Australian business. The company commenced trading on 1st July 1989 and produced a modest profit during its first six months of operation.

In Canada, losses continued at an unacceptable level. After operating in this country for many years, we came to the conclusion in 1989 that it was unlikely that we could make a satisfactory return on capital in the foreseeable future, and we have therefore decided to withdraw from the territory.

The trading performance in Denmark improved significantly over last year and resulted in an excellent profit. However, this improvement came in part from exceptional items arising from changes in reserving policy relating to claims incurred but not reported and unexpired risks following changes in Danish legislation.

Elsewhere, the result in Kenya improved, whilst there was a deterioration in Singapore, primarily due to increased losses in the motor account. During the year, we consolidated our business in Hong Kong and since the year end, in line with our strategy to expand in the territory, have acquired the Hong Kong insurance portfolio of the Dutch insurer, Interlloyd Insurance Company N.V.

## DIRECTORS AND SECRETARY

## DIRECTORS

**C F E Shakerley**
*Chairman*

Aged 55 and a director since 1969. Appointed Deputy Chairman in 1975 and Chairman in 1977. Also a director of the Royal Bank of Scotland Group, Monks Investment Trust and River & Mercantile Geared Capital & Income Trust 1999. Formerly senior partner of the stockbroking firm of Roger Mortimer & Co. Also Chairman of the group holding company, Provincial Group.

**M Hart**
*Managing Director*

Aged 52 and joined the company in 1958. A Fellow of the Chartered Insurance Institute. Appointed a director in 1986 and Managing Director in 1988. Also appointed a director of Provincial Group in 1988.

**P V Hoyle**
*Group Executive*

Aged 44 and joined the company in 1964. A Fellow of the Institute of Chartered Secretaries and Administrators and an Associate of the Institute of Taxation. Company Secretary from 1983 to 1987. Appointed a director in 1987. Group Secretary (since 1983) and Taxation Manager of Provincial Group.

**P E Judkins**
*Group Executive Director*

Aged 43 and appointed a director in 1987. A Fellow of the Institute of Personnel Management. Appointed Chairman of Provincial Management Services and a director of Provincial Group in 1988.

**J H Maxwell**
*Group Executive Director*

Aged 45 and appointed a director in 1986. A director and Chief Executive of Provincial Group. A member of the Institute of Chartered Accountants of Scotland. Formerly with Rank Xerox and then Grand Metropolitan.

**D Potts**
*Executive Director*

Aged 52 and joined the group i 1970. An Associate of the Chartered Institute of Management Accountants. Appointed a General Manager and a director in 1986. Also a director of Provincial Management Services.

**C J Scott**
*Non-Executive Director*

Aged 35 and appointed a director in September 1989. An o[illegible]r in the Sumitomo Bank in London. Formerly a director of Provincial Group fro. 1986 to 1989.

## SECRETARY

G C Whitwham FCIS

## PRINCIPAL OFFICERS

M Hart, FCII, *Managing Director*

D Potts, ACMA, *General Manager*

D Alexander, ACII, *Assistant General Manager*

S V Hinton, ACMA, *Assistant General Manager*

M A Jack, BA FCII, *Assistant General Manager*

R B Johnson, BA FCII, *Assistant General Manager*

D MacPhee, ACII, *Assistant General Manager*

R L Newton, ACII, *Assistant General Manager*

B J Wells, ACII, *General Manager, Prospero Financial Services Ltd.*

## [illegible]

at 31st December 1989

| | Notes | Consolidated 1989 £m | Consolidated *1988 £m* | Parent Company 1989 £m | Parent Company *1988 £m* |
|---|---|---|---|---|---|
| **Investments** | 6 | 486.5 | *386.4* | 431.0 | *339.3* |
| **Interest in Subsidiaries** | 7 | – | – | 36.1 | *25.0* |
| **Current Assets** | | | | | |
| Agents and companies | | 78.5 | *66.3* | 68.4 | *56.7* |
| Other debtors | | 7.3 | *12.4* | 3.9 | *8.7* |
| Amounts due from holding company and fellow subsidiaries | | 13.0 | *11.7* | 12.9 | *12.1* |
| Amounts due from subsidiary companies | | – | – | 3.0 | *1.0* |
| Cash balances | | 48.9 | *33.3* | 11.9 | *24.5* |
| | | 147.7 | *123.7* | 100.1 | *103.0* |
| | | 634.2 | *510.1* | 567.2 | *467.3* |
| **Current Liabilities** (including provisions and reserves) | | | | | |
| Outstanding claims | | 202.4 | *159.6* | 163.2 | *132.2* |
| Agents and companies | | 13.5 | *11.1* | 10.8 | *8.7* |
| Amounts due to fellow subsidiaries | | – | *0.5* | – | *0.5* |
| Amounts due to subsidiary companies | | – | – | 1.7 | *2.1* |
| Bank overdrafts | | 2.5 | *3.1* | 2.5 | *3.0* |
| Other creditors | | 14.9 | *14.9* | 12.2 | *13.7* |
| Taxation | | 3.5 | *5.7* | 2.5 | *5.1* |
| Deferred taxation | 8 | 5.8 | *5.3* | 5.8 | *5.3* |
| Proposed dividend | | 2.9 | *2.2* | 2.9 | *2.2* |
| | | 245.5 | *202.4* | 201.6 | *172.8* |
| | | 388.7 | *307.7* | 365.6 | *294.5* |
| **General Insurance Funds** | | 137.2 | *125.3* | 114.8 | *112.4* |
| | | 251.5 | *182.4* | 250.8 | *182.1* |
| **Minority Interests** | | 0.7 | *0.3* | – | – |
| | | 250.8 | *182.1* | 250.8 | *182.1* |
| **Shareholders' Funds** | 9 | | | | |
| Share capital and reserves | | 46.6 | *35.4* | 45.9 | *35.9* |
| Revaluation reserve | | 204.2 | *146.7* | 204.9 | *146.2* |
| | | 250.8 | *182.1* | 250.8 | *182.1* |

# CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

**for the year ended 31st December 1989**

| | 1989 £m | | *1988 £m* | |
|---|---|---|---|---|
| **SOURCE OF FUNDS** | | | | |
| Profit before taxation | | 23.1 | | *21.4* |
| Adjustments to convert revenue and expenditure to a cash basis | | | | |
| Movement in insurance funds and outstanding claims | 56.0 | | *36.6* | |
| Movement in agents' balances and debtors | (8.4) | | *(5.6)* | |
| Movement in creditors | 2.0 | 49.6 | *0.3* | *31.3* |
| **Total generated from operations** | | 72.7 | | *52.7* |
| **APPLICATION OF FUNDS** | | | | |
| Tax paid (including tax attributable to investment income) | 9.3 | | *7.8* | |
| Dividends paid | 3.8 | 13.1 | *4.2* | *12.0* |
| **Funds available for investment** | | 59.6 | | *40.7* |
| **CHANGES IN INVESTMENTS AND NET LIQUID FUNDS** | | | | |
| Movement in investments | | 43.5 | | *36.6* |
| Movement in cash, short term deposits and bank overdrafts | | 16.1 | | *4.1* |
| | | 59.6 | | *40.7* |

## 1. Consolidated revenue account

*(a) Reinsurance*

| | 1989 £m | *1988 £m* |
|---|---|---|
| Premiums and claims are made up as follows | | |
| Premiums written | | |
| Gross of reinsurance | 311.1 | *271.1* |
| Reinsurance ceded | 22.6 | *21.0* |
| | 288.5 | *250.1* |
| Claims incurred | | |
| Gross of reinsurance | 205.8 | *178.7* |
| Reinsurance recoveries | 10.9 | *13.0* |
| | 194.9 | *165.7* |

*(b) Distribution of gross written premiums*

| | 1989 £m | *1988 £m* |
|---|---|---|
| United Kingdom | | |
| Commercial | | |
| Property | 47.1 | *37.6* |
| Liability | 24.7 | *20.2* |
| Transit | 13.4 | *12.4* |
| Other commercial | 3.4 | *2.9* |
| Motor and personal lines | | |
| Motor | 95.8 | *86.3* |
| Householders | 73.5 | *63.9* |
| Total United Kingdom | 257.9 | *223.3* |
| Overseas | | |
| Europe | 11.6 | *13.6* |
| Canada | 25.1 | *21.5* |
| Africa | 2.2 | *2.2* |
| Asia | 4.7 | *3.1* |
| Australia | 5.1 | *4.2* |
| Other international | 4.5 | *3.2* |
| Total worldwide | 311.1 | *271.1* |

## 2. Profit before taxation

| | 1989 £m | *1988 £m* |
|---|---|---|
| The profit before taxation is shown after charging | | |
| Interest payable on bank overdrafts | 0.1 | – |
| [illegible] management [illegible] | 1.3 | *0.9* |
| Transfer to investment reserve in respect of a reinsurance arrangement | 0.2 | *0.2* |

Auditors' remuneration, including expenses, in respect of the company and its subsidiaries amounted to £253,000 (1988: £210,000).

**3. Taxation**

| | 1989 £m | *1988 £m* |
|---|---|---|
| The taxation charge (recovery) comprises | | |
| United Kingdom corporation tax | 0.6 | *1.7* |
| Double taxation adjustment | – | *(0.2)* |
| | 0.6 | *1.5* |
| Overseas taxation | (0.6) | *0.1* |
| Taxation attributable to | | |
| Franked investment income | 3.2 | *2.1* |
| Realised investment profits transfer | 4.2 | *4.7* |
| | 7.4 | *8.4* |

**4. Profit after taxation**

The consolidated profit after taxation includes a profit dealt with in the accounts of the company of £14.5m (1988: profit of £14.1m).

**5. Statement of revenue reserves**

| | 1989 £m | *1988 £m* |
|---|---|---|
| Revenue reserves at beginning of year | 20.9 | *12.0* |
| Transfer from profit and loss account | 11.2 | *8.9* |
| Revenue reserves at end of year | 32.1 | *20.9* |

**6. Investments at market value**

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 1989 £m | *1988 £m* | 1989 £m | *1988 £m* |
| British Government | 41.3 | *37.3* | 39.3 | *37.3* |
| Overseas Government | 29.8 | *38.2* | 7.8 | *18.3* |
| Fixed interest | 90.9 | *79.6* | 81.8 | *70.3* |
| Ordinary shares | 305.5 | *213.7* | 285.6 | *196.5* |
| Mortgages and loans | 0.7 | *1.0* | 0.3 | *0.8* |
| Properties | 18.3 | *16.6* | 16.2 | *16.1* |
| | 486.5 | *386.4* | 431.0 | *339.3* |

Investments are stated at market value as indicated in paragraph (e) to the Accounting Policies on page 8.

**7. Interest in subsidiaries**

| | 1989 £m | *1988 £m* |
|---|---|---|
| Shares at cost less amounts written off | 16.2 | *11.2* |
| Revaluation adjustment | 19.9 | *13.8* |
| Net asset value | 36.1 | *25.0* |

Particulars of subsidiary companies are shown in Note 13.

## 8. Deferred taxation

| | 1989 £m | 1988 £m |
|---|---|---|
| The provision for deferred taxation comprises | | |
| Unrealised gains on investments | 8.0 | 7.3 |
| Other timing differences | (2.2) | (2.0) |
| | 5.8 | 5.3 |

The potential amount of deferred taxation not expected to become a liability in the foreseeable future for which provision has not been made is

| | 1989 £m | 1988 £m |
|---|---|---|
| Unrealised gains on investments | 62.5 | 40.0 |
| Other timing differences | (2.8) | (2.5) |
| | 59.7 | 37.5 |

## 9. Shareholders' funds

| | 1989 £m | 1988 £m |
|---|---|---|
| Share capital | | |
| Authorised | | |
| 80,000,000 (1988: 80,000,000) ordinary shares of 25p each | 20.0 | 20.0 |
| Issued and fully paid | | |
| 58,182,642 (1988: 58,182,642) ordinary shares of 25p each | 14.5 | 14.5 |
| Revenue reserves | | |
| Parent company | 31.4 | 21.3 |
| Subsidiary companies | 0.7 | (0.4) |
| | 32.1 | 20.9 |
| | 46.6 | 35.4 |
| Revaluation reserve | 204.2 | 146.7 |
| | 250.8 | 182.1 |

## 10. Discontinued business account

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 1989 £m | 1988 £m | 1989 £m | 1988 £m |
| Fund at beginning of year | 25.0 | 9.1 | 25.0 | 9.1 |
| Transfer from outstanding claims and insurance funds | – | 16.8 | – | 16.8 |
| Premiums, net of commission | 0.2 | 1.0 | 0.2 | 1.0 |
| Investment income | 0.7 | 1.1 | 0.3 | 1.1 |
| Claims paid and expenses | (2.0) | (2.6) | (1.6) | (2.6) |
| Taxation | (0.4) | (0.9) | – | (0.9) |
| | 23.5 | 24.5 | 23.9 | 24.5 |
| Transfer from investment reserve | 0.7 | 0.5 | 0.7 | 0.5 |
| Transfer of business to subsidiary company | – | – | (6.0) | – |
| Fund at end of year | 24.2 | 25.0 | 18.6 | 25.0 |

The above account comprises the London reinsurance account, the London marine and aviation account and the Australian workers' compensation account. The fund is included within general insurance funds in the balance sheet.

**11. Overseas deposits**

Certain assets are deposited overseas as collateral security for overseas insurance business.

**12. Pension fund**

The major fund to which the company contributes is the Provincial Group Pension Fund, which covers all United Kingdom employees and is of the defined benefit type. The assets of the fund are held in a separate trustee-administered fund. Contributions to the fund are based on pension costs across the Provincial Group of companies as a whole.

The pension cost relating to the fund is assessed in accordance with the advice of independent consulting actuaries using the projected unit method. The latest actuarial assessment of this fund was at 31st March 1989.

In addition, the company contributes to a number of pension funds throughout the world.

The total pension cost for the company was £1.3m (1988: £1.1m) of which £0.2m (1988: £0.2m) relates to overseas funds. This is after deducting £0.5m (1988: £0.5m) in respect of the amortisation of experience surpluses that are being recognised as a level percentage of payroll over the average expected remaining service lives of employees at the date of the latest actuarial assessment of the fund.

**13. Particulars of subsidiary, associated and other companies**

| | Country of Incorporation | Principal Activity |
|---|---|---|
| **Subsidiaries** | | |
| Monument Insurance Company Limited | England | Insurance |
| Nordlyset Forsikring A/S | Denmark | Insurance |
| * Nordlyset Arbejdsskadeforsikring A/S | Denmark | Insurance |
| Yealand Properties Limited | England | Property holding |
| Provincial Insurance (Australia) Limited | Australia | Insurance |
| The Canadian Provincial Insurance Company (99.6%) | Canada | Insurance |
| Provincial Insurance Company of East Africa Limited (61.2%) | Kenya | Insurance |
| The Prosperity Insurance Company Limited (60.0%) | Hong Kong | Insurance |
| **Associated companies** | | |
| Ilios Greek Insurance Company Limited (32.9%) | Greece | Insurance |

All holdings are of ordinary shares and represent 100% of the issued share capital, except where otherwise indicated. An asterisk indicates shares held through a subsidiary.

In addition, at 31st December 1989, the company had holdings of shares in a number of subsidiaries and the company and its subsidiary companies had holdings in a number of associated companies not listed above. The company also held, at the same date, more than 10% of the issued share capital of a number of other companies. These holdings do not materially affect the results or assets stated in these accounts, and are included with investments.

**14. Directors' emoluments**

| | 1989 £ | *1988 £* |
|---|---|---|
| Fees | 2,834 | – |
| *Other emoluments, including pension contributions* | 292,947 | *309,510* |
| | 295,781 | *309,510* |
| Former directors' pensions | 10,937 | *9,557* |
| Emoluments, excluding pension contributions | | |
| Chairman | – | – |
| Highest paid director | 112,164 | *84,095* |

| Other directors by scale | 1989 No. | *1988 No.* |
|---|---|---|
| Nil–£5,000 | 3 | *3* |
| £5,001–£10,000 | 1 | *1* |
| £45,001–£50,000 | – | *1* |
| £55,001–£60,000 | – | *1* |
| £65,001–£70,000 | 1 | – |
| £70,001–£75,000 | – | *1* |
| £75,001–£80,000 | 1 | – |

**15. Particulars of transactions involving directors and others pursuant to Section 232 Companies Act 1985**

*(a) Loans*

During the year, the following transactions subsisted between the company and its directors or its holding company's directors or former directors named below.

Mr M Hart and Mr J H Maxwell each had, during 1989, interest-free loans, effected in 1981 and 1989 respectively and repayable on demand, of Can. $3,750, in connection with the purchase of shares in the subsidiary company. The Canadian Provincial Insurance Company; the sterling equivalent of each loan at 31st December 1989 was £2,008. In addition, at 1st January 1989, Mr H T W Janson had a similar loan which was repaid during 1989.

No provision has been made in respect of any failure or anticipated failure to repay either loan.

*(b) Material interests in contracts*

During the year, a number of agreements existed between member companies of the Provincial Group (principally Provincial Management Services Limited) and member companies of the Prolific Group. These agreements were made consequent upon the demerger of Prolific Financial Management PLC in May 1988 and are for the provision of administrative services relating to computing and other facilities, payroll and pension administration, share registration, property acquisitions and developments and premises administration. In addition, Prolific Asset Management Limited manages the investments of certain member companies of the Provincial Group and the Provincial Group Pension Fund under separate investment management agreements. Certain properties were leased to members of the Prolific Group by the company. During the year, two agreements relating to the provision of certain administrative services were terminated.

At 1st January 1989, a further agreement existed between the company's holding company, Provincial Group PLC, and Prolific Group plc, providing for the secondment to Prolific Group plc, on a part-time basis, of four of Provincial Group PLC's senior executives, Mr C F E Shakerley, Mr J H Maxwell, Mr P E Judkins and Mr P V Hoyle. This agreement was terminated with effect from 15th October 1989.

On 20th October 1989, as a result of an offer made on behalf of Hafnia Holding A/S of Denmark for the whole of the issued share capital of Prolific Group plc becoming unconditional in all respects, Prolific Group plc became a member of the Hafnia group of companies and ceased to be associated through common shareholdings with the company and its holding company, Provincial Group PLC.

Messrs C F E Shakerley and J H Maxwell, who are directors of the company and who were directors and shareholders of Provincial Group PLC throughout 1989, were also directors and shareholders of Prolific Group plc until 20th October 1989. In addition, until 20th October 1989, Mr Maxwell was an optionholder in Prolific Group plc. Mr P E Judkins, a director of the company and Provincial Group PLC, was also a director of Prolific Financial Management PLC until 11th April 1989 and an option-holder in Prolific Group plc until 20th October 1989. Messrs Maxwell and Judkins are also the holders of options under the Provincial Group Executive Share Option Scheme. Messrs Shakerley and Judkins are Trustees of the Provincial Group Pension Fund. Each of the above may be regarded as having had an interest, which was or might have been material, in the above agreements.

All agreements were entered into and, other than those referred to above as having been terminated, continued to operate during 1989 at arm's length on commercial terms. The aggregate amount of fees paid by Prolific Group plc and its subsidiaries to Provincial Group PLC and its subsidiaries for the whole of 1989 under the above agreements was £7,525,546 including VAT, £6,636,392 excluding VAT, and included £679,186 paid by Prolific Financial Management PLC to the company under the premises agreement mentioned above. The aggregate investment management fees paid by the company, its subsidiaries and the Provincial Group Pension Fund to Prolific Asset Management Limited for the whole of 1989 was £1,366,576 including VAT, £1,188,326 excluding VAT.

**16. Employees**

The number of employees, excluding directors, who received remuneration exceeding £30,000 was

| | 1989 No. | *1988 No.* |
|---|---|---|
| *£30,001–£35,000* | 18 | *6* |
| *£35,001–£40,000* | 14 | *4* |
| *£40,001–£45,000* | 2 | *1* |
| *£45,001–£50,000* | 1 | *–* |

**17. Particulars of transactions with officers of the company pursuant to Section 233 Companies Act 1985**

At 31st December 1989, one officer of the company had a loan from the company. The amount outstanding at 31st December 1989 was Can. $3,750 (sterling equivalent: £2,008). *At 31st December 1988, one officer of the company had a loan outstanding from the company of £16,640.*

**18. Ultimate holding company**

The company's ultimate holding company is Provincial Group PLC, incorporated in England.

The accounts on pages 8 to 18 were approved on behalf of the Board of Directors on 27th April 1990.

C. F. E. Shakerley
C F E SHAKERLEY
Chairman

M Hart
M HART
Managing Director

**To the members of**
**Provincial Insurance plc**

We have audited the accounts on pages 8 to 18 in accordance with Auditing Standards.

In our opinion the accounts have been properly prepared in accordance with the provisions of the Companies Act 1985 in the manner applicable to an insurance company.

KPMG Peat Marwick McLintock

Liverpool
30th April 1990

KPMG PEAT MARWICK McLINTOCK
Chartered Accountants

# SCAN UPON DEMAND

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