

BANKERS INSURANCE SERVICE COMPANY LIMITED

**DIRECTORS REPORT
AND FINANCIAL STATEMENTS**

31 DECEMBER 1998



BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

COMPANY INFORMATION

Directors:	M Ray T Anderson E Fruithandler D J le Fleming	(Chairman) (Managing Director) (Sales and Marketing Director) (Finance Director and Secretary)
Registered Office:	St. John's Place Easton Street High Wycombe Bucks HP11 1NL	
Registered Number:	2515130	
Auditors:	PricewaterhouseCoopers Southwark Towers 32 London Bridge Street London SE1 9SY	
Solicitors:	Lovell White Durrant 65 Holborn Viaduct London EC1A 2DY	
Bankers:	Barclays Bank Plc South Chilterns Group PO Box 41 16 High Street High Wycombe Bucks HP11 2BG	

BANKERS INSURANCE SERVICE COMPANY LIMITED
YEAR ENDED 31 DECEMBER 1998

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BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

REPORT OF THE DIRECTORS

The directors present their report and the financial statements for the year ended 31 December 1998.

REVIEW OF ACTIVITIES

The principal activity of the company is the provision of office space, personnel, office administration, accounting and computing services to other group companies.

The directors consider the current level of activity to be satisfactory and intend to continue the business at a level which is in accordance with agreements between the company and its clients.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

RESULTS AND DIVIDENDS

The results for the year ended 31 December 1998 and the state of the company's affairs at that date are shown in the attached financial statements. The retained profit of the year of £35,000 (1997: £40,000) has been taken to reserves. The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of share capital are given in note 11 to the financial statements.

FIXED ASSETS

Details of fixed assets are given in notes 6 and 7 to the financial statements.

BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS AND THEIR INTERESTS

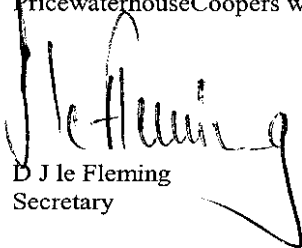
The directors set out below have held office during the whole of the period from 1 January 1998 to the date of this report unless otherwise stated.

T Anderson	
E Fruithandler	
D J le Fleming	
M Ray	(appointed 15 July 1998)
D F Strejeck	(resigned 15 July 1998)

No directors held any interest in the shares of the company throughout the period 1 January 1998 to 31 December 1998.

AUDITORS

Following the merger of Price Waterhouse and Coopers & Lybrand effected in July 1998, on 7 May 1999 Price Waterhouse formally resigned as auditors of the company. They confirmed that there were no circumstances which they felt should be brought to the attention of the company's members or creditors. On the same day PricewaterhouseCoopers were appointed to fill the casual vacancy.



D J le Fleming
Secretary

29 June 1999

BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
BANKERS INSURANCE SERVICE COMPANY LIMITED**

We have audited the financial statements on pages 5 to 15 which have been prepared in accordance with the accounting policies set out on pages 7 to 8.

Respective responsibilities of directors and auditors

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

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. 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.

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors

29 June 1999

Southwark Towers
32 London Bridge Street
London
SE1 9SY

BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

PROFIT AND LOSS ACCOUNT

	NOTES	1998 £000	1997 £000
Turnover		3,473	3,952
Administration Expenses	2	(3,438)	(3,914)
Operating Profit		35	38
Interest Receivable		-	2
Profit on ordinary activities before and after taxation		35	40
Retained profit brought forward		147	107
Retained profit carried forward		182	147

There are no recognised gains other than those included in the profit and loss account above. All amounts in the profit and loss account relate to continuing operations.

As there are no material differences between the results as described in the profit and loss account above and the results on a historic cost basis, no note of historical cost profits and losses for the year is given.

The notes on pages 7 to 15 form an integral part of these financial statements.

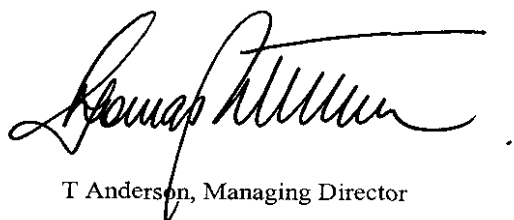
BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

BALANCE SHEET

	NOTES	1998 £000	1997 £000
FIXED ASSETS			
Land and Buildings	6	-	322
Tangible Assets	7	490	496
		<u>490</u>	<u>818</u>
CURRENT ASSETS			
Debtors	8	252	264
Cash		12	-
		<u>264</u>	<u>264</u>
CREDITORS: Amounts falling due within one year	9	(571)	(934)
NET CURRENT LIABILITIES		(307)	(670)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>183</u>	<u>148</u>
CAPITAL AND RESERVES			
Share Capital	11	1	1
Profit and Loss Account		182	147
		<u>183</u>	<u>148</u>

The financial statements on pages 5 to 15 were approved by the Board of Directors on 29 June 1999 and signed on their behalf by:



T Anderson, Managing Director

The notes on pages 7 to 15 form an integral part of these financial statements.

BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards.

a) Basis of Accounting

The financial statements are prepared under the historical cost convention.

b) Turnover

Turnover represents the amounts invoiced, excluding value added tax, in respect of supplies of services to clients. All turnover related to work carried out in the United Kingdom.

c) Investment Income

Investment income is accounted for on the accruals basis.

d) Taxation

Corporation tax is provided at the current rate of taxation on the result for the year as adjusted for items of income and expenditure which are disallowable for taxation purposes.

e) Deferred Taxation

Provision is made at the current rate of taxation to take account of timing differences which exist between the treatment of certain items for accounting purposes and their treatment for taxation purposes, except to the extent that the directors consider it reasonable to assume that such timing differences will continue in the future.

f) Land and Buildings

Land and buildings which are occupied by the company for its own activities, are carried at depreciated cost. Depreciation is provided on a straight-line basis over the estimated useful life of 50 years.

BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

g) Tangible Assets

Expenditure above a de minimis amount on office furniture, equipment, fixtures and fittings, computer hardware and computer software is capitalised.

Depreciation is provided on a straight-line basis over the estimated useful life of the asset.

Office Furniture	10 years
Office Equipment	5 years
Fixtures and Fittings	5 years
Computer Hardware and Software	3 years

h) Leasing

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

i) Pension Fund

The company operates a portable defined contribution pension scheme, the assets of which are invested in a managed fund and are completely separate from the assets and business of the company. The scheme is funded partly by its members and partly by the company at a rate established by the company. The company contributions are expensed and paid in the period in which they are incurred.

j) Cash Flow Statement

As the company is a wholly owned subsidiary, it has taken advantage of the exemption granted under Financial Reporting Standard 1 (Revised) ("Cash Flow Statements"), and a cash flow statement has not been prepared.

BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. ADMINISTRATION EXPENSES

The total administration expenses incurred were £3,438,000 (1997 : £3,914,000) and include:

	1998 £000	1997 £000
Auditors remuneration:		
Audit fees - current year	45	35
- over/(under) provision in prior year	(2)	2
Fees for non audit services	34	50
Operating lease rentals	268	199
Depreciation	292	489

The company has borne the audit fees and expenses for all companies in the UK group.

3. STAFF COSTS

	1998 £000	1997 £000
Wages and Salaries	1,512	1,308
Social Security	142	129
Pension Costs	94	90
	1,748	1,527

	1998 Number	1997 Number
The average number of persons including executive directors employed by the company during the year was as follows:		
Claims	10	8
Executive & Finance	14	12
Information Services	7	6
Marketing	9	7
Operations	16	17
	56	50

BANKERS INSURANCE SERVICE COMPANY LIMITED
YEAR ENDED 31 DECEMBER 1998

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. DIRECTORS' EMOLUMENTS

	1998 £000	1997 £000
Emoluments paid to directors	266	256
Pension contributions	14	13
Compensation for loss of office	-	34
	280	303

The emoluments of directors disclosed above include amounts attributable to the highest paid director in each year of:

	1998 £000	1997 £000
Emoluments	101	95
Pensions contributions	8	7

5. TAXATION

Taxation chargeable on profits for the year is nil (1997:nil).

The deferred tax asset not provided for in respect of timing differences, including accelerated capital allowances, amounts to £159,000 (1997: £168,000).

BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FREEHOLD LAND AND BUILDINGS

	£000
Gross Book Value	
At 1 January 1998	345
Additions for the year	-
Transferred to immediate parent company	(345)
At 31 December 1998	-
Depreciation	
At 1 January 1998	23
Charge for the year	6
Transferred to immediate parent company	(29)
At 31 December 1998	-
Net Book Value	
At 31 December 1998	-
At 31 December 1997	322

BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. TANGIBLE ASSETS

	Office Equipment	Fixtures & Fittings	Furniture	Computer Hardware & Software	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 1998	112	273	114	1,029	1,528
Additions	41	59	38	177	315
Disposals	(27)	(1)	(5)	(19)	(52)
Transferred to immediate parent company	-	-	(18)	-	(18)
At 31 December 1998	126	331	129	1,187	1,773
Depreciation					
At 1 January 1998	66	172	40	754	1,032
Charge for the year	30	53	13	196	292
Disposals	(21)	(1)	(3)	(16)	(41)
At 31 December 1998	75	224	50	934	1,283
Net Book Value					
At 31 December 1998	51	107	79	253	490
At 31 December 1997	46	101	74	275	496

8. DEBTORS

	1998 £000	1997 £000
Amounts owed by group undertakings	121	130
Other debtors	21	30
Prepayments & accrued income	110	104
	252	264

BANKERS INSURANCE SERVICE COMPANY LIMITED**YEAR ENDED 31 DECEMBER 1998****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	1998 £000	1997 £000
Bank overdraft	-	146
Amounts owed to group undertakings	42	418
Other creditors including taxation and social security	62	41
Accruals and deferred income	467	329
	571	934

10. OBLIGATIONS UNDER OPERATING LEASES

Commitments payable in the next year are as follows:

	Leases expiring within one year	Leases expiring within two to five years	Total
	£000	£000	£000
Land and Buildings	187	208	395
Other	84	83	167
	271	291	562

11. SHARE CAPITAL

The authorised, allotted, issued and fully paid share capital of the company comprises £1,000 (1997 : £1,000) in shares of £1 each.

BANKERS INSURANCE SERVICE COMPANY LIMITED**YEAR ENDED 31 DECEMBER 1998****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS**

	1998 £000	1997 £000
Profit for the financial year	35	40
Shareholders funds at beginning of year	148	108
Shareholders funds at end of year	183	148

13. PENSIONS AND SIMILAR OBLIGATIONS

The charge against profit of £94,000 (1997: £90,000) is the amount of contributions payable to the pension scheme by the company in respect of the accounting period. There are no outstanding or prepaid contributions.

14. IMMEDIATE AND ULTIMATE PARENT COMPANIES

The immediate parent company is Bankers Insurance Company Limited, which is registered in England.

The ultimate parent company is American Bankers Insurance Group Inc. ("ABIG"), which is incorporated and registered in the State of Florida in the United States of America. Consolidated accounts for ABIG can be obtained by writing to 11222 Quail Roost Drive, Miami, Florida 33157, USA.

15. RELATED PARTY TRANSACTIONS

As the company is a wholly owned subsidiary it has taken advantage of the exemption granted under Financial Reporting Standard 8 ("Related Party Transactions") whereby subsidiary undertakings do not have to disclose transactions with group companies qualifying as related parties provided that consolidated financial statements are made publicly available.

BANKERS INSURANCE SERVICE COMPANY LIMITED

YEAR ENDED 31 DECEMBER 1998

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. POTENTIAL CHANGE IN CONTROL OF THE ULTIMATE PARENT COMPANY

On March 5, 1999, ABIG entered into an agreement pursuant to which Fortis, Inc. ("Fortis") will acquire ABIG through a merger. ABIG, Fortis and Greenland Acquisition Corp. a wholly owned subsidiary of Fortis, entered into an Agreement and Plan of Merger (the "Fortis Merger Agreement") which provides that, subject to satisfaction of specified terms and conditions, including regulatory and common stockholder approval, Greenland will merge with and into ABIG. ABIG will be the surviving corporation in the Merger and will become a wholly owned subsidiary of Fortis. If the merger is consummated, holders of ABIG common stock will receive \$55.00 in cash for each share of common stock. Holders of ABIG preferred stock will receive \$109.857 in cash for each share of preferred stock unless the merger is not approved by the holders of at least 2/3 of the shares of preferred stock voting as a class or if Fortis reasonably determines that such a vote is not likely to be obtained. In such case, the preferred stock will continue to remain outstanding after the merger, pursuant to the terms and conditions as are in effect on March 5, 1999, except that the preferred stock will be convertible as provided in ABIG's Articles of Incorporation. ABIG also executed a Stock Option Agreement granting Fortis the right to purchase up to 8,406,559 shares of common stock upon the occurrence of certain events at \$55 per share. If the merger is not consummated, the total amount that Fortis may receive under the Stock Option Agreement and the Fortis Merger Agreement is limited to \$100 million plus expenses. In addition, certain stockholders have entered into a voting agreement with Fortis pursuant to which they have generally agreed to vote their shares in favour of the Fortis Merger Agreement and the merger.

17. YEAR 2000

The Company is currently working to resolve the potential impact of the year 2000 on the processing of information by the Company's insurance systems. The year 2000 problem is the result of computer programs being written using two digits (rather than four) to define the applicable year. Any of the Company's systems which have time-sensitive software may recognise a date using "00" as the year 1900 rather than 2000, which would result in miscalculations or system failures. The Company is strategically positioned to complete year 2000 system upgrades and compliance testing by 31 December 1999. Among the items included in our year 2000 strategy are centralised planning, adoption of Internal Audit's guidelines for testing, coordination of detailed test plans and test lab procedures for mainframe and distributed systems.

Based on preliminary information, costs of addressing potential year 2000 problems are not currently expected to have a material adverse impact on the Company's financial position, results of operations or cash flows in future periods. However, if the Company, its customers or vendors are unable to resolve such processing issues in a timely manner, it could result in a material financial risk. Accordingly, the Company will continue to devote the necessary resources to resolve all significant year 2000 issues in a timely manner.