

The British and European Reinsurance Company Limited

Report & Accounts 1998



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The British & European Reinsurance Company Limited

Registered in England No. 100367

Registered Office : St. Helen's, 1 Undershaft, London, EC3P 3DQ

Directors

C A C M Schrauwers

P A Found

D G MacDonald

R Newton

Secretary

CGU Company Secretarial Services Limited

Auditors

PricewaterhouseCoopers

Chartered Accountants & Registered Auditors

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Directors' report

The Directors present their annual report and audited financial statements of the Company for the year ended 31 December 1998.

Principal activity

The principal activity of the Company continued to be the transaction of long term reinsurance business.

Operations

On 2 June 1998, the Company's ultimate parent company became CGU plc, following the merger of General Accident plc with Commercial Union plc.

Prior to the cessation of general reinsurance business in 1995, the Company underwrote a number of multi-year contracts of reinsurance. Premiums and claims in respect of these contracts continue to be accounted for in the general business technical account of the Company.

New business

	1998 £'000	1997 £'000
New annual premiums	228	318
New single premiums	-	16
Balance on the technical account for long term business	4,394	(946)

The annual valuation of the liabilities and assets of the Company is made as at 31 December 1998 and the details of the valuation and distribution of profits will be provided in due course in the returns to HM Treasury.

Dividends

The directors recommend a final dividend of £1,000,000 (1997 £400,000).

Directors

The names of the present directors of the Company appear on page 1.

Mr D I W Reynolds resigned as a director on 30 September 1998 and Mr P G Ward resigned as a director on 30 November 1998.

Mr P A Found, Mr D G MacDonald and Mr R Newton were appointed as directors on 1 December 1998.

Directors' report

The beneficial interests of directors in shares of the ultimate parent company, CGU plc, are as follows:

	Ordinary shares		Ordinary shares Awarded under the Integration Incentive Plan
	At 1 January 1998 or date of appointment if later	At 31 December 1998	
C A C M Schrauwers	8,499	8,012	28,802
P A Found	8,619	8,619	16,378
D G MacDonald *	9,115	9,115	11,859
R Newton *	17,122	17,122	20,896

During the year an award of shares was granted to the directors under the Integration Incentive Plan. These shares will only vest in the year 2000 upon the satisfaction of specified performance criteria.

	At 1 January 1998 or date of appointment if later	Share options		At 31 December 1998
		Options granted during the year	Options exercised or lapsed during the year	
C A C M Schrauwers	53,891	30,759	702	83,948
P A Found	42,262	16,998	-	59,260
D G MacDonald *	31,700	12,309	-	44,009
R Newton *	103,519	21,688	-	125,207

The directors marked with an asterisk held shares in General Accident plc which were converted on 2 June 1998 in accordance with the terms of the merger offer at the rate of 1.233 CGU plc shares for every 1 General Accident plc share held. In order to show the actual movement in shareholdings during the year General Accident plc shares held at 1 January 1998 have been converted to CGU plc shares on the basis detailed above.

European Monetary Union

The Company has determined the implications of the introduction of the Euro by the UK Government. Should the UK decide to enter EMU the Company will deliver systems to support the introduction of the Euro in the most advantageous and economical way for its customers and suppliers.

A management charge in respect of administration services has been made by a fellow group undertaking, CGU Life Services Limited, which includes an element in respect of costs associated with the introduction of the Euro by the Company. It is not possible to separately identify these group costs on a company by company basis. Accordingly, the relevant notes in relation to the costs incurred and estimated total costs are included in the financial statements of CGU Life Services Limited.

Directors' report

Year 2000 compliance

The CGU group has dedicated a significant amount of resources and staff to effect a smooth transition into the next millennium. An overall project management team is responsible for co-ordinating inter-related system, vendor and agency activity.

The primary focus has been the completion of Year 2000 systems compliance plans. All CGU companies have spent the last few years assessing their systems, changing programs and testing for Year 2000 compliance. Compliance activities relating to all policy issuance systems and agency rating software for all the CGU companies was completed in 1998. System testing will continue throughout 1999 with refinements made as necessary.

Throughout 1998, all of CGU's critical business partners, facility managers, and vendors have been contacted regarding their Year 2000 compliance efforts. In instances where a survey has not been returned or concerns have been raised, we have contacted that entity directly to assess whether the year 2000 will have a significant negative impact on our business operations.

We are in the process of assessing risk exposures and their impact on our operations. Our goal is to ensure, where necessary and practical, contingency plans and strategies are in place to assist in maintaining necessary service levels.

As noted above, a management charge in respect of administration services has been made by a fellow group undertaking, CGU Life Services Limited, which includes an element in respect of costs associated with Year 2000 compliance. It is not possible to separately identify these group costs on a company by company basis. Accordingly, the relevant notes in relation to the costs incurred and estimated total costs are included in the financial statements of CGU Life Services Limited.

Creditor payment policy and practice

Under a management agreement CGU Life Services Limited, a fellow group undertaking, supplies and makes a charge for the provision of all goods and services to the Company. Accordingly, the relevant details in relation to creditor payment policy and practice are included in the directors' report of CGU Life Services Limited.

Directors' report

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 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board



For and on behalf of
CGU Company Secretarial Services Limited
Secretary

25 June 1999

Auditors' report

Report of the auditors to the members of The British & European Reinsurance Company Limited

We have audited the financial statements on pages 8 to 21 which have been prepared in accordance with the accounting policies set out on pages 13 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 6, 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

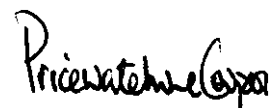
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 at 31 December 1998 and of its result for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Benson House
Wellington Street
Leeds
LS1 4JP



PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors

25 June 1999

Profit and loss account

for the year ended 31 December 1998

Technical account - general business

	Note	1998 £'000	1997 £'000
Earned premiums, net of reinsurance			
Gross premiums written	2	1,168	3,256
Outward reinsurance premiums		(1,168)	(3,256)
Net premiums written		-	-
 Change in the gross provision for unearned premiums		1,576	1,566
Change in the provision for unearned premiums, reinsurers' share		(1,576)	(1,566)
 Claims incurred, net of reinsurance			
Claims paid			
Gross amount		11,443	(21,163)
Reinsurers' share		(11,443)	21,163
 Change in the provision for claims			
Gross amount		4,036	20,150
Reinsurers' share		(4,036)	(20,150)
 Changes in other technical provisions, net of reinsurance		599	-
Net operating expenses	4	(599)	-
		-	-
 Balance on the technical account - general business		-	-

All of the above amounts derive from discontinued activities.

Profit and loss account

for the year ended 31 December 1998

Technical account - long term business

		1998 £'000	1997 £'000
	Note		
Earned premiums, net of reinsurance			
Gross premiums written	2	4,554	4,525
Outward reinsurance premiums		(1,559)	(1,824)
		<u>2,995</u>	<u>2,701</u>
Investment income	3	4,025	3,737
Unrealised gains on investments		1,623	1,861
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(4,605)	(25,485)
Reinsurers' share		726	13,058
		<u>(3,879)</u>	<u>(12,427)</u>
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount		1,373	20,683
Reinsurers' share		(98)	(10,817)
		<u>1,275</u>	<u>9,866</u>
Other technical provisions, net of reinsurance		(1,307)	(1,783)
		<u>(32)</u>	<u>8,083</u>
Net operating expenses	4	(658)	(546)
Investment expenses and charges	5	(134)	(141)
Tax attributable to long term business	7	673	(4,033)
Transfers (to)\ from the fund for future appropriations		(219)	(181)
Balance on the technical account for long term business		<u>4,394</u>	<u>(946)</u>

Profit and loss account

for the year ended 31 December 1998

Non-technical account

	Note	1998 £'000	1997 £'000
Balance on the general business technical account		-	-
Balance on the long term business technical account		4,394	(946)
Tax credit attributable to balance on the long term business technical account		1,974	(435)
		<u>6,368</u>	<u>(1,381)</u>
Investment income	3	1,056	-
Unrealised gains/(losses) on investments		205	-
		<u>7,629</u>	<u>(1,381)</u>
Operating profit on ordinary activities before tax			
Tax on profit on ordinary activities	7	(2,310)	435
Profit for the financial year after tax		<u>5,319</u>	<u>(947)</u>
Dividends proposed and paid		(1,000)	(400)
Retained profit for the financial year		<u>4,319</u>	<u>(1,346)</u>

A statement of movement in reserves can be found in note 18.

The company has no recognised gains or losses other than those included in the results above. Accordingly, a statement of recognised gains and losses is not given.

Statement of historical cost profits and losses

for the year ended 31 December 1998

There is no material difference between the results for the current year and the previous year as shown in the profit and loss account and the results on an unmodified historical cost basis. Accordingly, a note of the historical cost profits and losses for the year is not given.

Reconciliation of movements in shareholders' funds

for the year ended 31 December 1998

	Note	1998 £'000	1997 £'000
Profit for the financial year		5,319	(946)
Dividends	8	(1,000)	(400)
		<u>4,319</u>	<u>(1,346)</u>
Opening shareholders' funds		38,551	39,897
Closing shareholders' funds		<u>42,870</u>	<u>38,551</u>

Balance sheets

as at 31 December 1998

Assets

		Long term business 1998 £'000	General business and shareholders 1998 £'000	Total 1998 £'000	Total 1997 £'000
	Note				
Investments					
Other financial investments	9	39,377	7,931	47,308	46,163
Assets held to cover linked liabilities					
	10	16,178	-	16,178	14,871
Reinsurers' share of technical provisions					
Provision for unearned premiums		-	2,293	2,293	2,868
Long term business provision		13,106	-	13,106	13,204
Claims outstanding			100,432	100,432	89,741
		13,106	102,725	115,831	105,813
Debtors					
Debtors arising out of reinsurance operations	11	2,450	-	2,450	515
Other debtors	12	156	25,125	25,281	25,259
		2,606	25,125	27,731	25,774
Other assets					
Cash at bank and in hand		44	4	48	358
		44	4	48	358
Prepayments and accrued income					
Accrued interest and rent		835	56	891	1,078
Deferred acquisition costs	1	-	-	-	599
		835	56	891	1,677
Total assets		72,146	135,841	207,987	194,656

Balance sheets

as at 31 December 1998

Liabilities

		Long term business 1998 £'000	General business and shareholders 1998 £'000	Total 1998 £'000	Total 1997 £'000
	Note				
Capital and reserves					
Called up share capital	13	-	27,000	27,000	27,000
Profit and loss account	14	9,754	6,116	15,870	11,551
Shareholders' funds attributable to equity interests		9,754	33,116	42,870	38,551
Fund for future appropriations		4,711	-	4,711	4,292
Technical provisions					
Provision for unearned premiums		-	2,293	2,293	2,868
Long term business provision	22	34,553	-	34,553	35,926
Claims outstanding		-	100,432	100,432	89,741
Other technical provisions		-	-	-	599
		34,553	102,725	137,278	129,124
Technical provisions for linked liabilities		16,178	-	16,178	14,871
Provisions for other risks and charges	15	-	-	-	1,818
Creditors					
Creditors arising out of reinsurance operations	16	1,233	-	1,233	1,271
Other creditors including taxation and social security	17	5,717	-	5,717	4,719
		6,950	-	6,950	5,990
Total liabilities		72,146	135,841	207,987	194,656

The financial statements on pages 8 to 21 were approved by the Board on 25 June 1999 and were signed on its behalf by



D G MacDonald
Director

Notes to the accounts

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the provisions of section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards and comply with the revised Statement of Recommended Practice ('SORP') issued by the Association of British Insurers.

The Company has adopted a modified statutory solvency basis of accounting for long term insurance business.

Premiums

Reinsurance premiums are accounted for as they fall due for payment. General insurance business premiums reflect business incepted during the year. General insurance unearned premiums are those proportions of the premiums written in a year which relate to periods of risk in subsequent to the balance sheet date.

Claims

Claims arising from death or maturity are included in the Technical Account - Long Term Business when the insured event is notified or becomes due. Surrenders are charged in the period when payment is made and annuities are charged in the period in which each payment becomes due.

General insurance business claims incurred include all claims occurring during the year, whether reported or not. Such claims include related handling costs and any adjustments to claims outstanding from previous years. Significant delays in the notification and settlement of certain general insurance claims, particularly in respect of liability and marine business, mean that the ultimate cost of such claims cannot be known with certainty at the balance sheet date. General insurance outstanding claims and provisions are based on 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 costs.

Investment return

Investment return comprises investment income, including realised investment gains and losses and the amortisation of differences between cost and maturity value of investments carried at amortised cost, and movements in unrealised investment gains and losses, net of investment expenses and charges. Investment return on investments attributable to the long term business is reported in the technical account for long term business. Investment return on assets not directly attributable to the long term business is included in the non-technical account.

Investment income is recognised on an accruals basis. Dividend income, grossed up where appropriate by the imputed tax credit, is recognised when the related investment goes ex-dividend.

Net realised gains and losses represent the difference between the net sale proceeds of an investment and the purchase price or amortised cost. Net realised gains and losses are included within the technical account for long term business if the gain is attributable to assets in the long term business fund.

The movement in net unrealised gains and losses represents the difference between the valuation of investments at the balance sheet date and the valuation at the last balance sheet date, or purchase price if purchased during the year, after adjustment for any previously recognised unrealised gains and losses on investments disposed of in the year.

Notes to the accounts

Deferred acquisition costs

General insurance business acquisition costs, which comprise commission and other related expenses, are deferred over the period in which the related premiums are earned.

Taxation and deferred taxation

The charge for taxation for long term business is based on the result of the application of the rules for the taxation of life companies to the items included in the profit and loss account for the year. The transfer of shareholders' profit included in the non-technical account is grossed up at the effective rate of tax applicable for the period. Provision is made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future.

Investments

Investments are stated at current value except for non-linked long term business debt securities and fixed income securities which are stated at amortised cost.

Listed investments are stated at mid-market value or amortised cost. Unlisted investments are carried at directors' valuation.

Long term business provision and technical provision for linked liabilities

The long term business provision is computed annually having due regard to the actuarial principles laid down in the Insurance Companies Regulations 1994. The valuation uses a net premium method, or appropriate approximations thereto, in respect of the Company's non-linked business. Provision for linked contracts is based upon the market value of the related assets, together with an additional reserve to cover future net cash outflows.

Fund for future appropriations

The fund for future appropriations represents all funds the allocation of which between policyholders and shareholders has not been determined by the end of the financial year. Transfers between the fund for future appropriations and the technical account for long term business represent the changes in the unallocated amounts between balance sheet dates.

Foreign currencies

Transactions denominated in currencies other than sterling are translated at the exchange rate at the date of the transaction. Assets and liabilities in currencies other than sterling are translated at the year end rate of exchange ruling. The resulting exchange gains and losses are dealt with in the fund for future appropriations.

Notes to the accounts

2a Segmental analysis – general business

	Gross written premiums		Gross earned Premiums		Claims incurred	
	1998	1997	1998	1997	1998	1997
	£'000	£'000	£'000	£'000	£'000	£'000
Fire	609	165	610	177	489	344
Liability	(25)	(49)	61	479	3,206	739
Other accident	350	2,369	1,839	3,395	3,300	(1,425)
Marine	234	771	234	771	412	1,355
	<u>1,168</u>	<u>3,256</u>	<u>2,744</u>	<u>4,822</u>	<u>7,407</u>	<u>1,013</u>

Net operating expenses of £599k represent the release of deferred acquisition costs.

	1998	1997
	£'000	£'000
Premiums derived from contracts concluded in :		
United Kingdom	262	81
Other EU member states	452	664
Other countries	454	2,511
	<u>1,168</u>	<u>3,256</u>

2b Gross premiums written – long term business

Gross premiums written, which relate to reinsurance acceptances, can be analysed as follows:

	1998	1997
	£'000	£'000
Individual premiums	4,226	4,171
Premiums under group contracts	328	354
	<u>4,554</u>	<u>4,525</u>
Periodic premiums	4,641	4,664
Single premiums	(87)	(139)
	<u>4,554</u>	<u>4,525</u>
Premiums from participating contracts	4,457	4,419
Premiums from investment linked contracts	97	106
	<u>4,554</u>	<u>4,525</u>
Premiums derived from contracts concluded in :		
United Kingdom	2,611	2,970
Other EU member states	1,171	711
Other countries	772	844
	<u>4,554</u>	<u>4,525</u>

Notes to the accounts

2b Gross premiums written – long term business (continued)

Annualised new business premiums:

	Annualised periodic premiums		Single premiums	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Gross	402	456	-	20
Reinsurance	(174)	(138)	-	(4)
Net	228	318	-	16

In classifying new business premiums, the following basis of recognition has been adopted.

New recurrent single premium contracts, including DSS rebates on certain pensions, are classified as periodic where they are deemed likely to renew at or above the amount of the initial premium.

Increments under existing group pension schemes are classified as new business premiums.

Pensions vested into annuity contracts during the year are included in new annuity single premium business at the annuity purchase price.

Products substituted due to the exercise of standard contract terms are not included in the new business statistics.

Where periodic premiums are received other than annually the regular new business premiums are stated on an annualised basis.

3 Investment Income

	Technical account for long term business		Non-technical account	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Income from other investments	3,134	2,698	580	-
Net gains on the realisation of investments	891	1,039	476	-
	4,025	3,737	1,056	-

4 Net operating expenses

	Technical account for long term business		Technical account for general business	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Acquisition costs	54	84	-	-
Change in deferred acquisition costs	-	512	599	-
Administrative expenses	604	700	-	-
	658	1,296	599	-
Reinsurance commissions and profit participation	-	(750)	-	-
	658	546	599	-

Notes to the accounts

4 Net operating expenses (continued)

Under a management agreement CGU Life Services Limited, a fellow group undertaking, now supplies and makes a charge for the provision of operational assets and staff to the Company. The agreement specifies the amounts payable in respect of acquisition costs and administrative expenses. Accordingly, the relevant notes in relation to these operational assets and employees of the Company are included in the financial statements of CGU Life Services Limited.

Administrative expenses includes an amount of £20,000(1997 £20,000) in relation to the auditors' remuneration which in 1998 has been recharged by CGU Life Services Limited.

Total net commission paid to external agents included above is £290,000 (1997 £225,000).

5 Investment expenses and charges

	Technical account for long term business	
	1998	1997
	£'000	£'000
Investment management expenses, including interest	134	141

6 Directors and employees

Directors' emoluments in respect of services as directors

	1998	1997
	£'000	£'000
Aggregate emoluments in respect of services as directors	Nil	Nil

Directors' emoluments in respect of management of the Company and its subsidiaries

All directors were remunerated by Commercial Union Employment Services Limited in respect of their services to the CGU plc Group as a whole. Commercial Union Employment Services Limited made no charge to the Company in respect of these services (1997 £Nil).

Employees

Details of employees who provide services to the Company are included in the financial statements of Commercial Union Employment Services Limited and CGU Life Services Limited.

Notes to the accounts

7 Taxation

	Technical account for long term business		Non-technical account	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
UK corporation tax at 31% (1997 31.5%)	1,750	3,944	-	-
Tax attributable to UK dividends received	127	89	-	-
	1,877	4,033	-	-
Adjustments in respect of prior years	(732)	-	-	-
	1,145	4,033	-	-
Tax attributable to shareholder's profits on long term business	-	-	2,310	(435)
	1,145	4,033	2,310	(435)
Deferred taxation	(1,818)	-	-	-
	(673)	4,033	2,310	(435)

8 Dividends

	1998 £'000	1997 £'000
Dividends paid and proposed	1,000	400

9 Other financial investments

	Carrying value		Cost	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Shares and other variable-yield securities and units in unit trusts	2,383	2,194	276	2,464
Debt securities and other fixed income securities	35,344	41,493	36,732	42,625
	37,727	43,687	37,008	45,089
Deposits with credit institutions	1,650	1,250	1,650	1,250
Deposits with ceding undertakings	-	1,226	-	1,417
	39,377	46,163	38,658	47,756

Notes to the accounts

9 Other financial investments (continued)

Listed investments

Included in the values above are listed investments as follows

	1998 £'000	1997 £'000
Shares and other variable-yield securities and units in unit trusts	983	2,194
Debt securities and other fixed income securities	34,356	34,256
	<u>35,339</u>	<u>36,450</u>

Debt securities and other fixed income security shown at amortised cost are analysed

	1998 £'000	1997 £'000
Cost	36,732	35,679
Cumulative amortisation	(1,388)	(1,132)
Amortised cost	<u>35,344</u>	<u>34,547</u>
Market value	<u>40,432</u>	<u>36,634</u>

The redemption value of the above investments was £3.3m (1997 £2.9m) less than cost.

10 Assets held to cover linked liabilities

	1998 £'000	1997 £'000
Carrying value	<u>16,178</u>	<u>14,871</u>
Purchase price	<u>2,061</u>	<u>2,061</u>

11 Debtors arising out of reinsurance operations

	1998 £'000	1997 £'000
Group	480	29
Other	1,970	486
	<u>2,450</u>	<u>515</u>

12 Other debtors

	1998 £'000	1997 £'000
Amounts owed by group undertakings	<u>25,281</u>	<u>25,259</u>

Notes to the accounts

13 Share capital

	1998 £'000	1997 £'000
<i>Authorised:</i>		
27,000,000 ordinary shares of £1 each	27,000	27,000
<i>Allotted, called up and fully paid:</i>		
27,000,000 ordinary shares of £1 each	27,000	27,000

14 Reserves

	Profit and loss account	
	1998 £'000	1997 £'000
Balance at 1 January	11,551	12,897
Movement in the financial year	4,319	(1,346)
Balance at 31 December	15,870	11,551

The amounts available for distribution are restricted by the Insurance Companies Act 1982 in respect of long term business. Of the profit and loss reserve balance £1.0 m is not regarded as realised profits available to pay dividends.

15 Provisions for other risks and charges

	Deferred taxation £'000
Balance at 1 January 1998	1,818
Movement in the year	(1,818)
Balance at 31 December 1998	-

Deferred taxation relating to the revaluation of investments in policyholder funds has been taken into account in the calculation of technical provisions.

16 Creditors arising out of reinsurance operations

	1998 £'000	1997 £'000
Group	134	498
Other	1,099	773
	1,233	1,271

Notes to the accounts

17 Other creditors including taxation and social security

	1998 £'000	1997 £'000
Corporation tax payable	4,063	4,197
Proposed ordinary dividend	1,000	400
Amounts owed to group undertakings	109	8
Other creditors	545	114
	<u>5,717</u>	<u>4,719</u>

18 Cash flow statements

The Company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of CGU plc whose consolidated accounts are publicly available.

19 Related party transactions

Advantage has been taken of the exemption provided within Financial Reporting Standard No.8, Related Party Disclosures, not to disclose intra-group related party transactions in respect of 90% subsidiaries. There were no material related party transactions in respect of Directors.

20 Long term fund

At 31 December 1998, the total amount of assets representing the long term fund of the Company valued in accordance with Schedule 1 to the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 was £55.4m (1997 £55.1m).

21 Parent companies details

The immediate parent company is Commercial Union Assurance Company plc.

The smallest group of undertakings, of which the Company is a member, that prepares group accounts, is headed by Commercial Union Assurance Company plc. Its group accounts are available to the public, on payment of the appropriate fee, from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The ultimate parent company is CGU plc. Its group accounts are available on application to the Group Company Secretary, CGU plc, St. Helen's, 1 Undershaft, London EC3P 3DQ

22 Technical provisions assumptions

The principle assumptions used to calculate the long term business provisions are as follows:

	Interest rate %	Mortality tables used
Assurances - Life	5	A67/70, plus further allowances for AIDS
- Pensions	5	A67/70, plus further allowances for AIDS

The assumptions used to determine the provision for Permanent Health business are based on the experience of appropriate direct insurers.