

**SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

**Company Number: SC 1054**

**REPORT AND ACCOUNTS**

**For Year Ended 31 December 1999**

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# **SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

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# **SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

## **DIRECTORS REPORT**

The directors submit their report and accounts for Scottish Boiler & General Insurance Company Limited for the year ended 31 December 1999.

### **Principal activities**

The principal activity of the Company during the year continued to be the transaction of insurance of all types of engineering plant and machinery. The directors consider that the Company's activities will continue unchanged in the foreseeable future.

### **Results and dividend**

The results for the year are shown on pages 9 and 10. The directors recommend a dividend of £9,000,000 for the year (1998 Nil).

### **Directors**

The directors in office during the year were:

Mr P A Found

Mr D G MacDonald

Mr R Newton

Drs C A C M Schrauwers

### **Directors' interests**

The directors of the Company who held office at 31 December 1999 had the following interests in the shares of CGU plc:

#### **Ordinary shares of 25p each**

	At 1 January 1999		Options granted during the year	Options exercised during the year	31 December 1999	
	Shares	Share Options			Shares	Share Options
P A Found	8,619	59,260	18,480	-	10,816	77,740
D G MacDonald	9,115	44,009	13,846	817	10,641	57,038
R Newton	17,122	125,207	24,258	408	9,744	149,057
C A C M Schrauwers	8,012	83,948	31,411	-	11,605	115,359

## **SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

### **DIRECTORS REPORT (Continued)**

On 2 September 1998, Mr Found, Mr MacDonald, Mr Newton and Drs Schrauwers were granted restricted awards over 16,378, 11,859, 20,896 and 28,802 CGU shares respectively under the CGU plc Integration Incentive Plan. Awards under the Plan become capable of vesting in the year 2000, depending upon the achievement of specified performance criteria.

At 31 December 1999, Drs C A C M Schrauwers also held nil cost options over 21,866 shares under the Commercial Union Long Term Incentive Plan, this has been discontinued and all awards have now either vested or lapsed.

Two of the directors exercised share options in relation to shares in CGU plc during the year..

On 8 July 1999 Mr Found, Mr MacDonald, Mr Newton and Drs Schrauwers were granted awards over 1,440, 1,400, 2,468 and 1,132 shares respectively under the CGU plc Deferred Bonus Plan.

Save as disclosed above, none of the directors who held office at 31 December 1999 had any beneficial interests in the Company's shares or the shares of any other company within the CGU Group.

### **Financial Reporting Standard 8 'Related Party Disclosures' (FRS8)**

There have been no transactions in the normal course of business with directors and other officers during the year other than those disclosed below.

As consolidated financial statements of CGU plc are publicly available, the Company has taken advantage of the exemption from the requirement to disclose transactions with related parties the voting rights in which are controlled by companies within the CGNU Group.

### **Year 2000 and Euro**

The CGU Group, of which the Company is a member, benefited from the substantial time and effort incurred in preparing for the impact of year 2000 issues and as a consequence suffered no significant problems. Total costs incurred by the CGU Group in preparing for year 2000 amounted to £135m of which £41m was included in the 1999 results.

Year 2000 claims from policyholders are expected to have an insignificant impact on the CGNU Group's underwriting results. There is no impact on the Company's result.

The CGNU Group's businesses in the euro zone are continuing to work actively for the final conversion. Costs incurred by the CGU Group to date for the introduction of the euro amount to £35m, of which £15m has been included in the 1999 results.

### **Auditors**

On 20 April 1999 PricewaterhouseCoopers were appointed auditors of the company, which was previously audited by KPMG Audit plc.

An elective resolution was passed by the shareholders of the company pursuant to Section 386 of the Companies Act 1985 to dispense with the obligation to appoint auditors annually. PricewaterhouseCoopers has signified their willingness to continue in office.

**SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

**DIRECTORS REPORT (Continued)**

**Creditor payment policy and practice**

It is the Company's policy to pay creditors when they fall due for payment. Terms of payment are settled with suppliers when agreeing the terms of each transaction and it is the policy to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

The number of days purchases represented by the amounts due to trade creditors of the Company at 31 December 1999, calculated in accordance with the provisions of Schedule 7 of the Companies Act 1985, was 24 (1998: 23 days).

Approved and signed on behalf of the Board on 10 AUGUST 2000



Authorised Signatory  
CGNU Company Secretarial Services Limited  
Secretary

Registered Office: Pitheavlis, Perth PH2 0NH

## **SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are required to ensure that accounts are prepared for each accounting period which comply with the relevant provisions of the Companies Act 1985, and which give a true and fair view of the state of affairs of the Company as at the end of the accounting period and of the profit or loss of that period. Suitable accounting policies have to be used and applied consistently in preparing financial statements, using reasonable and prudent judgements and estimates, on the going concern basis unless it is inappropriate to presume that the Company will continue in business. Applicable accounting standards also have to be followed, with any material departures being disclosed and explained.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and for ensuring controls are in place for the prevention and detection of fraud and other irregularities.

## **SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

### **AUDITORS REPORT TO THE MEMBERS OF THE SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

We have audited the financial statements on pages 9 to 19 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. As described on page 6, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom 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 United Kingdom 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.

#### **Basis of audit 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.

#### **Equalisation reserves**

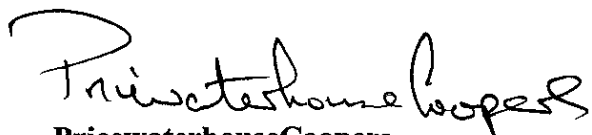
Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 1999 and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in notes on page 14.

**SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

**AUDITORS REPORT TO THE MEMBERS OF THE SCOTTISH BOILER & GENERAL  
INSURANCE COMPANY LIMITED (Continued)**

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**

**Chartered Accountants and Registered Auditors**

**Edinburgh**

**10.07.2000**



# SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED

## Profit and loss account: technical account For the year ended 31 December 1999

		1999		1998	
	Note	£'000	£'000	£'000	£'000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	1		10,387		12,606
Outward reinsurance premiums			(153)		(730)
			10,234		11,876
Change in the gross provision for unearned premiums			721		190
			10,955		12,066
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount		(4,900)		(5,619)	
Reinsurers' share		-		68	
		(4,900)		(5,551)	
Change in the provision for claims					
Gross amount		(104)		859	
Reinsurers' share		-		(71)	
		(104)	(5,004)	788	(4,763)
Claims equalisation reserve movement			(307)		(356)
Net operating expenses	2		(3,564)		(4,531)
			(8,875)		(9,650)
General business underwriting result before equalisation reserve		2,387		2,772	
Change in equalisation provision		(307)		(356)	
<b>Balance on the technical account for general business transferred to the non-technical account</b>			<u>2,080</u>		<u>2,416</u>

# SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED

**Profit and loss account:non-technical account**  
**For the year ended 31 December 1999**

		1999		1998	
	Note	£'000	£'000	£'000	£'000
<b>Balance on general business technical account</b>			2,080		2,416
Investment income	3	1,489		2,032	
Unrealised (losses)/gains on investments	3	(334)		373	
Investment expenses and charges	3	(918)		(9)	
			237		2,396
<b>Profit on ordinary activities before taxation</b>	4		2,317		4,812
Taxation on profit on ordinary activities	6		(547)		(1,766)
<b>Profit on ordinary activities after tax and for the financial year</b>			1,770		3,046
Dividend - Equity			(9,000)		-
<b>(Loss)/retained profit for the financial year</b>			(7,230)		3,046

All activities of the company are continuing.

The Company has no recognised gains and losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented.

# SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED

## Balance Sheet

As at 31 December 1999

ASSETS	Note	1999		1998	
		£'000	£'000	£'000	£'000
<b>Investments</b>					
Other financial investments	7		20,125		20,204
<b>Reinsurers' share of technical provisions</b>					
Claims outstanding			253		253
<b>Debtors</b>					
Amounts due from other group companies		7,889		7,535	
Other debtors including taxation		<u>5</u>		<u>-</u>	
			7,894		7,535
<b>Prepayments and accrued income</b>					
Accrued interest		520		120	
Deferred acquisition costs		<u>1,319</u>		<u>1,463</u>	
			1,839		1,583
<b>Total assets</b>			<u>30,111</u>		<u>29,575</u>

# SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED

## Balance Sheet (continued)

As at 31 December 1999

LIABILITIES	Note	1999		1998	
		£'000	£'000	£'000	£'000
<b>Capital and reserves</b>					
Called up share capital	8		1,500		1,500
Share premium account	9		50		50
Profit and loss account	9		<u>7,434</u>		<u>14,664</u>
Shareholders' funds attributable to equity interests			8,984		16,214
<b>Technical provisions</b>					
Provision for unearned premiums			6,596		7,317
Claims outstanding			3,296		3,192
Claims equalisation reserve			<u>1,423</u>		<u>1,116</u>
			11,315		11,625
<b>Creditors</b>					
Dividends owed to group companies			9,000		-
Other creditors including taxation and social security	10		<u>812</u>		<u>1,736</u>
			9,812		1,736
<b>Total liabilities</b>			<u>30,111</u>		<u>29,575</u>

These financial statements were approved by the board of directors on 10 AUGUST 2000.  
Signed on behalf of the board by:

*P.A. Founo*

P. A. FOUNO  
Director

# **SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

## **ACCOUNTING POLICIES**

### **Basis of preparation**

These accounts have been prepared in accordance with section 255 of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, and the Statement of Recommended Practice (SORP) issued by the Association of British Insurers in January 1999.

The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 1999 as considered appropriate for an insurance company.

### **Premiums**

Premiums written, which are stated gross of commission and are exclusive of taxes and duties levied therewith, are accounted for in the year in which the risk commences or, if earlier, the date on which the premium is due.

The provisions for unearned premiums have been calculated on a monthly pro-rata fraction.

### **Deferred acquisition costs**

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs comprise the costs of acquiring insurance policies which are incurred during a financial year but which relate to a subsequent financial year. This deferral is commensurate with the unearned premium provision.

### **Claims**

Provisions for notified claims as at 31 December each year are based on case estimates after taking into account handling costs, salvage and subrogation recoveries, anticipated inflation and trends in settlements. Provision is also made in respect of claims incurred but not reported at 31 December based on statistical methods.

Provisions for claims are based upon information available at the balance sheet date. Subsequent information and events may show that the ultimate liability is less than, or in excess of, the amount provided. The methods used and estimates made are continually reviewed and resulting adjustments are reflected in the underwriting result in the financial year in which they are made.

# **SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

## **ACCOUNTING POLICIES (continued)**

### **Equalisation reserve**

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves ) Regulations 1995. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of increasing shareholders' funds by £214,000 net of taxation (1998: £246,000 decrease). The movement in equalisation provisions during the year resulted in an increase in the general business technical account result and the profit before taxation of £307,000 (1998: decrease of £356,000).

Broadly, equalisation provisions are built up in good underwriting periods and drawn down in poorer underwriting periods. The movement in equalisation provisions is excluded from 'operating profit' and the non-technical profit and loss account in order to better reflect the actual underlying financial performance during the year.

### **Investment income**

*Investment income comprises interest receivable for the year, together with realised investment gains and losses. Realised investment gains and losses represent the difference between the net sale proceeds and the cost of acquisition. Unrealised investment gains or losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year.*

### **Taxation**

The taxation charge or credit in the non-technical account is based on the taxable profits for the year. Taxation, including tax relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves. Provision is only made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future.

### **Investments**

Investments are stated at their current value at the end of the year. Current values, for this purpose, comprise stock exchange mid-market values for listed securities.

# SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

### 1) Segmental analysis

#### a. Analysis of direct insurance and reinsurance acceptances

	1999	1998
	£'000	£'000
Premiums written - UK	<u>10,387</u>	<u>12,606</u>

#### b. Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance

	1999	1999	1999	1999	1999
	Gross	Gross	Gross claims	Gross	Reinsurance
	premiums	Premiums	incurred	operating	balance
	written	earned		expenses	
	£'000	£'000	£'000	£'000	£'000

#### Direct Insurance:

#### Fire and other damage to property

10,387	11,108	5,004	3,570	(147)
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	1998	1998	1998	1998	1998
	Gross	Gross	Gross claims	Gross	Reinsurance
	premiums	Premiums	incurred	operating	balance
	written	earned		expenses	
	£'000	£'000	£'000	£'000	£'000

#### Direct Insurance:

#### Fire and other damage to property

12,606	12,796	4,760	4,546	(718)
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# SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 2) Net operating expenses

Technical account	1999 £'000	1998 £'000
Acquisition costs		
Gross commission	2,178	2,434
Others	124	217
	<u>2,302</u>	<u>2,651</u>
Change in deferred acquisition costs	144	38
Administrative expenses	1,124	1,857
Reinsurance commission and profit participation	(6)	(15)
	<u>3,564</u>	<u>4,531</u>

### 3) Investment Return

	1999 £'000	1998 £'000
<b>Investment Income</b>		
Income from other investments	1,489	2,032
	<u>1,489</u>	<u>2,032</u>
<b>Investment Expenses and Charges</b>		
Investment management expenses	(24)	(9)
Losses on realisation of investments	(894)	-
	<u>(918)</u>	<u>(9)</u>
Unrealised (losses)/gains on investments	(334)	373
	<u>237</u>	<u>2,396</u>
<b>Total Investment Return</b>	<u>237</u>	<u>2,396</u>

### 4) Profit on ordinary activities before tax

	1999 £'000	1998 £'000
Profit on ordinary activities before tax is stated after charging:		
Audit fees	<u>2</u>	<u>2</u>



# SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 5)(a) Employee Information

There are no direct employees in the company. Staff costs of £779,000 (1998 - £ 787,000) were recharged to the company by the parent company.

### (b) Directors' Emoluments

None of the directors received emoluments from the Company during 1999 ( 1998 - £nil).

### 6) Taxation

The charges in respect of UK corporation tax, income taxes and overseas taxes, and based on the results of the year, are made up as follows:

	1999	1998
	£'000	£'000
UK Corporation tax at 30.25% (1998: 31%)	(694)	(1,487)
Adjustments in respect of prior years	147	(279)
Per profit and loss account	<u>(547)</u>	<u>(1,766)</u>

The tax credit on unrealised losses on gilts and bonds has been charged to the Profit & Loss account through corporation tax.

### 7) Investments

#### Investments by Principal Category:

	1999	1998
	£'000	£'000
At market value		
<b>Other Financial Investments</b>		
Debt securities and other fixed income securities	<u>20,125</u>	<u>20,204</u>

The purchase price of other financial investments is £20,510,000. (1998: £20,255,000).  
All investments are listed.

# SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 8) Share Capital

	1999 £'000	1998 £'000
Authorised:		
1,500,000 (1998:1,500,000) Ordinary shares of £1.00 each	<u>1,500</u>	<u>1,500</u>
Allotted, issued and fully paid:		
1,500,000 (1998:1,500,000) Ordinary shares of £1.00 each	<u>1,500</u>	<u>1,500</u>

### 9) Reserves

	Share Premium Account £'000	Profit & Loss Account £'000	Total £'000
At 1 January 1999	50	14,664	14,714
Transfer from profit and loss account:non-technical account	-	(7,230)	(7,230)
At 31 December 1999	<u>50</u>	<u>7,434</u>	<u>7,484</u>

### 10) Other Creditors including Taxation and Social Security

	1999 £'000	1998 £'000
Reserve for taxation payable	695	1,631
Commission payable	<u>117</u>	<u>105</u>
	<u>812</u>	<u>1,736</u>

### 11) Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
Profit for the financial year as previously reported	1,770	3,046
Dividend-Equity	<u>(9,000)</u>	<u>-</u>
Movement in shareholders' funds	<u>(7,230)</u>	<u>3,046</u>
Opening shareholders' funds	<u>16,214</u>	<u>13,168</u>
Closing shareholders' funds	<u>8,984</u>	<u>16,214</u>

## **SCOTTISH BOILER & GENERAL INSURANCE COMPANY LIMITED**

### **NOTES TO THE ACCOUNTS (continued)**

#### **12) Cash Flow Statement**

As the Company is wholly owned within the CGNU Group, the cash flows of the Company are included in the consolidated group cash flow statement of CGU plc. Consequently, the Company is exempt under the terms of Financial Reporting Standard 1 (Revised 1996) from publishing a cash flow statement.

#### **13) Ultimate Holding Company**

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

#### **14) Mutual Guarantee**

With the approval of the Department of Trade and Industry now HM Treasury Insurance Directorate, CGU Insurance p.l.c. and each of its UK insurance subsidiaries transacting general insurance business, of which Scottish Boiler Limited is one, have mutually guaranteed to discharge all liabilities attaching to their respective policies.

#### **15) Post Balance Sheet Event**

On 21 February 2000, the board of CGU plc announced the intended disposal of its United States general insurance business. On 30 May 2000, CGU plc, the ultimate holding company, merged with Norwich Union plc and was renamed CGNU plc.