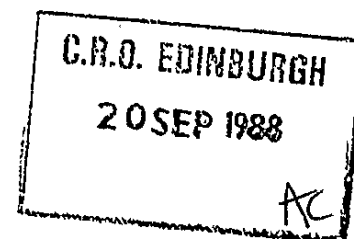


SC11476

1987

**NORTH BRITISH AND MERCANTILE INSURANCE COMPANY
LIMITED**

**ANNUAL
REPORT AND ACCOUNTS**



The directors submit their Report and Accounts of the Company for the year ended 31 December 1987, prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies. The Annual General Meeting of the Company will be held on 29 March 1988.

Activities

The Company carries on the business of fire and accident insurance.

Results

The profit attributable to shareholders for 1987, before movement in reserves, was £131,000 (1986 £258,000). An amount of £2,000 has been transferred to Retained Profits and Reserves from the Profit and Loss Account (1986 £21,000 was transferred from Retained Profits and Reserves).

Dividend

The directors, having declared an interim ordinary dividend of £80,000 (1986 £230,000), do not recommend the payment of any further ordinary dividend for the year. In addition a preference dividend of £49,000 (1986 £49,000) was paid during the year.

Directors

The names of the directors at the date of this report are:

L W Hammick (Chairman)
G T Spratt
J H Webb

The only changes in the composition of the Board which has taken place since 1 January 1987 is as follows:-

Mr J Linbourn resigned as a director on 31 January 1987.

Actuary

J H Webb, FIA.

Directors' Interests

None of the directors has an interest in the shares of the Company or its fellow subsidiaries.

Those interests of the directors and of their families in the shares of the ultimate holding company, Commercial Union Assurance Company plc, that require disclosure under Schedule 7 paragraph 2 of the Companies Act 1985 are set out as below:-

	Ordinary Shares of 25p each		or	
	31 December 1987	1 January 1987	Date of Appointment	
	Share- holdings	Share Options	Share- holdings	Share Options
G T Spratt	2,602	18,541	1,809	—
J H Webb	13,817	21,725	13,780	3,184

Share Options relate to options to subscribe for shares made under the Commercial Union Assurance Company plc's 1986 Savings Related Share Option Scheme and the 1987 Executive Share Option Scheme.

The share holdings of Mr. J. H. Webb include 5,783 5% paid shares, issued in connection with shares allotted under the 1970 Executive Share Scheme.

Reappointment of auditors

It will be proposed at the Annual General Meeting that the retiring Auditors, Coopers & Lybrand, be reappointed as Auditors to the Company to hold office for the period prescribed by section 384(1) of the Companies Act 1985 and that the directors be authorised to fix the amount of their remuneration.

29 March 1988
St. Helen's,
1 Undershaft,
London EC3P 3DQ

By Order of the Board
G T SPRATT
Secretary

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1987

	Note	1987 £'000	1986 £'000
Investment income	1 (f)	418	399
Underwriting result	1 (a) & 2	(76)	(198)
Operating profit before taxation		342	201
Taxation	1 (i) & 3(a)	(139)	(79)
Operating profit after taxation		203	122
Realised investment gains/(losses)	1 (a) & 3(a)	(72)	136
Profit attributable to shareholders		131	258
Dividends			
Preference dividend	(49)	(49)	(279)
Interim dividend	(80)	(129)	(230)
Reserve transfer		2	(21)

MOVEMENTS IN RESERVES

FOR THE YEAR ENDED 31 DECEMBER 1987

	Note	1987 £'000	1986 £'000
Retained profits and reserves			
Balance at 1 January		754	775
Profit and loss account transfer		2	(21)
Balance at 31 December		756	754
Unrealised gains on investments	1 (a)		
Balance at 1 January		12,041	9,051
Securities		138	103
Property		12,179	9,154
Movement during year net of transfers			
Securities	(7,425)	2,990	
Property	53	35	
		(7,372)	3,025
Balance at 31 December			
Securities	4,616	12,041	
Property	191	138	
		4,807	12,179

BALANCE SHEET

AT 31 DECEMBER 1987

	Note	1987 £'000	1986 £'000
Share capital authorised:			
12,000,000 ordinary shares of 25p each		3,000	3,000
£3,000,000 4% Preference stock (now 2.8% plus tax credit)		3,000	3,000
		<u>6,000</u>	<u>6,000</u>
Share capital issued:			
11,000,000 ordinary shares of 25p each, fully paid		2,750	2,750
£1,750,000 4% Preference stock (now 2.8% plus tax credit)		1,750	1,750
		<u>4,500</u>	<u>4,500</u>
Retained profits and reserves	1(a)	756	754
Unrealised gains on investments after taxation	1(a)	4,807	12,179
Shareholders' funds		<u>10,063</u>	<u>17,433</u>
Represented by:			
Investments	1(h)		
Government securities		1,659	1,329
Debentures		271	327
Preference shares		108	95
Ordinary shares		7,266	14,234
Cash deposits		294	500
Property		338	267
Mortgages and loans		555	509
		<u>10,491</u>	<u>17,261</u>
Other assets			
Holding company		2,711	2,902
Agents and companies		1,362	1,580
Fixed assets	1(g)	99	76
Bank balances		69	30
		<u>4,241</u>	<u>4,588</u>
Total assets		<u>14,732</u>	<u>21,849</u>
Less:			
Liabilities and provisions			
Underwriting			
Outstanding claims	1(d)	2,604	2,352
Unearned premiums	1(b), 1(c) & 4	1,307	1,158
		<u>3,911</u>	<u>3,510</u>
		10,821	18,339
Other			
Bank overdrafts	7	63	61
Agents and companies		447	414
Preference dividend		25	25
Interim dividend		80	230
Deferred taxation	1(i) & 3(b)	143	176
		<u>758</u>	<u>906</u>
		<u>10,063</u>	<u>17,433</u>

SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1987

	1987 £'000	1986 £'000
Source of funds		
Operating profit before taxation	342	201
Realised investment gains, before taxation	(139)	240
Adjustments for:		
Increase in underwriting liabilities and provisions	401	624
Decrease in holding company balance	191	701
Tax liability assumed by holding company	(79)	(170)
Decrease/(increase) in agents and other balance	228	(383)
Total funds generated	<u>944</u>	<u>1,213</u>
Application of funds		
Dividend paid	279	89
Increase/(decrease) in invested funds at cost:		
Government securities	260	535
Debentures	(68)	126
Preference shares	3	(33)
Ordinary shares	581	621
Cash deposits	(205)	(121)
Property	11	3
Mortgages and loans	46	35
Increase/(decrease) in bank balances	<u>37</u>	<u>(42)</u>
Total funds applied	<u>944</u>	<u>1,213</u>

The above figures include currency movements between the rates of exchange prevailing at 31 December 1986 and those at the end of 1987.

NOTES ON THE ACCOUNTS

1. Accounting policies

(a) Basis of results

These accounts have been prepared in accordance with section 253 of and schedule 9 to the Companies Act 1985. The accounting policies adopted continue to reflect United Kingdom statements of standard accounting practice as considered appropriate for an insurance company.

The profit and loss account reflects all income and expenditure other than items charged to provisions set up in earlier years, and the following items:

- (i) unrealised gains and losses on investments which continue to be taken directly to reserves after taxation;
- (ii) gains and losses on movements in rates of exchange, which are charged/credited to the retained profits and reserves of the ultimate holding company.

Underwriting results are determined after taking account, inter alia, of unearned premiums, deferred acquisition costs and outstanding claims. Premiums and claims are stated after payments or recoveries in respect of outward reinsurance.

(h) Unearned premiums

Unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on either the daily or monthly pro-rata basis.

(c) Deferred acquisition costs

Deferred acquisition costs, which have been deducted from unearned premiums in the balance sheet, represent a proportion of commission and other acquisition costs. The deferral of such acquisition costs is limited, where appropriate, on a formula basis by reference to present and expected underwriting and investment income experience, so that irrecoverable costs are not carried forward.

(d) Outstanding claims

Provision is made for the estimated cost of all claims incurred but not settled at the date of the balance sheet, whether reported or not, together with the related administrative expenses.

(e) Pension costs

The ultimate holding company operates defined benefit pension schemes covering the majority of employees. Contributions are made on a going concern basis as recommended by the company actuary. The pension schemes are fully funded on a discontinuance actuarial valuation basis.

(f) Investment income

Investment income comprises interest, dividends and rents receivable for the year, after adding back any related tax credit. Expenses incurred in the management of investments are deducted from investment income. No depreciation charge is made in respect of properties.

(g) Fixed assets

Fixed assets, including motor cars and computer hardware equipment, are capitalised and depreciated over the estimated length of their useful lives. The depreciation charge for the year is included in expenses.

(h) Investments

Investments are stated at their market values at the end of the year, which comprise for this purpose stock exchange values for listed securities, directors' valuations for unlisted securities and redemption values for mortgages and loans. Properties, other than those held as trading assets, are valued by the directors at open market value whilst properties held as trading assets are included at the lower of cost or directors' valuation.

(i) Taxation

The taxation charge in the profit and loss account is based on the taxable profits for the year and the current UK Corporation Tax liability has been transferred to the ultimate holding company. Provision is made for deferred taxation where it is expected that a liability will crystallise.

No amount is provided where a liability or relief is not expected to arise and where timing differences are of a continuing nature.

(j) Exchange rates

Assets, liabilities and revenue transactions in non-sterling currencies are translated into sterling at the relevant rates of exchange ruling at 31 December.

NOTES ON THE ACCOUNTS (Continued)

2. Underwriting Result

The analysis of the underwriting result is:

	Note	1987 £'000	1986 £'000
Premiums written		3,532	3,122
Transfer to unearned premiums.	1(b)	(202)	(260)
		<u>3,330</u>	<u>2,862</u>
Claims incurred	1(d)	(2,346)	(2,102)
Commission and expenses		(1,093)	(1,004)
Transfer to deferred acquisition costs	1(c) & 4	33	46
		<u>(3,406)</u>	<u>(3,060)</u>
Underwriting result		<u>(76)</u>	<u>(198)</u>

3. Taxation

(a) Taxation, amounting to £72,000 (1986 £183,000) charged in the profit and loss account is made up as follows:

	1987 £'000	1986 £'000
UK corporation tax at 35.00% (1986 36.25%) based on profits for the year	57	170
Income tax attributable to UK dividends received	15	13
	<u>72</u>	<u>183</u>
Charged to operating result	139	79
Charged/(credited) to realised investment gains	(67)	104
	<u>72</u>	<u>183</u>

(b) The provision for deferred taxation in the balance sheet is made up as follows:

	1987 £'000	1986 £'000
Unrealised gains on investments	115	141
Timing differences	28	35
	<u>143</u>	<u>176</u>

(c) The potential amount of deferred taxation, or relief from taxation, not expected to become a liability in the foreseeable future, for which provision has not been made is:

	1987 £'000	1986 £'000
Unrealised gains on investments	1,427	3,494
Timing differences	(16)	(14)
	<u>1,411</u>	<u>3,480</u>

4. Unearned premiums and deferred acquisition costs

Deferred acquisition costs of £429,000 (1986 £406,000) have been deducted from unearned premiums in the balance sheet.

5. Directors' emoluments

Directors' emoluments amounted to £Nil (1986 £Nil).

NOTES ON THE ACCOUNTS (Continued)

6. **Auditors' remuneration**
Auditors' remuneration is charged in the accounts of the ultimate holding company.
7. **Bank overdrafts**
Bank overdrafts arise from unpresented cheques.
8. **Ultimate Holding Company**
The ultimate holding company is Commercial Union Assurance plc (Incorporated in England).

Approved by the Board on 29 March 1988

L. W. HAMMICK
Director

G. T. SPRATT
Director

G. T. SPRATT
Secretary

London

**REPORT OF THE AUDITORS
TO THE MEMBERS OF THE NORTH BRITISH AND MERCANTILE INSURANCE COMPANY LIMITED**

We have audited the accounts on pages 3 to 8 in accordance with approved Auditing Standards.
In our opinion the accounts comply with the provisions of the Companies Act 1985 applicable to insurance companies.

COOPERS & LYBRAND
Chartered Accountants
London, 29 March 1988