

Company number : 11476

North British and Mercantile Insurance Company Limited

Accounts for the year ended 31 December 2000

6



SCT SLRSQ1H4 0256
COMPANIES HOUSE 13/06/01

North British and Mercantile Insurance Company Limited

Accounts for the year ended 31 December 2000

Contents

Page

| | |
|----|---|
| 2 | Directors and officers |
| 3 | Directors' report |
| 6 | Directors' responsibility for the accounts |
| 6 | Auditors' report |
| 7 | Profit and loss account - technical account |
| 8 | Profit and loss account - non-technical account |
| 9 | Balance sheet |
| 10 | Notes to the accounts |

North British and Mercantile Insurance Company Limited

Directors and officers

Directors

| | |
|--------------------|--|
| M N Biggs | (appointed 14 November 2000, resigned 31 March 2001) |
| P A Found | (resigned 14 November 2000) |
| M Hodges | (appointed 31 March 2001) |
| D G MacDonald | (resigned 14 November 2000) |
| I M Mayer | (appointed 14 November 2000, resigned 31 March 2001) |
| B McIntyre | (appointed 31 March 2001) |
| R Newton | (resigned 14 November 2000) |
| C A C M Schrauwers | (resigned 14 November 2000) |
| P J Snowball | (appointed 14 November 2000) |

Secretary

CGNU Company Secretarial Services Limited

Auditors

PricewaterhouseCoopers

Registered office

81 George Street
Edinburgh
EH2 3ES

Registered in Scotland No 11476

North British and Mercantile Insurance Company Limited

Directors' report

The directors present their report and accounts for the Company for the year ended 31 December 2000.

Principal activity

The principal activity of the Company continued to comprise the transaction of general insurance business. All such business is reinsured to CGU International Insurance plc. 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 7 and 8. The directors recommend a dividend of £8 million (1999: £nil).

Directors' interests

The directors of the Company who held office at 31 December 2000 had the following interests in the shares of CGNU plc:

Ordinary Shares of 25p each

| | At 1 January 2000 (or appointment if later) | | | | At 31 December 2000 | |
|---------------|--|---------------|-----------------------------|-------------------------------|---------------------|---------------|
| | Shares | Share options | Options granted during year | Options exercised during year | Shares | Share options |
| M N Biggs* | 20,673 | 3,185 | - | - | 20,673 | 3,185 |
| I M Mayer | 9,826 | 44,083 | - | - | 9,826 | 44,083 |
| P J Snowball* | 9,275 | 3,185 | - | - | 2,275 | 3,185 |

The directors marked with an asterisk held shares in Norwich Union plc which were converted to shares in CGNU plc on 30 May 2000 in accordance with the terms of the merger Scheme of Arrangement at the rate of 48 CGNU plc shares for every 100 Norwich Union shares held. In order to show actual movement in shareholdings during the year, these shareholdings are stated as if the conversion had been applied at the start of the year.

On 29 September 2000, Messrs Biggs, Mayer and Snowball were granted restricted awards over 37,333, 17,998 and 28,282 CGNU shares respectively under the CGNU Integration Incentive Plan. Awards under the Plan become capable of vesting in year 2002, subject to the achievement of specified performance criteria.

On 29 September 2000, Mr Biggs and Mr Snowball were granted restricted awards over 34,453 and 24,682 CGNU shares respectively under the CGNU Long Term Incentive Plan. Awards under the Plan become capable of vesting in the year 2003, subject to the achievement of specified performance criteria.

North British and Mercantile Insurance Company Limited

Directors' report (continued)

Directors' interests (continued)

Consequent upon the Scheme of Arrangement, which gave effect to the merger between CGU plc and Norwich Union plc, awards made under the Norwich Union Long-Term Incentive Plan vested in full, and awards granted under the Norwich Union Restricted Share Plan (which were subject to the attainment of conditions based on Norwich Union's performance) vested as to 45% in relation to awards granted in 1998 (but not otherwise). As a result, the former Norwich Union directors received Norwich Union shares (which, under the terms of the said Scheme, were exchanged for shares in CGNU plc at the rate of 48 CGNU shares for every 100 shares in Norwich Union plc) as follows:

| | |
|--------------|--------|
| M N Biggs | 24,280 |
| P J Snowball | 24,150 |

On 2 September 1998, Mr Mayer was granted restricted awards over 10,880 CGU (now CGNU) shares under the CGU Integration Incentive Plan. Under the Plan, awards will vest on 27 February 2001, the performance criteria having been met. On 14 May 1999, Mr Mayer was granted awards over 2,938 shares under the CGU plc Deferred Bonus Plan.

On 31 March 2000, Mr Mayer was granted awards over 6,888 shares respectively under the CGNU Deferred Bonus Plan (formerly CGU plc Deferred Bonus Plan).

Save as disclosed above, none of the directors who held office at 31 December 2000 had any beneficial interests in the Company's shares or the shares of any other company within the CGNU Group.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution is to be proposed at the forthcoming Annual General Meeting for the appointment of Ernst & Young LLP as auditor of the Company. PricewaterhouseCoopers are not seeking reappointment as auditors of the Company.

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

There have been no significant transactions between the directors and the Company during the year.

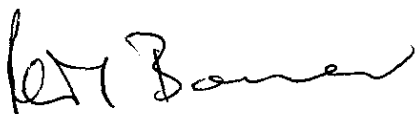
North British and Mercantile Insurance Company Limited

Directors' report (continued)

European economic and monetary union

CGNU has significant operations within the European Union and considers that overall success of EMU presents a substantial opportunity for the Group. Costs incurred to date for the introduction of the euro amount to £57 million, of which £17 million has been included in CGNU plc's 2000 results (1999: £16 million). The expected total cost of preparing the Group's systems for the euro is some £74 million, excluding the UK.

Approved and signed on behalf of the Board on 30 MAY 2001



Authorised Signatory
CGNU Company Secretarial Services Limited
Secretary

North British and Mercantile Insurance Company Limited

Directors' responsibility for the accounts

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 for that period. Suitable accounting policies have to be used and applied consistently in preparing accounts, 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 and financial reporting 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 that controls are in place for the prevention and detection of fraud and other irregularities.

Auditors' report to the members of North British and Mercantile Insurance Company Limited

We have audited the accounts on pages 7 to 13.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described above, the accounts. 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 accounts 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 accounts, 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 accounts.

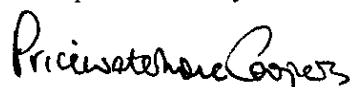
Basis of audit opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of the Company's affairs at 31 December 2000 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
London

11 June 2001

North British and Mercantile Insurance Company Limited

Profit and loss account - technical account - general business For the year ended 31 December 2000

| | Notes | 2000 £'000 | 2000 £'000 | 1999 £'000 | 1999 £'000 |
|--|-------|---------------|---------------|---------------|---------------|
| Gross premiums written | | | 6,565 | | 7,319 |
| Outward reinsurance premiums | | | (6,565) | | (7,319) |
| Net premiums written | 1b | | - | | - |
| Change in the provision for unearned premiums | | | | | |
| - gross amount | | 290 | | (1,024) | |
| - reinsurers' share | | (290) | | 1,024 | |
| | | | - | | - |
| Earned premiums, net of reinsurance | | | - | | - |
| Claims paid | | | | | |
| - gross amount | | (4,132) | | (2,497) | |
| - reinsurers' share | | 4,132 | | 2,497 | |
| | | | - | | - |
| Change in the provision for claims | | | | | |
| - gross amount | | (1,387) | | (946) | |
| - reinsurers' share | | 1,387 | | 946 | |
| | | | - | | - |
| Claims incurred, net of reinsurance | 1c | | - | | - |
| Net operating expenses | 3 | | - | | - |
| Balance on the technical account – general business | | - | - | - | - |

The notes on pages 10 to 13 are an integral part of these accounts. The auditors' report is on page 6.

North British and Mercantile Insurance Company Limited

Profit and loss account - non-technical account For the year ended 31 December 2000

| | Notes | 2000 £'000 | 1999 £'000 |
|--|--------|---------------|---------------|
| Balance on general business technical account | | - | - |
| Investment income | 1d & 2 | 524 | 283 |
| Unrealised gains/(losses) on investments | 2 | 213 | (462) |
| Profit/(loss) on ordinary activities before taxation | | 737 | (179) |
| Tax on profit/(loss) on ordinary activities | 1f & 4 | (221) | 252 |
| Profit for the financial year | | 516 | 73 |
| Ordinary dividend | | (8,000) | - |
| Retained (loss)/profit transferred to reserves | | (7,484) | 73 |

Statement of total recognised gains and losses For the year ended 31 December 2000

| | 2000 £'000 | 1999 £'000 |
|---------------------------------|---------------|---------------|
| Profit for the financial year | 516 | 73 |
| Foreign exchange rate movements | - | (3) |
| Balance at 31 December | 516 | 70 |

Reconciliation of movements in equity shareholders' funds For the year ended 31 December 2000

| | 2000 £'000 | 1999 £'000 |
|---|---------------|---------------|
| Balance at 1 January | 15,586 | 15,516 |
| Total recognised gains and losses arising in the year | 516 | 70 |
| Ordinary dividend | (8,000) | - |
| Balance at 31 December | 8,102 | 15,586 |

The notes on pages 10 to 13 are an integral part of these accounts. The auditors' report is on page 6.

North British and Mercantile Insurance Company Limited

Balance sheet

At 31 December 2000

| | Notes | 2000 £'000 | 1999 £'000 |
|--|-------|---------------|---------------|
| Assets | | | |
| Investments | 1e | | |
| Other financial investments | 7 | 8,281 | 7,175 |
| Reinsurers' share of technical provisions | | | |
| Provision for unearned premiums | 1b | 2,118 | 3,333 |
| Claims outstanding | 1c | 3,920 | 2,754 |
| | | 6,038 | 6,087 |
| Debtors | | | |
| Amounts due by parent company | | 7,901 | 7,721 |
| Other assets | | | |
| Cash at bank and in hand | | - | 592 |
| Prepayments and accrued income | | | |
| Other prepayments and accrued income | | 141 | 98 |
| Total assets | | 22,361 | 21,673 |
| Liabilities | | | |
| Capital and reserves | | | |
| Called up share capital | 8 | 4,500 | 4,500 |
| Profit and loss account | 9 | 3,602 | 11,086 |
| Equity shareholders' funds | | 8,102 | 15,586 |
| Other Liabilities | | | |
| Technical provisions | | | |
| Provisions for unearned premiums | | 2,118 | 3,333 |
| Claims outstanding | | 3,920 | 2,754 |
| | | 6,038 | 6,087 |
| Creditors | | | |
| Other creditors including taxation and social security | | 221 | - |
| Proposed dividend | | 8,000 | - |
| | | 8,221 | - |
| Total other liabilities | | 14,259 | 6,087 |
| Total liabilities | | 22,361 | 21,673 |

Approved by the Board on 30 May 2001.



Director

The notes on pages 10 to 13 are an integral part of these accounts. The auditors' report is on page 6.

North British and Mercantile Insurance Company Limited

Notes to the accounts

1. Accounting policies

(a) Basis of accounts

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 and with the Statement of Recommended Practice issued by the Association of British Insurers (the “ABI SORP”). The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 2000 as considered appropriate for an insurance company.

The profit and loss account for the year reflects all income and expenditure, including realised and unrealised investment gains, other than items charged to provisions set up in earlier years.

(b) Premiums

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

(c) Claims

Claims incurred comprise all claims occurring during the year, whether reported or not. To these are added related handling costs and any adjustments to claims outstanding from previous years.

Outstanding claims and provisions in the balance sheet are based upon the estimated ultimate cost of all claims incurred but not settled at the date of the balance sheet, whether reported or not, together with related claims handling costs.

(d) 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.

North British and Mercantile Insurance Company Limited

Notes to the accounts (continued)

1. Accounting policies (continued)

(e) Investments

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

(f) Taxation

The taxation charge or credit in the non-technical account is based on the taxable profits for the year. Provision is only made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future.

2. Analysis of investment return

| | 2000 £'000 | 1999 £'000 |
|---|---------------|---------------|
| Income from other financial investments | 534 | 731 |
| Realised investment losses | (10) | (448) |
| Investment income | 524 | 283 |
| Unrealised investment gains/(losses) | 213 | (462) |
| Total investment return before taxation | 737 | (179) |

3. Net operating expenses

| | 2000 £'000 | 1999 £'000 |
|------------------------------------|---------------|---------------|
| Acquisition costs | 3,165 | 1,549 |
| Reinsurance commissions receivable | (3,165) | (1,549) |
| Net operating expenses | - | - |

North British and Mercantile Insurance Company Limited

Notes to the accounts (continued)

4. Taxation

The taxation charge in the non-technical account comprises:

| | 2000 | 1999 |
|---|------------|--------------|
| | £'000 | £'000 |
| United Kingdom corporation tax charge/(credit) at 30 % (1999: 30.25%) on taxable profits for the year | 221 | (54) |
| Deferred taxation | - | (198) |
| | <u>221</u> | <u>(252)</u> |

5. Directors' emoluments

None of the directors received any emoluments in respect of his services as a director of the Company (1999: £nil).

6. Auditors' remuneration

Auditors' remuneration is charged in the accounts of CGU International Insurance plc.

7. Other financial investments

| | Carrying value 2000 £'000 | Cost 2000 £'000 | Carrying value 1999 £'000 | Cost 1999 £'000 |
|---|------------------------------------|-----------------------|------------------------------------|-----------------------|
| These financial investments comprise: | | | | |
| Debt securities and other fixed income securities | <u>8,281</u> | <u>8,206</u> | <u>7,175</u> | <u>7,313</u> |

All investments above are shown at current value.

8. Called up share capital

The Company has an authorised share capital of 4,500,000 (1999: 4,500,000) ordinary shares of £1 each, all of which are allotted, called up and fully paid.

North British and Mercantile Insurance Company Limited

Notes to the accounts (continued)

9. Profit and loss account

| | 2000 £'000 | 1999 £'000 |
|-------------------------------------|---------------|---------------|
| Balance at 1 January | 11,086 | 11,016 |
| Transfer from non-technical account | (7,484) | 70 |
| Balance at 31 December | 3,602 | 11,086 |

The cumulative amount in the profit and loss account reserves relating to unrealised gains and losses is a gain of £75,000 (1999: loss of £138,000).

10. Holding companies' details

The immediate holding company is CGU International Insurance plc.

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

The ultimate holding company is CGNU plc. This company, formerly called CGU plc, merged with Norwich Union plc and was renamed CGNU plc on 30 May 2000. Its group accounts are available on application to the Group Company Secretary, CGNU plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.

11. Related party transactions

As consolidated accounts are publicly available, the Company has taken advantage of the exemption in Financial Reporting Standard 8 from the requirement to disclose transactions with related parties who are 90% or more owned within the same group.

12. Cash flow statement

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