

Clydesdale Bank Insurance Brokers Limited

Directors' report and financial statements

30 September 1998

Registered number 47926



Directors' report and financial statements

Contents

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Report of the auditors to the members of Clydesdale Bank Insurance Brokers Limited	5
Profit and loss account	6
Balance sheet	7
Notes	8

Officers and professional advisers

Directors

JR Wright	(appointed 7 September 1998)
AJ Stewart	(appointed 19 January 1998; resigned 30 June 1998)
FA Goodwin	(resigned 31 July 1998)
BR MacKay	
HJ Thomson	

Secretary

AJ Stewart	(resigned 15 June 1998)
JL Shirran	(appointed 15 June 1998)

Registered office

30 St. Vincent Place
Glasgow
G1 2HL

Registered number

SCO47926

Auditors

KPMG Audit Plc
Chartered Accountants
24 Blythswood Square
Glasgow
G2 4QS

Bankers

Clydesdale Bank PLC

A wholly owned subsidiary of Clydesdale Bank PLC, a member of the National Australia Bank Group.

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 September 1998.

Principal activity

The company is an Insurance Broker as defined by the Insurance Brokers Registration Act 1977 whose principal activity continued to be Insurance Broking. The company transacts business as Agent for its clients in both Life and Pensions and General Insurance fields, and is required to comply with the requirements of the Financial Services Act and the rules of the Personal Investment Authority.

The company operates from locations throughout Scotland, parts of England and currently has a complement of 132 staff.

Results and dividends

The trading profit for the year, after taxation, amounted to £7,744,538 (1997: £7,427,370). An interim dividend of £4 million was paid during the year. The directors do not propose to recommend the payment of a final dividend for the year.

Directors and their interests

The names of the current directors and those who served during the year are set out on page 1.

None of the directors held shares in the company or in any other UK group company during the year.

In terms of the Articles of Association of the company, no directors require to retire by rotation.

Directors' report *(continued)*

Year 2000

In common with other businesses in the banking and financial service industry and other microchip users, the Clydesdale Bank group faces a significant challenge in ensuring that its systems can deal satisfactorily with the year 2000. The problem arises from the practice of using two digits in computer software to represent the year rather than four digits. If not corrected systems may confuse the year 2000 with that of 1900. In addition to computer software, the problem may also affect embedded microchips in equipment such as lifts, alarms and communication links.

The Clydesdale Bank group started a series of projects in 1995 to identify and assess the risks involved, to determine and undertake appropriate corrective actions and to test and evaluate the results. Regular progress reports are made to a Steering Committee comprised of senior executives and to the Clydesdale Bank board. The bulk of the work will be completed before the end of 1998, although testing will continue throughout 1999 (and into the year 2000) to ensure continuing compliance.

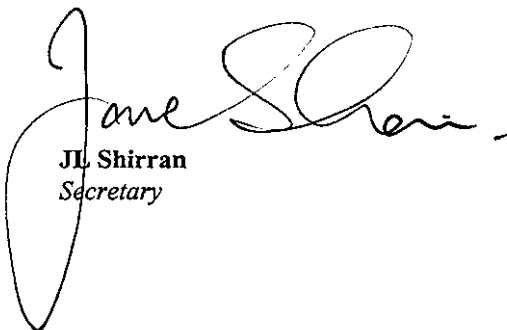
The Clydesdale Bank group's customers, suppliers and financial sector counterparties are also affected by the year 2000 problem and failure by them to resolve the issue may result in increased credit losses, disrupted services or settlement failures. The Clydesdale Bank group is working closely with all these parties, gathering compliance information, testing shared services and liaising with industry regulators and industry working groups to ensure that the risks are minimised.

The Clydesdale Bank board currently believes that the completion of these projects will ensure that there is no significant disruption to the Clydesdale Bank group's business. The estimated total cost of this programme is disclosed in the financial statements of Clydesdale Bank PLC.

Elective regime

In accordance with the provisions of the Companies Act 1985, as amended, the company has elected to dispense with the laying of financial statements before a general meeting, the holding of annual general meetings and the obligation to appoint auditors annually.

By order of the board



J.L. Shirran
Secretary

30 St. Vincent Place
Glasgow
G1 2HL

20 October 1998

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 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.



KPMG Audit Plc

24 Blythswood Square

Glasgow

G2 4QS

United Kingdom

Report of the auditors to the members of Clydesdale Bank Insurance Brokers Limited

We have audited the financial statements on pages 6 to 13.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 30 September 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

26 October 1998

Profit and loss account
for the year ended 30 September 1998

	<i>Note</i>	1998 £	1997 £
Turnover	2	16,455,947	12,956,442
Administrative expenses		(6,201,265)	(2,648,218)
Operating profit	3	10,254,682	10,308,224
Interest receivable	6	995,152	650,398
Profit on ordinary activities before taxation		11,249,834	10,958,622
Tax on profit on ordinary activities	7	(3,505,296)	(3,531,252)
Profit on ordinary activities after taxation		7,744,538	7,427,370
Dividends paid - equity		(4,000,000)	(6,000,000)
Retained profit for the financial year		3,744,538	1,427,370
Retained profit brought forward		2,254,592	827,222
Retained profit carried forward		5,999,130	2,254,592

All items dealt with in arriving at the operating profit for 1998 and 1997 relate to continuing operations.

Clydesdale Bank Insurance Brokers Limited have no recognised gains or losses other than the profit for the period (1997: £Nil).

Balance sheet
at 30 September 1998

	<i>Note</i>	1998	1997
		£	£
Fixed assets			
Tangible assets	8	49,938	129,346
Current assets			
Debtors	9	884,495	610,997
Cash at bank and in hand		14,999,047	9,584,363
		<u>15,883,542</u>	<u>10,195,360</u>
Creditors: amounts falling due within one year	10	<u>(6,109,481)</u>	<u>(5,568,129)</u>
Net current assets		<u>9,774,061</u>	<u>4,627,231</u>
Total assets less current liabilities		<u>9,823,999</u>	<u>4,756,577</u>
Creditors: amount falling due after more than one year	10	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Provisions for liabilities and charges	11	<u>(1,974,869)</u>	<u>(651,985)</u>
		<u>6,349,130</u>	<u>2,604,592</u>
Capital and reserves			
Called up share capital	12	350,000	350,000
Profit and loss account		5,999,130	2,254,592
Shareholders' funds: all equity	13	<u>6,349,130</u>	<u>2,604,592</u>

These financial statements were approved by the board of directors on 20 October 1998 and were signed on its behalf by:



JR Wright
Director



HJ Thomson
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life, as follows:

Computer equipment	-	20% straight line
Plant and machinery	-	20% straight line
Office equipment	-	10% straight line
Motor vehicles	-	20% straight line

Pension costs

Pension costs charged to the profit and loss account represent the contributions payable in respect of the accounting period.

Deferred taxation

Deferred taxation is provided on timing differences only to the extent that it is probable that an actual liability or asset will crystallise.

Leasing

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

2 Turnover

The company's turnover arises from commission earned on insurance premiums payable in respect of insurance policies and profit sharing on underwriting. Turnover includes £3,904,474 (1997: £2,475,949) in respect of profit sharing received from underwriters.

Notes (continued)

3 Operating profit

	1998 £	1997 £
<i>This is stated after charging/(crediting):</i>		
Auditors' remuneration including expenses:		
Audit	7,978	8,400
Other services	4,725	3,100
Depreciation	55,946	95,130
Profit on sale of fixed assets	(12,677)	(31,264)
	<u> </u>	<u> </u>

4 Staff costs

	1998 £	1997 £
Wages and salaries	2,341,583	2,045,346
Social security costs	195,484	171,910
Other pension costs	262,742	220,869
	<u> </u>	<u> </u>
	2,799,809	2,438,125
	<u> </u>	<u> </u>

The average number of employees during the year was:

	Number of employees	
	1998	1997
General	69	62
Administration	12	13
Life and pensions (including sales)	46	43
	<u> </u>	<u> </u>
	127	118
	<u> </u>	<u> </u>

The company is a member of the Clydesdale Bank Pension Scheme, a funded defined benefit scheme. Actuarial details of the scheme are contained in the financial statements of the Clydesdale Bank PLC.

The pension charge for the year was £262,742 (1997: £220,869) representing a proportionate share of the Clydesdale Bank PLC Group's total contribution.

Notes (continued)

5 Directors' remuneration

	1998 £	1997 £
Directors' emoluments	98,041	115,998

The emoluments, excluding pension contributions, of the highest paid director amounted to £58,704 (1997: £54,324). During the year two of the current directors accrued benefits under the Clydesdale Bank Pension Scheme, a funded defined benefit scheme.

6 Interest receivable

	1998 £	1997 £
Bank interest received (net)	995,152	650,398

All interest receivable and payable is derived from and paid to the immediate parent undertaking, Clydesdale Bank PLC.

7 Tax on profit on ordinary activities

	1998 £	1997 £
Based on the profit for the year:		
Corporation tax at 31% (1997: 32%)	4,050,857	3,303,113
Deferred tax	(545,561)	228,139
	<u>3,505,296</u>	<u>3,531,252</u>

Notes (continued)

8 Tangible fixed assets

	Office equipment £	Motor vehicles £	Computer equipment £	Total £
<i>Cost</i>				
At beginning of year	189,313	159,531	515,179	864,023
Disposals	-	(103,469)	-	(103,469)
At end of year	189,313	56,062	515,179	760,554
<i>Depreciation</i>				
At beginning of year	151,547	106,590	476,540	734,677
Provided during year	13,080	23,317	19,549	55,946
Disposals	-	(80,007)	-	(80,007)
At end of year	164,627	49,900	496,089	710,616
<i>Net book value</i>				
At 30 September 1998	24,686	6,162	19,090	49,938
At 30 September 1997	37,766	52,941	38,639	129,346

9 Debtors

	1998 £	1997 £
Prepayments and accrued income	884,495	610,997

10 Creditors

Amounts falling due within one year:

	1998 £	1997 £
Trade creditors	1,838,845	2,086,016
Corporation tax	4,073,541	3,303,113
Accruals and deferred income	197,095	179,000
	6,109,481	5,568,129

Amounts falling due after more than one year:

	1998 £	1997 £
Amounts due to parent company	1,500,000	1,500,000

During October 1996, Clydesdale Bank PLC granted a sub-ordinated loan of £1.5 million to the company.

Notes (continued)

11 Provisions for liabilities and charges

	1998 £	1997 £
Provision for compensation payments	2,842,985	974,540
Deferred tax	(868,116)	(322,555)
	<u>1,974,869</u>	<u>651,985</u>

Movements during the year are summarised as follows:

	Provision for compensation payments £	Deferred tax £	Total £
At beginning of year	974,540	(322,555)	651,985
Charge for the year	2,500,000	(545,561)	1,954,439
	<u>3,474,540</u>	<u>(868,116)</u>	<u>2,606,424</u>
Utilisation in year	(631,556)	-	(631,556)
At end of year	<u>2,842,984</u>	<u>(868,116)</u>	<u>1,974,868</u>

On the basis of the accounting policy set out in note 1, deferred taxation, calculated at the expected rate of crystallisation, comprises:

	1998		1997	
	Provided £	Unprovided £	Provided £	Unprovided £
Excess of capital allowances over depreciation	(15,221)	-	(12,555)	-
Other timing differences	(852,895)	-	(310,000)	-
	<u>(868,116)</u>	<u>-</u>	<u>(322,555)</u>	<u>-</u>

12 Share capital

	1998 £	1997 £
<i>Authorised, allotted, called up and fully paid:</i>		
350,000 ordinary shares of £1 each	<u>350,000</u>	<u>350,000</u>

Notes (continued)

13 Reconciliation of movement in shareholders' funds

	1998 £	1997 £
Profit for the financial year	7,744,538	7,427,370
Dividends - equity	(4,000,000)	(6,000,000)
	<hr/>	<hr/>
Retained profit for the financial year	3,744,538	1,427,370
Opening shareholders' funds	2,604,592	1,177,222
	<hr/>	<hr/>
Closing shareholders' funds	<u>6,349,130</u>	<u>2,604,592</u>

14 Commitments

There were no capital commitments at the end of the financial year (1997: £Nil).

15 Cash flows

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published financial statements.

16 Related party transactions

Under Financial Reporting Standard 8 companies which are wholly owned subsidiaries of a parent whose consolidated financial statements in which the subsidiaries' results are included are publicly available, are granted exemption from disclosing inter-group transactions. The company is such a subsidiary undertaking and accordingly has not disclosed such transactions.

17 Parent undertakings

The largest and smallest groups in which the results of the company are consolidated are those headed by the following:

	<i>Name of parent undertaking</i>	<i>Place of registration</i>	<i>Place of incorporation</i>	<i>Address from which group accounts available to public</i>
Largest group	National Australia Bank Limited	-	Australia	500 Bourke Street, Melbourne, Australia
Smallest group	Clydesdale Bank PLC	Scotland	-	30 St. Vincent Place, Glasgow, Scotland