

Budget Insurance Company Limited

Financial Statements

Year Ended 30th June 1997

THE BAYLOR COMPANY
POSTING PROVIDED
UNDER THE INSURANCE
ACT 1902

AC1684



Budget Insurance Company Limited

Directors and Officers

Chairman

D G Steyn

Deputy Chairman

S Klinkert

Directors

P A Winslow (Managing Director)

I R Leech (Finance Director)

Secretary

Cornhill Secretaries Limited

Registered Office

Budget House

Bretton Way

Bretton

Peterborough

PE3 8BG

Auditors

Moore Stephens

Chartered Accountants

St Paul's House

Warwick Lane

London

EC4P 4BN

Budget Insurance Company Limited

Report of the Directors

The directors present their report with the audited financial statements for the year ended 30th June 1997.

Activities and business review

The company is engaged in the provision of motor insurance. The loss for the year was £12,162,658. A significant proportion of the loss has arisen from the adverse development of claims arising from incidents which occurred in previous years. The increased focus on underwriting, combined with the downward pressure on premiums evident throughout the motor insurance market, has led to a reduction in the number of policyholders at the end of the year compared to the prior year end.

The Directors do not recommend payment of a dividend for the year.

Future developments.

The company will continue to develop its product range and has introduced an annual policy and is developing further products. The company has entered into arrangements with a related company which acts as an insurance intermediary for the provisions of marketing, sales and administrative services, effective 1st September 1997.

Ordinary share capital

The share capital was increased in March 1997 by the issue to Budget Group Limited (formerly Tele-Cover Holdings Limited) of 2,000,000 £1 ordinary shares issued at a premium of £1 per share. The share capital was further increased in June 1997 by the issue to Budget Group Limited (formerly Tele-Cover Holdings Limited) of 7,600,000 £1 ordinary shares issued at par. The increase in share capital was used to maintain the level of net assets at an appropriate level.

Fixed assets

The movement in fixed assets are shown in note 11 to the financial statements.

Directors

Board Changes

G E Little resigned from the board on 15th November 1996. N S P Mew and J R van der Merwe resigned from the board on 1st July 1997. P A Winslow was appointed a Director of the company on 8th October 1996. I R Leech was appointed a Director of the company on 3rd March 1997. On 27th October 1997, Mr S Klinkert was appointed Deputy Chairman and Mr P Winslow, Managing Director.

Directors' interests

None of the Directors had any interest in the share capital of the company at any time during the year.

Employment of disabled persons

During the year, the company gave full and fair consideration to applications for employment by disabled persons, having regard to their particular aptitudes and abilities and to appropriate vacancies. The company will continue to ensure that disabled employees are considered on the same basis as any other member of staff with regard to training, career development and promotion.

Budget Insurance Company Limited

Report of the Directors (continued)

Employee involvement

The company holds regular meetings for its employees with the aim of disseminating financial and non-financial information on matters of concern and of interest to them as employees. These meetings also give the employees the opportunity to make their views known so that they can be taken into account in making decisions which are likely to affect their interests.

Charitable and other donations

The total amount given for charitable purposes by the company during the year was £4,938. No political donations were made during the year.

Auditors

The auditors Messrs. Moore Stephens, are willing to continue in office. A resolution for their reappointment and authorising the Directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

Budget Insurance Company Limited

Statement of Directors' Responsibilities

The Directors are required by the Companies Act 1985 and other regulations to prepare financial statements each financial year which give a true and fair view of the state of affairs of the company at the end of the financial year, and its result for that period. The financial statements of insurance companies are prepared in accordance with the requirements of section 255A of, and schedule 9A to, the Companies Act 1985. In preparing the financial statements, the Directors must ensure that appropriate accounting policies have been adopted and applied consistently, that applicable accounting standards have been followed and that reasonable and prudent judgements and estimates have been made. The Directors are required to prepare 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 ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the company and that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Budget Insurance Company Limited

Auditor's Report to the Shareholders of Budget Insurance Company Limited

We have audited the financial statements on pages 7 to 15 which have been prepared under the historical cost convention modified to incorporate investments at market valuation and the accounting policies set out on page 6.

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 financial statements. It also includes an assessment of 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 affairs of the company at 30th June 1997 and of the results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

St Paul's House
Warwick Lane
London, EC4P 4BN

Moore Stephens
Moore Stephens
Registered Auditor
Chartered Accountants

2nd December 1997

Budget Insurance Company Limited

Accounting policies for the year ended 30th June 1997

1. Disclosure

The financial statements are drawn up in accordance with section 255A of, and schedule 9A of the Companies Act 1985.

2. Accounting convention

The financial statements are prepared under the historical cost convention, modified by the periodic valuations of investments as described below, and in accordance with applicable accounting standards in the United Kingdom.

3. Premium income

Policies are written on a monthly basis to a month end and premiums are accounted for in the month in which the policy commences. Income is deemed to accrue evenly over the term of the policy.

4. Depreciation of tangible assets

Provision is made for depreciation of all tangible 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	25% per annum on cost
Office equipment	20% per annum on cost
Office furniture	10% per annum on cost
Fixtures and fittings	4% per annum on cost
Motor vehicles	25% per annum on cost

5. Investments

Listed investments are stated in the balance sheet at market value, any gain or deficit on revaluation being dealt with through the profit and loss account. Interest from investments is included in the financial statements on an accruals basis. Investment income is allocated in proportion between general business insurance funds available for investments and shareholders' capital and reserves.

6. Claims reserve

Provision is made for all claims outstanding inclusive of a provision for claims incurred but not reported, and a provision for future claims handling costs.

7. Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Any resultant gains or losses on exchange are dealt with through the profit and loss account in the period in which they arise.

8. Deferred taxation

Deferred taxation is provided if material using the liability method in respect of timing differences which would result in a taxation liability in the foreseeable future.

Budget Insurance Company Limited
Profit and Loss Account
Technical Account

Year Ended 30th June 1997

	Notes	£	1997	£	£	1996	£
Gross premiums written	1			54,572,539			47,122,203
Outward reinsurance premiums	2			(7,695,249)			(10,225,338)
Earned premiums, net of reinsurance				<u>46,877,290</u>			<u>36,896,865</u>
Allocated investment return transferred from the non-technical account	3			2,781,271			1,238,734
Claims paid							
Gross amount				(42,318,147)			(28,761,226)
Reinsurers amount				10,210,691			16,020,261
Net claims paid				<u>(32,107,456)</u>			<u>(12,740,965)</u>
Change in provision for claims							
Gross amount				(30,803,862)			(22,534,554)
Reinsurers amount				8,810,662			569,194
Change in the net provision for claims				<u>(21,993,200)</u>			<u>(21,965,360)</u>
Claims incurred, net of reinsurance				(54,100,656)			(34,706,325)
Net operating expenses	4 & 5			(9,232,430)			(9,237,274)
Total balance on the technical account	8			<u>(13,674,525)</u>			<u>(5,808,000)</u>

Budget Insurance Company Limited
Profit and Loss Account
Non-Technical Account

Year Ended 30th June 1997

	Notes	1997 £	1996 £
Balance transferred from technical account		(13,674,525)	(5,808,000)
Investment income attributable to the non-technical account	3	970,415	868,712
Other income		541,452	479,550
Other charges		-	-
Loss on ordinary activities before taxation for the financial year		(12,162,658)	(4,459,738)
Taxation on profit on ordinary activities	10	-	-
Loss on ordinary activities after taxation for the financial year		(12,162,658)	(4,459,738)
Profit and loss account brought forward		(5,479,809)	(1,020,071)
Profit and loss account carried forward		(17,642,467)	(5,479,809)

Loss after taxation is derived wholly from continuing activities.

The company has no recognised gains and losses other than those included in the profit and loss account set out above, and therefore no separate statement of total recognised gains and losses has been prepared.

There is no difference between the result for the year stated above, and its historical cost equivalent.

Budget Insurance Company Limited
Balance Sheet

As At 30th June 1997

	Notes	£	1997	£	1996	£
ASSETS						
Investments						
Deposits with credit institutions				69,500,000		47,120,000
Reinsurers' share of technical provisions	12			15,647,025		6,836,363
Debtors						
Amounts due from holding company		28,637			10,581	
Amounts due from other group companies		1,242,691			102,312	
Debtors arising out of direct insurance operations		436,429			391,424	
Amounts due from reinsurers under reinsurance contracts ceded		128,470			79,050	
Other debtors		79,423			14,859	
				<hr/>		<hr/>
				1,915,650		598,226
Other assets						
Tangible fixed assets	11	796,419			772,916	
Cash at bank and in hand		100,315			1,908,046	
				<hr/>		<hr/>
				896,734		2,680,962
Prepayments and accrued income						
Accrued interest and rent		367,756			243,978	
Other prepayments		509,601			604,331	
				<hr/>		<hr/>
				877,357		848,309
Total assets				<hr/>		<hr/>
				88,836,766		58,083,860
LIABILITIES						
Capital and reserves						
Called-up share capital	13		26,600,000			17,000,000
Share Premium Account	15		7,000,000			5,000,000
Profit and loss account			(17,642,467)			(5,479,809)
Equity Shareholders' funds	16		<hr/>			<hr/>
			15,957,533			16,520,191
Subordinated liabilities	14			1,650,000		1,650,000
Technical provisions	12			65,568,115		34,764,253
Deposits received from reinsurers				591,491		479,374
Creditors						
Amounts due to other group companies					43,805	
Creditors arising out of direct insurance operations		230,072			252,724	
Amounts owed to credit institutions		1,996,371			2,052,607	
Other creditors including taxation and social security		997,604			895,788	
				<hr/>		<hr/>
				3,224,047		3,244,924
Accruals and deferred income				1,845,580		1,425,118
Total liabilities				<hr/>		<hr/>
				88,836,766		58,083,860

The financial statements were approved by the Board of Directors on **26 November 1997**

P A Winslow Managing Director



I R Leech Finance Director



Budget Insurance Company Limited
Cash Flow Statement

Year Ended 30th June 1997

	Notes	1997		1996	
		£	£	£	£
Cash flow from operating activities	18		8,230,019		17,328,260
Returns on investments and servicing of finance	19		963,520		687,251
Taxation			(87,885)		(203,067)
Capital expenditure and financial investment	19		(70,334)		572,560
Cash inflow before use of liquid resources and financing			<u>9,035,320</u>		<u>18,385,004</u>
Financing					
Issue of shares	19	11,600,000		8,500,000	
Issue of subordinated debt		-		1,650,000	
			<u>11,600,000</u>		<u>10,150,000</u>
Increase in cash in the period			<u><u>20,635,320</u></u>		<u><u>28,535,004</u></u>
Cashflows were invested as follows :					
(Decrease)/Increase in cash holding			(1,751,495)		502,620
Net portfolio investment					
Cash deposited on term deposits		22,380,000		34,930,000	
Fixed government securities		6,815		(6,897,616)	
	19		<u>22,386,815</u>		<u>28,032,384</u>
Net investment of cash flows			<u><u>20,635,320</u></u>		<u><u>28,535,004</u></u>
Movement in opening and closing portfolio investments net of financing (Note 20)					
		£	£		
Net cash outflow for the period		(1,751,495)			
Cashflow					
Portfolio investments		22,386,815			
Movement arising from cashflows		<u>20,635,320</u>			
Realisation of portfolio capital gain		(6,815)			
Total movement in portfolio investments net of financing			<u>20,628,505</u>		
Portfolio investments net of financing at 1st July 1996			48,625,439		
Portfolio investments net of financing at 30th June 1997			<u><u>69,253,944</u></u>		

Budget Insurance Company Limited
Notes To The Financial Statements

Year Ended 30th June 1997

	1997 £	1996 £
1. Gross premium		
Motor Vehicle	54,568,987	47,118,651
Household	3,552	3,552
	<u>54,572,539</u>	<u>47,122,203</u>
2. Outward reinsurance premium		
Gross premium	8,045,962	11,483,653
Commission receivable on outward reinsurance	(350,713)	(1,258,315)
	<u>7,695,249</u>	<u>10,225,338</u>
3. Investment income		
Income from investments		
Listed investments	1,101,179	608,326
Income from deposits	2,635,582	1,308,436
Other investment income	21,740	18,439
(Loss)/Gains on the realisation of investments	(6,815)	172,245
	<u>3,751,686</u>	<u>2,107,446</u>
Allocated to :		
Technical Account	2,781,271	1,238,734
Non-technical Account	970,415	868,712
	<u>3,751,686</u>	<u>2,107,446</u>
4. Net operating expenses		
Acquisition costs	4,843,956	5,925,246
Administrative expenses	4,388,474	3,312,028
	<u>9,232,430</u>	<u>9,237,274</u>
5. Expenses		
Expenses include the following :		
Auditors' remuneration for :		
audit	25,750	25,000
other services to the company	19,000	23,054
Depreciation	46,685	151,978
Loss on disposal of fixed assets	145	6,145
Operating lease rentals on plant and machinery	1,174,231	659,026
Operating lease rentals on land and buildings	590,128	589,466
	<u></u>	<u></u>
6. Employees		

The average number employed by the company, including directors was 416 (1996 - 425)

	1997 £	1996 £
The costs incurred in respect of these employees were :		
Wages & salaries	6,697,441	6,348,267
Social security costs	626,976	580,355
Pension costs	132,300	46,600
	<u>7,456,717</u>	<u>6,975,222</u>

Budget Insurance Company Limited
Notes To The Financial Statements

Year Ended 30th June 1997

	1997 £	1996 £
7. Directors' emoluments		
Fees as directors	-	5,000
Other emoluments excluding pension contributions	406,762	333,704
Pension contributions	8,880	46,600
Total	415,642	385,304

The emoluments of the highest paid director were £151,250 (1996 - £150,000), with no pension contributions.

The chairman, Mr D G Steyn, had a current account with the company. The maximum debit balance on this account at any time during the year was £nil. The maximum credit balance on this account at any time during the year was £81,201.91. The balance on this account at the end of the year was a credit balance of £50,748.39.

	1997 £	1996 £
8. Balance on technical account		
Motor vehicle	(13,677,864)	(5,811,339)
Household	3,339	3,339
	(13,674,525)	(5,808,000)

9. Analysis of insurance business

	1997			
	Motor Third Party Only £	Motor Other £	Household £	Total £
Gross premiums written and earned	4,474,657	50,094,330	3,552	54,572,539
Gross claims incurred	(5,996,005)	(67,126,004)	-	(73,122,009)
Operating expenses	(757,059)	(8,475,371)	-	(9,232,430)
Reinsurance Balance	928,758	10,397,559	(213)	11,326,104
Totals	(1,349,649)	(15,109,486)	3,339	(16,455,796)

	1996			
	Motor Third Party Only £	Motor Other £	Household £	Total £
Gross premiums written and earned	3,867,723	43,250,928	3,552	47,122,203
Gross claims incurred	(4,210,602)	(47,085,179)	-	(51,295,780)
Operating expenses	(758,239)	(8,479,034)	-	(9,237,274)
Reinsurance Balance	522,414	5,841,916	(213)	6,364,117
Totals	(578,704)	(6,471,369)	3,339	(7,046,734)

All insurance business was conducted within the United Kingdom.

10. Taxation on loss on ordinary activities

Due to the availability of tax losses no provision is made in these financial statements for either corporation tax or deferred tax. These tax losses can be allocated to other group companies.

11. Tangible Fixed Assets

	Leasehold Improvements £	Computer Equipment £	Office Furniture & Equipment & Motor Vehicles £	Total £
Cost:				
As at 30th June 1996				
Additions	756,190	3,457	62,282	821,929
Disposals	22,652 (4,831)	21,549 -	30,786 -	74,987 (4,831)
As at 30th June 1997	<u>774,011</u>	<u>25,006</u>	<u>93,068</u>	<u>892,085</u>
Accumulated Depreciation:				
As at 30th June 1996				
Charge for the Period	41,817	360	6,836	49,013
Disposals	33,605 (32)	2,873 -	10,207 -	46,685 (32)
As at 30th June 1997	<u>75,390</u>	<u>3,233</u>	<u>17,043</u>	<u>95,666</u>
Net Book Value:				
As at 30th June 1997	<u>698,621</u>	<u>21,773</u>	<u>76,025</u>	<u>796,419</u>
As at 30th June 1996	<u>714,373</u>	<u>3,097</u>	<u>55,446</u>	<u>772,916</u>

12. Technical provisions

	1997 £	1996 £
Outstanding claims		
Other technical provisions	64,950,579	34,449,672
	617,536	314,581
Reinsurers' share of technical provisions	<u>65,568,115</u>	<u>34,764,253</u>
Outstanding claims	<u>15,647,025</u>	<u>6,836,363</u>

13. Share capital

Authorised			
40,000,000 Ordinary shares of £1 each		<u>40,000,000</u>	<u>20,000,000</u>
Allotted, called up and fully paid :-	Par value £	Share Premium £	Total Consideration
Ordinary shares of £1 each issued at par to 30th June 1996	17,000,000	5,000,000	22,000,000
March 1997 - 2,000,000 ordinary shares of £1 each issued at a premium of £1 per share	2,000,000	2,000,000	4,000,000
June 1997 - 7,600,000 ordinary shares of £1 each issued at par.	7,600,000	-	7,600,000
As at 30th June 1997	<u>26,600,000</u>	<u>7,000,000</u>	<u>33,600,000</u>

The increase in share capital was used to appropriately maintain the level of net assets at an appropriate level.

Budget Insurance Company Limited
Notes To The Financial Statements

Year Ended 30th June 1997

14. Subordinated liabilities

In June 1996 330 floating rate subordinated unsecured loan notes 2001 were issued at £5,000 each.

Interest on these loan notes is payable at the rate of 3% above the base rate for Lloyds Bank plc. The above loan notes are redeemable on the 31st December 2001.

1997 £	1996 £
<u>1,650,000</u>	<u>1,650,000</u>

15. Movement on the share premium reserve

Balance as at 30th June 1996

March 1997 - 2,000,000 shares of £1 each issued at a premium of £1 per share

Balance as at 30th June 1997

5,000,000	-
2,000,000	5,000,000
<u>7,000,000</u>	<u>5,000,000</u>

16. Reconciliation of movements in equity shareholders' funds

(Loss)/Profit for the financial year
New share capital subscribed

Net addition to equity shareholders' funds

Opening equity shareholders' funds

Closing equity shareholders' funds

(12,162,658)	(4,459,738)
11,600,000	8,500,000
<u>(562,658)</u>	<u>4,040,262</u>
16,520,191	12,479,929
<u>15,957,533</u>	<u>16,520,191</u>

17. Related Parties

The company is exempt from disclosure requirements in respect of intra group transactions which are dealt with in the consolidated accounts of the holding company, Budget Group Limited. The accounts of the company are consolidated into those of the parent company, Budget Group Limited (formerly Tele-Cover Holdings Limited) which is incorporated in England and Wales.

The directors regard Reef Holdings Limited incorporated in Guernsey, as the ultimate holding company.

18. Reconciliation of operating profit to net cash flow from operating activities

Loss on ordinary activities before taxation
Depreciation
Interest received from investments
Capital loss/(gain) on sale of government securities
Interest on subordinated liabilities
Loss on the sale of fixed assets
Increase in debtors
Increase in creditors

Net cash inflow from operating activities

Continuing operations 1997 £	Continuing operations 1996 £
(12,162,658)	(4,459,738)
46,685	151,978
(1,101,179)	(608,327)
6,815	(172,244)
137,659	-
145	6,145
(10,069,251)	(171,142)
31,371,803	22,581,588
<u>8,230,019</u>	<u>17,328,260</u>

19. Analysis of cash flows for headings netted in the cash flow statement

	1997 £	1996 £
Returns on investments and servicing of finance		
Interest received	1,101,179	687,251
Interest paid	(137,659)	-
	<u>963,520</u>	<u>687,251</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(74,987)	(278,968)
Sale of tangible fixed assets	4,653	851,528
	<u>(70,334)</u>	<u>572,560</u>
Financing		
Issue of ordinary shares	11,600,000	8,500,000
Debts due beyond one year - Issue of subordinated loan stock	-	1,650,000
	<u>11,600,000</u>	<u>10,150,000</u>
Portfolio investments		
Cash deposited on term deposits	(22,380,000)	(34,930,000)
Purchase of government securities	(57,203,463)	(13,389,719)
Sale of government securities	57,196,648	20,287,335
	<u>(22,386,815)</u>	<u>(28,032,384)</u>

20. Movement in cash, portfolio investments and financing

	30 June 1996 £	Cash Flow £	Realisation of portfolio Capital loss £	30 June 1997 £
Cash at bank and in hand	1,908,046	(1,807,731)	-	100,315
Bank overdraft	(2,052,607)	56,236	-	(1,996,371)
		<u>(1,751,495)</u>		
Fixed government securities	-	6,815	(6,815)	-
Cash deposited on term deposits	47,120,000	22,380,000	-	69,500,000
		<u>22,386,815</u>		
Debts due beyond one year - Subordinated loan stock	1,650,000	-	-	1,650,000
	<u>48,625,439</u>	<u>20,635,320</u>	<u>(6,815)</u>	<u>69,253,944</u>

21. Commitments

At 30th June 1997 the company had annual commitments under non-cancellable operating leases as set out below .

	1997 Land & buildings £	1996 Land & buildings £
Operating leases which expire in over five years	<u>482,000</u>	<u>482,000</u>

Under the provisions of the above operating leases on the land and buildings, rent reviews will be conducted at five year intervals from the date of commencement of the leases.