ron Trades Insurance Group
nnual Report and Accounts 1997

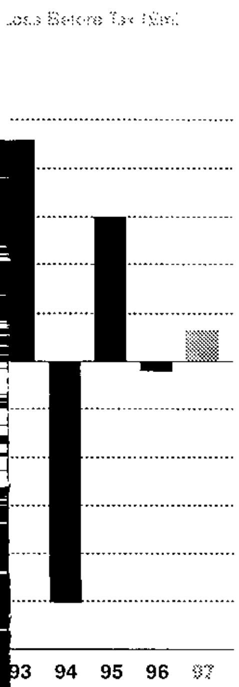
IRONTRADES

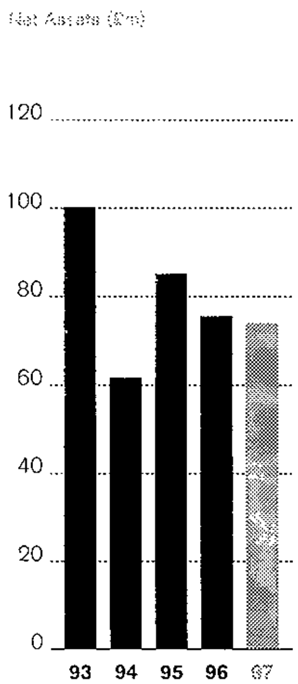
C/N° 57061

Contents

he Iron Trades Employers Insurance
ssociation Limited was incorporated in 1898
a mutual company to provide Employers'
iability insurance to its member companies.
his year the Group celebrates its centenary.
t the end of 1989 the Association ceased
riting new business and is responsible for the
un-off of claims arising under policies written
rior to 1990. It is also the owner of 100% of
he equity of Iron Trades Insurance Company
imited which continues to write a full range
f general insurance policies, and for which a
parate Report and Accounts is published.

ancial Summary for the five years to 31 December 1997





"...This year the Group celebrates its centenary..."

This is my second Chairman's Statement, and the trading environment and markets have been much as they were 12 months ago. The Iron Trades Employers Insurance Association Limited (Association) was incorporated on 23 April 1898 and thus this year the Group celebrates its centenary - a notable achievement for any company and one that reflects the Group's ability to provide a quality service at the right price to its policyholders.

Group Results The consolidated result for the Group in 1997 was a profit before tax of £6.4m. The comparable result for 1996 was a loss of £2.2m.

The consolidated result includes a profit before tax of £23.5m for Iron Trades Insurance Company Limited reduced by increased provisions for the Association in respect of claims arising from business written many years ago.

The overall result benefited from a good investment performance owing to the general increase in bond and equity markets. This investment performance is reflected in the reported profit and loss results.

Restructuring During the year the Group was restructured with the creation of a new subsidiary company, Iron Trades Holdings Limited (Holdings). This new company is a wholly owned subsidiary of The Iron Trades Employers Insurance Association Limited. All the assets and liabilities of the Association were transferred to Holdings at the end of 1997. This process was approved by the DTI. Thus all claims arising from policies written by the Association are now settled by Holdings. Iron Trades Insurance Company Limited continues to write the ongoing business of the Group and is now a 100% owned subsidiary of Holdings.

Association Claims The overall downward trend in claim notifications for the Association continued in 1997. The total number of claims for latent disease received in 1997 was approximately 10,000 compared with 11,600 in 1996, and as many as 27,200 in 1993. The main reduction was in respect of claims due to deafness, with claims for other diseases being at a similar level to the previous year. Claims arising from asbestos related disease were above the level of 1996 and were higher than previously expected. These claims arise from policies written many years ago; the usage of asbestos by policyholders was at its peak over 40

years ago and the Board expects that claims arising will decrease over the next few years. However, it is still not yet possible to be certain that the claim notifications have peaked; the precise timing and level of claims remains very uncertain. The Board has, therefore, decided to add £37.5m to the Association's IBNR (Incurred But Not Reported) claim provisions mainly to reflect the asbestos related disease experience in 1997. This will mean that claim provisions for the Association at the end of 1997 total £207.2m of which £154.0m is in respect of IBNR. The handling of asbestos related claims is done solely at the Leeds office which ensures there is better control and analysis of claims and the underlying exposures and trends. Further improvements in the assessment of the liability arising from the Association's old policies will continue to be made. Total claims outstanding for the Association reduced from approximately 32,000 at the beginning of 1997 to less than 23,000 at the end of 1997. This reflected a significant acceleration in the settlement of outstanding deafness claims.

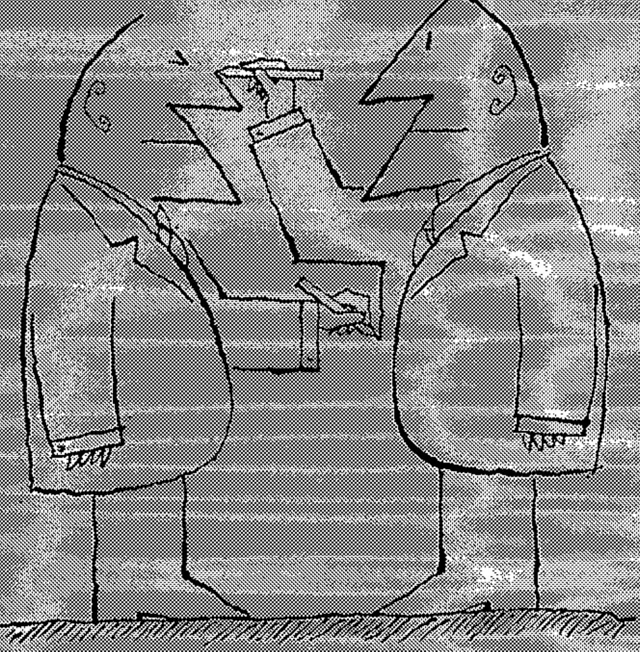
Investment Performance The Group benefited from a good investment performance with overall investment income, excluding

...recognising the importance of building strong relationships...

gains or losses on investments, increasing from £35.9m in 1996 to £42.9m in 1997. The Group's investment policy is kept under review with the appointed investment advisors and managers, Barclays Global Investors. It aims to achieve a reasonable match in maturity between its assets and liabilities whilst seeking to maximise investment performance over the medium term. The Group's significant employers' liability business with its associated long tail of claims, often subject to social and medical inflation, means that the Group maintains a relatively large proportion of the investments in real assets (equities, property and index linked gilts). In order to manage the Group's exposure to the volatile equity markets the Group entered into a number of collar options to protect the Group from falls in the UK equity market below certain levels and thereby protect the Group's net asset base. As a consequence the option contracts cap the value of the underlying equities. The UK market was trading at above the top of the collar option at the year end and an unrealised loss of £42.9m has been recorded in the 1997 financial statements. These collar options expired in early January 1998. The Group has again arranged this protection in 1998 and the Board continues to monitor the movements in the equity markets. The deterioration in the Far East investment markets in the second half of the year had an adverse effect on investment performance but the Group's exposure to these markets was less than 5% of total assets. In addition there were significant realised and unrealised investment gains of £30.9m (1996 - £29.0m). After the additional IBNR provision of £37.5m for latent claims, net assets were £74.0m at the year end, a decrease £1.6m.

Iron Trades Insurance Company The principal subsidiary, Iron Trades Insurance Company Limited (the Company), produced a profit before tax of £23.5m which was a significant improvement over the 1996 profit of £10.6m. This was achieved in a very competitive market and reflected a determination to write business for profit not volume and to avoid uneconomic pricing.

The strategic review carried out by the Company during 1996 was implemented in 1997 with significant reorganisation and restructuring as a consequence. The results of this reorganisation have already started to benefit the Company and further benefits are anticipated in 1998. The Board's strategy is to increase the ratio of non-liability business, to recognise more clearly the different requirements of each market sector, to continue to build strong partnerships with key regional and provincial intermediaries, and to increase revenues from schemes and facilities.



The Company's management structure now reflects this strategy. The Company continues to be a significant part of the Association's investments, having net assets of £186.5m at the year end. The Company has therefore declared an increased dividend of £3m payable to Holdings. Full details of the Company's operations are given in the separate Report and Accounts which are published for the Company.

Outlook The outlook generally for the insurance market is one of continuing strong competition with the consequent softness in pricing and it is expected that 1998 will be a difficult year with the underwriting result continuing to be under intense pressure. However the Group's restructuring has reduced costs, is improving customer service and there is a better alignment to the market. The Group will benefit from this reorganisation over the next few years.

Board Phillip Hares retired from the Board at the end of 1997, after 16 years' service. The Board wishes to thank Phillip for his support and wise counsel over these years.

Roger Peek was director and Chief Executive of the Group throughout 1997 and resigned on 7 April 1998. We are grateful to him for having put in place a structure for the future. Robert Hardy will be acting Group Chief Executive until the Board has made a new appointment. Robert joined the Group as General Manager Finance on 1 July 1996 and was appointed to the Board of the Group on 27 March 1997. Prior to this he was Director, Insurance Services with Price Waterhouse. Since joining Iron Trades, Robert has played an active role in developing the Strategy of the Group. The Board is confident that Robert will lead the Group with enthusiasm, dedication and professionalism.

Auditors This is the first year that Ernst & Young have acted as auditors to the Group and we thank them for the way in which they have carried out their duties. It is proposed that Ernst & Young be re-appointed as auditors to the Group.

Employees Finally, the Board would like to thank all employees for their efforts and contribution to the progress of the Group in a continuing difficult market environment.

Ben Strickland 7 April 1998

6. Ben Strickland Chairman
Aged 58, he was appointed to the Board in September 1996 and was appointed Chairman on 6 November 1996. He was previously a Director of Schroders plc from 1982 to 1991 and an executive in the Schroders Group from 1968. Mr Strickland is a Chartered Accountant and holds an MA degree. He also holds a diploma for the Advanced Management Program of Harvard Business School.

avid Turner
d 53, he joined the Board in February 1992. Mr Turner is a tered Accountant. He is the Finance Director of GKN plc and idiary companies.

obert Beveridge
d 56, he joined the Board in March 1995. Mr Beveridge is a Solicitor is currently Company Secretary of The Marley Group. He holds a ber of directorships with subsidiary companies within The Marley up. As well as being a Solicitor Mr Beveridge holds an MA degree aw.

obert Hardy Acting Chief Executive
d 38, Mr Hardy joined Iron Trades in July 1996 as General Manager, nce and was appointed to the Board of the Company as Finance ctor on 25 July 1996 and to the Board of the Association on 27 ch 1997. Mr Hardy was appointed acting Chief Executive on 7 April 8 following the resignation of Roger Peek on that day. Prior to this Hardy was Director, Insurance Services with Price Waterhouse. He is artered Accountant and holds an MA degree in Mathematics.

n Carswell Chairman of the Audit Committee
d 68, he joined the Board in March 1988. Mr Carswell was then nce Director of Davy Corporation plc. Mr Carswell is a Chartered untant.

ck Cain
59, he joined the Board in May 1994. He is presently Director of ers and Acquisitions with British Steel plc. He holds a number of torships with subsidiary and associated companies of British Steel. ain has a Bachelor of Commerce degree and he is also a tered Accountant.

7. Julian Wilson Company Secretary and Legal Adviser
Aged 48, he joined the Company in 1993. He is a Barrister and holds a LLB degree. He was previously employed by International Aeradio Plc as Commercial Director.

8. David Lee Vice Chairman
Aged 64, he joined the Board on 1 December 1978 at which time he was a Director in his family's company, A Lee and Son Ltd. He was also previously a Non Executive Director with the Halifax Building Society.

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The Directors have pleasure in presenting their Annual Report and the Accounts for the year ended 31 December 1997.

Directors
Chairman
B V Strickland MA, FCA (IR)*

Acting Chief Executive
W R Hardy MA, ACA (I)

R E Beveridge MA (R)*
W J Cain BCom, FCA (A)*
G L Carswell CA (IAR)*
D S W Lee (IR)*
D J Turner FCA (A)*

Secretary
J B Wilson LLB Barrister

*Non executive

Investment Committee Member I
Audit Committee Member A
Remuneration Committee Member R

Registered Office
Iron Trades House
21-24 Grosvenor Place
London SW1X 7JA

Registered Number
57061

Bankers
The Royal Bank of Scotland Plc
Barclays Bank Plc

Auditors
Ernst & Young

Status and principal activities The Iron Trades Employers Insurance Association Limited (the Association) is a mutual company limited by guarantee without a share capital.

The Association ceased to write business with effect from 1 January 1990, general insurance business now being written by Iron Trades Insurance Company Limited (the Company) the principal trading company within the Iron Trades Insurance Group (the Group).

On 31 December 1997 there was a change in the company structure of the Group. A new insurance company, Iron Trades Holdings Limited, is now part of the Group. This company effectively owns all the assets which were previously directly owned by the Association and has also, under Schedule 2C of the Insurance Companies Act 1982, taken on the insurance liabilities of the Association.

Review of business developments, subsequent events and future developments A review of the business developments and events which have occurred since the year end, together with an indication of future developments, is given in the Chairman's Statement on pages 2 to 5.

Results The Profit and Loss Account for the Group appears on pages 10 and 11. These accounts consolidate the results, assets and liabilities of subsidiary undertakings as listed in note 19 to the accounts.

Directors A list of the present directors appears on this page and page 6. Mr W R Hardy was appointed as a director on 27 March 1997.

Mr P D G Hares retired on 31 December 1997. All other directors held office throughout the year ended 31 December 1997.

Mr R W Peek was a director and Chief Executive throughout the year and resigned on 7 April 1998. Mr W R Hardy was appointed acting Chief Executive on 7 April 1998.

ccordance with the Articles of Association, Mr R E Beveridge Mr W J Cain will retire and being eligible offer themselves for election.

ployees The Group has developed channels of open communication staff at all levels so as to encourage their involvement in, and views all aspects of the business.

e is a non-contributory pension scheme for all eligible employees. trustees of the scheme include two members of staff.

Group offers employment opportunities that are free from discrimi- on on all grounds. Full consideration is given to applications from bled persons, always bearing in mind the respective aptitudes and ties of the applicant concerned and the Group's operational needs. e event of members of staff becoming disabled, every effort is e to ensure that their employment with the Group continues. It is policy that training, career development and promotion opportunities disabled person should, as far as possible, be identical to that of a on free from disability.

ations During the year, the Group contributed £21,672 to charitable nisations (1996 – £22,925). No donations were made for political oses.

ement of directors' responsibilities Company law requires the ctors to prepare accounts for each financial year which give a true fair view of the state of affairs of the company and of the group and profit or loss of the group for that period. In preparing the accounts, directors are required to:

elect suitable accounting policies and then apply them consistently;

ake 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 accounts; and

- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements when preparing the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors The auditors, Ernst & Young, have expressed their willingness to continue in office and a resolution proposing their reappointment will be put to the Annual General Meeting.

Iron Trades House
21-24 Grosvenor Place
London
SW1X 7JA

J B Wilson Secretary 7 April 1998

Consolidated Profit & Loss Account
for the year ended 31 December 1997

Technical account – general business

	Note	1997 £m	1996 £m
Gross premiums written		196.5	198.8
Outward reinsurance premiums		(23.8)	(27.0)
Net premiums written		172.7	171.8
Change in the gross provision for unearned premiums		(3.1)	(9.5)
Change in the provision for unearned premiums, reinsurers' share		(0.8)	(0.5)
Change in the net provision for unearned premiums		(3.9)	(10.0)
Earned premiums, net of reinsurance		168.8	161.8
Allocated investment return transferred from the non-technical account		66.4	61.7
Total technical income		**235.2**	**223.5**
Claims paid			
– gross amount		197.1	191.9
– reinsurers' share		(14.7)	(42.4)
– net of reinsurance		182.4	149.5
Change in the provision for claims			
– gross amount		13.6	12.3
– reinsurers' share		0.1	27.5
– net of reinsurance		13.7	39.8
Claims incurred net of reinsurance	3	196.1	189.3
Net operating expenses	4	38.8	38.2
Total technical charges		**234.9**	**227.5**
Balance on the technical account for general business before equalisation provision		0.3	(4.0)
Change in equalisation provision	12	(0.5)	(0.5)
Balance on the technical account for general business after equalisation provision		**(0.2)**	**(4.5)**

Non-technical account

	Note	1997 £m	1996 £m
Balance on the technical account for general business		(0.2)	(4.5)
Investment income	5	68.8	83.8
Unrealised gains on investments		5.0	–
		73.8	83.8
Investment expenses and charges		0.8	0.9
Unrealised losses on investments		–	18.9
Allocated investment return transferred to the technical account – general business		66.4	61.7
		67.2	81.5
Profit/(loss) on ordinary activities before tax		**6.4**	**(2.2)**
Tax on profit/(loss) on ordinary activities	6	(8.0)	(7.4)
Loss retained for the financial year		**(1.6)**	**(9.6)**

There are no recognised gains and losses other than the loss for the year.

Consolidated Balance Sheet
as at 31 December 1997

Assets

	Note	1997 £m	1996 £m
Investments			
Land and buildings	7	23.9	19.8
Other financial investments	8	708.5	707.2
		732.4	727.0
Reinsurers' share of technical provisions			
Provision for unearned premiums		8.3	9.1
Claims outstanding		54.1	54.2
		62.4	63.3
Debtors			
Debtors arising out of direct insurance operations			
– intermediaries		28.0	25.1
– policyholders		11.4	8.6
Debtors arising out of reinsurance operations		2.3	2.7
Other debtors		10.8	9.7
		52.5	46.1
Other assets			
Tangible assets	9	–	4.0
Cash at bank and in hand		0.5	0.6
		0.5	4.6
Prepayments and accrued income			
Accrued interest		4.4	2.8
Deferred acquisition costs	10	13.6	11.1
Prepayments and accrued income		1.2	1.6
		19.2	15.5
Total assets		**867.0**	**856.5**

Liabilities

	Note	1997 £m	1996 £m
Reserves			
Profit and loss account	11	74.0	75.5
Technical provisions			
Provision for unearned premiums		86.3	83.2
Claims outstanding		664.4	650.8
Equalisation provision	12	1.0	0.5
		751.7	734.6
Provisions for other risks and charges			
Pensions	13	8.0	8.0
Deferred taxation	14	9.9	13.1
		17.9	21.1
Creditors	15		
Creditors arising out of reinsurance operations		2.8	4.9
Other creditors including taxation and social security	15.1	13.5	10.7
		16.3	15.6
Accruals and deferred income		7.1	9.7
Total liabilities		**867.0**	**856.5**

Approved by the Board on 3 April 1998

B V Strickland Chairman

W R Hardy Acting Chief Executive

ssociation only Balance Sheet
s at 31 December 1997

ssets

	Note	1997 £m	1996 £m
nvestments			
and and buildings	7	–	0.9
hares in group undertakings	19	74.1	194.3
ther financial investments	8	–	107.1
		74.1	302.3
einsurers' share of technical provision			
laims outstanding		–	1.9
ebtors			
mounts owed by group undertakings		–	4.7
ther debtors		–	0.3
		–	5.0
repayments and accrued income			
ccrued interest		–	0.3
repayments and accrued income		–	0.3
		–	0.6
otal assets		**74.1**	**309.8**

_iabilities

	Note	1997 £m	1996 £m
Reserves			
Profit and loss account	11	74.0	75.6
Technical provision			
Claims outstanding		–	208.9
Provision for other risks and charges			
Deferred taxation	14	–	15.9
Creditors	15		
Amounts owed to group undertakings		–	6.4
Other creditors including taxation and social security	15.1	0.1	3.0
		0.1	9.4
Total liabilities		**74.1**	**309.8**

pproved by the Board on 3 April 1998

V Strickland Chairman

R Hardy Acting Chief Executive

W. Robert Hardy

Consolidated Cash Flow Statement
For the year ended 31 December 1997

	Note	1997 £m	1996 £m
Net cash (outflow)/inflow from operating activities	**17**	**(21.2)**	**17.6**
Taxation payments		(4.6)	(3.1)
		(25.8)	14.5
Net portfolio disinvestment/(investment)	17	15.8	(14.6)
Net cash (outflow) for the year		**(10.0)**	**(0.1)**

Notes to the Accounts
or the year ended 31 December 1997

Accounting policies

Basis of presentation The accounts have been prepared in accordance with the provisions of Section 255 and Schedule 9A to the Companies Act 1985, which cover the disclosures applicable to insurance companies. Certain comparative figures have been restated to reflect reallocations between captions.

The accounts comply with applicable accounting standards. They also comply in all material respects with the current guidance on Accounting for Insurance Business (excluding accounting for investments) issued by the Association of British Insurers.

Basis of consolidation The consolidated accounts incorporate the assets and liabilities of the Association and all of its subsidiaries as at 31 December 1997 and the results for the year ended on that date. As permitted by Section 230 of the Companies Act 1985 a separate profit and loss account for the Association is not presented.

Basis of accounting The annual basis of accounting has been applied to all classes of business.

Premiums All premium income included in the profit and loss account arises from continuing operations, is shown gross of commissions paid to intermediaries and is exclusive of insurance premium tax.

Premium income relates to business incepted during the year and includes an estimate of pipeline premiums for business written up to the year end but not yet debited, less an allowance for cancellations. Unearned premiums are calculated on a time apportionment basis.

Claims Claims outstanding represents the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising om events which have occurred up to the balance sheet date including a provision for claims incurred but not yet reported less any amounts paid in respect of these liabilities. Claims outstanding is reduced by anticipated salvage and other recoveries.

iscounting of claim provisions has only been applied in respect of certain categories of claims. Discounting is at a rate justified by the erformance of the assets supporting the provisions.

nexpired risks Provision has been made for any deficiencies arising when unearned premiums are insufficient to meet expected claims nd expenses after taking into account future investment return on the investments supporting the unearned premium provision and unexpired isks provision. The expected claims are calculated having regard to events which have occurred prior to the balance sheet date.

nexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate eficit arises.

eferred acquisition costs These represent commissions and other fixed and variable costs arising from the conclusion of insurance ontracts relating to unearned premiums which have been deferred to a future period.

nvestments Investments are stated in the balance sheets on the following bases:

_isted securities and option contracts at their middle market values on 31 December.

Jnquoted investments at the directors' valuation except for subsidiary companies, which are included in the Association balance sheet at mounts equivalent to the share capital and reserves of those subsidiaries.

Properties are formally valued every year. Valuations were undertaken in January 1998 by Chesterton plc, external property consultants, on n open market value basis with existing use.

Jnder the Companies Act 1985 buildings are required to be depreciated over their expected useful economic lives. In respect of investment roperties, this requirement conflicts with the generally accepted accounting principle set out in Statement of Standard Accounting Practice SSAP) 19 "Accounting for Investment Properties", that no depreciation should be provided in respect of such investments. The directors onsider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have een adopted.

respect of the freehold and leasehold properties partly occupied by the Company, it is the Company's practice to maintain them in a ontinual state of sound repair. Accordingly, the directors consider that the lives of these assets and their residual values (based on prices revailing at the time of acquisition or subsequent valuation) are such that their depreciation is insignificant and is thus not provided.

ll other investments are valued at cost.

come from investments All realised and unrealised gains and losses are taken to the profit and loss account. Realised gains are easured by reference to original cost.

n allocation of investment return, comprising investment income and a five year average of realised and unrealised gains and losses, is ade to the technical account on the basis of the relationship between the net assets underlying general insurance operations and those ssets supporting reserves.

xed assets and depreciation Computer system costs of a capital nature are written off from the date when first brought into use on a aight line basis over four years. Office fixtures and fittings are written off in the year of purchase.

xation The Association is not subject to taxation on underwriting surpluses (nor to relief on underwriting deficits) but is subject to rporation tax on unfranked investment income and realised investment gains. This may give rise to differences between the effective tax e and the prevailing rate of corporation tax. The Company is subject to corporation tax on all income and realised gains.

eferred taxation is calculated on the liability basis and is only recognised where it is likely that the amount will become payable or coverable in the foreseeable future.

reign currencies Exchange differences arising from trading operations are accounted for within the profit and loss account in the period which they occur. Assets and liabilities expressed in foreign currencies are translated at the rates effective at the balance sheet date.

nsions The Company operates a pension scheme providing benefits based on final salary. The scheme is funded by the Company and is n contributory by employees. The assets are held separately in a fund administered by trustees. Contributions to the scheme are charged the profit and loss account so as to spread the cost of pensions over the employees' working lives within the group.

2 Segmental reporting

	Liability	Direct motor	Property	Personal accident & health	Total
	£m	£m	£m	£m	£m
1997					
Gross premiums written	76.0	86.8	23.7	10.0	196.5
Gross premiums earned	80.4	80.7	23.1	9.2	193.4
Gross claims incurred	(108.3)	(77.4)	(16.5)	(8.5)	(210.7)
Allocation of investment return	54.1	10.1	1.7	0.5	66.4
Gross operating expenses	(12.6)	(17.8)	(8.4)	(1.1)	(39.9)
Gross technical result	13.6	(4.4)	(0.1)	0.1	9.2
Reinsurance balance	(4.4)	(2.3)	(2.0)	(0.2)	(8.9)
Equalisation provision	–	–	(0.5)	–	(0.5)
Balance on the technical account	9.2	(6.7)	(2.6)	(0.1)	(0.2)
Net technical provisions	**523.0**	**136.8**	**23.1**	**6.4**	**689.3**
1996					
Gross premiums written	91.6	72.5	25.4	9.3	198.8
Gross premiums earned	89.3	65.8	24.9	9.3	189.3
Gross claims incurred	(121.3)	(59.8)	(13.6)	(9.5)	(204.2)
Allocation of investment return	49.4	9.2	2.7	0.4	61.7
Gross operating expenses	(16.1)	(15.3)	(8.3)	(0.6)	(40.3)
Gross technical result	1.3	(0.1)	5.7	(0.4)	6.5
Reinsurance balance	(4.6)	(1.9)	(4.0)	–	(10.5)
Equalisation provision	–	–	(0.5)	–	(0.5)
Balance on the technical account	(3.3)	(2.0)	1.2	(0.4)	(4.5)
Net technical provisions	**524.4**	**120.2**	**20.8**	**5.8**	**671.2**

An analysis of the profit/(loss) before taxation and net assets by class of business has not been provided because, in the opinion of the directors, the above segmental analysis of the balance on the technical account and net technical provisions, respectively, is the most appropriate to the nature of the business. The directors consider that a segmental analysis of net technical provisions, although a liability, provides a useful indication of the assets supporting the business.

3. Claims

3.1 Fundamental uncertainty

The Group has a substantial exposure to disease claims arising from employers' liability policies written many years ago. The majority of this exposure is in respect of asbestos.

There is a significant uncertainty over the ultimate out-turn of asbestos related claims which reflects the limited data available particularly in elation to exposure analysis, the latency period for asbestos related claims and mortality profile of claimants. The claims are extremely long tail in nature and the latency period for these claims is significant - the usage of asbestos was at its peak over 40 years ago. There is very limited available data in respect of the number of employees of policyholders exposed to asbestos.

The future costs arising from these claims cannot, therefore, be predicted with certainty. Accordingly, the provision for claims outstanding in respect of asbestos related claims relies on a considerable degree of judgement as to the number of claims which will emerge, the timing of the claims and the amounts at which they will be settled.

The Group provision established for disease claims is £224.3m (1996: £221.0m). The provision for disease claims is based on information urrently available and the ultimate liability may vary as a result of subsequent information and events, and could result in significant adjustments to the amounts provided. Adjustments to technical provisions are reflected in the accounts for the period in which the adjustments are made.

3.2 Movement in prior years' provision for claims outstanding	1997 £m	1996 £m
iability	(26.1)	(35.1)
irect motor	–	1.4
roperty	–	3.1
ersonal accident & health	–	(0.1)
nder provision for prior years' claims outstanding	**(26.1)**	**(30.7)**

3.3 Discounting of claim provisions

iscounting of the provision for claims outstanding has only been applied in respect of employers' liability incurred but not reported claims rising from latent disease (EL-IBNR).

or this category of claims, settlement patterns are established on a statistical basis having regard to historical notification and settlement mings. The average delay to settlement arising from these calculations is in excess of 10 years.

he estimated gross payments pattern arising has been discounted at an effective rate of between 6% and 6 ½% per annum (1996: 4%) nd claim inflation has been recognised at 4 ½% per annum (1996: 4%) for the period.

L-IBNR provisions before discounting are £285m (1996: £207m) and £164m (1996: £157m) after discounting. The unwinding of the scount charged in 1997 was £9.4m (1996: £9m).

4 Net operating expenses

	1997 £m	1996 £m
Acquisition costs	29.2	27.3
Change in deferred acquisition costs	(2.3)	(3.9)
	26.9	23.4
Administration expenses (including industry levies)	13.0	16.9
Reinsurance commissions	(1.1)	(2.1)
	38.8	**38.2**

Included in acquisition costs are commissions for direct insurance amounting to £19.8m (1995: £19.4m)

	1997 £000	1996 £000
Included under administration expenses are:		
Directors' emoluments (Note 4.1)	495	210
Auditor's remuneration		
– Audit fees	159	141
– Other services	449	53
Depreciation charge for the year	3,988	5,550
Operating lease rentals		
– Land and buildings	1,342	1,342
– Plant and machinery	103	103

The 1996 auditor's remuneration relates to payments made to the previous auditors, Kingston Smith.

4.1 Directors' emoluments

	1997 £000	1996 £000
Aggregate emoluments	385	210
Company pension contributions securing money purchase benefits	110	–
	495	**210**

Retirement benefits are accruing to 5 directors under a defined benefit scheme and 1 director under a money purchase scheme.

	1997 £	1996 £
Aggregate emoluments of highest paid director	147,374	123,547

The highest paid director participated in both a defined benefit and a money purchase scheme. The accrued pension at the end of the year for the defined benefit scheme was £10,500 and the Company contributions in the year securing money purchase benefits were £110,000.

4.2 Employment costs

	1997 £m	1996 £m
Wages and salaries	12.3	13.7
Redundancy	(0.5)	1.7
Social security costs	1.0	1.0
Pension costs	–	1.3
	12.8	**17.7**

4.3 Average number of employees during the year

	1997 No	1996 No
Administration and other support	108	155
Underwriting	302	318
Claims	211	227
	621	**700**

4.4 Loans to directors

The following director had a season ticket loan during the year:

	Maximum balance in the year 1997 £	At year end 1997 £	At year end 1996 £
J R Hardy	1,320	660	648

Investment income

	1997 £m	1996 £m
Gains on the realisation of investments	25.9	47.9
Income from land and buildings and other investments	42.9	35.9
	68.8	**83.8**

6 Taxation on profit/(loss) on ordinary activities

	1997 £m	1996 £m
The charge for taxation comprises:		
United Kingdom corporation tax at 31.5% (1996: 33%)	8.6	9.8
Tax credit on franked investment income	2.6	2.3
	11.2	12.1
Deferred taxation	(3.2)	(4.7)
	8.0	**7.4**

7 Land and buildings (Group)

	Long leasehold £m	Freehold £m	Total £m
At current value:			
At 1 January 1997	15.0	4.8	19.8
Disposals	–	(0.3)	(0.3)
Surplus on revaluation	3.2	1.2	4.4
At 31 December 1997	**18.2**	**5.7**	**23.9**
At cost:			
At 1 January 1997	2.7	6.9	9.6
Disposals	–	(0.1)	(0.1)
At 31 December 1997	**2.7**	**6.8**	**9.5**

Land and buildings occupied by the Group for its own activities, at current values, are as follows:

	Long leasehold	Freehold	Total
At 31 December 1997	8.3	0.3	8.6
At 31 December 1996	6.8	0.2	7.0

Land and buildings (Association only)

	Long leasehold £m	Freehold £m	Total £m
At current value:			
At 1 January 1997	0.9	–	0.9
Transfer to group undertaking	(0.9)	–	(0.9)
At 31 December 1997	**–**	**–**	**–**
At cost:			
At 1 January 1997	0.3	–	0.3
Transfer to group undertaking	(0.3)	–	(0.3)
At 31 December 1997	**–**	**–**	**–**

Other investments (Group)

	Current value		Cost	
	1997	**1996**	**1997**	**1996**
	£m	**£m**	**£m**	**£m**
Listed investments:				
– Shares, options and other variable-yield securities and units in unit trusts	361.6	358.9	105.1	99.0
– Debt securities and other fixed income securities	249.1	217.9	242.6	215.7
Deposits with credit institutions	94.7	127.3	94.7	127.3
Other	3.1	3.1	4.6	4.7
	708.5	**707.2**	**447.0**	**446.7**

Other investments (Association only)

	Current value		Cost	
	1997	**1996**	**1997**	**1996**
	£m	**£m**	**£m**	**£m**
Listed investments:				
– Shares, options and other variable-yield securities and units in unit trusts	–	70.1	–	13.3
– Debt securities and other fixed income securities	–	29.2	–	27.6
Deposits with credit institutions	–	7.8	–	7.8
	–	**107.1**	**–**	**48.7**

Tangible assets

	1997	**1996**
	£m	**£m**
Cost:		
At 1 January	25.1	25.2
Additions	–	(0.1)
At 31 December	25.1	25.1
Depreciation:		
At 1 January	21.1	15.5
Charge for the year	4.0	5.6
At 31 December	25.1	21.1
Net book value at 31 December	**–**	**4.0**

All assets included above relate to computer systems.

10 Deferred acquisition costs

	1997 £m	1996 £m
Balance at the beginning of the year	11.1	7.2
Movement in the year	2.5	3.9
Balance at the end of the year	**13.6**	**11.1**

11 Reconciliation of movement in reserves

	Profit & loss account	Total	Profit & loss account	Total
	1997 £m	**1997 £m**	**1996 £m**	**1996 £m**
1 January	75.6	75.6	85.2	85.2
Retained loss for the financial year	(1.6)	(1.6)	(9.6)	(9.6)
31 December	**74.0**	**74.0**	**75.6**	**75.6**

12 Equalisation provision

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. The provisions, required by Statute, are over and above the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, and as such are not liabilities at that date. This has had the effect of reducing reserves by £1.0m (1996: £0.5m). The movement in equalisation provision during the year resulted in a decrease in the general business technical account result and profit before taxation of £0.5m (1996: £0.5m).

13 Pensions

Contributions are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method. The most recently completed interim valuation was at 31 December 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8.8% per annum, that salary increases would be 6% per annum and that present and future pensions would increase at the rate of 4% per annum.

At 31 December 1996, the market value of the scheme's assets was £85.4m and the actuarial value of those assets represented 125% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The actuarial surplus was £14m.

	1997 £m	1996 £m
Pension provision:		
Provision at the beginning of the year	8.0	6.1
Charge for the year	–	1.9
Provision at the end of the year	**8.0**	**8.0**

In previous years the assumptions used in funding the scheme have also been used to calculate the pension costs and the surplus in the scheme was spread using the 'percentage of payroll' method. This year a 'best estimate' basis as calculated by the actuary has been used to calculate the pension cost and the surplus has been spread using a 'level variation method'. The effect of this change is to reduce the charge for the year by £1.9m.

14 Deferred taxation

	Group	Association	Group	Association
	1997 £m	**1997 £m**	**1996 £m**	**1996 £m**
Amount provided for deferred taxation in respect of:				
Market variation in net values of investments	16.2	–	18.9	15.9
Other timing differences	(6.3)	–	(5.8)	–
	9.9	**–**	**13.1**	**15.9**
Movements during the year:				
Balance 1 January	13.1	15.9	17.8	18.2
Change in rate of tax	(0.8)	(1.0)	–	–
Decrease in tax applicable to market variation	(1.5)	(1.9)	(2.8)	(2.3)
Transferred to group undertaking	–	(13.0)	–	–
Other timing differences	(0.9)	–	(1.9)	–
	9.9	**–**	**13.1**	**15.9**

Additional liability for deferred taxation would only arise in the event of the disposal of the Group's investments, at the value at which they are included in these accounts, amounting to £51.4m (1996 – £52.9m) (Association £ nil (1996 – £nil)).

15 Creditors

All creditors are payable within a period of five years.

15.1 Other creditors including taxation and social security	Group	Association	Group	Association
	1997	**1997**	**1996**	**1996**
	£m	**£m**	**£m**	**£m**
Corporation tax	6.9	–	3.4	2.7
Other	6.6	0.1	7.3	0.3
	13.5	**0.1**	**10.7**	**3.0**

16 Obligations under operating leases	Land and buildings		Other	
Annual commitments under non-cancellable operating leases are as follows:				
Group and Company	**1997**	**1996**	**1997**	**1996**
	£000	**£000**	**£000**	**£000**
Operating leases which expire:				
- within one year	68	77	103	103
- between two and five years	67	184	–	–
- over five years	1,055	1,055	–	–
	1,190	**1,316**	**103**	**103**

17 Note to the consolidated cash flow statement	**1997**	**1996**
	£m	**£m**
Reconciliation of profit before taxation to net cash inflow from operating activities		
Profit/(loss) before taxation	6.4	(2.2)
Increase in insurance and other debtors	(10.1)	(9.6)
Increase in technical provisions	18.1	50.3
(Decrease)/increase in insurance and other creditors	(5.4)	5.0
Tax on franked and unfranked investment income	(3.2)	(3.1)
Realised and unrealised gains	(30.9)	(29.0)
Depreciation of tangible fixed assets	4.0	5.6
Movement in debtors/creditors reflecting investments	–	0.6
Other non-cash movements	(0.1)	–
Net cash (outflow)/inflow from operating activities	**(21.2)**	**17.6**

	1997 £m	1996 £m
Movements in opening and closing portfolio investments		
Net cash flow for the year	(10.0)	(0.1)
Cash flow movements from portfolio investments	(15.8)	14.6
Movements arising from cashflows	(25.8)	14.5
Changes in market values and exchange effects	31.1	28.4
Total movements in portfolio investments	5.3	42.9
Portfolio investments at 1 January	727.6	684.7
Portfolio investments at 31 December	**732.9**	**727.6**

	1997 £m	1996 £m
Net portfolio investment		
Purchase of equity shares	(14.0)	(4.6)
Purchase of fixed interest investments	(45.5)	(277.6)
Sale of equity shares	33.8	43.6
Sale of fixed interest investments	18.5	288.2
Sale of land and buildings	0.3	–
Changes in deposits with credit institutions	22.7	(64.2)
Net disinvestment/(investment)	**15.8**	**(14.6)**

Movements in cash and portfolio investments

	At 1 January 1997	Cash flow	Changes in market value and currencies	At 31 December 1997
	£m	£m	£m	£m
Equity shares	358.9	(19.8)	22.5	361.6
Fixed interest investments	217.9	27.0	4.2	249.1
Land and buildings	19.8	(0.3)	4.4	23.9
Deposits with credit institutions	112.1	(22.7)	–	89.4
Other	3.1	–	–	3.1
	711.8	(15.8)	31.1	727.1
Cash at bank and in hand and short term deposits	15.8	(10.0)	–	5.8
Total	**727.6**	**(25.8)**	**31.1**	**732.9**

8 Contingent liabilities

The group has contingent liabilities of £1.8m relating to levies to be raised by the Motor Insurers' Bureau in respect of 1997 premium. Contingent liabilities of £3.3m in 1996 related to levies to be raised by the Motor Insurers' Bureau and the Policyholders' Protection Board in respect of 1996 premium.

19 Subsidiary undertakings

On 31 December 1997 there was a change in the company structure of the Group. A new insurance company, Iron Trades Holdings Limited, is now part of the Group. This company owns all the assets which were previously directly owned by the Association and has also taken on the substantial majority of the liabilities of the Association, the insurance liabilities having been transferred under Schedule 2C of the Insurance Companies Act 1982.

Company	**Principal activity**
Iron Trades Holdings Limited	General insurance
Subsidiaries of Iron Trades Holdings Limited	
Iron Trades Investments Limited	Investment holding
Iron Trades Insurance Company Limited	General insurance
Subsidiaries of Iron Trades Investments Limited	
Cartonleaf Limited	Dormant
Islandstream Limited	Investment holding
Longspiral Limited	Dormant
Mossisland Limited	Dormant
Retoria Limited	Dormant
Subsidiaries of Iron Trades Insurance Company Limited	
Belgravia Facilities Limited	Dormant
Iron Trades Claims Services Limited (formerly Chester Street Securities Limited)	Dormant
IT Investments (1990) Limited	Investment holding
IT Insurance Company Limited	Dormant
Iron Trades Promotions Limited	Dormant
Westking Limited	Dormant

All subsidiaries are wholly owned and registered in England and Wales.

20 Parent company accounts

Included in the loss of the group is £1.6m (1996 – £9.6m loss) relating to the Association.

Report of the Auditors

To the members of **The Iron Trades Employers Insurance Association Limited**

We have audited the accounts on pages 10 to 29 which have been prepared on the basis of the accounting policies set out on pages 17 and 18.

Respective responsibilities of directors and auditors

As described on page 9 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 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 Group'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.

Equalisation provision

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 31 December 1997, and the effect of the movement in this provision during the year on the general business technical result and profit before tax are disclosed in note 12.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosure made in the accounts concerning the provision for employers' liability incurred but not reported claims arising from latent disease. These provisions rely on a considerable degree of judgement due to the uncertainty as to the number of claims which will emerge, the timing of these claims and the amounts at which they will be settled. Details of the circumstances relating to this fundamental uncertainty are described in note 3.1. Given the nature of this issue, it is not possible to quantify the potential effects of the resolution of the uncertainty. Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1997 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor
London

April 1998

List of Offices

Head Office
Iron Trades House
21-24 Grosvenor Place
London SW1X 7JA
Telephone: 0171 235 6033
Facsimile: 0171 245 6308

City
Boundary House
7-17 Jewry Street
London EC3N 2JH
Telephone: 0171 680 1083
Facsimile: 0171 680 1084

Midlands
Embassy House
60 Church Street
Birmingham B3 2DJ
Telephone: 0121 200 1900
Facsimile: 0121 200 2860

orth East
cclaim House
entral Park
eeds LS11 5UF
elephone: 01132 448051
acsimile: 01132 422587

orthern Ireland
d Floor
Bruce Street
elfast BT2 7JD
lephone: 01232 245 510
csimile: 01232 245 570

orth West
alloway
ce Street
stlefield
anchester M3 4NR
ephone: 0161 832 3135
csimile: 0161 832 0931

Scotland
105 West George Street
Glasgow G2 1QN
Telephone: 0141 204 0441
Facsimile: 0141 221 8928

South and Home Counties
169 Kings Road
Reading RG1 4EX
Telephone: 01189 560808
Facsimile: 01189 573479

South East and East Anglia
Huntingdon House
10 Masons Hill
Bromley
Kent BR2 9JW
Telephone: 0181 313 1000
Facsimile: 0181 313 1259

South West
Prudential Buildings
Wine Street
Bristol BS1 2PW
Telephone: 01179 276207
Facsimile: 01179 297012

Middlesbrough
16/26 Albert Road
Middlesbrough
Cleveland TS1 1QG
Telephone: 01642 227424
Facsimile: 01642 223812

IronSure Response Centre
Galloway
Rice Street
Castlefield
Manchester M3 4NR
Telephone: 0161 830 2200
Facsimile: 0161 834 9739

signed by: UffindellWest

n Trades Insurance Group
n Trades House, 21-24 Grosvenor Place, London SW1X 7JA
ephone 0171 235 6033, Facsimile 0171 245 6308.