

**COMMERCIAL UNION CORPORATE MEMBER LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 1998**



Registered Office  
St Helen's  
1 Undershaft  
London  
EC3P 3DQ

Company registration number - 3381519

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# DIRECTORS' REPORT

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## *Directors' Report*

The directors present their report and the audited financial statements of the company for the year ended 31 December 1998.

## *Principal Activities*

The principal activity of the company is that of a Corporate Underwriting Member of Lloyd's. The company commenced trading on 1 January 1998 providing £28.4 million of capacity to syndicates managed by Marlborough Underwriting Agency Limited, a CGU Group company. The level of activity is expected to significantly increase from 1 January 2000 following the transfer of CGU's London market business to Lloyd's, under the management of Marlborough.

## *Results and Dividend*

The results for the year are shown on page 7 and arise from continuing operations. The directors consider the results and the company's financial position to be satisfactory. The directors do not recommend the payment of any dividend for the year (1997 - nil).

## *Directors*

The directors in office during the year were:

Mr K N Grant (resigned 30 June 1998)

Mr P A Rice

Mr C A C M Schrauwers

Mr R A Whitaker (appointed 1 July 1998)

## *Directors' Interests*

The directors of the company who held office at 31 December 1998 had the following interests in the shares of CGU plc.

	At 1 January 1998 (or on appointment if later)		Movement during the year		At 31 December 1998	
	Shares	Share Options	Options granted	Options exercised	Shares	Share Options
C A C M Schrauwers	8,499	53,891	30,759	702	8,012	83,948
P A Rice	3,764	90,655	-	80,271	80,439	10,384
R A Whitaker*	34,286	47,619	19,245	-	34,365	66,864

DIRECTORS'  
REPORT — *continued*

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\* Mr Whitaker held shares in General Accident plc which were converted on 2 June 1998 in accordance with the terms of the merger offer at the rate of 1.233 CGU shares for every 1 General Accident share held. In order to show actual movement in shareholdings during the year General Accident shares held at 1 July 1998 have been converted to CGU shares on the basis mentioned above.

On 2 September 1998, Mr Rice, Mr Schrauwers and Mr Whitaker were granted awards over 17,196, 28,802 and 18,072 CGU shares under the CGU plc Integration Incentive Plan. Awards under the plan become capable of vesting in the year 2000, subject to the achievement of specified performance criteria.

On 31 December 1998, Mr Schrauwers held nil cost options over 34,298 shares under the Commercial Union Long Term Incentive Plan. These options will normally become capable of exercise on various dates between 1999 and 2000 subject to the satisfaction of specified performance criteria.

With the exception of the holdings disclosed above none of the directors who held office at 31 December 1998 had any beneficial interests in the company's shares or the shares of any other company within the CGU Group.

*Financial Reporting Standard 8 "Related Party Disclosures" ("FRS8")*

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

*Year 2000*

The year 2000 issue revolves around the potential failure or disruption of computer systems from their inability to function correctly when the date reaches 1 January 2000.

Principally the company's potential exposure to year 2000 liabilities would be derived from its involvement in syndicates managed by Marlborough. Details of the CGU Group strategy regarding year 2000 can be obtained from the annual report and accounts of the holding company.

The Marlborough group has implemented a plan which is intended to address the year 2000 systems issues and minimise any potential impact on the group's operations. Within the plan priority is being given to those systems that could cause a significant financial or legal impact on the group's business if they were to fail. The plan also includes a requirement for the testing of all critical systems.

In addition to the risk posed by systems failures within the group, or within third parties on which the group relies, there is also a risk of increased claims notifications to the Marlborough managed syndicates resulting from the impact of year 2000 failures on policyholders.

Due to the uncertainties surrounding the year 2000 problem it is not possible to quantify the potential magnitude of year 2000 claims that may be notified in the future. To minimise the potential exposure, the company has performed a review of its business to identify all existing policy types against which year 2000 related claims may arise. In addition the likelihood of year 2000 claims is being assessed as part of the

DIRECTORS'  
REPORT — *continued*

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underwriting process and, where appropriate, policy wordings now include specific exclusion clauses.

Whilst management have taken steps to identify and assess all significant areas, there will always be the risk that an area of potential exposure has not been highlighted despite the best efforts of the management to minimise such loss.

The total cost of modifying the group's computer hardware and software is not considered material to the group's overall costs.

The Marlborough board of directors is regularly updated on progress by the group's year 2000 committee, which is overseeing the exercise.

### *European Monetary Union (EMU)*

The CGU group has significant operations within the European Union and considers that the overall success of EMU presents a substantial opportunity for the Group. The introduction of the Euro by the group is a key priority for management.

The group will introduce the Euro in the most advantageous and economical way for its customers and suppliers and adopt best practice on the introduction of the Euro as this evolves.

The CGU Group's business units have made statements of the service to be supplied to both customers and suppliers on the introduction of the Euro appropriate to the markets in which those units operate. The group will follow the policy developed by the relevant national trade bodies, national legislation and regulatory bodies for the treatment of contracts set up prior to 1 January 1999.

It is estimated that the total cost to the CGU group will be £110m of which £18m has been incurred and expensed in 1998.

### *Auditors*

The previous auditors Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the Directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers will be proposed at the Annual General Meeting.

Approved and signed on behalf of the Board on <sup>25 June</sup> (A) 1999.



Authorised Signatory  
CGU Company Secretarial Services Limited  
Secretary

Registered Office: St Helen's, 1 Undershaft, London EC3P 3DQ

## DIRECTORS' RESPONSIBILITIES

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The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for the financial period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# AUDITORS' REPORT

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## *Report of the auditors*

We have audited the financial statements on pages 6 to 13 which have been prepared in accordance with the accounting policies set out on pages 9 to 10.

## *Respective responsibilities of directors and auditors*

The directors are responsible for preparing the Annual Report, including as described on page 4 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements 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 financial statements, 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 misstatement or material inconsistencies with the financial statements.

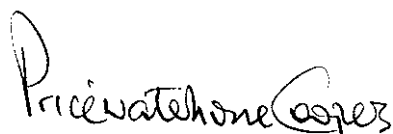
## **Basis of opinion**

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 affairs of the Company as at 31 December 1998 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers  
Chartered Accountants and  
Registered Auditors  
London  
29 June 1999

# PROFIT AND LOSS ACCOUNT

## *Profit and Loss Account for the year ended 31 December 1998* *Technical Account*

		1998	1997
	Notes	£'000	£'000
Premiums, net of reinsurance			
Gross premiums written	2	21,785	-
Outward reinsurance premiums		(3,940)	-
Net premiums written		17,845	-
Investment income from underwriting			
Investment income		32	-
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount		(2,182)	-
Reinsurers' share		632	-
Net paid claims		(1,550)	-
Change in the provision for claims:			
Gross amount		(12,512)	-
Reinsurers' share		2,980	-
Change in the net provision for claims		(9,532)	-
Claims incurred, net of reinsurance		(11,082)	-
Net operating expenses	3	(6,732)	-
Investment expenses and charges		(1)	-
Personal expenses		(717)	-
Balance on the technical account for general business		(655)	-



## PROFIT AND LOSS ACCOUNT

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### *Profit and Loss Account for the year ended 31 December 1998* *Non Technical Account*

		1998	1997
	Notes	£'000	£'000
Balance on the technical account for general business	1	(655)	—
Retained loss for the financial year		(655)	—

All of the above results derive from continuing operations.

The company has no recognised gains or losses other than the loss above and hence no separate Statement of Total Recognised Gains and Losses is presented.

Accounting for investment gains by insurance companies, in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 1998 by the Association of British Insurers ("The ABI SORP") and generally accepted accounting principles, is not considered to give rise to differences from the historic cost convention. As there is no material difference between the results for the current and previous year as described in the profit and loss account, and the results on a historical cost basis, no note on the historical cost profit and loss for the year has been given.

# BALANCE SHEET

## Balance sheet as at 31 December 1998

	Notes	1998 £'000	1997 £'000
<b>ASSETS</b>			
Investments	5	1,089	—
Reinsurers' share of technical provisions			
Claims outstanding	6	2,980	—
Debtors			
Debtors arising out of direct insurance operations			
Due from intermediaries		7,041	—
Debtors arising out of reinsurance operations		3,008	—
Other debtors	7	142	—
		10,191	—
Other assets			
Cash and short term deposits	8	384	—
Overseas deposits	9	94	—
Total assets		14,738	—
<b>LIABILITIES</b>			
Capital and reserves			
Called up share capital	10	—	—
Profit and loss account	11	(655)	—
Total shareholders' funds		(655)	—
Technical provisions			
Claims outstanding	12	12,512	—
Creditors			
Creditors arising out of direct insurance operations		39	—
Creditors arising out of reinsurance operations		1,380	—
Other creditors	13	1,462	—
		2,881	—
Total liabilities		14,738	—

All assets and liabilities are held at syndicate member level in accordance with Lloyd's Trust Fund requirements.

The financial statements on pages 6 to 13 were approved by the board of directors on [25 June 1999] and were signed on its behalf by *NICK A. H. U.*

# NOTES TO THE ACCOUNTS

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## **1** *Principal accounting policies*

### **a) Accounting convention**

The financial statements have been prepared in accordance with Section 255 of, and Schedule 9A to the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("the Regulations"), and in accordance with applicable accounting standards in the United Kingdom. The company has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 1998 by the Association of British Insurers ("The ABI SORP"). No cash flow statement is included as the financial statements of CGU plc include the consolidated results of this company together with a consolidated statement of group cash flow.

### **b) Technical account**

The underwriting account for all classes of business has been prepared on a three year funded basis. Under this basis, premiums and claims are allocated to each underwriting year beginning 1 January, the results of which are determined and reported when the underwriting year is closed. In accordance with Lloyd's practice, the underwriting year is normally recognised as closed after three years of development, at which time any profits are recognised. However, losses on open years are provided in respect of any estimated net loss from a syndicate, except to the extent that such losses are offset by profits on syndicates which are managed together. Each underwriting year of account is considered separately for the purpose of determining any aggregate net loss.

### **c) Premiums**

Gross premiums written, which are stated gross of acquisition costs but exclusive of premium taxes, relate to business incepted during the year, together with estimates of premiums due but not yet receivable or notified to the company by the intermediaries. Outwards reinsurance premiums are accounted for on the same basis and in the same accounting period as the premiums for the direct or inwards reinsurance business to which they relate.

### **d) Acquisition costs**

Acquisition costs represent the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs are accrued over an equivalent period to that over which the underlying business is written and are charged to the accounting periods in which the related premiums are earned.

### **e) Claims incurred**

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation recoveries.

Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured.

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**f) Claims outstanding**

Provision is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims.

**g) Investment income, expenses and charges**

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised on the date on which the stock goes ex-dividend. Interest income is accrued up to the balance sheet date.

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year.

All investment returns are attributed to the technical account.

**h) Foreign currency transactions**

Monetary assets and liabilities and transactions in the technical account are translated into sterling at the exchange rates prevailing at the balance sheet date. Gains or losses arising on syndicate transactions are included in the technical account.

**i) Investments**

Investments in marketable securities are stated at their mid-market value at the balance sheet date.

**j) Technical provisions**

The excess of premiums written and syndicate investment income over the claims and operating and personal expenses of the syndicate paid in respect of business incepting in an underwriting year is normally carried forward in a fund until the end of the third year following the start of each underwriting year. The fund is included as part of the technical provision for claims outstanding. The adequacy of the outstanding claims provision is established using actuarial and statistical projections of the amounts which the company expects the ultimate settlement will cost, based on the current facts and circumstances. However, it is inherent in the nature of the business written that the ultimate liabilities will vary as a result of subsequent development.

**k) Deferred taxation**

Deferred taxation is accounted for using the liability method on timing differences to the extent that a liability is expected to crystallise within the foreseeable future or an asset is expected to be recovered out of corporation tax payable on profits of the following accounting period.

## **2. Segmental analysis**

The business noted overleaf has all been underwritten in the Lloyd's insurance market which has been treated as one geographical segment and class of business for the purposes of Statement of Standard Accounting Practice No 25: Segmental Reporting.

NOTES TO THE  
ACCOUNTS — *continued*

2. *Segmental analysis (continued)*

	Gross premiums	Gross claims incurred	Net operating expenses	Re- insurance balance
	£'000	£'000	£'000	£'000
Year to 31 December 1998				
Accident & health	412	(314)	(166)	46
Motor - other classes	372	(252)	(150)	—
Marine, aviation and transport	2,913	(2,590)	(629)	384
Fire and other damage to property	11,237	(7,279)	(4,484)	704
Third party liability	1,011	(906)	(219)	176
Credit and suretyship	49	(41)	(10)	2
Other	182	(121)	(73)	329
Reinsurance acceptances	5,609	(3,191)	(1,001)	(1,969)
Total	21,785	(14,694)	(6,732)	(328)

3. *Net operating expenses*

	1998	1997
	£'000	£'000
Acquisition costs	5,238	—
Administrative expenses	1,494	—
Total expenses	6,732	—

Administrative expenses include auditors' remuneration of £7,500 (1997 -£nil).

4. *Directors and employees*

The company has no employees.

The directors received no emoluments for their services to the company (1997 - £nil).

5. *Investments*

	1998	1997
	£'000	£'000
Debt securities and other fixed income securities	880	—
Other - mutual funds	209	—
	1,089	—

NOTES TO THE  
ACCOUNTS — *continued*

6. *Reinsurers' share of technical provisions*

	1998	1997
	£'000	£'000
Balance at the beginning of the year	—	—
Movement during the year	2,980	—
Balance at the end of the year	2,980	—

7. *Other debtors*

	1998	1997
	£'000	£'000
Other debtors	142	—
	142	—

8. *Cash and short term deposits*

	1998	1997
	£'000	£'000
Syndicate premium trust funds	384	—
	384	—

9. *Overseas deposits*

	1998	1997
	£'000	£'000
Overseas deposits	94	—
	94	—

The deposits are held under Lloyd's Premium Trust Deed arrangements where applicable. The syndicates are required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets.

The company has met its funds at Lloyd's requirements to support its underwriting capacity by way of a letter of credit to the value of £30,000,000. The current letter of credit has been arranged by CGU plc, the ultimate holding company.

10. *Called up share capital*

	1998	1997
	£	£
Authorised, allotted and fully paid:		
100 Ordinary shares of £1 each	100	100

NOTES TO THE  
ACCOUNTS — *continued*

11. *Reconciliation of movements in shareholders' funds*

	Share capital	Profit and loss account	Total
	£'000	£'000	£'000
Loss for the financial year	—	(655)	(655)
Opening shareholders' funds	—	—	—
Closing shareholders' funds	—	(655)	(655)

12. *Technical provisions - claims outstanding*

	1998	1997
	£'000	£'000
Balance at the beginning of the year	—	—
Movement during the year	12,512	—
Balance at the end of the year	12,512	—

13. *Creditors*

	1998	1997
	£'000	£'000
Amounts due to group undertakings	54	—
Bank overdraft	1,051	—
Other creditors	357	—
	1,462	—

14. *Transactions with related parties*

Advantage has been taken of the exemption provided in FRS 8 from disclosing details of transactions with CGU plc and its subsidiary undertakings.

15. *Ultimate holding company*

The immediate holding company is Commercial Union Lime Street (No. 1) Limited.

The ultimate holding company is CGU plc, a company registered in the United Kingdom. Copies of both of the accounts can be obtained from the Group Company Secretary, CGU plc, St Helen's, 1 Undershaft, London EC3P 3DQ.