



**FORTIS**

Solid partners, flexible solutions

**Fortis Insurance**

Annual Report and Accounts 2002



# Directors' Report and Financial statements

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# Directors' Report and Financial statements

## **Chief Executive**

Barry D Smith

## **Directors**

Shaun D Astley

Catherine Bruce

Paul Chaplain

Michael H Cranston

Jeffrey O Grosvenor

Alan Sendall

## **Secretary**

Rosemary A Smith

## **Head Office and Registered Address**

Fortis House

Tollgate

Eastleigh

SO53 3YA.

Telephone: (023) 8064 4455

Facsimile: (023) 8064 1146

## **Registered Number 354568 England**

## **Auditors**

KPMG Audit Plc,

8 Salisbury Square

London EC4Y 8BB

## **Bankers**

National Westminster Bank PLC,

Southampton High Street Branch

PO Box 315

Southampton SO14 2BF

# Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31st December 2002.

## Activities

During the year the Company continued to develop its personal lines business, principally motor, travel and household, and its small commercial lines business.

The Company also administered the run-off of its Marine and City business for which it ceased accepting new business in 1991.

## Business review

Full details of the company's results are contained in the accounts on pages 6 to 33. The Directors intend to continue the development of personal and small commercial lines of business.

## Results and dividends

The result of the year's operation is a profit after taxation of £23,163,000 (2001: £22,308,000).

An interim dividend of £10,276,000 (2001: £5,000,000) has been declared. The Directors do not recommend payment of a final dividend (2001: £Nil). The retained profit for the year transferred to reserves was £12,887,000 (2001: £17,308,000).

## Directors

On 9th April 2002 P Chaplain was appointed as a director. On 12th June 2002 J O Grosvenor was appointed as a director. R Lewis resigned as a director on 24th May 2002 and C H de Jong resigned as a director on 30th June 2002. All other Directors served throughout the year and to the date of this report.

## Directors' shareholdings

None of the Directors or their families had any disclosable interest in either the shares of the Company, of any other Group Company, or of the ultimate Holding Company at 31st December 2002.

# Report of the Directors Continued

## **Creditor payment policy**

The Company agrees terms and conditions under which business transactions with suppliers are conducted. It is the Company's policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

## **Employees**

The average number of persons employed in the United Kingdom by the Company and its subsidiaries during the year was 872. The full time equivalent number of employees adjusted for part time staff was 735. Their annual aggregate remuneration was £16,828,000. An analysis is shown on Page 20.

## **Employee involvement**

Staff are kept informed of matters affecting the Company by means of regular departmental meetings and bulletins from general management. The views of staff are represented by an elected Staff Council which holds regular meetings with management.

## **Disabled persons**

The Company's procedures comply with the requirements of the Disability Discrimination Act 1995. If an employee becomes disabled during employment with the Company every effort would be made to retrain that employee to perform a job appropriate to their aptitudes and skills. The Company's policy to encourage career development for its employees includes the disabled for whom further training would be arranged if necessary to allow for special needs.

## **Charitable donations**

Charitable donations in the year amounted to £69,114 (2001: £16,850).

This report was approved by the board of directors on 5th March 2003 and signed on its behalf by:

R A Smith  
Secretary

# Profit and loss account: technical account general business

for year ended 31st December 2002

	Notes	2002		2001	
		£'000	£'000	£'000	£'000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3	496,947		441,827	
Outward reinsurance premiums		<u>(19,009)</u>		<u>(31,138)</u>	
			477,938		410,689
Change in the gross provision for unearned premiums		(20,036)		(12,587)	
Change in the provision for unearned premiums, reinsurers' share		<u>(9,772)</u>		<u>(16,672)</u>	
			<u>(29,808)</u>		<u>(29,259)</u>
			448,130		381,430
<b>Other technical income, net of reinsurance</b>			773		1,007
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount		(302,480)		(278,297)	
Reinsurers' share		<u>31,759</u>		<u>39,551</u>	
		<u>(270,721)</u>		<u>(238,746)</u>	
Change in the provision for claims					
Gross amount		(65,235)		(64,195)	
Reinsurers' share		<u>(7,918)</u>		<u>16,903</u>	
		<u>(73,153)</u>		<u>(47,292)</u>	
			(343,874)		(286,038)
<b>Net operating expenses</b>	6		(101,550)		(86,421)
<b>Change in the equalisation provision</b>			<u>1,917</u>		<u>(1,139)</u>
<b>Sub-total (balance on the technical account for general business)</b>			<u><u>5,396</u></u>		<u><u>8,839</u></u>

All profits are derived from continuing activities.

The notes on pages 11 to 33 form part of these financial statements.

# Profit and loss account: non-technical account

for year ended 31st December 2002

	Note	2002 £'000	2001 £'000
<b>Balance on the general business technical account</b>		5,396	8,839
Investment income	5	33,351	32,805
Investment expenses and charges	7	(737)	(2,292)
Unrealised losses on investments		(5,750)	(4,013)
Other income		1,176	-
Other charges		(953)	(3,329)
<b>Operating profit and profit on ordinary activities before tax</b>	8	32,483	32,010
Tax on profit on ordinary activities	11	(9,320)	(9,702)
<b>Profit for the financial year after tax</b>		23,163	22,308
Dividends	12	(10,276)	(5,000)
<b>Retained profit for the financial year</b>		<u>12,887</u>	<u>17,308</u>

All profits are derived from continuing activities.

The notes on pages 11 to 33 form part of these financial statements.

# Reconciliation of movement in shareholder's funds and Statement of realised and unrealised gains and losses.

	2002 £'000	2001 £'000
Shareholder's funds at beginning of year	162,127	144,388
Profit for the financial year	23,163	22,308
Revaluation of subsidiary undertakings	821	431
Unrealised loss on revaluation of building	(151)	-
Dividends	(10,276)	(5,000)
Shareholders funds at end of year	<u>175,684</u>	<u>162,127</u>

	2002 £'000	2001 £'000
Profit for the financial year	23,163	22,308
Revaluation of subsidiary undertakings	821	431
Unrealised loss on revaluation of buildings	(151)	-
Total gains and losses	<u>23,833</u>	<u>22,739</u>

All profits are derived from continuing activities

The notes on pages 11 to 33 form part of these financial statements

# Balance Sheet

as at 31st December 2002

	Note	2002		2001	
		£'000	£'000	£'000	£'000
<b>ASSETS</b>					
<b>Investments</b>					
Land and buildings	13	1,475		1,176	
Investments in group undertakings	14	18,595		18,774	
Other financial investments	15	664,221		571,203	
			684,291		591,153
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums	22	1,408		11,180	
Claims outstanding		90,608		99,209	
			92,016		110,389
<b>Debtors</b>					
Debtors arising out of direct insurance operations	16	69,864		65,423	
Debtors arising out of reinsurance operations		15,416		10,205	
Other debtors	17	24,001		22,299	
			109,281		97,927
<b>Other assets</b>					
Tangible assets	19	1,205		856	
Cash at bank and in hand		733		99	
			1,938		955
<b>Prepayments and accrued income</b>					
Accrued interest and rent		5,467		7,076	
Deferred acquisition costs	22	42,768		37,773	
Other prepayments and accrued income		959		574	
			49,194		45,423
<b>Total assets</b>			<u>936,720</u>		<u>845,847</u>

# Balance Sheet (continued)

as at 31st December 2002

		2002		2001	
	Note	£'000	£'000	£'000	£'000
<b>LIABILITIES</b>					
<b>Capital and reserves</b>					
Called up share capital	20	71,109		71,109	
Share premium account	21	3,860		3,860	
Revaluation reserve	21	2,110		1,440	
Other reserves	21	14,000		14,000	
Profit and loss account	21	84,605		71,718	
<b>Shareholders' funds attributable to equity interests</b>			175,684		162,127
<b>Technical Provisions</b>	22				
Provision for unearned premiums		232,782		212,746	
Claims outstanding		465,473		402,919	
Equalisation provision		-		1,917	
			698,255		617,582
<b>Provisions for other risks and charges</b>	23		568		-
<b>Deposits received from reinsurers</b>			3,388		8,029
<b>Creditors</b>					
Creditors arising out of direct insurance operations		1,677		2,657	
Creditors arising out of reinsurance operations		16,111		11,706	
Amounts owed to credit institutions		3		49	
Other creditors including taxation and social security	24	35,186		32,590	
			52,977		47,002
<b>Accruals and deferred income</b>	25		5,848		11,107
<b>Total liabilities</b>			936,720		845,847

The notes on pages 11 to 33 form part of these financial statements.

These financial statements were approved by the board of directors on 5th March 2003 and were signed on its behalf by:

BD Smith  
Chief Executive

MH Cranston  
Director

# Notes to accounts

(forming part of the financial statements)

## 1 Basis of preparation

The financial statements, have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of land and buildings and investments, and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers.

Under Financial Reporting Statement 1, the Company is exempt from the requirement to prepare a Cashflow Statement on the grounds that it is a wholly owned subsidiary undertaking.

Under Section 228 of the Companies Act 1985, the Company is exempt from the requirement to prepare group accounts on the grounds that it is a wholly owned subsidiary, whose results are consolidated into the accounts of Fortis International N.V. a company incorporated in the Netherlands.

The financial statements present information about the Company as an individual undertaking and not about its group.

## 2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements except as noted below. The Company has adopted FRS 18 'Accounting policies' and FRS 19 'Deferred tax' in these financial statements. The comparative figures have been restated accordingly.

### Basis of accounting for underwriting activities

All classes of general business except London market cancelled business are accounted for on an annual basis.

The fund basis of accounting was applied to London market cancelled business because the nature of the business accepted in these classes was such that an underwriting result could not be established with sufficient accuracy using the annual basis. The Company ceased to underwrite this business in 1991.

### Premiums

Written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission and exclude taxes and levies based on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for 'pipeline' premiums.

Proportional reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business. The cost of excess of loss reinsurances is borne in equal instalments over the accident year to which the cover relates.

For business accounted for on the annual basis, the provision for unearned premiums represents the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method except for some schemes where the monthly pro rata method is applied to premium bordereaux. Premiums for short term travel business are assumed to be earned at the date of departure with premiums received

before the year of departure being provided as unearned premium.

## **Acquisition costs**

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which correspond to unearned premium provision.

## **Claims incurred**

Claims incurred consists of claims and claims handling expenses paid during the financial year, and the movement in the provision for outstanding claims.

## **Provision for claims outstanding**

Claims outstanding comprise the estimated cost of settling all claims notified based on notifications from policyholders, intermediaries and assessors and claims incurred but not reported (IBNR) and related internal and external claims handling costs. Anticipated reinsurance recoveries, and estimates of salvage and subrogation recoveries, are disclosed separately as assets.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim is generally available. Details of claims IBNR are sometimes not made apparent to the insurer until many years after the event giving rise to the claim has occurred. Classes of business where the IBNR proportion of the total provision is high will usually show greater variations between initial estimates and final outcomes due to a greater difficulty in estimating these provisions. For classes of business where claims are usually notified fairly quickly after the claim event, these generally show lower levels of volatility between initial estimates and final outcomes.

The company uses a number of estimation techniques. Claims frequency, average claims, triangulations and loss ratios are used to determine the incurred but not reported (IBNR) claims provisions but allowance is made for changes and uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims.

Claims incurred but not reported (IBNR) are projected using the loss ratio method. The loss ratio method presents the ultimate loss ratio (ULR) which is then applied to estimated premiums to determine the ultimate cost of claims for each class of business. The IBNR provision is then calculated as the ultimate projected cost of claims less claims notified to date. In addition projections using the triangulation methods including chain ladder techniques are applied. The IBNR provision is then calculated as the ultimate projected cost of claims using both claims paid and claims incurred data.

Triangulation methods are based on the assumption that the relative change in a given accident year's estimates from one evaluation point to the next are similar to the relative change in prior years' accident year's estimates however these are not necessarily indicative of future experience.

## Notes to accounts Continued

For triangulation methods based on cumulative claims incurred - The method's implicit assumption is that provisioning methods have been applied consistently over time and that there have been no material changes in the rate at which claims have been incurred.

For triangulation methods based on cumulative claims paid - This method has the disadvantage over projecting based on claims incurred of ignoring information provided by current outstanding claims provisions but has the advantage of avoiding distortions which could arise from changes in provisioning methods. The method's implicit assumption is that the rate of payment of claims has not changed materially over time.

The results of triangulation techniques are very sensitive to the way in which:

- \* Data is subdivided for analysis by major class and head of damage
- \* Large claims, unusual claims, latent claims and catastrophe claims are dealt with, particularly the cancelled business and the exposure to asbestos and pollution claims
- \* The outcome of legal decisions on the cost of liability claims especially third party bodily injury claims, impact claims development patterns.

The following assumptions are significant to these estimation techniques:

- \* Changes in company processes which might accelerate or slow down the development and / or recording of paid or incurred claims compared with the statistics from previous periods
- \* The development of historical pattern of incurred claims is a good predictor of future development
- \* Average cost of claims is assumed to increase at a greater rate than in the past
- \* Changes to the current legal environment and medical advancement.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material.

The provision, estimation technique, and assumptions are regularly reviewed with any changes in estimates reflected in the general business technical account as they occur.

### **Reinsurance recoveries**

Outstanding claims provisions are assessed gross and net of reinsurance (using the methods outlined above) and consistent with the reinsurance programme in place to cover claims incurred to 31st December. The reinsurance recoveries recognised are sensitive to accuracy of the projection of gross provisions, in particular to the fact reinsurance protection may be exhausted if gross provisions are actually significantly higher than projected. The reinsurance recoveries recognised are also sensitive to the potential for reinsurance bad debts. Provision is made for all anticipated reinsurance bad debts at the year end.

## **Equalisation Provisions**

Equalisation provisions have been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995.

## **Unexpired risks**

Provision is made for unexpired risks where the expected value of claims and administrative expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together after taking into account relevant investment return.

## **Investment return**

Interest receivable is accounted for on an accruals basis. Realised gains and losses represent the difference between net sales proceeds and the latest carrying value. Differences between the cost and amount repayable on maturity of redeemable fixed interest securities are charged or released to the Profit and Loss Account in even instalments over the period remaining until redemption. Unrealised gains and losses on equities and land and buildings are taken to the non-technical account.

Investment return is reported in the non-technical account.

## **Investments**

Redeemable fixed interest securities are valued at amortised cost. Equities are valued at market value.

Investments in group undertakings are stated at attributable net asset value.

## **Depreciation**

Tangible assets comprise computer and other equipment. Other equipment and computer equipment is written off on a straight line basis over periods of two and four years respectively. Buildings occupied by the group for its own activities are depreciated on a straight line basis over fifty years being their estimated economic life. No depreciation is provided on land.

## **Foreign currencies**

Transactions in foreign currencies are translated into sterling using the rates of exchange ruling during the year. Assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. Foreign currency insurance funds at the beginning of the year have been revalued at closing exchange rates. Gains or losses on translation are included in the non-technical account.

## **Leases**

Assets acquired under finance leases are capitalised as tangible assets. The present value of the corresponding lease obligation is recorded as a liability. The total finance charge under the lease is allocated to accounting periods during the lease term based on the underlying rate of interest. Operating lease rentals are charged over the period of the lease.

**Pension costs**

Pension contributions are charged to the Profit and Loss Account so as to spread the cost of pensions over employees' working lives with the company. Additional disclosures in accordance with Financial Reporting Standard 17 are included in note 27.

**Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax where it is considered that the amount is payable or receivable in the foreseeable future.

# Notes to accounts Continued

## 3 Segmental information

### 2002

	Accident & health £'000	Motor (third party liability) £'000	Motor (other classes) £'000	Fire & other damage to property £'000	Miscellaneous £'000	Total £'000
Gross premiums written - United Kingdom	19,644	139,403	218,041	84,026	35,833	496,947
Gross premiums earned	18,784	137,477	215,029	76,208	29,413	476,911
Gross claims incurred	(11,969)	(105,167)	(164,492)	(59,753)	(26,334)	(367,715)
Gross operating expenses	(6,292)	(26,192)	(40,965)	(23,330)	(7,777)	(104,556)
Gross other technical income	7	258	405	56	47	773
Gross technical result	530	6,376	9,977	(6,819)	(4,651)	5,413
Reinsurance balance	(335)	1,873	2,929	(5,908)	(493)	(1,934)
Net technical result	195	8,249	12,906	(12,727)	(5,144)	3,479
Net technical provisions	4,196	185,021	289,393	65,004	62,625	606,239

### 2001

	Accident & health £'000	Motor (third party liability) £'000	Motor (other classes) £'000	Fire & other damage to property £'000	Miscellaneous £'000	Total £'000
Gross premiums written - United Kingdom	16,052	130,605	204,280	65,525	25,365	441,827
Gross premiums earned	16,475	128,640	201,207	58,600	24,318	429,240
Gross claims incurred	(8,386)	(107,176)	(167,632)	(40,765)	(18,533)	(342,492)
Gross operating expenses	(7,510)	(24,566)	(38,424)	(18,123)	(7,199)	(95,822)
Gross other technical income	134	280	439	106	48	1,007
Gross technical result	713	(2,822)	(4,410)	(182)	(1,366)	(8,067)
Reinsurance balance	(711)	9,674	15,131	(5,100)	(3,227)	15,767
Net technical result	2	6,852	10,721	(5,282)	(4,593)	7,700
Net technical provisions	3,171	156,113	244,178	51,948	51,783	507,193

# Notes to accounts Continued

## 4 Prior years' net claims provisions

Over/(under) provisions for claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years' claims were:

	2002 £'000	2001 £'000
Accident & health	364	1,115
Motor (third party liability)	483	(1,077)
Motor (other classes)	756	(1,684)
Fire & other damage to property	326	(458)
Miscellaneous	(1,882)	(2,852)
	<u>47</u>	<u>(4,956)</u>

## 5 Investment income

	2002 £'000	2001 £'000
Income from listed investments	36,718	31,847
(Increase) / decrease in provision for redemption losses	(9,751)	(2,989)
Income from other investments	1,148	1,517
Instalment service charges	3,016	2,430
Net gains on the realisation of investments	2,220	-
	<u>33,351</u>	<u>32,805</u>

# Notes to accounts Continued

## 6 Net operating expenses

<b>2002</b>	Gross £'000	Reinsurance £'000	Net £'000
Acquisition costs	(93,544)	1,283	(92,261)
Deferred acquisition costs carried forward	42,768	(208)	42,560
Deferred acquisition costs brought forward	(37,773)	1,931	(35,842)
Change in deferred acquisition costs	4,995	1,723	6,718
Incurred acquisition costs	(88,549)	3,006	(85,543)
Administrative expenses	(16,007)	-	(16,007)
	<u>(104,556)</u>	<u>3,006</u>	<u>(101,550)</u>

<b>2001</b>	Gross £'000	Reinsurance £'000	Net £'000
Acquisition costs	(83,998)	6,820	(77,178)
Deferred acquisition costs carried forward	37,773	(1,931)	35,842
Deferred acquisition costs brought forward	(34,234)	4,511	(29,723)
Change in deferred acquisition costs	3,539	2,580	6,119
Incurred acquisition costs	(80,459)	9,400	(71,059)
Administrative expenses	(15,362)	-	(15,362)
	<u>(95,821)</u>	<u>9,400</u>	<u>(86,421)</u>

## 7 Investment expenses and charges

	2002 £'000	2001 £'000
Investment management expenses, including interest payable	(737)	(787)
Net losses on the realisation of investments	-	(1,505)
	<u>(737)</u>	<u>(2,292)</u>

# Notes to accounts Continued

## 8 Profit on ordinary activities before tax

	2002 £'000	2001 £'000
<i>Profit on ordinary activities before tax is stated after charging</i>		
Depreciation	806	801
Auditors' remuneration:		
Audit fees	120	85
Other services	28	19

## 9 Directors' remuneration

During the year, emoluments paid by the Company to Directors were as follows:

	2002 £'000	2001 £'000
Emoluments	934	997

The number of Directors to whom retirement benefits are accruing under a defined benefit scheme in respect of qualifying services were:

7	6
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£'000	£'000
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In respect of the highest paid Director:

Emoluments paid by the Company	251	282
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Accrued pension at the end of the year	3	98
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# Notes to accounts Continued

## 10 Staff numbers and costs

The average number of persons employed by the company (including executive directors) during the year, analysed by category, was as follows:

	2002	2001
Business acquisition	231	236
Claims handling	466	458
Administration	175	152
	<u>872</u>	<u>846</u>

The full time equivalent number of employees was as follows:

	2002	2001
Business acquisition	205	211
Claims handling	374	358
Administration	156	133
	<u>735</u>	<u>702</u>

The aggregate payroll costs in respect of these persons were as follows:

	2002	2001
	£'000	£'000
Wages and salaries	14,830	14,338
Social security costs	1,014	949
Other pension costs	984	991
	<u>16,828</u>	<u>16,278</u>

# Notes to accounts Continued

## 11 Taxation

	2002 £'000	2001 £'000
UK corporation tax		
Current tax for the period	(9,071)	(10,819)
Adjustments in respect of prior periods	<u>668</u>	<u>(122)</u>
	<u>(8,403)</u>	<u>(10,941)</u>
Deferred Tax		
Origination / reversal of timing differences	(565)	1,132
Adjustments in respect of previous years	<u>(352)</u>	<u>107</u>
	<u>(917)</u>	<u>1,239</u>
Tax on profit on ordinary activities	<u>(9,320)</u>	<u>(9,702)</u>

The current tax charge for the period is lower / (higher) than the standard rate of corporation tax in the UK (30%, 2001:30%)  
The differences are explained below.

	2002 £'000	2001 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	<u>32,483</u>	<u>32,010</u>
Taxation at 30% (2001:30%)	(9,745)	(9,603)
Effects of:		
Expenses not deductible for tax purposes	374	(44)
Capital allowances for the period in excess of depreciation	151	10
Timing differences on the taxation of investments	-	(1,231)
Dividend income	149	-
Profit on sale of capital asset	-	49
Adjustment to tax charge in respect of previous periods	668	(122)
Total current tax charge (see above)	<u>( 8,403)</u>	<u>(10,941)</u>

# Notes to accounts Continued

## 12 Dividends

An interim dividend of £10,276,000 has been declared (2001: £5,000,000 declared and paid). The Directors do not recommend the payment of a final dividend.

## 13 Freehold land and buildings

	2002 £'000	2001 £'000
Carrying value	1,475	1,176

Freehold land and buildings are occupied by the Company for its own activities. The last valuation was carried out on 2nd December 2002 by George Trollope, Property Consultants and Surveyors. The open market value of land and buildings is determined after the deduction of £25,000 expected selling costs. The historical cost of the land and buildings was £768,843 (2001: £768,843).

## 14 Investments in group undertakings

	2002 £'000	2001 £'000
Shares in group undertakings	£'000	£'000
Cost:		
At 1st January	17,334	24,307
Distribution	(1,000)	(6,973)
At 31st December	16,334	17,334
Carrying value:		
Historical cost	16,334	17,334
Revaluation reserve	2,261	1,440
At carrying value	18,595	18,774

The following companies, which are incorporated in the United Kingdom, were subsidiaries at 31st December 2002.

Company	Activity	% Owned
Northern Star Insurance Company Limited	Dormant	100
Fortis Services (UK) Ltd	Administrative services	100
Bishopsgate Head Office Ltd	Property holding	100
WGIS Limited	In liquidation	100

# Notes to accounts Continued

## 15 Other financial investments

	2002 £'000	2001 £'000
Listed debt securities and other fixed-interest securities at cost	638,364	535,119
Cumulative amortisation provision	(10,629)	(5,261)
	<hr/>	<hr/>
Carrying value - amortised cost	627,735	529,858
Shares and units in unit trusts at market value	17,592	22,727
Deposits with credit institutions at cost	18,807	18,522
Other deposits	87	96
	<hr/>	<hr/>
	664,221	571,203
	<hr/> <hr/>	<hr/> <hr/>

Market values were as follows:

Debt securities and other fixed interest securities	641,747	531,305
Shares and units in unit trusts	17,592	22,728
Deposits with credit institutions	18,807	18,522
Other deposits	87	96
	<hr/>	<hr/>
	678,233	572,651
	<hr/> <hr/>	<hr/> <hr/>

The redemption values of debt securities and the fixed interest securities is £576,827,000 (2001: £511,590,000).

The historical cost of shares and units in unit trusts was £26,803,000. Other deposits are interest earning amounts deposited with the Company's agents.

## 16 Debtors arising out of direct insurance operations

	2002 £'000	2001 £'000
Amounts owed by policyholders	16,015	16,008
Amounts owed by intermediaries	39,588	34,035
Salvage and subrogation recoveries	14,261	15,380
	<hr/>	<hr/>
	69,864	65,423
	<hr/> <hr/>	<hr/> <hr/>

## 17 Other debtors

	2002 £'000	2001 £'000
Amounts due from group undertakings	20,590	16,172
Other debtors	2,154	3,953
Deferred Taxation (note 23)	1,257	2,174
	<hr/>	<hr/>
	24,001	22,299
	<hr/> <hr/>	<hr/> <hr/>

# Notes to accounts Continued

## 18 Due from group companies

Included in the Balance Sheet is an amount of £5,912,423 (2001: £6,292,458) which is not repayable within 12 months. This represents amounts advanced to Bishopsgate Head Office Limited, a subsidiary company, to finance the Group's head office building.

## 19 Tangible assets

	Fixtures fittings and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>			
At beginning of year	3,186	323	3,509
Additions	1,150	5	1,155
Disposals	(460)	(76)	(536)
At end of year	<u>3,876</u>	<u>252</u>	<u>4,128</u>
<b>Depreciation</b>			
At beginning of year	2,330	323	2,653
Charged in year	804	2	806
On disposals	(460)	(76)	(536)
At end of year	<u>2,674</u>	<u>249</u>	<u>2,923</u>
<b>Net book value</b>			
At 31st December 2002	<u>1,202</u>	<u>3</u>	<u>1,205</u>
At 31st December 2001	<u>856</u>	<u>-</u>	<u>856</u>

## 20 Called up share capital

	2002 £'000	2001 £'000
<i>Authorised</i>		
68,108,985 ordinary shares of £1 each	68,109	68,109
3,000,000 deferred shares of £1 each	3,000	3,000
	<u>71,109</u>	<u>71,109</u>
<i>Allotted, called up and fully paid</i>		
68,108,985 ordinary shares of £1 each	68,109	68,109
3,000,000 deferred shares of £1 each	3,000	3,000
	<u>71,109</u>	<u>71,109</u>

The deferred shares are non voting and not entitled to participate in the profits of the Company. On winding up, the deferred shares would rank second, repaying the holders the amount of capital paid up.

# Notes to accounts Continued

## 21 Reserves

	Share premium account	Revaluation reserve	Other reserves	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
At beginning of year	3,860	1,440	14,000	71,718	91,018
Retained profit for the year	-	-	-	12,887	12,887
Revaluation of investments in group undertakings	-	821	-	-	821
Revaluation of land and buildings	-	(151)	-	-	(151)
At end of year	<u>3,860</u>	<u>2,110</u>	<u>14,000</u>	<u>84,605</u>	<u>104,575</u>

# Notes to accounts Continued

## 22 Technical provisions and deferred acquisition costs

	Provision for unearned premiums £'000	Claims outstanding £'000	Equalisation provision £'000	Total £'000
<b>Gross amount</b>				
At beginning of year	212,746	402,919	1,917	617,582
Movement in provision	20,036	62,554	(1,917)	80,673
At end of year	<u>232,782</u>	<u>465,473</u>	<u>-</u>	<u>698,255</u>
<b>Reinsurance amount</b>				
At beginning of year	11,180	99,209	-	110,389
Movement in provision	(9,772)	(8,601)	-	(18,373)
At end of year	<u>1,408</u>	<u>90,608</u>	<u>-</u>	<u>92,016</u>
<b>Net technical provisions</b>				
At end of year	<u>231,374</u>	<u>374,865</u>	<u>-</u>	<u>606,239</u>
At beginning of year	<u>201,566</u>	<u>303,710</u>	<u>1,917</u>	<u>507,193</u>
			2002 £'000	2001 £'000
<b>Net technical provisions at end of year</b>			<u>606,239</u>	<u>507,193</u>
<b>Deferred acquisition costs</b>				
gross			(42,768)	(37,773)
reinsurance commissions			209	1,931
			<u>(42,559)</u>	<u>(35,842)</u>
<b>Net insurance funds</b>			<u>563,680</u>	<u>471,351</u>

Prior to 1991 the company wrote a book of business that has given rise to claims for asbestos and pollution and other latent claims. There is uncertainty as to the amounts at which these claims will settle and the amounts which may be recoverable from reinsurers, because of the long tail nature of these claims and the absence of clarity in the legal position. Included in the provisions above are gross claims of £10,949,000 and reinsurance recoveries of £1,443,000 which the Directors consider are appropriate based on the information that is available to them. It is possible that the final cost may be significantly different from this but it is not possible to reliably estimate the range of possible outcomes.

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Regulations 1996. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date.

# Notes to accounts Continued

## 23 Provisions for other risks and charges

	2002 £'000	2001 £'000
<b>Other provisions</b>		
At beginning of year	-	-
Movement in year	568	-
At end of year	<u>568</u>	<u>-</u>
<b>Deferred taxation asset</b>		
At beginning of year	2,174	935
Movement in year	(917)	1,239
At end of year	<u>1,257</u>	<u>2,174</u>
<b>Total provisions for other risks and charges</b>	<u>689</u>	<u>2,174</u>

The balance on the deferred tax account represents the recoverable amount and is provided at 30% (2001: 30%). Its major component parts comprise:

Unrealised losses/(gains) on investments	(30)	1,039
Capital allowances	971	1,135
Other	316	-
	<u>1,257</u>	<u>2,174</u>

## 24 Other creditors including taxation and social security

	2002 £'000	2001 £'000
Amounts due to group undertakings	16,710	19,693
Corporation taxation payable	1,336	6,191
Social security and other taxes	6,630	5,784
Dividend declared	10,276	-
Other	234	922
	<u>35,186</u>	<u>32,590</u>

# Notes to accounts Continued

## 25 Accruals and deferred income

	2002 £'000	2001 £'000
Deferred reinsurance commission	209	1,931
Other accruals and deferred income	5,639	9,176
	<u>5,848</u>	<u>11,107</u>

## 26 Commitments

At 31st December 2002 the Company had no capital commitments either authorised or contracted for (2001 authorised and contracted for £172,000).

ii) Annual commitments under non-cancellable operating leases are set out below:

	Land and buildings 2002 £'000	Other 2002 £'000	Land and buildings 2001 £'000	Other 2001 £'000
Operating leases which expire:				
within one year	-	12	4	9
second to fifth years inclusive	56	175	52	97
over five years	12	-	12	-
	<u>68</u>	<u>187</u>	<u>68</u>	<u>106</u>

The profit before taxation includes operating lease rentals of £178,000 (2001: £ 86,000) in respect of plant and machinery and £87,000 (2001: £89,000) in respect of other leases.

## 27 Pension schemes

The Company operates a pension scheme providing benefits based on final pensionable pay in respect of staff who were members of the Fortis Staff Pension Scheme on 31st December 1997 and those staff who had contractual rights to join the scheme after this date. In 2001 active members of the Northern Star Insurance Company Limited Superannuation Fund whose employment transferred to Fortis Insurance Limited joined the scheme for future service on a benefit structure mirroring that in their previous scheme and were granted past service benefits in respect of a bulk transfer payment received from that scheme. The assets of the scheme are held in a separate trust fund. Assets are invested in unit trusts and bank deposits under trustee guidelines. Contributions to the scheme are charged to the Profit and Loss Account as paid. These contributions spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1st April 2000. 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. It was assumed that the investment return would be 2% more than salary increases and that future pensions would increase at the rate laid down in the rules. The most recent actuarial valuation showed that the market value of the scheme's assets was £30,982,000 and that the actuarial value of those assets represented 136% of the benefits that had accrued to members, after allowing for the expected future increases in earnings. The pensions charge for the year in respect of Fortis Staff Pension Scheme was £699,407 (2001: £803,241).

The Company also operates a defined contribution scheme called Fortis Insurance Limited Group Pension Scheme in respect of other staff. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost in respect of members of this fund represents contribution payable by the Company to the fund and amounted to £284,383 (2001: £188,888).

Whilst the Company continues to account for pension costs in accordance with Statement of Accounting Practice 24 'Accounting for Pension Costs', under FRS 17 'Retirement Benefits' the following transitional disclosures are required:

The Company operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 1st April 2000 and updated by a qualified independent actuary on an FRS 17 basis at 31st December 2002. The major assumptions used by the actuary were:

Valuation Method	2002 Projected unit	2001 Projected unit
Rate of increase in salaries	4.4%	4.5%
Rate of increase to deferred benefits in deferment	3.0%	3.2%
Rate of increase in pensions in payment :		
– Pre 1988 GMP	Nil	Nil
– Post 1988 GMP	2.4%	2.5%
– Post 1988 Non GMP (ex Bishopsgate members)	5.0%	5.0%
– Post 1988 Non GMP (ex Northern Star members)	2.4%	2.5%
Discount Rate	5.5%	5.8%
Inflation assumption	2.4%	2.5%

## Notes to accounts Continued

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The scheme is closed to new members. Under the projected unit method of valuing the liabilities of the scheme, the current service cost will increase as the members of the scheme approach retirement.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long-term rate of return expected at 31 December 2002	Value at 31 December 2002 £000	Long-term rate of return expected at 31 December 2001	Value at 31 December 2001 £'000
Equities	7.5%	24,730	8%	32,066
Bonds	4.6%	2,882	5%	3,515
Other – Cash	4.0%	1,472	4%	1,300
Total market value of assets		29,084		36,881
Present value of the scheme's liabilities		(52,097)		(44,149)
Deficit in the scheme		(23,013)		(7,268)
Related deferred tax asset		6,904		2,180
Net pension liability		(16,109)		(5,088)

The amount of this net pension liability would have a consequential effect on reserves.

# Notes to accounts Continued

Movement in deficit during the year	2002 £'000
Deficit in scheme at beginning of year	(7,268)
Current service cost	(1,705)
Contributions paid	699
Other finance income	273
Actuarial loss	(15,012)
Deficit in the scheme at the end of the year	<u>(23,013)</u>

If FRS 17 had been fully adopted in these financial statements the pension cost for defined benefit schemes would have been:

	2002 £'000
Current service cost	<u>1,705</u>
Analysis of the amounts included in other financial income	2002 £'000
Expected return on pension scheme assets	2,796
Interest on pension scheme liabilities	(2,523)
	<u>273</u>
Analysis of amount recognised in statement of total recognised gains and losses	%      £'000
Actual return less expected return on pension scheme assets	(37)      (10,681)
Experience gains and losses on scheme liabilities	(2)      (886)
Changes in assumptions underlying the present value of scheme liabilities	(29)      (3,445)
Actuarial loss recognised in statement of total gains and losses	<u>(15,012)</u>

## Notes to accounts Continued

### **28 Non-disposable assets**

Of the assets in the balance sheet, £2,270,000 (2001: £2,532,000) are not at the free disposal of the Company. These have been deposited to guarantee insurance liabilities.

### **29 Related party transactions**

The Company's immediate parent undertaking is Fortis (UK) Limited. As the Company is a wholly owned subsidiary of Fortis Insurance International N.V., the Company has taken advantage of the exemption allowed in FRS 8 not to disclose transactions or balances with entities which form part of the group.

### **30 Parent company**

The company's results are consolidated into the accounts of Fortis Insurance International N.V., a Company incorporated in the Netherlands.

The Company's ultimate holding company is Fortis Utrecht NV which is incorporated in the Netherlands and is jointly owned by Fortis N.V., incorporated in the Netherlands and Fortis SA/NV, incorporated in Belgium.

Copies of the above accounts can be obtained from the Company Secretary, Fortis Insurance Limited, Fortis House, Tollgate, Eastleigh, Hants SO53 3YA.

# Statement of directors' responsibilities

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

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state where applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d) prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# Independent auditors report to the members of Fortis Insurance Limited

We have audited the financial statements on Pages 6 to 33.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibility of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 34, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our professions 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 1985. 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 with the company is not disclosed.

## **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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.

## **Equalisation reserves**

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31st December 2002, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in Notes 2 and 22 respectively.

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31st December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

5th March 2003



Fortis Insurance Limited  
Registered address  
Fortis House  
Tollgate  
Eastleigh  
Hampshire  
SO53 3YA

Registered Number 354568 England