

FM INSURANCE COMPANY LIMITEDACCOUNTS - 31 DECEMBER 1986DIRECTORS

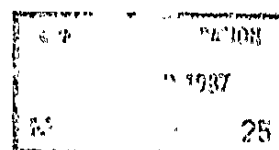
J.G.M. Janus	Chairman and Managing Director
C.W. Anderson	(U.S.A.)
F.J. Bumpus	(U.S.A.)
J.J. Carey	(U.S.A.)
D.E. Johnson	(U.S.A.)
P.E. Ray	(U.S.A.)
G.R. West	(U.S.A.)

SECRETARYM.L. French, F.C.A.REGISTERED OFFICE

Southside
105 Victoria Street
London SW1E 6QT

AUDITORS

Coopers & Lybrand, London



FM INSURANCE COMPANY LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1986

1. The directors present herewith the audited accounts of the company for the year ended 31 December 1986.

2. Results

The profit and loss account for the year and statement of retained profits are set out on page 6.

3. Dividends

The directors do not recommend the payment of a dividend.

4. Principal Activities

The principal activity of the company consists of underwriting property insurance risks, and has not changed during the year.

The company operates in the UK, and through branches in Australia, Belgium, Eire, France and West Germany, and through subsidiary companies in Italy and Brazil.

Liability, marine, aviation and transport business, which the company ceased to write twenty years ago, is still "running off" but is wholly reinsured.

The company is wholly owned by and places substantial reinsurance with the companies of the Factory Mutual System in the U.S.A.

These were at 31 December 1986:

 Allendale Mutual Insurance Company (Johnston RI)
 Arkwright Mutual Insurance Company (Waltham MA)
 Protection Mutual Insurance Company (Park Ridge IL).

5. Changes in Fixed Assets

The movements in fixed assets during the year are set out in note 7 to the accounts.

6. Issue of Shares

During the year, to increase solvency, the Company increased its issued share capital to £ 8,000,000 by the issue of 2,000,000 £ 1 ordinary shares at par to the existing shareholders. The issue was paid for by capitalising current account balances with shareholders.

Cont/d..

7. Directors

The directors of the company at 19 May 1987 are listed on page one and all held office for the whole year.

In accordance with the Articles of Association, Mr C.W. Anderson and Mr J.J. Carey retire by rotation and, being eligible, offer themselves for re-election.

8. Directors' Interests in Shares of the Company

None of the directors had interests in the share capital of the company at any time during the year.

9. Directors' Interests in Contracts

Except as set out in Note 7 none of the directors had a material interest in any contract of significance to which the company was a party during the financial year.

10. Average Number of Employees and their Remuneration (Including Directors)

The average number of employees in the United Kingdom during the year ended 31 December 1986 was 165 and the aggregate remuneration paid or payable in respect of the year was £ 2,441,655.

11. Charitable Contributions

Contributions made by the company during the year for charitable purposes amounted to £ 695.

12. Auditors

A resolution to re-appoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

M. L. French
Secretary

London, 19 May 1987

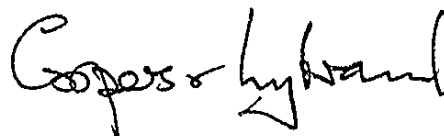
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AUDITORS' REPORT TO THE MEMBERS OF FM INSURANCE COMPANY LIMITED

We have audited the accounts on pages 5 to 18 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1986 and of its loss and source and application of funds for the year then ended and comply with the Companies Act 1985 as applicable to insurance companies.

LONDON, 19 May 1987



COOPERS & LYBRAND
Chartered Accountants

FM INSURANCE COMPANY LIMITED
REVENUE ACCOUNT FOR
THE YEAR ENDED 31 DECEMBER 1986

	<u>Notes</u>	<u>1986</u>	<u>1985</u>
		£	£
PREMIUM EARNED	1, 2 & 3		
Premiums Recorded		66,822,163	48,354,307
Reinsurance Ceded		(60,193,554)	(44,437,965)
		6,628,609	3,916,342
Increase in Net Unearned Premiums		(711,253)	(293,409)
		5,917,356	3,622,933
CLAIMS	1 & 4		
Claims Incurred		(25,533,149)	(30,898,059)
Reinsurance Recoveries		24,107,222	28,660,119
		(1,425,927)	(2,237,940)
EXPENSES AND COMMISSION			
Management Expenses	1 & 5	(14,206,212)	(12,587,636)
Commission Received, Less Paid	1	7,504,038	9,537,788
		(6,702,174)	(3,049,848)
UNDERWRITING LOSS		£ (2,210,745)	£ (1,664,855)

The notes on pages 9 to 18 form part of these accounts

Auditors' report - page 4

FM INSURANCE COMPANY LIMITED
PROFIT AND LOSS ACCOUNT FOR
THE YEAR ENDED 31 DECEMBER 1986

	<u>Notes</u>	<u>1986</u>	<u>1985</u>
		£	£
UNDERWRITING LOSS		(2,210,745)	(1,664,855)
INVESTMENT AND INTEREST INCOME	1	2,288,485	1,558,267
		<hr/>	<hr/>
PROFIT (LOSS) BEFORE TAXATION		77,740	(106,588)
TAXATION	6	(409,130)	(24,862)
		<hr/>	<hr/>
RETAINED (LOSS) FOR THE YEAR		£(331,390)	£(131,450)
		<hr/>	<hr/>

STATEMENT OF RETAINED PROFITS

Retained Profits at 1 January		112,012	410,087
Exchange difference arising from the retranslation of opening net investment in overseas branches	10	348,693	(166,625)
		<hr/>	<hr/>
Retained (Loss) for the year		(331,390)	(131,450)
		<hr/>	<hr/>
Retained Profits at 31 December	10	£ 129,315	£ 112,012
		<hr/>	<hr/>

The notes on pages 9 to 18 form part of these accounts

Auditors' report - page 4

FM INSURANCE COMPANY LIMITEDBALANCE SHEET - 31 DECEMBER 1986

	<u>Notes</u>	<u>1986</u>	<u>1985</u>
		£	£
<u>EMPLOYMENT OF CAPITAL</u>			
FIXED ASSETS	1 & 7	1,058,142	934,677
INVESTMENTS	1 & 8	10,048,494	11,461,089
SUBSIDIARY COMPANIES	14	143,153	88,199
OTHER ASSETS			
Amounts due from Agents and Others		25,658,254	16,334,015
Bank Balances		15,894,725	7,783,010
Taxation	12	-	25,420
		41,552,979	24,142,445
TOTAL ASSETS		52,802,768	36,626,410
Less:			
<u>LIABILITIES AND PROVISIONS</u>			
Amounts due to Reinsurers		34,308,305	23,990,382
Amounts due to Agents and Others		7,242,750	3,960,143
Bank Overdraft		750	-
Taxation	12	560,554	-
Deferred Taxation	1 & 11	-	-
		42,112,359	27,950,525
INSURANCE FUNDS			
Unearned Premiums	1 & 3	1,612,698	806,348
Outstanding Claims	1 & 4	948,396	1,757,525
		2,561,094	2,563,873
TOTAL LIABILITIES		44,673,453	30,514,398
		£ 8,129,315	£ 6,112,012
<u>CAPITAL EMPLOYED</u>			
SHARE CAPITAL	9	8,000,000	6,000,000
RETAINED PROFITS	10	129,315	112,012
SHAREHOLDERS' FUNDS		£ 8,129,315	£ 6,112,012

J. G. M. JANUS

J. J. CAREY

] DIRECTORS

The notes on pages 9 to 18
form part of these accounts

Auditors' report - page 4

FM INSURANCE COMPANY LIMITED
STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>1986</u>	<u>1985</u>
	£	£
<u>FUNDS GENERATED BY OPERATIONS</u>		
Profit/(Loss) before taxation	77,740	(106,588)
Adjusted for items not involving the movement of funds:		
-- Depreciation	654,244	579,001
- Foreign Exchange Adjustments on overseas fixed assests	(30,590)	61,477
- Exchange difference arising from the retranslation of opening net investment in overseas branches	<u>546,970</u>	<u>(310,000)</u>
	1,248,364	223,890
<u>ADDITIONAL SOURCES</u>		
Issue of Shares	2,000,000	-
Increase in insurance funds	-	956,921
Increase in amounts due to reinsurers	10,317,923	9,946,333
Increase in amounts due to agents and others	<u>3,282,607</u>	<u>217,434</u>
	16,848,894	11,344,578
<u>TOTAL SOURCE OF FUNDS</u>		
<u>APPLICATION OF FUNDS</u>		
Purchase, less disposal of fixed assets	(747,119)	(862,149)
Taxation paid	(21,433)	(102,371)
Increase in investment in subsidiary companies	(54,954)	(42,366)
Decrease in insurance funds	(2,779)	-
Increase in amounts due from agents and others	<u>(9,324,239)</u>	<u>(4,780,199)</u>
	£ 6,698,370	£ 5,557,493
<u>INCREASE IN FUNDS</u>		
<u>REPRESENTED BY:</u>		
(Decrease)/Increase in investments	(1,412,595)	4,157,952
Increase in bank balances	<u>8,110,965</u>	<u>1,399,541</u>
	£ 6,698,370	£ 5,557,493

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 19861. Accounting Policiesa. Basis of preparation

These accounts have been prepared in compliance with section 258 of, and Schedule 9 to the Companies Act 1985, and in accordance with the historical cost convention.

b. Revenue Account

The results are determined after taking into account premiums, less reinsurance, recorded during the year, the unearned proportion of premiums, paid and outstanding claims and expenses. The methods used for determining unearned premiums and outstanding claims are set out in (c) and (d) below.

c. Unearned Premiums

The provision for unearned premiums represents the proportion of premiums recorded, less reinsurance, which relates to periods of risk expiring after the balance sheet date. Premiums incepting on December 31 but not earning in the year, are recorded in the following year's accounts.

d. Outstanding Claims

Full provision is made for all claims reported to the company, less reinsurance recoveries.

e. Foreign Currencies

Assets and liabilities in foreign currencies have been translated at rates ruling at the end of the financial year.

Revenue items arising from insurance operations in foreign currencies are translated at rates ruling at the end of the financial year. Revenue items arising from non insurance operations have been translated at the rates ruling at date of transaction.

Differences on exchange arising from the retranslation of the opening net investment in overseas branches are taken to reserves.

f. Investments

Investments in aggregate are stated at cost, or at market value if less than cost if there has been a permanent diminution in the value. Any gains or losses on disposal are taken up in the accounts in the year of realisation.

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 1986g. Investment and Interest Income

Investment and interest income is included gross in the profit and loss account on an accruals basis.

h. Commissions

Commissions received from reinsurers, less commissions paid to brokers and ceding companies, are considered to be fully earned and are included in the accounts without any adjustment for commissions incurred in respect of unearned premiums at the end of the year.

i. Deferred taxation

Provision is made under the liability method for deferred taxation on all material timing differences, to the extent that it is probable that a liability or asset will crystallise.

j. Depreciation

Depreciation is charged on the cost of all fixed assets so as to write off the cost over the expected useful lives of the assets concerned, a full year's charge being applied in the year of purchase. The rates used are as follows:

<u>Asset</u>	<u>Rate of Depreciation</u>
1. Office Furniture and Equipment	<div> <div>]</div> <div>30% of cost in Year 1</div> <div>]</div> <div>20% of cost in Years 2-4</div> <div>]</div> <div>10% of cost in Year 5</div> </div>
2. Computer Equipment	<div> <div>]</div> <div>50% of cost in Year 1</div> <div>]</div> <div>30% of cost in Year 2</div> <div>]</div> <div>20% of cost in Year 3</div> </div>
3. Motor Vehicles	<div> <div>]</div> <div>25% or 22.50% of the</div> <div>]</div> <div>net book value each</div> <div>]</div> <div>year</div> </div>
4. Leasehold Property	<div> <div>]</div> <div>2% p.a. from 1 January 1986</div> </div>

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 19862. Turnover

The turnover for the year, consisting of gross aggregate premiums recorded, amounted to £ 66,822,163 (1985 - £48,354,307).

3. Net Unearned Premiums

	<u>1986</u>		<u>1985</u>	
	£	£	£	£
Unearned premiums at 1 January	806,348		542,016	
Exchange difference	<u>95,097</u>		<u>(29,077)</u>	
Unearned premiums 1 January, revalued		901,445		512,939
Unearned premiums at 31 December		<u>(1,612,698)</u>		<u>(806,348)</u>
Increase in net unearned premiums		<u>£ (711,253)</u>		<u>£ (293,409)</u>

4. Net Claims Incurred

	<u>1986</u>		<u>1985</u>	
	£	£	£	£
Claims paid net of recoveries		(2,381,372)		(1,491,033)
Claims outstanding less recoverables at 31 December		<u>(948,396)</u>		<u>(1,757,525)</u>
		(3,329,768)		(3,248,558)
Less: Claims outstanding less recoverables at 1 January	1,757,525		1,064,936	
Exchange difference	<u>146,316</u>		<u>(54,318)</u>	
Claims outstanding 1 January, revalued		<u>1,903,841</u>		<u>1,010,618</u>
		<u>£(1,425,927)</u>		<u>£(2,237,940)</u>

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 19865. Management Expensesa. Directors' emoluments

The total directors' emoluments (inclusive of pension contributions) in respect of management services amounted to £ 75,780 (1985 - £100,391)

Emoluments, (excluding pension contributions)	<u>1986</u> £	<u>1985</u> £
As Chairman -		
Mr J.G.M. Janus	72,692	81,241
Mr R.H. Bosman	<u>-</u>	<u>5,200</u>
	72,692	86,441
As Director -		
Mr J.G.M. Janus	<u>-</u>	<u>11,545</u>
	£ 72,692	£ 97,986

No other directors received emoluments for services performed in the UK.

b. Employees' emoluments

U.K. employees, other than directors, who discharged their duties wholly or mainly in the United Kingdom, received emoluments in excess of £30,000 on the following scale:-

	<u>1986</u>	<u>1985</u>
£30,000 to £35,000	2	-
£35,001 to £40,000	1	3
£40,001 to £45,000	3	1
£45,001 to £50,000	-	-

c. Auditors' remuneration

	<u>1986</u>	<u>1985</u>
United Kingdom and Overseas	£	£
- charge for 1986	72,910	65,550
- charge for 1985	<u>1,024</u>	<u>1,795</u>
	£ 73,934	£ 67,345

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 19865. d. Operating Lease Rentals

(i) Operating lease rentals charged as an expense are as follows:

	<u>1986</u>	<u>1985</u>
	£	£
In respect of plant and machinery	-	-
In respect of other operating leases	1,476,540	1,145,723
	<hr/>	<hr/>
	1,476,540	1,145,723
	<hr/>	<hr/>

(ii) Operating lease rental commitments during 1987 are as follows:-

	<u>Buildings</u>	<u>Other Operating Leases</u>
	£	£
Leases expiring next year	83,136	225,365
Leases expiring within 2-5 Years	361,015	127,235
Leases expiring over 5 years	593,648	12,000
	<hr/>	<hr/>
	1,037,799	364,600
	<hr/>	<hr/>

e. Other Income/(Expenses)

	<u>1986</u>	<u>1985</u>
	£	£
Management Expenses are inclusive of:		
Profit/(Loss) on foreign exchange	1,180,114	(1,346,826)
Profit on sale of investments	172,186	215,385
Profit/(Loss) on sale of fixed assets	10,142	(2,926)
Depreciation of fixed assets	(654,244)	(579,001)
Stamp duty on increase in share capital	(22,516)	-
Bank interest on overdrafts	(2,730)	(690)

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 19866. Taxation

The charge for taxation is made up as follows:

	<u>1986</u>	<u>1985</u>
	£	£
On the Profit/(Loss) of the year:		
United Kingdom corporation tax		
at 36.25% (1985 - 46.25%)	476,941	(1,943)
Relief for overseas taxation	<u>(101,941)</u>	<u>(23,852)</u>
	375,000	(25,795)
Overseas taxation	<u>251,637</u>	<u>59,278</u>
	626,637	33,483
Prior year items:		
UK corporation tax	(2,336)	(8,548)
Overseas taxation	(16,894)	(73)
Deferred taxation	-	-
	(19,230)	(8,621)
	<u>£ 607,407</u>	<u>£ 24,862</u>

The above Corporation Tax provision includes a charge of £ 198,277 in respect of the retranslation of opening net investment in overseas branches, which went directly to reserves.

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 19867. Fixed Assets

	<u>Office Furniture and Equipment</u>	<u>Motor Vehicles</u>	<u>Leasehold Property</u>	<u>Total</u>
<u>Cost</u>	£	£	£	£
At 1 January 1986	2,213,736	731,038	75,000	3,019,774
Additions during year	520,776	387,851	856	909,483
Disposals	(56,366)	(329,024)	-	(385,390)
Exchange adjustments	143,292	(6,904)	-	136,388
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1986	2,821,438	782,961	75,856	3,680,255
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Aggregate Depreciation</u>				
At 1 January 1986	1,790,569	294,528	-	2,085,097
Charge for year	495,488	157,238	1,518	654,244
Disposals	(47,826)	(175,200)	-	(223,026)
Exchange adjustments	108,089	(2,291)	-	105,798
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1986	2,346,320	274,275	1,518	2,622,113
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Net book value at 31 Dec 86</u>	£ 475,118	£ 508,686	£ 74,338	£ 1,058,142
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Net book value at 31 Dec 85</u>	£ 423,167	£ 436,510	£ 75,000	£ 934,677
	<hr/>	<hr/>	<hr/>	<hr/>

Particulars of Transactions Involving Directors

On 23 December 1985 the company and a director, Mr J. G. M. Janus entered into a contract, which continued in force throughout 1986, with the vendors of a long leasehold interest in a flat, whereby, as joint lessees, the company and Mr J. G. M. Janus purchased one third and two thirds of the leasehold interest respectively for a total consideration of £ 225,000.

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 19868. Investments

	<u>COST</u>		<u>MARKET VALUE</u>	
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
	£	£	£	£
Investments comprise:				
Overseas listed investments	9,868,945	10,564,063	10,558,571	10,717,111
Overseas fixed loans	179,549	896,226	179,549	896,226
Unlisted investments				
- At cost	-	800	-	
- Directors' valuation			-	800
	<u>£ 10,048,494</u>	<u>£11,461,089</u>	<u>£10,738,120</u>	<u>£11,614,137</u>

In the opinion of the directors, there has been no permanent diminution in the value of the investments.

9. Share Capital - Ordinary shares

	<u>1986</u>	<u>1985</u>
	£	£
Authorised:		
10,000,000 shares of £1 each	£10,000,000	£10,000,000
Issued and fully paid:		
8,000,000 shares of £1 each	£ 8,000,000	£ 6,000,000
Issued during the year:		
2,000,000 ordinary shares of £1 each	£ 2,000,000	£ -

10. Retained profits

The movements in these reserves were as follows:

	<u>1986</u>	<u>1985</u>
£	£	£
Balance at 1 January	112,012	410,087
Exchange difference arising from the retranslation of opening net investment in overseas branches	546,970	(310,000)
Less attributable taxation	<u>(198,277)</u>	<u>143,375</u>
	348,693	(166,625)
Transfer to/from profit and loss account	<u>(331,390)</u>	<u>(131,450)</u>
	<u>£ 129,315</u>	<u>£ 112,012</u>

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 198611. Deferred taxation

Analysis of provision and potential liability

	<u>1986</u>		<u>1985</u>	
	Full Potential Liability/ (asset) £	Provision made £	Full Potential Liability/ (asset) £	Provision made £
Overseas branches' technical reserves less available carried forward tax losses	(380,000)	-	316,000	-
Depreciation in excess of capital allowances	(38,000)	-	(161,000)	-
Other timing differences	(140,000)	-	120,000	-
	<hr/>	<hr/>	<hr/>	<hr/>
	£(558,000)	£ -	£ 275,000	£ -
	<hr/>	<hr/>	<hr/>	<hr/>

12. Current taxation payable/(recoverable)

	<u>1986</u>	<u>1985</u>
	£	£
Current taxation - UK	346,096	(42,942)
- Overseas	214,458	17,522
	<hr/>	<hr/>
	£ 560,554	£ (25,420)
	<hr/>	<hr/>

FM INSURANCE COMPANY LIMITEDNOTES TO THE ACCOUNTS - 31 DECEMBER 198613. Pension Schemes

The company has pension schemes covering substantially all its employees in all the branches. The nature of the schemes vary according to local statutory requirements and practices. Details of the major schemes are as follows:-

In the UK, Germany and Australia, the company participates in three separate, defined benefit, contributory pension schemes. Payments made to these schemes comprise current service contributions and back service contributions. There are no unfunded liabilities in any of these schemes based on the latest actuarial valuations, which in the UK and Australia were based on the projected benefit method and in Germany, on local statute.

In France the company participates in an industry pension scheme designed to supplement the social security system.

14. Subsidiary Companies

	<u>1986</u>	<u>1985</u>
	£	£
Shares at Cost		
FM do Brasil Servicos de Prevencao de Perdas Ltda	46,116	45,833
Factory Mutual International Italia S.r.l	<u>7,542</u>	<u>7,542</u>
	53,658	53,375
Current Balance Receivable	<u>89,495</u>	<u>34,824</u>
	<u>£143,153</u>	<u>£ 88,199</u>

During 1982, FM do Brasil Servicos de Prevencao de Perdas Ltda (99% owned by the Company) was incorporated in Brazil and during 1985 Factory Mutual International Italia S.r.l (95% owned by the Company) was incorporated in Italy.

The directors are of the opinion that consolidated accounts would be of no real value to the members of FM Insurance Company Limited in view of the amounts involved.