

Company number 1044810

WALBROOK INSURANCE COMPANY LIMITED

**REPORT AND ACCOUNTS
YEAR ENDED 31 DECEMBER 1996**



WALBROOK INSURANCE COMPANY LIMITED

REPORT AND ACCOUNTS

Year ended 31 December 1996

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WALBROOK INSURANCE COMPANY LIMITED

Directors, management and administration

Directors:

W F Goodier
M S Harvey
J Lock
G A Weiss

Secretary:

C G Reynolds

Joint scheme administrators:

C J Hughes and I D B Bond
Coopers & Lybrand
Plumtree Court
London EC4A 4HT

General counsel:

V M Earle

Scheme conflicts administrator:

G H Hughes
Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

Registered office:

40 Bermondsey Street
London SE1 3UD

Auditor:

Robson Rhodes
186 City Road
London EC1V 2NU

Bankers:

Barclays Bank PLC
54 Lombard Street
London EC3P 3AH

Solicitors:

Clifford Chance
200 Aldersgate Street
London EC1A 4JJ

Freshfields
65 Fleet Street
London EC4Y 1HS

US attorneys:

Shearman & Sterling
Citicorp Center
153 East 53rd Street
New York NY 10022
USA

Registered in England No. 1044810

WALBROOK INSURANCE COMPANY LIMITED

Directors' report

The directors submit their report and the audited accounts for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES AND RECENT DEVELOPMENTS

1 The company is an insurance company, subject to a scheme of arrangement, which specialised in US casualty, professional indemnity and other liability business until 24 March 1990 when it ceased underwriting. A moratorium on the payment of claims was introduced by the board of Walbrook with effect from the close of business on 29 May 1992.

2 As indicated in paragraph 12 below, the company is unable to pay its debts in full since the value of its assets, including estimated reinsurance recoveries, is less than the amount of its estimated gross liabilities. A scheme of arrangement under Section 425 of the Companies Act 1985 (the "Scheme") became effective on 15 December 1993 on which date C J Hughes and I D B Bond became the scheme administrators and G H Hughes became the scheme conflicts administrator. The Scheme permits the run-off of the company's liabilities in conjunction with other related companies, and for payment percentages to be set from time to time, which will be paid on all established scheme liabilities.

3 The payment percentages set by the scheme administrators are as follows:

<u>Date</u>		<u>Increase</u>	<u>Percentage set</u>
July 1994	Initial payment percentage	-	4%
September 1995	Reset payment percentage	1%	5%
May 1996	Reset payment percentage	3%	8%

4 The first payments to creditors under the Scheme were made in September 1994. The company has continued to pay a set percentage of scheme liabilities as they became established. It has made further payments to creditors in respect of the increase in the payment percentage during the year and the adjusting payments required by the Scheme. At the year end, the company had retained assets of an amount which the scheme administrators considered to be sufficient to enable the same set percentage to be paid of those liabilities that may be established in the future.

5 The company carried on business principally through H S Weavers (Underwriting) Agencies Limited and C R Driver & Company Limited; both companies are now in liquidation. Southwark Run-Off Services Limited administered the run-off of the company's business from 17 September 1990 until 18 December 1992, from which date KWELM Management Services Limited ("KMS") has been responsible for administering the run-off of the company's business and providing other management services.

6 In addition to running-off its insurance operations, the company continues to carry on investment activities in relation to the assets under its control.

WALBROOK INSURANCE COMPANY LIMITED

Directors' report (continued)

RESULTS AND DIVIDENDS

7 As explained in note 18 to the accounts, in view of the inherent nature of the business underwritten, a substantial measure of estimation is involved in quantifying the company's outstanding insurance liabilities, the ultimate cost of which cannot be known with certainty.

8 The provision made for claims outstanding, both gross and net of reinsurance recoveries, as at 31 December 1996 is based upon an actuarial valuation undertaken by Coopers & Lybrand.

9 As last year, the scheme administrators have indicated the amount, described as a special margin, that they consider should be added to the actuarial estimates of the claims outstanding provisions in order to achieve an appropriately high degree of prudence when establishing the payment percentages under the Scheme and to reflect the fundamental uncertainties which attach to the quantification of outstanding liabilities. The directors believe that it continues to be appropriate for them to incorporate the special margin into the accounts, as a component of technical claims provisions.

10 Total technical provisions thus contain a greater allowance for adverse development than would normally be appropriate for an insurance company on a going concern basis and are undiscounted.

11 The results of the company are set out on pages 7 and 8. The profit after taxation was \$196.2 million (1995 \$294.7 million). The profit for the year principally reflects the net effects of decreases in the estimated ultimate amount of claims incurred, following the receipt of further information regarding case estimates and the company's exposures under its policies, and in the special margin and a related decrease in the amount of estimated reinsurance recoveries net of provisions for irrecoverable amounts.

12 The company is not a going concern and the state of its affairs, subject to the uncertainties described above, can be summarised as follows:

	1996 \$m	1995 \$m
Estimated gross liabilities, including the special margin	(5,146.0)	(5,380.2)
Assets, including estimated reinsurance recoveries	1,499.1	1,548.8
Net deficiency of assets	<u>(3,646.9)</u>	<u>(3,831.4)</u>

13 No dividend is payable to shareholders in 1996 (1995 \$nil).

WALBROOK INSURANCE COMPANY LIMITED

Directors' report (continued)

DIRECTORS

14 The directors who served throughout 1996 were as follows:

W F Goodier

M S Harvey (nominated by the Policyholders Protection Board)

J Lock

G A Weiss

15 None of the directors at 31 December 1996 had any interests in shares in the parent company or any company in the London United Investments group.

DIRECTORS' RESPONSIBILITIES

16 The directors are required to ensure that accounts are prepared for each accounting period which comply with the provisions of the Companies Act 1985 in respect of the state of affairs of the company as at the end of the accounting period and of the profit or loss for that period.

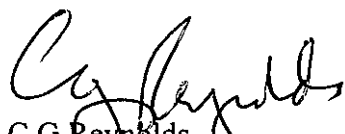
17 Suitable accounting policies have to be used and applied consistently, in preparing the accounts, using reasonable and prudent judgements and estimates. Applicable accounting standards also have to be followed, with any material departures being disclosed and explained. As explained in note 1 to the accounts, it is inappropriate for the company's accounts to be prepared on the going concern basis.

18 The directors are also responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company and for ensuring controls are in place for the prevention and detection of fraud and other irregularities.

19 Part 5.3 of the Scheme provides that the scheme administrators shall, in relation to the company, manage the run-off of its business, realise its assets and apply them for the benefit of its creditors and supervise and ensure the carrying out of the Scheme; and gives them the power in the name and on behalf of the company to manage its affairs, business and property. That part of the Scheme also provides that any function of or power conferred on the company or its officers which could be exercised in such a way as to interfere with the exercise by the scheme administrators of their functions and powers in relation to the company may not be exercised without the consent of the scheme administrators, provided that nothing in that part of the Scheme relieves the directors of their duty to act in accordance with the Companies Act 1985.

20 The directors act in a non-executive capacity.

By Order of the Board


C G Reynolds
Company Secretary

18 April 1997

WALBROOK INSURANCE COMPANY LIMITED

Report of the auditor to the members of Walbrook Insurance Company Limited

As explained in notes 1 and 2 to the accounts and following the appointment of scheme administrators, the accounts have not been prepared on a going concern basis. We have audited the accounts on pages 7 to 24 which have been prepared under the accounting policies set out on pages 11 to 14.

Respective responsibilities of directors and auditor

As described on page 5 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 and the scheme administrators in the preparation of the accounts, 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 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.

Fundamental uncertainties

In forming our opinion we have considered the adequacy of the disclosures made in the accounts concerning the following:

1. As referred to in note 18 the technical provisions include provisions and reserves for outstanding claims incurred but not reported less related recoveries, all of which are material in amount and the adequacy of which it is not possible to determine at this stage.
2. As referred to in note 3(k) estimates have been made as to the future cost of implementing the scheme of arrangement and completing the liquidation of the company. It is not possible at this stage to determine whether adequate provision has been made.

Our opinion is not qualified in this respect.

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 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Robson Rhodes
Chartered Accountants and Registered Auditor
London
18 April 1997

WALBROOK INSURANCE COMPANY LIMITED

Profit and loss account

General business technical account

for the year ended 31 December 1996

	Note	1996 \$m	1995 \$m
Premiums written and earned, net of reinsurance	2,4	1.3	2.4
Investment income, net of expenses	5	37.9	35.2
<u>Claims incurred, net of reinsurance</u>			
Gross claims paid	3(f)	(30.8)	(25.7)
Balance of claims agreed		(90.0)	(117.6)
Gross claims agreed	3(g)	(120.8)	(143.3)
Reinsurance recoverable		61.3	82.5
Net claims paid and agreed		(59.5)	(60.8)
Change in the gross technical claims provisions			
- claims outstanding		228.5	388.3
- special margin		130.0	170.0
	6(a)	358.5	558.3
Reinsurers' share of change in the gross technical provisions	6(b)	(138.7)	(236.8)
Net decrease in the provision for claims		219.8	321.5
Decrease in claims incurred, net of reinsurance	18	160.3	260.7
Net operating expenses	8	(6.1)	(5.0)
Balance on the general business technical account - profit	2	193.4	293.3

The notes on pages 11 to 24 form part of these accounts. Auditor's report: page 6.

WALBROOK INSURANCE COMPANY LIMITED

Profit and loss account Non-technical account for the year ended 31 December 1996

	Note	1996 \$m	1995 \$m
Balance on the general business technical account - profit		193.4	293.3
Other income		0.9	1.4
Profit before taxation	2	194.3	294.7
Taxation	11	1.9	-
Profit after taxation	17	196.2	294.7

Statement of total recognised gains and losses for the year ended 31 December 1996

	1996 \$m	1995 \$m
Profit after taxation	196.2	294.7
Net foreign exchange revaluation (loss)/gain	(9.4)	0.5
Net unrealised (losses)/gains on investments	(2.3)	2.4
Total gains and losses recognised in the year	184.5	297.6


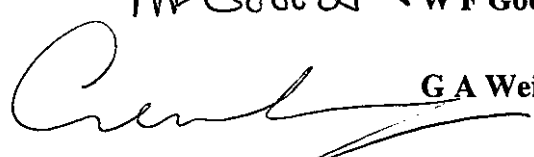
The notes on pages 11 to 24 form part of these accounts. Auditor's report: page 6.

WALBROOK INSURANCE COMPANY LIMITED

Balance sheet as at 31 December 1996

	Note	1996 \$m	1995 \$m
ASSETS			
Investments			
Investments in group undertakings and participating interests	12	3.2	3.0
Other financial investments	13,14	572.2	528.6
Total investments		575.4	531.6
Reinsurers' share of technical provisions	18	831.6	970.3
Debtors	15	40.2	30.2
Cash at bank		36.4	1.9
Accrued interest		15.5	14.8
TOTAL ASSETS		1,499.1	1,548.8
LIABILITIES			
Capital and reserves			
Share capital	16	79.8	79.8
Revaluation reserve	17	-	2.4
Profit and loss account - accumulated losses	17	(3,726.7)	(3,913.6)
Net deficiency of shareholders' funds	17	(3,646.9)	(3,831.4)
Technical provisions			
Claims outstanding		2,032.5	2,247.3
Special margin		2,550.0	2,680.0
Total technical provisions	18	4,582.5	4,927.3
Established scheme liabilities and other creditors	20	563.5	451.4
Bank overdraft		-	1.5
Total liabilities excluding shareholders' funds		5,146.0	5,380.2
TOTAL LIABILITIES including deficiency of shareholders' funds		1,499.1	1,548.8

The accounts were approved by the Board on 18 April 1997 and signed on its behalf by:

 W F Goodier)
) Directors
 G A Weiss)

The notes on pages 11 to 24 form part of these accounts. Auditor's report: page 6.

WALBROOK INSURANCE COMPANY LIMITED

Cash flow statement for the year ended 31 December 1996

	Note	1996 \$m	1995 \$m
Net cash inflow from operating activities	21	77.1	93.0
Taxation recovered		0.4	0.3
		<u>77.5</u>	<u>93.3</u>

Cash flows were invested as follows:

	1996 \$m	1996 \$m	1995 \$m	1995 \$m
Net portfolio investment				
Purchase of listed shares		11.4	-	-
Purchase of debt securities and other fixed interest securities	563.4		296.8	
Sale of debt securities and other fixed interest securities	(454.1)		(134.1)	
		109.3		162.7
Decrease in deposits with credit institutions		(79.1)		(69.1)
		41.6		93.6
Increase/(decrease) in cash holdings		36.0		(0.7)
Net increase in cash and portfolio investments		77.6		92.9
Investment in participating interests		(0.1)		0.4
Net investment of cash flows		<u>77.5</u>		<u>93.3</u>

The movement in cash and portfolio investments reflects:

	1 January 1996 \$m	Cash flow \$m	Changes to market value and currencies \$m	31 December 1996 \$m
Cash at bank	0.4	36.0	-	36.4
Listed shares	-	11.4	-	11.4
Debt securities and other fixed interest securities	175.4	109.3	(4.1)	280.6
Deposits with credit institutions	353.2	(79.1)	6.1	280.2
	<u>529.0</u>	<u>77.6</u>	<u>2.0</u>	<u>608.6</u>

The notes on pages 11 to 24 form part of these accounts. Auditor's report: page 6.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1996

FUNDAMENTAL UNCERTAINTIES

- 1 The company has a deficiency of net assets and accordingly the accounts are not prepared on a going concern basis. Additional amounts, described as a special margin, have been provided within the technical claims provisions to reflect the high level of prudence appropriate for establishing payment percentages under the Scheme (see note 3(h)) and the uncertainties inherent in determining the amount of claims outstanding (see note 18). Provision has been made for future expenses after making allowance for future investment return (see note 3(k)).

While the accounts have been drawn up on the basis of the best information available, there are fundamental uncertainties inherent in assessing the provisions required for claims outstanding, future claims settlement expenses and future run-off and administrative expenses.

DISCONTINUED OPERATIONS

- 2 All of the company's operations relate to the continuing run-off of the insurance business it underwrote prior to 24 March 1990 and the investment of the assets under its control.

ACCOUNTING POLICIES

- 3(a) The principal accounting policies used by the company are set out below, and have been applied consistently.

Disclosure requirements

- 3(b) The accounts have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985, applicable accounting standards in the United Kingdom and the guidance issued by the Association of British Insurers in December 1995. The company has opted for early adoption in its cash flow statement of the revisions to FRS1 that were published by the Accounting Standards Board on 31 October 1996.

Basis of presentation

- 3(c) The accounts are presented in US Dollars to reflect the currency in which most of the company's insurance liabilities and assets are denominated.
- 3(d) Consolidated accounts have not been prepared in view of the severe long term restrictions arising from the insolvency of one of the subsidiary undertakings that impairs the company's control over the assets of that undertaking, and the immateriality of the company's other subsidiary and associated undertakings (see note 12).

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1996 (continued)

Recognition of profits and losses

- 3(e) The technical result is determined on an annual basis whereby the incurred cost of claims, acquisition and administrative expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:
- (i) all premiums written are fully earned, and relate to adjustments to prior year estimates of premiums due to the company;
 - (ii) the movement in claims incurred represents adjustments to prior year estimates of claims and claims settlement expenses, the special margin and the reinsurers' shares of such estimates.
- 3(f) The amount of gross claims paid in the year is presented in compliance with the Companies Act 1985. It comprises scheme payments made in respect of new and existing established scheme liabilities relating to claims, the amount of letters of credit drawn and the amount of claims settlement expenses paid during the year.
- 3(g) The amount of gross claims agreed represents the value of claims agreed during the year together with the amount of claims settlement expenses paid during the year.
- 3(h) The provision for claims outstanding is undiscounted and is determined, by reference to projections of the ultimate run-off of premiums and claims in respect of each underwriting year, on the following basis:
- (i) the estimated ultimate cost of claims notified but not settled, on the basis of the best information available, including trends in court awards and related direct expenses;
 - (ii) the estimated ultimate cost of claims incurred but not reported ("IBNR"), on the basis of the best information available, taking account of the estimated cost of notified claims, and including previous experience in claims notification and settlement patterns, the nature and amount of business written, and direct expenses;
 - (iii) the estimated amount of future claims settlement expenses (see note 3(k) below);
- So that technical claims provisions are at all times sufficient to cover outstanding claims, they also include an additional amount, the special margin, which has been determined by the scheme administrators for the purpose of introducing the high level of prudence appropriate to establishing payment percentages under the Scheme and the uncertainties inherent in determining the provision for claims outstanding, both gross and net of reinsurance.
- 3(i) The reinsurers' share of the technical provisions represents the estimated amount to be recovered from reinsurers based on the amount of the technical provisions determined under note 3(h) above, less a provision for known and possibly irrecoverable amounts.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1996 (continued)

Equalisation reserves

- 3(j) Equalisation reserves are calculated in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. However, the net premium income written by the company falls below the de minimis level specified in the Insurance Companies (Reserves) Regulations 1996 and therefore no transfers are required to be made to an equalisation reserve.

Expenses

- 3(k) Full provision is made, within technical provisions, for the company's share of the estimated ultimate claims settlement expenses and other run-off costs. Additionally, provision is made, net of future investment return, within the provision for future administrative expenses, for the company's share of the estimated ultimate costs of implementing and administering the Scheme.

There are uncertainties as to the period over which the Scheme will operate, the level of expenses that will be incurred and the investment yield that can be achieved on the company's assets. The above provisions for future expenses, which are principally incurred in £ sterling, reflect the anticipated pattern of establishment of claims under the Scheme and assume annual inflation of 5%. The amount of the future investment return, which is offset against the provision for future administrative expenses, is based on a prudent estimate of the projected yield on the other financial investments shown in the balance sheet and is restricted so that an asset is not created for future investment return.

- 3(l) All expenditure is charged against the provisions previously made. The movements in such provisions are reflected in the general business technical account.

Investments and investment income

- 3(m) Listed investments are stated at market value. Other fixed interest securities are stated at prices quoted by various recognised sources. Investments in solvent subsidiary and associated undertakings are included at their underlying net asset value. No liability is recognised for insolvent undertakings.
- 3(n) Income from investments and associated expenses are included in the general business technical account on an accruals basis.
- 3(o) Income from investments includes any realised gains or losses on investments during the year, being the difference between the net sale proceeds and the valuation at the preceding balance sheet date or cost of acquisition if later.
- 3(p) Changes in the value of unrealised investments are included in the revaluation reserve.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1996 (continued)

Debtor and creditor balances

- 3(q) The amounts due to and from reinsurers and the debtors and creditors arising out of insurance operations represent the net balances with principals after taking account of the set-offs available and enforceable under the Scheme, where such set-offs have been identified.

Foreign exchange

- 3(r) Assets, liabilities and revenue transactions in other currencies are translated into US Dollars at the rates of exchange ruling at the balance sheet date. The net exchange gains and losses relating to the translation of assets and liabilities at the beginning of the year, at year end rates, are shown in the non-technical account as a movement in accumulated losses.

The principal rates used were:	1996	1995
£ Sterling	\$1.71	\$1.55
Canadian Dollar	\$0.73	\$0.73

- 3(s) Share capital is translated into US Dollars at the rates of exchange ruling at the dates the shares were issued.

Taxation

- 3(t) Any taxation is provided by reference to the profits and losses dealt with in these accounts and the amount of any unutilised tax losses brought forward. Full provision would be made for deferred taxation on the liability method; however, in view of the available tax losses, it is not considered to be likely that a liability will crystallise in the foreseeable future.

	1996	1995
	\$000	\$000
4 Gross premiums written and earned	1,513	6,673
Reinsurance premiums ceded and related adjustments	(229)	(4,322)
Premiums written and earned, net of reinsurance	<u>1,284</u>	<u>2,351</u>

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1996 (continued)

INVESTMENT INCOME AND EXPENSES		1996	1995
		\$m	\$m
5(a)	Investment income, net of expenses, shown in the general business technical account comprises:		
	<u>Income from participating interests</u>		
	Gains on realisation of investments	-	1.6
	<u>Income from investments other than participating interests</u>		
	Income from investments	39.2	32.2
	Profit/(loss) on sale of foreign currencies	1.0	(0.1)
	Gains on realisation of investments	-	2.7
		40.2	34.8
	<u>Investment expenses and charges</u>		
	Investment management expenses	(0.4)	(1.2)
	Losses on realisation of investments	(1.9)	-
		(2.3)	(1.2)
	Investment income, net of expenses	37.9	35.2
5(b)	The total investment return in the year comprises:		
	Income from investments	40.2	32.1
	Realised investment gains and losses	(1.9)	4.3
	Unrealised investment gains and losses (dealt with through revaluation reserve)	(2.3)	2.4
		36.0	38.8
	Investment expenses	(0.4)	(1.2)
	Investment return in the year	35.6	37.6

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1996 (continued)

CHANGE IN TECHNICAL PROVISIONS	1996 \$m	1995 \$m
6(a) GROSS AMOUNT		
<u>Provisions brought forward</u>		
Claims outstanding	2,247.3	2,636.2
Foreign exchange adjustment	13.7	(0.6)
	<u>2,261.0</u>	<u>2,635.6</u>
Special margin	2,680.0	2,850.0
Revalued provision brought forward	4,941.0	5,485.6
<u>Provisions carried forward (see note 18)</u>		
Claims outstanding	(2,032.5)	(2,247.3)
Special margin	(2,550.0)	(2,680.0)
	<u>(4,582.5)</u>	<u>(4,927.3)</u>
Decrease in gross technical claims provisions	<u>358.5</u>	<u>558.3</u>
6(b) REINSURERS' SHARE OF TECHNICAL PROVISIONS		
Reinsurers' share brought forward	970.3	1,207.1
Reinsurers' share carried forward (see note 18)	<u>(831.6)</u>	<u>(970.3)</u>
Decrease in reinsurers' share of provisions	<u>138.7</u>	<u>236.8</u>

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1996 (continued)

SEGMENTAL INFORMATION

- 7 The result for the year relates to prior years' underwriting and reflects the run-off of the accruals and technical provisions at the start of the year. The amounts shown in the technical account relate to the following classes of business:

	Gross premiums		Gross claims incurred		Reinsurance balance	
	1996 \$m	1995 \$m	1996 \$m	1995 \$m	1996 \$m	1995 \$m
<u>Direct insurance</u>						
Marine, aviation and transport	-	-	0.2	1.1	0.6	0.1
Property	-	0.7	3.2	0.3	1.2	(0.1)
Liability	1.0	4.5	533.2	370.0	(95.2)	(108.1)
	<u>1.0</u>	<u>5.2</u>	<u>536.6</u>	<u>371.4</u>	<u>(93.4)</u>	<u>(108.1)</u>
<u>Reinsurance acceptances</u>						
Marine, aviation and transport	-	0.1	(0.4)	-	0.3	-
Property	(1.5)	0.5	(133.1)	(0.2)	40.1	(0.1)
Liability	2.0	0.9	(165.4)	43.8	(24.6)	(50.4)
	<u>0.5</u>	<u>1.5</u>	<u>(298.9)</u>	<u>43.6</u>	<u>15.8</u>	<u>(50.5)</u>
	<u>1.5</u>	<u>6.7</u>	<u>237.7</u>	<u>415.0</u>	<u>(77.6)</u>	<u>(158.6)</u>

As the company is in run-off, an allocation of operating expenses by class of business would not be meaningful and is not provided in these accounts.

NET OPERATING EXPENSES	1996 \$m	1995 \$m
8 Net operating expenses comprise:		
Brokerage and commission incurred in the year	0.3	0.8
Administrative expenses incurred in the year	5.8	4.2
	<u>6.1</u>	<u>5.0</u>

AUDITOR'S REMUNERATION

- 9 The remuneration of the auditor amounted to \$118,000 (1995 \$98,000). Robson Rhodes also received fees of \$2,000 (1995 \$5,000) in respect of other non-audit services.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1996 (continued)

DIRECTORS' EMOLUMENTS

	1996	1995
	\$000	\$000
10 The aggregate emoluments of the directors comprise:		
Fees	186	147
	<hr/>	<hr/>
The emoluments of the highest paid director were:	61	50
	<hr/>	<hr/>

The number of directors who received fees and other emoluments (excluding pension contributions) within the following ranges was:

	1996	1995
	Number	Number
£0 to £5,000	1	2
£25,001 to £30,000	Nil	1
£30,001 to £35,000	1	2
£35,001 to £40,000	2	Nil

TAXATION

- 11 No liability for corporation tax for the year arises as a result of available tax losses. The taxation credit for the year represents amounts received in relation to group relief ceded to other group companies in earlier years.

INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

- 12 The subsidiary and associated undertakings of the company are shown below. The subsidiary undertakings are wholly owned, and the company owns 20% of the shares in each of the associated undertakings. The value attributed by the directors to the investment in these undertakings has been arrived at on the following bases:

	Directors' valuation	
	1996	1995
	\$m	\$m
<u>Subsidiary undertakings:</u>		
El Paso Insurance Company Limited (see (a) below)	-	-
<u>Subsidiaries:</u>		
Desert Insurance Company Limited ("Desert")		
London United Insurance Services Limited		
Southwark Run-Off Services Limited ("SROS") (see (b) below)	1.0	0.9
Walbrook Management Services Limited ("WMS") (see (b) below)	-	-
	<hr/>	<hr/>
	1.0	0.9
<u>Associated undertakings:</u>		
KWELM Management Services Limited ("KMS") (see (c) below)	2.2	2.1
KWELM Employment Services Limited (see (c) below)	-	-
	<hr/>	<hr/>
	3.2	3.0
	<hr/>	<hr/>

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1996 (continued)

12 INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS (continued)

- (a) A scheme of arrangement under Section 425 of the Companies Act 1985 became effective on 15 December 1993. The accounts of El Paso show a profit after taxation for the year of \$20.2 million (1995 loss \$12.1 million) and a net deficiency of assets of \$549.5 million (1995 \$566.8 million), and the audit report thereon referred to similar fundamental uncertainties as those referred to in the company's audit report on page 6.

In the opinion of the directors, in view of El Paso's insolvency, there are severe long term restrictions which significantly impair the company's control over the subsidiaries' assets and operations.

- (b) Stated at net asset value. SROS went into members voluntary liquidation on 14 July 1993, and WMS went into members voluntary liquidation on 31 May 1994.
- (c) The investment in associated undertakings includes a loan of \$2.2 million (1995 \$2.1 million) which is repayable on demand. The share capital and net assets of these companies comprise:

	Share capital	Net assets
KWELM Management Services Limited	£100	£100
KWELM Employment Services Limited	£100	£100

All of the subsidiary and associated companies carry on insurance related business. The country of incorporation or registration of the companies is England, except for Desert which is registered in Bermuda.

OTHER FINANCIAL INVESTMENTS

13 Other financial investments comprise:	1996		1995	
	Market value	Cost	Market value	Cost
	\$m	\$m	\$m	\$m
Listed shares and other variable yield securities	11.4	11.4	-	-
Debt securities and other fixed interest securities:				
Listed	226.8	228.9	140.8	137.4
Other fixed interest securities	53.8	54.0	34.6	34.5
	280.6	282.9	175.4	171.9
Deposits with credit institutions	280.2	280.2	353.2	353.2
	572.2	574.5	528.6	525.1

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1996 (continued)

ENCUMBRANCES OVER INVESTMENTS

- 14 The deposits with credit institutions of \$280.2 million (1995 \$353.2 million) include amounts totalling \$42.3 million (1995 \$49.8 million), which are deposited with Citibank NA, London, as security for the company's share of letters of credit issued by Citibank, for the benefit of certain of the company's insureds and reinsureds and other creditors, totalling \$28.8 million (1995 \$35.6 million). In addition there is a contingent liability estimated at \$5.6 million (1995 \$6.2 million) in respect of underfunding of an agency pool account with Citibank NA by certain other participating insurance companies in respect of letters of credit issued in the name of the agent.

DEBTORS

	1996 \$m	1995 \$m
15 Debts due from reinsurers arising out of reinsurance operations, net of provisions for doubtful and irrecoverable amounts	27.3	27.5
Other debtors	9.6	0.5
Taxation recoverable - income tax on unfranked investment income (1995 less corporation tax payable)	3.3	2.2
	<u>40.2</u>	<u>30.2</u>

SHARE CAPITAL

	£m	£m
16 Authorised: 60,000,000 Ordinary shares of £1 each	<u>60.0</u>	<u>60.0</u>
	\$m	\$m
Issued and fully paid: 52,416,667 ordinary share of £1 each, translated into US Dollars at historic rates of exchange	<u>79.8</u>	<u>79.8</u>

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1996 (continued)

MOVEMENTS IN SHAREHOLDERS' FUNDS

	Accumulated losses		Revaluation reserve		Net deficiency in shareholders' funds	
	1996 \$m	1995 \$m	1996 \$m	1995 \$m	1996 \$m	1995 \$m
17 Balance brought forward	(3,913.6)	(4,208.8)	2.4	-	(3,831.4)	(4,129.0)
Profit after tax for year	196.2	294.7	-	-	196.2	294.7
Foreign exchange revaluation (loss)/gain	(9.3)	0.5	(0.1)	-	(9.4)	0.5
Net unrealised (losses)/gains on investments	-	-	(2.3)	2.4	(2.3)	2.4
	186.9	295.2	(2.4)	2.4	184.5	297.6
Balance carried forward	(3,726.7)	(3,913.6)	-	2.4	(3,646.9)	(3,831.4)

TECHNICAL PROVISIONS

- 18 A substantial measure of judgement is involved in assessing provisions for claims outstanding, the ultimate cost of which cannot be known with certainty at the balance sheet date. This uncertainty applies, in particular, to liability claims arising in the USA and especially in relation to insurance contracts written many years ago, where claims have been received asserting alleged injuries and damage from hazardous and toxic substances, many of which are the subject of dispute. Other claims, particularly under occurrence policies, may not be notified for many years. This uncertainty is increased by the insolvency of the company and other companies which participated on the H S Weavers (Underwriting) Agencies Limited stamp.

The provision for claims outstanding, which is based upon an actuarial valuation by Coopers & Lybrand dated 1 April 1997, represents an estimated undiscounted gross liability of \$2,032.5 million (1995 \$2,247.3 million) and includes a provision for future claims settlement expenses of \$138.1 million (1995 \$132.9 million). This estimate does not include any allowance for potential future claims arising from major loss causes not recognised in the historic data and no additional provisions have been made in respect of these contingencies.

In addition, in recognition of the circumstances of the company and the inherent uncertainty attaching to the quantification of claims outstanding, a special margin of \$2,550.0 million (1995 \$2,680.0 million), adopted by the scheme administrators for the purposes of introducing the high degree of prudence appropriate to establishing payment percentages under the Scheme, is included within the technical claims provisions in the balance sheet.

The adjustments to the amount of the technical claims provisions, which will arise in future years and which may be significant, will be reflected in the accounts for the period in which the adjustments are made.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1996 (continued)

TECHNICAL PROVISIONS (continued)

The reinsurers' share of the technical provisions is based on Coopers & Lybrand's actuarial valuation, together with an estimate of the amount of reinsurance recoverable on the special margin, and is stated net of a provision for irrecoverable reinsurance within the technical provisions. Thus, the amount of the reinsurers' share of technical provisions stated in the balance sheet recognises the uncertainties in determining the amounts to become due from reinsurers in future years, in the course of the run-off of the company's liabilities, and their recoverability.

PROVISIONS FOR OTHER RISKS AND CHARGES

- 19 The estimated full amount of the provision for future administrative expenses, including investment management expenses, is \$116.8 million (1995 \$63.6 million), which has been reduced to \$nil (1995 \$nil) by the offset of the estimated future investment return.

CREDITORS: amounts due in less than five years		1996	1995
		\$m	\$m
20(a)	Creditors arising out of direct insurance operations	533.0	445.6
	Owing to group undertakings	3.3	2.8
	Other creditors	27.2	3.0
		<hr/>	<hr/>
	Total creditors	563.5	451.4
		<hr/>	<hr/>

Creditors are due for settlement within five years but, because of the Scheme, may not be settled until later. The ultimate amount paid on established scheme liabilities will depend on the final payment percentage set by the scheme administrators.

		1996	1995
		\$m	\$m
20(b)	The total creditors comprise:		
	Established scheme liabilities	374.2	288.5
	Liabilities in process of establishment	158.8	157.1
	Liabilities for securities purchased and for expenses incurred subsequent to the Scheme becoming effective, which are payable in full	<hr/>	<hr/>
		30.5	5.8
		<hr/>	<hr/>
		563.5	451.4
		<hr/>	<hr/>

Established scheme liabilities represent claims and other liabilities for which the existence and amount of a present obligation to pay a scheme creditor has been established, and are stated in the balance sheet after taking account of available security, letters of credit, trusts, set-off or cross claims and scheme payments made.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1996 (continued)

RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	1996 \$m	1995 \$m
21 Profit on ordinary activities before tax		
Profit before taxation	194.3	294.7
Adjust: realised loss/(profit) on sale of securities	1.9	(2.7)
: unrealised profit on investment in group undertakings	-	(0.8)
Decrease in reinsurers' share of technical provisions	138.7	236.8
(Increase)/decrease in debtors	(8.3)	21.0
Increase in accrued interest	(0.6)	(3.6)
Decrease in technical provisions	(358.5)	(558.3)
Increase in established scheme liabilities and other creditors	109.6	105.9
Net cash inflow from operating activities	<u>77.1</u>	<u>93.0</u>

RELATED PARTIES

- 22(a) The company's immediate and ultimate parent company is London United Investments PLC which is incorporated in Great Britain and registered in England and Wales. An Administration Order dated 22 May 1990 has been placed on the ultimate parent company. The company's shares are held on trust by Law Debenture Trust Corporation plc.
- 22(b) The company has entered into a scheme of arrangement with its creditors, effective 15 December 1993. I D B Bond and C J Hughes are the scheme administrators of the company. The Scheme provides that the scheme administrators shall, in relation to the company, manage the run-off of its business, realise its assets and apply them for the benefit of its creditors and supervise and ensure the carrying out of the Scheme; and gives them the power in the name and on behalf of the company to manage its affairs, business and property. Mr Bond and Mr Hughes are partners in Coopers & Lybrand, which firm provided Scheme related services to the company. During the year ended 31 December 1996, Coopers & Lybrand's fees, approved by the creditors committee, for services provided to the company amounted to \$3.2 million.
- 22(c) As at 31 December 1996, the company had net balances, arising from its insurance and reinsurance operations, due to fellow subsidiaries (including Kingscroft Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Reinsurance Company Limited) of \$0.4 million. Provisions of \$16.2 million have been made in respect of the potential irrecoverability of amounts due from these companies due to their insolvency.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1996 (continued)

RELATED PARTIES (continued)

- 22(d) On 2 December 1996 the company, in conjunction with Kingscroft Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Reinsurance Company Limited, formed the KWELM Partnership to undertake common investment activities. The shares and securities shown in note 13 represent the company's share of the assets held in the name of the KWELM Partnership at the balance sheet date. The first set of accounts for the KWELM Partnership will be prepared for the period from 2 December 1996 to 31 December 1997.
- 22(e) During the year ended 31 December 1996, the company purchased run off services at a cost of \$9.7 million from KMS, which is an associated undertaking, and owed \$2.9 million to KMS at the year end.
- 22(f) No notification has been received from any director of a material interest in any contract with the company.

DEPARTMENT OF TRADE RETURNS

- 23 The Secretary of State for Trade and Industry on the application of the company, issued to the company in March 1996 an Order under Section 68 of the Insurance Companies Act 1982 providing that the provisions of Section 17 of that Act should be modified in its application to the company so that the requirement under Section 17 shall be satisfied by the company preparing audited statutory accounts in accordance with Part 1 of Schedule 9A to the Companies Act 1985.