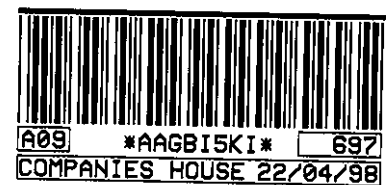


Company number 1044810

WALBROOK INSURANCE COMPANY LIMITED

**REPORT AND ACCOUNTS
YEAR ENDED 31 DECEMBER 1997**



WALBROOK INSURANCE COMPANY LIMITED

REPORT AND ACCOUNTS

Year ended 31 December 1997

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WALBROOK INSURANCE COMPANY LIMITED

Directors, management and administration

Directors:

W F Goodier
M S Harvey
G A Weiss

Secretary:

C G Reynolds

General counsel:

V M Earle

Scheme administrators:

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

Scheme conflicts administrator:

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

Run-off agents:

KWELM Management Services Limited
40 Bermondsey Street
London SE1 3UD

Registered office:

40 Bermondsey Street
London SE1 3UD

Auditor:

Robson Rhodes

Bankers:

Barclays Bank PLC

Solicitors:

Cadwalader, Wickersham & Taft
Clifford Chance
Freshfields

US attorneys (New York):

Shearman & Sterling

WALBROOK INSURANCE COMPANY LIMITED

Directors' report

The directors submit their report and the audited accounts for the year ended 31 December 1997.

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 the company with effect from the close of business on 29 May 1992.

2 As indicated in paragraph 14 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%
May 1997	Reset payment percentage	2%	10%

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 become 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. As explained in note 24 to the accounts, in conjunction with fellow subsidiaries, the company undertakes common investment activities through the KWELM Partnership. These investments are managed by the following independent asset managers: J P Morgan Investment Management Inc., Miller Anderson and Sherrerd LLP, Munich London Investment Management Limited, Pacific Investment Management Company and UBS International Investment London Limited.

WALBROOK INSURANCE COMPANY LIMITED

Directors' report (continued)

CHANGES IN PRESENTATION OF THE ACCOUNTS

7 Following the issue of the exposure draft of a statement of recommended practice on accounting for insurance business by the Association of British Insurers in January 1998, the company has considered and changed its accounting policy for investment return. The principal change is that unrealised gains and losses on investments are now dealt with in the profit and loss account rather than through revaluation reserve. The prior year figures have been restated, and the effect is explained in note 3(c) to the accounts. The overall impact is to reduce the 1996 profit before tax by \$2.3 million, but there is no change in the net deficiency of assets. No allocation of investment return has been made from the non-technical account to the technical account, in order that the technical account will clearly demonstrate the progress made in the run-off of the company's insurance business.

8 Additionally, the company has changed the basis of valuation of debt securities held on a long term basis. These were previously valued at cost, they are now valued at amortised cost. The prior year figures have been restated (see note 3(c) to the accounts). The impact of this change is to increase the 1996 profit before tax by \$1.0 million and to reduce the net deficiency of assets by \$5.1 million.

RESULTS AND DIVIDENDS

9 As explained in note 19 to the accounts, in view of the 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.

10 The provision made for claims outstanding, both gross and net of reinsurance recoveries, as at 31 December 1997 is based upon an actuarial valuation undertaken by Coopers & Lybrand.

11 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.

12 Total technical claims 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.

13 The results of the company are set out on pages 8 and 9. During the year the company received further information regarding case estimates and its policy exposures. This has generated a reduction in the estimated ultimate amount of claims incurred and an increase in the estimated ultimate amount of reinsurance recoveries net of provisions for irrecoverable amounts. There has also been a reduction in the special margin. The profit after taxation was \$283.1 million (1996 \$194.9 million).

WALBROOK INSURANCE COMPANY LIMITED

Directors' report (continued)

RESULTS AND DIVIDENDS (continued)

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

	1997	1996 restated
	\$m	\$m
Estimated gross liabilities, including the special margin	(4,962.1)	(5,146.0)
Assets, including estimated reinsurance recoveries	1,606.7	1,504.2
Net deficiency of assets	<u>(3,355.4)</u>	<u>(3,641.8)</u>

15 No dividend is payable to shareholders in 1997 (1996 \$nil).

DIRECTORS

16 The directors who, except as otherwise indicated, served throughout 1997 were as follows:

W F Goodier

M S Harvey (nominated by the Policyholders Protection Board)

J Lock (resigned 1 July 1997)

G A Weiss

17 None of the directors at 31 December 1997 had any interests in shares in the parent company or any company in the London United Investments group.

DIRECTORS' RESPONSIBILITIES

18 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.

19 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.

20 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.

WALBROOK INSURANCE COMPANY LIMITED

Directors' report (continued)

DIRECTORS' RESPONSIBILITIES (continued)

21 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.

22 The directors act in a non-executive capacity.

By Order of the Board



C G Reynolds
Company Secretary
17 April 1998

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 8 to 27 which have been prepared under the accounting policies set out on pages 12 to 16.

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 19 the technical claims 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(m) 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 1997 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
17 April 1998

WALBROOK INSURANCE COMPANY LIMITED

Profit and loss account General business technical account for the year ended 31 December 1997

	Note	1997 \$m	1996 restated \$m
Premiums written and earned, net of reinsurance	2,4	-	1.3
<u>Claims incurred, net of reinsurance</u>			
Gross claims paid	3(h)	(32.3)	(30.8)
Balance of claims agreed		(112.0)	(90.0)
Gross claims agreed	3(i)	(144.3)	(120.8)
Reinsurance recoverable		128.3	61.3
Net claims paid and agreed		(16.0)	(59.5)
Change in the gross technical claims provisions			
- claims outstanding		185.2	228.5
- special margin		100.0	130.0
	5(a)	285.2	358.5
Reinsurers' share of change in the gross technical claims provisions	5(b)	(44.3)	(138.7)
Net decrease in the provision for claims		240.9	219.8
Decrease in claims incurred, net of reinsurance	19	224.9	160.3
Net operating expenses	6	(4.7)	(6.1)
Balance on the general business technical account - profit	2	220.2	155.5

The notes on pages 12 to 27 form part of these accounts. Auditor's report: page 7.

WALBROOK INSURANCE COMPANY LIMITED

Profit and loss account Non-technical account for the year ended 31 December 1997

	Note	1997 \$m	1996 restated \$m
Balance on the general business technical account - profit		220.2	155.5
<u>Investment return</u>			
Income from investments		43.4	40.2
Value readjustment on investments		1.1	1.0
Realised gains on investments, net of losses		2.7	1.6
Unrealised gains on investments, net of losses		12.1	-
Investment management expenses		(1.4)	(0.4)
Unrealised losses on investments, net of gains		-	(5.8)
	10	57.9	36.6
Other income		5.1	0.9
Profit before taxation	2, 3(c)	283.2	193.0
Taxation	11	(0.1)	1.9
Profit after taxation	18	283.1	194.9

Statement of total recognised gains and losses for the year ended 31 December 1997

		1997 \$m	1996 restated \$m
Profit after taxation		283.1	194.9
Net foreign exchange revaluation gain/(loss)		3.3	(9.4)
Total gains and losses recognised in the year		286.4	185.5
Prior year adjustment	3(c)	5.1	
Total gains and losses recognised since the last report		291.5	


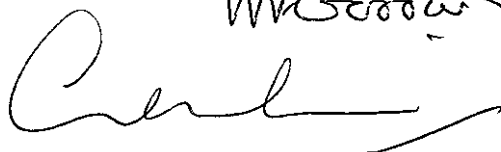
The notes on pages 12 to 27 form part of these accounts. Auditor's report: page 7.

WALBROOK INSURANCE COMPANY LIMITED

Balance sheet as at 31 December 1997

	Note	1997 \$m	1996 restated \$m
ASSETS			
Investments			
Investments in group undertakings and participating interests	12	5.3	3.2
Other financial investments	13,14,15	706.4	577.3
Total investments		711.7	580.5
Reinsurers' share of technical claims provisions	19	787.3	831.6
Debtors	16	76.0	40.2
Cash at bank		17.3	36.4
Accrued interest		14.4	15.5
TOTAL ASSETS		<u>1,606.7</u>	<u>1,504.2</u>
LIABILITIES			
Capital and reserves			
Share capital	17	79.8	79.8
Profit and loss account - accumulated losses	18	(3,435.2)	(3,721.6)
Net deficiency of shareholders' funds	18	(3,355.4)	(3,641.8)
Technical claims provisions			
Claims outstanding		1,842.5	2,032.5
Special margin		2,450.0	2,550.0
Total technical claims provisions	19	4,292.5	4,582.5
Established scheme liabilities and other creditors	21	669.6	563.5
Total liabilities excluding shareholders' funds		4,962.1	5,146.0
TOTAL LIABILITIES including deficiency of shareholders' funds		<u>1,606.7</u>	<u>1,504.2</u>

The accounts were approved by the Board on 17 April 1998 and signed on its behalf by:

 W F Goodier)
) Directors
 G A Weiss)

The notes on pages 12 to 27 form part of these accounts. Auditor's report: page 7.

WALBROOK INSURANCE COMPANY LIMITED

Cash flow statement for the year ended 31 December 1997

	Note	1997 \$m	1996 \$m
Net cash inflow from operating activities	22	98.5	77.1
Taxation recovered		0.2	0.4
		<u>98.7</u>	<u>77.5</u>
Cash flows were invested as follows:		1997 \$m	1996 \$m
Net portfolio investment			
Purchases of listed shares		52.7	11.4
Sales of listed shares		(14.7)	-
		<u>38.0</u>	<u>11.4</u>
Purchases of debt securities and other fixed interest securities		972.8	563.4
Sales of debt securities and other fixed interest securities		(874.0)	(454.1)
		<u>98.8</u>	<u>109.3</u>
Decrease in deposits with credit institutions		(21.3)	(79.1)
		<u>115.5</u>	<u>41.6</u>
(Decrease)/increase in cash holdings		(19.0)	36.0
Net increase in cash and portfolio investments		<u>96.5</u>	<u>77.6</u>
Investment in participating interests		2.2	(0.1)
Net investment of cash flows		<u>98.7</u>	<u>77.5</u>

The movement in cash and portfolio investments reflects:

	1 January 1997 restated \$m	Cash flow \$m	Changes to market value and currencies \$m	31 December 1997 \$m
Cash at bank	36.4	(19.0)	(0.1)	17.3
Listed shares	11.4	38.0	9.5	58.9
Debt securities and other fixed interest securities	285.7	98.8	6.4	390.9
Deposits with credit institutions	280.2	(21.3)	(2.3)	256.6
	<u>613.7</u>	<u>96.5</u>	<u>13.5</u>	<u>723.7</u>

The notes on pages 12 to 27 form part of these accounts. Auditor's report: page 7.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1997

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(j)) and the uncertainties inherent in determining the amount of claims outstanding (see note 19). Provision has been made for future expenses after making allowance for future investment return (see note 3(m)).

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, except for the change in accounting policy described in note 3(c) below.

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 with the exposure draft of the statement of recommended practice ("SORP") on accounting for insurance business issued by the Association of British Insurers ("ABI") on 28 January 1998.

Change in accounting policy

- 3(c) Following the issue of the exposure draft of the SORP by the ABI, the company has changed its accounting policy for investment return. All of the investment return is now shown in the non-technical profit and loss account. Previously investment income and realised gains and losses on investments were shown in the general business technical account and unrealised gains and losses were dealt with through revaluation reserve. Additionally, realised gains and losses on investments are now determined having regard to the original cost, whereas previously they represented the difference between the net sale proceeds and the valuation at the preceding balance sheet date or cost of acquisition if later.

The company has also changed the basis of valuation of debt securities held on a long term basis. These were previously valued at cost, they are now valued at amortised cost, which better reflects the increase in their value over the period to maturity.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1997 (continued)

3(c) Change in accounting policy (continued)

The comparative figures for the year ended 31 December 1996 have been restated to reflect the above changes in the accounting policy for investments, with the following effects:

	Prior year adjustment				
	As previously stated	Presentation of investment return	Determination of realised gains and losses	Valuation of debt securities	Restated
	\$m	\$m	\$m	\$m	\$m
Balance on general business technical account for 1996	193.4	(37.9)			155.5
Unrealised losses dealt with through revaluation reserve in 1996	(2.3)	2.3			-
Profit before tax for 1996	194.3	(2.3)		1.0	193.0
Realised gains/(losses)	(1.9)		3.5		1.6
Unrealised losses	(2.3)		(3.5)		(5.8)
Net deficiency of assets	(3,646.9)	-	-	5.1	(3,641.8)

Had the accounting policy not been changed, the 1997 investment return dealt with in the profit and loss account and the profit before tax for the year would have been \$11.7 million lower, reflecting:

	\$m
Unrealised gains on investments now dealt with in the profit and loss account	(12.1)
Change in basis of determining realised gains	1.5
Value readjustment on debt securities held on a long term basis	(1.1)
	<u>(11.7)</u>

Basis of presentation

- 3(d) 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(e) 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).
- 3(f) As explained in note 24, the company carries on investment activities through the KWELM Partnership. The company's share of the assets, liabilities and investment return of the KWELM Partnership are included under the relevant headings in these accounts.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1997 (continued)

Recognition of profits and losses

- 3(g) 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(h) 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(i) 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(j) The provision for claims outstanding is undiscounted and is determined, by reference to projections of the ultimate run-off of premiums and claims, 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(m) 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 reflecting the uncertainties inherent in determining the provision for claims outstanding, both gross and net of reinsurance.
- 3(k) The reinsurers' share of the technical claims provisions represents the estimated amount to be recovered from reinsurers based on the amount of the technical claims provisions determined under note 3(j) above, less a provision for known and possibly irrecoverable amounts.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1997 (continued)

Equalisation reserves

- 3(l) 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(m) Full provision is made, within technical claims 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(n) 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 return

- 3(o) Investments in solvent subsidiary and associated undertakings are included at their underlying net asset value. No liability is recognised for insolvent undertakings.

- 3(p) Listed investments are stated at market value. Other fixed interest securities are stated at prices quoted by various recognised sources.

Debt securities held on a long-term basis are valued at amortised cost. The amortisation is calculated having regard to the yield generated by the security. This is a change in accounting policy from earlier years, when such securities were stated at cost.

- 3(q) The return from investments is included in the non-technical account on an accruals basis. No allocation is made to the technical account. Investment return includes any realised and unrealised gains and losses on investments during the year. Realised gains and losses represent the difference between the net sale proceeds and the cost of acquisition. This is a change in accounting policy from previous years, when unrealised gains and losses on investments were included in the revaluation reserve and realised gains and losses on investments were based on the difference between the net sale proceeds and the valuation at the preceding balance sheet date or the cost of acquisition if later.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1997 (continued)

Debtor and creditor balances

- 3(r) 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(s) 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:	1997	1996
£ Sterling	\$1.65	\$1.71
Canadian Dollar	\$0.70	\$0.73

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

Taxation

- 3(u) 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.

PREMIUM INCOME	1997	1996
	\$000	\$000
4 Gross premiums written and earned	514	1,513
Reinsurance premiums ceded and related adjustments	(476)	(229)
Premiums written and earned, net of reinsurance	<u>38</u>	<u>1,284</u>

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1997 (continued)

CHANGE IN TECHNICAL CLAIMS PROVISIONS

1997
\$m

1996
\$m

5(a) GROSS AMOUNT

Provisions brought forward

Claims outstanding

2,032.5

2,247.3

Foreign exchange adjustment

(4.8)

13.7

2,027.7

2,261.0

Special margin

2,550.0

2,680.0

Revalued provision brought forward

4,577.7

4,941.0

Provisions carried forward (see note 19)

Claims outstanding

(1,842.5)

(2,032.5)

Special margin

(2,450.0)

(2,550.0)

(4,292.5)

(4,582.5)

Decrease in gross technical claims provisions

285.2

358.5

5(b) REINSURERS' SHARE OF TECHNICAL CLAIMS PROVISIONS

Reinsurers' share brought forward

831.6

970.3

Reinsurers' share carried forward (see note 19)

(787.3)

(831.6)

Decrease in reinsurers' share of provisions

44.3

138.7

NET OPERATING EXPENSES

6 Net operating expenses comprise:

Brokerage and commission incurred in the year

-

0.3

Administrative expenses incurred in the year

4.7

5.8

4.7

6.1

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1997 (continued)

AUDITOR'S REMUNERATION

- 7 The remuneration of the auditor amounted to \$122,000 (1996 \$118,000). Robson Rhodes also received fees of \$1,000 (1996 \$2,000) in respect of other non-audit services.

DIRECTORS' EMOLUMENTS

- 8 The aggregate emoluments of the directors were \$169,000 (1996 \$186,000).

SEGMENTAL INFORMATION

- 9 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	
	1997 \$m	1996 \$m	1997 \$m	1996 \$m	1997 \$m	1996 \$m
<u>Direct insurance</u>						
Marine, aviation and transport	-	-	0.1	0.2	0.3	0.6
Property	-	-	1.3	3.2	0.4	1.2
Liability	0.3	1.0	(14.5)	533.2	104.8	(95.2)
	<u>0.3</u>	<u>1.0</u>	<u>(13.1)</u>	<u>536.6</u>	<u>105.5</u>	<u>(93.4)</u>
<u>Reinsurance acceptances</u>						
Marine, aviation and transport	-	-	(0.2)	(0.4)	0.2	0.3
Property	0.2	(1.5)	18.4	(133.1)	(4.8)	40.1
Liability	-	2.0	135.8	(165.4)	(17.4)	(24.6)
	<u>0.2</u>	<u>0.5</u>	<u>154.0</u>	<u>(298.9)</u>	<u>(22.0)</u>	<u>15.8</u>
	<u>0.5</u>	<u>1.5</u>	<u>140.9</u>	<u>237.7</u>	<u>83.5</u>	<u>(77.6)</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.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1997 (continued)

INVESTMENT RETURN

10	Investment return comprises:	1997 \$m	1996 \$m
	<u>Arising through the KWELM Partnership</u>		
	Income on investments	23.7	1.7
	Realised and unrealised gains and losses on investments	14.8	(2.6)
	Investment expenses	(0.8)	(0.1)
		<u>37.7</u>	<u>(1.0)</u>
	<u>Arising on assets held in the name of the company</u>		
	Income on investments	19.7	38.5
	Value readjustment on investments	1.1	1.0
	Realised and unrealised gains and losses on investments	-	(1.6)
	Investment expenses	(0.6)	(0.3)
		<u>20.2</u>	<u>37.6</u>
		<u>57.9</u>	<u>36.6</u>

TAXATION

- 11 No liability for corporation tax for the year arises as a result of available tax losses. The tax charge for the year reflects irrecoverable overseas withholding tax deducted from investment income. The taxation credit for the prior year represents amounts received in relation to group relief ceded to other group companies in earlier years.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1997 (continued)

INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

12 The value attributed by the directors to the investment in these undertakings comprises:

	Directors' valuation	
	1997 \$m	1996 \$m
<u>Subsidiary undertakings:</u>		
El Paso Insurance Company Limited ("El Paso") (see (a) below)	-	-
Subsidiaries thereof:		
Desert Insurance Company Limited ("Desert")		
London United Insurance Services Limited		
Southwark Run-Off Services Limited ("SROS") (see (b) below)	1.0	1.0
Walbrook Management Services Limited ("WMS") (see (b) below)	-	-
	<u>1.0</u>	<u>1.0</u>
<u>Associated undertaking:</u>		
KWELM Holdings Limited ("KHL") (see (c) below)	4.3	-
Subsidiaries thereof:		
KWELM Asset Services Limited ("KAS")		
KWELM Employment Services Limited ("KES")		-
KWELM Management Services Limited ("KMS")		2.2
Bevis Insurance Services Limited ("Bevis")		
	<u>5.3</u>	<u>3.2</u>

The subsidiary undertakings are wholly owned. The company owns 20% of the voting shares and 50.8% of the non-voting shares of KHL.

- (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 \$71.9 million (1996 \$19.2 million) and a net deficiency of assets of \$477.0 million (1996 \$549.5 million), and the audit report thereon referred to similar fundamental uncertainties as those referred to in the company's audit report on page 7.

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.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1997 (continued)

INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS (continued)

- (c) During 1997, KHL and its wholly owned subsidiaries KAS and Bevis were formed and KHL purchased the company's interests in KES and KMS, which are now wholly owned subsidiaries of KHL. The investment in the associated undertaking includes a loan of \$4.3 million (1996 \$2.2 million). The share capital and net assets of KHL comprise:

Share capital	
- voting shares	£5
- non-voting shares	£195
Net assets	£200

All of the subsidiary and associated undertakings 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:	1997		1996 restated	
		Market value \$m	Cost \$m	Market value \$m	Cost \$m
	Listed shares and other variable yield securities*	58.9	51.5	11.4	11.4
	Debt securities and other fixed interest securities:				
	Listed*	323.2	321.4	226.8	228.9
	Other fixed interest securities*	67.7	60.9	58.9	54.0
		390.9	382.3	285.7	282.9
	Deposits with credit institutions#	256.6	256.6	280.2	280.2
		706.4	690.4	577.3	574.5

* Mainly held in the name of the KWELM Partnership, as summarised below.

Mainly held in the name of the company.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1997 (continued)

OTHER FINANCIAL INVESTMENTS (continued)

As described in note 24 the company, in conjunction with fellow subsidiaries, undertakes common investment activities through the KWELM Partnership. The market value of the other financial investments held in the name of the KWELM Partnership comprises:

	1997 \$m	1996 \$m
Listed shares and other variable yield securities	58.9	11.4
Debt securities and other fixed interest securities:		
Listed	323.2	226.8
Other fixed interest securities	55.1	47.3
Deposits with credit institutions	0.2	11.7
	<u>437.4</u>	<u>297.2</u>
These investments cost	<u>427.5</u>	<u>299.5</u>

All other investments are held in the name of the company.

- 14 Other fixed income securities include a zero coupon bond held in the name of the company valued at \$12.6 million (1996 \$11.5 million), which cost \$6.5 million in 1990 and has a maturity value of \$57.1 million in 2015.

ENCUMBRANCES OVER INVESTMENTS

- 15 The deposits with credit institutions of \$256.6 million (1996 \$280.2 million) include amounts totalling \$30.2 million (1996 \$42.3 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, totalling \$22.2 million (1996 \$28.8 million). In addition there is a contingent liability estimated at \$6.8 million (1996 \$6.8 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.

	1997 \$m	1996 \$m
16 Debtors		
Debts due from reinsurers arising out of reinsurance operations, net of provisions for doubtful and irrecoverable amounts	24.3	27.3
Other debtors, mainly relating to the KWELM Partnership (see note 24)	47.0	9.6
Income tax recoverable	4.7	3.3
	<u>76.0</u>	<u>40.2</u>

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for year ended 31 December 1997 (continued)

SHARE CAPITAL

	1997 £m	1996 £m
17 Authorised: 60,000,000 ordinary shares of £1 each	60.0	60.0
	\$m	\$m
Issued and fully paid: 52,416,667 ordinary shares of £1 each, translated into US Dollars at historic rates of exchange	79.8	79.8

MOVEMENTS IN SHAREHOLDERS' FUNDS

	Accumulated losses		Revaluation reserve	Net deficiency in shareholders' funds	
	1997	1996 restated	1996 restated	1997	1996 restated
	\$m	\$m	\$m	\$m	\$m
18 Balance brought forward as previously stated	(3,721.6)	(3,913.6)	2.4	(3,641.8)	(3,831.4)
Prior year adjustment	-	6.5	(2.4)	-	4.1
Restated balance brought forward	(3,721.6)	(3,907.1)	-	(3,641.8)	(3,827.3)
Profit after tax for year	283.1	194.9	-	283.1	194.9
Foreign exchange revaluation gain/(loss)	3.3	(9.4)	-	3.3	(9.4)
Balance carried forward	(3,435.2)	(3,721.6)	-	(3,355.4)	(3,641.8)

TECHNICAL CLAIMS PROVISIONS

- 19 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 1998, represents an estimated undiscounted gross liability of \$1,842.5 million (1996 \$2,032.5 million) and includes a provision for future claims settlement expenses of \$127.4 million (1996 \$138.1 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.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1997 (continued)

TECHNICAL CLAIMS PROVISIONS (continued)

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 \$2,450.0 million (1996 \$2,550.0 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.

The reinsurers' share of the technical claims 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 claims provisions. Thus, the amount of the reinsurers' share of technical claims 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

- 20 The estimated full amount of the provision for future administrative expenses, including investment management expenses, is \$119.6 million (1996 \$116.8 million), which has been reduced to \$nil (1996 \$nil) by the offset of the estimated future investment return.

CREDITORS: amounts due in less than five years		1997	1996
		\$m	\$m
21(a)	Creditors arising out of direct insurance operations	606.7	533.0
	Owing to group undertakings	0.7	3.3
	Other creditors, mainly relating to the KWELM Partnership (see note 24)	62.2	27.2
	Total creditors	669.6	563.5

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.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1997 (continued)

CREDITORS: amounts due in less than five years (continued)

	1997	1996
	\$m	\$m
21(b) The total creditors comprise:		
Established scheme liabilities	462.2	374.2
Liabilities in process of establishment	144.9	158.8
Liabilities for securities purchased and for expenses incurred subsequent to the Scheme becoming effective, which are payable in full	62.5	30.5
	<u>669.6</u>	<u>563.5</u>

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.

RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	1997	1996
	\$m	restated \$m
22 Profit on ordinary activities before tax		
Profit before taxation	283.2	193.0
Adjust: net realised gains on investments	(2.7)	(1.6)
net unrealised (gains)/losses on investments	(13.2)	4.8
Decrease in reinsurers' share of technical claims provisions	44.3	138.7
Increase in debtors	(36.4)	(8.3)
Decrease/(increase) in accrued interest	1.1	(0.6)
Decrease in technical claims provisions	(285.2)	(358.5)
Increase in established scheme liabilities and other creditors	107.4	109.6
Net cash inflow from operating activities	<u>98.5</u>	<u>77.1</u>

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1997 (continued)

RELATED PARTIES

- 23(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.
- 23(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 (until 31 October 1997) and Mr Hughes were partners in Coopers & Lybrand, which provided Scheme related services to the company. During the year ended 31 December 1997, Coopers & Lybrand's fees, approved by the creditors committee, for services provided to the company amounted to \$2.8 million (1996 \$3.2 million).
- 23(c) As at 31 December 1997, the company had net balances, arising from its insurance and reinsurance operations, due from fellow subsidiaries (including Kingscroft Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Reinsurance Company Limited) of \$nil (1996 \$0.4 million). Provisions of \$76.4 million (1996 \$83.3 million) have been made in respect of the potential irrecoverability of amounts due from these companies due to their insolvency.
- 23(d) During the year ended 31 December 1997, the company purchased run off services at a cost of \$7.8 million (1996 \$9.7 million) from KMS, and owed \$0.7 million (1996 \$2.9 million) to KMS at the year end.
- 23(e) During the year ended 31 December 1997, the company agreed to provide secured loan facilities to KAS. At the year end KAS owed \$4.3 million to the company.
- 23(f) No notification has been received from any director of a material interest in any contract with the company.

The KWELM Partnership

- 24 The company, in conjunction with Kingscroft Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Reinsurance Company Limited ("the Partners"), undertakes common investment activities through the KWELM Partnership. Each of the Partners has a quantifiable beneficial interest in the assets of the Partnership. The assets of the Partnership are beneficially owned by the Partners in their respective proportions. The assets held in the name of the Partnership are invested, in accordance with the investment guidelines set by the company and its Partners, on a discretionary basis by independent asset managers appointed by the company and its Partners.

WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 1997 (continued)

RELATED PARTIES (continued)

The KWELM Partnership is an ordinary partnership established under a partnership deed dated 2 December 1996; its principal place of business is 40 Bermondsey Street, London SE1 3UD. The first audited accounts of the Partnership for the period from 2 December 1996 to 31 December 1997 have been appended to the company's accounts for the purpose of filing under Section 242 of the Companies Act 1985, as required by the Partnerships and Unlimited Companies (Accounts) Regulations 1993.

The company's share of the assets, liabilities and investment return shown in the accounts of the KWELM Partnership, which have been included in the company's accounts, comprises:

	Per KWELM Partnership accounts	Company's share dealt with in accounts for	
	\$m	1997 \$m	1996 \$m
<u>Assets</u>			
Other financial investments	896.6	437.4	297.2
Debtors	96.1	46.9	8.4
Cash at bank	31.7	15.4	32.9
Accrued interest	13.2	6.5	4.5
	<u>1,037.6</u>	<u>506.2</u>	<u>343.0</u>
<u>Liabilities</u>			
Other creditors	(122.1)	(59.6)	(24.3)
Funds carried forward in the Partnership	<u>915.5</u>	<u>446.6</u>	<u>318.7</u>
<u>Profit and loss account</u>			
Net investment return	<u>76.0</u>	<u>37.5</u>	<u>(1.0)</u>

RETURN TO THE INSURANCE DIRECTORATE OF HM TREASURY

- 25 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.

THE KWELM PARTNERSHIP

REPORT AND ACCOUNTS

**FOR THE PERIOD FROM
2 DECEMBER 1996 TO 31 DECEMBER 1997**

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Cash flow statement	7
Notes to the accounts	8

THE KWELM PARTNERSHIP

Annual report

The Partners submit their report and the audited accounts for the first trading period from 2 December 1996 to 31 December 1997.

PRINCIPAL ACTIVITIES AND ADMINISTRATION

1. The KWELM Partnership (the "Partnership") was established under a Partnership Deed dated 2 December 1996 to permit common investment of certain of the Partners' assets for commercial purposes related to the business of the Partners. Each of the Partners has a quantifiable beneficial interest in the assets of the Partnership. The assets of the Partnership are beneficially owned by the Partners in their respective proportions. The assets held in the name of the Partnership are invested, in accordance with the investment guidelines set by the Partners, on a discretionary basis by independent asset managers appointed by the Partners.
2. The Partners are Kingscroft Insurance Company Limited, Walbrook Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Reinsurance Company Limited. The Partners are insurance companies which are subject to a Scheme of Arrangement under section 425 of the Companies Act 1985 (the "Scheme"). Messrs C J Hughes and I D B Bond are the scheme administrators of the Partners.
3. The principal place of business of the Partnership is 40 Bermondsey Street, London SE1 3UD, which is also the registered office of each of the Partners.
4. Initial contributions were made by the Partners on 2 and 4 December 1996 and additional contributions were made on 1 July 1997.
5. The Partners continue to undertake common investment activities through the Partnership.

RESULTS

6. The results of the Partnership are set out on page 5. The profit for the period was \$76.0 million.

PARTNERS' RESPONSIBILITIES

7. The Partners 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 Partnership as at the end of the accounting period and of the profit or loss for that period.
8. 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.

THE KWELM PARTNERSHIP


Annual report

PARTNERS' RESPONSIBILITIES (continued)

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

10. All of the Partners are insurance companies and prepare their own accounts in accordance with Section 255 and Schedule 9A of the Companies Act 1985, and these accounts have been prepared using accounting policies and presentation which are consistent with those used in the Partners' accounts.

For and on behalf of the Partners,



W F Goodier
17 April 1998

THE KWELM PARTNERSHIP

Report of the auditor to the Partners

We have audited the accounts on pages 5 to 11 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of Partners and auditor

As described on page 2, the Partners 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.

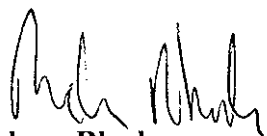
Basis of opinion

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 Partners in the preparation of the accounts, and of whether the accounting policies are appropriate to the Partnership'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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Partnership as at 31 December 1997 and of its profit for the period then ended and have been properly prepared in accordance with the accounting policies set out in note 1(b) to the accounts.



Robson Rhodes

Chartered Accountants and Registered Auditor

London

17 April 1998

THE KWELM PARTNERSHIP

Profit and loss account

for the period from 2 December 1996 to 31 December 1997

	1997 \$m
Gross income from investments	53.1
Realised gains on investments, net of losses	5.0
Unrealised gains on investments, net of losses	20.2
Investment management expenses	(2.0)
Profit before irrecoverable taxation	<hr/> 76.3
Taxation: irrecoverable tax deducted from income received	(0.3)
Net profit for the period	<hr/> <hr/> 76.0

Statement of total recognised gains and losses

for the period 2 December 1996 to 31 December 1997

There were no recognised gains and losses other than those included in the profit and loss account above.

THE KWELM PARTNERSHIP

Balance sheet as at 31 December 1997	Note	1997 \$m
ASSETS		
Financial investments	3	896.6
Debtors	5	96.1
Cash at bank		31.7
Accrued income		13.2
Total assets		1,037.6
LIABILITIES		
Partners' capital and current accounts	4	915.5
Creditors	5	122.1
Total liabilities		1,037.6

The accounts were approved by the Partners on 17 April 1998 and signed on its behalf by:

W F Goodier

W F Goodier

G A Weiss

G A Weiss

The notes on pages 8 to 11 form part of these accounts. Auditor's report: page 4.

THE KWELM PARTNERSHIP

Cash flow statement for the period from 2 December 1996 to 31 December 1997

	Note	1997 \$m
Net cash inflow from operating activities	6(a)	65.3
Financing		
Contributions from the Partners	6(b)	451.2
		<u>516.5</u>

Cash flows were invested as follows:	1997 \$m	1997 \$m
Net portfolio investment		
Purchases of listed shares	131.3	
Sales of listed shares	<u>(30.6)</u>	100.7
Purchases of debt securities and other fixed interest securities	2,277.0	
Sales of debt securities and other fixed interest securities	<u>(1,893.4)</u>	383.6
Increase in deposits with credit institutions		<u>0.5</u>
		484.8
Increase in cash holdings		<u>31.7</u>
Net investment of cash flows		<u>516.5</u>

The movement in cash and portfolio investments reflects:

	Contributed by Partners \$m	Cash flow \$m	Changes to market value and currencies \$m	31 December 1997 \$m
Cash at bank	451.2	(419.5)	-	31.7
Listed shares	-	100.7	20.0	120.7
Debt securities and other fixed interest securities	386.6	383.6	5.2	775.4
Deposits with credit institutions	-	0.5	-	0.5
	<u>837.8</u>	<u>65.3</u>	<u>25.2</u>	<u>928.3</u>

The notes on pages 8 to 11 form part of these accounts. Auditor's report: page 4.

THE KWELM PARTNERSHIP

Notes to the accounts for the period ended 31 December 1997

ACCOUNTING POLICIES

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

Disclosure requirements

- 1 (b) All of the Partners are insurance companies which prepare their accounts in accordance with Section 255 and Schedule 9A of the Companies Act 1985, applicable accounting standards in the United Kingdom and with the exposure draft of the statement of recommended practice ("SORP") on accounting for insurance business issued by the Association of British Insurers ("ABI") on 28 January 1998. These accounts have been prepared under the Partnerships and Unlimited Companies (Accounts) Regulations 1993, except that the accounting policies and presentation are consistent with those adopted by the Partners in their own accounts under Schedule 9 of the Companies Act 1985, rather than Schedule 7 of that Act. The effect on the accounts is that financial investments are shown at market value rather than cost. This has the effect of increasing the value of financial investments and the net profit for the period by \$20.2 million.

Basis of presentation

- 1 (c) The accounts are presented in US Dollars to reflect the currency in which most of the Partnership's assets and liabilities are denominated.
- 1 (d) The accounts represent the first trading period from 2 December 1996 to 31 December 1997 and, accordingly, do not contain comparative figures.

Investments and investment income

- 1 (e) Listed investments are stated at market value. Other fixed interest securities are stated at prices quoted by various recognised sources.
- 1 (f) Income from investments and associated expenses are included in the profit and loss account on an accruals basis. Income from investments includes any realised and unrealised gains or losses on investments during the period. Realised gains and losses represent the difference between the net sale proceeds and the cost of acquisition.

Profits and losses

- 1 (g) In accordance with the Partnership Deed dated 2 December 1996, the net profits and losses of the Partnership belong to the Partners in proportion to the amount of capital which each Partner has contributed to the Partnership.

Foreign exchange

- 1 (h) 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 KWELM PARTNERSHIP

Notes to the accounts for the period ended 31 December 1997 (continued)

ACCOUNTING POLICIES (continued)

Taxation

- 1 (i) No provision for taxation has been made, as appropriate provision is made in the Partners' own accounts.
- 1 (j) Recoverable income tax deducted from income received is recovered direct by the Partners and is shown within the Partners' current accounts. Irrecoverable income tax is shown as a charge in the profit and loss account.

AUDITOR'S REMUNERATION

- 2 The remuneration of the auditor, which is settled direct by the Partners, amounted to \$3,000. Robson Rhodes did not receive any fees in respect of other non-audit services.

FINANCIAL INVESTMENTS

		1997	
3	Financial investments comprise:	Market value \$m	Cost \$m
	Listed shares and other variable yield securities	120.7	105.7
	Debt securities and other fixed interest securities:		
	Listed	662.4	658.9
	Other fixed interest securities	113.0	111.3
		775.4	770.2
	Deposits with credit institutions	0.5	0.5
		896.6	876.4

Each of the Partners has a quantifiable beneficial interest in the assets of the Partnership. The assets of the Partnership are beneficially owned by the Partners in their respective proportions.

THE KWELM PARTNERSHIP

Notes to the accounts for the period ended 31 December 1997 (continued)

MOVEMENTS IN PARTNERS' FUNDS

	Capital accounts 1997 \$m	Current accounts 1997 \$m	Total Partners' funds 1997 \$m
4(a) Initial capital contribution	435.3	-	435.3
Additional contributions	410.0	-	410.0
Net profit for the period	-	76.0	76.0
Income tax recoverable by the Partners	-	(5.8)	(5.8)
Partners' funds carried forward	<u>845.3</u>	<u>70.2</u>	<u>915.5</u>

	Contributions 1997 \$m	Movements in period 1997 \$m	Totals 1997 \$m
4(b) The Partners' shares in the funds carried forward comprise:			
Kingscroft Insurance Company Limited	159.8	13.8	173.6
Walbrook Insurance Company Limited	412.8	33.8	446.6
El Paso Insurance Company Limited	96.2	8.1	104.3
Lime Street Insurance Company Limited	60.2	5.2	65.4
Mutual Reinsurance Company Limited	116.3	9.3	125.6
	<u>845.3</u>	<u>70.2</u>	<u>915.5</u>

DEBTORS AND CREDITORS

5 Debtors and creditors principally arise from unsettled securities transactions.

THE KWELM PARTNERSHIP

Notes to the accounts for the period ended 31 December 1997 (continued)

RECONCILIATION OF NET PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	1997 \$m
6(a) Net profit for the period	76.0
Adjust: realised profit on sale of securities	(5.0)
unrealised gains on investments	(20.2)
taxation in Partners' current accounts	(5.8)
	<hr/> 45.0
Increase in debtors	(95.4)
Increase in accrued income	(6.4)
Increase in creditors	122.1
	<hr/>
Net cash inflow from operating activities	65.3
	<hr/> <hr/>
6(b) The capital contributions of the Partners comprise:	
Portfolio investments	386.6
Cash	451.2
	<hr/> 837.8
Debtors	0.7
Accrued income	6.8
	<hr/>
Total contributions	845.3
	<hr/> <hr/>

RELATED PARTIES

- 7(a) Each of the Partners has entered into a scheme of arrangement (the "Scheme") with its creditors, effective 15 December 1993. The Scheme provides that the scheme administrators shall, in relation to each Partner, 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 each Partner to manage its affairs, business and property.
- 7(b) Messrs I D B Bond and C J Hughes are the scheme administrators of each Partner. Mr Bond (until 31 October 1997) and Mr Hughes were partners in the firm of Coopers & Lybrand, which provided services to the Partnership. The fees of Coopers & Lybrand relating to the Partnership are paid direct by the Partners, and the appropriate disclosure is made in the accounts of each Partner.