

**Company number 1044810**

**WALBROOK INSURANCE COMPANY LIMITED**

**ANNUAL REPORT AND ACCOUNTS  
YEAR ENDED 31 DECEMBER 2012**

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# **WALBROOK INSURANCE COMPANY LIMITED**

## **ANNUAL REPORT AND ACCOUNTS**

Year ended 31 December 2012

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# **WALBROOK INSURANCE COMPANY LIMITED**

## **Directors, management and administration**

### **Directors:**

C J Hughes  
C G Reynolds

### **Secretary and registered office:**

M&N Group Limited  
The Quadrant  
118 London Road  
Kingston, Surrey  
KT2 6QJ

### **Scheme administrators:**

C J Hughes and C G Reynolds  
C/o R&Q KMS Management Limited  
110 Fenchurch Street  
London EC3M 5JT

### **Run-off agents:**

R&Q KMS Management Limited  
110 Fenchurch Street  
London EC3M 5JT

### **Auditor:**

Grant Thornton UK LLP

### **Bankers:**

Barclays Bank PLC

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 2012

## **PRINCIPAL ACTIVITIES**

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 From 1992 until the setting of the Substantive Closure Distribution, the company was considered to be unable to pay its debts in full since the value of its assets, including estimated reinsurance recoveries, were deemed to be 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. On 31 March 2007 C G Reynolds was appointed as a Scheme Administrator following the resignation of I D B Bond.

3 The Scheme permitted the run-off of the company's liabilities in conjunction with other related companies and the setting of payment percentages from time to time. Scheme payments were made at the relevant set percentages on all established scheme liabilities from September 1994. An amending scheme of arrangement (the "Amending Scheme") became effective on 2 April 2004, which amended the terms of the original Scheme so as to achieve the following purposes:

- to provide a mechanism for closure by utilisation of a bar date (which was set at 29 September 2004) for submission of claims together with an actuarially based estimation methodology to value claims which were not established at that time, whether such claims were actual, prospective or contingent,
- to enable ultimate distributions to be declared and paid by the company to all of its creditors, net of distributions previously paid and
- to finalise the affairs of the company and those whose responsibility it has been to administer them.

4 The company carried on business principally through H S Weavers (Underwriting) Agencies Limited and C R Driver & Co Limited, both companies are now in liquidation. KWELM Management Services Limited administered the run-off of the company's business from December 1992 until 31 December 2005. From 1 January 2006, R&Q KMS Management Limited (formerly KMS Insurance Management Limited), an independent run-off provider, has been responsible for administering the run-off of the company's business.

5 As part of running-off its insurance trading operations, the company's investments were managed by independent asset managers, Amundi (UK) Limited and Payden & Rygel, until 31 August 2012, on which date the investment portfolios were realised in order to fund the payment of the Ultimate Distribution.

## **BUSINESS REVIEW**

6 All submitted claims have now been agreed or adjudicated and, under the terms of the Scheme, no further claims can be submitted.

7 The company's run-off agent continues to pursue the collection of reinsurance recoveries.

## WALBROOK INSURANCE COMPANY LIMITED

### Directors' report (continued)

8 In November 2005, the scheme administrators, with the consent of the Creditors' Committee, announced that they had set the Substantive Closure Distribution at a rate of 100% and the resulting increased payments due to creditors under the Scheme were paid on the Substantive Closure Distribution Date of 15 December 2005. The Substantive Closure Distribution payments to certain scheme creditors were capped, in accordance with clause 3.3.2 of the scheme, so that the aggregate amount paid in respect of any particular Established Scheme Liability, taking account of all prior scheme and adjusting payments, did not exceed 100%.

9 Under clause 3.3.3 of the Scheme, when all of the company's liabilities have been paid in full, the remaining assets are required to be paid to scheme creditors as interest. The company made interim interest payments to scheme creditors totalling \$119.2 million and \$14.2 million in October 2006 and July 2009 respectively from the surplus assets available at the time. In September 2012 the scheme administrators made the Ultimate Distribution to scheme creditors, comprising a further and final payment of interest totalling \$24.3 million, which increased the cumulative effective interest rate to 2.28% per annum.

10 The company is not a going concern and the state of its affairs can be summarised as follows:

	2012	2011
	\$000	\$000
Assets, including funds held in KWELM Trust (see note 15 to the accounts)	1,470	24,930
Gross recorded liabilities and estimated provisions for future expenses	(1,122)	(4,145)
Provision for future payments to creditors and others	0	(20,785)
Net assets	348	0

11 The directors anticipate that the company's affairs will be finalised and the company will be put into liquidation during 2013. No further amounts are expected to be paid to scheme creditors.

12 In previous years, the balance of assets in excess of the recorded liabilities and estimated provisions for future expenses was shown in the accounts as a provision for future payments to creditors and others, rather than as shareholders' funds. The payment of interest to scheme creditors during the year of \$24,316,000 extinguished the balance on that provision and absorbed a further \$3,481,000 of the increase in net assets generated during 2012 mainly from reinsurance recoveries and the release of surplus expense provisions. The decrease in net assets available for distribution to creditors during 2011 was \$46,000.

13 As the company has no employees and has outsourced its run-off and investment activities to third parties, it has no direct impact on social or economic or environmental matters.

### RESULTS AND DIVIDENDS

14 The results of the company are set out on pages 7 and 8. The profit before taxation was \$348,000 (2011 \$nil).

15 No dividend is payable to shareholders in 2012 (2011 \$nil).

# WALBROOK INSURANCE COMPANY LIMITED

## Directors' report (continued)

### DIRECTORS

16 The directors who served during 2012 were as follows:

C J Hughes  
C G Reynolds

17 None of the directors at 31 December 2012 had any interests in shares in the parent company or any company in the London United Investments group.

18 The Directors have Directors' and Officers' liability insurance policies in place, the cost of which is borne by the company.

### DIRECTORS' RESPONSIBILITIES STATEMENT

19 Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. As explained in note 1 to the accounts, it is inappropriate for the company's accounts to be prepared on the going concern basis. In preparing these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently,
- made judgements and estimates that are reasonable and prudent; and
- followed applicable United Kingdom accounting standards.

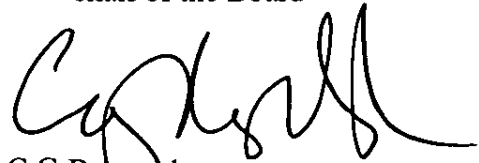
20 The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

21 The directors are responsible for ensuring that the directors' report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom.

22 As far as each director at the time of the report is aware:

- there is no relevant audit information of which the auditor is unaware; and
- they have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the Board



C G Reynolds  
Director

28 March 2013

# WALBROOK INSURANCE COMPANY LIMITED

## Independent auditor's report to the members of Walbrook Insurance Company Limited

We have audited the financial statements of Walbrook Insurance Company Limited for the year ended 31 December 2012 which comprise the profit and loss account, statement of total realised gains and losses, balance sheet, cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Emphasis of matter - Going concern

The accounts are not prepared on a going concern basis, but are prepared on the basis that the company's liabilities will be run-off in accordance with the Amending Scheme of Arrangement under Section 425 of the Companies Act 1985 (the "Amending Scheme") that became effective on 2 April 2004. Provision has been made for future expenses (see note 3(j)) for a period of six months, by which time the directors consider it should be possible to finalise the affairs of the company.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Julian Bartlett  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
28 March 2013

# WALBROOK INSURANCE COMPANY LIMITED

## Profit and loss account General business technical account for the year ended 31 December 2012

	Note	2012 \$000	2011 \$000
Premiums written and earned, net of reinsurance	2,4	-	-
Other technical income	3(o)	-	-
<u>Claims incurred, net of reinsurance</u>			
Gross claims paid	3(g)	(472)	(415)
Balance of claims agreed		-	-
Gross claims agreed	3(h)	(472)	(415)
Reinsurance recoverable		2,229	611
Net claims paid and agreed		1,757	196
Change in the gross technical claims provisions	5	1,959	144
Reinsurers' share of change in the gross technical claims provisions		-	-
Net decrease in the provision for claims		1,959	144
Decrease in claims incurred, net of reinsurance		3,716	340
Net operating expenses	6	112	(437)
Other charges - interest	9, 22	(24,316)	100
Balance on the general business technical account – (loss) / profit	2,10	(20,488)	3

The notes on pages 11 to 20 form part of these accounts.



# WALBROOK INSURANCE COMPANY LIMITED

## Profit and loss account Non-technical account for the year ended 31 December 2012

	Note	2012 \$000	2011 \$000
Balance on the general business technical account – (loss) / profit		(20,488)	3
<u>Investment return</u>	11		
Income from investments		181	239
Realised losses on investments		(179)	(117)
Unrealised gains / (losses) on investments		29	(26)
Investment management expenses		(30)	(45)
		1	51
Other charges	3(p),22	20,835	(54)
Profit before taxation	2	348	-
Taxation	12	-	-
Profit after taxation	18	348	-

## Statement of total recognised gains and losses for the year ended 31 December 2012

		2012 \$000	2011 \$000
Profit after taxation		348	-
Net foreign exchange revaluation gain	18	-	-
Total gains and losses recognised in the year		348	-



The notes on pages 11 to 20 form part of these accounts.

# WALBROOK INSURANCE COMPANY LIMITED

## Balance sheet as at 31 December 2012

	Note	2012 \$000	2011 \$000
<b>ASSETS</b>			
<b>Investments</b>			
Investment in group undertakings	13	-	-
Other financial investments	14,15	1,092	23,267
Total investments		1,092	23,267
<b>Reinsurers' share of technical claims provisions</b>		-	-
<b>Debtors</b>	16	12	893
<b>Cash at bank</b>		366	711
<b>Accrued interest</b>		-	59
<b>TOTAL ASSETS</b>		1,470	24,930
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	17	79,819	79,819
Profit and loss account	18	(79,471)	(79,819)
Shareholders' Funds	18	348	0
<b>Technical claims provisions</b>			
Claims outstanding	19	153	2,032
<b>Provisions for other risks and charges</b>	20	835	1,913
<b>Creditors</b>	21	134	200
<b>Provision for future payments to creditors and others</b>	22	-	20,785
Total liabilities excluding shareholders' funds		1,122	24,930
<b>TOTAL LIABILITIES</b>		1,470	24,930

The accounts were approved by the Board on 28 March 2013 and signed on its behalf by

	CJ Hughes	}
		}
		} Directors
	CG Reynolds	}

Company number 1044810

The notes on pages 11 to 20 form part of these accounts

# **WALBROOK INSURANCE COMPANY LIMITED**

## **Cash flow statement for the year ended 31 December 2012**

	Note	2012		2011	
		\$000	\$000	\$000	\$000
<b>Net cash (outflow) / inflow from operating activities</b>	23		(22,580)		303

### **Cash flows were (financed) / invested as follows**

#### **Net portfolio investment**

Purchases of debt securities and other fixed interest securities	57,568	20,340	
Sales of debt securities and other fixed interest securities	(77,866)	(20,999)	
		(20,298)	(659)
(Decrease) / increase in deposits with credit institutions		(1,910)	826
(Decrease) / increase in cash holdings		(372)	136
<b>Net (financing) / investment of cash flows</b>		(22,580)	303

### **The movement in cash and portfolio investments reflects:**

	31 December 2011	Cash flow	Changes to market value and currencies	31 December 2012
	\$000	\$000	\$000	\$000
Cash at bank	711	(372)	27	366
Debt securities and other fixed interest securities	20,254	(20,298)	44	-
Deposits with credit institutions	3,013	(1,910)	(11)	1,092
	23,978	(22,580)	60	1,458

The notes on pages 11 to 20 form part of these accounts.

# **WALBROOK INSURANCE COMPANY LIMITED**

## **Notes to the accounts for the year ended 31 December 2012**

### **GOING CONCERN BASIS**

- 1 The accounts are not prepared on a going concern basis, but are prepared on the basis that the company's liabilities will be run-off in accordance with the Amending Scheme of Arrangement under Section 425 of the Companies Act 1985 (the "Amending Scheme") that became effective on 2 April 2004. Provision has been made for future expenses (see note 3(j)) for a period of six months, by which time the directors consider it should be possible to finalise the affairs of the company.

### **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.

### **PRINCIPAL ACCOUNTING POLICIES**

- 3(a) The principal accounting policies used by the company are set out below, and have been applied consistently. The directors are satisfied that the current accounting policies are the most appropriate for the company.

#### **Disclosure requirements**

- 3(b) The accounts have been prepared in accordance with the Companies Act 2006, applicable accounting standards in the United Kingdom and with the Statement Of Recommended Practice on accounting for insurance business issued by the Association of British Insurers in December 2005.

#### **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 the subsidiary undertaking that impairs the company's control over the assets of that undertaking (see note 13).
- 3(e) As explained in note 15, the KWELM Trust was created following the payment of the Substantive Closure Distribution and was dissolved during 2012. The company's share of the assets, liabilities and investment return of the KWELM Trust are included under the relevant headings in these accounts.

#### **Recognition of profits and losses**

- 3(f) The technical result is determined on an annual basis whereby the incurred cost of claims, interest paid to creditors under the scheme 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;

## **WALBROOK INSURANCE COMPANY LIMITED**

### **Notes to the accounts for the year ended 31 December 2012 (continued)**

- (11) the movement in claims incurred represents adjustments to prior year estimates of claims and claims settlement expenses and the reinsurers' shares of such estimates

- 3(g) The amount of gross claims paid in the year is presented in compliance with the Companies Act 2006. It comprises payments made to creditors in accordance with the Scheme, other than interest, and claims settlement expenses paid during the year.
- 3(h) 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(i) The provision for claims outstanding comprises the estimated amount of future claims settlement expenses (see note 3(j) below)

#### **Expenses**

- 3(j) 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.

The above provisions for future expenses, which are principally incurred in £ sterling, reflect the anticipated cost of closure related activities over the period to mid-2013. The amount of 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.

- 3(k) 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(l) No liability is recognised for investments in insolvent undertakings.
- 3(m) Listed investments are stated at market value. Other investments are stated at prices quoted by various recognised sources.
- 3(n) 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.

#### **Debtor and creditor balances**

- 3(o) 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 and payments made to creditors under the Scheme.

Scheme liabilities that have been discharged in full by a partial payment pursuant to the Scheme and any discount arising on the determination of claims submitted under the Scheme are removed from creditors, and the resulting surplus is credited to the technical account as other technical income.

# WALBROOK INSURANCE COMPANY LIMITED

## Notes to the accounts for the year ended 31 December 2012 (continued)

### Provision for future payments to creditors and others

- 3(p) In previous years, full provision was made, as a provision for future payments to creditors and others, for the balance of assets in excess of the recorded liabilities and estimated provisions for future expenses, including the funds carried forward in the KWELM Trust (see note 15). Adjustments to the provision for future payments to creditors and others are reflected in the non-technical account as other charges.

### Foreign exchange

- 3(q) 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 rate used to translate £ Sterling into US Dollars was £1 = \$1 617 (2011 £1 = \$1 554).

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

### Taxation

- 3(s) 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 without discounting, 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

	2012 \$000	2011 \$000
4 Gross premiums written and earned	-	-
Reinsurance premiums ceded	-	-
Premiums written and earned, net of reinsurance	-	-

### CHANGE IN GROSS TECHNICAL PROVISION FOR CLAIMS OUTSTANDING

	2012 \$000	2011 \$000
5 Provision brought forward	2,032	2,193
Foreign exchange adjustment	80	(17)
	2,112	2,176
Provision carried forward (see note 19)	(153)	(2,032)
Decrease in gross technical provision for claims outstanding	1,959	144

# WALBROOK INSURANCE COMPANY LIMITED

## Notes to the accounts for the year ended 31 December 2012 (continued)

### NET OPERATING EXPENSES

- 6 Net operating expenses comprise administrative expenses paid in the year of \$1,044,000 (2011 \$733,000) and after movements in provisions the amount credited in the year is \$112,000 (2011 \$437,000 incurred).

### AUDITOR'S REMUNERATION

- 7 The remuneration of the auditor amounted to \$33,149 (2011 \$31,857) Grant Thornton UK LLP received \$nil in respect of non-audit services (2011 \$nil)

### DIRECTORS' EMOLUMENTS

8	The emoluments of the directors comprise	<b>2012</b>	<b>2011</b>
		<b>\$000</b>	<b>\$000</b>
	Aggregate emoluments of the directors	233	223
	Sums paid to third parties for directors' services	291	280
		<u>524</u>	<u>503</u>

Emoluments of the highest paid director include amounts paid to third parties of \$291,060 (2011 \$279,720)

### OTHER CHARGES - INTEREST

- 9 The other charges shown in the technical account represent the payment of interest to creditors under the Scheme (2011 reversal of uncashed interest payments made in 2009)

### MOVEMENT IN PRIOR YEARS' TECHNICAL PROVISIONS AND SEGMENTAL INFORMATION

- 10 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	
	2012	2011	2012	2011	2012	2011
	\$000	\$000	\$000	\$000	\$000	\$000
Direct insurance	-	-	-	-	2,229	611
Reinsurance acceptances	-	-	-	-	-	-
Claims settlement expenses	-	-	1,487	(271)	-	-
	<u>-</u>	<u>-</u>	<u>1,487</u>	<u>(271)</u>	<u>2,229</u>	<u>611</u>

As the company is in run-off, an allocation of claims settlement or 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 2012 (continued)

<b>INVESTMENT RETURN</b>			
11	Investment return comprises:	<b>2012</b>	<b>2011</b>
		<b>\$000</b>	<b>\$000</b>
	<u>Arising through the KWELM Trust (see note 15)</u>		
	Income on investments	146	147
	Realised and unrealised losses on investments	(132)	(64)
	Investment expenses	(19)	(29)
		<u>(5)</u>	<u>54</u>
	<u>Arising on the company's other assets</u>		
	Income on investments	35	92
	Realised and unrealised losses investments	(18)	(79)
	Investment expenses	(11)	(16)
		<u>6</u>	<u>(3)</u>
		<u>1</u>	<u>51</u>

### TAXATION

- 12 No liability arises for UK corporation tax for the year (or for the previous year) at 24.5% (2011 26.5%) of the profit before tax of \$348,000 (2011 \$nil). Whilst certain expenditure and adjustments to expense provisions are disallowed for tax purposes, the net foreign exchange revaluation loss arising in the year on the share capital and tax losses brought forward are more than sufficient to offset the profit arising in the year. Tax losses available to offset future taxable profits are estimated to exceed \$220,000,000 (2011 \$194,000,000).

### INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

- 13 The company has one wholly owned subsidiary, El Paso Insurance Company Limited ("El Paso"), which carries on insurance business and is incorporated and registered in England.

El Paso is subject to a scheme of arrangement under Section 425 of the Companies Act 1985 that became effective on 15 December 1993, and an amending scheme of arrangement that became effective on 2 April 2004. The accounts of El Paso show a profit after taxation for the year of \$164,000 (2011 \$nil) and net assets of \$164,000 (2011 \$nil).

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 subsidiary's assets and operations. The directors have attributed a value of \$nil (2011 \$nil) to the investment in El Paso.



# WALBROOK INSURANCE COMPANY LIMITED

## Notes to the accounts for the year ended 31 December 2012 (continued)

### OTHER FINANCIAL INVESTMENTS

14	Other financial investments comprise	2012		2011	
		Market value \$000	Cost \$000	Market value \$000	Cost \$000
	Debt securities and other fixed interest securities:				
	Listed	-	-	4,776	4,808
	Other	-	-	15,478	15,475
		-	-	20,254	20,283
	Deposits with credit institutions	1,092	1,092	3,013	3,013
		<u>1,092</u>	<u>1,092</u>	<u>23,267</u>	<u>23,296</u>

All investments are held in the name of the company, in the name of the KWELM Trust (see note 15) or in the name of KWELM Treasury (see note 24(d)).

### THE KWELM TRUST

- 15 In early 2006, the company, in conjunction with El Paso, Kingscroft Insurance Company Limited ("Kingscroft"), Lime Street Insurance Company Limited ("Lime Street") and Mutual Reinsurance Company Limited ("Mutual") transferred a total of \$25 million into a trust (the "KWELM Trust") which was created, in accordance with section 10.3 of the Amending Scheme, to meet any obligations that may arise in relation to the released parties under the Scheme

In March 2012, the company, in conjunction with El Paso, Kingscroft, Lime Street and Mutual agreed that funds totalling \$256,265 (2011 \$530,580) relating to distributable income held in the KWELM Trust at 31 December 2011 should be retained in that Trust as an addition to the Trust capital. The company's share of the funds was \$123,374 (2011 \$255,437)

During 2012, after careful consideration, the trustees of the KWELM Trust concluded that no further obligations existed under the Trust Deed or Deed of Covenant. Accordingly the Trust was terminated on 31 August 2012 and the residual assets totalling \$32.3 million were returned to the companies. The company's share of those residual assets was \$15,543,000.

# WALBROOK INSURANCE COMPANY LIMITED

## Notes to the accounts for the year ended 31 December 2012 (continued)

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

	KWELM Trust		Company's share dealt with in accounts for	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
<u>Assets</u>				
Debt securities and other fixed interest securities	-	32,171	-	15,488
Cash at bank	-	217	-	105
	-	32,388	-	15,593
<u>Liabilities</u>				
Creditors	-	(39)	-	(19)
Funds carried forward in the Trust	-	32,349	-	15,574

### DEBTORS

	2012	2011
	\$000	\$000
16 Debts due from reinsurers arising out of reinsurance operations, net of provisions for doubtful and irrecoverable amounts	-	856
Other receivables	12	37
	12	893

### SHARE CAPITAL

	2012	2011
	£000	£000
17 Authorised		
60,000,000 ordinary share of £1 each	60,000	60,000
	\$000	\$000
Issued and fully paid;		
52,416,667 ordinary shares of £1 each, translated into US Dollars at historic rates of exchange	79,819	79,819

# WALBROOK INSURANCE COMPANY LIMITED

Notes to the accounts for the year ended 31 December 2012 (continued)

## MOVEMENTS IN SHAREHOLDERS' FUNDS

		(Accumulated Losses)		Shareholders' funds	
		2012	2011	2012	2011
		\$000	\$000	\$000	\$000
18	Balance brought forward	(79,819)	(79,819)	0	0
	Profit after tax for year	348	0	348	0
	Foreign exchange revaluation gain	0	0	0	0
	Balance carried forward	(79,471)	(79,819)	348	0

## TECHNICAL CLAIMS PROVISIONS

- 19(a) All submitted claims have now been agreed or adjudicated and, under the terms of the Scheme, no further claims can be submitted
- 19(b) The provision for claims outstanding comprises estimated future claims settlement expenses of \$153,000 (2011 \$2,032,000).

## PROVISIONS FOR OTHER RISKS AND CHARGES

- 20 The estimated full amount of the provision for future administrative expenses, including investment management expenses, is \$835,000 (2011 \$1,956,000) In view of the low rates of investment return currently available in the market, the projected investment return achievable on the assets held at the year end is immaterial and no reduction has been made in this respect in the year end provision In 2011 the provision was reduced to \$1,913,000 by the offset of the estimated future investment return

## CREDITORS: amounts due in less than five years

		2012	2011
		\$000	\$000
21	Creditors arising out of direct insurance operations	-	-
	Other creditors	134	200
	Total creditors	134	200

# WALBROOK INSURANCE COMPANY LIMITED

## Notes to the accounts for the year ended 31 December 2012 (continued)

### PROVISION FOR FUTURE PAYMENTS TO CREDITORS AND OTHERS

22	2012 \$000	2011 \$000
Balance brought forward	20,785	20,743
Foreign exchange adjustment	50	(12)
	<u>20,835</u>	<u>20,731</u>
Additional provision made in the year (2011 - reduction in provision)	3,481	(46)
Interest payments to creditors (2011 - reversal of earlier payments)	(24,316)	100
Movement in the year	<u>(20,835)</u>	<u>54</u>
Balance carried forward	-	20,785

### RECONCILIATION OF OPERATING RESULT BEFORE TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2012 \$000	2011 \$000
23 Profit on ordinary activities before tax		
Profit before taxation	348	-
Adjust: net realised and unrealised losses on investments	150	142
Decrease in debtors and accrued interest	943	699
Decrease in technical claims provisions	(1,959)	(144)
Decrease in creditors	(1,227)	(448)
(Decrease) / increase in provision for future payments to creditors and others	<u>(20,835)</u>	<u>54</u>
Net cash inflow from operating activities	<u>(22,580)</u>	<u>303</u>

### RELATED PARTIES

- 24(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.
- 24(b) C J Hughes and C G Reynolds were the scheme administrators of the company during 2012. 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. C J Hughes and C G Reynolds were directors of the company and their emoluments are included in note 8.

## **WALBROOK INSURANCE COMPANY LIMITED**

### **Notes to the accounts for the year ended 31 December 2012 (continued)**

- 24(c) As at 31 December 2012, the company had balances, arising from its insurance and reinsurance operations, due from fellow subsidiaries, Kingscroft, Lime Street and Mutual. These balances amounted to \$11,380,000 (2011 \$12,927,000) Final distributions were paid by these insolvent companies during 2012 and in view of the irrecoverability of the remaining amounts due, provisions have been made against these balances and the net balance included in the accounts is \$nil (2011 \$nil).
- 24(d) Through a joint arrangement known as KWELM Treasury the company, in conjunction with Kingscroft, El Paso, Lime Street and Mutual, operates some bank accounts and undertakes some common investment activities. These bank accounts and investments are used to fund the payment of expenses that are shared between the companies in agreed proportions. Expenses paid through the accounts in the name of KWELM Treasury, the income earned on amounts held on such accounts and assets held in that name are allocated between the companies in those agreed proportions. The company's agreed proportion is 50%.
- 24(e) No notification has been received from any director of a material interest in any contract with the company