

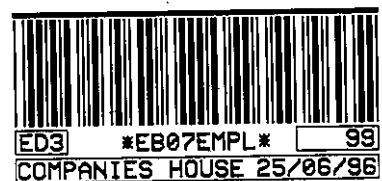
Ac 870

STRONGHOLD INSURANCE COMPANY LIMITED

**REPORT & ACCOUNTS
1995**

A member of the
Norwich Winterthur Group

Company Registration No. 736581



STRONGHOLD INSURANCE COMPANY LIMITED

Contents

	Page
Directors and Management	2
Report of the Directors	3
Statement of Directors' Responsibilities in respect of the Accounts	4
Report of the Auditors	5
Statement of Accounting Policies	6-7
Profit and Loss Account	8
Statement of Total Recognised Gains and Losses	9
Reconciliation of Movements in Shareholder's Funds	9
Balance Sheet	10-11
Statement of Cash Flows	12
Notes to the Accounts	13-20

STRONGHOLD INSURANCE COMPANY LIMITED

Directors and Management

Directors

W E Schürpf (Swiss) – Chairman
M N Biggs (British)
S J Blease (British)
T Sugisawa (Japanese)
U E Thalmann (Swiss)
R E Townsend (British)

General Manager & Secretary

R E Townsend FCIS FCII

Auditors

Ernst & Young

Managing Agents

Cavell Management Services Limited
Norwich Winterthur House Rose Lane Norwich NR1 1JY England
Telephone: (01603) 615122 Facsimile: (01603) 697432

Registered Office

Norwich Winterthur House Rose Lane Norwich NR1 1JY England

STRONGHOLD INSURANCE COMPANY LIMITED

Report of the Directors

The Directors present their report and the accounts of the Company for the year ended 31 December 1995.

Principal activity

Having ceased to write new business, the Company advised the Department of Trade and Industry of this fact and accordingly on 14 August 1987 its authority to accept contracts of insurance was withdrawn.

The principal activity of the Company is the run-off of the insurance and reinsurance business underwritten.

Results and dividends

After allowing for taxation, there was a profit for the year of £315,000 (1994 – loss £3,173,000). The Directors do not recommend the payment of a dividend for the year (1994 – Nil).

Directors

The names of the Directors at the date of this report appear on page 2. Mr A Bridgewater, Mr P Späti and Mr T Toyabe resigned from the Board on 19 September 1995. Mr T Sugisawa, previously alternate Director to Mr T Toyabe, was appointed on 20 September 1995.

All other Directors served throughout the year.

According to the register kept for the purpose of the Companies Act 1985, no Director has any beneficial interest or option to subscribe for shares in the Company.

Post balance sheet event

On 1 January 1996 a group undertaking, Cavell Management Services Limited, was appointed as managing agent for the run-off of the Company.

By Order of the Board



R E TOWNSEND
Secretary

30 April 1996

STRONGHOLD INSURANCE COMPANY LIMITED

Statement of Directors' Responsibilities in respect of the Accounts

Company law requires the Directors to prepare accounts for each financial year which show 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. In preparing those accounts the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. 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.

STRONGHOLD INSURANCE COMPANY LIMITED

Report of the Auditors to the Members of Stronghold Insurance Company Limited

We have audited the accounts on pages 6 to 20 which have been prepared on the basis of the accounting policies set out on pages 6 and 7.

Respective responsibilities of the Directors and Auditors

As described on page 4, 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 in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

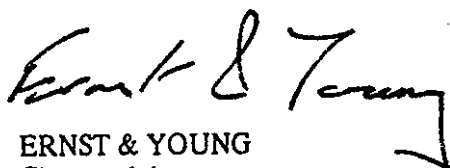
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Provision for outstanding claims

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the level of uncertainty relating to the provision for outstanding claims, claims handling expenses and related reinsurance recoveries. The ultimate liability will vary as a result of subsequent information and events and these may result in significant adjustments to the amounts provided. Details of the circumstances relating to this fundamental uncertainty are described in Note 15. Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31 December 1995 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG
Chartered Accountants
Registered Auditor
Norwich

30 April 1996

STRONGHOLD INSURANCE COMPANY LIMITED

Statement of Accounting Policies

(a) Format of accounts

These accounts are prepared in compliance with Section 255 of, and Schedule 9A to, the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, and are prepared in accordance with applicable accounting standards.

The accounts are prepared on a going concern basis augmented by a provision for the estimated total costs involved in the run-off of liabilities existing at balance sheet date and recognising the excess of loss reinsurance arrangement referred to in Note 16 to these accounts.

Following the introduction of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, and guidance on accounting for insurance business issued by the Association of British Insurers, certain accounting policies and disclosures have been amended and comparative amounts have been restated.

(b) Technical account

(i) Premiums are accounted for and recorded in the technical account in the year of notification.

(ii) Provision for claims outstanding comprises provisions for the estimated ultimate cost of claims notified but not settled at the date of the balance sheet and for claims incurred but not notified at that date; the provision reflects anticipated reinsurance and other recoveries, and takes into account future claims handling costs.

The provision for claims outstanding for the Casualty classes written in the United Kingdom are included after taking into account the future attributable investment earnings.

(c) Investment return

Investment return comprises interest and dividends on an accruals basis, together with realised and unrealised investment gains and losses. Realised gains and losses are calculated as the difference between net sale proceeds and cost or, if previously revalued, the valuation as at the last balance sheet date. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and cost or, if previously revalued, the valuation as at the last balance sheet date. An allocation of the investment return from the non-technical account to the general business technical account is made on the basis of the relationship between average technical provisions and average shareholder's funds.

(d) Investments

Financial investments are stated at market value. Listed securities are taken at middle market value after adjustments for accrued interest, and other investments are stated at Directors' valuation. Unrealised gains and losses are taken to the profit and loss account.

(e) Foreign currencies

Foreign currency transactions are converted to sterling at the rate applicable when recorded in the books, with the exception of transactions in United States and Canadian dollars, which are converted at year end rates.

Assets and liabilities are shown in the balance sheet at rates ruling on 31 December 1995.

Foreign currency translation gains and losses are taken directly to reserves.

STRONGHOLD INSURANCE COMPANY LIMITED

Statement of Accounting Policies – continued

(f) Deferred taxation

Deferred taxation, to the extent that it is likely to crystallise in the foreseeable future, is provided for using the liability method.

(g) Debtors and creditors

The Company has taken advantage of the amendment to Financial Reporting Standard 5, "Reporting the Substance of Transactions", issued in December 1994, whereby balances in respect of insurance broking transactions are included on a net basis within debtors and creditors in the balance sheet.

STRONGHOLD INSURANCE COMPANY LIMITED

**Profit and Loss Account
for the year ended 31 December 1995**

	Notes	1995		1994	
		£'000	£'000	£'000	£'000
Technical account – General business					
<i>Discontinued operations</i>					
Gross premiums written	1		290		286
Outwards reinsurance premiums			442		493
Earned premiums, net of reinsurance			(152)		(207)
Allocated investment return transferred from the non-technical account			13,431		(3,656)
Total technical income			13,279		(3,863)
Gross claims paid		20,668		24,550	
Reinsurers' share		11,326		26,640	
Net claims paid		9,342		(2,090)	
Gross change in the provision for claims		(4,090)		1,965	
Reinsurers' share		(7,777)		(630)	
Net change in the provision for claims		3,687		2,595	
Claims incurred net of reinsurance	2	13,029		505	
Net operating expenses	3	15		8	
Total technical charges			13,044		513
Balance on the general business technical account			235		(4,376)
Non-technical account					
Balance on the general business technical account			235		(4,376)
Investment income	6	11,401		4,649	
Unrealised gains on investments		2,600		–	
Investment expenses and charges	7	(491)		(8,053)	
Unrealised losses on investments		–		(196)	
Allocated investment return transferred to the general business technical account		(13,431)		3,656	
			79		56
Profit/(loss) on ordinary activities before taxation			314		(4,320)
Tax on ordinary activities	8		(1)		(1,147)
Profit/(loss) on ordinary activities after taxation			315		(3,173)

STRONGHOLD INSURANCE COMPANY LIMITED**Statement of Total Recognised Gains and Losses
for the year ended 31 December 1995**

	1995 £'000	1994 £'000
Profit/(loss) on ordinary activities after taxation	315	(3,173)
Currency translation differences on foreign currency net investment	146	(1,326)
Total recognised profits/(losses) related to the year	<u>461</u>	<u>(4,499)</u>

**Reconciliation of Movements in Shareholder's Funds
for the year ended 31 December 1995**

	1995 £'000	1994 £'000
Opening shareholder's funds	1,322	1,321
Issue of share capital	—	4,500
Total recognised profits/(losses) related to the year	461	(4,499)
Closing shareholder's funds	<u>1,783</u>	<u>1,322</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Balance Sheet as at 31 December 1995

	Notes	1995 £'000	1994 £'000
Assets			
Investments			
Other financial investments	10	80,885	74,107
Reinsurers' share of technical provisions			
Claims outstanding	15	98,946	105,893
Debtors			
Debtors arising out of reinsurance operations	11,16	32,112	30,613
Other debtors	12	—	1,922
		<u>32,112</u>	<u>32,535</u>
Other assets			
Cash at bank and in hand		1,628	900
Prepayments and accrued income			
Accrued interest and rent		1,343	1,778
Other prepayments and accrued income		47	33
		<u>1,390</u>	<u>1,811</u>
Total assets		<u>214,961</u>	<u>215,246</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Balance Sheet as at 31 December 1995

	Notes	1995 £'000	1994 £'000
Liabilities			
Capital and reserves			
Called up share capital	13	25,000	25,000
Profit and loss account	14	(23,217)	(23,678)
Shareholder's funds attributable to equity interests		<u>1,783</u>	<u>1,322</u>
Technical provisions			
Claims outstanding	15	198,517	201,081
Creditors			
Arising out of reinsurance operations		12,693	11,887
Amounts owed to credit institutions		231	-
Other creditors including taxation and social security	17	<u>1,627</u>	<u>897</u>
		<u>14,551</u>	<u>12,784</u>
Accruals and deferred income		110	59
Total liabilities		<u>214,961</u>	<u>215,246</u>


W E SCHÜRPF
Chairman

30 April 1996


M N BIGGS
Director

STRONGHOLD INSURANCE COMPANY LIMITED

Statement of Cash Flows for the year ended 31 December 1995

	Notes	1995 £'000	1994 £'000
Net cash (outflow)/inflow from operating activities	18	(3,406)	3,458
Taxation			
UK corporation tax repaid		1,239	811
UK corporation tax paid		<u>—</u>	<u>(1,239)</u>
Net taxation paid/(repaid)		<u>1,239</u>	<u>(428)</u>
Investing activities			
Payments to acquire liquid investments		(81,879)	(128,211)
Receipts from sales of liquid investments		<u>87,291</u>	<u>114,951</u>
Net cash inflow/(outflow) from investing activities		<u>5,412</u>	<u>(13,260)</u>
Financing			
Issue of ordinary share capital		<u>—</u>	<u>4,500</u>
Increase/(decrease) in cash and cash equivalents	19	<u>3,245</u>	<u>(5,730)</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Accounts

1 Premiums

Premium income relates to reinstatement premiums and is attributable to one activity, the transaction of general insurance and reinsurance business. The Company's activity is discontinued, underwriting having ceased in 1984, and involves the run-off of claims liabilities which will extend for an undefined period.

2 Claims incurred net of reinsurance

	Gross £'000	Reins. £'000	Net £'000
1995			
Claims paid	20,791	11,326	9,465
Claims handling expenses paid	(123)	—	(123)
	<u>20,668</u>	<u>11,326</u>	<u>9,342</u>
Outstanding claims carried forward	198,517	98,946	99,571
Outstanding claims brought forward	<u>202,607</u>	<u>106,723</u>	<u>95,884</u>
	(4,090)	(7,777)	3,687
Claims incurred	<u>16,578</u>	<u>3,549</u>	<u>13,029</u>
1994			
Claims paid	19,617	26,640	(7,023)
Claims handling expenses paid	4,933	—	4,933
	<u>24,550</u>	<u>26,640</u>	<u>(2,090)</u>
Outstanding claims carried forward	201,081	105,893	95,188
Outstanding claims brought forward	<u>199,116</u>	<u>106,523</u>	<u>92,593</u>
	1,965	(630)	2,595
Claims incurred	<u>26,515</u>	<u>26,010</u>	<u>505</u>

3 Net operating expenses

	1995 £'000	1994 £'000
Acquisition costs		
— gross	3	8
— reinsurance	(12)	—
— net	<u>15</u>	<u>8</u>

4 Auditors' remuneration

Claims handling expenses paid include auditors' remuneration of £28,300 (1994 – £30,000)

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Accounts

5 Directors' emoluments

The Directors of the Company are also directors of other group companies. The total remuneration received by the Directors for the year is as follows:

	1995 £	1994 £
Fees	47,574	48,000
Other emoluments (including pension contributions)	88,861	26,554
	<u>136,435</u>	<u>74,554</u>

In 1995 the office of Chairman was held by two directors. The emoluments, excluding pension contributions, of each director attributable to the period during which he was Chairman were £9,358 and £3,698 respectively. The emoluments of the two directors holding the office of Chairman in 1994 amounted to £8,480.

The emoluments of the highest paid Director were £77,661 (1994 - £22,747) including remuneration for management services.

Directors' emoluments, excluding pension contributions, fell within the following ranges:

	1995 No.	1994 No.
£Nil - £5,000	3	5
£5,001 - £10,000	5	4
£20,001 - £25,000	—	1
£75,001 - £80,000	1	—

All the payments were made by the holding company and the ultimate holding company. The Directors do not believe that it is practicable to apportion the amounts between their services as directors of the Company and their services as directors of other group companies.

The Company paid consideration of £35,322 (1994 - £2,811) to the holding company for the services of one director.

6 Investment income

	1995 £'000	1994 £'000
Income from listed investments	4,768	4,296
Income from other investments	375	353
	<u>5,143</u>	<u>4,649</u>
Realised gains	6,258	—
	<u>11,401</u>	<u>4,649</u>

7 Investment expenses and charges

	1995 £'000	1994 £'000
Investment management expenses	78	78
Interest payable on reinsurance balances	413	314
Realised losses	—	7,661
	<u>491</u>	<u>8,053</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Accounts

8 Taxation

No provision has been made in the accounts for corporation tax on the results for the year as a tax loss arises which has been partly surrendered to other group companies. Group relief relates to amounts recoverable for losses surrendered.

The credit for taxation in the profit and loss account comprises the following:

	1995 £'000	1994 £'000
Group relief	—	(16)
Prior years' adjustment	<u>(1)</u>	<u>(1,131)</u>
	<u>(1)</u>	<u>(1,147)</u>

9 Deferred taxation

No provision has been made in the accounts for deferred taxation.

Details of the full potential recovery for deferred taxation not provided are given below:

	1995 £'000	1994 £'000
Realisation of investments at values stated in the balance sheet	553	(534)
Short-term timing differences	<u>(1,234)</u>	<u>(1,694)</u>
	<u>(681)</u>	<u>(2,228)</u>

10 Investments

	Current value		Historical cost	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Other financial investments				
Overseas government and other public securities	73,300	69,315	70,772	69,511
Deposits with credit institutions	<u>7,585</u>	<u>4,792</u>	<u>7,585</u>	<u>4,792</u>
	<u>80,885</u>	<u>74,107</u>	<u>78,357</u>	<u>74,303</u>

Included in the overseas government and other public securities were investments:

Listed on investment exchanges other than UK	73,300	69,315	70,772	69,511
--	--------	--------	--------	--------

Certain of the Company's investments are deposited as security for reinsurance obligations with ceding companies or in countries outside the United Kingdom as required under local legislation.

The facility provided to the Company in respect of its letter of credit liabilities is secured by a charge over certain of the Company's investments in overseas government securities.

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Accounts

11	Debtors arising out of reinsurance operations	1995 £'000	1994 £'000	
	Amounts due from group undertakings	1,917	1,665	
	Other debtors	<u>30,195</u>	<u>28,948</u>	
		<u>32,112</u>	<u>30,613</u>	
12	Other debtors	1995 £'000	1994 £'000	
	Amounts due from group undertakings	-	515	
	Other debtors	-	168	
	Corporation tax	<u>-</u>	<u>1,239</u>	
		<u>-</u>	<u>1,922</u>	
13	Share capital	1995 £'000	1994 £'000	
	<i>Authorised, called up and fully paid:</i>			
	Ordinary shares of £1 each	<u>25,000</u>	<u>25,000</u>	
14	Company reserves	Investment reserve £'000	Profit & loss a/c £'000	Total £'000
	1995			
	Balance at 1 January restated	-	(23,678)	(23,678)
	Currency translation differences on foreign currency net investment	-	146	146
	Retained profit for the financial year	-	315	315
	Balance at 31 December	<u>-</u>	<u>(23,217)</u>	<u>(23,217)</u>
	1994			
	Balance at 1 January as originally stated	10,748	(29,927)	(19,179)
	Prior year adjustment	<u>(10,748)</u>	<u>10,748</u>	-
	Balance at 1 January restated	-	(19,179)	(19,179)
	Currency translation differences on foreign currency net investment	-	(1,326)	(1,326)
	Retained loss for the financial year	-	(3,173)	(3,173)
	Balance at 31 December	<u>-</u>	<u>(23,678)</u>	<u>(23,678)</u>

The implementation of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, and guidance on accounting for insurance business issued by the Association of British Insurers, has resulted in movements previously accounted for through the investment reserve now being accounted for through the profit and loss account. The changes have had no effect on the Company's total recognised gains and losses for the year.

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Accounts

15 Claims outstanding

	Gross £'000	Reins. £'000	Net £'000
1995			
Provision before discounting	223,531	116,230	107,301
Discounting adjustment	(31,984)	(17,284)	(14,700)
	<u>191,547</u>	<u>98,946</u>	<u>92,601</u>
Claims handling expenses	9,024		9,024
Discounting adjustment	(2,054)		(2,054)
	<u>6,970</u>	<u>-</u>	<u>6,970</u>
	<u>198,517</u>	<u>98,946</u>	<u>99,571</u>
1994			
Provision before discounting	208,870	114,174	94,696
Discounting adjustment	(14,208)	(8,281)	(5,927)
	<u>194,662</u>	<u>105,893</u>	<u>88,769</u>
Claims handling expenses	8,333		8,333
Discounting adjustment	(1,914)		(1,914)
	<u>6,419</u>	<u>-</u>	<u>6,419</u>
	<u>201,081</u>	<u>105,893</u>	<u>95,188</u>

The level of the above provision has been set on the basis of information which is currently available, including potential outstanding loss advices. The methods used, and the estimates made, are reviewed regularly. Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries, together with the provision for claims handling expenses, are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of provisions are reflected in the financial statements for the period in which the adjustments are made.

Insurance funds for the Casualty classes are included after taking into account the future attributable investment earnings at an assumed compound discount rate of 4% (1994 - 4%) per annum. The assumed settlement pattern for gross claim payments results in an average term for the liabilities of 5.00 years (1994 - 1.74 years). This settlement pattern has been derived from the historic development of claim payments appropriate for the types of claims within these classes, in particular those relating to environmental losses.

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Accounts

16 Excess of loss reinsurance arrangement

During 1993, an excess of loss reinsurance arrangement, protecting the Company for five years against the net assets falling below the Department of Trade and Industry Guarantee Fund requirement, was effected with the Norwich Union Fire Insurance Society Limited, Winterthur Swiss Insurance Company and the Chiyoda Fire & Marine Insurance Company Limited. The excess of loss cover is for \$50,000,000 with a provision for one reinstatement.

During the year, no claim (1994 - \$20,874,000) was made under this arrangement.

The cumulative net balance resulting from this arrangement is to be settled at the expiry of the five year period of cover. The cumulative net balance recoverable at the end of the year has been included as a debtor in the balance sheet.

17 Other creditors including taxation and social security

	1995 £'000	1994 £'000
Amounts due to group undertakings	707	-
Other creditors	920	897
	<u>1,627</u>	<u>897</u>

18 Reconciliation of result before tax to net cash flow from operating activities

	1995 £'000	1994 £'000
Profit/(loss) on ordinary activities before tax	314	(4,320)
Realised investment (gains)/losses	(6,258)	7,661
Unrealised investment (gains)/losses	(2,600)	196
Increase in provision for claims outstanding	3,687	2,595
(Increase)/decrease in debtors	(43)	2,315
Increase/(decrease) in creditors	1,502	(4,971)
Realised exchange losses	(8)	(18)
Net cash (outflow)/inflow from operating activities	<u>(3,406)</u>	<u>3,458</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Accounts

21 Post balance sheet event

On 1 January 1996 a group undertaking, Cavell Management Services Limited, was appointed as managing agent for the run-off of the Company.

22 Holding company

The Company is a subsidiary undertaking of NW Reinsurance Corporation Limited, which is a subsidiary of the ultimate parent undertaking, Norwich Winterthur Holdings Limited. Both companies are registered in England and copies of their accounts can be obtained from Norwich Winterthur House, Rose Lane, Norwich NR1 1JY, England.