

**Company Registration Number: 1825174**

**PANFINANCIAL INSURANCE COMPANY  
LIMITED**

**Report and Financial Statements**

**31 December 2000**

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**Deloitte & Touche  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR**

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# **PANFINANCIAL INSURANCE COMPANY LIMITED**

## **REPORT AND FINANCIAL STATEMENTS**

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# **PANFINANCIAL INSURANCE COMPANY LIMITED**

## **REPORT AND FINANCIAL STATEMENTS**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

P J Grant (Chairman)  
R J Feather  
C Lundqvist

### **SECRETARY**

R J Feather

### **REGISTERED OFFICE**

Marlon House  
71-74 Mark Lane  
London  
EC3R 7HS

### **BANKERS**

National Westminster Bank PLC

### **SOLICITORS**

Norton Rose

### **AUDITORS**

Deloitte & Touche  
Chartered Accountants  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

# PANFINANCIAL INSURANCE COMPANY LIMITED

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

## PRINCIPAL ACTIVITIES AND BUSINESS

PanFinancial suffered from adverse market conditions during 1992 and, after a review of all products underwritten, the company decided to cease underwriting new business in November 1992. The company continues to run-off its liabilities. The orderly run-off of the company's liabilities will take several years.

## RESULTS

The profit and loss accounts for the year are set out on pages 5 and 6. The loss for the year was £1,724,000 (1999 – profit of £1,439,000).

## DIVIDENDS

The directors do not recommend the payment of a dividend (1999 – £nil).

## DIRECTORS

The present membership of the Board is set out on page 1.

P J Grant, and R J Feather served throughout the year.

B Reuterskiold resigned on 28 June 2000.

C Lundqvist was appointed on 1 September 2000.

The interests of P J Grant in the shares of the company at 1 January 2000 and 31 December 2000 were:

Equity shares	14,000,000 £1 ordinary shares
Non-equity shares	20,000,000 £1 'A' preference shares
Non-equity shares	7,500,000 £1 'B' preference shares

None of the other directors held any interests, as defined by the Companies Act 1985, in the share capital of the company.

## AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



R J Feather  
Secretary

6 July 2001

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which show a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements 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 United Kingdom accounting standards have been followed;
- prepare the financial statements on a 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 to enable them to ensure that the financial statements 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.

By order of the Board



R J Feather

Secretary

6 July 2001

## **AUDITORS' REPORT TO THE MEMBERS OF PANFINANCIAL INSURANCE COMPANY LIMITED**

We have audited the financial statements on pages 5 to 17 which have been prepared under the accounting policies set out on pages 10 and 11.

### **Respective responsibilities of directors and auditors**

As described on page 3 the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

### ***Fundamental uncertainty relating to insurance liabilities***

In forming our opinion, we have considered the adequacy of the disclosure made in note 15 to the accounts concerning the material uncertainty with respect to the technical provisions required to cover the insurance liabilities. In view of the significance of this uncertainty we consider that it should be drawn to your attention but 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 the company's affairs as at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*  
Deloitte & Touche

Chartered Accountants and Registered Auditors

13 July 2001

**PANFINANCIAL INSURANCE COMPANY LIMITED**

**PROFIT AND LOSS ACCOUNT**

**Year ended 31 December 2000**

**TECHNICAL ACCOUNT - GENERAL BUSINESS**

	Note	2000 £'000	1999 £'000
Gross premiums written	3	-	-
Outwards reinsurance premiums		-	-
Earned premiums net of reinsurance		-	-
<b>Total technical income</b>		-	-
Claims paid - gross amount (paid)/ recovered		(180)	1,573
- reinsurers' share		(2,381)	(67)
- net of reinsurance (paid)/ recovered		(2,561)	1,506
Change in the provision for claims			
- gross amount		1,477	394
- reinsurers' share		(628)	(30)
- net of reinsurance		849	364
Claims incurred net of reinsurance		(1,712)	1,870
Net operating expenses	4	(249)	(349)
Exchange differences		25	(305)
<b>Total (charges)/ credits</b>		(1,936)	1,216
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		(1,936)	1,216

# PANFINANCIAL INSURANCE COMPANY LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 31 December 2000

### NON-TECHNICAL ACCOUNT

	Note	2000 £'000	1999 £'000
Balance on the general business technical account		(1,936)	1,216
Investment income	7	212	223
Unrealised gains		-	-
Operating (loss)/ profit on ordinary activities before taxation	8	(1,724)	1,439
Taxation	9	-	-
(Loss)/profit on ordinary activities after taxation	13	(1,724)	1,439

The company ceased underwriting new business in November 1992 and, accordingly, all items in the profit and loss account derive from discontinued activities.

A statement of total recognised gains and losses has not been prepared as there are no gains or losses for the current year and the preceding financial year other than those shown in the profit and loss account.



# PANFINANCIAL INSURANCE COMPANY LIMITED

## **BALANCE SHEET** **31 December 2000**

	Note	2000 £'000	1999 £'000
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Other financial investments	10	-	1,088
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>			
Claims outstanding	15	736	1,269
<b>DEBTORS</b>			
Debtors arising out of reinsurance operations		44	1,683
<b>OTHER ASSETS</b>			
Cash at bank and in hand		4,527	4,884
<b>TOTAL ASSETS</b>		<u>5,307</u>	<u>8,924</u>

# PANFINANCIAL INSURANCE COMPANY LIMITED

## **BALANCE SHEET** **31 December 2000**

	Note	2000 £'000	1999 £'000
<b>LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Called up equity share capital	11	14,000	14,000
Profit and loss account	13	(40,145)	(38,421)
Shareholders' funds attributable to equity interests		(26,145)	(24,421)
Called up non-equity share capital	11	27,500	27,500
Total shareholders' funds		1,355	3,079
<b>TECHNICAL PROVISIONS</b>			
Claims outstanding	15	2,238	3,559
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>			
	16	160	138
<b>CREDITORS</b>			
Arising out of reinsurance operations		1,544	2,135
Other creditors including taxation and social security		10	13
		1,554	2,148
<b>TOTAL LIABILITIES</b>		<b>5,307</b>	<b>8,924</b>

These financial statements were approved by the Board of Directors on 6 July 2001.

Signed on behalf of the Board of Directors

P J Grant  
Director

**PANFINANCIAL INSURANCE COMPANY LIMITED**

**CASH FLOW STATEMENT**  
**Year ended 31 December 2000**

	Note	2000 £'000	1999 £'000
Net cash outflow from operating activities	17	(1,445)	(554)
Cash flows were invested as follows			
(Decrease)/ Increase in cash holdings		(357)	1,179
Net portfolio reduction			
Variable yield securities		(1,088)	(1,733)
Net investment of cash flows		(1,445)	(554)
 <b>MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS</b>			
Net cash outflow			
Cash	18	(401)	1,207
Variable interest securities		(1,088)	(1,448)
Movement arising from cash flows	18	(1,489)	(241)
Changes in market values and exchange rate effects	18	44	(313)
Total movement in portfolio investments		(1,445)	(554)
Portfolio investments at 1 January	18	5,972	6,526
Portfolio investments at 31 December	18	4,527	5,972

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2000**

**1. BASIS OF FINANCIAL STATEMENTS**

The financial statements are prepared under the historical cost convention.

The financial statements have been prepared on a basis consistent with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. They have also been prepared in accordance with applicable United Kingdom accounting standards and the Statement of Recommended Practice issued by the Association of British Insurers in December 1998.

The particular accounting policies adopted are described in Note 2 below.

**2. ACCOUNTING POLICIES**

**(a) Technical account**

*Credit risk and asset risk*

The underwriting results are determined at the end of each year. Following the decision to cease underwriting new business in November 1992, the provisions for claims outstanding and claims incurred but not reported were increased and combined so as to establish an overall provision equal to the estimated future liabilities in respect of one year business. Any further provision required is made when the need is recognised, and should any adjustment be necessary in future years such an adjustment will be made as soon as the need becomes apparent.

*Political risk*

The majority of policies gave cover for periods in excess of one year. The directors have adopted a three year basis of accounting whereby underwriting results in respect of each underwriting year are determined not less than three years after its commencement, at which stage the underwriting result is transferred to the profit and loss account. Any further provision required is made when the need is recognised, and should any adjustment be necessary in future years such an adjustment will be made as soon as the need becomes apparent.

*Financial facilities*

Until the end of 1991 the company wrote financial facility insurance which is reported with the one year credit risk business. Certain financial guarantee business under this heading was written prior to 1991 for periods up to seven years. This specific class of business is included under the three year business above.

**(b) Premiums written**

Premiums are credited to the technical account at the later of inception date and the date the premium is recorded.

Outward reinsurance premiums are accounted for in the same accounting period as the reinsured business.

**(c) Claims incurred**

Claims incurred comprise all claim payments in the financial year and the movement in the provision for claims incurred but not reported.

Credit is only taken for salvage and subrogation recoveries on receipt due to the uncertainty associated with such recoveries.

Outward reinsurance recoveries are accounted for in the same accounting period as the claim for the reinsured business.

**NOTES TO THE ACCOUNTS**

**For the year ended 31 December 2000**

**2. ACCOUNTING POLICIES (continued)**

**(d) Technical provisions**

The technical provisions comprise provisions for claims outstanding and claims incurred but not reported so as to establish an overall provision equal to the estimated future liabilities.

**(e) Provision for run-off costs**

The company ceased underwriting new business in November 1992. Its liabilities will take several years to run-off and a provision has been included within administration expenses for all run-off costs expected to be incurred in running off its liabilities until 31 December 2003 (1999 - 31 December 2002).

**(f) Investment income**

Investment income comprises interest and realised gains and losses on investments. It is recorded on the accruals basis, and reported in the non-technical account.

**(g) Foreign exchange**

Underwriting and trading transactions in foreign currencies are recorded at the rates of exchange prevailing at the end of the month of the transaction. Monetary assets and liabilities denominated in foreign currencies are recorded at the rates of exchange prevailing at the year end. Gains or losses are dealt with in the technical account.

**(h) Investments**

Investments are valued at market value.

**(i) Leases**

Rental costs under operating leases are charged within the provision for run-off costs in equal annual amounts over the periods of the leases.

**(j) Commissions**

Commissions payable and receivable on one and three year business are taken to the net operating expenses account in the year in which they arise.

**(k) Pension costs**

The costs of individual money purchase arrangements are written off as incurred.

**(l) Unrealised gains and losses**

The movement in unrealised gains and losses in the non technical account comprises the increase/decrease in the year in the value of investments held at the balance sheet date together with the reversal of unrealised investment gains/losses recognised in earlier accounting periods in respect of investment disposals of the current period.

# PANFINANCIAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

### 3. SEGMENTAL ANALYSIS

All the company's business falls within the credit and suretyship class of business and has been analysed between credit and political business.

2000	Credit £'000	Political £'000	Total £'000
Gross premiums written	-	-	-
Gross claims incurred	936	361	1,297
Gross operating expenses	(247)	(2)	(249)
Reinsurance balance	<u>(2,847)</u>	<u>(162)</u>	<u>(3,009)</u>
	Credit £'000	Political £'000	Total £'000
1999			
Gross premiums written	-	-	-
Gross claims incurred	2,009	(42)	1,967
Gross operating expenses	(346)	(3)	(349)
Reinsurance balance	<u>11</u>	<u>(109)</u>	<u>(98)</u>

The company is in run-off and underwrites no new business. The technical results in 1999 and 2000 arise from the reassessment of technical provisions at each year end.

### 4. NET OPERATING EXPENSES

2000	Gross £'000	Reinsurance £'000	Net £'000
Administrative expenses	<u>249</u>	<u>-</u>	<u>249</u>
	Gross £'000	Reinsurance £'000	Net £'000
1999			
Administrative expenses	<u>349</u>	<u>-</u>	<u>349</u>

# PANFINANCIAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

### 5. DIRECTORS' EMOLUMENTS

	2000 £'000	1999 £'000
Emoluments	58	243
Aggregate of money purchase pension contributions	1	1
	2000 No.	1999 No.
Number of directors who are members of a money purchase scheme	1	1
	2000 £'000	1999 £'000
Highest paid director's remuneration	58	243
Aggregate of money purchase pension contributions	1	1

### 6. EMPLOYEES

The average number of persons (including directors) employed by the company during the year was two (1999 - one).

	2000 £'000	1999 £'000
The total employee costs were:		
Wages and salaries	69	243
Social security	7	27
Other pension costs	2	1
	78	271

# PANFINANCIAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

### 7. INVESTMENT RETURN

	2000 £'000	1999 £'000
Investment income		
Income from investments	212	233
Realised losses on investments	-	(10)
	<u>212</u>	<u>223</u>
Unrealised gains on investments	<u>-</u>	<u>-</u>

### 8. OPERATING (LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The operating loss for the year before taxation is arrived at after charging the following:

	2000 £'000	1999 £'000
Auditors' remuneration audit fee	<u>20</u>	<u>20</u>

### 9. TAXATION

As at 31 December 2000 there were tax losses of approximately £30 million available for carry forward against future profits of the same trade.

### 10. INVESTMENTS

	2000 £'000	1999 £'000
Other financial investments:		
Variable yield securities	<u>-</u>	<u>1,088</u>



# PANFINANCIAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

### 11. CALLED UP SHARE CAPITAL

	2000 £'000	1999 £'000
Authorised:		
Equity shares: 14,000,000 £1 ordinary shares	14,000	14,000
Non-equity shares: 20,000,000 £1 'A' preference shares	20,000	20,000
Non-equity shares: 7,500,000 £1 'B' preference shares	7,500	7,500
	<u>41,500</u>	<u>41,500</u>
Called up, allotted and fully paid:		
Equity shares: 14,000,000 £1 ordinary shares	14,000	14,000
Non-equity shares: 20,000,000 £1 'A' preference shares	20,000	20,000
Non equity shares: 7,500,000 £1 'B' preference shares	7,500	7,500
	<u>41,500</u>	<u>41,500</u>

The preference shares do not carry voting rights and are not entitled to dividends. They rank in priority to the ordinary shares on a winding-up of the company but are not entitled to any surplus over and above the par value of the shares on a winding-up. The 'B' preference shares rank in priority to the 'A' preference shares on a winding-up of the company.

### 12. RELATED PARTIES

Mr P J Grant, the chairman of the company, owns all of the allotted share capital of the company and is the only controller of the company as defined by Financial Reporting Standard 8 Related Party Disclosures.

### 13. PROFIT AND LOSS ACCOUNT

	2000 £'000	1999 £'000
Loss brought forward at 1 January	(38,421)	(39,860)
(Loss) / profit for the year after taxation	<u>(1,724)</u>	<u>1,439</u>
Loss carried forward at 31 December	<u>(40,145)</u>	<u>(38,421)</u>

### 14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000 £'000	1999 £'000
(Loss) / profit for the year	<u>(1,724)</u>	<u>1,439</u>
Net change in shareholders' funds	(1,724)	1,439
Opening shareholders' funds	3,079	1,640
Closing shareholders' funds	<u>1,355</u>	<u>3,079</u>

# PANFINANCIAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

### 15. TECHNICAL PROVISIONS

Claims Outstanding	Credit £'000	Political £'000	Total £'000
<b>Gross</b>			
Balance as at 1 January 2000	2,288	1,271	3,559
Exchange differences and other adjustments	16	140	156
Movements	(523)	(954)	(1,477)
Balance as at 31 December 2000	<u>1,781</u>	<u>457</u>	<u>2,238</u>
<b>Reinsurance</b>			
Balance as at 1 January 2000	543	726	1,269
Exchange differences and other adjustments	3	92	95
Movements	(79)	(549)	(628)
Balance as at 31 December 2000	<u>467</u>	<u>269</u>	<u>736</u>
<b>Net</b>			
Balance as at 1 January 2000	1,745	545	2,290
Exchange differences and other adjustments	13	48	61
Movements	(444)	(405)	(849)
Balance as at 31 December 2000	<u>1,314</u>	<u>188</u>	<u>1,502</u>

The orderly run-off of the company's liabilities will take several years and there is material uncertainty with respect to the provisions required to cover the insurance liabilities. However, the directors are satisfied that the current level of provisions is prudent given the information currently available to them.

### 16. PROVISIONS FOR OTHER RISKS AND CHARGES

	2000 £'000	1999 £'000
Provision for run-off costs at 1 January 2000	138	171
Charge/(release) to profit and loss account	22	(33)
Provision for run-off costs at 31 December 2000	<u>160</u>	<u>138</u>

# PANFINANCIAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2000

### 17. RECONCILIATION OF (LOSS)/ PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2000 £'000	1999 £'000
(Loss) / profit for the year before taxation	(1,724)	1,439
Decrease in insurance funds	(1,321)	(571)
Decrease in reinsurers' share of funds	523	126
Decrease/(increase) in debtors	1,639	(1,347)
Decrease in creditors	(562)	(201)
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(1,445)</b>	<b>(554)</b>
	<hr/>	<hr/>

### 18. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 January 1999 £'000	Cash flows £'000	Market value and foreign currency £'000	At 31 December 1999 £'000
Cash and deposits at call	3,705	1,207	(28)	4,884
Variable interest securities	2,821	(1,448)	(285)	1,088
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total cash and cash equivalents</b>	<b>6,526</b>	<b>(241)</b>	<b>(313)</b>	<b>5,972</b>
	<hr/>	<hr/>	<hr/>	<hr/>

	At 1 January 2000 £'000	Cash flows £'000	Market value and foreign currency £'000	At 31 December 2000 £'000
Cash and deposits at call	4,884	(401)	44	4,527
Variable interest securities	1,088	(1,088)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total cash and cash equivalents</b>	<b>5,972</b>	<b>(1,489)</b>	<b>44</b>	<b>4,527</b>
	<hr/>	<hr/>	<hr/>	<hr/>