

Registered Number 70234

ECONOMIC INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 1994



FINANCIAL STATEMENTS

For the year ended 31 December 1994

Directors

Allen Sykes * (Chairman)
Peter Wyatt Bedford * (Deputy Chairman)
Peter Geoffrey Cullum (Managing Director)
Marek Stefan Gumienny *
James Maxwell Carruthers
Elizabeth Jane Coeshall
Paul Francis Dyer
Geoffrey Robert Hunt
Michael King

(* Non Executive)

Secretary

Elizabeth Jane Coeshall

Auditors

Coopers and Lybrand
Chartered Accountants
10 Albion Place
Maidstone
Kent
ME14 5DZ

Bankers

National Westminster Bank Plc
87 High Street
Sittingbourne
Kent
ME10 4AU

Registered Office

Economic House
25 London Road
Sittingbourne
Kent
ME10 1PE
Telephone: 01795 413200

ECONOMIC INSURANCE COMPANY LIMITED

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the ninety-third annual general meeting of the members will be held at Economic House, London Road, Sittingbourne, Kent, ME10 1PE on *13th June 1995*

for the following purposes:

To approve and adopt the directors' report and audited financial statements for the year ended 31 December 1994

To reappoint auditors

To authorise the directors to fix remuneration of the auditors

BY ORDER OF THE BOARD



E J COESHALL
Secretary

Economic House
25 London Road
Sittingbourne
Kent
ME10 1PE

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and on a poll to vote instead of him. A proxy need not be a member of the company.

ECONOMIC INSURANCE COMPANY LIMITED**INDEX TO THE FINANCIAL STATEMENTS**

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ECONOMIC INSURANCE COMPANY LIMITED

DIRECTORS' REPORT

31 December 1994

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 December 1994.

Principal Activity and Business Review

The principal activity of the Company is the transaction of most classes of life and general insurance. Its subsidiary, Whitehall Insurance Company Limited, does not trade. Both the level of business for the year and the year end financial position are considered satisfactory.

Underwriting Policies

The Company continues to develop the writing of personal and commercial lines of business in the provincial market.

Financial Results

The results for the year are shown in the profit and loss account on Page 9.

Dividends and Transfers to Reserves

An interim dividend in respect of the year ended 31 December 1994 of 3.8432p per share (1993: Nil) was paid on 30 December 1994. The directors recommend the payment of a final dividend of 2.467265p per share (1993: Nil). The retained profit, after payment of dividends, of £5,059,000 (1993: £4,049,000) has been transferred to the Company's reserves.

Directors

The names of the directors are listed at the front of the financial statements. Since 31 December 1993, the following changes have taken place:

	<u>Appointed</u>	<u>Resigned</u>
Allen Sykes	14 March 1994	
James Maxwell Carruthers	14 March 1994	
Elizabeth Jane Coeshall	14 March 1994	
Paul Francis Dyer	14 March 1994	
Michael King	14 March 1994	
John Arthur Dodds		14 March 1994
Declan Michael McMahon		14 March 1994
Peter Wyatt Bedford	9 May 1994	
Geoffrey Robert Hunt	23 February 1995	

None of the directors held any shares in the Company. The following had an interest in the parent undertaking:

	31 December 1994 1p Ordinary Shares	31 December 1993 1p Ordinary Shares
	No	No
Allen Sykes	2,002	-
Peter Geoffrey Cullum	66,039	66,039
James Maxwell Carruthers	46,239	46,239
Michael King	33,040	33,040
Elizabeth Jane Coeshall	26,440	26,440
Paul Francis Dyer	26,440	26,440

In addition at 31 December 1994, Allen Sykes also held 17,918 'A' Ordinary 1p Shares, 103,125 Preference 90p Shares and 7,465 Deferred Ordinary 1p Shares which were acquired following his appointment as a director.

DIRECTORS' REPORT31 December 1994

During the year, Peter Bedford was granted 2,000 options to purchase shares of the Company's parent company following his appointment as a director.

Share Capital

A capital reconstruction took place on 29 April 1994 which reduced the share premium by £135,000, cancelled the 8,700,000 Deferred Shares of £1 each and 17,218,086 of the Ordinary Shares of £1 each. On the same date, the authorised Share Capital was increased to £50,000,000. There was an issue of 1,500,000 Ordinary Shares of £1 each on 19 May 1994 and an issue of 5,000,000 Ordinary Shares of £1 each on 12 December 1994. Both of the above allotments of Share Capital were to increase the capital base of the Company and provide additional finance for its expansion.

Purchase of Businesses

On 28 November 1994, the Company completed the acquisition of the right to renew the Professional Indemnity Business Portfolio of the Dominion Insurance Company Limited.

On 31 December 1994, the Company completed the acquisition of the Provincial Broker Commercial Lines Business Portfolio of the Royal London General Insurance Company Limited.

Employees

The average number of persons employed in the UK during the year under review was 130 (1993: 88) and details of their aggregate remuneration and associated costs are given in Note 19 to the financial statements.

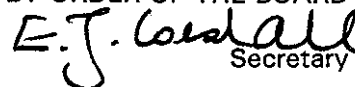
Political and Charitable Contributions

The Company made no political contributions during the year. Donations to UK charities amounted to £3,415 (1993: £425).

Auditors

In accordance with Section 385 of the Companies Act 1985, Coopers & Lybrand were appointed auditors of the Company on 10 November 1994. A resolution for the reappointment of Coopers & Lybrand as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD


Secretary

Economic House
25 London Road
Sittingbourne
Kent
ME10 1PE

25 April 1995

ECONOMIC INSURANCE COMPANY LIMITED**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which comply with the provisions of the Companies Act 1985 applicable to insurance companies. In preparing those financial statements, the directors are required to:

- a) select suitable accounting policies and apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures in the financial statements;
- d) prepare the financial statements 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 to enable them to ensure that the financial statements comply with the provisions of 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.

**REPORT OF THE AUDITORS
TO THE MEMBERS OF ECONOMIC INSURANCE COMPANY LIMITED**

We have audited the financial statements on pages 8 to 26.

Respective Responsibilities of Directors and Auditors

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and report our opinion to you.

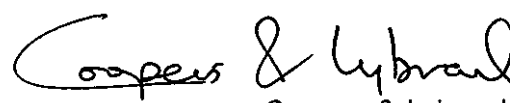
Basis of Opinion

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 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.

Opinion

In our opinion the financial statements have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.


Coopers & Lybrand
Chartered Accountants and
Registered Auditors
Maidstone

25 April 1995

ECONOMIC INSURANCE COMPANY LIMITED**REPORT BY THE ACTUARY ON THE VALUATION OF
ORDINARY LONG TERM INSURANCE BUSINESS**As at 31 December 1994

I have undertaken an actuarial investigation into the ordinary long term business as at 31 December 1994.

In carrying out the valuation I have adopted similar principles to those used in earlier years and full details will be found in the formal returns to the Department of Trade and Industry. The valuation disclosed a surplus of long term assets over long term liabilities.

Part of this surplus has been applied by the directors to provide bonuses for all with profits policies in force at 31 December 1994 at the following rates:

Life Policies

Series 1	4.0%)) of sum assured plus accrued bonus
Series 2	3.8%)	

Deferred Annuities

Series 1	0.75%)) of the annuity
Series 2	5.0%)	

For claims arising during 1995, interim bonuses will be added to with profits policies at the same rates in respect of any duration after the policy anniversary in 1995, and additional terminal bonuses will be included in the claim proceeds, such terminal bonuses being equal to the following percentages of the total reversionary and interim bonuses:

Life Policies

25% if the duration in force is less than 10 years.
15% plus 1% for each complete year in force if the duration is between 10 and 25 years.
40% if the duration in force exceeds 25 years.

Deferred Annuities

20%

The above bonus rates are at the same level as were granted following the actuarial valuation as at 31 December 1993.

In my opinion the financial condition of the fund is adequate to support the granting of bonuses at the above rates.



N J Dumbreck FIA
R Watson & Sons
Watson House
London Road
Reigate, Surrey
RH2 9PQ

25 April 1995

GENERAL INSURANCE UNDERWRITING REVENUE ACCOUNT

For the year ended 31 December 1994

	<u>Notes</u>	<u>1994</u>		<u>1993</u>	
		£000	£000	£000	£000
Gross premiums written	16(a)		52,346		41,714
Reinsurance ceded			(9,762)		(10,444)
			<hr/>		<hr/>
Net premium written			42,584		31,270
			=====		=====
Net premium earned			37,711		30,688
Gross claims incurred	1(b)	22,685		18,978	
Reinsurance recoveries		(5,739)		(949)	
		<hr/>		<hr/>	
Net claims incurred		16,946		18,029	
Commission		11,714		8,468	
(Increase)/decrease in deferred acquisition expenses		(1,047)		181	
Expenses					
Underwriting		2,141		1,797	
Claims handling		276		257	
Other		4,481		2,825	
		<hr/>		<hr/>	
			(34,511)		(31,557)
			<hr/>		<hr/>
Underwriting profit/(loss)			3,200		(869)
			=====		=====

All of the underwriting revenue account relates to continuing operations.

The notes on pages 14 to 26 form an integral part of these financial statements.

ECONOMIC INSURANCE COMPANY LIMITED**PROFIT AND LOSS ACCOUNT**For the year ended 31 December 1994

		<u>1994</u>		<u>1993</u>	
	<u>Notes</u>	£000	£000	£000	£000
Investment income	1(c)		2,436		2,452
Loan interest payable			(295)		(337)
Profits on realisation of investments	1(c)		1,028		2,799
Investment expenses			(48)		(45)
			<hr/>		<hr/>
			3,121		4,869
Profit/(loss) on general insurance underwriting revenue account			3,200		(869)
			<hr/>		<hr/>
Profit before taxation			6,321		4,000
Taxation	15		-		49
			<hr/>		<hr/>
Profit after taxation			6,321		4,049
Dividends - paid		769		-	
- payable		493		-	
		<hr/>	(1,262)	<hr/>	-
			<hr/>		<hr/>
Retained profit for the year			5,059		4,049
			=====		=====

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSESFor the year ended 31 December 1994

Profit for the year	6,321	4,049
Movement on investment revaluation reserve	(3,734)	646
	<hr/>	<hr/>
Total recognised gains and losses	2,587	4,695
	=====	=====

A reconciliation of movements in shareholders' funds is shown in note 12.

The notes on pages 14 to 26 form an integral part of these financial statements.

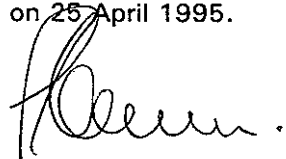
ECONOMIC INSURANCE COMPANY LIMITED

SHAREHOLDERS' FUNDS

Balance Sheet as at 31 December 1994

		<u>1994</u>	<u>1993</u>
	<u>Notes</u>	£000	(As restated) £000
Fixed assets	1(d)	4,632	1,701
Investments	3	32,750	25,489
Reinsurers' share of general insurance funds	5	18,210	13,531
Other assets	6	35,297	30,234
Total assets		<u>90,889</u>	<u>70,955</u>
General insurance funds	5	(54,193)	(40,584)
Other liabilities	7	(12,482)	(11,967)
Subordinated loan	8	(2,985)	(5,000)
Total liabilities		<u>(69,660)</u>	<u>(57,551)</u>
Net assets		<u>21,229</u> =====	<u>13,404</u> =====
Share capital	9	20,000	39,418
Share premium account	10	215	350
Reserves	12	(609)	3,125
Profit and loss account	12	1,623	(29,489)
Equity shareholders' funds	12	<u>21,229</u> =====	<u>13,404</u> =====

These financial statements were approved by the Board of Directors on 25 April 1995.


P G CULLUM Director

The notes on pages 14 to 26 form an integral part of these financial statements.

ECONOMIC INSURANCE COMPANY LIMITED

CASHFLOW STATEMENT

For the year ended 31 December 1994

		<u>1994</u>		<u>1993</u>	
	<u>Notes</u>	£000	£000	£000	£000
Operating activities					
Net cash inflow/(outflow) from operating activities	23		5,520		(6,728)
Return on investments and servicing of finance					
Loan interest paid		(295)		(337)	
Dividends paid		(769)		-	
			(1,064)		(337)
Taxation					
Group relief received			-		343
Recovery of tax on investment income			1,796		-
Investing activities					
Purchase of liquid investments		(19,257)		(25,824)	
Sale proceeds from liquid investments		9,290		30,872	
Sale proceeds from other investments		-		193	
Purchase of tangible fixed assets		(2,604)		(243)	
Sale proceeds from tangible fixed assets		62		90	
Net cash (outflow)/inflow from investing activities			(12,509)		5,088
Net cash outflow before financing			(6,257)		(1,634)
Financing					
Repayment of subordinated loan			(2,015)		-
Issue of share capital			6,500		-
Decrease in cash and cash equivalents	25		(1,772)		(1,634)
			=====		=====

The notes on pages 14 to 26 form an integral part of these financial statements.

ECONOMIC INSURANCE COMPANY LIMITED

LONG TERM INSURANCE REVENUE ACCOUNT

For the year ended 31 December 1994

		<u>1994</u>		<u>1993</u>	
	<u>Notes</u>	£000	£000	£000	£000
Fund at the beginning of the year			20,079		18,263
Add					
Regular annual premiums		849		1,001	
Single premiums		29		45	
Unit linked premiums		162		169	
	16(b)	1,040		1,215	
Reassurance ceded		(345)	695	(407)	808
Investment income	1(c)		1,280		1,311
Transfer (to)/from investment revaluation reserve			(2,006)		1,971
			20,048		22,353
Less					
Claims paid and outstanding					
Deaths		384		489	
Maturities		469		379	
Surrenders		578		573	
		1,431		1,441	
Reassurance recoveries		(134)		(203)	
		1,297		1,238	
Annuity payments		353		363	
Commission		-		(6)	
Management expenses		308		363	
Bad debts		(1)		10	
Taxation (credit)/charge	15	(147)	(1,810)	306	(2,274)
Fund at the end of the year			18,238		20,079
			=====		=====

All of the long term insurance revenue account relates to continuing operations.

The notes on pages 14 to 26 form an integral part of these financial statements.

ECONOMIC INSURANCE COMPANY LIMITED

LONG TERM INSURANCE FUNDS

Balance Sheet as at 31 December 1994

		<u>1994</u>		<u>1993</u>	
	<u>Notes</u>	£000	£000	£000	£000
Long term insurance funds			18,238		20,079
			-----		-----
Represented by:-					
Investments	1(c)				
British Government securities		10,963		12,354	
Overseas Government securities		23		28	
Ordinary stocks & shares		4,138		4,774	
Mortgages		109	15,233	121	17,277
		-----		-----	
Fixed assets			304		312
			-----		-----
			15,537		17,589
Current assets					
Agents, companies & policyholders		328		323	
Taxation recoverable	15	990		753	
Deposits, bank balances & cash		1,510	2,828	1,606	2,682
		-----	-----	-----	-----
			18,365		20,271
Current liabilities			(127)		(192)
			-----		-----
Fund at the end of the year			18,238		20,079
			-----		-----

The notes on pages 14 to 26 form an integral part of these financial statements.

NOTES(Forming part of the financial statements)1. ACCOUNTING POLICIES(a) General(i) Basis of preparation

The financial statements have been prepared in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in all material respects, in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 applicable to insurance companies, and in accordance with applicable Accounting Standards in the United Kingdom. In certain respects the Company has taken advantage of the exemptions from disclosure which are available to it as an insurance company under the Companies Act.

(ii) Consolidated financial statements

Consolidated financial statements have not been prepared as the Company is a wholly owned subsidiary undertaking of another UK company.

(iii) Change in accounting policy

The Company has changed from a paid basis to an accruals basis in its recognition of levies payable to the Policyholders Protection Board. The effect of this change in policy is explained in note 11.

(iv) General

As permitted by an amendment to Financial Reporting Standard Number 5 "Reporting the Substance of Transactions" the Company has offset amounts receivable and payable arising from insurance broking transactions. This basis of presentation in the accounts is consistent with prior years.

(b) Revenue accounts and funds(i) General insurance business

Results are determined on an annual basis. Premiums written are accounted for in the year in which the risks are assumed and include an estimate of unclosed premiums less an allowance for cancellation, where the impact on the underwriting result would be material. The unearned proportion of the premiums and acquisition costs incurred in writing the business relating to periods of risk extending beyond the end of the financial year is deferred to subsequent accounting periods on the 365ths basis suitably modified for contracts over one year.

Claims incurred include full provision for the estimated cost of claims notified but not settled at 31 December, the estimated cost of claims incurred but not reported at that date and the related handling expenses.

The provisions for claims incurred but not reported at the date of the balance sheet, together with the anticipated reinsurance and other recoveries, are made on the basis of the best information currently available, having regard, in particular, to past claims experience. Subsequent information and events may result in the ultimate liabilities being more than, or less than, the amount provided for the estimated net liabilities at a particular balance sheet date. The estimates made are regularly reviewed in the light of subsequent information and any resulting adjustments are reflected in current earnings.

NOTES

(Forming part of the financial statements)

1. ACCOUNTING POLICIES (Continued)

Provision is made for unexpired risks when it is anticipated that the reserve for unearned premiums carried forward at the end of the year together with related future investment income will be insufficient to cover the future claims and expenses of business in force at the end of the year.

(ii) Long term insurance business

Annual premiums, single premiums and considerations for the granting of immediate and deferred annuities are accounted for when due for payment. Investment linked business is accounted for in the year the policy liability is established. Provision is made for outstanding claims when the insured event becomes due or is notified.

An actuarial valuation of the long term insurance net liability is carried out every year.

(iii) Change in presentation

In compliance with the provisions of Financial Reporting Standard Number 5, insurance funds and related reinsurance balances are separated in the balance sheet as liabilities and assets; previously the net balance was included. The 1993 balance sheet has been restated to be consistent.

(c) Investments

Dividends on ordinary shares and the related tax credits are recognised as income on the date the ordinary shares are marked ex-dividend. Other investment income and interest receivable are included in income on an accruals basis.

Investments have been included in the balance sheet at the middle market prices ruling at the close of business on 31 December.

Realised profits and losses on the general insurance fund investments are taken to the profit and loss account. Unrealised profits and losses on general insurance fund investments are taken to a revaluation reserve. Realised and unrealised profits and losses on the long term investments are included in the long term revenue account.

The profit on the realisation of investments is calculated by reference to the market value at the date of disposal and the cost of the investment.

(d) Fixed assets

The freehold property has been included in fixed assets at its open market valuation at 31 December 1994. The property is revalued at least every three years by an independent Chartered Surveyor. It is not the Company's policy to provide for depreciation on freehold land. The other assets are depreciated on a straight line basis over the following periods:

Freehold office building	20 years
Fixtures and fittings	15 years
Computer software	5 years
All other fixed assets	4 years (or length of lease if different)

NOTES

(Forming part of the financial statements)

1. ACCOUNTING POLICIES (Continued)(e) Rates of exchange

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the balance sheet date. Revenue transactions are translated at the approximate rates prevailing at the date of the transaction. The resulting exchange adjustments are dealt with through the revenue accounts.

(f) Pension costs

The Company operates a defined benefits pension scheme. The assets of the scheme are held separately from those of the Company. Payments to the scheme are charged against profits so as to spread the cost of the pensions over employees' working lives with the Company.

(g) Leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

(h) Deferred taxation

Deferred taxation, calculated on the liability method, is provided on all material timing differences to the extent that it is probable that the liability will crystallise.

2. PURCHASE OF BUSINESSES

On 28 November 1994, agreements were reached between the Company and Dominion Insurance Company Limited ("Dominion") for the acquisition of the right to renew the Professional Indemnity Business Portfolio of Dominion for the sum of 1.5% of the gross written premium due in respect of all insurance policies written by the Company after the Completion Date up to and including the first anniversary of the Completion Date. In addition, certain of the other assets of Dominion were purchased for net asset value.

On 31 December 1994, agreements were reached between the Company and The Royal London General Insurance Company Limited ("RLG") for the acquisition of the Provincial Broker Commercial Lines Business Portfolio together with certain of the assets used in that business at net asset value.

RLG agreed to indemnify the Company for all losses in respect of the insurance policies in force on 31 October 1994 transferred to it for a period of six years from the date of completion.

The insurance policies in force on 31 December 1994 were transferred to Economic Insurance Company Limited under the provision of Sections 51 and 52 of the Insurance Companies Act 1982. The Company also purchased the right to renew the Provincial Broker Commercial Lines Business Portfolio of RLG from 1 November 1994.

These purchases do not materially affect the underwriting result of the Company in 1994, and accordingly, are not identified separately in the profit and loss account.

NOTES

(Forming part of the financial statements)3. INVESTMENTS

	<u>1994</u>	<u>1993</u>
	£000	£000
Listed on the Stock Exchange:		
British Government securities	21,362	16,336
Ordinary stocks and shares	8,330	9,082
Other:		
Fixed interest stocks	2,987	-
Mortgages	21	21
Freehold property	50	50
	<hr/>	<hr/>
	32,750	25,489
	=====	=====

4. INVESTMENT IN SUBSIDIARY UNDERTAKING

Valuation at 31 December

-	-
=====	=====

The wholly owned subsidiary undertaking is Whitehall Insurance Company Limited, a company registered in England and Wales. The issued share capital of this company is 100,000 shares of £1 each, of which 25p per share has been called and paid up. This company does not trade.

5. GENERAL INSURANCE FUNDS

Gross claims outstanding	37,018	29,568
Reinsurance recoveries outstanding	(16,030)	(11,313)
	<hr/>	<hr/>
Net claims outstanding	20,988	18,255
	<hr/>	<hr/>
Gross unearned premiums	22,241	14,510
Deferred reinsurance premiums	(3,053)	(3,209)
	<hr/>	<hr/>
Net unearned premiums	19,188	11,301
	<hr/>	<hr/>
Gross deferred acquisition costs	(5,066)	(3,494)
Reinsurance deferred acquisition costs	873	991
	<hr/>	<hr/>
Net deferred acquisition costs	(4,193)	(2,503)
	<hr/>	<hr/>
Net general insurance funds	35,983	27,053
	=====	=====

NOTES(Forming part of the financial statements)**5. GENERAL INSURANCE FUNDS (Continued)**

Claims outstanding at 31 December 1994 include claims assumed on 31 December 1994 on transfer of policies from The Royal London General Insurance Company Limited of - gross £6,094,929 and reinsurance recoveries £2,509,047 (note 2).

Unearned premiums at 31 December 1994 include reserves assumed on 31 December 1994 on transfer of policies from The Royal London General Insurance Company Limited of - gross £3,034,890 and reinsurance premiums £19,906 (note 2).

6. OTHER ASSETS

	1994	1993
	£'000	£'000
Agents, companies and policyholders	10,251	6,773
Amounts due from reinsurance companies	2,266	2,278
Other debtors	5,427	693
Due from the long term fund	1	57
Taxation recoverable	701	2,204
Due from parent undertaking	194	-
Deposits, bank balances and cash	16,457	18,229
	<hr/>	<hr/>
	35,297	30,234
	=====	=====

7. OTHER LIABILITIES

Agents, companies and policyholders	1,662	1,249
Amounts due to reinsurers	7,700	9,119
Due to fellow subsidiary undertaking	38	-
Dividend payable	493	-
Other creditors	2,589	1,599
	<hr/>	<hr/>
	12,482	11,967
	=====	=====

8. SUBORDINATED LOAN

On 9 November 1992, Holdings of 1992 (UK) Limited, the Company's previous parent, subscribed for £5m Variable Rate Unsecured Loan Stock 1999 in Economic Insurance Company Limited. Interest is payable at the lower of (i) 10 per cent per annum and (ii) the rate per annum equal to the aggregate of 0.5 per cent per annum and the average of the 3 month LIBOR rate (calculated at 1 January, 1 April, 1 July and 1 October) for any period in respect of which interest is calculated.

Under the terms of the sale and purchase agreement of the Company, there is a requirement, subject to the approval of the DTI, that the Company will repay the outstanding Loan Stock as follows:

- a) an amount equal to 50% of the after tax profit, calculated in accordance with the 1992 accounting policies of the Company for the financial years ending 31 December 1993 and 1994; and

NOTES

(Forming part of the financial statements)

8. SUBORDINATED LOAN (Continued)

- b) an amount equal to 20% of the after tax profit of the Company for each financial year of the Company ending 31 December 1995 and subsequent,

subject to the aggregate of these amounts not exceeding the principal of £5,000,000. At 31 December 1994 the outstanding principal was £2,985,000 (1993: £5,000,000).

9. SHARE CAPITAL

	1994	1993
<u>Authorised</u>	£'000	£'000
50 million (1993: 31.3 million)		
Ordinary Shares of £1 each	50,000	31,300
Nil (1993: 8.7 million)		
Deferred Shares of £1 each	-	8,700
	<hr/>	<hr/>
	50,000	40,000
	=====	=====
<u>Issued and Fully Paid</u>		
20 million (1993: 30.718 million)		
Ordinary Shares of £1 each	20,000	30,718
Nil (1993: 8.7 million)		
Deferred Shares of £1 each	-	8,700
	<hr/>	<hr/>
	20,000	39,418
	=====	=====

On 29 April 1994, a capital reconstruction was undertaken which cancelled and extinguished the 8,700,000 Deferred Shares of £1 each and 17,218,086 Ordinary Shares of £1 each against the accumulated losses of the Company. On the same day the authorised Share Capital of the Company was increased to £50,000,000.

On 19 May 1994, the issued Share Capital was increased by the allotment of 1,500,000 Ordinary Shares of £1 each at par.

On 12 December 1994, the issued Share Capital was increased by the allotment of 5,000,000 Ordinary Shares of £1 each at par.

Both of the above allotments of Share Capital were to increase the capital base of the Company and provide additional finance for its expansion.

10. SHARE PREMIUM

As part of the above capital reconstruction the share premium was reduced by £135,000.

11. PRIOR YEAR ADJUSTMENT

Previously the cost of the Policyholders Protection Board levy has been accounted for annually as paid. This policy has now been changed so that the levy due in the next financial year is accrued for at year end. This change in policy is consistent with generally accepted accounting principles for insurance companies. The prior year adjustment has not affected the presentation of the profit and loss account for 1993 as the change would not be material, however opening profit and loss account reserves have been revised (note 12).

NOTES(Forming part of the financial statements)**12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	Issued Share Capital	Share Premium Account	Investment Revaluation Reserve	Profit and Loss Account	1994 Total Shareholders' Funds	1993
	£000	£000	£000	£000	£000	£000
At beginning of year	39,418	350	3,125	(29,178)	13,715	9,020
Prior year adjustment (note 11)	-	-	-	(311)	(311)	(311)
At beginning of year (restated)	39,418	350	3,125	(29,489)	13,404	8,709
Capital reconstruction (note 9)	(25,918)	(135)	-	26,053	-	-
Allotment of new capital 6,500	-	-	-	-	6,500	-
Movement on investment revaluation reserve	-	-	(3,734)	-	(3,734)	646
Profit for the year	-	-	-	6,321	6,321	4,049
Dividends	-	-	-	(1,262)	(1,262)	-
	20,000	215	(609)	1,623	21,229	13,404
	=====	=====	=====	=====	=====	=====

13. ASSETS DEPOSITED ABROAD

Certain assets have been specifically deposited abroad as security for part of the underwriting liabilities.

14. CONTINGENT COMMITMENT

There is a contingent commitment amounting to £75,000 in respect of the uncalled share capital of the subsidiary undertaking (1993: £75,000).

15. TAXATION**(a) Profit and loss account**

There is no charge for taxation in 1994 due to tax losses available from previous years.

The credit of £49,000 in 1993 represented tax relief receivable following the surrender of tax losses to former group undertakings.

NOTES

(Forming part of the financial statements)15. TAXATION (Continued)(b) Long term revenue account

Provision is made as required for UK Corporation Tax based on the investment income and profits of the year and is computed in accordance with the provisions of the Taxes Acts applicable to insurance companies transacting long term business. A provision has also been made for deferred taxation to take into account timing differences on the receipt of income.

The tax credit for the year comprises a charge on current year taxable income of £128,000 offset by a release of over provisions in prior years of £275,000.

(c) Short term and long term insurance investments

No provision has been made for taxation in respect of unrealised appreciation in the value of investments at the end of the year due to the availability of tax losses. (See Note 1(c)).

(d) Deferred Taxation

There are no deferred taxation liabilities not provided for at the year end (1993: nil).

16. ANALYSIS OF PREMIUM INCOME

	<u>1994</u>	<u>1993</u>
(a) <u>General insurance business</u>	£000	£000
Gross written premiums		
Commercial	25,532	19,966
Personal	26,060	19,492
Motor	754	2,256
	<hr/>	<hr/>
	52,346	41,714
	=====	=====
(b) <u>Long term insurance business</u>		
Gross written premiums		
Life		
- Unit linked	162	169
- Other	582	670
General annuity - Other	1	1
Pensions		
- Group	165	207
- Other	130	168
	<hr/>	<hr/>
	1,040	1,215
	=====	=====

17. AUDITORS' REMUNERATION

The remuneration including expenses of the auditors of the Company in respect of audit work amounted to £48,000 (1993: £56,250), and in respect of other work £42,861 (1993: £23,016).

NOTES(Forming part of the financial statements)**18. DIRECTORS' EMOLUMENTS**

The aggregate amount of directors' emoluments for the Company, including pension scheme contributions, was as follows:

	<u>1994</u>	<u>1993</u>
	£	£
Fees as directors	36,628	12,000
Managerial emoluments	504,297	300,777
Profit related bonuses	307,500	-
Pension contributions	199,528	9,471
Fees paid to other companies for director's services	18,108	-
Compensation for loss of office paid by the Company	-	90,000
	<hr/>	<hr/>
	1,066,061	412,248
	=====	=====
Emoluments, excluding pension contributions:		
Chairman	22,917	-
Highest paid director	313,686	194,686
	=====	=====

Emoluments of the highest paid director include £80,000 (1993: Nil) in respect of tax payable on an unfunded pension contribution.

The emoluments excluding pension contributions of all directors were within the following ranges:

	<u>1994</u>	<u>1993</u>
£	No	No
NIL	-	4
1 to 5,000	1	1
10,001 to 15,000	1	1
15,001 to 20,000	1	-
20,001 to 25,000	2	-
65,001 to 70,000	-	1
70,001 to 75,000	-	1
100,001 to 105,000	1	-
105,001 to 110,000	1	-
110,001 to 115,000	1	-
155,001 to 160,000	1	-
190,001 to 195,000	-	1
310,001 to 315,000	1	-

No director waived emoluments in the year.

In addition to the pension contributions referred to above, the Company has agreed to pay an additional special pension contribution of £60,000 in respect of a director during 1995.

NOTES

(Forming part of the financial statements)

19. EMPLOYEES' REMUNERATION

Their aggregate remuneration and associated costs were:

	<u>1994</u>	<u>1993</u>
	£000	£000
Wages and salaries	2,732	1,997
Social security costs	220	160
Other pension costs	273	84
	<hr/>	<hr/>
	3,225	2,241
	=====	=====

20. PENSION CONTRIBUTIONS

The Company operates a funded pension scheme in the United Kingdom providing benefits based on final pensionable pay for its eligible employees. The assets of the scheme are held in trustee-administered funds independent of the Company's finances.

The pension charge for the year was £126,880 (1993: £83,921). This charge takes account of £314,662 (1993: £208,124) in respect of the amortisation of experience surpluses that are being recognised over 15 years, being the average remaining service lives of employees. A provision of £919,060 (1993: £792,133) is included in creditors, this being the excess of the accumulated pension cost over the amount paid by the Company and its parent undertaking.

An actuarial valuation of the scheme was carried out as at 31 March 1992 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that the investment returns would on average be 2% greater than salary increases and that present and future pensions would increase at the rate of 5% per annum.

The valuation showed that the market value of the scheme's assets at that date was £5,811,401. The actuarial value of these assets represented 140% of the benefits that had accrued to members, after allowing for expected further increases in earnings, changes to the scheme benefits with effect from 1 January 1993 and the bulk transfer of part of the scheme membership to the pension scheme of another company. Based on the Actuary's recommendations, no further employer contributions will be made until the results of the valuation due in 1995 are known.

NOTES(Forming part of the financial statements)**21. LEASE COMMITMENTS****(a) Operating leases**

The Company paid £38,501 (1993: £112,918) under operating leases during the year and has commitments for payments in the next year as follows:

	<u>1994</u>			<u>1993</u>		
	<u>Land and Buildings</u>	<u>Other</u>	<u>Total</u>	<u>Land and Buildings</u>	<u>Other</u>	<u>Total</u>
	£000	£000	£000	£000	£000	£000
Operating leases which expire:						
within one year	5	5	10	5	6	11
from two to five years inclusive	226	3	229	16	8	24
	<u>231</u>	<u>8</u>	<u>239</u>	<u>21</u>	<u>14</u>	<u>35</u>
	=====	=====	=====	=====	=====	=====

(b) Finance leases

The finance lease obligations to which the company is committed are:

	<u>1994</u>	<u>1993</u>
	£000	£000
In one year or less	171	82
Between two and five years	514	5
Over five years	-	-
	<u>685</u>	<u>87</u>
Less: future finance charges	(115)	(10)
	<u>570</u>	<u>77</u>
	=====	=====

The Company paid £143,975 (1993: £112,753) under finance leases during the year.

The total cost of leased assets included within tangible assets in the balance sheet is £683,820 (1993: £165,239), the depreciation charge for the year on the leased assets was £72,494 (1993: £58,606) and the amount of accumulated depreciation on those leased assets at year end is £89,922 (1993: £102,261).

22. CAPITAL COMMITMENTS

Authorised but not contracted for	748	1,239
	=====	=====
Authorised and contracted for	407	807
	=====	=====

NOTES

(Forming part of the financial statements)

23. RECONCILIATION OF OPERATING PROFIT TO
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	1994	1993
	£000	£000
Operating profit before taxation	6,321	4,000
Depreciation charges	406	301
(Profit)/loss on sale of fixed assets	(5)	14
Realised gains on sale of investments	(1,028)	(2,799)
Loan interest paid	295	337
(Increase) in other assets	(2,434)	(1,349)
(Decrease) in other liabilities	(714)	(556)
Increase/(decrease) in insurance funds	2,972	(6,260)
Tax on franked investment income included within operating income	(293)	(416)
Net cash inflow/(outflow) from operating activities	5,520	(6,728)
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24. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS AND OTHER
LIQUID INVESTMENTS DURING THE YEAR

	Cash and Cash Equivalents	Other Liquid Investments	Total
	£000	£000	£000
Balance at 1 January 1994	18,229	25,418	43,647
Net cash outflow	(1,772)	-	(1,772)
Purchase of investments	-	19,257	19,257
Sale of investments	-	(8,262)	(8,262)
Change in market value	-	(3,734)	(3,734)
Balance at 31 December 1994	16,457	32,679	49,136
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25. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AND
OTHER LIQUID INVESTMENTS AS SHOWN IN THE BALANCE SHEET

	1994	1993	Change in Year
	£000	£000	£000
Cash at bank	16,457	18,229	(1,772)
Other liquid investments	32,679	25,418	7,261
Balance at 31 December	49,136	43,647	5,489
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NOTES(Forming part of the financial statements)**26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	Share Capital (including premium)	Subordinated Loan
	£000	£000
Financing at 1 January 1994	39,768	5,000
Reduction in Share Capital (including share premium)	(26,053)	-
Issue of Share Capital	6,500	-
Repayment of subordinated loan	-	(2,015)
Financing at 31 December 1994	20,215	2,985
	=====	=====

27. HOLDING COMPANY

The holding company, which is registered in England and Wales, is Economic Insurance Holdings Limited. A copy of the holding company's financial statements may be obtained from the Company Secretary, Economic House, 25 London Road, Sittingbourne, Kent ME10 1PE.