

THE WELSH INSURANCE CORPORATION LIMITEDREPORT AND ACCOUNTSDIRECTORS' REPORT

The directors present their Report and Accounts of the Company for the year ended 31 December 1995.

PRINCIPAL ACTIVITIES

The Company is authorised to write general insurance business. On 1 January 1995 the Company undertook to reinsure certain insurance liabilities of The Northern Assurance Company Limited, a fellow subsidiary of the Commercial Union Group. The directors consider that the Company's activities will continue unchanged in the foreseeable future.

SHARE CAPITAL

During the year the Company strengthened its capital base by increasing its authorised and issued share capital by £211,800,000 from £50,000 to £211,850,000.

RESULTS AND DIVIDEND

The results for the year are shown on pages 3 and 4 and arise from continuing operations. The directors consider the results and the Company's financial position to be satisfactory. The directors do not recommend the payment of any dividend for the year (1994 £Nil). The profit for the financial year of £465,000 will be transferred to reserves.

DIRECTORS

The directors in office during the year were as follows:

Mr P J Foster  
Mr K N Grant  
Mr P G Ward

DIRECTORS' INTERESTS

The directors of the Company who held office at 31 December 1995 had the following interests in the shares of Commercial Union Group companies:

Commercial Union plcOrdinary Shares of 25p each

	1 January 1995		Options exercised during the year	31 December 1995	
	Shareholdings	Share Options		Shareholdings	Share Options
K N Grant	773	51,718	30,187	1,859	23,105

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DATE 24/9/96

P.a.

THE WELSH INSURANCE CORPORATION LIMITED

DIRECTORS' INTERESTS (continued)

During the year Mr Grant was granted 1,574 options.

Mr Foster and Mr Ward are directors of the Company's ultimate holding company and under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802) are not required to disclose their interests in the Company's accounts. Their interests can be found in the Report and Accounts of Commercial Union plc.

DIRECTORS AND OFFICERS' LIABILITY INSURANCE

During the financial year, the Commercial Union Group effected insurance cover for the directors and officers of the Company as permitted by Section 310 of the Companies Act 1985.

Approved and signed on behalf of the Board



Authorised Signatory

Commercial Union Company Secretarial Services Limited  
Secretary

30 SEPTEMBER 1996

Registered office: St. Helen's, 1 Undershaft, London, EC3P 3DQ

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JL.....DATE.....24/9/96

**THE WELSH INSURANCE CORPORATION LIMITED****Profit and loss account - technical account-general business  
For the year ended 31 December 1995**

	<u>£'000</u>	<u>1995 £'000</u>	<u>1994 £'000</u>
Gross premiums written (notes 1(b) & 12)		19,546	-
Change in the provision for unearned premiums			
- gross amount		(6,035)	-
Gross premiums earned		13,511	-
Allocated investment return transferred from the non-technical account (note 1(f))		1,665	
Claims paid			
- gross amount	5,692		-
Change in the provision for claims			
- gross amount	(15,545)		-
Claims incurred (note 1(c))		(9,853)	-
Net operating expenses (note 4)		(4,502)	-
<b>Balance on the technical account - general business</b>		<b><u>821</u></b>	<b><u>-</u></b>

The notes on pages 7 to 11 form an integral part of these accounts. The Auditors' report is on page 12.

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**THE WELSH INSURANCE CORPORATION LIMITED****Profit and loss account - non-technical account  
For the year ended 31 December 1995**

	<b>1995</b>		<b>1994</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance on general business technical account		821	-
Investment income (notes 1(f) & 3)	1,665	-	-
Allocated investment return transferred to the general business technical account (note 1(f))	<u>(1,665)</u>	-	-
Investment return retained in the non-technical account		-	-
Profit on ordinary activities before taxation		<u>821</u>	-
Tax on profit on ordinary activities (notes 1(h) & 5(a))		<u>(356)</u>	-
<b>Profit for the financial year</b>		<u><u>465</u></u>	<u><u>-</u></u>

**Statement of total recognised gains and losses  
For the year ended 31 December 1995**

	<b>1995</b>	<b>1994</b>
	<b>£'000</b>	<b>£'000</b>
Retained profit for the financial year	<u>465</u>	-
Movements in revaluation reserve after taxation (note 10)	<u>17,709</u>	-
Total recognised gains arising in the year	<u><u>18,174</u></u>	<u><u>-</u></u>

**Reconciliation of movements in equity shareholders' funds  
For the year ended 31 December 1995**

	<b>1995</b>	<b>1994</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 January	<u>50</u>	<u>50</u>
Total recognised gains arising in the year	18,174	-
Increase in capital (note 9 (b))	<u>211,800</u>	-
Balance at 31 December	<u><u>230,024</u></u>	<u><u>50</u></u>

The notes on pages 7 to 11 form an integral part of these accounts. The Auditors' report is on page 12.

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THE WELSH INSURANCE CORPORATION LIMITED**Balance sheet**  
**At 31 December 1995**

	<b>1995</b> <b>£'000</b>	<b>1994</b> <b>£'000</b>
<b>Assets</b>		
Investments (note 1(g))		
Other financial investments (note 8)	246,097	-
<b>Debtors</b>		
Amounts due from parent company and fellow subsidiary undertakings	21,691	50
Taxation recoverable	145	-
	21,836	50
<b>Prepayments and accrued income</b>		
Accrued interest and rent	257	-
Deferred acquisition costs (note 1 (d))	1,495	-
	1,752	-
<b>Total assets</b>	<b>269,685</b>	<b>50</b>

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**THE WELSH INSURANCE CORPORATION LIMITED****Balance sheet  
At 31 December 1995**

	<b>1995</b> <b>£'000</b>	<b>1994</b> <b>£'000</b>
<b>Liabilities</b>		
<b>Capital and reserves</b>		
Called up share capital (note 9)	211,850	50
Revaluation reserve (note 10)	17,709	-
Profit and loss account (note 11)	465	-
<b>Equity shareholders' funds</b>	<b>230,024</b>	<b>50</b>
<b>Other liabilities</b>		
Technical provisions		
Claims outstanding (note 1(c))	15,550	-
Provision for unearned premiums (note 1(b))	6,055	-
	21,605	-
Provision for other risks and charges (note 5 (b))	85	-
<b>Creditors</b>		
Amounts due to parent company and fellow subsidiary undertakings	17,971	-
<b>Total other liabilities</b>	<b>39,661</b>	<b>-</b>
<b>Total liabilities</b>	<b>269,685</b>	<b>50</b>

Approved by the Board on 30 SEPTEMBER 1996



Director

The notes on pages 7 to 11 form an integral part of these accounts. The Auditors' report is on page 12.

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**THE WELSH INSURANCE CORPORATION LIMITED****NOTES TO THE ACCOUNTS****1. Accounting policies****(a) Basis of accounts**

These accounts have been prepared in accordance with section 255 of, and the special provisions relating to insurance companies of schedule 9A to, the Companies Act 1985 and with the guidance on accounting for insurance business issued by the Association of British Insurers in December 1995. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 1995 as considered appropriate for an insurance company.

The profit and loss account for the year reflects all income and expenditure, other than items charged to provisions set up in the portfolio transfer and the following items which are taken directly to reserves after taxation:

- (i) unrealised gains and losses on investments;
- (ii) gains and losses on movements in rates of exchange.

The technical result is determined after taking account, inter alia, of unearned premiums, deferred acquisition costs and outstanding claims.

**(b) Premiums**

Premiums written reflect business inception during the year. Unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on either the daily or monthly pro-rata basis.

**(c) Claims**

Claims incurred comprise all claims occurring during the year, whether reported or not, together with related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the balance sheet date. Outstanding claims and provisions in the balance sheet are based upon the estimated ultimate cost of all claims incurred but not settled at the date of the balance sheet, whether reported or not, together with related claims handling costs.

**(d) Deferred acquisition costs**

Deferred acquisition costs represent a proportion of commission and other acquisition costs that relate to policies that are in force at the year end. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

**(e) Unexpired risks**

Provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums, after taking account of investment income expected to arise on assets relating to the relevant provisions.

**(f) Investment income**

Investment income comprises interest, dividends and rents receivable for the year, after adding back any related tax credit. Investment income on the investments is transferred from the non-technical account to the general business technical account.

**(g) Investments**

Investments are stated at their current values at the end of the year. Current values, for this purpose, comprise stock exchange mid-market values. Investments are stated after providing for the costs of realisation where they are to be disposed of within three months of the balance sheet date. Unrealised gains and losses are transferred to the revaluation reserve after providing for deferred tax.

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## NOTES TO THE ACCOUNTS

## 1. Accounting policies

## (h) Taxation

The taxation charge in the non-technical account is based on the taxable profits for the year. Taxation, including taxation relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves. Provision is only made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future.

## (i) Exchange rates

Assets, liabilities and revenue transactions in non-sterling currencies are translated into sterling at the relevant rates of exchange ruling at 31 December.

## 2. General business technical result

The general business technical result and corresponding insurance assets and liabilities in the balance sheet arise from the Company's undertaking to reinsure certain insurance liabilities of The Northern Assurance Company Limited, a fellow subsidiary of the Commercial Union Group, from 1 January 1995.

	1995 £'000	1994 £'000
3. Analysis of investment return		
Income from other investments	1,665	-
Movement in unrealised investment gains	17,709	-
Total investment return before taxation	19,374	-

Unrealised investment gains are dealt with in the revaluation reserve.

	1995 £'000	1994 £'000
4. Net operating expenses		
Acquisition costs	5,505	-
Changes in deferred acquisition costs	(1,609)	-
Administrative expenses	606	-
Net operating expenses	4,502	-

Commission payable in respect of reinsurance acceptances amounted to £1,837,892 (1994 £Nil).



**THE WELSH INSURANCE CORPORATION LIMITED****NOTES TO THE ACCOUNTS****5. Taxation**

	1995 £'000	1994 £'000
(a) The taxation charge in the non-technical account comprises:		
United Kingdom corporation tax at 33% (1994 33%) based on taxable profits for the year	356	-
The charge of £356,000 (1994 £Nil) includes a deferred taxation charge of £85,000 (1994 £Nil) arising from short-term timing differences.		

	1995 £'000	1994 £'000
(b) The provision for deferred taxation, included within the provision for other risks and charges, comprises:		
Short-term timing differences	85	-

	1995 £'000	1994 £'000
(c) The potential amount of deferred taxation not expected to become a liability in the foreseeable future, for which provision has not been made, is:		
Unrealised gains on investments	4,707	-

**6. Directors' emoluments and employee information**

None of the directors received any emoluments in respect of their services as directors of the Company (1994 £Nil).  
The Company did not employ any staff during the year (1994 Nil).

**7. Auditors' remuneration**

Auditors' remuneration is charged in the accounts of Commercial Union Assurance Company plc.

**8. Other financial investments**

	Carrying value £'000	Cost 1995 £'000	Carrying value £'000	Cost 1994 £'000
(a) These financial investments comprise:				
Shares and other variable yield securities and units in unit trusts	225,824	209,425	-	-
Debt securities and other fixed income securities	20,273	18,963	-	-
	246,097	228,388	-	-

All investments above are shown at current value.

Included in shares and other variable yield securities at 31 December 1995 is the Company's 1.87% (1994 Nil) investment in the ordinary registered DM100 (DM50 paid) shares of Munchener Ruckversicherungs-Gesellschaft, which is incorporated in Germany. This investment represents more than 10% of the Company's total assets.

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**THE WELSH INSURANCE CORPORATION LIMITED****NOTES TO THE ACCOUNTS****8. Other financial investments (continued)**

	Listed on a recognised United Kingdom investment exchange	Other listed investments 1995 £'000	Listed on a recognised United Kingdom investment exchange	Other listed investments 1994 £'000
(b) Included in the carrying value above are:				
Shares and other variable yield securities and units in unit trusts	-	225,824	-	-
Debt securities and other fixed income securities	20,273	-	-	-

**9. Called up share capital**

	1995 £'000	1994 £'000
(a) The ordinary share capital of the Company at 31 December 1995 was:		
Authorised, issued and paid up		
211,850,000 (1994 50,000) ordinary shares of £1 each	211,850	50

(b) During the year a total of 211,800,000 ordinary shares of £1 each in the Company were allotted and issued at the aggregate nominal value of £211,800,000.

**10. Revaluation reserve**

	1995 £'000	1994 £'000
Movements in the revaluation reserve, after taxation, comprise:		
Total unrealised gains on investments	17,709	-
Balance at 1 January	-	-
Balance at 31 December	17,709	-

**11. Profit and loss account**

	1995 £'000	1994 £'000
Movements in the profit and loss account comprise:		
Transfer from non-technical account	465	-
Balance at 1 January	-	-
Balance at 31 December	465	-

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**THE WELSH INSURANCE CORPORATION LIMITED****NOTES TO THE ACCOUNTS****12. Segmental information**

The business and net assets of the Company are predominantly in the United Kingdom. Premium income by destination does not differ materially from premium income by origin as most risks are located in the territories where the policies were written. The information given below is in respect of 1995 only as the Company did not write any general business during 1994.

	Gross premiums written 1995 £'000	Gross premiums earned 1995 £'000	Gross claims incurred 1995 £'000	Gross operating expenses 1995 £'000
Analysis of general business technical account information is given below:				
Reinsurance acceptances:				
Accident and health	675	424	463	117
Motor (third party liability)	462	365	(19)	25
Motor (other classes)	4,512	3,298	2,709	921
Fire and other damage to property	9,176	6,087	3,379	2,213
Third party liability	2,675	1,911	1,851	474
Credit and suretyship	1,309	962	629	242
Miscellaneous	737	464	841	510
	19,546	13,511	9,853	4,502

**13. Ultimate holding company**

The ultimate holding company is Commercial Union plc, which is registered in England and Wales. Its group accounts are available on application to the Group Company Secretary, Commercial Union plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.

**14. Cash flow statement**

As the Company is a wholly owned subsidiary within the Commercial Union Group, the cash flows of the Company are included in the consolidated group cash flow statement of Commercial Union plc. Consequently the Company is exempt under the terms of Financial Reporting Standard 1 from publishing a cash flow statement.

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**THE WELSH INSURANCE CORPORATION LIMITED****Directors' responsibility for the accounts**

The directors are required to ensure that accounts are prepared for each accounting period which comply with the relevant provisions of the Companies Act 1985 and which give a true and fair view of the state of affairs of the Company as at the end of the accounting period and of the profit or loss for that period. Suitable accounting policies have to be used and applied consistently in preparing accounts, using reasonable and prudent judgements and estimates on the going concern basis unless it is inappropriate to presume that the Company will continue in business. Applicable accounting standards also have to be followed, with any material departures being disclosed and explained.

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

**Auditors' report**

To the members of The Welsh Insurance Corporation Limited.

We have audited the accounts on pages 3 to 11.

**Respective responsibilities of directors and auditors**

As described above, 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.

**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 the profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Coopers & Lybrand*

**COOPERS & LYBRAND**

**Chartered Accountants and Registered Auditors**

**London**

**1 October 1996**

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