

THE WELSH INSURANCE CORPORATION LIMITEDREPORT AND ACCOUNTSDIRECTORS' REPORT

The directors present their Report and Accounts of the Company for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES

The Company is authorised to write general insurance business and reinsures 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.

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 (1995 £Nil).

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 1996 had the following interests in the shares of Commercial Union Group companies:

Commercial Union plcOrdinary Shares of 25p each

	1 January 1996		Options granted during the year	31 December 1996	
	Shareholdings	Share Options		Shareholdings	Share Options
K N Grant	1,859	23,105	4,410	2,794	27,515

No options were exercised by Mr Grant during the year.

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.



THE WELSH INSURANCE CORPORATION LIMITED

DIRECTORS' REPORT (continued)

CREDITOR PAYMENT POLICY

It is the Company's policy to pay creditors when they fall due for payment. Terms of payment are settled with suppliers when agreeing the terms of each transaction and it is the Company's policy to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

Approved and signed on behalf of the Board



Authorised Signatory
Commercial Union Company Secretarial Services Limited
Secretary

30 June 1997

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

THE WELSH INSURANCE CORPORATION LIMITED

Profit and loss account - technical account-general business
For the year ended 31 December 1996

	1996	1995
	£'000	£'000
Gross premiums written (notes 1b & 13)	11,085	19,546
Change in the provision for unearned premiums - gross amount	444	(6,035)
Gross premiums earned	11,529	13,511
Allocated investment return transferred from the non-technical account (note 1f)	2,665	1,665
Claims paid - gross amount	(8,216)	5,692
Change in the provision for claims - gross amount	332	(15,545)
Claims incurred (note 1c)	(7,884)	(9,853)
Net operating expenses (note 4)	(4,220)	(4,502)
General insurance operating result	2,090	821
Change in the equalisation provision (notes 1i & 12)	(164)	-
Balance on the technical account - general business	1,926	821

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

THE WELSH INSURANCE CORPORATION LIMITED

Profit and loss account - non-technical account
For the year ended 31 December 1996

	1996		1995
	£'000	£'000	£'000
General insurance operating result	2,090	-	
Change in the equalisation provision (notes 1j & 14)	(164)	-	
Balance on general business technical account	1,926		821
Investment income (notes 1f & 3)	2,665	1,665	
Allocated investment return transferred to the general business technical account (note 1f)	(2,665)	(1,665)	
Investment return retained in the non-technical account	-	-	
Profit on ordinary activities before taxation	1,926		821
Tax on profit on ordinary activities (notes 1h & 5a)	(636)		(356)
Profit for the financial year	1,290		465

Statement of total recognised gains and losses
For the year ended 31 December 1996

	1996	1995
	£'000	£'000
Profit for the financial year	1,290	465
Movements in revaluation reserve after taxation (note 10)	35,120	17,709
Foreign exchange rate movements	(33,728)	-
Total recognised gains arising in the year	2,682	18,174

Reconciliation of movements in equity shareholders' funds
For the year ended 31 December 1996

	1996	1995
	£'000	£'000
Balance at 1 January	230,024	50
Total recognised gains arising in the year	2,682	18,174
Increase in capital	-	211,800
Balance at 31 December	232,706	230,024

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

THE WELSH INSURANCE CORPORATION LIMITED

Balance sheet
At 31 December 1996

	1996 £'000	1995 £'000
Assets		
Investments (note 1g)		
Other financial investments (note 8)	249,002	246,097
 Debtors		
Amounts due from parent company and fellow subsidiary undertakings	18,658	21,691
Taxation recoverable	-	145
	18,658	21,836
Prepayments and accrued income		
Accrued interest and rent	287	257
Deferred acquisition costs (note 1d)	1,460	1,495
Cash at bank and in hand	17	-
	1,764	1,752
Total assets	269,424	269,685

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

THE WELSH INSURANCE CORPORATION LIMITED

Balance sheet
At 31 December 1996

	1996 £'000	1995 £'000
Liabilities		
Capital and reserves		
Called up share capital (note 9)	211,850	211,850
Revaluation reserve (note 10)	52,829	17,709
Profit and loss account (note 11)	(31,973)	465
Equity shareholders' funds	<u>232,706</u>	<u>230,024</u>
Other liabilities		
Technical provisions		
Claims outstanding (note 1c)	14,419	15,550
Provision for unearned premiums (note 1b)	5,698	6,055
Equalisation provision (notes 1i & 12)	164	-
	20,281	21,605
Provision for other risks and charges (note 5b)	-	85
Creditors		
Amounts due to parent company and fellow subsidiary undertakings	16,437	17,971
Total other liabilities	<u>36,718</u>	<u>39,661</u>
Total liabilities	<u>269,424</u>	<u>269,685</u>

Approved by the Board on 30 June 1997

Director



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

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. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 1996 as considered appropriate for an insurance company.

The profit and loss account for the year reflects all income and expenditure, other than 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 incepted 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.

(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.

THE WELSH INSURANCE CORPORATION LIMITED

NOTES TO THE ACCOUNTS

1. Accounting policies (continued)

(i) Equalisation provision

An equalisation provision is made in the accounts of the Company. This provision is required by law even though no actual liability exists at the balance sheet date.

(j) 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.

	1996	1995
	£'000	£'000
3. Analysis of investment return		
Income from other investments	2,665	1,665
Movement in unrealised investment gains	35,335	17,709
Total investment return before taxation	38,000	19,374

Unrealised investment gains are dealt with in the revaluation reserve.

	1996	1995
	£'000	£'000
4. Net operating expenses		
Acquisition costs	3,451	5,505
Changes in deferred acquisition costs	16	(1,609)
Administrative expenses	753	606
Net operating expenses	4,220	4,502

Commission payable in respect of reinsurance acceptances amounted to £1,841,215 (1995 £1,837,892).

5. Taxation

	1996	1995
	£'000	£'000
(a) The taxation charge in the non-technical account comprises:		
United Kingdom corporation tax at 33% (1995 33%) based on taxable profits for the year	490	356
Overseas taxation	146	-
	636	356

The charge of £514,000 (1995 £356,000) includes a deferred taxation credit of £85,000 (1995 £85,000) arising from short-term timing differences.

	1996	1995
	£'000	£'000
(b) The provision for deferred taxation, included within the provision for other risks and charges, comprises:		
Short-term timing differences	-	85

(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:

	1996	1995
	£'000	£'000
Unrealised gains on investments	4,014	4,707

THE WELSH INSURANCE CORPORATION LIMITED

NOTES TO THE ACCOUNTS

6. Directors' emoluments and employee information

None of the directors received any emoluments in respect of their services as directors of the Company (1995 £Nil).
The Company did not employ any staff during the year (1995 Nil).

7. Auditors' remuneration

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

8. Other financial investments

	Carrying value	Cost 1996	Carrying value	Cost 1995
	£'000	£'000	£'000	£'000
These financial investments comprise:				
Shares and other variable yield securities and units in unit trusts (all listed)	227,661	209,395	225,824	209,425
Debt securities and other fixed income securities (all listed)	21,091	20,012	20,273	18,963
Deposits with credit institutions	250	250	-	-
	249,002	229,657	246,097	228,388

All investments above are shown at current value.

Included in shares and other variable yield securities at 31 December 1996 is the Company's 1.96% (1995 1.87%) 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.

9. Called up share capital

	1996	1995
	£'000	£'000
(a) The ordinary share capital of the Company at 31 December 1996 was:		
Authorised, issued and paid up		
211,850,000 (1995: 211,850,000) ordinary shares of £1 each	211,850	211,850

10. Revaluation reserve

	1996	1995
	£'000	£'000
Movements in the revaluation reserve, after taxation, comprise:		
Total unrealised gains on investments	35,120	17,709
Balance at 1 January	17,709	-
Balance at 31 December	52,829	17,709

11. Profit and loss account

	1996	1995
	£'000	£'000
Movements in the profit and loss account comprise:		
Transfer from non-technical account	1,290	465
Foreign exchange rate movements	(33,728)	-
Balance at 1 January	465	-
Balance at 31 December	(31,973)	465

12. Equalisation provision

An equalisation provision has been established in the accounts as explained in accounting policy 1(i) on page 8. This has had the effect of reducing the Company's shareholders' funds by £164,000 at the year end (1995 £Nil). The movement in the equalisation provision during the year resulted in a decrease in the balance on the general business technical account and the profit on ordinary activities before taxation by £164,000 (1995 £Nil).

THE WELSH INSURANCE CORPORATION LIMITED

NOTES TO THE ACCOUNTS

13. 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.

Analysis of general business technical account information is given below:	Gross premiums written 1996 £'000	Gross premiums earned 1996 £'000	Gross claims incurred 1996 £'000	Gross operating expenses 1996 £'000
Reinsurance acceptances:				
Accident and health	582	588	489	264
Motor (third party liability)	77	96	65	44
Motor (other classes)	2,503	2,448	1,839	962
Fire and other damage to property	5,863	6,032	3,302	2,376
Third party liability	1,312	1,374	1,228	547
Credit and suretyship	466	412	365	55
Miscellaneous	282	579	596	(28)
	11,085	11,529	7,884	4,220

	Gross premiums written 1995 £'000	Gross premiums earned 1995 £'000	Gross claims incurred 1995 £'000	Gross operating expenses 1995 £'000
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

14. Holding companies' details

The immediate holding company is Abeille vie SA.

The smallest group of undertakings, of which the Company is a member, that prepares group accounts is headed by Commercial Union France SA. Its group accounts are available on application to the Company Secretary, Commercial Union France SA, 52 Rue de la Victoire, 75009, Paris, France.

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

15. 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.

THE WELSH INSURANCE CORPORATION LIMITED**NOTES TO THE ACCOUNTS****16. Related party transactions**

As consolidated accounts are publicly available, the Company has taken advantage of the exemption in Financial Reporting Standard 8 from the requirement to disclose transactions with related parties who are 90% or more owned within the same group.

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.

Equalisation provision

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amounts set aside at 31 December 1996, and the effect of the movement in the provision during the year on the balance on the general business technical account and profit on ordinary activities before taxation, are disclosed in accounting policy 1(i) and note 12 to 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 1996 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

30 June 1997.