

**Directors' Report & Accounts**  
**For the year ended 31 December 1996**



**Orion Personal Insurances Limited**

Bouverie House  
Bouverie Road West  
Folkestone  
Kent CT20 2RW

Registered office: Royal Exchange, London EC3V 3LS  
Registered in England Company no. 295258  
A member of the Guardian Royal Exchange Group

## Orion Personal Insurances Limited

**Directors** R F Pierce, BA, MIMC, MTech (Chairman)  
A M Omiljanczyk, ACII (Managing Director)  
P G Edwards, FCII  
J T Estall, FCIS  
P W Mason, BSc, ARCS, FIA  
R G Ryan, BA(Hons), MBA, FCII, DipM, MCIM

**Secretary** J R W Clayton, MA

**Auditors** Price Waterhouse

**Report of the Directors** For the year ended 31 December 1996

The Directors present their report and the accounts of the company for the year ended 31 December 1996.

### Review of Activities

There was no change during the year in the principal activity of the company which consisted of the writing of short-term insurance business.

The short-term technical result was a satisfactory profit. A decrease in the market value of the Company's Gilt Portfolio, has reversed last year's improvement and resulted in a lower overall Investment Return and a decrease in the profit before tax. The year end financial position was satisfactory, and the Directors expect that this position will be sustained for the foreseeable future.

### Policy on payment of suppliers

The company's policy on payments to suppliers is to pay in accordance with the agreed supplier terms provided that the relevant invoice is presented in a timely fashion and is complete.

### Profit and Loss Account, Reserves and Dividend

The profit and loss account and the transfer to reserves are set out on pages 6 and 7.

The dividend is as follows:

	1996	1995
	£	£
Interim	160,000	
Interim	70,000	
Interim	<u>9,930,000</u>	
	10,160,000	Nil

The directors do not recommend the payment of a final dividend for the year ended 1996.

# Orion Personal Insurances Limited

## Directors

The names of the Directors of the company at the date of this report appear on the opposite page.

Mr M H Tripp resigned from the Board of Directors on 13 August 1996.

Mr A M Omiljanczyk was appointed a Director of the company and Managing Director with effect from 13 August 1996.

Mr Mason was appointed a Director of the company with effect from 27 September 1996.

Mr W J Wedlake resigned from the Board of Directors on 30 September 1996.

Messrs R F Pierce and R G Ryan were appointed Directors of the company with effect from 31 January 1997. Mr A Thompson resigned from the Board of Directors on 31 January 1997.

Mr R F Pierce was elected Chairman of the Board with effect from 31 January 1997.

Mr P W Scott resigned from the Board of Directors on 1 February 1997.

As permitted by the Companies Act 1985, insurance was effected during the year on behalf of the Directors and Secretary in respect of liabilities arising in the course of their duties.

## Directors' Interests

According to the register kept under Section 325 of the Companies Act 1985, the interests of Directors in the share capital and debentures of the ultimate parent company, Guardian Royal Exchange plc, and its subsidiary undertakings at 1 January 1996 (or at date of appointment, if later) and 31 December 1996 are set out below.

### Ordinary shares held in Guardian Royal Exchange plc

	At 1 January 1996	At 31 December 1996	
J T Estall	Nil	Nil	
A M Omiljanczyk (appointed 13.8.96)	Nil	Nil	
P W Scott (resigned 1.2.97)	15,000	3,364	
	At 1 January 1996 options to subscribe for ordinary shares	During year options granted options exercised	
J T Estall	40,000	Nil	Nil
A M Omiljanczyk	28,641	17,544	Nil
P W Scott	9,859	Nil	Nil
			At 31 December 1996 options to subscribe for ordinary shares
			40,000
			46,185
			9,859

The options outstanding at 31 December 1996 are exercisable at varying dates between 1997 and 2006 at prices between 100p and 252.5p.

As permitted by Statutory Instrument the register does not include the interests of the following Directors:

P G Edwards )  
P W Mason ) Reported by Guardian Insurance Limited  
A Thompson )  
(resigned 31.1.97)

### Employee Related Matters


Matters in respect of staff engaged in the company's activities are included in the accounts of the ultimate parent company, Guardian Royal Exchange plc.

By order of the Board

J R W Clayton  
Secretary

B J W C

1997



## **Statement of the Directors' Responsibilities for the Financial Statements**

The Directors are responsible for ensuring that reasonable steps are taken to safeguard the company's assets and to prevent and detect fraud and other irregularities.

The Directors are required to maintain proper accounting records and to prepare financial statements in respect of each accounting period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

In preparing these financial statements the Directors have ensured that applicable accounting standards have been followed and that suitable accounting policies have been used on a consistent basis. The Directors have also ensured that where necessary the accounts are supported by reasonable and prudent judgements and estimates.

The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the Going Concern basis in preparing the financial statements.

## Report of the Auditors to the Members of Orion Personal Insurances Limited

We have audited the financial statements on pages 6 to 17 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 11 and 12.

### Respective Responsibilities of Directors and Auditors

As described on page 4 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.

### Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 1996, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in the accounting policies and note 1c to the accounts.

### 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 1996 and of its profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

**Price Waterhouse**

Chartered Accountants  
and Registered Auditors

Southwark Towers  
32 London Bridge Street  
London SE1 9SY

13 JUNE 1997

# Financial Statements Profit and Loss Account

For the year ended 31 December 1996

		Continuing operations		
		1996		1995
	£'000	£'000	£'000	£'000
<b>General Business Technical Account</b>				
Earned premiums				
Gross written premiums	54,741		39,730	
Outward reinsurance premiums	<u>(1,116)</u>		<u>(1,034)</u>	
		53,625		38,696
Movement in provision for unearned premiums				
- gross	(11,743)		4,827	
- reinsurers' share	<u>80</u>		<u>(116)</u>	
		<u>(11,663)</u>		<u>4,711</u>
Net earned premiums		41,962		43,407
Allocated investment return		4,759		4,624
Other technical income		344		469
Claims incurred				
Claims paid - gross	(31,116)		(28,190)	
- reinsurers' share	<u>605</u>		<u>792</u>	
	<u>(30,511)</u>		<u>(27,398)</u>	
Movement in outstanding claims provision				
- gross	(2,469)		(1,035)	
- reinsurers' share	<u>47</u>		<u>(702)</u>	
	<u>(2,422)</u>		<u>(1,737)</u>	
Net claims incurred		(32,933)		(29,135)
Net operating expenses (note: 1b)		(12,255)		(14,191)
Claims Equalisation reserve movement		<u>(376)</u>		<u>-</u>
<b>Balance transferred to non-technical account</b>		<u>1,501</u>		<u>5,174</u>

# Financial Statements Profit and Loss Account

For the year ended 31 December 1996

	£'000	Continuing operations	
		1996	1995
		£'000	£'000
<b>Non Technical Account</b>			
<b>Balance transferred from general business technical account</b>		1,501	5,174
Income from other investments	7,681		7,176
Unrealised investment gains	-		5,481
Investment expenses and charges (see note: 2b)	(69)		(56)
Unrealised investment losses	(1,971)		-
Investment return allocated to general business	(4,759)		(4,624)
<b>Corporate investment profit</b>		<u>882</u>	<u>7,977</u>
<b>Profit on ordinary activities before taxation</b>		2,383	13,151
Taxation (note: 3)		<u>(1,308)</u>	<u>(4,123)</u>
<b>Profit on ordinary activities after taxation</b>		1,075	9,028
Dividends		(10,160)	-
Transfer to reserves (note: 14)		<u>(9,085)</u>	<u>9,028</u>

# Financial Statements Balance Sheet

As at 31 December 1996

	1996		1995	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
<b>Investments (note: 6)</b>				
Land and buildings	1,718		1,718	
British Government securities	49,194		45,961	
Overseas Government municipal and public boards	2,725		1,760	
Debentures and debenture stocks - listed	29,076		32,986	
Preference and guaranteed stocks and shares	-		1,876	
Deposits with credit institutions	1,440		3,240	
		84,153		87,541
<b>Reinsurers' share of technical provisions</b>				
Provision for unearned premiums	303		223	
Claims outstanding	1,419		1,373	
		1,722		1,596
<b>Debtors</b>				
Direct insurance operations (note: 7)	10,302		5,968	
Reinsurance operations	-		73	
Other debtors				
- Due from fellow subsidiary undertakings	564		399	
- Other (note: 5)	328		877	
		11,194		7,317
<b>Other assets</b>				
Tangible assets (note: 4)	520		623	
Cash	3,475		-	
		3,995		623
<b>Prepayments and accrued income</b>				
Accrued interest and rent	1,426		1,424	
Deferred acquisition costs	5,165		3,622	
Other	88		78	
		6,679		5,124
<b>Total Assets</b>		<b>107,743</b>		<b>102,201</b>



# Financial Statements Balance Sheet

As at 31 December 1996

	1996		1995
	£'000	£'000	£'000
<b>Liabilities and Reserves</b>			
<b>Capital and reserves</b>			
Called up share capital (note: 13)	14,000		14,000
Share premium	122		122
Retained earnings (note: 14)	<u>5,335</u>		<u>14,420</u>
<b>Equity shareholders' funds</b>		19,457	28,542
<b>Technical provisions</b>			
Provision for unearned premiums	30,840		19,097
Claims outstanding	51,791		49,088
Claims equalisation reserve	<u>376</u>		<u>-</u>
		83,007	68,185
<b>Provision for other risks and charges (note: 8)</b>		167	1,460
<b>Creditors</b>			
Direct operations	88		158
Reinsurance operations	63		-
Amounts owed to credit institutions	-		14
Other creditors (note: 9)	<u>4,302</u>		<u>3,160</u>
		4,453	3,332
<b>Accruals and deferred income</b>		659	682
<b>Total liabilities and reserves</b>		<u>107,743</u>	<u>102,201</u>

The financial statements on pages 6 to 17 were approved by the Directors and signed on 13 June 1997

*R. F. Pierce*

R.F. PIERCE

# **Financial Statements Statement of recognised gains & losses**

For the year ended 31 December 1996

	1996	1995
	£'000	£'000
Profit on ordinary activities after taxation	1,075	9,028
Total recognised profits	<u>1,075</u>	<u>9,028</u>

## **Reconciliation of movements in equity shareholders' funds**

For the year ended 31st December 1996

	1996	1995
	£'000	£'000
Equity shareholders' fund at beginning of year	28,542	19,514
Total recognised gains	1,075	9,028
Dividends	(10,160)	-
Equity shareholders' funds at end of year	<u>19,457</u>	<u>28,542</u>

## Accounting Policies

The accounting policies adopted are in accordance with applicable United Kingdom accounting standards, to the extent that they are appropriate to insurance companies and are in accordance with the guidance notes on accounting for insurance business issued by the Association of British Insurers.

### **I Basis of accounting**

The accounts are prepared in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("the Regulations").

### **II Underwriting: Short-term business**

#### *(a) Underwriting Results*

The underwriting results are recognised principally on an annual accounting basis.

#### *(b) Premiums*

Premiums are accounted for in the period in which the risk commences. Unearned premiums relating to risks in future periods of account are calculated on a daily pro rata, or more conservative, basis.

#### *(c) Deferred acquisition expenses*

Commission and other acquisition expenses relating to unearned premiums are deferred and charged in the accounting periods in which those premiums are earned.

#### *(d) Claims*

Provision is made for the estimated cost of claims outstanding at the end of the year, including those incurred but not reported at that date, and for the related costs of settlement.

#### *(e) Unexpired risks*

Provision is made for unexpired risks when, after taking account of investment income, it is anticipated that unearned premiums will be insufficient to meet the future claims and expenses of business in force at the end of the year.

#### *(f) Investment return*

An investment return is included in the general business technical account on a basis which reflects the expected return on assets which the Directors consider support that business. The expected return reflects the long term trend of the total return for such assets.

#### *(g) Equalisation provision*

Equalisation reserves have been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

## Accounting Policies (contd)

### III Investments

#### (a) *Investment income*

Investment income represents interest, rents and dividends receivable for the year including, where appropriate, related imputed tax credits.

#### (b) *Realised and unrealised gains and losses*

All gains and losses arising on investments are taken to the profit and loss account.

#### (c) *Valuation*

Investments are stated at market values for listed securities, open market valuations as appraised by the Group's professionally qualified staff for properties; and Directors' valuations for other investments.

#### (d) *Group occupied properties*

As required by the Regulations, properties occupied by the Group are included as investments. It is the policy of the Group to maintain such properties in a continual state of sound repair. The directors therefore consider that depreciation is insignificant and is thus not provided for.

### IV Foreign exchange

Transactions denominated in foreign currencies are recorded at the rates ruling at the date of transaction. Assets and liabilities denominated in foreign currencies are translated at year end exchange rates. Exchange gains and losses are taken to Profit and Loss account.

### V Taxation

Provision is made for deferred taxation on unrealised gains and other timing differences where it is considered that a liability will arise in the foreseeable future.

### VI Fixed assets and depreciation

Major items of equipment are capitalised and depreciated over their expected useful lives. All other items of equipment are expensed in the year of purchase.

### VII Staff pension costs

The charge for pension costs represents the cost of providing pension benefits in respect of employees' service during the year.

## Notes on Financial Statements

### 1 General Insurance Business

#### 1(a) Segmental Information

##### Direct Insurance

	Motor Third Party £'000	Motor other £'000	Fire & other damage to property £'000	Accident & Health £'000	Total £'000
<b>1996</b>					
Gross premium written in UK	2,377	37,452	13,069	1,843	54,741
Gross premiums earned	1,032	26,032	14,090	1,843	42,997
Gross claims incurred	(247)	(24,372)	(7,816)	(1,150)	(33,585)
Gross operating expenses	(312)	(6,017)	(4,883)	(812)	(12,024)
Gross technical result	473	(4,357)	1,391	(119)	(2,612)
Reinsurance balance	294	(27)	(534)	(3)	(270)
Net technical result (before allocated investment return and claims equalisation reserve movement)	767	(4,384)	857	(122)	(2,882)
	Motor Third Party £'000	Motor other £'000	Fire & other damage to property £'000	Accident & Health £'000	Total £'000
<b>1995</b>					
Gross premium written in UK	149	21,048	16,675	1,858	39,730
Gross premiums earned	749	22,263	19,687	1,858	44,557
Gross claims incurred	822	(18,277)	(10,581)	(1,189)	(29,225)
Gross operating expenses	(79)	(6,142)	(6,789)	(857)	(13,867)
Gross technical result	1,492	(2,156)	2,317	(188)	1,465
Reinsurance balance	(136)	(199)	(577)	(3)	(915)
Net technical result (before allocated investment return)	1,356	(2,355)	1,740	(191)	550

The company operates in only one geographic location, namely the United Kingdom, therefore no separate geographic analysis has been prepared.

#### 1(b) Analysis of net operating expenses

	1996 £'000	1995 £'000
Acquisition costs	7,955	6,797
(Increase)/decrease in deferred acquisition costs	(1,544)	1,557
Administrative expenses	5,981	5,945
Reinsurance commissions and profit participation	(137)	(108)
	12,255	14,191

#### 1(c) Equalisation provision

Equalisation reserves are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These reserves, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £376,000. The movement in equalisation provision during the year has resulted in a decrease in the technical account result and the profit before tax of £376,000.

## Notes on Financial Statements (contd)

### 2 Corporate Investment

2(a) Investment income	1996 £'000	1995 £'000
Income from property	252	295
Income from other investments	6,750	6,629
Realised investment gains	679	252
	<u>7,681</u>	<u>7,176</u>
2(b) Investment expenses and charges	1996 £'000	1995 £'000
Investment management expenses	<u>(69)</u>	<u>(56)</u>

### 3 Taxation

The taxation charge in the profit and loss account is based on the results appearing in the profit and loss account and is detailed below:

	1996 £'000	1995 £'000
Current taxation:		
United Kingdom taxation	1,825	2,677
Corporation tax at rate of 33% (1995: 33%)	34	23
Tax relating to franked investment income	<u>1,859</u>	<u>2,700</u>
Deferred tax	<u>(551)</u>	<u>1,423</u>
Taxation charged in profit and loss account	<u>1,308</u>	<u>4,123</u>
Balance sheet (assets)/liabilities for deferred taxation represent:		
	1996 £'000	1995 £'000
Unrealised investment gains/(losses)	(44)	827
Losses and surplus ACT available for offset	<u>-</u>	<u>(320)</u>
	<u>(44)</u>	<u>507</u>

Deferred taxation on realised and unrealised gains and losses has been fully provided for in the profit and loss accounts.

## Notes on Financial Statements (contd)

### 4 Tangible assets

	Cost £'000	Depreciation £'000	Net Book Value £'000
At 1 January			
Purchases	1,796	1,173	623
Sales	284	-	284
Provision for depreciation	(129)	(71)	(58)
	-	329	(329)
At 31 December	<u>1,951</u>	<u>1,431</u>	<u>520</u>

Tangible assets consist principally of computer equipment and motor vehicles.

### 5 Other debtors

	1996 £'000	1995 £'000
Tax recoverable		
Deferred tax	-	761
Other debtors	44	-
	284	116
	<u>328</u>	<u>877</u>

### 6 Investments

Investments, which are all listed, are stated at market value. The cost price of investments held at 31 December 1996 was £83,617,000 (1995: £81,795,000).

### 7 Debts in respect of direct insurance operations

	1996 £'000	1995 £'000
Due from policyholders		
Due from intermediaries	4,947	3,255
	5,355	2,713
	<u>10,302</u>	<u>5,968</u>

### 8 Analysis of provisions for other risks and charges

	1996 £'000	1995 £'000
Deferred Taxation		
Other provisions	-	507
	167	953
	<u>167</u>	<u>1,460</u>

## Notes on Financial Statements (contd)

### 9 Other creditors

	1996 £'000	1995 £'000
Taxation	377	-
Other creditors	1,310	1,193
Amount due to parent company	39	71
Amount due to fellow subsidiary undertakings	2,576	1,896
	<u>4,302</u>	<u>3,160</u>

The above amounts are all payable within a period of five years.

### 10 Auditors' remuneration

The remuneration of the auditors amounted to £41,000 (1995: £41,000), all of which was incurred in providing statutory audit services.

### 11 Capital expenditure commitments

At 31 December 1996 no capital commitments existed (1995: nil).

### 12 Staff Pension Costs

Staff engaged in the Company's activities are employees of Guardian Insurance Limited and members of the Guardian Royal Exchange Pension Fund. Full disclosure of staff pension costs as required by SSAP24 in respect of contributions to the Guardian Royal Exchange Pension Fund is contained in the accounts of the ultimate parent company, Guardian Royal Exchange plc.

The pension fund charge for the year is £529,000 (1995: £531,000).

### 13 Share Capital

	1996 £'000	1995 £'000
Authorised: 30,000,000 (1995: 30,000,000) ordinary shares of £1 each	<u>30,000</u>	<u>30,000</u>
Issued: 14,000,000 (1995: 14,000,000) fully paid ordinary shares of £1 each	<u>14,000</u>	<u>14,000</u>



## Notes on Financial Statements (contd)

### 14 Retained Earnings

	1996 £'000	1995 £'000
Balance at 1 January	14,420	5,392
Transfer (from)/to profit and loss account	(9,085)	9,028
Balance at 31 December	<u>5,335</u>	<u>14,420</u>

### 15 Contingent Liabilities

With the approval of the Department of Trade and Industry, the company, its ultimate holding company, its parent company, and certain of its fellow subsidiaries, have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of short-term general business.

### 16 Directors' emoluments

The following information relates to the emoluments of Directors for their services to the company. All the Directors are employees of the Guardian Royal Exchange plc Group by whom they are paid and their directorships are held as part of that employment. With the exception of one, no Director has received any emoluments or other benefits directly from the company. For the purposes of disclosure, the emoluments shown below comprise the proportion of the Directors' total remuneration estimated to be attributable to their duties performed on behalf of the company. The aggregate remuneration of the Directors, including expenses allowances insofar as those sums are charged to United Kingdom income tax, amounted to £113,478 (1995:£96,242), including pension contributions of £12,826 (1995:£12,429).

Emoluments excluding pension contributions:

	1996	1995
Of the Chairman	£3,194	£2,763
Of the highest paid director	£87,987	£74,365
Of the remaining directors during their period of directorship:	Number	Number
£0 - £5,000	5	4
£5,001 - £10,000	1	-

### 17 Related parties

As the company is a wholly owned subsidiary, it has taken advantage of the exemption granted under Financial Reporting Standard 8 (Related Party Disclosures) where subsidiary undertakings do not have to disclose transactions with Group companies qualifying as related parties provided that consolidated financial statements are publicly available.

### 18 Ultimate parent

The Directors regard Guardian Royal Exchange plc, registered in England, as being the ultimate parent company. Copies of Guardian Royal Exchange plc Group accounts can be obtained from the Royal Exchange, London, EC3V 3LS. No intermediate parent company produces group accounts.