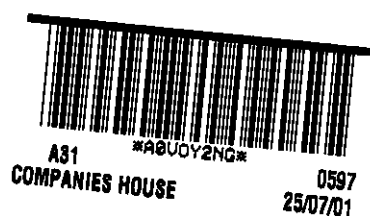




# Wellington (Three) Limited

Annual report and accounts

*2000*



## WELLINGTON (THREE) LIMITED

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## Directors and officers of the Company

<b>Directors</b>	<b>Appointed</b>	<b>Resigned</b>
J.R. Avery		
T.G.S. Busher		30.06.00
J.M. Cusack		
A. Fulkerson		
P. van der Mersch		27.06.00
P.R. Pearce	07.07.00	

<b>Secretary</b>		
T.G.S. Busher		30.06.00
P.R. Pearce	07.07.00	

**Auditors**  
KPMG Audit Plc

**Registered office**  
88 Leadenhall Street  
London  
EC3A 3BA

**Registered number**  
2973419

## Report of the Directors

The directors present their report together with the accounts for the year ended 31 December 2000.

### Activity and review of developments

The Company acts as a corporate member at Lloyd's and is a wholly owned subsidiary of Wellington Underwriting plc.

### Results and dividends

The profit for the year, after taxation, amounted to £227,867 (1999 £504,918).

The directors recommend a dividend of £482,000 (1999 £334,000).

### Directors

The present directors of the Company are named on page 2. All directors held office throughout the year except where otherwise noted.

Directors' interests in shares are covered in note 15 to the accounts.

### Auditors

A resolution is to be proposed at the annual general meeting for the re-appointment of KPMG Audit Plc as auditors of the Company.

By order of the Board



P.R. Pearce  
Secretary

9 April 2001

## Profit and loss account: technical account – general business

For the year ended 31 December	Notes	2000 £	1999 £
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written			
Continuing operations	2	9,545,213	9,204,229
Discontinued operations	2	(112,388)	31,293
		<u>9,432,825</u>	<u>9,235,522</u>
Outward reinsurance premiums		(2,963,364)	(3,207,056)
Net premiums written		<u>6,469,461</u>	<u>6,028,466</u>
<b>Investment income</b>	3	425,239	153,346
<b>Other technical income</b>		<u>397,949</u>	<u>54,535</u>
		<u>7,292,649</u>	<u>6,236,347</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(5,491,896)	(3,673,880)
Reinsurers' share		<u>2,916,934</u>	<u>2,004,591</u>
		<u>(2,574,962)</u>	<u>(1,669,289)</u>
Change in provision for claims			
Gross amount		750,682	(11,195,478)
Reinsurers' share		<u>(3,212,022)</u>	<u>8,190,973</u>
		<u>(2,461,340)</u>	<u>(3,004,505)</u>
		<u>2,256,347</u>	<u>1,562,553</u>
<b>Operating expenses</b>	4	(1,971,106)	(1,241,185)
<b>Investment expenses and charges</b>		<u>(17,430)</u>	<u>(5,671)</u>
<b>Balance on technical account - general business</b>			
Continuing operations	2	233,140	412,169
Discontinued operations	2	<u>34,671</u>	<u>(96,472)</u>
		<u>267,811</u>	<u>315,697</u>

The notes on pages 7 to 14 form part of these accounts.

The discontinued activities reported above relate to the Company's participation in the UK motor business formerly underwritten by Syndicate 439 and the 1998 year of account of Syndicate 51.

## Profit and loss account: non technical account

For the year ended 31 December	Notes	2000 £	1999 £
<b>Balance on technical account - general business</b>			
Continuing operations		233,140	412,169
Discontinued operations		34,671	(96,472)
		<u>267,811</u>	<u>315,697</u>
<b>Investment income</b>	3	208,606	166,079
Realised loss on investments		(110,721)	-
Unrealised gains on investments		14,177	370,019
Unrealised losses on investments		(31,101)	(116,010)
Other charges	5	7,356	(17,550)
<b>Profit on ordinary activities before taxation</b>		<u>321,457</u>	<u>814,707</u>
Continuing operations		321,457	814,707
Discontinued operations		34,671	(96,472)
		<u>356,128</u>	<u>718,235</u>
Tax on profit on ordinary activities	6	(128,261)	(213,317)
<b>Profit on ordinary activities after taxation</b>		<u>227,867</u>	<u>504,918</u>
<b>Dividends</b>	7	(482,000)	(334,000)
Retained (deficit)/profit for the period		<u>(254,133)</u>	<u>170,918</u>

No statement of total recognised gains and losses has been presented as all recognised gains and losses are accounted for by the above profit and loss account.

There is no difference between the profit on ordinary activities before tax and the retained deficit for the year and their historical cost equivalents.

The notes on pages 7 to 14 form part of these accounts.

## Balance sheet

At 31 December 00

Notes

2000  
£

1999  
£

### ASSETS

#### Investments

Other financial investments

8 10,663,503 8,937,256

#### Reinsurers' share of technical provisions

Claims outstanding

6,534,688 9,778,023

#### Debtors

Debtors arising out of direct insurance operations

2,290,420 1,155,454

Debtors arising out of reinsurance operations

3,761,335 5,165,664

Other debtors

9 704,558 412,744

6,756,313 6,733,862

#### Other assets

Cash at bank and in hand

306,547 366,912

#### Prepayments and accrued income

90,204 6,221

#### Total assets

24,351,255 25,822,274

### LIABILITIES

#### Capital and reserves

Called-up share capital

10 320,000 320,000

Share premium account

11 2,880,000 2,880,000

Profit and loss account

11 126 254,259

#### Shareholders' funds attributable to equity interests

12 3,200,126 3,454,259

#### Technical provisions

Claims outstanding

17,160,636 18,078,088

#### Creditors

Creditors arising out of direct insurance operations

613,163 306,974

Creditors arising out of reinsurance operations

920,866 726,883

Other creditors including taxation and social security

14 2,430,846 3,242,204

3,964,875 4,276,061

Accruals and deferred income

25,618 13,866

#### Total liabilities

24,351,255 25,822,274

The financial statements were approved by the directors on 9 April 2001.

J.M. CUSACK

Director

J.R. AVERY

Director

The notes on pages 7 to 14 form part of these accounts.

## Notes to the accounts

### 1. Accounting policies

Accounting policies which are considered material to the Company's business are set out below:

#### (a) Basis of accounting and consolidation

The accounts have been prepared in accordance with applicable accounting standards under the historical cost convention, as modified by the revaluation of investments, in compliance with Sections 255 and 255A, Schedule 9A, other requirements of the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies) Regulations 1993. The Company has adopted all material recommendations of the guidance on accounting for insurance business set out in the revised Statement of Recommended Practice issued by the Association of British Insurers in December 1998.

The Company underwrites as a corporate member of Lloyd's on syndicates managed by Wellington Underwriting Agencies Limited. The attributable share of transactions of the syndicates has been included in the accounts. The transactions are undertaken within premium trust funds applicable to the syndicates and profits arising from underwriting may only be released in accordance with Lloyd's syndicate accounting rules, usually two years after the end of an underwriting year of account, after satisfying Lloyd's solvency requirements for all years of account open at the time of the release.

The Company has taken advantage of the exemption under FRS 1 (Revised) allowing 90% subsidiaries not to prepare a cash flow statement.

#### (b) Premiums

Gross premiums written represent premiums on business incepting during the year together with adjustments to premiums written in previous accounting periods and estimates for 'pipeline' premiums. Gross premiums written are stated before deduction of commissions but exclusive of taxes, duties levied on premiums and other deductions.

Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance or inwards reinsurance business except in relation to excess of loss contracts, where the initial premium is charged when paid.

#### (c) Investments

Other financial investments are stated at their current value at the balance sheet date. Listed investments are stated at mid-market value at the close of business on the balance sheet date or the last Stock Exchange dealing day before the balance sheet date. The cost of investments is deemed to be the aggregate of the value at the previous balance sheet date and the cost of investments purchased during the calendar year.

#### (d) Investment income, expenses and charges

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised on the date on which the stock goes ex-dividend. Investment income is accrued up to the balance sheet date.

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year. Investment income and all investment gains and losses relating to syndicate investments and cash are dealt with through the technical account. Other investment income and other realised and unrealised gains and losses are dealt with through the non-technical account.

#### (e) Technical provisions

The underwriting accounts for all classes of business have been prepared on a three year basis. In accordance with Lloyd's normal practice, the excess of premiums written and syndicate investment income over the claims and syndicate expenses paid in respect of business incepting in an underwriting year is carried forward for two years in a fund and no profit is recognised until the end of the third year following the start of each underwriting year. The fund is included as part of outstanding claims. At the end of the third year and thereafter, provision is made for the estimated cost of claims notified but not settled at the balance sheet date together with the estimated costs of claims incurred but not reported at that date and claims handling costs.

## Notes to the accounts

### 1. Accounting policies - continued

#### (e) Technical provisions - continued

Where appropriate a provision for losses is made in respect of the open underwriting years of each syndicate. While the directors make every effort to ensure that adequate provision is made for losses on open years of account, their view of the ultimate loss may vary in later periods as a result of subsequent information and events. This in turn may require adjustment of the original provisions. Such adjustments are reflected and disclosed in the financial statements for the period in which the related adjustments are made.

#### (f) Exchange rates

Syndicate assets, liabilities, income and expenditure expressed in U.S. dollars and Canadian dollars are translated at rates of exchange ruling at the balance sheet date. Underwriting transactions in other foreign currencies are included in the accounts at historical rates. All differences on the translation of foreign currency amounts in the syndicates are dealt with in the technical account; other differences are dealt with in the non-technical account.

#### (g) Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which the anticipated timing difference will reverse. Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

### 2. (a) Segmental analysis

The following business has all been underwritten in the United Kingdom in the Lloyd's insurance market, which has been treated as one geographical segment for the purposes of Statement of Standard Accounting Practice No. 25: Segmental reporting.

Segmental information in the format required by the Companies Act 1985 is as follows:

	<i>Gross premiums £</i>	<i>Gross claims incurred £</i>	<i>Gross operating expenses £</i>	<i>Reinsurance balance £</i>
2000				
Marine, aviation and transport	1,140,866	(983,270)	(211,870)	(220,599)
Fire and other damage to property	1,993,037	(2,544,580)	(359,349)	(76,755)
Third party liability	1,532,509	(1,116,334)	(281,404)	(334,969)
Reinsurance acceptances	4,400,381	910,081	(660,219)	(3,174,466)
Motor (third party)	(1,608)	(187,286)	2,294	165,566
Motor (other classes)	46,610	(569,089)	(3,847)	433,328
Other	321,030	(250,736)	(58,762)	(50,557)
Total	<u>9,432,825</u>	<u>(4,741,214)</u>	<u>(1,573,157)</u>	<u>(3,258,452)</u>
	<i>Gross premiums £</i>	<i>Gross claims incurred £</i>	<i>Gross operating expenses £</i>	<i>Reinsurance balance £</i>
1999				
Marine, aviation and transport	474,638	(1,066,250)	(93,521)	616,704
Fire and other damage to property	1,168,872	(2,180,653)	(212,650)	1,275,206
Third party liability	558,591	(1,215,672)	(104,947)	703,358
Reinsurance acceptances	6,748,365	(8,999,487)	(678,069)	3,242,249
Motor (third party)	9,346	(149,984)	174	295,353
Motor (other classes)	56,151	(947,236)	(41,690)	681,447
Other	219,559	(310,076)	(55,947)	174,191
Total	<u>9,235,522</u>	<u>(14,869,358)</u>	<u>(1,186,650)</u>	<u>6,988,508</u>

## Notes to the accounts

### 2. (b) Segmental analysis

An analysis of the consolidated profit and loss: technical account – general business between continuing and discontinued operations is as follows:

2000	Continuing £	Discontinued £	Total £
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	9,545,213	(112,388)	9,432,825
Outward reinsurance premiums	(2,984,059)	20,695	(2,963,364)
	<u>6,561,154</u>	<u>(91,693)</u>	<u>6,469,461</u>
<b>Investment income</b>	425,239	-	425,239
<b>Other technical income</b>	397,949	-	397,949
	<u>7,384,342</u>	<u>(91,693)</u>	<u>7,292,649</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount	(5,216,729)	(275,167)	(5,491,896)
Reinsurers' share	2,742,683	174,251	2,916,934
	<u>(2,474,046)</u>	<u>(100,916)</u>	<u>(2,574,962)</u>
Change in provision for claims			
Gross amount	522,643	228,039	750,682
Reinsurers' share	(3,212,022)	-	(3,212,022)
	<u>(2,689,379)</u>	<u>228,039</u>	<u>(2,461,340)</u>
	<u>2,220,917</u>	<u>35,430</u>	<u>2,256,347</u>
<b>Operating expenses</b>	(1,970,347)	(759)	(1,971,106)
<b>Investment expenses and charges</b>	(17,430)	-	(17,430)
<b>Balance on technical account</b>	<u>233,140</u>	<u>34,671</u>	<u>267,811</u>

## Notes to the accounts

### 3. Investment income

	2000 £	1999 £
Income from listed investments	475,681	342,720
Bank and deposit interest	83,009	14,905
Gain/(loss) on realisation of investments	75,155	(38,200)
	<u>633,845</u>	<u>319,425</u>
Attributed to technical account	425,239	153,346
Attributed to non technical account	208,606	166,079
	<u>633,845</u>	<u>319,425</u>

### 4. Operating expenses

	2000 £	1999 £
Brokerage and other business acquisition costs	1,400,484	851,482
Administration expenses	570,622	389,703
	<u>1,971,106</u>	<u>1,241,185</u>

### 5. Other charges

	2000 £	1999 £
Other charges include:		
Auditors' remuneration - audit work	3,810	3,703
- non audit work	2,845	1,866
Exchange gains	<u>(22,919)</u>	<u>-</u>

The Company had no employees during 2000 and 1999.

No directors emoluments were charged to the Company for this period.

### 6. Tax on profit on ordinary activities

	2000 £	1999 £
U.K. corporation tax at 30% (1999 30.25%)	(89,828)	103,231
Less relief for overseas tax	<u>(47,272)</u>	<u>(79,734)</u>
	<u>(137,100)</u>	<u>23,497</u>
Over provision in previous year	(528)	(1,984)
Deferred taxation:		
- charge for the year	183,641	101,439
Overseas tax suffered	82,248	90,365
	<u>128,261</u>	<u>213,317</u>

## Notes to the accounts

### 7. Dividends

	2000 £	1999 £
Dividend of 15.06 pence (1999 10.44 pence) per ordinary share	<b>482,000</b>	<b>334,000</b>

### 8. Other financial investments

	2000		1999	
	Market value £	Cost £	Market value £	Cost £
Shares and other variable yield securities	<b>1,525,848</b>	<b>1,556,933</b>	3,256,728	2,889,569
Debt securities and other fixed income securities	<b>5,020,464</b>	<b>4,942,747</b>	4,484,328	4,626,577
Participation in investment pools	<b>1,358,582</b>	<b>1,348,816</b>	858,070	871,819
Deposits with credit institutions	<b>2,758,609</b>	<b>2,758,609</b>	338,130	338,130
Total	<b>10,663,503</b>	<b>10,607,105</b>	<b>8,937,256</b>	<b>8,726,095</b>

The above investments include £4,716,037 (1999 £4,882,676) in respect of the Company's funds at Lloyd's which are required to support underwriting. All corporate investments are subject to fixed and floating charges.

Deposits with credit institutions include £833,561 (1999 £212,245) which has been deposited with third parties in connection with certain syndicates' overseas liabilities.

### 9. Other debtors

	2000 £	1999 £
Amounts recoverable in respect of income taxation	<b>14,655</b>	13,612
Amounts recoverable in respect of US Federal income tax	<b>65,011</b>	62,959
Corporation tax	<b>53,414</b>	-
Deferred taxation (note 13)	-	160,527
Other	<b>571,478</b>	175,646
	<b>704,558</b>	<b>412,744</b>

### 10. Called up share capital

	Authorised 1999 and 2000 £	Allotted, called up and fully paid 1999 and 2000 £
Ordinary shares of 10p each		
1 January and 31 December	<b>1,500,000</b>	<b>320,000</b>

## Notes to the accounts

### 11. Reserves

	<i>Profit and loss account</i> £	<i>Share premium account</i> £
Balance at 1 January 2000	254,259	2,880,000
Retained deficit for the year	(254,133)	-
Balance at 31 December 2000	<u>126</u>	<u>2,880,000</u>

### 12. Reconciliation of movements in shareholders' funds

	2000 £	1999 £
Profit for the period	227,867	504,918
Dividends	(482,000)	(334,000)
Net (deduction from)/addition to shareholders' funds	(254,133)	170,918
Opening shareholders' funds	3,454,259	3,283,341
Closing shareholders' funds	<u>3,200,126</u>	<u>3,454,259</u>

### 13. Deferred taxation

	2000 £	1999 £
Deferred tax liabilities/(assets) relating to:		
Underwriting loss provision	-	(46,470)
Underwriting results	32,444	(231,980)
Other timing differences	(9,330)	117,923
	<u>23,114</u>	<u>(160,527)</u>
Balance at 1 January	(160,527)	(261,966)
Amounts charged to profit and loss account	183,641	101,439
Balance at 31 December	<u>23,114</u>	<u>(160,527)</u>

### 14. Other creditors including taxation and social security

	2000 £	1999 £
Due to parent company	1,309,922	315,719
Proposed dividend	482,000	334,000
UK Corporation tax	-	83,825
Deferred tax (note 13)	23,114	-
Other creditors	615,810	2,508,660
	<u>2,430,846</u>	<u>3,242,204</u>

## Notes to the accounts

### 15. Directors' disclosure

#### Interest in shares

The register kept for the purposes of the Companies Act 1985 discloses that no Director of the Company had any interest in the Company's shares, or in the shares of any Group Company except for the Holding Company, Wellington Underwriting plc.

#### (a) Directors emoluments

No directors emoluments were charged to the Company for this period.

#### (b) Interest in shares and loan notes

The register kept for the purposes of the Companies Act 1985 discloses that no Director of the Company had any interest in the Company's shares, or in the shares or loan notes of any Group Company except for the ultimate holding company, Wellington Underwriting plc.

In so far as the directors are also directors of the ultimate holding company, Wellington Underwriting plc, their interests in the shares and loan notes of Group undertakings are fully disclosed in the accounts of that Company.

#### (i) Beneficial and non-beneficial holdings

	Loan Notes		Shares	
	At 31 December 2000 Wellington Underwriting plc Number	At 1 January 2000 or subsequent date of appointment Wellington Underwriting plc Number	At 31 December 2000 Wellington Underwriting plc Number	At 1 January 2000 or subsequent date of appointment Wellington Underwriting plc Number
<b>Beneficial</b>				
P.R. Pearce	173	173	29,011	27,673
<b>Non-Beneficial</b>				
P.R. Pearce	173	173	10,170	10,170

#### (ii) Share options

Certain directors hold options in the shares of Wellington Underwriting plc.

In so far as the directors are also directors of the ultimate holding company, Wellington Underwriting plc, their interests in shares over which options have been granted of group undertakings are fully disclosed in the accounts of that company.

No options lapsed during the year. The mid market price of Wellington Underwriting plc shares at 31 December 2000 was 132.5 pence and the range during 2000 was 65.5 pence to 148.0 pence.

	Number of shares under option at 1 January 2000 or subsequent date of appointment	Number of shares over which options granted during the year	Number of shares under options at 31 December 2000	Exercise price £	Period during which options are exercisable
P.R. Pearce	10,436	-	10,436	1.3463	1999-2006
	5,000	-	5,000	1.9050	2001-2008
	4,000	-	4,000	1.3400	2002-2009
	7,912	-	*7,912	0.8720	2002
	-	1,338	#1,338	-	2005-2010
	-	25,000	25,000	0.9983	2003-2010
	27,348	26,338	53,686		

\* Options granted under the SAYE scheme.

# Options granted where the employee has elected to receive an equal number of shares in lieu of a cash bonus.

## Notes to the accounts

### 16. Holding company

The Company is a wholly owned subsidiary of Wellington Underwriting plc, a company registered in England and Wales. The results of the Company are consolidated in the Group accounts of Wellington Underwriting plc, copies of which are available from the registered office.

## Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- (a) select suitable accounting policies and then 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 disclosed and explained 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud or other irregularities.

## Report of the Auditors to the members of Wellington (Three) Limited

We have audited the financial statements on pages 4 to 14.

### Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the directors' report and, as described above, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit 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 give a true and fair view of the state of the Company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London



9 April 2001

Wellington (Three) Limited  
Annual report and accounts 2000