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Wellington  
(Two) Limited

Annual report and accounts

*1999*



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# WELLINGTON (TWO) LIMITED

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## **Directors and officers of the Company**

### **Directors**

J.R. Avery  
T.G.S. Busher  
J.M. Cusack  
A. Fulkerson  
P. van der Mersch

### **Secretary**

T.G.S. Busher

### **Auditors**

KPMG Audit Plc

### **Registered office**

88 Leadenhall Street  
London  
EC3A 3BA

### **Registered number**

2973426

## Report of the Directors

The Directors present their report together with the accounts for the year ended 31 December 1999.

### 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 £504,307 (1998 £413,940).

The Directors recommend a final dividend of £334,000 (1998 £486,000).

### Year 2000 readiness disclosure

Many computer and digital storage systems express dates using only the last two digits of the year and thus required modification or replacement to accommodate the Year 2000 and beyond. The operation of the Group's business depends not only on its own computer systems, but also to some degree on those of its suppliers and customers. Accordingly, the Group may be exposed to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A Group-wide programme, designed to address the impact of the Year 2000 on its business was implemented with the approval of the Board.

An impact analysis was performed to assess the effect of the Year 2000 on critical business processes and underlying business activities. From this, a strategy was determined to address the key risks in advance of critical dates which broadly complied with the timetable prepared for the Lloyd's market.

Lloyd's regulations required market entities to participate in the Lloyd's Year 2000 Certification Scheme. This aimed to provide evidence that a firm was taking reasonable steps to ensure Year 2000 compliance against a common set of criteria. These criteria embraced what were considered to be the essential elements that a Lloyd's regulated firm needed to demonstrate to give confidence regarding their preparedness for Year 2000 to their trading partners in the Market.

The Scheme consisted of four phases:

- Planning and Control
- Internal Testing
- Market Testing
- Contingency Plans

The Group achieved certification for all phases in accordance with the agreed timetable.

The risk analysis also considered the impact on our business of Year 2000 related failures by significant suppliers and customers. The plan therefore included the establishment of a process for the assessment and monitoring of the state of compliance of third party service providers and trading parties.

A further impact identified from the risk analysis was the effect that the Year 2000 issue could have on the underwriting activities of the Group. Measures were taken to assess those areas of business written for which there may be Year 2000 related exposure.

For US law purposes, this disclosure is a Year 2000 Readiness Disclosure within the meaning of the US Year 2000 Information and Readiness Disclosure Act of 1998 to the extent that the disclosure relates to Year 2000 products and services offered by Wellington.

## Report of the Directors

### Directors

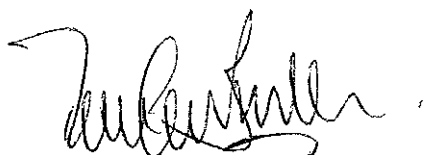
The present Directors of the Company are named on page 2. All Directors held office throughout the year except where otherwise noted.

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

A handwritten signature in black ink, appearing to read 'T.G.S. Busher', with a stylized flourish at the end.

T.G.S. Busher  
Secretary

10 April 2000

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

For the year ended 31 December	Notes	1999 £	1998 £
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written			
Continuing operations	2	8,858,989	4,260,240
Discontinued operations	2	28,424	912,455
		<u>8,887,413</u>	<u>5,172,695</u>
Outward reinsurance premiums		(3,197,346)	(4,392,854)
Net premiums written		<u>5,690,067</u>	<u>779,841</u>
Investment income	3	151,879	422,174
Other technical income		51,255	-
		<u>5,893,201</u>	<u>1,202,015</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(3,506,425)	(4,128,358)
Reinsurers' share		1,877,599	886,383
		<u>(1,628,826)</u>	<u>(3,241,975)</u>
Change in provision for claims			
Gross amount		(10,167,037)	3,716,054
Reinsurers' share		7,469,718	131,109
		<u>(2,697,319)</u>	<u>3,847,163</u>
		<u>1,567,056</u>	<u>1,807,203</u>
Operating expenses	4	(1,241,833)	(1,544,322)
Investment expenses and charges		(5,521)	(5,032)
Other technical charges		-	(8,062)
<b>Balance on technical account - general business</b>			
Continuing operations	2	412,176	673,785
Discontinued operations	2	(92,474)	(423,998)
		<u>319,702</u>	<u>249,787</u>

The notes on pages 8 to 13 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	1999 £	1998 £
<b>Balance on technical account - general business</b>			
Continuing operations		412,176	673,785
Discontinued operations		(92,474)	(423,998)
		<u>319,702</u>	<u>249,787</u>
<b>Investment income</b>	3	168,187	300,588
Unrealised gains on investments		369,965	85,004
Unrealised losses on investments		(116,009)	(1,946)
Other charges	5	(22,097)	(10,696)
		<u>719,748</u>	<u>622,737</u>
<b>Profit on ordinary activities before taxation</b>		812,222	1,046,735
Continuing operations		(92,474)	(423,998)
Discontinued operations		<u>719,748</u>	<u>622,737</u>
Tax on profit on ordinary activities	6	(215,441)	(208,797)
		<u>504,307</u>	<u>413,940</u>
<b>Profit on ordinary activities after taxation</b>		504,307	413,940
<b>Dividends</b>	7	(334,000)	(486,000)
<b>Retained profit/(deficit) for the period</b>		<u>170,307</u>	<u>(72,060)</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 profit for the year and their historical cost equivalents.

The notes on pages 8 to 13 form part of these accounts.

## Balance sheet

At 31 December	Notes	1999 £	1998 £
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	8	8,794,877	9,702,076
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding		9,003,455	1,956,350
<b>Debtors</b>			
Debtors arising out of direct insurance operations		1,122,523	840,135
Debtors arising out of reinsurance operations		4,782,118	1,245,379
Other debtors	9	446,081	1,065,495
		<u>6,350,722</u>	<u>3,151,009</u>
<b>Other assets</b>			
Cash at bank and in hand		350,653	117,817
Prepayments and accrued income		4,848	74,910
<b>Total assets</b>		<u>24,504,555</u>	<u>15,002,162</u>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	10	320,000	320,000
Share premium account	11	2,880,000	2,880,000
Profit and loss account	11	254,189	83,882
<b>Shareholders' funds attributable to equity interests</b>	12	<u>3,454,189</u>	<u>3,283,882</u>
<b>Technical provisions</b>			
Claims outstanding		16,856,496	8,102,655
<b>Creditors</b>			
Creditors arising out of direct insurance operations		298,793	233,805
Creditors arising out of reinsurance operations		721,476	1,212,082
Other creditors including taxation and social security	14	3,159,882	2,139,539
		<u>4,180,151</u>	<u>3,585,426</u>
<b>Accruals and deferred income</b>		13,719	30,199
<b>Total liabilities</b>		<u>24,504,555</u>	<u>15,002,162</u>

The financial statements were approved by the Directors on 10 April 2000.

J.M. CUSACK Director

J.R. AVERY Director

The notes on pages 8 to 13 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 notified 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 investment is deemed to be the aggregate 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. Advanced corporation tax which is expected to be recoverable in the future is deducted from net deferred tax liabilities. 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:

1999	Gross premiums £	Gross claims incurred £	Gross operating expenses £	Reinsurance balance £
Marine, aviation and transport	475,190	(1,015,883)	(93,564)	566,002
Fire and other damage to property	1,161,350	(2,053,678)	(211,687)	1,154,798
Third party liability	556,518	(1,141,172)	(104,632)	630,712
Reinsurance acceptances	6,413,413	(8,079,176)	(685,482)	2,673,820
Motor (third party)	8,831	(148,879)	767	292,745
Motor (other classes)	53,122	(940,420)	(40,135)	673,043
Other	218,989	(294,254)	(55,845)	158,851
Total	<u>8,887,413</u>	<u>(13,673,462)</u>	<u>(1,190,578)</u>	<u>6,149,971</u>
1998	Gross premiums £	Gross claims incurred £	Gross operating expenses £	Reinsurance balance £
Marine, aviation and transport	259,179	(247,451)	(77,690)	101,490
Fire and other damage to property	613,416	(461,277)	(174,348)	71,372
Third party liability	381,425	(484,920)	(102,171)	149,865
Reinsurance acceptances	2,885,241	1,276,568	(884,282)	(2,875,038)
Motor (third party)	308,845	(10,278)	(89,252)	(256,237)
Motor (other classes)	615,505	(443,269)	(189,763)	(566,957)
Other	109,084	(41,677)	(34,878)	143
Total	<u>5,172,695</u>	<u>(412,304)</u>	<u>(1,552,384)</u>	<u>(3,375,362)</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:

	<i>Continuing £</i>	<i>Discontinued £</i>	<i>Total £</i>
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	8,858,989	28,424	8,887,413
Outward reinsurance premiums	(2,613,912)	(583,434)	(3,197,346)
	<u>6,245,077</u>	<u>(555,010)</u>	<u>5,690,067</u>
<b>Investment income</b>	78,613	73,266	151,879
<b>Other technical income</b>	51,255	-	51,255
	<u>6,374,945</u>	<u>(481,744)</u>	<u>5,893,201</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount	(2,592,143)	(914,282)	(3,506,425)
Reinsurers' share	1,497,875	379,724	1,877,599
	<u>(1,094,268)</u>	<u>(534,558)</u>	<u>(1,628,826)</u>
Change in provision for claims			
Gross amount	(11,145,982)	978,945	(10,167,037)
Reinsurers' share	7,472,644	(2,926)	7,469,718
	<u>(3,673,338)</u>	<u>976,019</u>	<u>(2,697,319)</u>
	<u>1,607,339</u>	<u>(40,283)</u>	<u>1,567,056</u>
<b>Operating expenses</b>	(1,190,595)	(51,238)	(1,241,833)
<b>Investment expenses and charges</b>	(4,568)	(953)	(5,521)
<b>Balance on technical account</b>	<u>412,176</u>	<u>(92,474)</u>	<u>319,702</u>

### 3. Investment income

	<i>1999 £</i>	<i>1998 £</i>
Income from listed investments	340,290	545,975
Bank and deposit interest	17,018	133,198
(Loss)/gains on realisation of investments	(37,242)	43,589
	<u>320,066</u>	<u>722,762</u>
Attributed to technical account	151,879	422,174
Attributed to non technical account	168,187	300,588
	<u>320,066</u>	<u>722,762</u>

### 4. Operating expenses

	<i>1999 £</i>	<i>1998 £</i>
Brokerage and other business acquisition costs	855,869	1,020,081
Administration expenses	385,964	524,241
	<u>1,241,833</u>	<u>1,544,322</u>

## Notes to the accounts

### 5. Other charges

	1999 £	1998 £
Other charges include:		
Auditors' remuneration - audit work	3,703	4,837
- non audit work	1,866	1,052

The Company had no employees during 1999 and 1998.

No Directors emoluments were charged to the Company in the year.

### 6. Tax on profit on ordinary activities

	1999 £	1998 £
U.K. corporation tax at 30.25% (1998 31%)	102,496	404,663
Less relief for overseas tax	(47,371)	(74,020)
	55,125	330,643
(Over)/under provision in previous year	(638)	3,071
Deferred taxation:		
Charge/(credit) for the year	107,150	(206,100)
Overseas tax suffered	53,804	81,183
	215,441	208,797

### 7. Dividends

	1999 £	1998 £
Final dividend of 10.44 pence (1998 15.19 pence) per ordinary share	334,000	486,000

### 8. Other financial investments

	1999		1998	
	Market value £	Cost £	Market value £	Cost £
Shares and other variable yield securities	1,978,702	2,101,553	2,278,255	2,228,265
Debt securities and other fixed income securities	5,721,667	5,373,421	5,245,043	5,124,408
Participation in investment pools	825,366	838,604	1,068,975	1,064,692
Loans secured by mortgage	-	-	625	607
Deposits with credit institutions	269,142	269,142	1,109,178	1,109,178
Total	8,794,877	8,582,720	9,702,076	9,527,150

The above investments include £4,823,600 (1998 £4,579,593) 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 £204,466 (1998 £391,864) which has been deposited with third parties in connection with certain syndicates' overseas liabilities.

## Notes to the accounts

### 9. Other debtors

	1999 £	1998 £
Due from parent company	-	200,340
Amounts recoverable in respect of income taxation	13,611	32,110
Amounts recoverable in respect of US Federal income tax	74,240	74,020
Deferred taxation (note 13)	156,372	263,522
Other	201,858	495,503
	<u>446,081</u>	<u>1,065,495</u>

### 10. Called up share capital

	Authorised 1998 and 1999 £	Allotted, called up and fully paid 1998 and 1999 £
Ordinary shares of 10p each 1 January and 31 December	<u>1,500,000</u>	<u>320,000</u>

### 11. Reserves

	Profit and loss account £	Share premium account £
Balance at 1 January 1999	83,882	2,880,000
Retained profit for year	170,307	-
Balance at 31 December 1999	<u>254,189</u>	<u>2,880,000</u>

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

	1999 £	1998 £
Profit for the period	504,307	413,940
Dividends	(334,000)	(486,000)
Net addition to/(deduction from) shareholders' funds	170,307	(72,060)
Opening shareholders' funds	3,283,882	3,355,942
Closing shareholders' funds	<u>3,454,189</u>	<u>3,283,882</u>

### 13. Deferred taxation

	1999 £	1998 £
Deferred tax (assets)/liabilities relating to:		
Underwriting loss provisions	(42,299)	(339,870)
Underwriting profits	(231,981)	62,802
Other timing differences	117,908	13,546
	<u>(156,372)</u>	<u>(263,522)</u>
Balance at 1 January	(263,522)	(57,422)
Amounts charged/(credited) to profit and loss account	107,150	(206,100)
Balance at 31 December	<u>(156,372)</u>	<u>(263,522)</u>

## Notes to the accounts

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

	1999 £	1998 £
Due to parent company	244,908	-
Proposed dividend	334,000	486,000
UK Corporation tax	115,307	404,663
Other creditors	2,465,667	1,248,876
	<u>3,159,882</u>	<u>2,139,539</u>

### 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.

The interests in the shares of Group undertakings of the Directors, who held office at the year end, all of whom are Directors of Wellington Underwriting plc are shown in the Report and Accounts of that Company.

### 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 (Two) Limited

We have audited the financial statements on pages 5 to 13.

### 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.

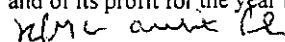
### Basis of audit opinion

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 1999 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

10 April 2000

**Wellington (Two) Limited**  
**Detailed profit and loss account**

For the year ended 31 December

	1999 £	1998 £
<b>Technical account balance</b>	<b>319,702</b>	<b>249,787</b>
<b>Non technical account:</b>		
<b>Income</b>		
Investment income	151,169	167,390
Bank interest receivable	17,018	133,198
Unrealised loss on investments	(116,009)	(1,946)
Unrealised gain on investments	369,965	85,004
	<u>422,143</u>	<u>383,646</u>
<b>Expenses</b>		
Accountancy, legal and professional	2,279	1,078
Audit fees	3,703	4,837
Sundries	16,115	4,781
	<u>22,097</u>	<u>10,696</u>
<b>Profit before taxation</b>	<b>719,748</b>	<b>622,737</b>