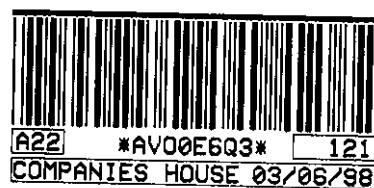


# Grenville Underwriting PLC

Financial statements 31 December 1997  
together with directors' and auditors' reports

Registered number: 3257721



# Directors' Report

For the period ended 31<sup>st</sup> December, 1997

The directors submit their report together with the audited financial statements of the Company for the period ended 31 December 1997. The Company was incorporated on 26<sup>th</sup> September 1996 and has therefore prepared accounts for the 15 month and 4 day period to 31<sup>st</sup> December 1997.

## Principal activity and status

Grenville Underwriting PLC was formed to take advantage of rules whereby investors could participate in underwriting at Lloyd's on a limited liability basis. The company was elected as a Corporate Member at Lloyd's on 4<sup>th</sup> October 1996.

The offer to participate as shareholders and Loan stock holders was made to Lloyd's Names underwriting through Castle Members Agents Limited in 1996. The business of Castle Members Agents Limited was transferred to Greenwich Lloyd's Underwriting Limited.

The principle activity of the Company is that of a corporate member of Lloyd's. Its first underwriting year is the 1997 account. Under Lloyd's three year accounting regime the results of the 1997 account will not be reported until 2000.

Following the period end on 1<sup>st</sup> January 1998 Grenville Holdings Limited acquired 100% of the share capital of Grenville Underwriting PLC. On 1<sup>st</sup> January 1998 the ultimate holding company became Greenwich Insurance Holdings PLC.

## Results and dividends

The loss for the period, amounts to £223,305. The directors do not recommend the payment of a dividend. The retained loss of £223,305 is to be taken to reserves.

## Presentation of the accounts

The accounts have been prepared in accordance with the provisions of Section 255 and Schedule 9A of the Companies Act 1985.

## Future developments

The Company proposes to continue its current activities.

## Directors

The directors who served during the period and their interests in the Company were as follows:

		Number of 50p ordinary shares
R.S.T Gunter	(appointed 21 <sup>st</sup> January 1998)	-
A.V. Hilton	(appointed 30 <sup>th</sup> September 1996)	2
J.R. Maudslay	(appointed 21 <sup>st</sup> January 1998)	-
G.P. Nash	(appointed 21 <sup>st</sup> January 1998)	-
R.G.G. Thynne	(appointed 30 <sup>th</sup> September 1996)	10,002

# Directors' Report (continued)

For the period ended 31<sup>st</sup> December, 1997

## Underwriting Review

The syndicates supported by the Company are set out below. This is very closely aligned with the Greenwich MAPA and represents a spread across all classes of business. The aim of the directors is to achieve a return close to the market average, whilst minimising the impact of single syndicate losses. The spread achieved would also reduce the impact of single market losses.

### 1997 Underwriting

syn	Underwriter	Line	% of total	synd	Underwriter	Line	% of total
Marine				Non Marine			
2	Upton	40,432	0.43	51	Taylor	175188	1.85
457	Watkins	103,003	1.09	55	Lloyd-Roberts	105103	1.11
488	Charman	238,598	2.52	122	Hunter	69383	0.73
535	Davies	102,827	1.09	205	Jago	99832	1.05
536	Berry	38,435	0.41	219	Finn	181197	1.91
566	Hamblin	311,436	3.29	227	Gravett	39932	0.42
588	Metcalfe	248,581	2.63	318	Pritchard	39932	0.42
590	Wootton	104,535	1.10	376	Montgomerie	103002	1.09
672	Agnew	314,468	3.32	386	Wallace	182563	1.93
735	Shone	94,839	1.00	435	Mann	124789	1.32
741	Wright	250,020	2.64	463	Davies	152243	1.61
861	Brockbank	398,210	4.21	490	Brotherton	302000	3.19
1036	Copping	145,595	1.54	544	Pitt	249579	2.64
1084	Hayward	127,785	1.35	623	Beazley	90847	0.96
1093	Howell	46,640	0.49	702	Brown	109531	1.16
1183	Atkin	37,836	0.40	780	Caudle	44603	0.47
1215	Hurst-Bannister	125,147	1.32	839	Marshall	454581	4.80
1221	Thomas	109,815	1.16	923	Simmonds	67386	0.71
				947	Simmonds	189680	2.00
				990	Cox	107319	1.13
Motor				991	Grant	137206	1.45
37	Lovis	170,310	1.80	994	Deem	217839	2.30
218	Heath	359,394	3.80	1027	Newton	154739	1.63
587	Brick	97,623	1.03	1047	Wasey	58668	0.62
866	Wiley	319,462	3.37	1101	Theakston	117302	1.24
877	Cunningham	219,823	2.32	1156	Murphy	126687	1.34
				1173	Cottrell	194028	2.05
				1176	Dawson	72098	0.76
Aviation				Composite			
48	Williams	96,925	1.02	33	Childs	108023	1.14
173	Dampier	139,765	1.48	79	Youell	299494	3.16
270	Knowles	211,135	2.23	510	Rendall	121675	1.29
340	Tilling	38,935	0.41	2001	Keeling	188183	1.99
734	Silvio	120,540	1.27				
960	Williams	171,510	1.81				

## Directors' Report (continued)

For the period ended 31<sup>st</sup> December, 1997

### Results

1997 was the first underwriting year in which Grenville participated in Lloyd's and the result will not be reported until 2000. However in Lloyd's Global Results 1997 (published in May 1998) the 1997 result for the Lloyd's market is projected at £366m after personal expenses on a gross allocated capacity of \$10.234bn. This represents a projected return on capacity of 3.55%. If the same return is achieved by Grenville Underwriting PLC this would represent a return of 14.2% on funds at Lloyd's made interavailable, before the cost of gearing reinsurance.

### Trading conditions

Conditions are currently difficult in all markets and have been so since 1996. It is likely that the returns on 1998 will be marginal. However the motor market, which produced a marginal result (in pure year terms) for 1995, and is predicting losses for 1996 and 1997, may see rates increase in 1998.

### Statement of Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with the above requirements;

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 Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention of fraud and other irregularities.

### Auditors

Binder Hamlyn were appointed by the directors as the first auditors of the company. In accordance with Section 385 of the Companies Act 1985, a resolution proposing the reappointment of Binder Hamlyn as auditors to the company will be put to the annual general meeting.

By order of the Board,

  
R.G.G. Thynne

Director

28<sup>th</sup> May 1998

## Auditors' report

For the period ended 31<sup>st</sup> December 1997

### Report by the Auditors to the members of Grenville Underwriting PLC:

We have audited the accounts on pages 6 to 18 which have been prepared on the basis of the accounting policies set out on pages 11 to 13.

### Respective responsibilities of directors and auditors

As described on page 4, 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 assurances that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31 December 1997 and of its loss and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Binder Hamlyn

Chartered Accountants

Registered Auditor

20 Old Bailey

London

EC4M 7BH

28<sup>th</sup> May 1998

# Profit and loss account

For the period ended 31<sup>st</sup> December 1997

	Notes	1997
		£
<b>Technical account</b>		
Gross premiums written	2	8,164,689
Outward reinsurance premiums		(2,115,448)
Earned premiums, net of reinsurance		6,049,241
Allocated investment return transferred from the non technical account		35,630
Claims paid		
- gross amount	2	(658,890)
- reinsurers' share		165,588
		(493,302)
Change in the provision for claims		
- gross amount	2	(4,841,815)
- reinsurers' share		1,396,433
		(3,445,382)
<b>Claims incurred net of reinsurance</b>		<b>(3,938,684)</b>
Syndicate operating expenses	3	(1,815,122)
Personal expenses		(331,065)
<b>Balance on the technical account for general business</b>		<b>-</b>

# Profit and loss account (continued)

For the period ended 31<sup>st</sup> December 1997

	Notes	1997 £
<b>Non technical account</b>		
<b>Balance on the technical account for general business</b>		-
Investment income	4	
- syndicate participations		35,619
- corporate undertaking		1,803
Realised gains		1,360
Investment expenses and charges	5	(1,349)
Allocated investment return transferred to the general business technical account		(35,630)
Other income		-
Other charges		(225,108)
<b>Loss on ordinary activities before tax</b>	6	(223,305)
Tax on loss on ordinary activities	9	-
<b>Retained loss for the period</b>		<u>(223,305)</u>

There were no recognised gains or losses other than the loss for the period.

All activities are continuing.

The notes on pages 11 to 18 form part of these financial statements

# Balance Sheet

As at 31<sup>st</sup> December 1997

		1997		
	Notes	Corporate undertaking £	Syndicate Participations £	Total £
<b>Assets</b>				
<b>Investments</b>				
Financial investments	10	-	875,424	875,424
<b>Reinsurers' share of technical provisions</b>				
Claims outstanding		-	1,049,136	1,049,136
<b>Debtors</b>				
Debtors arising out of direct insurance operations:		-	154,093	154,093
- due from policyholders		-	22,834	22,834
- due from intermediaries		-	2,071,547	2,071,547
Debtors arising out of reinsurance operations		-	788,271	788,271
Other debtors		-	102,752	102,752
		<hr/>	<hr/>	<hr/>
		-	3,139,497	3,139,497
		<hr/>	<hr/>	<hr/>
<b>Other assets</b>				
Cash at bank and in hand		287	91,934	92,221
Other		5,329	246,231	251,560
		<hr/>	<hr/>	<hr/>
		5,616	338,165	343,781
		<hr/>	<hr/>	<hr/>
<b>Prepayments and accrued income</b>				
Other prepayments and accrued income		11,830	11,826	23,656
		<hr/>	<hr/>	<hr/>
<b>Total assets</b>		17,446	5,414,048	5,431,494

The notes on pages 11 to 18 form part of these financial statements.

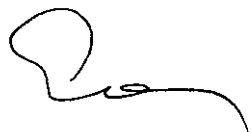


# Balance Sheet (continued)

As at 31<sup>st</sup> December 1997

		1997		
	Notes	Corporate Undertaking £	Syndicate Participations £	Total £
<b>Liabilities</b>				
<b>Capital and reserves</b>				
Called up share capital	13	65,001	-	65,001
Profit and loss account		(158,305)	-	(158,305)
Shareholders funds attributable to equity shares	14	(93,304)	-	(93,304)
<b>Technical provisions</b>				
		-	4,787,177	4,787,177
<b>Provision for other risks and charges</b>				
Deferred taxation	12	-	-	-
<b>Deposits received from reinsurers</b>				
		-	769	769
<b>Creditors</b>				
Creditors arising out of direct insurance operations		-	186,743	186,743
Creditors arising out of reinsurance operations		-	303,225	303,225
Other creditors including taxation	11	83,750	110,695	194,445
		83,750	600,663	684,413
<b>Accruals and deferred income</b>				
		27,000	25,439	52,439
<b>Total liabilities</b>				
		17,446	5,414,048	5,431,494

The financial statements on pages 6 to 18 were approved by the Board of directors on 28<sup>th</sup> May 1998 and signed on its behalf by:



G. P. Nash  
Director

## Cash flow statement (excluding syndicate cash flows)

For the period ended 31<sup>st</sup> December 1997

	Notes	1997
		£
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	14	(131,517)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	15	1,803
FINANCING	15	130,001
INCREASING IN CASH	17	<u>287</u>

The notes on pages 11 to 18 form part of these financial statements

# Notes to the financial statements

For the period ended 31 December 1997

## 1 Accounting policies

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments, and in accordance with applicable Accounting Standards in the United Kingdom.

### *a) Investments*

Listed investments are valued at middle market prices.

### *b) Income and expenses*

Dividends from investments declared payable up to the balance sheet date and interest from securities, with the addition of the relevant tax credit where appropriate, are included in the non-technical account on an accruals basis.

### *c) Deferred tax*

Deferred taxation, calculated on the liability method, is provided on items which are recognised for accounts purposes in different periods, to the extent that the liability will crystallise.

### *d) Foreign currency transactions*

Transactions in foreign currency, whether of a revenue or capital nature, are translated into sterling at the rates of exchange ruling on the dates of such transactions. Revenue items accrued and other foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange ruling on that date.

### *f) Lloyd's underwriting activities*

#### *Basis of preparation*

The accounting information in respect of underwriting income and syndicate assets and liabilities from syndicate participations has been provided by the managing agents through an information exchange facility operated by Lloyd's, and has been audited by the syndicate auditors.

The information supplied by the syndicates which has been used in these financial statements is based on syndicate data as at 31 December 1997.

#### *Assets and liabilities*

The assets and liabilities entitled syndicate participations represent an aggregation of the proportion of assets and liabilities of each syndicate in which the Company participates. These assets are held subject to the individual syndicate trust funds and the Company cannot obtain or use them until such time as each syndicate underwriting year is closed and profits are distributed, or an advance profit release is made.

#### *Fund accounting and open year losses*

The fund basis of accounting has been adopted for all classes of business because the nature of the business accepted and the accounts of the underlying syndicates mean that an underwriting result cannot be established with sufficient accuracy using the annual basis.

## Notes to the financial statements (continued)

For the period ended 31 December 1997

### 1 Accounting policies (continued)

Under the fund basis of accounting, premiums, claims and expenses are carried forward as a fund and profit recognition is deferred until the end of the third year from the start of any underwriting year. Personal expenses are charged to the technical account to match the recognition of profit from each underwriting year of account. Any anticipated losses on open years are recognised on a syndicate by syndicate basis as soon as they are foreseen.

#### Premiums

Written premiums comprise the total premiums receivable in the period together with adjustment and reinstatement premiums arising in the financial period to premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries.

#### *Reinsurance*

Outwards reinsurance premiums and any related reinsurance recoveries are accounted for in the same period as the premiums for the related inwards business being insured.

#### *Reinsurance gearing*

The Company has a reinsurance policy with European Re ( a subsidiary of Swiss Re ) which provides a Letter of Credit equal to the Funds at Lloyd's made interavailable by the Lloyd's Names participating as shareholders or Loan Stock holders. This increases the premium income limit which can be written by the Company, to four times the interavailable Funds at Lloyd's.

#### *e) Lloyd's underwriting activities*

##### *Claims*

Full provision is made for the estimated cost of claims, including settlement costs, notified but not yet settled at the balance sheet date. A provision for claims incurred but not reported is established based on information provided by the underlying syndicates. Any difference between provisions and subsequent settlements are dealt with in the technical accounts of later years.

##### *Underwriting income and expenses*

All income and expenditure incurred from participation in the underlying syndicates is dealt with through the technical account except investment income earned by the syndicates which is initially recorded in the non-technical account and then transferred to the technical account.

##### *Lloyd's levies*

Lloyd's levies are accounted for having regard to whether they relate to underwriting, in which case they are charged against the year of account to which they relate, or to general levies in which case they are charged to the calendar year in which they are raised.

## Notes to the financial statements (continued)

For the period ended 31 December 1997

### 1 Accounting policies (continued)

#### *Auction costs*

Underwriting capacity at Lloyd's acquired at auction is carried at cost less amounts written off to the revenue account for permanent diminution in value. The carrying value of the intangible asset is reviewed for permanent diminution at each period end. The directors consider the useful life of the intangible asset to be infinite as it

#### *Foreign currency*

Syndicate assets, liabilities, income and expenditure expressed in foreign currency are converted into sterling at the rate of exchange ruling at 31 December.

# Notes to the financial statements (continued)

For the period ended 31 December 1997

## 2 Segmental analysis

	Gross premiums written £	Gross claims incurred £	Gross operating expenses £	Reinsurance balance £
<b>1997</b>				
<b>Direct business</b>				
Accident & health	266,700	(219,020)	(73,127)	(14,623)
Motor - third party liability	226,040	((186,743)	(43,929)	(10,737)
Motor - other classes	1,064,411	((801,084)	(222,873)	(61,258)
Marine, aviation and transport	1,331,279	(1,315,989)	(282,429)	128,985
Fire and other damage to property	1,453,964	(907,523)	(377,567)	(96,293)
Third party liability	2,073,248	(1,113,639)	(440,041)	(201,775)
Credit and suretyship	47,321	(23,751)	(12,875)	(2,294)
Legal expenses	23,056	(4,856)	(5,554)	(461)
Assistance	252	(312)	(47)	(17)
Other	211,817	(83,313)	(69,793)	(10,953)
<b>Total direct</b>	<b>6,698,088</b>	<b>(4,656,230)</b>	<b>(1,528,235)</b>	<b>(269,426)</b>
<b>Reinsurance business</b>	<b>1,466,601</b>	<b>(844,475)</b>	<b>(286,887)</b>	<b>(284,541)</b>
<b>Total</b>	<b>8,164,689</b>	<b>(5,500,705)</b>	<b>(1,815,122)</b>	<b>(553,967)</b>

1997  
£

Gross premiums in respect of direct business

United Kingdom	6,578,637
Other EU member states	43,900
Rest of the world	76,061
	<b>6,698,088</b>

## Notes to the financial statements (continued)

For the period ended 31 December 1997

### 3 Syndicate operating expenses

	1997 £
Syndicate expenses	(294,223)
Exchange adjustment	336
Commission/brokerage	<u>(1,521,235)</u>
	<u>(1,815,122)</u>

### 4 Investment income

	1997 £
Income from investments	35,619
Bank and deposit interest	<u>1,803</u>
	<u>37,422</u>
Attributable to technical account	35,619
Included in non technical account	<u>1,803</u>
	<u>37,422</u>

### 5 Investment expenses and charges

	1997 £
Investment management fee	<u>1,349</u>
Attributable to technical account	<u>1,349</u>

### 6 Loss on ordinary activities is stated after charging

	1997 £
Auditors remuneration	
- Audit fees	5,000
-Other services	17,077

## Notes to the financial statements (continued)

For the period ended 31 December 1997

### 7 Staff costs

There were no staff employed by the Company other than the directors during the period. The average number of directors for the period was 5.

### 8 Directors remuneration

There was no directors remuneration during the period.

### 9 Tax on profit on ordinary activities

The taxation charge for the period is nil.

### 10 Financial investments

	1997 Syndicate participations £
Shares and other variable yield securities	28,722
Debt securities and other fixed interest securities	656,835
Participation in investment pools	22,622
Loans guaranteed by mortgage	1,182
Deposits with credit institutions	147,644
Deposits with ceding undertakings	2,969
Other	15,450
	<hr/>
	875,424
	<hr/>

### 11 Other creditors including taxation

	1997 £
Taxation	
- corporate undertaking	83,750
- syndicate participations	600,663
	<hr/>
	684,413
	<hr/>



# Notes to the financial statements (continued)

For the period ended 31 December 1997

## 12 Called up share capital

	1997 Corporate undertaking £
Authorised:	
50,000,000 authorised ordinary shares of 50p each	<u>25,000,000</u>
Issued and fully paid up:	
130,002 ordinary shares of 50p each	<u>65,001</u>
On 26 <sup>th</sup> September 1996 2 ordinary shares of 50p each were issued at par for the purpose of incorporation.	

During the period a further 130,000 ordinary shares of 50p each were issued for consideration of cash at £1 each.

This gave rise to a premium on the issue of 50p per share, equivalent to £65,000, which was taken to the share premium account.

## 13 Reconciliation of movements in shareholders' funds

	Share Capital written £	Share Premium A/C £	Profit & Loss A/C £	TOTAL £
At date of incorporation	1	-	-	1
Capital/Premium on share issue	65,000	65,000	-	130,000
Loss for the period	-	-	(223,305)	(223,305)
Write off of start up costs	-	(65,000)	65,000	-
	<u>65,001</u>	<u>-</u>	<u>(158,305)</u>	<u>(93,304)</u>

## 14 Reconciliation of operating loss to net cash outflow from operating activities

	1997 £
Operating loss	(223,305)
Investment income	(1,803)
(Increase) in debtors	(17,159)
Increase in creditors	<u>110,750</u>
Net cash outflow from operating activities	<u>(131,517)</u>

## Notes to the financial statements (continued)

For the period ended 31 December 1997

### 15 Gross cash flows

	1997
<b>Returns on Investments and servicing of finance</b>	£
Interest received	<u>1,803</u>
<b>Financing</b>	
Issue of share capital	<u>130,001</u>

### 16 Reconciliation of net cash flow to movement in net funds

	1997
Increase in cash	287
Net funds at beginning of period	<u>-</u>
Net funds at close of period	<u>287</u>

### 17 Reconciliation of net cash flow to movement in net funds

	at beginning of period	Cash flow	at close Of period
	£	£	£
Cash at bank in funds	<u>-</u>	<u>287</u>	<u>287</u>

### 18 Post Balance Sheet event

Following the period end on 1<sup>st</sup> January 1998 Grenville Holdings Limited acquired 100% of the share capital of Grenville Underwriting PLC. The ultimate holding company became Greenwich Insurance Holdings PLC.