

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

DIRECTORS' REPORT AND ACCOUNTS

for the year ended 31 December 2001



SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

(Registered number 13855)

DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001

SCHEME ADMINISTRATORS

A J McMahon
J M Wardrop (appointed 23 March 2002)
P W Wallace (resigned 23 March 2002)
8 Salisbury Square
London EC4Y 8BB

DIRECTORS

M E A Gavigan
G T Enright

SECRETARY

G T Enright

REGISTERED OFFICE

8 Salisbury Square
London EC4Y 8BB

AUDITORS

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2001

The directors present their report, together with the accounts, for the year ended 31 December 2001.

PRINCIPAL ACTIVITY AND PERFORMANCE REVIEW

The Company ceased underwriting activities in 1991 and has not accepted business since 31 December 1991, at which time a solvent and orderly run-off of its liabilities was envisaged.

However, on 10 July 1997, an unexpected and partially adverse arbitration award, which is confidential and non-binding as to third parties, was rendered against the Company. As a result of the award, the directors determined that the Company could not continue to trade unless its parent company provided unlimited financial support. The directors of the parent company decided that such support to the Company could not be justified. Accordingly, the Company was placed into Provisional Liquidation on 11 July 1997 and AJ McMahon and PW Wallace (partners in the firm of KPMG LLP) were appointed Joint Provisional Liquidators to the Company.

A Scheme of Arrangement under section 425 Companies Act 1985 (the 'Scheme') was sent to all known creditors and potential creditors of the Company on 15 October 1999. A meeting of the Company's creditors was held in London on 29 November 1999 at which no creditor voted against the Scheme. The results of the meeting were reported to the High Court in London on 20 December 1999 and an order sanctioning the Scheme was made. Similarly, the United States Bankruptcy Court granted a permanent injunction under section 304 of the US Bankruptcy Code on 30 December 1999. On 5 January 2000 the winding up petition against the Company was dismissed and the Scheme became effective. The conduct of the Company's affairs is now governed by the terms of the Scheme, of which AJ McMahon & PW Wallace were the first Scheme Administrators. PW Wallace resigned on 23 March 2002 and was replaced by JM Wardrop.

RESULTS AND DIVIDENDS

The loss on ordinary activities after taxation amounted to £25,449,000 (2000 – loss of £9,093,000). The losses during the year are principally attributable to an increase in claims reserves and an increase in the provision for costs which will be incurred in administering the Company's business. *The directors have consulted the Scheme Administrators and their staff in setting these provisions and have taken account of an actuarial estimation exercise commissioned by the Scheme Administrators during the year.*

The directors do not recommend the payment of a dividend.

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

DIRECTORS

The present directors of the Company are named on page 1, which forms part of this report.

None of the directors during the year held any interest in the shares of the Company or any parent or associated company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE ACCOUNTS

The directors are required to report on their responsibilities in relation to the preparation of accounts for each financial year and the following statement should be read in conjunction with the auditors' statement of their responsibilities set out on page 5.

The Companies Act 1985 (as amended) requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts on pages 7 to 28 the directors consider that:-

- (a) they have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates;
- (b) all accounting standards which they consider to be applicable have been followed. The financial statements have not been prepared on a going concern basis.

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985 (as amended).

The directors are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

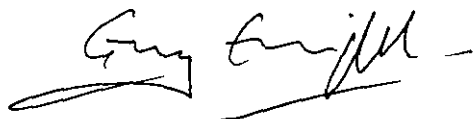
Since the appointment of the Scheme Administrators, the control of the Company's records and assets has rested with them. As a consequence, the directors have relied on the Scheme Administrators in the preparation of the accounts.

AUDITORS

An Elective Resolution dispensing with the requirement to reappoint auditors annually was approved by shareholders at the Annual General Meeting in April 1991.

Ernst & Young LLP are willing to continue in office and a resolution to reappoint them will be proposed at the AGM.

By order of the Board



G T Enright
Secretary

20 May 2002
8 Salisbury Square
London EC4Y 8BB

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

**INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF
SOVEREIGN MARINE & GENERAL INSURANCE COMPANY LIMITED**

We have audited the company's financial statements for the year ended 31 December 2001 which comprise Group Profit and Loss Account, Group and Company Balance Sheets, Cash Flow Statement and Reconciliation of Shareholders' Funds and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom law and accounting standards.

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 1985. 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 the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

Fundamental Uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts regarding the following:

- a. the level of uncertainty concerning the ultimate net liability in respect of the technical provisions. This will vary as a result of subsequent information and events which may result in significant adjustments to the amounts provided. Details of the circumstances relating to this fundamental uncertainty are described in note 15 on page 26; and

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

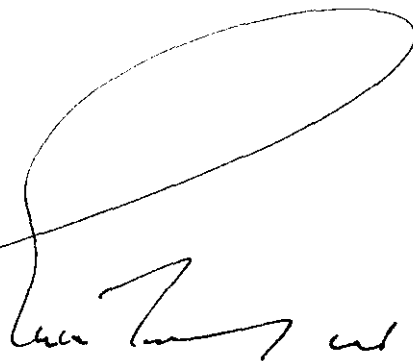
- b. the provision for future run-off costs representing the estimated ultimate net costs that may be borne by the Company in meeting its obligations to administer the run-off of business previously written. Details of the circumstances relating to this fundamental uncertainty are described in note 2A on page 16.

In view of the significance of these uncertainties we consider that they should be drawn to your attention but our opinion is not qualified in these respects.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London



20 May 2002

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £000	2000 £000
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written and earned		(241)	867
Outward reinsurance premiums		(506)	(965)
		<u> </u>	<u> </u>
Earned premiums, net of reinsurance		(747)	(98)
		<u> </u>	<u> </u>
Total technical income		<u>(747)</u>	<u>(98)</u>
Gross claims processed		16,846	3,190
Reinsurers' share		(11,820)	(2,230)
		<u> </u>	<u> </u>
Net claims processed		5,026	960
Gross change in the provision for claims		8,592	(87)
Reinsurers' share		(3,200)	11,369
		<u> </u>	<u> </u>
Net change in the provision for claims		5,392	11,282
		<u> </u>	<u> </u>
Claims incurred net of reinsurance	3	10,418	12,242
Net operating expenses	4	17,931	2,276
		<u> </u>	<u> </u>
Total technical charges		28,349	14,518
		<u> </u>	<u> </u>
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		<u>(29,096)</u>	<u>(14,616)</u>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £000	2000 £000
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		(29,096)	(14,616)
Investment income	6	3,350	4,108
Foreign exchange profit		243	669
Unrealised gains on investments		195	872
		<u>(25,308)</u>	<u>(8,967)</u>
Investment expenses and charges	7	(109)	(126)
Unrealised losses on investments		(32)	-
		<u>(141)</u>	<u>(126)</u>
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX		(25,449)	(9,093)
Tax on profit on ordinary activities	8	-	-
(LOSS) ON ORDINARY ACTIVITIES AFTER TAX		<u>(25,449)</u>	<u>(9,093)</u>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 £000	2000 £000
(Loss) on ordinary activities after taxation	(25,449)	(9,093)
Total recognised (losses) relating to the year	<u>(25,449)</u>	<u>(9,093)</u>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

GROUP BALANCE SHEET AS AT 31 DECEMBER 2001

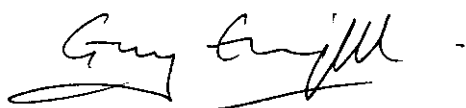
	Notes	2001 £000	2000 £000
ASSETS			
Investments			
Other financial investments	11	69,944	55,013
Deposits with ceding undertakings		20	20
		<hr/>	<hr/>
		69,964	55,033
Reinsurers' share of technical provisions	15	233,038	226,007
Debtors			
Debtors arising out of direct insurance operations -Intermediaries		495	304
Debtors arising out of reinsurance operations		36,887	50,704
Other debtors		3	3
		<hr/>	<hr/>
		37,385	51,011
Other Assets			
Cash at bank and in hand	18	10,245	18,923
Taxation recoverable		1,084	1,083
		<hr/>	<hr/>
		11,329	20,006
Prepayments and Accrued Income			
Accrued interest		247	744
Prepayments		5	-
		<hr/>	<hr/>
TOTAL ASSETS		<hr/> 351,968 <hr/>	<hr/> 352,801 <hr/>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

GROUP BALANCE SHEET AS AT 31 DECEMBER 2001

	Notes	2001 £000	2000 £000
LIABILITIES			
Capital and Reserves			
Called up share capital	12	30,000	30,000
Profit and loss account	13	(114,672)	(89,223)
Shareholders' funds attributable to equity interests	14	(84,672)	(59,223)
Technical Provisions	15	352,257	337,937
Deposits Received from Reinsurers		5,946	5,826
Creditors	17		
Creditors arising out of direct insurance operations		13,341	1,333
Creditors arising out of reinsurance operations		29,236	43,699
Other creditors including taxation and social security		1,805	1,796
Provision for future run off costs		34,000	21,364
		78,382	68,192
Accruals and Deferred Income		55	69
TOTAL LIABILITIES		351,968	352,801

Approved on behalf of the Board of Directors on 20 May 2002.



G T Enright
Director

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2001

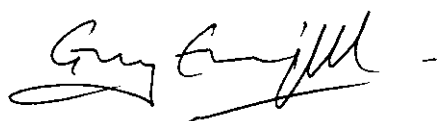
	Notes	2001 £000	2000 £000
ASSETS			
Investments			
Shares in group undertakings	10	22,499	20,869
Other financial investments	11	32,464	28,988
Deposits with ceding undertakings		21	20
		<hr/>	<hr/>
		54,984	49,877
Reinsurers' share of technical provisions	15	225,113	220,997
Debtors			
Debtors arising out of direct insurance operations -Intermediaries		495	304
Debtors arising out of reinsurance operations		35,102	46,037
Other debtors		-	-
		<hr/>	<hr/>
		35,597	46,341
Other Assets			
Cash at bank and in hand	18	6,654	7,374
Taxation recoverable		1,450	1,083
		<hr/>	<hr/>
		8,104	8,457
Prepayments and Accrued Income			
Accrued interest		88	322
		<hr/>	<hr/>
TOTAL ASSETS		323,886	325,994
		<hr/>	<hr/>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2001

	Notes	2001 £000	2000 £000
LIABILITIES			
Capital and Reserves			
Called up share capital	12	30,000	30,000
Revaluation reserve	13	17,485	15,855
Profit and loss account	13	(132,157)	(105,078)
Shareholders' funds attributable to equity interests	14	(84,672)	(59,223)
Technical Provisions	15	327,135	316,970
Deposits Received from Reinsurers		5,947	5,826
Creditors	17		
Creditors arising out of direct insurance operations		13,341	1,333
Creditors arising out of reinsurance operations			
- Group undertakings		639	626
- Other		27,496	39,064
Provision for future run off costs		34,000	21,364
		75,476	62,387
Accruals and Deferred Income		-	34
TOTAL LIABILITIES		323,886	325,994

Approved on behalf of the Board of Directors on 20 May 2001



G T Enright
Director

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2001

	2001 £000	2000 £000
Net cash inflow from operating activities (Note a)	5,147	2,761
Taxation		
Corporation tax received	-	134
	<u>5,147</u>	<u>2,895</u>

RECONCILIATION OF NET CASH FLOW TO
MOVEMENT IN NET PORTFOLIO INVESTMENTS (Note b)

	2001 £000	2000 £000
Net cash inflow for the period	(8,678)	(1,158)
Cash flow: Portfolio investments		
Purchases	346,888	4,053
Sales	(333,063)	-
	<u>5,147</u>	<u>2,895</u>
Movement arising from cash flows		
Changes in market values and exchange rate effects	<u>1,106</u>	<u>872</u>
Total movement in portfolio investments net of financing	6,253	3,767
Portfolio investments net of financing at 1 January	73,936	70,169
Portfolio investments net of financing at 31 December	<u>80,189</u>	<u>73,936</u>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE CASH FLOW STATEMENT
FOR YEAR ENDED 31 DECEMBER 2001

Note a: Reconciliation of operating (loss) to net cash inflow from operations:

	2001 £000	2000 £000
(Loss) on ordinary activities before tax	(25,449)	(9,093)
Foreign exchange (gain)	(943)	-
Unrealised capital (gains)	(163)	(872)
(Increase)/decrease in debtors/deposits with ceding undertakings	13,626	(13,249)
(Increase)/decrease in other debtors relating to operating activities	492	(206)
Increase in technical provisions	7,289	17,426
Increase/(decrease) in creditors	(2,341)	12,336
Increase/(decrease) in provisions for run-off costs	12,636	(3,581)
Net cash inflow from operating activities	<u>5,147</u>	<u>2,761</u>

Note b: Movement in cash, portfolio investments and financing:

	At 1 January 2001 £000	Cash Flow £000	Changes to market value and currencies £000	At 31 December 2001 £000
2001				
Cash in hand, at bank	18,923	(8,678)	-	10,245
Other financial investments	55,013	13,825	1,106	69,944
TOTAL	<u>73,936</u>	<u>5,147</u>	<u>1,106</u>	<u>80,189</u>
2000				
	At 1 January 2000 £000	Cash Flow £000	Changes to market value and currencies £000	At 31 December 2000 £000
Cash in hand, at bank	20,081	(1,158)	-	18,923
Other financial investments	50,088	4,053	872	55,013
TOTAL	<u>70,169</u>	<u>2,895</u>	<u>872</u>	<u>73,936</u>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001

1. ULTIMATE PARENT COMPANY

As a result of the Scheme becoming effective on 5 January 2000, the shares in the Company are held in trust by Serjeants' Inn Nominees Limited. Beneficial ownership is retained by Willis Group Limited, of which the ultimate parent company is TA 1 Limited, and the ultimate controlling party is KKR 1996 Overseas, Limited.

As a consequence of the insolvency of the Company, the accounts are not consolidated into the group accounts of the Willis Group.

2. ACCOUNTING POLICIES

The accounts for the year ended 31 December 2001 have been prepared in accordance with the following accounting policies:

A Fundamental accounting concept

During the year ended 31 December 2001, the Group incurred a loss of £25,449,000 (2000 – loss of £9,093,000).

As explained in the report of the directors, the accounts have not been prepared on a going concern basis, the principal effect to the accounts of which is set out below:

Provision has been made for the estimated operational costs of the run-off of the business written in the past. In arriving at the cost, it has been necessary to make assumptions as to the length of the run-off period and the amount of future expense incurred. The amount of the provision is shown in the balance sheet; however, the ultimate cost will vary as a result of subsequent information and events.

Due to the Company's current financial circumstances, it is deemed appropriate to include the run-off provision on an undiscounted basis; this is consistent with all other provisions in the balance sheet and the 2000 comparative figures.

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

B Basis of preparation

The accounts have been prepared in compliance with Section 255 of, and Schedule 9A to, the Companies Act 1985 (as amended).

The accounts have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business, issued by the Association of British Insurers in December 1998, have been adopted.

C Premiums and Claims

Premiums closed through the International Underwriting Association in London are brought into account to the extent that notification has been received from the Bureau. Other premiums are brought into account when advised by the ceding company or broker.

Claims are shown net of salvages.

D Underwriting Year of Account

Premiums and claims are recorded on an inception of risk basis.

E Underwriting Results

All business is accounted for on a funded basis by underwriting year, due to its general long tail nature. The net revenue is carried forward as a fund at the end of the accounting year and is compared annually with the estimated outstanding liabilities. The fund is revised to reflect the estimated ultimate cost of claims notified but not settled at the date of the balance sheet and for claims incurred but not notified at that date; the resulting technical provision reflects claims' settlement expenses and anticipated reinsurance and other recoveries.

Any difference between the technical provision resulting from the above and the net revenue fund has been included in the Profit and Loss account technical account for the year.

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

F Foreign Currencies

US and Canadian dollar business accepted in London is accounted for in original currency and is translated into sterling at year end rates. All other transactions are translated into sterling at the appropriate rate of exchange applicable when recorded in the books.

When foreign currency assets held do not match foreign currency liabilities any resultant gain or loss is reported in the profit and loss account non-technical account.

Foreign currency assets and liabilities have been shown in the balance sheet at the rates of exchange ruling on 31 December 2001.

G Investment Income

Investment income comprises interest earned on a daily accruals basis, dividends received from third parties during the year and net realised investment gains. Net realised gains and losses are calculated as the difference between net proceeds on disposal and historical cost. Net realised gains are included within investment income whilst net realised losses are included within investment management expenses.

H Investments

All investments are shown in the balance sheet at current value. Unrealised gains and losses are taken to the profit and loss account non-technical account.

I Taxation

Provision has been made at current rates for taxation or taxation relief on all profits and losses included in the accounts.

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

3. CLAIMS INCURRED NET OF REINSURANCE

	Gross £000	Reinsurance £000	Net £000
2001			
Claims paid	16,846	11,820	5,026
Outstanding claims carried forward	352,258	233,038	119,220
Outstanding claims brought forward	(343,666)	(229,838)	(113,828)
(Decrease)/Increase	8,592	3,200	5,392
Claims incurred	25,438	15,020	10,418
2000	£000	£000	£000
Claims paid	3,190	2,230	960
Outstanding claims carried forward	337,937	226,007	111,930
Outstanding claims brought forward	(338,024)	(237,376)	(100,648)
(Decrease)/Increase	(87)	(11,369)	11,282
Claims incurred	3,103	(9,139)	12,242

The claims incurred during 2001 and 2000 related wholly to movements on the loss provisions set up at the previous year end.

The difference between the 2000 carried forward and 2001 brought forward balances is due to revaluation of the balances at the 2001 exchange rates.

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

4. NET OPERATING EXPENSES

2001	£000
Acquisition costs	14
Administrative expenses	17,917
	<u>17,931</u>
2000	£000
Acquisition costs	149
Administrative expenses	2,127
	<u>2,276</u>

5. ADMINISTRATIVE EXPENSES

Administrative expenses include:	2001 £000	2000 £000
Auditor's remuneration	52	52

6. INVESTMENT INCOME

	2001 £000	2000 £000
Income from listed investments	2,866	3,208
Income from other investments	435	840
Realised gains	49	60
Total investment income	<u>3,350</u>	<u>4,108</u>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

7.	INVESTMENT EXPENSES AND CHARGES	2001 £000	2000 £000
	Realised losses	61	43
	Investment management fees	48	83
		<hr/> 109	<hr/> 126

8. TAXATION

There is no charge to taxation shown in the profit and loss account - non-technical account.

9. DIRECTORS' REMUNERATION

The directors of the Company received no remuneration for services rendered to the Company during the year (2000 £NIL).

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

10. INVESTMENT IN GROUP UNDERTAKINGS

The Revaluation Reserve account comprises:	2001 £000	2000 £000
Current value	22,499	20,869
Historical cost	(5,014)	(5,014)
	<hr/> 17,485	<hr/> 15,855

The Company's subsidiaries are:	Class Of <u>Share</u>	Percentage of Share Capital <u>Held</u>
Greyfriars Insurance Company Limited	Ordinary £ 1 each	100%
Sovereign Insurance (UK) Limited	Ordinary £ 1 each	100%

The following company is a subsidiary of Greyfriars Insurance Company Limited:

	Country Of <u>Incorporation</u>	Class of <u>Share</u>	Percentage of Share Capital <u>Held</u>
Associated International Insurance (Bermuda) Limited	Bermuda	Ordinary £1 each	100%

The Company was formerly exempt from the obligation to prepare Group accounts in accordance with section 228 of the Companies Act 1985 (as amended) as the Company's accounts were consolidated in the accounts of Willis Group Limited. As explained in note 1 on page 16, the accounts of the Company are no longer consolidated and therefore these accounts reflect the results of the Company and its subsidiaries.

The Company has taken advantage of Section 230 of the Companies Act 1985 (as amended) not to publish its own Profit and Loss Account. The amount of loss dealt with in the company's own accounts is £27,078,974.

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

11. OTHER FINANCIAL INVESTMENTS

Other financial investments are shown in the balance sheet at market value and are analysed as follows :

Group	Market Value		Historical Cost	
	2001 £000	2000 £000	2001 £000	2000 £000
Authorised Unit Trusts	221	613	138	420
UK Government fixed interest securities	2,325	2,574	2,375	2,594
Other listed fixed interest securities	67,398	51,826	67,231	51,942
Total other financial Investments	<u>69,944</u>	<u>55,013</u>	<u>69,744</u>	<u>54,956</u>

Company	Market Value		Historical Cost	
	2001 £000	2000 £000	2001 £000	2000 £000
Authorised Unit Trusts	221	613	138	420
UK Government fixed interest securities	775	813	792	828
Other listed fixed interest securities	31,468	27,562	31,465	27,664
Total other financial Investments	<u>32,464</u>	<u>28,988</u>	<u>32,395</u>	<u>28,912</u>

12. CALLED UP SHARE CAPITAL

	2001 £000	2000 £000
Authorised, allotted, issued and fully paid: 30,000,000 ordinary shares of £1 each	<u>30,000</u>	<u>30,000</u>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

13. RESERVES

Group	Profit & Loss Account £000	Total £000
Balance at 1 January 2001	(89,223)	(89,223)
Retained loss for the year	(25,449)	(25,449)
Balance at 31 December 2001	<u>(114,672)</u>	<u>(114,672)</u>

Company

	Investment Revaluation Reserve £000	Profit & Loss Account £000	Total £000
Balance at 1 January 2001	15,855	(105,078)	(89,223)
Revaluation of Group undertakings	1,630	-	1,630
Retained loss for the year	-	(27,079)	(27,079)
Balance at 31 December 2001	<u>17,485</u>	<u>(132,157)</u>	<u>(114,672)</u>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	Share Capital £000	Profit & Loss Account £000	Total £000
Balance at 1 January 2001	30,000	(89,223)	(59,223)
Retained loss for the financial year	-	(25,449)	(25,449)
Balance at 31 December 2001	<u>30,000</u>	<u>(114,672)</u>	<u>(84,672)</u>

Group	Share Capital £000	Profit & Loss Account £000	Total £000
Balance at 1 January 2000	30,000	(80,130)	(50,130)
Retained loss for the financial year	-	(9,093)	(9,093)
Balance at 31 December 2000	<u>30,000</u>	<u>(89,223)</u>	<u>(59,223)</u>

Company	Share Capital £000	Revaluation Reserve £000	Profit & Loss Account £000	Total £000
Balance at 1 January 2001	30,000	15,855	(105,078)	(59,223)
Retained loss for the financial year	-	-	(27,079)	(27,079)
Increase in value of shares in Group undertakings	-	1,630	-	1,630
Balance at 31 December 2001	<u>30,000</u>	<u>17,485</u>	<u>(132,157)</u>	<u>(84,672)</u>

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS (CONTINUED)

Company	Share Capital	Revaluation Reserve	Profit & Loss Account	Total
	£000	£000	£000	£000
Balance at 1 January 2000	30,000	13,122	(93,252)	(50,130)
Retained loss for the financial year	-	-	(11,826)	(11,826)
Increase in value of shares in Group undertakings	-	2,733	-	2,733
Balance at 31 December 2000	<u>30,000</u>	<u>15,855</u>	<u>(105,078)</u>	<u>(59,223)</u>

15. TECHNICAL PROVISIONS

The level of the gross technical provisions has been set on the basis of the information which is currently available, including potential outstanding loss advices, experience of development of similar claims and case law. The technical provisions include estimates of amounts in respect of potential claims relating to environmental pollution, asbestos and other claims of a similar nature. Legislative and judicial actions to date have failed to determine the basis of liability to indemnify many of these losses. These claims are not expected to be settled for many years and there is considerable uncertainty as to the amounts at which they will be settled.

The level of the related reinsurance recoveries is dependent upon both the accuracy of the estimated gross technical provisions and the ultimate ability to pay of reinsurers. Further, there has been a growing tendency for reinsurers to question reinsurance coverage and its scope, and this adds to the uncertainty. The reinsurance recoveries are stated net of the provision for estimated future irrecoverable amounts.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, uncertainty exists as to the ultimate net liability which will vary as a result of subsequent information and events and may result in significant adjustments to the gross and net amount provided. Adjustments to the technical provisions are reflected in the accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

16. SEGMENTAL INFORMATION

MAJOR DIRECT CLASSES

2001	All Direct £000	Reinsurance £000	Total £000	Property and Fire £000	Liability £000	Marine and Aviation £000
Gross premiums written and earned	(15)	(226)	(241)	(24)	2	7
Gross claims incurred	(15,581)	41,019	25,438	18,108	(30,909)	(2,780)
Gross operating expense	15,607	2,324	17,931	430	15,182	(5)
	26	43,343	43,369	18,538	(15,727)	(2,785)
Gross technical result	(41)	(43,569)	(43,610)	(18,562)	15,729	2,792
Reinsurance balance	(5,656)	20,170	14,514	10,491	(16,234)	87
Net technical result	(5,697)	(23,399)	(29,096)	(8,071)	(505)	2,879
Net technical provisions	40,410	78,809	119,219	14,940	14,450	11,020

MAJOR DIRECT CLASSES

2000	All Direct £000	Reinsurance £000	Total £000	Property and Fire £000	Liability £000	Marine and Aviation £000
Gross premiums written and earned	181	686	867	184	2	(5)
Gross claims incurred	(2,919)	6,022	3,103	(1,059)	659	(2,519)
Gross operating expense	1,131	1,145	2,276	261	643	227
	(1,788)	7,167	5,379	(798)	1,302	(2,292)
Gross technical result	1,969	(6,481)	(4,512)	982	(1,300)	2,287
Reinsurance balance	(13,419)	3,314	(10,105)	395	(7,410)	(6,404)
Net technical result	(11,450)	(3,167)	(14,617)	1,377	(8,710)	(4,117)
Net technical provisions	55,670	56,260	111,930	1,195	39,374	15,101

Gross premiums written by the Company relate predominately to London Market Business and therefore it is not possible to provide a meaningful analysis of turnover by source. All gross premiums are written in the United Kingdom.

SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

17. CREDITORS

All creditors are payable within a period of five years with the exception of the provision for future run off costs. This is expected to fall due and payable over the intervening time which will be needed to establish and settle all of the Company's liabilities. This time cannot be precisely ascertained.

18. CHARGES

At 31 December 2001 cash at bank and in hand included assets amounting to US\$1,613,237 (2000 US\$1,929,408) which were lodged at a US bank to support letters of credit provided by that bank in order for the Company to comply with contractual obligations in respect of its US business. These assets are subject to a first fixed charge.

19. RELATED PARTY TRANSACTIONS

In 1988 Associated International Insurance (Bermuda) Limited, a wholly owned subsidiary of Greyfriars Insurance Company Limited (a wholly owned subsidiary of the Company), issued Aggregate Excess of Loss Reinsurance to the Company. As at 31 December 2001 the outstanding loss reserve for this policy was £6,849,315.

20. WAIVER OF REQUIREMENT TO SUBMIT CERTAIN INFORMATION TO THE FSA

The Treasury issued to the Company on 19 November 1998 an order under section 68 of the Insurance Companies Act 1982 providing that the provisions of section 17 of that Act should be modified in its application to the Company so that the requirements under section 17 would be satisfied by the Company preparing audited statutory accounts in accordance with Part 1 of Schedule 9A to the Companies Act 1985.

The Financial Services and Markets Act 2000 ("FSMA") came into full effect for insurance companies as of 1 December 2001. As at that date the Financial Services Authority ("FSA") had full responsibility for regulating insurance companies. The order previously made in respect of the Company therefore ceased to have effect.

The effect of the original order was that the Company was not required to prepare the detailed returns normally submitted by insurance companies to the FSA. The Company is in discussions with the FSA regarding the regulatory impact of FSMA generally and the need for certain matters to be "grandfathered" into the new system. The FSA has the power to make a direction under s.148 FSMA which would have the same effect of the order previously made by the Treasury and the Company believes that the FSA will make such an order.