Company number 1044810

WALBROOK INSURANCE COMPANY LIMITED

ANNUAL REPORT AND ACCOUNTS
YEAR ENDED 31 DECEMBER 2000

ANNUAL REPORT AND ACCOUNTS
Year ended 31 December 2000

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Appendix: KWELM Partnership report and accounts for the year ended 31 December 2000

Directors, management and administration

Directors:

W F Goodier
M S Harvey

Secretary:

C G Reynolds
PricewaterhouseCoopers
Plumtree Court
London EC4A 4HT

Scheme administrators:

C J Hughes and I D B Bond
John Stow House
18 Bevis Marks
London EC3A 7JB

Scheme conflicts administrator:

G H Hughes
Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

Run-off agents:

KWELM Management Services Limited
John Stow House
18 Bevis Marks
London EC3A 7JB

Registered office:

John Stow House
18 Bevis Marks
London EC3A 7JB

Auditors:

RSM Robson Rhodes

Bankers:

Barclays Bank PLC

Solicitors:

Cadwalader, Wickersham & Taft
Freshfields

US attorneys (New York):

Shearman & Sterling

Registered in England No. 1044810

Directors' report

The directors submit their report and the audited accounts for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES AND RECENT DEVELOPMENTS

1 The company is an insurance company, subject to a scheme of arrangement, which specialised in US casualty, professional indemnity and other liability business until 24 March 1990 when it ceased underwriting. A moratorium on the payment of claims was introduced by the board of the company with effect from the close of business on 29 May 1992.

2 As indicated in paragraph 12 below, the company is unable to pay its debts in full since the value of its assets, including estimated reinsurance recoveries, is less than the amount of its estimated gross liabilities. A scheme of arrangement under Section 425 of the Company Act 1985 (the "Scheme") became effective on 15 December 1993 on which date C J Hughes and I D B Bond became the scheme administrators and G H Hughes became the scheme conflicts administrator. The Scheme permits the run-off of the company's liabilities in conjunction with other related companies, and for payment percentages to be set from time to time, which will be paid on all established scheme liabilities.

3 The scheme administrators set the eighth payment percentage in April 2001 at 26%, an increase of 6% over the seventh payment percentage of 20% which was set in April 2000.

4 The first payments to creditors under the Scheme were made in September 1994. The company has continued to pay a set percentage of scheme liabilities as they become established. It has made further payments to creditors in respect of the increase in the payment percentage during the year and the adjusting payments required by the Scheme. At the year end, the company had retained assets of an amount which the scheme administrators considered to be sufficient to enable the same set percentage to be paid of those liabilities that may be established in the future.

5 The company carried on business principally through H S Weavers (Underwriting) Agencies Limited and C R Driver & Company Limited; both companies are now in liquidation. Southwark Run-Off Services Limited administered the run-off of the company's business from 17 September 1990 until 18 December 1992, from which date KWELM Management Services Limited ("KMS") has been responsible for administering the run-off of the company's business and providing other management services.

6 In addition to running-off its insurance operations, the company continues to carry on investment activities. As explained in note 24 to the accounts, in conjunction with fellow subsidiaries, the company undertakes common investment activities through the KWELM Partnership. During the year, these investments were managed by the following independent asset managers: J P Morgan Investment Management Inc., Miller Anderson & Sherrerd LLP, Munich London Investment Management Limited, Pacific Investment Management Company and Western Asset Management Company. In addition, Premium Management Limited manages a portfolio of investments for the company and its fellow subsidiaries.

RESULTS AND DIVIDENDS

7 As explained in note 19 to the accounts, in view of the nature of the business underwritten, a substantial measure of estimation is involved in quantifying the company's outstanding insurance liabilities, the ultimate cost of which cannot be known with certainty.

8 The provision made for claims outstanding, both gross and net of reinsurance recoveries, as at 31 December 2000, is based upon an actuarial valuation undertaken by PriceWaterhouseCoopers.

9 As last year, the scheme administrators have indicated the amount, described as a special margin, that they consider should be added to the actuarial estimates of the claims outstanding provisions in order to achieve an appropriately high degree of prudence when establishing the payment percentages under the Scheme and to reflect the fundamental uncertainties which attach to the quantification of outstanding liabilities. The directors believe that it continues to be appropriate for them to incorporate the special margin into the accounts, as a component of technical claims provisions.

10 Total technical claims provisions thus contain a greater allowance for adverse development than would normally be appropriate for an insurance company on a going concern basis and are undiscounted.

11 The results of the company are set out on pages 7 and 8. During the year the company received further information regarding case estimates and its policy exposures. This has generated decreases in the estimated ultimate amount of claims incurred and in the estimated ultimate amount of reinsurance recoveries net of provisions for irrecoverable amounts. There has been a reduction in the special margin. The profit after taxation was $506.2 million (1999 $480.9 million).

12 The company is not a going concern and the state of its affairs, subject to the uncertainties described above, can be summarised as follows:

	2000 $m	1999 $m
Estimated gross liabilities, including the special margin	(3,828.0)	(4,389.2)
Assets, including estimated reinsurance recoveries	1,488.8	1,534.9
Net deficiency of assets	(2,339.2)	(2,854.3)

13 No dividend is payable to shareholders in 2000 (1999 $nil).

DIRECTORS

14 The directors who served throughout 2000 were as follows:

W F Goodier
M S Harvey (nominated by the Policyholders Protection Board)

15 None of the directors at 31 December 2000 had any interests in shares in the parent company or any company in the London United Investments group.

DIRECTORS' RESPONSIBILITIES

16 The directors are responsible for ensuring that the Annual Report is prepared in accordance with company law in the United Kingdom, and are required to ensure that accounts are prepared for each accounting period which comply with the provisions of the Companies Act 1985 in respect of the state of affairs of the company as at the end of the accounting period and of the profit or loss for that period.

17 Suitable accounting policies have to be used and applied consistently, in preparing the accounts, using reasonable and prudent judgements and estimates. Applicable United Kingdom accounting standards also have to be followed, with any material departures being disclosed and explained. As explained in note 1 to the accounts, it is inappropriate for the company's accounts to be prepared on the going concern basis.

18 The directors are also responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company and for ensuring controls are in place for the prevention and detection of fraud and other irregularities.

19 Part 5.3 of the Scheme provides that the scheme administrators shall, in relation to the company, manage the run-off of its business, realise its assets and apply them for the benefit of its creditors and supervise and ensure the carrying out of the Scheme; and gives them the power in the name and on behalf of the company to manage its affairs, business and property. That part of the Scheme also provides that any function of or power conferred on the company or its officers which could be exercised in such a way as to interfere with the exercise by the scheme administrators of their functions and powers in relation to the company may not be exercised without the consent of the scheme administrators, provided that nothing in that part of the Scheme relieves the directors of their duty to act in accordance with the Companies Act 1985.

20 The directors act in a non-executive capacity.

By Order of the Board

C G Reynolds
Company Secretary
19 April 2001

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WALBROOK INSURANCE COMPANY LIMITED

As explained in notes 1 and 2 to the accounts and following the appointment of scheme administrators, the financial statements have not been prepared on a going concern basis. We have audited the financial statements on pages 7 to 23.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing 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 information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the Annual Report.

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 and the scheme administrators 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 misstatements, 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 uncertainties

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

1. As referred to in note 19 the technical claims provisions include provisions for outstanding claims incurred but not reported less related recoveries, all of which are material in amount and the adequacy of which it is not possible to determine at this stage.

2. As referred to in note 3(l) estimates have been made as to the future cost of implementing the scheme of arrangement and completing the liquidation of the company. It is not possible at this stage to determine whether adequate provision has been made.

Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company 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.

RSM Robson Rhodes
London, England

RSM Robson Rhodes
Chartered Accountants and Registered Auditors
19 April 2001

WALBROOK INSURANCE COMPANY LIMITED

Profit and loss account
General business technical account
for the year ended 31 December 2000

	Note	2000 $m	1999 $m
Premiums written and earned, net of reinsurance	2,4	0.3	0.4
Other technical income		36.1	-
Claims incurred, net of reinsurance			
Gross claims paid	3(g)	(108.4)	(70.7)
Balance of claims agreed		(26.9)	(92.8)
Gross claims agreed	3(h)	(135.3)	(163.5)
Reinsurance recoverable		96.5	80.5
Net claims paid and agreed		(38.8)	(83.0)
Change in the gross technical claims provisions			
- claims outstanding	5	303.1	225.2
- special margin		250.0	400.0
		553.1	625.2
Reinsurers' share of change in the gross technical claims provisions		(116.9)	(71.7)
Net decrease in the provision for claims		436.2	553.5
Decrease in claims incurred, net of reinsurance	19	397.4	470.5
Net operating expenses	6	(3.1)	(3.4)
Balance on the general business technical account – profit	2	430.7	467.5

The notes on pages 11 to 23 form part of these accounts. Auditors' report page 6.

Profit and loss account
Non-technical account
for the year ended 31 December 2000

	Note	2000 $m	1999 $m
Balance on the general business technical account – profit		430.7	467.5
Investment return			
Income from investments		55.3	46.3
Value readjustment on investments		1.4	1.2
Realised gains/(losses) on investments		7.3	(7.2)
Unrealised gains/(losses) on investments		11.1	(20.0)
Investment management expenses		(1.6)	(1.7)
	10	73.5	18.6
Other income/(charges)		2.5	(4.4)
Profit before taxation	2	506.7	481.7
Taxation	11	(0.5)	(0.8)
Profit after taxation	18	506.2	480.9

Statement of total recognised gains and losses
for the year ended 31 December 2000

	2000 $m	1999 $m
Profit after taxation	506.2	480.9
Net foreign exchange revaluation gain	8.9	4.0
Total gains and losses recognised in the year	515.1	484.9

The notes on pages 11 to 23 form part of these accounts. Auditors' report: page 6.

Balance sheet as at 31 December 2000

	Note	2000 $m	1999 $m
ASSETS			
Investments			
Investments in group undertakings and participating interests	12	8.6	8.9
Other financial investments	13,14,15	963.9	865.4
Total investments		972.5	874.3
Reinsurers' share of technical claims provisions	19	451.6	568.5
Debtors	16	41.4	71.3
Cash at bank		9.2	9.7
Accrued interest		14.1	11.1
TOTAL ASSETS		1,488.8	1,534.9
LIABILITIES			
Capital and reserves			
Share capital	17	79.8	79.8
Profit and loss account – accumulated losses	18	(2,419.0)	(2,934.1)
Net deficiency of shareholders' funds	18	(2,339.2)	(2,854.3)
Technical claims provisions			
Claims outstanding		1,449.9	1,764.0
Special margin		1,550.0	1,800.0
Total technical claims provisions	19	2,999.9	3,564.0
Creditors	21	828.1	825.2
Total liabilities excluding shareholders' funds		3,828.0	4,389.2
TOTAL LIABILITIES including deficiency of shareholders' funds		1,488.8	1,534.9

The accounts were approved by the Board on 19 April 2001 and signed on its behalf by:

W F Goodier }
} Directors
M S Harvey }

The notes on pages 11 to 23 form part of these accounts. Auditors' report: page 6.

Cash flow statement
for the year ended 31 December 2000

	Note	2000		1999	
		$m	$m	$m	$m
Net cash inflow from operating activities	22		78.7		87.6
Taxation recovered			3.8		7.5
			82.5		95.1
Cash flows were invested as follows:					
Net portfolio investment					
Purchases of shares		470.3		541.3	
Sales of shares		(559.1)		(610.1)	
			(88.8)		(68.8)
Purchases of debt securities and other fixed interest securities		2,374.1		2,653.6	
Sales of debt securities and other fixed interest securities		(2,305.2)		(2,422.8)	
			68.9		230.8
Increase/(decrease) in deposits with credit institutions			102.6		(55.9)
			82.7		106.1
Decrease in cash holdings			(0.5)		(10.5)
Net increase in cash and portfolio investments			82.2		95.6
Movement in participating interests			0.3		(0.5)
Net investment of cash flows			82.5		95.1

The movement in cash and portfolio investments reflects:

	31 December 1999	Cash flow	Changes to market value and currencies	31 December 2000
	$m	$m	$m	$m
Cash at bank	9.7	(0.5)	-	9.2
Shares	115.3	(88.8)	(7.1)	19.4
Debt securities and other fixed interest securities	679.9	68.9	23.9	772.7
Deposits with credit institutions	70.2	102.6	(1.0)	171.8
	875.1	82.2	15.8	973.1

The notes on pages 11 to 23 form part of these accounts. Auditors' report: page 6.

FUNDAMENTAL UNCERTAINTIES

1 The company has a deficiency of net assets and accordingly the accounts are not prepared on a going concern basis. Additional amounts, described as a special margin, have been provided within the technical claims provisions to reflect the high level of prudence appropriate for establishing payment percentages under the Scheme (see note 3(i)) and the uncertainties inherent in determining the amount of claims outstanding (see note 19). Provision has been made for future expenses after making allowance for future investment return (see note 3(l)).

While the accounts have been drawn up on the basis of the best information available, there are fundamental uncertainties inherent in assessing the provisions required for claims outstanding, future claims settlement expenses and future run-off and administrative expenses.

DISCONTINUED OPERATIONS

2 All of the company's operations relate to the continuing run-off of the insurance business it underwrote prior to 24 March 1990 and the investment of the assets under its control.

ACCOUNTING POLICIES

3(a) The principal accounting policies used by the company are set out below, and have been applied consistently.

Disclosure requirements

3(b) The accounts have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985, applicable accounting standards in the United Kingdom and with the Statement Of Recommended Practice on accounting for insurance business issued by the Association of British Insurers in December 1998.

Basis of presentation

3(c) The accounts are presented in US Dollars to reflect the currency in which most of the company's insurance liabilities and assets are denominated.

3(d) Consolidated accounts have not been prepared in view of the severe long term restrictions arising from the insolvency of one of the subsidiary undertakings that impairs the company's control over the assets of that undertaking, and the immateriality of the company's other subsidiary and associated undertakings (see note 12).

3(e) As explained in note 24, the company carries on investment activities through the KWELM Partnership. The company's share of the assets, liabilities and investment return of the KWELM Partnership are included under the relevant headings in these accounts.

Recognition of profits and losses

3(f) The technical result is determined on an annual basis whereby the incurred cost of claims, acquisition and administrative expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(i) all premiums written are fully earned, and relate to adjustments to prior year estimates of premiums due to the company;

(ii) the movement in claims incurred represents adjustments to prior year estimates of claims and claims settlement expenses, the special margin and the reinsurers' shares of such estimates.

3(g) The amount of gross claims paid in the year is presented in compliance with the Companies Act 1985, It comprises scheme payments made in respect of new and existing established scheme liabilities relating to claims, agreed amounts set-off, the amount of letters of credit drawn and claims settlement expenses paid during the year.

3(h) The amount of gross claims agreed represents the value of claims agreed during the year together with the amount of claims settlement expenses paid during the year.

3(i) The provision for claims outstanding is undiscounted and is determined, by reference to projections of the ultimate run-off of premiums and claims, on the following basis:

(i) the estimated ultimate cost of claims notified but not settled, on the basis of the best information available, including trends in court awards and related direct expenses;

(ii) the estimated ultimate cost of claims incurred but not reported ("IBNR"), on the basis of the best information available, taking account of the estimated cost of notified claims, and including previous experience in claims notification and settlement patterns, the nature and amount of business written, and direct expenses;

(iii) the estimated amount of future claims settlement expenses (see note 3(l) below).

So that technical claims provisions are at all times sufficient to cover outstanding claims, they also include an additional amount, the special margin, which has been determined by the scheme administrators for the purpose of introducing the high level of prudence appropriate to establishing payment percentages under the Scheme and reflecting the uncertainties inherent in determining the provision for claims outstanding, both gross and net of reinsurance.

3(j) The reinsurers' share of the technical claims provisions represents the estimated amount to be recovered from reinsurers based on the amount of the technical claims provisions determined under note 3(i) above, less a provision for known and possibly irrecoverable amounts.

Equalisation reserves

3(k) Equalisation reserves are calculated in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. However, the net premium income written by the company falls below the de minimis level specified in the Insurance Companies (Reserves) Regulations 1996 and therefore no transfers are required to be made to an equalisation reserve.

Expenses

3(l) Full provision is made, within technical claims provisions, for the company's share of the estimated ultimate claims settlement expenses and other run-off costs. Additionally, provision is made, net of future investment return, within the provision for future administrative expenses, for the company's share of the estimated ultimate costs of implementing and administering the Scheme.

There are uncertainties as to the period over which the Scheme will operate, the level of expenses that will be incurred and the investment yield that can be achieved on the company's assets. The above provisions for future expenses, which are principally incurred in £ sterling, reflect the anticipated pattern of establishment of claims under the Scheme and assume annual inflation of 5%. The amount of the future investment return, which is offset against the provision for future administrative expenses, is based on a prudent estimate of the projected yield on the other financial investments shown in the balance sheet and is restricted so that an asset is not created for future investment return.

3(m) All expenditure is charged against the provisions previously made. The movements in such provisions are reflected in the general business technical account.

Investments and investment return

3(n) Investments in solvent subsidiary and associated undertakings are included at their underlying net asset value. No liability is recognised for insolvent undertakings.

3(o) Listed investments are stated at market value. Other investments are stated at prices quoted by various recognised sources.

Debt securities held on a long-term basis are valued at amortised cost. The amortisation is calculated having regard to the yield generated by the security.

3(p) The return from investments is included in the non-technical account on an accruals basis. No allocation is made to the technical account. Investment return includes any realised and unrealised gains and losses on investments during the year. Realised gains and losses represent the difference between the net sale proceeds and the cost of acquisition.

Debtor and creditor balances

3(q) The amounts due to and from reinsurers and the debtors and creditors arising out of insurance operations represent the net balances with principals after taking account of the set-offs available and enforceable under the Scheme, where such set-offs have been identified.

3(r) Scheme liabilities that have been discharged in full by a partial payment pursuant to the Scheme are removed from creditors, and the resulting surplus is credited to the technical account as other technical income.

Foreign exchange

3(s) Assets, liabilities and revenue transactions in other currencies are translated into US Dollars at the rates of exchange ruling at the balance sheet date. The net exchange gains and losses relating to the translation of assets and liabilities at the beginning of the year, at year end rates, are shown in the non-technical account as a movement in accumulated losses.

The principal rates used were:

	2000	1999
£ Sterling	$1.49	$1.61
Canadian Dollar	$0.67	$0.69

3(t) Share capital is translated into US Dollars at the rates of exchange ruling at the dates the shares were issued.

Taxation

3(u) Any taxation is provided by reference to the profits and losses dealt with in these accounts and the amount of any unutilised tax losses brought forward. Full provision would be made for deferred taxation on the liability method; however, in view of the available tax losses, it is not considered to be likely that a liability will crystallise in the foreseeable future.

PREMIUM INCOME

		2000 $000	1999 $000
4	Gross premiums written and earned	286	375
	Reinsurance premiums ceded	-	(17)
	Premiums written and earned, net of reinsurance	286	358

CHANGE IN GROSS TECHNICAL PROVISION FOR CLAIMS OUTSTANDING

		2000 $m	1999 $m
5	Provision brought forward	1,764.0	1,994.2
	Foreign exchange adjustment	(11.0)	(5.0)
		1,753.0	1,989.2
	Provision carried forward (see note 19)	(1,449.9)	(1,764.0)
	Decrease in gross technical provision for claims outstanding	303.1	225.2

NET OPERATING EXPENSES

6 Net operating expenses comprise administrative expenses incurred in the year of $3.1 million (1999 $3.4 million).

AUDITORS' REMUNERATION

7 The remuneration of the auditors amounted to $104,318 (1999 $114,098). RSM Robson Rhodes received no fees in respect of non-audit services (1999 $nil).

DIRECTORS' EMOLUMENTS

8 The aggregate emoluments of the directors were $86,963 (1999 $92,558).

MOVEMENT IN PRIOR YEARS' TECHNICAL PROVISIONS AND SEGMENTAL INFORMATION

9 The result for the year relates to prior years' underwriting and reflects the run-off of the accruals and technical provisions at the start of the year. The amounts shown in the technical account relate to the following classes of business:

	Gross premiums		Gross claims incurred		Reinsurance balance	
	2000 $m	1999 $m	2000 $m	1999 $m	2000 $m	1999 $m
Direct insurance:						
Marine, aviation and transport	-	-	0.4	0.5	-	-
Property	-	-	3.2	(2.2)	0.2	(0.1)
Liability	-	-	182.8	410.8	(0.9)	(4.1)
	-	-	186.4	409.1	(0.7)	(4.2)
Reinsurance acceptances	0.3	0.4	231.4	52.6	(19.7)	13.0
	0.3	0.4	417.8	461.7	(20.4)	8.8

As the company is in run-off, an allocation of operating expenses by class of business would not be meaningful and is not provided in these accounts.

INVESTMENT RETURN

10 Investment return comprises:

	2000 $m	1999 $m
Arising through the KWELM Partnership		
Income on investments	40.6	36.8
Realised and unrealised gains and (losses) on investments	17.3	(25.8)
Investment expenses	(1.5)	(1.4)
	56.4	9.6
Arising on the company's other assets		
Income on investments	14.7	9.5
Value readjustment on investments	1.4	1.2
Realised and unrealised gains and (losses) on investments	1.1	(1.4)
Investment expenses	(0.1)	(0.3)
	17.1	9.0
	73.5	18.6

TAXATION

11 No liability for corporation tax for the year arises as a result of available tax losses. The tax charge for the year reflects irrecoverable overseas withholding tax deducted from investment income.

INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

12 The value attributed by the directors to the investment in these undertakings comprises:

	Directors' valuation 2000 $m	Directors' valuation 1999 $m
Subsidiary undertakings:		
El Paso Insurance Company Limited ("El Paso") (see (a) below)	-	-
Wholly owned subsidiaries thereof:		
Desert Insurance Company Limited ("Desert")		
London United Insurance Services Limited		
Associated undertaking:		
KWELM Holdings Limited ("KHL") (see (b) below)	8.6	8.9
Wholly owned subsidiaries thereof:		
KWELM Asset Services Limited ("KAS")		
KWELM Employment Services Limited		
KWELM Management Services Limited ("KMS")		
KMS Insurance Services Limited		
	8.6	8.9

INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS (continued)

The subsidiary undertakings are wholly owned. The company owns 20% of the voting shares and 50.8% of the non-voting shares of KHL.

(a) A scheme of arrangement under Section 425 of the Companies Act 1985 became effective on 15 December 1993. The accounts of El Paso show a profit after taxation for the year of $71.6 million (1999 $88.2 million) and a net deficiency of assets of $283.5 million (1999 $356.7 million), and the audit report thereon referred to similar fundamental uncertainties as those referred to in the company's audit report on page 6.

In the opinion of the directors, in view of El Paso's insolvency, there are severe long term restrictions which significantly impair the company's control over the subsidiaries' assets and operations.

(b) The investment in the associated undertakings includes loans totalling $8.6 million (1999 $8.9 million). The share capital and net assets of KHL comprise:

Share capital	
voting shares	£5
non-voting shares	£195
Net assets	£200

All of the subsidiary and associated undertakings carry on insurance related business. The country of incorporation or registration of the companies is England, except for Desert which is registered in Bermuda.

OTHER FINANCIAL INVESTMENTS

13(a) Other financial investments comprise:

	2000 Market value* $m	2000 Cost $m	1999 Market Value* $m	1999 Cost $m
Shares				
Listed	9.7	9.6	79.8	60.9
Other	9.7	9.7	35.5	35.5
	19.4	19.3	115.3	96.4
Debt securities and other fixed interest securities:				
Listed	235.1	227.8	248.5	254.8
Other	537.6	523.3	431.4	434.8
	772.7	751.1	679.9	689.6
Deposits with credit institutions	171.8	171.8	70.2	70.2
	963.9	942.2	865.4	856.2

* Including fixed interest securities stated at amortised cost, as described in note 14.

The extent to which these assets are held in the name of the KWELM Partnership or in the names of the company or KWELM Treasury is summarised in note 13(b) below.

OTHER FINANCIAL INVESTMENTS (continued)

13(b) As described in note 24 the company, in conjunction with fellow subsidiaries, undertakes common investment activities through the KWELM Partnership. The market value of the other financial investments held in the name of the KWELM Partnership comprises:

	2000 $m	1999 $m
Shares:		
Listed	-	70.9
Other	9.7	35.5
	9.7	106.4
Debt securities and other fixed interest securities:		
Listed	211.7	221.8
Other	506.0	393.7
	717.7	615.5
Deposits with credit institutions	52.5	-
	779.9	721.9
These investments cost	768.2	720.8

All other investments are held in the name of the company or in the name of KWELM Treasury (see note 23(d)).

14 Other fixed interest securities include a zero coupon bond held in the name of the company valued at $16.4 million (1999 $15.0 million), which cost $6.5 million in 1990 and has a maturity value of $57.1 million in 2015.

ENCUMBRANCES OVER ASSETS

15 The cash at bank and deposits with credit institutions totalling $181.0 million (1999 $79.9 million) include amounts totalling $13.8 million (1999 $15.8 million), which are deposited with Citibank NA, London, as security for the company's share of letters of credit issued by Citibank totalling $10.8 million (1999 $13.6 million) and to enable the company to meet its potential obligations estimated at $1.4 million (1999 $3.0 million) relating to the underfunding of an agency pool account with Citibank by certain other participating insurance companies in respect of letters of credit issued in the name of the agent.

DEBTORS

		2000 $m	1999 $m
16	Debts due from reinsurers arising out of reinsurance operations, net of provisions for doubtful and irrecoverable amounts	20.0	29.7
	Other debtors, mainly relating to the KWELM Partnership (see note 24)	19.2	37.4
	Income tax recoverable	2.2	4.2
		41.4	71.3

SHARE CAPITAL

		£m	£m
17	Authorised:		
	60,000,000 ordinary share of £1 each	60.0	60.0
		$m	$m
	Issued and fully paid;		
	52,416,667 ordinary shares of £1 each, translated into US Dollars at historic rates of exchange	79.8	79.8

MOVEMENTS IN SHAREHOLDERS' FUNDS

		Accumulated Losses		Net deficiency in Shareholders' funds	
		2000	1999	2000	1999
		$m	$m	$m	$m
18	Balance brought forward	(2,934.1)	(3,419.0)	(2,854.3)	(3,339.2)
	Profit after tax for year	506.2	480.9	506.2	480.9
	Foreign exchange revaluation gain	8.9	4.0	8.9	4.0
	Balance carried forward	(2,419.0)	(2,934.1)	(2,339.2)	(2,854.3)

TECHNICAL CLAIMS PROVISIONS

19 A substantial measure of judgement is involved in assessing provisions for claims outstanding, the ultimate cost of which cannot be known with certainty at the balance sheet date. This uncertainty applies, in particular, to liability claims arising in the USA and especially in relation to insurance contracts written many years ago, where claims have been received asserting alleged injuries and damage from hazardous and toxic substances, many of which are the subject of dispute. Other claims, particularly under occurrence policies, may not be notified for many years. This uncertainty is increased by the insolvency of the company and other companies which participated on the H S Weavers (Underwriting) Agencies Limited stamp.

The provision for claims outstanding, which is based upon an actuarial valuation by PricewaterhouseCoopers dated 26 March 2001, represents an estimated undiscounted gross liability of $1,449.9 million (1999 $1,764.0 million) and includes a provision for future claims settlement expenses of $101.6 million (1999 $147.3 million). This estimate does not include any allowance for potential future claims arising from major loss causes not recognised in the historic data and no additional provisions have been made in respect of these contingencies.

In addition, in recognition of the circumstances of the company and the inherent uncertainty attaching to the quantification of claims outstanding, a special margin of $1,550 million (1999 $1,800.0 million), adopted by the scheme administrators for the purposes of introducing the high degree of prudence appropriate to establishing payment percentages under the Scheme, is included within the technical claims provisions in the balance sheet.

TECHNICAL CLAIMS PROVISIONS (continued)

The adjustments to the amount of the technical claims provisions, which will arise in future years and which may be significant, will be reflected in the accounts for the period in which the adjustments are made.

The reinsurers' share of the technical claims provisions is based on PricewaterhouseCoopers' actuarial valuation, together with an estimate of the amount of reinsurance recoverable on the special margin, and is stated net of a provision for irrecoverable reinsurance within the technical claims provisions. Thus, the amount of the reinsurers' share of technical claims provisions stated in the balance sheet recognises the uncertainties in determining the amounts to become due from reinsurers in future years, in the course of the run-off of the company's liabilities, and their recoverability.

PROVISIONS FOR OTHER RISKS AND CHARGES

20 The estimated full amount of the provision for future administrative expenses, including investment management expenses, is $54.7 million (1999 $92.3 million), which has been reduced to $nil (1999 $nil) by the offset of the estimated future investment return.

	CREDITORS: amounts due in less than five years	**2000 $m**	**1999 $m**
21(a)	Creditors arising out of direct insurance operations	723.6	709.1
	Owing to group undertakings	1.1	1.1
	Other creditors, mainly relating to the KWELM Partnership (see note 24)	103.4	115.0
	Total creditors	828.1	825.2

Creditors are due for settlement within five years but, because of the Scheme, may not be settled until later. The ultimate amount paid on established scheme liabilities will depend on the final payment percentage set by the scheme administrators.

		2000 $m	**1999 $m**
21(b)	The total creditors comprise:		
	Established scheme liabilities	646.4	639.7
	Liabilities in process of establishment	78.3	70.5
	Liabilities for securities purchased and for expenses incurred subsequent to the Scheme becoming effective, which are payable in full	103.4	115.0
		828.1	825.2

Established scheme liabilities represent claims and other liabilities for which the existence and amount of a present obligation to pay a scheme creditor has been established, and are stated in the balance sheet after taking account of available security, letters of credit, trusts, set-off or cross claims and scheme payments made.

RECONCILIATION OF OPERATING PROFIT BEFORE TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

		2000 $m	1999 $m
22	**Profit on ordinary activities before tax**		
	Profit before taxation	506.7	481.7
	Adjust: net realised and unrealised (gains)/losses on investments	(19.8)	26.0
	Irrecoverable overseas withholding tax	(0.5)	(0.8)
	Decrease in reinsurers' share of technical claims provisions	116.9	71.7
	Decrease in debtors and accrued interest	23.1	20.6
	Decrease in technical claims provisions	(553.3)	(625.2)
	Increase in creditors	5.6	113.6
	Net cash inflow from operating activities	78.7	87.6

RELATED PARTIES

23(a) The company's immediate and ultimate parent company is London United Investments PLC which is incorporated in Great Britain and registered in England and Wales. An Administration Order dated 22 May 1990 has been placed on the ultimate parent company. The company's shares are held on trust by Law Debenture Trust Corporation plc.

23(b) The company has entered into a scheme of arrangement with its creditors, effective 15 December 1993. I D B Bond and C J Hughes are the scheme administrators of the company. The Scheme provides that the scheme administrators shall, in relation to the company, manage the run-off of its business, realise its assets and apply them for the benefit of its creditors and supervise and ensure the carrying out of the Scheme; and gives them the power in the name and on behalf of the company to manage its affairs, business and property. During the year ended 31 December 2000, Mr Hughes was a partner in PricewaterhouseCoopers, which provided Scheme related services to the company. PricewaterhouseCoopers' fees, approved by the creditors committee, for services provided to the company amounted to $2.4 million (1999 $2.8 million).

23(c) As at 31 December 2000, the company had balances, arising from its insurance and reinsurance operations, due from fellow subsidiaries including El Paso Insurance Company Limited ("El Paso"), Kingscroft Insurance Company Limited ("Kingscroft"), Lime Street Insurance Company Limited ("Lime Street") and Mutual Reinsurance Company Limited ("Mutual"). These balances amounted to $110.5 million (1999 $102.7 million). They have been fully provided for in view of the potential irrecoverability of amounts due from these companies due to their insolvency and the net balance included in the accounts is ($nil) (1999 $nil).

RELATED PARTIES (continued)

23(d) Through a joint arrangement known as KWELM Treasury the company, in conjunction with Kingscroft, El Paso, Lime Street and Mutual, operates some bank accounts and undertakes some common investment activities. These bank accounts and investments are used to fund the payment of expenses that are shared between the companies in agreed proportions. Expenses paid through the accounts in the name of KWELM Treasury, the income earned on amounts held on such accounts and assets held in that name are allocated between the companies in those agreed proportions. The company's agreed proportion is 50%.

23(e) During the year ended 31 December 2000, the company purchased run off services at a cost of $7.8 million (1999 $10.8 million) from KMS, and owed $1.7 million (1999 $1.5 million) to KMS at the year end.

23(f) At the year end KAS owed $8.4 million (1999 $8.9 million) to the company under secured loan facilities.

23(g) During the year, Desert and London United Reinsurance Company Limited, a fellow subsidiary, assigned to the company certain of their assets and obligations relating to letters of credit issued by Citibank NA for the benefit of certain of their insureds and reinsureds. Under the assignment, Walbrook took on responsibility for fulfilling those companies' obligations in respect of letters of credit totalling $0.3 million and in respect of the underfunding of an agency pool account with Citibank NA by certain other participating insurance companies in relation to letters of credit issued in the name of the agent.

23(h) No notification has been received from any director of a material interest in any contract with the company.

The KWELM Partnership

24 The company, in conjunction with Kingscroft, El Paso, Lime Street and Mutual ("the Partners"), undertakes common investment activities through the KWELM Partnership. Each of the Partners has a quantifiable beneficial interest in the assets of the Partnership. The assets of the Partnership are beneficially owned by the Partners in their respective proportions. The assets held in the name of the Partnership are invested, in accordance with the investment guidelines set by the company and its Partners, on a discretionary basis by independent asset managers appointed by the company and its Partners.

The KWELM partnership is an ordinary partnership established under a partnership deed dated 2 December 1996; its principal place of business is John Stow House, 18 Bevis Marks, London EC3A 7JB. The audited accounts of the Partnership for the year to 31 December 2000 have been appended to the company's accounts for the purpose of filing under Section 242 of the Companies Act 1985, as required by the Partnerships and Unlimited Companies (Accounts) Regulations 1993.

RELATED PARTIES (continued)

The company's share of the assets, liabilities and investment return shown in the accounts of the KWELM Partnership, which have been included in the company's accounts, comprises:

	Per KWELM Partnership accounts		Company's share dealt with in accounts for	
	2000	1999	2000	1999
	$m	$m	$m	$m
Assets				
Other financial investments	1,486.3	1,375.8	779.9	721.9
Debtors	33.4	71.1	17.6	37.3
Cash at bank	2.7	-	1.4	-
Accrued interest	18.9	14.1	9.9	7.4
	1,541.3	1,461.0	808.8	766.6
Liabilities				
Creditors	(185.0)	(207.0)	(97.1)	(108.6)
Funds carried forward in the Partnership	1,356.3	1,254.0	711.7	658.0
Profit and loss account				
Net investment return	106.3	16.9	55.8	8.9

HM TREASURY RETURN TO FINANCIAL SERVICES AUTHORITY

25 The Secretary of State for Trade and Industry on the application of the company, issued to the company in March 1996 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 requirement under Section 17 shall be satisfied by the company preparing audited statutory accounts in accordance with Part 1 of Schedule 9A to the Companies Act 1985.

WALBROOK INSURANCE COMPANY LIMITED

APPENDIX

THE KWELM PARTNERSHIP

ANNUAL REPORT AND ACCOUNTS
YEAR ENDED 31 DECEMBER 2000

THE KWELM PARTNERSHIP

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2000

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Annual report

The Partners submit their report and the audited accounts for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES AND ADMINISTRATION

1. The KWELM Partnership (the "Partnership") was established under a Partnership Deed dated 2 December 1996 to permit common investment of certain of the Partners' assets for commercial purposes related to the business of the Partners. Each of the Partners has a quantifiable beneficial interest in the assets of the Partnership. The assets of the Partnership are beneficially owned by the Partners in their respective proportions. The assets held in the name of the Partnership are invested, in accordance with the investment guidelines set by the Partners, on a discretionary basis by independent asset managers appointed by the Partners.

2. The Partners are Kingscroft Insurance Company Limited, Walbrook Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Reinsurance Company Limited. The Partners are insurance companies which are subject to a Scheme of Arrangement under section 425 of the Companies Act 1985 (the "Scheme"). Messrs I D B Bond and C J Hughes are the scheme administrators of the Partners.

3. The principal place of business of the Partnership is John Stow House, 18 Bevis Marks, London EC3A 7JB, which is also the registered office of each of the Partners, except for Mutual Reinsurance Company Limited which is registered in Bermuda.

4. No additional contributions were made by the Partners in the year.

5. The Partners continue to undertake common investment activities through the Partnership.

RESULTS

6. The results of the Partnership are set out on page 5. The profit for the year was $106.3 million (1999 $16.9 million).

STATEMENT OF PARTNERS' RESPONSIBILITIES

7. The Partners are required to ensure that accounts are prepared for each accounting period which comply with the provisions of the Companies Act 1985 in respect of the state of affairs of the Partnership as at the end of the accounting period and of the profit or loss for that period.

8. Suitable accounting policies have to be used and applied consistently, in preparing the accounts, using reasonable and prudent judgements and estimates. Applicable United Kingdom accounting standards also have to be followed, with any material departures being disclosed and explained.

Annual report (continued)

STATEMENT OF PARTNERS' RESPONSIBILITIES (continued)

9. The Partners are responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Partnership. They are also responsible for safeguarding the assets of the Partnership and for ensuring controls are in place for the prevention and detection of fraud and other irregularities.

10. All of the Partners are insurance companies and prepare their own accounts in accordance with Section 255 *and Schedule 9A of the Companies Act 1985, and these accounts have been prepared using accounting policies and* presentation which are consistent with those used in the Partners' accounts.

For and on behalf of the Partners,

W F Goodier
19 April 2001

INDEPENDENT AUDITORS' REPORT TO THE PARTNERS

We have audited the financial statements on pages 5 to 11.

Respective responsibilities of Partners and auditors

The Partners' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and suitable accounting policies are set out in the Statement of Partners' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing 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 accounting policies. We also report to you if, in our opinion, the Annual Report is not consistent with the financial statements, if the Partnership has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the Annual Report.

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 Partners in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Partnership'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 affairs of the Partnership as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the accounting policies set out in note 1 to the accounts.

RSM Robson Rhodes

RSM Robson Rhodes
Chartered Accountants and Registered Auditors
London
19 April 2001

Profit and loss account for the year ended 31 December 2000

	2000 $m	1999 $m
Gross income from investments	77.2	70.2
Realised gains/(losses) on investments	12.9	(14.3)
Unrealised gains/(losses) on investments	20.1	(34.9)
Investment management expenses	(2.9)	(2.6)
Profit before irrecoverable taxation	107.3	18.4
Taxation: irrecoverable tax deducted from income received	(1.0)	(1.5)
Net profit for the year	106.3	16.9

Statement of total recognised gains and losses for the year ended 31 December 2000

There were no recognised gains and losses other than those included in the profit and loss account above.

The notes on pages 8 to 11 form part of these accounts. Auditors' report: page 4.

Balance sheet as at 31 December 2000

	Note	2000 $m	1999 $m
ASSETS			
Financial investments	3	1,486.3	1,375.8
Debtors	4	33.4	71.1
Cash at bank		2.7	-
Accrued interest		18.9	14.1
Total assets		1,541.3	1,461.0
LIABILITIES			
Partners' capital and current accounts	5	1,356.3	1,254.0
Creditors	4	185.0	207.0
Total liabilities		1,541.3	1,461.0

The accounts were approved by the Partners on 19 April 2001 and signed on their behalf by:

W F Goodier W Goodier

M S Harvey

The notes on pages 8 to 11 form part of these accounts. Auditors' report: page 4.

Cash flow statement for the year ended 31 December 2000

	Note	2000		1999	
		$m	$m	$m	$m
Net cash inflow from operating activities	6		80.2		147.6
Financing					
Contributions from the Partners in cash			-		142.8
			80.2		290.4
Cash flows were invested as follows:					
Net portfolio investment					
Purchases of shares		872.3		1,016.0	
Sales of shares		(1,043.7)		(1,159.6)	
			(171.4)		(143.6)
Purchases of debt securities and other fixed interest securities		4,487.7		5,049.3	
Sales of debt securities and other fixed interest securities		(4,338.8)		(4,615.0)	
			148.9		434.3
Increase in deposits with credit institutions			100.0		-
			77.5		290.7
Increase/(decrease) in cash holdings			2.7		(0.3)
Net investment of cash flows			80.2		290.4

The movement in cash and portfolio investments reflects:

	31 December 1999	Contributed by Partners	Other cash flow	Changes to market value and currencies	31 December 2000
	$m	$m	$m	$m	$m
Cash at bank	-	-	2.7	-	2.7
Shares	202.7	-	(171.4)	(12.8)	18.5
Debt securities and other fixed interest securities	1,173.1	-	148.9	45.8	1,367.8
Deposits with credit institutions	-	-	100.0	-	100.0
	1,375.8	-	80.2	33.0	1,489.0

The notes on pages 8 to 11 form part of these accounts. Auditors' report: page 4.

Notes to the accounts for the year ended 31 December 2000

ACCOUNTING POLICIES

1(a) The principal accounting policies used by the Partnership are set out below, and have been applied consistently.

Disclosure requirements

1(b) All of the Partners are insurance companies which prepare their accounts in accordance with Section 255 and Schedule 9A of the Companies Act 1985, applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice on accounting for insurance business issued by the Association of British Insurers in December 1998. These accounts have been prepared under the Partnerships and Unlimited Companies (Accounts) Regulations 1993, except that the accounting policies and presentation are consistent with those adopted by the Partners in their own accounts under Schedule 9 of the Companies Act 1985, rather than Schedule 7 of the Act. The effect on the accounts is that financial investments are shown at market value rather than cost.

Basis of presentation

1(c) The accounts are presented in US Dollars to reflect the currency in which most of the Partnership's assets and liabilities are denominated.

Investments and investment income

1(d) Listed investments are stated at market value. Other investments are stated at prices quoted by various recognised sources.

1(e) Income from investments and associated expenses are included in the profit and loss account on an accruals basis. Income from investments includes any realised and unrealised gains or losses on investments during the year. Realised gains and losses represent the difference between the net sale proceeds and the cost of acquisition.

Profits and losses

1(f) In accordance with the Partnership Deed dated 2 December 1996, the net profits and losses of the Partnership belong to the Partners in proportion to the amount of capital which each Partner has contributed to the Partnership.

Foreign exchange

1(g) Assets, liabilities and revenue transactions in other currencies are translated into US Dollars at the rates of exchange ruling at the balance sheet date.

Notes to the accounts for the year ended 31 December 2000 (continued)

ACCOUNTING POLICIES (continued)

Taxation

1(h) No provision for taxation has been made, as appropriate provision is made in the Partners' own accounts.

1(i) Recoverable income tax deducted from income received is recovered direct by the Partners and is shown within the Partners' current accounts. Irrecoverable income tax is shown as a charge in the profit and loss account.

AUDITORS' REMUNERATION

2 The remuneration of the auditors, which is settled direct by the Partners, amounted to $6,000 (1999 $6,000). RSM Robson Rhodes did not receive any fees in respect of other non-audit services.

FINANCIAL INVESTMENTS

3 Financial investments comprise:

	2000		1999	
	Market value $m	**Cost $m**	**Market value $m**	**Cost $m**
Shares:				
Listed	-	-	135.1	99.7
Other	18.5	18.5	67.6	67.6
	18.5	18.5	202.7	167.3
Debt securities and other fixed interest securities:				
Listed	403.4	389.3	422.7	433.4
Other	964.4	956.2	750.4	772.9
	1,367.8	1,345.5	1,173.1	1,206.3
Deposits with credit institutions	100.0	100.0	-	-
	1,486.3	1,464.0	1,375.8	1,373.6

Each of the Partners has a quantifiable beneficial interest in the assets of the Partnership. The assets of the Partnership are beneficially owned by the Partners in their respective proportions.

Notes to the accounts for the year ended 31 December 2000 (continued)

DEBTORS AND CREDITORS

4 Debtors and creditors principally arise from unsettled securities transactions.

MOVEMENTS IN PARTNERS' FUNDS

		2000			1999		
		Capital accounts	Current accounts	Total Partner's funds	Capital accounts	Current accounts	Total Partner's funds
		$m	$m	$m	$m	$m	$m
5(a)	Partners' funds bought forward	1,077.5	176.5	1,254.0	934.7	166.8	1,101.5
	Additional contributions	-	-	-	142.8	-	142.8
	Net profit for the year	-	106.3	106.3	-	16.9	16.9
	Income tax recoverable by the Partners	-	(4.0)	(4.0)	-	(7.2)	(7.2)
	Partners' funds carried forward	1,077.5	278.8	1,356.3	1,077.5	176.5	1,254.0

		Contributions	Other movements	Totals	Contributions	Other movements	Totals
		$m	$m	$m	$m	$m	$m
5(b)	The Partners' shares in the fund comprise:						
	Kingscroft Insurance Company Limited	-	17.5	232.1	8.7	1.7	214.6
	Walbrook Insurance Company Limited	-	53.8	711.7	102.7	5.1	657.9
	El Paso Insurance Company Limited	-	10.4	138.6	6.6	1.0	128.2
	Lime Street Insurance Company Limited	-	6.5	87.4	4.0	0.6	80.9
	Mutual Reinsurance Company Limited	-	14.1	186.5	20.8	1.3	172.4
		-	102.3	1,356.3	142.8	9.7	1,254.0

Notes to the accounts for the year ended 31 December 2000 (continued)

RECONCILIATION OF NET PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

			2000 $m	1999 $m
6	Profit before irrecoverable taxation		107.3	18.4
	Adjust:	net realised and unrealised (gains)/losses on investments	(33.0)	49.2
		taxation in Partners' current accounts	(4.0)	(7.2)
		irrecoverable tax deducted from income received	(1.0)	(1.5)
			69.3	58.9
	Decrease in debtors and accrued interest		32.9	15.4
	(Decrease)/increase in creditors		(22.0)	73.3
	Net cash inflow from operating activities		80.2	147.6

RELATED PARTIES

7(a) Each of the Partners has entered into a scheme of arrangement (the "Scheme") with its creditors, effective 15 December 1993. The Scheme provides that the scheme administrators shall, in relation to each Partner, manage the run-off of its business, realise its assets and apply them for the benefit of its creditors and supervise and ensure the carrying out of the Scheme; and gives them the power in the name and on behalf of each Partner to manage its affairs, business and property.

7(b) Messrs I D B Bond and C J Hughes are the scheme administrators of each Partner. During the year ended 31 December 2000, Mr Hughes was a partner in the firm of PricewaterhouseCoopers, which provided services to the Partnership. The fees of PricewaterhouseCoopers relating to the Partnership are paid direct by the Partners, and the appropriate disclosure is made in the accounts of each Partner.