

Registered No: 256100

OIC RUN-OFF LIMITED
(in Scheme of Arrangement)

ANNUAL REPORT

for the year ended 31st December 2001

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

ANNUAL REPORT
for the year ended 31st December 2001

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OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Directors and advisers

Directors

Paul A. B. Evans
Colin G. Bird
(Resigned 30th November 2001)
Daniel Y. Schwarzmann
(Appointed 30th November 2001)

Secretary and registered office

Simon J. Kelly
PricewaterhouseCoopers
35 St. Thomas Street
London
SE1 9SN

Registered Auditors

Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London
EC4A 4TR

Scheme Administrators

P. A. B. Evans, C. G. Bird (Resigned 30th
November 2001) and D. Y. Schwarzmann
PricewaterhouseCoopers
Plumtree Court
London
EC4A 4HT

Solicitors

Lovells
65 Holborn Viaduct
London
EC1A 2DY

Bankers

Barclays Bank PLC
54 Lombard Street
London
EC3V 9EX

OIC Run-Off Limited (in Scheme of Arrangement)

and its subsidiary company

Directors' report

for the year ended 31st December 2001

The directors present their report and the audited consolidated financial statements for the year ended 31st December 2001.

Principal activities and significant events

OIC Run-Off Limited and its subsidiary company, The London and Overseas Insurance Company Limited ("the Group") wrote non-life insurance and reinsurance business predominantly in the UK market. It ceased underwriting activities on 30th September 1992, but continues to run-off its insurance operation.

As a consequence of deterioration on claims reserves, the Group's parent company provided funding for claims payments from 15th December 1993 until 21st October 1994, when the Group was placed under the control of Joint Provisional Liquidators.

As described in note 12(c), on 30th June 1995 the Company and its wholly owned insurance subsidiary entered an arrangement whereby certain claims payments have been made in full. As at the balance sheet date, claims paid by the Group under this arrangement amounted to US\$112,496,000.

As described in note 22, the Company and its wholly owned subsidiary entered into a Scheme of Arrangement with effect from 7th March 1997. On 15th September 1997 an Initial Payment Percentage of 15% of creditors' Established Liabilities was approved by the Creditors' Committee. Subsequent increases in the Payment Percentage have been approved by the Creditors' Committee on an annual basis, with the current level of 33% being approved on 28th June 2001.

As part of running off its insurance operations, the Group continues to carry on investment activities in relation to the assets under its control.

Following the sale of Bridgeway Management Limited to the Omni Whittington Group in February 2000, Bridgeway Management Limited merged with Omni Whittington Insurance Services Limited on 1st April 2001. With effect from that date, Omni Whittington Insurance Services Limited has been managing the run-off of the Group's business.

Future prospects of the Group

Due to the nature of some of the risks underwritten, it is unlikely that the ultimate liability of the Group will be determined in the near future. However, at a suitable time the Scheme of Arrangement may be terminated by the creditors, providing a once and for all cut-off of the liabilities. In the meantime the Group will continue to run-off the business.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Directors' report (continued)
for the year ended 31st December 2001

Directors and directors' interests in shares of the Company

The names of the directors of the Company are shown on page 1 and, unless otherwise indicated, these directors held office throughout the year.

None of the directors (or their families) have any interest in the shares of the Company or of the Company's subsidiary.

No director is recorded in the register required to be kept pursuant to Section 325 of the Companies Act 1985 as having any interest in the share capital of the Company's ultimate holding company or of any of the Company's fellow subsidiary companies.

Subsequent events

In previous years the Directors reported a fundamental uncertainty in regards to the outcome of a legal action against the Company by a pool member. In February 2002 a settlement was agreed between the parties. As explained in note 23 to the accounts, the Group's and Company's financial statements have been adjusted to reflect this settlement.

Statement of directors' responsibilities

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

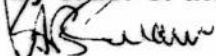
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Group's system of internal financial control, for safeguarding the assets of Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Pursuant to a members' resolution, the company is not obliged to reappoint its auditors and Deloitte & Touche will therefore continue in office.

By order of the board



P. A. B. Evans
Director

Report of the independent auditors to the members of OIC Run-Off Limited (in Scheme of Arrangement)

We have audited the financial statements of OIC Run- Off Limited (in Scheme of Arrangement) for the year ended 31 December 2001, which comprise the profit and loss, balance sheets, cash flow statement and the related notes 1 to 23. These financial statements have been prepared under 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 financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 and other members of the Group is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of 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 and the Group'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.

Basis of preparation

We draw your attention to note 2(a) which explains that the financial statements have been prepared on a basis appropriate for a Group in run-off.

Fundamental uncertainties

In forming our opinion, we have considered the adequacy of the disclosures made in note 14 to the financial statements concerning the fundamental uncertainties regarding the outcome of the following:

- (i) The ultimate cost of claims including, North American liability claims, such as environmental pollution and asbestos claims, which have been included in the Group's and Company's technical provisions and new sources or types of claims which might emerge; and
- (ii) The ultimate amount recoverable by the Group and the Company from reinsurers in respect of gross claims.

Report of the independent auditors to the members of OIC Run-Off Limited (in Scheme of Arrangement)

These matters, taken together or individually, give rise to significant uncertainty and their resolution may result in material, but presently unquantifiable, adjustments to the financial statements as presented.

Our opinion is not qualified in respect of the above matters.

Qualified opinion arising from omission of disclosures

As explained in note 11, the financial statements do not provide the disclosure required by The Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 in respect of the analysis of debtors and creditors between reinsurance and direct business. In addition, under Financial Reporting Standard 5 the Group and Company are required to report their broker balances on a gross basis, according to the principal involved. The Group and Company have not complied fully with this disclosure requirement. In respect of these matters the Group and Company have not complied with Section 221 of The Companies Act 1985.

Except for the Group's and Company's partial non-disclosure of broker balances on a gross basis, by principal, as explained in note 11, in our opinion the financial statements give a true and fair view of the state of affairs of the Group and Company at 31st December 2001 and of the Group's loss, for the year then ended and except for the omission of analysis of debtors and creditors between reinsurance and direct business as outlined in note 11 have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London
EC4A 4TR

Date: 24 7/2002

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated profit and loss account
Technical account - general business
for the year ended 31st December 2001

Discontinued activities

	Note	2001 US\$'000	2000 US\$'000
Earned premiums, net of reinsurance			
Gross premiums written		856	980
Outward reinsurance premiums		(1,147)	(2,165)
Earned premiums, net of reinsurance		(291)	(1,185)
Claims incurred, net of reinsurance			
Gross claims paid	12(c)	(22,075)	(4,677)
Change in outstanding claims agreed		(23,259)	(75,477)
Gross claims agreed		(45,334)	(80,154)
Reinsurance recoverable		49,098	74,403
Net claims agreed		3,764	(5,751)
Change in technical provisions			
Gross amount		(1,683)	(35,158)
Reinsurers' share		(29,628)	24,880
Change in net technical provisions		(31,311)	(10,278)
Claims incurred, net of reinsurance		(27,547)	(16,029)
Net operating expenses	7	(54,543)	(40,046)
Balance on the technical account - general business		<u>(82,381)</u>	<u>(57,260)</u>

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated profit and loss account
Non-technical account
for the year ended 31st December 2001

	Note	2001 US\$'000	2000 US\$'000
Balance on the technical account - general business		(82,381)	(57,260)
Investment income		18,883	28,179
Profit/(loss) on realisation of investments		695	(738)
Net unrealised profit on investments		5,704	13,138
Other income		453	394
Other charges		(1,288)	(1,383)
Foreign currency revaluation		391	19,572
(Loss)/profit on ordinary activities before and after taxation and (loss)/profit for the year		<u>(57,543)</u>	<u>1,902</u>

A statement of movements on reserves is given in note 16.

The Company and its wholly owned insurance subsidiary ceased all underwriting activities on 30th September 1992. Although these companies continue to trade, all of the results of the operations arise from discontinued activities.

The Group have no recognised gains or losses for the current and preceding year other than those which are included in the profit and loss account. Accordingly, no statement of total recognised gains and losses and no reconciliation of movements in shareholders' funds are given.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated balance sheet
at 31st December 2001

	Note	2001 US\$'000	2000 US\$'000
ASSETS			
Investments			
Other financial investments	10(a)	541,772	534,915
Reinsurers' share of technical provisions	13(a)	698,079	757,353
Debtors			
Debtors arising out of direct insurance and reinsurance operations	11	319,135	315,880
Deposits with ceding undertakings		423	552
Other debtors		9,972	9,386
		<u>329,530</u>	<u>325,818</u>
Other assets			
Cash at bank		48,838	11,854
Accrued income		3,575	3,679
Total assets		<u>1,621,794</u>	<u>1,633,619</u>

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated balance sheet (continued)
at 31st December 2001

	Note	2001 US\$'000	2000 US\$'000
LIABILITIES			
Capital and reserves			
Called up share capital	15	85,250	85,250
Share premium	16	46,500	46,500
Non-distributable reserves	16	1,938	1,938
Accumulated losses	16	(1,070,200)	(1,012,657)
Equity shareholders' deficit		(936,512)	(878,969)
Technical provisions	3,13(a)	1,773,822	1,776,284
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	11	526,993	473,589
Deposits received from reinsurers		27,344	33,455
Amounts due to group companies	12(a)	229,004	227,207
Other creditors including taxation and social security		712	1,149
		784,053	735,400
Accrued expenses		431	904
Total liabilities		1,621,794	1,633,619

The financial statements on pages 6 to 27 were approved by the board of directors on ²³ May 2002 and signed on their behalf by



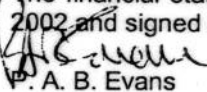
P. A. B. Evans
Director

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Balance sheet of the Company
at 31st December 2001

	Note	2001 US\$'000	2000 US\$'000
ASSETS			
Investments			
Other financial investments	10(a)	412,581	414,520
		412,581	414,520
Reinsurers' share of technical provisions	13(b)	310,520	466,319
Debtors			
Debtors arising out of direct insurance and reinsurance operations	11	247,850	234,842
Deposits with ceding undertakings		423	552
Other debtors		18,185	11,447
		266,458	246,841
Other assets			
Cash at bank		48,131	11,176
Accrued income		3,454	3,225
Total assets		<u>1,041,144</u>	<u>1,142,081</u>
LIABILITIES			
Capital and reserves			
Called up share capital	15	85,250	85,250
Share premium	16	46,500	46,500
Accumulated losses	16	(1,623,980)	(1,478,219)
Equity shareholders' deficit		<u>(1,492,230)</u>	<u>(1,346,469)</u>
Technical provisions	13(b)	<u>1,773,822</u>	<u>1,776,284</u>
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	11	526,993	473,589
Deposits received from reinsurers		27,344	33,455
Amounts due to group companies	12(a)	204,078	203,572
Other creditors including taxation and social security		712	746
		759,127	711,362
Accrued expenses		425	904
Total liabilities		<u>1,041,144</u>	<u>1,142,081</u>

The financial statements on pages 6 to 27 were approved by the board of directors on 27 May 2002 and signed on their behalf by


P. A. B. Evans
Director

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated cashflow statement
for the year ended 31st December 2001

	Note	2001 US\$'000	2000 US\$'000
Net cash inflow from operating activities	17	39,078	28,698
Financing			
Funding provided by parent company	18	3,094	3,274
Cash available for investment		<u>42,172</u>	<u>31,972</u>
Cash flows were invested as follows :			
Increase in cash holdings	17	37,072	3,323
Increase in other financial investments	17	5,100	28,649
Net investment of cash flows		<u>42,172</u>	<u>31,972</u>

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts
for the year ended 31st December 2001

1. Financial statements reporting currency

The financial statements have been presented in US Dollars, which is the main currency in which transactions are undertaken. The relevant US Dollar : Sterling exchange rates are as follows:

	Year-end rate
31st December 2001	1.4554
31st December 2000	1.4938

2. Principal accounting policies

The principal accounting policies observed by the Group are set out below and are consistent with those applied in the previous year.

(a) Disclosure requirements

The consolidated financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, except for the requirement of Financial Reporting Standard 5 regarding the presentation of broker balances on a gross basis as explained in note 11. Except as outlined in note 11, the consolidated financial statements have been prepared in accordance with Section 255A and Schedule 9A of the Companies Act 1985 and with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 1998 by the Association of British Insurers (The ABI SORP).

The financial statements have been prepared on a basis appropriate for a group in run-off and are subject to a number of fundamental uncertainties which are set out in note 14.

(b) Basis of consolidation

The consolidated profit and loss account, balance sheet and cashflow statement include the accounts of the Company and its subsidiary undertaking.

(c) Run-off of the business

The Group is in run-off having ceased all underwriting activities on 30th September 1992. The Company and its wholly owned insurance subsidiary were placed into provisional liquidation on 21st October 1994, and entered into a Scheme of Arrangement with effect from 7th March 1997. The Group's policy is to provide for the administrative and claims handling costs of running off the business to the extent that they are expected to exceed future investment income. Meaningful segmental analysis is not available due to the run-off nature of the business.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31st December 2001

(d) Basis of accounting for insurance business

As a Group in run-off, the financial statements have been prepared after accruing for all future premiums, claims and reinsurance recoveries.

(e) Premiums

Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business.

(f) Claims incurred

Claims incurred comprise claims agreed, claims payments and external settlement expense payments made in the financial year and the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation recoveries.

Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured.

(g) Claims outstanding

Provision is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. Included in the provision is an estimate of the external costs of handling the outstanding claims.

(h) Investments

Listed investments are shown at market value. Mortgages are stated at redemption values.

(i) Investments – subsidiary undertaking

In the parent company's accounts, shares in subsidiary undertakings are stated at cost less provisions for any impairment in value.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31st December 2001

(j) Investment income

All investment income is recognised in the non-technical account.

Investment income comprises interest and dividends, exclusive of tax credit, net rents, realised gains and losses on investments and the amortisation of fixed interest securities. Interest and net rents are dealt with on an accruals basis and dividends are included on an ex-dividend basis.

Realised gains or losses represent the difference between the net sale proceeds and purchase price.

Interest payable and expenses incurred in the management of investments are accounted for on an accruals basis.

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current period.

(k) Foreign currency

Transactions in currencies other than US Dollars and monetary assets and liabilities are translated to US Dollars at the rates of exchange ruling at the balance sheet date. Exchange differences are taken to the non technical account in the year in which they arise.

(l) Taxation

Deferred taxation is provided for on the liability method on all material timing differences to the extent that the liability, or relief, from tax is expected to arise in the foreseeable future.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31st December 2001

3. Basis of reserving

As stated in note 2, the Company sets its provision for claims outstanding based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

The adequacy of the claims outstanding provisions is assessed by reference to actuarial projections of the ultimate development of claims in respect of each accident year.

IBNR claims are calculated using net of reinsurance statistics, as in some cases gross statistics are not available. The gross IBNR has been calculated by applying the ratio of gross to net notified outstanding claims to the net projected IBNR claims, in the absence of gross IBNR statistics.

The methods used, and the estimates made, are reviewed regularly.

Whilst the Directors consider that the gross provision for claims and the related recoveries are fairly stated on the basis of the information currently available to them, there is inherent uncertainty in relation to the insurance industry by its nature. Significant delays might occur in the notification of certain claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. In particular, estimates of technical provisions inevitably contain inherent significant uncertainties because extensive periods of time may elapse between the occurrence of an insured loss, the claim triggering the insurance under a claims-made coverage, the reporting of that claim to the Company and the Company's payment of the claim and the receipt of reinsurance recoveries. This uncertainty is such that the ultimate liability, which will vary as a result of subsequent information and events, may result in adjustments to the amount provided. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made.

In addition, the Group is exposed to significant issues causing uncertainties which are greater than normal, as explained in note 14.

4. Prior years' claims provisions

Material (under)/over provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2001 US\$'000	2000 US\$'000
Environmental pollution and asbestos	(36,483)	(42,790)
Other Direct and Reinsurance Risks	8,936	26,761
	<u>(27,547)</u>	<u>(16,029)</u>

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31st December 2001

5. Staff costs

No staff costs are incurred by the Group, as all staff dealing with the affairs of the Group are employed by Omni Whittington Insurance Services Limited, which is remunerated by a management fee.

6. Directors' remuneration

The current directors Messrs. P.A.B. Evans and D.Y. Schwarzmenn were both partners in PricewaterhouseCoopers as at 31st December 2001, and receive no remuneration from the Group. PricewaterhouseCoopers are in receipt of fees for the provision of services to the Scheme Administrators.

7. Net operating expenses

Operating expenses have been charged directly to the technical account - general business.

	2001 US\$'000	2000 US\$'000
Management expenses	15,367	10,837
Increase in bad debt provision	37,284	29,209
Bad debts written off	1,892	-
Net operating expenses	<u>54,543</u>	<u>40,046</u>

Management fees amounting to US\$9,989,000 (2000: US\$7,431,000) were paid to Omni Whittington Insurance Services Limited for providing run-off services to the Group.

The bad debt provision as at 31st December 2001 was US\$420,628,000 (2000: US\$383,344,000). Of this amount US\$109,095,000 (2000: US\$99,080,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US\$311,533,000 (2000: US\$284,264,000) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US\$63,623,000 (2000: US\$64,795,000) is a specific provision and US\$45,472,000 (2000: US\$34,285,000) is a general provision. Of the amounts provided within technical provisions US\$33,543,000 (2000: US\$19,357,000) is a specific provision and US\$277,990,000 (2000: US\$264,907,000) is a general provision.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31st December 2001

Included in management expenses are audit fees, excluding VAT, of:

	2001 US\$'000	2000 US\$'000
OIC Run-Off Limited (in Scheme of Arrangement)	107	126
The London and Overseas Insurance Company Limited (in Scheme of Arrangement)	46	54

Remuneration of the Company's auditors for provision of non-audit services to the Company and its subsidiary undertakings was US\$nil (2000: US\$nil).

8. Run-off expenses and claims handling expenses

The estimated costs of running off the business, including claims handling costs have been considered for the period to 31st December 2015. It is anticipated that, over this period, investment income will exceed such costs. Accordingly, no provision has been made for run-off costs.

9. Taxation

Deferred tax

No provision has been made in the accounts for deferred tax due to the availability of tax losses to carry forward against future tax liabilities.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31st December 2001

10. Investments

(a) Other financial investments

Group	2001 Market Value US\$'000	2001 Cost US\$'000	2000 Market value US\$'000	2000 Cost US\$'000
Listed fixed interest securities	313,554	295,528	335,173	322,801
Mortgages	4	4	6	6
Deposits with credit institutions	228,214	228,214	199,736	199,736
	<u>541,772</u>	<u>523,746</u>	<u>534,915</u>	<u>522,543</u>
Company				
Listed fixed interest securities	313,554	295,528	331,116	318,811
Mortgages	4	4	6	6
Deposits with credit institutions	99,023	99,023	83,398	83,398
	<u>412,581</u>	<u>394,555</u>	<u>414,520</u>	<u>402,215</u>

Included in deposit accounts with credit institutions are deposits of US\$6,648,000 (2000: US\$7,500,000) supporting letters of credit providing security for certain overseas reinsureds.

(b) Investment in group undertaking

	2001 US\$'000	2000 US\$'000
Shareholding in subsidiary company	8,913	8,913
Provision against valuation	(8,913)	(8,913)
	<u>-</u>	<u>-</u>

Statement of investments in subsidiary company all of which are incorporated in Great Britain and registered in England and Wales:

Company	Identity of class of share	Proportion of nominal value %	Issued share capital US\$
The London and Overseas Insurance Company Limited (in Scheme of Arrangement)	Ordinary (one class)	100	10,850,000

The shareholding of US\$8,913,000 comprises The London and Overseas Insurance Company Limited at valuation on 1st January 1972 of US\$1,163,000 plus the cost of additional shares acquired of US\$7,750,000. This company has a deficit on shareholders' equity and so the directors consider that a nil valuation is appropriate.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31st December 2001

11. Debtors and creditors

Before the Group entered provisional liquidation, it derived its business from underwriting both direct and inwards reinsurance. Under the requirements of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, the Group and the Company are required to disclose amounts due to and from policyholders, intermediaries and reinsurers analysed between those arising from direct and reinsurance business.

In the past the Group has not maintained its accounting records in such a way as to make extraction of this information readily available, although this would be possible if sufficient time and resource were made available. As the Group is now in a Scheme of Arrangement, the directors do not consider these disclosures to be fundamental to the financial statements, and have not given them on the grounds of the additional resource required to extract this information.

Under Financial Reporting Standard 5 the Group and Company are required to report their transactions with brokers, including debtor and creditor balances, on a gross basis, according to the principal involved. In May 1997 a principal to principal ledger was put in place and is now receiving data from the broker-based system for this purpose. However, it will take time to populate fully the principal to principal ledger. Accordingly, only a proportion of the Groups debtor and creditor balances as at 31st December 2001 are stated on a gross basis.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31st December 2001

12. Group balances

(a)	Group		Company	
	2001 US\$'000	2000 US\$'000	2001 US\$'000	2000 US\$'000
Amounts due to group companies				
Intermediate parent company				
NNOFIC	229,004	227,207	190,093	188,203
Subsidiary undertaking				
The London and Overseas Insurance Company Limited (in Scheme of Arrangement)	-	-	13,985	15,369
	<u>229,004</u>	<u>227,207</u>	<u>204,078</u>	<u>203,572</u>

(b) As a result of continuing deterioration in claims reserves Internationale-Nederlanden Verzekeringen NV ('INV') provided funding for gross claims payments made from 15th December 1993, with effect from 1st February 1994. The value of this funding, which was in the form of an unsecured interest free intercompany loan from Nationale-Nederlanden Overseas Finance and Investment Company Limited ('NNOFIC'), a subsidiary of INV, and intermediate parent of the Company, amounted to US\$138,403,000 (Company : US\$102,980,000). The funding ceased on 21st October 1994, and the Company and its wholly owned insurance subsidiary, The London and Overseas Insurance Company Limited, were placed into provisional liquidation.

An amount of US\$11,305,000 due to OIM Limited and Orion Insurance General Limited at 31st December 1995 was assigned by these companies to NNOFIC during 1996.

Amounts totalling US\$149,708,000, currently included in amounts due to NNOFIC, have been subordinated to the Established Liabilities of all other Scheme Creditors, as defined in the Proposal document for the Scheme of Arrangement. This subordination became effective on 7th March 1997, the effective date of the Scheme of Arrangement.

(c) On 30th June 1995, the Company and its wholly owned insurance subsidiary entered an arrangement with The Institute of London Underwriters ('ILU'), now The International Underwriters Association, and NNOFIC, in respect of certain liabilities included in technical provisions arising on policies signed and issued by the ILU and incepting on or after 20th March 1969 in respect of its wholly owned insurance subsidiary and on or after 28th August 1970 in respect of the Company. Certain claims payments have been made by the Company and its wholly owned insurance subsidiary since 30th June 1995 using funds loaned to the Company and its wholly owned insurance subsidiary by NNOFIC. As at the balance sheet date, claims paid under this arrangement amounted to US\$112,496,000 of which US\$105,843,000 is the Company's portion, and the balance of US\$6,653,000 comprises the funding provided to the wholly owned insurance subsidiary, The London and Overseas Insurance Company Limited. Under the agreement, the loan from NNOFIC ranks as a policyholder liability and falls under the intra-group guarantee (see note 13(b)).

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13. Technical provisions

(a) Group	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
At 31st December 2001			
Notified outstanding claims	578,662	371,839	206,823
Incurred but not reported ("IBNR") claims	1,195,160	637,773	557,387
Provision against potential irrecoverable reinsurance	-	(311,533)	311,533
Total	1,773,822	698,079	1,075,743
At 31st December 2000			
Notified outstanding claims	574,913	368,515	206,398
Incurred but not reported ("IBNR") claims	1,201,371	673,102	528,269
Provision against potential irrecoverable reinsurance	-	(284,264)	284,264
Total	1,776,284	757,353	1,018,931
(b) Company	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
At 31st December 2001			
Notified outstanding claims	417,215	231,341	185,874
Incurred but not reported ("IBNR") claims	815,976	288,624	527,352
Provision against potential irrecoverable reinsurance	-	(209,445)	209,445
	1,233,191	310,520	922,671
Additional provision for subsidiary undertaking's Policyholder liabilities assumed under an intra- group guarantee	540,631	-	540,631
Total	1,773,822	310,520	1,463,302

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Company	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
At 31st December 2000			
Notified outstanding claims	427,427	239,660	187,767
Incurred but not reported ("IBNR") claims	889,988	414,989	474,999
Provision against potential irrecoverable reinsurance	-	(188,330)	188,330
	<u>1,317,415</u>	<u>466,319</u>	<u>851,096</u>
Additional provision for subsidiary undertaking's Policyholder liabilities assumed under an intra- group guarantee	<u>458,869</u>	<u>-</u>	<u>458,869</u>
Total	<u>1,776,284</u>	<u>466,319</u>	<u>1,309,965</u>

The Company has given a guarantee in favour of the policyholder liabilities of its wholly owned subsidiary undertaking, The London and Overseas Insurance Company Limited. Under this guarantee, any amounts paid by the Company in respect of its subsidiary's liabilities are recoverable only after all policyholder liabilities have been met.

Following the provisional liquidation of The London and Overseas Insurance Company Limited, the directors consider that this guarantee has crystallised. The technical provisions of the Company therefore include the Company's own policyholder liabilities and provision for the total liabilities of its subsidiary undertaking before taking account of the available assets of the subsidiary undertaking.

14. Fundamental uncertainties

The financial statements of the Group and the Company reflect the following uncertainties:

(a) **Ultimate gross technical provisions**

There is considerable uncertainty surrounding the ultimate cost of claims including environmental pollution and asbestos claims, most of which are subject to litigation and are being resisted by the Group. The Group is also vulnerable to new sources or types of claims. The ultimate cost of these claims cannot be known with certainty.

Technical provisions include the following amounts in respect of environmental pollution and asbestos claims:

- (i) all known outstanding environmental pollution and asbestos claims based on lawyers' advices and lawyers' reserve potentials. The net amount included in technical provisions at 31st December 2001 in respect of such environmental pollution and asbestos claims, after reinsurance recoveries of US\$218,689,000 (Company: US\$121,824,000), is US\$314,387,000 (Company : US\$364,400,000); and

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- (ii) a provision for incurred but not reported ('IBNR') claims of US\$760,690,000 (Company : US\$911,520,000) net of reinsurance, and US\$989,596,000 (Company : US\$989,596,000) gross of reinsurance, based on professional advice and a broad projection of observed developments to date; and
- (iii) a provision of US\$238,237,000 (Company : US\$155,869,000) for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US\$836,840,000 (Company: US\$1,120,051,000). The Company figures include US\$448,161,000 in respect of the policyholder liabilities of a wholly owned insurance subsidiary assumed under an intra-group guarantee (see note 13(b)).

(b) Reinsurance recoveries and bad debt provision

The directors have recognised recoveries due from claims on the Group's and Company's reinsurers. Amounts of US\$698,079,000 (Company : US\$310,520,000) are included in reinsurers' share of technical provisions and US\$319,135,000 (Company : US\$247,850,000) are included in debtors. These amounts are net of provisions against amounts due from reinsurers whose solvency may be in doubt and who may ultimately be unable to pay in full of US\$311,533,000 (Company : US\$209,445,000) and US\$109,095,000 (Company : US\$87,263,000) respectively.

The reinsurance recoveries figures above are affected by the following fundamental uncertainties.

- (i) As a result of the insolvency of certain of the Group's and Company's reinsurers, and because the Group and Company are currently unable to identify reinsurance offsets, there remains material uncertainty as to the amount which will be recovered from these reinsurers
- (ii) The Group has a complex reinsurance programme, the recoveries under which depend on a number of factors including the size of individual claims. Until these gross claims amounts are known with certainty, the Group and Company are unable to identify the extent to which there is possible exhaustion of vertical and horizontal reinsurance covers.

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15. Called up share capital

	2001 US\$'000	2000 US\$'000
Ordinary shares of 50p each:		
Authorised : 200,000,000	<u>155,000</u>	<u>155,000</u>
Called up, allotted and fully paid : 110,000,000	<u>85,250</u>	<u>85,250</u>

16. Statement of movements on reserves

	Share premium US\$'000	Non- distributable reserve US\$'000	Accumulated losses US\$'000
Group			
Balance at 1st January 2001	46,500	1,938	(1,012,657)
Loss for the year	<u>-</u>	<u>-</u>	<u>(57,543)</u>
Balance at 31st December 2001	<u>46,500</u>	<u>1,938</u>	<u>(1,070,200)</u>
Company			
Balance at 1st January 2001	46,500	-	(1,478,219)
Loss for the year	<u>-</u>	<u>-</u>	<u>(145,761)</u>
Balance at 31st December 2001	<u>46,500</u>	<u>-</u>	<u>(1,623,980)</u>

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts.

OIC Run-Off Limited (in Scheme of Arrangement)
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Notes to the accounts (continued)
for the year ended 31st December 2001

17. Reconciliation of consolidated (loss) / profit before and after tax to consolidated net cash inflow from operating activities

	2001 US\$'000	2000 US\$'000
(Loss)/profit before taxation	(57,543)	1,902
Profit / (loss) on realisation of investments	(695)	738
Net unrealised (profit) on investments	(5,704)	(13,138)
(Increase)/decrease in amounts due from debtors	(3,711)	2,753
Increase in amounts due to creditors other than parent company funding	50,287	30,656
Decrease in accrued income	104	214
(Decrease)/increase in accrued expenses	(472)	469
Increase in net Technical Provisions	56,812	5,104
Net cash inflow from operating activities	39,078	28,698

18. Movement in consolidated cash, portfolio investments and financing

	Cash US\$'000	Other Financial Investments US\$'000	Financing US\$'000	Total US\$'000
Balance at 1st January 2001	11,854	534,915	(227,207)	319,562
Cash flow	37,072	5,100	(3,094)	39,078
Changes to market values and currencies	(88)	1,757	1,297	2,966
Balance at 31st December 2001	48,838	541,772	(229,004)	361,606

	Cash US\$'000	Other Financial Investments US\$'000	Financing US\$'000	Total US\$'000
Balance at 1st January 2000	8,407	502,473	(232,416)	278,464
Cash flow	3,323	28,649	(3,274)	28,698
Changes to market values and currencies	124	3,793	8,483	12,400
Balance at 31st December 2000	11,854	534,915	(227,207)	319,562

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19. Lease commitments

The Company has no lease commitments.

20. FSA Returns

The FSA has issued to the Company in March 2002 a waiver under section 148 of the Financial Services and Markets Act 2000 providing that Rule 9.3 of the Interim Prudential Sourcebook for insurers should be modified in its application to the Company so that the requirements under Rule 9.3 shall be satisfied by the Company preparing audited statutory accounts in accordance with part 1 of the Schedule 9A to the Companies Act 1985.

21. Related parties

- (a) The Company is a wholly owned subsidiary of Nationale-Nederlanden (UK General) Limited, a company incorporated in Great Britain and registered in England and Wales. Internationale-Nederlanden Groep NV, a company incorporated in The Netherlands, is the ultimate holding company. The results of the Company and of the Group have not been consolidated in the ultimate parent company's financial statements.
- (b) The Group was placed under the control of Joint Provisional Liquidators P. A. B. Evans and R. Boys-Stones on 21st October 1994. Mr. Evans and Mr. Boys-Stones are partners in PricewaterhouseCoopers, the firm which provided services relating to the provisional liquidation of the Group.
- (c) With effect from 7th March 1997, the Company and its wholly owned insurance subsidiary entered into a Scheme of Arrangement with their creditors. P. A. B. Evans and D. Y. Schwarzmann are the Scheme Administrators of the Company and its wholly owned insurance subsidiary. The Scheme provides that the Scheme Administrators shall, in relation to the Company and its wholly owned insurance subsidiary, manage the run-off of their business, realise their assets and apply them for the benefit of its creditors, supervise and ensure the carrying out of the Scheme, and gives them the power in the name and on behalf of the Company and its wholly owned insurance subsidiary to manage their affairs, business and property. During the year ended 31st December 2001, PricewaterhouseCoopers' fees for services provided to the Group and Company amounted to US\$2,737,000 (2000: US\$3,883,000) and US\$2,674,000 (2000: US\$3,821,000) respectively, excluding VAT.
- (d) As explained in note 12(c), certain claims are paid by the insurance subsidiary using funds loaned by NNOFIC, a subsidiary of the Company's ultimate holding company. The amount paid during the year under this agreement was US\$5,317,000 (2000: US\$4,677,000) for the Group and US\$5,112,000 (2000: US\$3,998,000) for the Company.

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22. Scheme of Arrangement

The Company and its wholly owned insurance subsidiary entered into a Scheme of Arrangement with effect from 7th March 1997. Details of the Scheme of Arrangement were sent to creditors and shareholders in a Proposal document dated 20th November 1996. This document should be referred to by creditors of the Company and its wholly owned insurance subsidiary. On 15th September 1997 an Initial Payment Percentage of 15% of creditors' Established Liabilities was approved by the Creditors' Committee. Subsequent increases in the Payment Percentage have been approved by the Creditors' Committee on an annual basis, with the current level of 33% being approved on 28th June 2001.

23. Subsequent events

In previous years the Directors reported a fundamental uncertainty in regards to the outcome of a legal action against the Company by a pool member. In February 2002 a settlement was agreed between the parties. The Group's and Company's financial statements have been adjusted to reflect this settlement. This treatment is compliant with United Kingdom accounting standards (SSAP 17 – Accounting for post balance sheet events).

The exposure of the Company to losses linked to this matter, reported by the Directors in the financial statements as at 31st December 2000 was US\$200 million.