

Registered No: 38706

**THE LONDON AND OVERSEAS INSURANCE
COMPANY LIMITED**
(in Scheme of Arrangement)

ANNUAL REPORT

for the year ended 31st December 2002

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

ANNUAL REPORT

for the year ended 31st December 2002

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The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Directors and advisers

Directors

Paul A. B. Evans
Daniel Y. Schwarzmann

Secretary and registered office

D. Y. Schwarzmann
PricewaterhouseCoopers
12 Plmtree Court
London
EC4A 4HT

Registered Auditors

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

Scheme Administrators

P. A. B. Evans and D. Y. Schwarzmann
PricewaterhouseCoopers
Plmtree Court
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Solicitors

Lovells
Atlantic House
Holborn Viaduct
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EC1A 2FG

Bankers

Barclays Bank PLC
54 Lombard Street
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The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Directors' report

for the year ended 31st December 2002

The directors present their report and the audited financial statements for the year ended 31st December 2002.

Principal activities and significant events

The Company wrote Marine and Aviation insurance. 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 Company's intermediate parent company provided funding for claims payments from 15th December 1993 until 21st October 1994, when the Company and its immediate parent company, OIC Run-Off Limited (formerly the Orion Insurance Company PLC) (collectively "the OIC Group") were placed under the control of Joint Provisional Liquidators.

As described in note 13(c), on 30th June 1995 the OIC Group entered into an arrangement whereby certain claims payments have been made in full. As at the balance sheet date, claims paid by the Company under this arrangement amounted to US\$7,632,000.

As described in note 20, the OIC Group 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 38% being approved on 18th June 2002.

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

Future prospects of the Company

Due to the nature of some of the risks underwritten, it is unlikely that the ultimate liability of the Company 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 Company will continue to run-off the business.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Directors' report (continued)

for the year ended 31st December 2002

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.

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 holding company or of any of the Company's fellow subsidiary companies.

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 as at the end of the financial year and of the profit or loss of the Company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Company's system of internal financial control, for safeguarding the assets of the Company, 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 The London and Overseas Insurance Company Limited (in Scheme of Arrangement)

We have audited the financial statements of The London and Overseas Insurance Company Limited (in Scheme of Arrangement) for the year ended 31st December 2002, which comprise the profit and loss account, the balance sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies' Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters that we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 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 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 company in run-off.

Report of the independent auditors to the members of The London and Overseas Insurance Company Limited (in Scheme of Arrangement)

Fundamental uncertainties

In forming our opinion, we have considered the adequacy of the disclosures made in note 15 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 Company's technical provisions, and new sources or types of claims which might emerge; and
- (ii) the ultimate amount recoverable by the Company from reinsurers in respect of gross claims.

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.

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

Qualified opinion arising from omission of disclosures

As explained in note 5, 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 Company is required to report its broker balances on a gross basis, according to the principal involved. The Company has not complied fully with this disclosure requirement. In respect of these matters the Company has not complied with Section 221 of The Companies Act 1985.

Except for the Company's partial non-disclosure of broker balances on a gross basis, by principal, as explained in note 5, in our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31st December 2002 and of the Company'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 5 have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Deloitte & Touche
Chartered Accountants and Registered Auditors
London

Date: 11 July 2003

The London and Overseas Insurance Company Limited
(in Scheme of Arrangement)

Profit and loss account
Technical account - general business
for the year ended 31st December 2002

Discontinued activities

	Note	2002 US\$'000	2001 US\$'000
Earned premiums, net of reinsurance			
Gross premiums written		108	147
Outwards reinsurance premiums		(266)	(156)
		<u>(158)</u>	<u>(9)</u>
Earned premiums, net of reinsurance			
Claims incurred, net of reinsurance			
Gross claims paid	13(c)	(782)	(94)
Change in outstanding claims agreed		(9,479)	(8,093)
		<u>(10,261)</u>	<u>(8,187)</u>
Gross claims agreed		8,108	2,912
Reinsurance recoverable		<u>(2,153)</u>	<u>(5,275)</u>
Net claims agreed			
Change in technical provisions			
Gross amount		172,394	(82,792)
Reinsurers' share		(147,726)	103,370
		<u>24,668</u>	<u>20,578</u>
Change in net technical provisions			
		<u>22,515</u>	<u>15,303</u>
Claims incurred, net of reinsurance			
Net operating expenses	9	761	(17,459)
Balance on the technical account – general business		<u>23,118</u>	<u>(2,165)</u>

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Profit and loss account Non-technical account for the year ended 31st December 2002

	Note	2002 US\$'000	2001 US\$'000
Balance on the technical account - general business		23,118	(2,165)
Investment income		2,731	5,412
Profit on realisation of investments		-	10
Net unrealised loss on investments		-	(68)
Foreign currency revaluation		(8,168)	6,018
		<u>17,681</u>	<u>-9,207</u>
Movement in provision for policyholder liabilities assumed under an intra-group guarantee	14(a)	(27,699)	31,386
Movement in provision against balances due from immediate parent company in Scheme of Arrangement	8	(494)	1,396
(Loss)/profit on ordinary activities before and after taxation and profit for the year		<u>(10,512)</u>	<u>41,989</u>

A statement of movements on reserves is given in note 17.

The Company ceased underwriting activities on 30th September 1992. Although the Company continues to trade, all of the results of the operations arise from discontinued activities.

The Company has 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.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Balance sheet at 31st December 2002

	Note	2002 US\$'000	2001 US\$'000
ASSETS			
Investments	12	137,504	129,191
Reinsurers' share of technical provisions	14(a)	242,367	387,559
Debtors			
Debtors arising out of direct insurance and reinsurance operations	5	74,220	71,285
Amounts due from group companies	13(a)	-	-
Other debtors		24	12
		<u>74,244</u>	<u>71,297</u>
Other assets			
Cash at bank		714	708
Accrued income		392	121
Total assets		<u>455,221</u>	<u>588,876</u>
LIABILITIES			
Capital and reserves			
Called up share capital	16	10,850	10,850
Accumulated losses	17	(1,887,084)	(1,876,572)
Equity shareholders' deficit		<u>(1,876,234)</u>	<u>(1,865,722)</u>
Technical provisions	14(a)	1,686,173	1,773,822
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	5	521,536	526,993
Deposits received from reinsurers		6,453	27,344
Amounts due to group companies	13(a)	117,281	118,207
Other creditors including taxation and social security		12	8,232
		<u>645,282</u>	<u>680,776</u>
Total liabilities		<u>455,221</u>	<u>588,876</u>

The financial statements on pages 6 to 20 were approved by the board of directors on 8 July 2003 and signed on their behalf by



P. A. B. Evans
Director

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts

for the year ended 31st December 2002

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 2002	1.6016
31st December 2001	1.4554

2. Principal accounting policies

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

(a) Disclosure requirements

The 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 5. Except as outlined in note 5, the 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 company in run-off and are subject to a number of fundamental uncertainties which are set out in note 15.

(b) Run-off of the business

The Company is in run-off having ceased all underwriting activities on 30th September 1992. The Company was placed into provisional liquidation on 21st October 1994 and entered into a Scheme of Arrangement with effect from 7th March 1997. The Company'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.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

2. Principal accounting policies (continued)

(c) Basis of accounting for insurance business

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

(d) 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.

(e) 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.

(f) 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.

(g) Investments

Listed investments are shown at market value.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

2. Principal accounting policies (continued)

(h) 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.

(i) 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.

(j) Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax. The exception to this is that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(k) Cash flow statement

The Company is a wholly owned subsidiary of OIC Run-Off Limited and the cash flows of the Company are included in that company's consolidated cash flow statement. Consequently the Company is exempt under the terms of Financial Reporting Standard 1 from producing a cash flow statement.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

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 Company is exposed to significant issues causing uncertainties which are greater than normal, as explained in note 15.

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:

	2002 US\$'000	2001 US\$'000
Environmental pollution and asbestos	55,845	(43,852)
Other Direct and Reinsurance Risks	(33,330)	59,155
	<u>22,515</u>	<u>15,303</u>

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

5. Debtors and creditors

Before the Company 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 Company is 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 Company 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 Company 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 Company is required to report its 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 Company's debtor and creditor balances as at 31st December 2002 are stated on a gross basis.

6. 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.

7. Directors' remuneration

The current directors Messrs. P.A.B. Evans and D.Y. Schwarzmenn were both partners in PricewaterhouseCoopers as at 31st December 2002, and receive no remuneration from the Group. PricewaterhouseCoopers are in receipt of fees for the provision of services to the Scheme Administrators.

8. Provision against balances due from immediate parent company (in Scheme of Arrangement)

Full provision has been made against balances due from OIC Run-Off Limited, the Company's immediate parent company, following the appointment of Joint Provisional Liquidators. This year's decrease in the provision amounted to US\$494,000 (2001: increase of US\$1,396,000).

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

9. Net operating expenses

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

	2002 US\$'000	2001 US\$'000
Management expenses	(761)	311
Increase in bad debt provision	-	17,107
Bad debts written off	-	41
Net operating expenses	<u>(761)</u>	<u>17,459</u>

Included in management expenses is a refund of US\$930,000 received under the terms of a reinsurance contract and represents reimbursement of prior year management fees.

Included in the credit for management expenses are the following expenses, exclusive of VAT:

	2002 US\$'000	2001 US\$'000
Auditors' remuneration for audit services	53	46

The bad debt provision as at 31st December 2002 was US\$123,920,000 (2001: US\$123,920,000). Of this amount US\$21,832,000 (2001: US\$21,832,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US\$102,088,000 (2001: US\$102,088,000) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US\$12,913,000 (2001: US\$14,491,000) is a specific provision and US\$8,919,000 (2001: US\$7,341,000) is a general provision. Of the amounts provided within technical provisions US\$3,167,000 (2001: US\$2,435,000) is a specific provision and US\$98,921,000 (2001: US\$99,653,000) is a general provision.

No staff costs are incurred by the Company, because no staff are employed directly by the Company.

10. 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.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

11. Taxation

(a) Tax on profit on ordinary activities	2002 US\$'000	2001 US\$'000
The charge based on the profit for the year comprises:		
Current tax	-	-
Deferred tax	-	-
Tax on profit on ordinary activities	-	-

(b) Factors affecting tax charge for the year	2002 US\$'000	2001 US\$'000
(Loss)/profit on ordinary activities before tax	(10,512)	41,989
Tax thereon at 30%	(3,154)	12,597
Other differences	9,626	(10,036)
Utilisation of tax losses brought forward	(6,472)	-
Utilisation of tax losses carried forward	-	(2,561)
Total current tax	-	-

(c) Factors that may affect future tax charges

Tax losses, estimated at the standard UK rate of tax of 30%, of US\$36,000,000 (2001: US\$420,500,000) are available to offset against the Company's taxable profits in future periods. No deferred tax asset has been recognised in respect of these losses as, due to the uncertainty of future profits, it is not known at what point in time these losses will reverse. There are no deferred tax liabilities.

12. Investments

	2002 Market value US\$'000	2002 Cost US\$'000	2001 Market value US\$'000	2001 Cost US\$'000
Deposits with credit institutions	137,504	137,504	129,191	129,191

Included in deposit accounts with credit institutions are deposits of US\$493,000 (2001: US\$497,000) supporting letters of credit providing security for certain overseas reinsureds.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

13. Group balances

(a)	2002 US\$'000	2001 US\$'000
Amounts due from group companies		
Immediate parent company		
OIC Run-Off Limited (in Scheme of Arrangement)	14,478	13,985
Provision against debts due from OIC Run-Off Limited (in Scheme of Arrangement)	(14,478)	(13,985)
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>
Amounts due to group companies		
Intermediate parent company		
NNOFIC	117,281	118,207
	<u> </u>	<u> </u>
	117,281	118,207
	<u> </u>	<u> </u>

- (b) As a result of continuing deterioration in claims reserves ING Verzekeringen NV ('INGV') 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 Unlimited ('NNOFIC'), a subsidiary of INGV, and intermediate parent of the Company, amounted to US\$35,423,000. The funding ceased on 21st October 1994, and the Company and its immediate parent company, OIC Run-Off Limited, were placed into provisional liquidation.

An amount of US\$3,838,000 due to OIM Limited (a fellow subsidiary company) at 31st December 1995 was assigned by this company to NNOFIC during 1996.

The above amounts totalling US\$39,261,000, 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 immediate parent company 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 the Company and on or after 28th August 1970 in respect of its immediate parent company. Certain claims payments have been made by the Company and its immediate parent company since 30th June 1995 using funds loaned to the Company and its immediate parent company by NNOFIC. As at the balance sheet date, claims paid under this arrangement amounted to US\$116,814,000 of which US\$7,632,000 is the Company's portion, and the balance of US\$109,182,000 comprises the funding provided to its immediate parent company OIC Run-Off Limited. Under the agreement, the loan from NNOFIC ranks as a policyholder liability and falls under the intra-group guarantee (see note 14(a)).

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

14. Technical provisions

(a)	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
At 31st December 2002			
Notified outstanding claims	136,172	122,117	14,055
Incurred but not reported ("IBNR") claims	234,820	222,338	12,482
Provision against potential irrecoverable Reinsurance	-	(102,088)	102,088
	<u>370,992</u>	<u>242,367</u>	<u>128,625</u>
Additional provision for immediate parent company's policyholder liabilities assumed under an intra-group guarantee	1,315,181	-	1,315,181
	<u>1,686,173</u>	<u>242,367</u>	<u>1,443,806</u>
At 31st December 2001			
Notified outstanding claims	161,447	140,498	20,949
Incurred but not reported ("IBNR") claims	379,184	349,149	30,035
Provision against potential irrecoverable Reinsurance	-	(102,088)	102,088
	<u>540,631</u>	<u>387,559</u>	<u>153,072</u>
Additional provision for immediate parent company's policyholder liabilities assumed under an intra-group guarantee	1,233,191	-	1,233,191
	<u>1,773,822</u>	<u>387,559</u>	<u>1,386,263</u>

The Company has given a guarantee in favour of the policyholder liabilities of its immediate parent company, OIC Run-Off Limited. Under this guarantee, any amounts paid by the Company in respect of its immediate parent company's liabilities are recoverable only after all policyholder liabilities have been met.

Following the provisional liquidation of OIC Run-Off 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 immediate parent company before taking account of the available assets of the immediate parent company.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

15. 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 Company. The Company 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 2002 in respect of such environmental pollution and asbestos claims, after reinsurance recoveries of US\$91,214,000 is US\$308,281,000; and
- (ii) a provision for incurred but not reported ('IBNR') claims of US\$783,546,000 net of reinsurance, and US\$985,485,000 gross of reinsurance, based on professional advice and a broad projection of observed developments to date; and
- (iii) a provision of US\$82,368,000 for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US\$1,174,195,000. This figure includes US\$1,067,613,000 in respect of the policyholder liabilities of the immediate parent company assumed under an intra-group guarantee (see note 14(b)).

b) Reinsurance recoveries and bad debt provision

The directors have recognised recoveries due from claims on the Company's reinsurers. Amounts of US\$242,367,000 are included in reinsurers' share of technical provisions and US\$74,220,000 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\$102,088,000 and US\$21,832,000 respectively.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

b) Reinsurance recoveries and bad debt provision (continued)

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; and
- (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.

16. Called up share capital

	2002 US\$'000	2001 US\$'000
Ordinary shares of 25p each: Authorised: 100,000,000	38,750	38,750
	<u>10,850</u>	<u>10,850</u>
Called up, allotted and fully paid: 28,000,000		

17. Statement of movements on reserves

	Accumulated losses US\$'000
Balance at 1st January 2002	(1,876,572)
Loss for the year	(10,512)
Balance at 31st December 2002	<u>(1,887,084)</u>

18. FSA Returns

The FSA has issued to the Company in March 2003 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.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31st December 2002

19. Related party transactions

- (a) The Company's immediate parent company, OIC Run-Off Limited, acts as a collecting agent for part of the Company's brokers' ledger.

The Company has taken advantage of the exemption allowed by FRS 8 not to disclose related party transactions with OIC Run-off Limited.

- (b) The Company is a wholly owned subsidiary of OIC Run-Off Limited, a company incorporated in Great Britain and registered in England and Wales. ING Groep NV, a company incorporated in The Netherlands, is the ultimate holding company. The results of the Company have not been consolidated in the ultimate parent company's financial statements.
- (c) The Company and its immediate parent company were 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 the services relating to the provisional liquidation of the Company and its immediate parent company.
- (d) With effect from 7th March 1997, the Company and its immediate parent company entered into a Scheme of Arrangement with their creditors. P. A. B. Evans and D.Y. Schwarzmann are the Joint Scheme Administrators of the Company and its immediate parent company. The Scheme provides that the Scheme Administrators shall, in relation to the Company and its immediate parent company, 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 immediate parent company to manage their affairs, business and property. During the year ended 31st December 2002, PricewaterhouseCoopers' fees for services provided to the Company amounted to US\$144,000 (2001: US\$63,000), excluding VAT.
- (e) As explained in note 13(c), certain claims are paid by the Company 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\$523,000 (2001: US\$210,000).

20. Scheme of Arrangement

The Company and its immediate parent company 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 immediate parent company. 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 38% being approved on 18th June 2002.