Registered No: 38706

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

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2004

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

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2004

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

Directors and advisers

Directors	P. A. B. Evans D. Y. Schwarzmann
Secretary and registered office	D. Y. Schwarzmann PricewaterhouseCoopers 12 Plumtree Court London EC4A 4HT
Registered Auditors	Deloitte & Touche LLP London
Scheme Administrators	P. A. B. Evans and D. Y. Schwarzmann PricewaterhouseCoopers Plumtree Court London EC4A 4HT
Solicitors	Lovells Atlantic House Holborn Viaduct London EC1A 2FG
Bankers	Barclays Bank PLC 54 Lombard Street London EC3V 9EX

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

Directors' report
for the year ended 31 December 2004

The directors present their report and the audited financial statements for the year ended 31 December 2004.

Principal activities and significant events

The Company wrote Marine and Aviation insurance. It ceased underwriting activities on 30 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 15 December 1993 until 21 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 14(c), on 30 June 1995 the OIC Group entered into an arrangement with NNOFIC whereby certain claims payments have been made in full. As at the balance sheet date, total claims paid under this arrangement amounted to US$9,296,000.

As described in note 21, the OIC Group entered into a Scheme of Arrangement with effect from 7 March 1997. On 15 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 45% being approved on 26 January 2005.

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 Group

Due to the nature of some of the risks underwritten, the ultimate liability of the Group remains subject to uncertainty. However, proposals are being prepared for an amending Scheme of Arrangement to be issued to the creditors. This will seek to provide a once and for all cut-off of the liabilities of the Group. In the meantime the Group will continue to run-off the business.

Directors' report (continued)
for the year ended 31 December 2004

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.

Neither of the directors (or their families) have any interests 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 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 auditors and Deloitte & Touche LLP 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 31 December 2004, which comprise the profit and loss account, the balance sheet and the related notes 1 to 21. 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 audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 16 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 31 December 2004 and of the Company's profit 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 LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

Date: 25 October 2005

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

Profit and loss account
Technical account - general business
for the year ended 31 December 2004

Discontinued operations

	Notes	2004 US$'000	2003 US$'000
Earned premiums, net of reinsurance			
Gross premiums written		48	203
Outwards reinsurance premiums		12	167
Earned premiums, net of reinsurance		60	370
Claims incurred, net of reinsurance			
Gross claims paid		(476)	(356)
Change in outstanding claims agreed		21,733	(13,790)
Gross claims agreed	8	21,257	(14,146)
Reinsurance recoverable		(9,983)	(13,007)
Net claims agreed		11,274	(27,153)
Change in technical provisions			
Gross amount		25,876	85,045
Reinsurers' share		(33,625)	(72,377)
Change in net technical provisions		(7,749)	12,668
Claims incurred, net of reinsurance		3,525	(14,485)
Net operating expenses	10	(4,724)	86,024
Balance on the technical account – general business		(1,139)	71,909

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

Profit and loss account
Non-technical account
for the year ended 31 December 2004

	Notes	2004 US$'000	2003 US$'000
Balance on the technical account - general business		(1,139)	71,909
Investment income		2,253	2,919
Foreign currency revaluation		(10,818)	(21,361)
		(9,704)	53,467
Movement in provision for policyholder liabilities assumed under an intra-group guarantee		61,729	160,606
Movement in provision against balances due from immediate parent company in Scheme of Arrangement	9	-	14,583
Profit on ordinary activities before and after taxation and profit for the year		52,025	228,656

A statement of movements on reserves is given in note 18.

The Company ceased underwriting activities on 30 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 are presented.

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

Balance sheet
at 31 December 2004

	Notes	2004 US$'000	2003 US$'000
ASSETS			
Investments	13	159,973	153,173
Reinsurers' share of technical provisions	15	228,600	261,309
Debtors			
Debtors arising out of direct insurance and reinsurance operations	5	30,013	24,756
Other debtors		-	16
		30,013	24,772
Other assets			
Cash at bank		936	912
Accrued income		761	481
Total assets		420,283	440,647
LIABILITIES			
Capital and reserves			
Called up share capital	17	10,850	10,850
Accumulated losses	18	(1,606,403)	(1,658,428)
Equity shareholders' deficit		(1,595,553)	(1,647,578)
Technical provisions	15	1,386,923	1,487,084
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	5	467,562	445,234
Deposits received from reinsurers		240	213
Amounts due to group companies	14(a)	161,111	155,694
		628,913	601,141
Total liabilities		420,283	440,647

The financial statements on pages 6 to 20 were approved by the board of directors on 15 October 2005 and signed on their behalf by

P. A. B. Evans
Director

Notes to the accounts
for the year ended 31 December 2004

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
31 December 2004	1.9199
31 December 2003	1.7901

2. Principal accounting policies

The principal accounting policies applied 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 November 2003 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 16.

(b) Run-off of the business

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

Notes to the accounts (continued)
for the year ended 31 December 2004

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.

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.

Notes to the accounts (continued)
for the year ended 31 December 2004

3. Basis of reserving

As stated in note 2(f), 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.

Asbestos and pollution IBNR claims have been calculated using exposure models. The ultimate claims, defined as the total payments from each loss until final settlement of the liability, have been estimated. The IBNR reserves are then calculated as the difference between ultimate claims and the total of paid claims to date and booked outstanding claims. Non – APH 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 16.

4. Prior years' claims provisions

Material over/(under) 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:

	2004 US$'000	2003 US$'000
Environmental pollution and asbestos	4,396	(19,023)
Other Direct and Reinsurance Risks	(871)	4,538
	3,525	(14,485)

Notes to the accounts (continued)
for the year ended 31 December 2004

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 31 December 2004 are stated on a gross basis.

6. Staff costs

The Group incurs no staff costs, 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. Schwarzmann were both partners in PricewaterhouseCoopers as at 31 December 2004, and receive no remuneration from the Group. PricewaterhouseCoopers are in receipt of fees for the provision of services to the Scheme Administrators.

8. Gross claims agreed

The inward claim refund for the year to 31 December 2004 arises from the difference between the accrual that was posted for the Equitas commutation as at 31 December 2003 and the balance as processed through the Company's new ledgers within their core systems during the year to 31 December 2004. Whilst the accrual posted at 31 December 2003 was accurate at a consolidated level, the allocation between the Company and its immediate parent company OIC Run-Off Limited (in Scheme of Arrangement) had been estimated using an assumed 30:70 split, which was based on the Company's average signed line.

9. Provision against balances due from immediate parent company OIC Run-Off Limited (in Scheme of Arrangement)

Full provision has been made against balances due from OIC Run-Off Limited (In Scheme of Arrangement), the Company's immediate parent company, following the appointment of Joint Provisional Liquidators. This year there was no movement in the provision (2003: decrease of US$14,583,000).

10. Net operating expenses

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

	2004 US$'000	2003 US$'000
Net operating expenses	4,724	(86,024)

The net operating expenses charged in the year to 31 December 2003 include the affect of a reallocation of the bad debt provision established at 31 December 2002 between The London and Overseas Insurance Company Limited (in Scheme of Arrangement) and its immediate parent company OIC Run-Off Limited (in Scheme of Arrangement). The reallocation allowed the potential bad debt affecting each of the companies to be more accurately reported.

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

	2004 US$'000	2003 US$'000
Auditors' remuneration for audit services	66	67

The bad debt provision as at 31 December 2004 was US$41,647,000 (2003: US$37,275,000). Of this amount US$30,013,000 (2003: US$24,984,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US$11,634,000 (2003: US$12,291,000) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US$27,348,000 (2003: US$21,706,000) is a specific provision and US$2,665,000 (2003: US$3,278,000) is a general provision. Of the amounts provided within technical provisions US$1,796,000 (2003: US$2,322,000) is a specific provision and US$9,838,000 (2003: US$9,969,000) is a general provision.

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

11. 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 31 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.

Notes to the accounts (continued)
for the year ended 31 December 2004

12. Taxation

(a) Tax on profit on ordinary activities

	2004 US$'000	2003 US$'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

	2004 US$'000	2003 US$'000
Profit on ordinary activities before tax	**52,025**	**228,656**
Tax thereon at 30%	15,608	68,597
Other differences relating to general bad debt provision	-	(76,864)
Utilisation of tax losses brought forward	(15,608)	-
Unrecognised tax losses carried forward	-	8,267
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$69,300,000 (2003: US$42,300,000) 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 if and when these losses will reverse. There are no deferred tax liabilities. Following an agreement with the Inland Revenue, the company is taxed on the basis of 25% of the OIC group consolidated profits.

13. Investments

	2004 Market value US$'000	2004 Cost US$'000	2003 Market value US$'000	2003 Cost US$'000
Deposits with credit institutions	159,973	159,973	153,173	153,173

Included in deposit accounts with credit institutions are deposits of US$483,000 (2003: US$489,000) supporting letters of credit providing security for certain overseas reinsureds.

Notes to the accounts (continued)
for the year ended 31 December 2004

14. Group balances

(a)

	2004 US$'000	2003 US$'000
Amounts due to group companies		
Intermediate parent company		
NNOFIC	151,721	145,497
OIC Run-Off Limited (in Scheme of Arrangement)	9,390	10,197
	161,111	155,694

(b) As a result of continuing deterioration in claims reserves Internationale-Nederlanden Verzekeringen NV ('INV') provided funding for gross claims payments made from 15 December 1993, with effect from 1 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 INV, and intermediate parent of the Company, amounted to US$35,423,000. The funding ceased on 21 October 1994, and the Company and its immediate parent company, OIC Run-Off Limited, were placed into provisional liquidation.

An amount of US$4,601,000 due to OIM Limited (a fellow subsidiary company) at 31 December 1995 was assigned by this company to NNOFIC during 1996.

The above amounts totalling US$40,024,000, 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 7 March 1997, the effective date of the Scheme of Arrangement.

(c) On 30 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 28 August 1970 in respect of its immediate parent company. Certain claims payments have been made by the Company and its immediate parent company since 30 June 1995 using funds loaned to the Company and its immediate parent company by NNOFIC. As at the balance sheet date, total claims paid by the Company were US$10,092,000, the claims paid by NNOFIC under this arrangement amounted to US$156,325,000 of which US$8,717,000 is the Company's portion, and the balance of US$147,608,000 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 15).

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

Notes to the accounts (continued)
for the year ended 31 December 2004

15. Technical provisions

	Gross US$'000	Reinsurance US$'000	Net US$'000
At 31 December 2004			
Notified outstanding claims	84,595	80,313	4,282
Incurred but not reported ("IBNR") claims	178,266	159,921	18,345
Provision against potential irrecoverable Reinsurance	-	(11,634)	11,634
	262,861	228,600	34,261
Additional provision for immediate parent company's policyholder liabilities assumed under an intra-group guarantee	1,124,062	-	1,124,062
Total	1,386,923	228,600	1,158,323
At 31 December 2003			
Notified outstanding claims	82,313	86,905	(4,592)
Incurred but not reported ("IBNR") claims	206,108	186,695	19,413
Provision against potential irrecoverable Reinsurance	-	(12,291)	12,291
	288,421	261,309	27,112
Additional provision for immediate parent company's policyholder liabilities assumed under an intra-group guarantee	1,198,663	-	1,198,663
Total	1,487,084	261,309	1,225,775

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.

Notes to the accounts (continued)

for the year ended 31 December 2004

16. 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 31 December 2004 in respect of such environmental pollution and asbestos claims, after reinsurance recoveries of US$72,237,000 is US$306,015,000;

(ii) a provision for incurred but not reported ('IBNR') claims of US$751,639,000 net of reinsurance, and US$910,899,000 gross of reinsurance, based on professional advice and a broad projection of observed developments to date; and

(iii) a provision of US$11,211,000 for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US$1,068,865,000. This figure includes US$1,038,717,000 in respect of the policyholder liabilities of the immediate parent company assumed under an intra-group guarantee (see note 15).

b) Reinsurance recoveries and bad debt provision

The directors have recognised recoveries due from claims on the Company's reinsurers. Amounts of US$228,600,000 are included in reinsurers' share of technical provisions and US$30,013,000 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$11,634,000 and US$30,013,000 respectively.

Notes to the accounts (continued)
for the year ended 31 December 2004

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 fully 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.

17. Called up share capital

	2004 US$'000	2003 US$'000
Ordinary shares of 25p each:		
Authorised: 100,000,000 (2003: 100,000,000)	38,750	38,750
Called up, allotted and fully paid: 28,000,000 (2003: 28,000,000)	10,850	10,850

18. Statement of movements on reserves

	Accumulated losses US$'000
Balance at 1 January 2004	(1,658,428)
Profit for the year	52,025
Balance at 31 December 2004	(1,606,403)

19. 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.

Notes to the accounts (continued)
for the year ended 31 December 2004

20. 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 21 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 7 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 31 December 2004, PricewaterhouseCoopers' fees for services provided to the Company amounted to US$172,000 (2003: US$199,000), excluding VAT.

(e) As explained in note 14(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$275,000 (2003: US$219,000).

21. Scheme of Arrangement

The Company and its immediate parent company entered into a Scheme of Arrangement with effect from 7 March 1997. Details of the Scheme of Arrangement were sent to creditors and shareholders in a Proposal document dated 20 November 1996. This document should be referred to by creditors of the Company and its immediate parent company. On 15 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 45% being approved on 26 January 2005.