

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

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2007

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

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2007

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The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Directors and advisers

Directors	P. A. B. Evans D. Y. Schwarzmnn
Secretary and registered office	D. Y. Schwarzmnn PricewaterhouseCoopers 12 Plmtree Court London EC4A 4HT
Registered Auditors	Deloitte & Touche LLP London
Scheme Administrators	P. A. B. Evans and D. Y. Schwarzmnn PricewaterhouseCoopers Plmtree Court London EC4A 4HT
Solicitors	Lovells Atlantic House Holborn Viaduct London EC1A 2FG
Bankers	Barclays Bank PLC 1 Churchill Place London E14 5HP

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Directors' report

for the year ended 31 December 2007

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

Principal activities and significant events

The London and Overseas Insurance Company Limited ("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 13(c), on 30 June 1995 the OIC Group entered into an arrangement with Nationale – Nederlanden Overseas Finance and Investment Company Unlimited ("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\$14,025,000.

As described in note 20, 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. Increases in the Payment Percentage have been approved by the Creditors' Committee. As at 31 December 2007 the dividend rate was 45%. The dividend has subsequently been increased to 48% and was approved by the Creditors' Committee on 30 January 2008.

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, 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.

Financial risk

The Company is exposed to financial risk, through its financial assets and technical provisions. The key financial risk is that proceeds from financial assets are not sufficient to fund current and future claims.

The most important components of these risks are; timing and valuation risk in relation to technical provisions, and interest rate, currency, credit and liquidity risk in relation to financial assets. The Company manages these risks by:

- Appointing specialist claims handlers who perform the day-to-day monitoring of its insurance liabilities and reinsurance assets.
- Regularly reviewing the credit worthiness of its re-insurers.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Directors' report (continued)

for the year ended 31 December 2007

Financial risk (continued)

- Appointing external actuaries to assess adequacy of reserves.
- Reviewing cash flow requirements to ensure its liquidity needs are met.
- Matching foreign currency liabilities with corresponding currency assets to minimise the impact of movements in foreign exchange rates.
- Appointing third party investment managers with a view to ensuring the best possible returns on investments and minimising impact of movements in interest

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Directors' report (continued)

for the year ended 31 December 2007

Statement of directors' responsibilities (continued)

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

Each of the directors of the Company holding office at the date of approval of this report confirm that:

- 1) so far as each of the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- 2) Each of the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of S.234ZA of the Companies Act 1985.

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

Qualified Independent Auditors' Report 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 2007, 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 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Qualified Independent Auditors' Report to the Members of The London and Overseas Insurance Company Limited (in Scheme of Arrangement) (continued)

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 "Reporting the Substance of Transactions" the Company is required to report their 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 and the omission of analysis of debtors and creditors between reinsurance and direct business as outlined in note 5, in our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter - significant uncertainties

Without qualifying our opinion, we draw attention to the disclosures made in note 15 of the financial statements concerning the significant uncertainties regarding the outcome of the following:

- 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
- 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 as presented.

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

Date: 21 October 2008

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 2007

Discontinued operations

	Note	2007 US\$'000	2006 US\$'000
Earned premiums, net of reinsurance			
Gross premiums written		15	28
Outwards reinsurance premiums		(385)	(781)
Earned premiums, net of reinsurance		<u>(370)</u>	<u>(753)</u>
Claims incurred, net of reinsurance			
Gross claims paid		(45)	(1,319)
Change in outstanding claims agreed		(36,686)	(19,190)
Gross claims agreed		<u>(36,731)</u>	<u>(20,509)</u>
Reinsurance recoverable		(9,335)	85,437
Net claims agreed		<u>(46,066)</u>	<u>64,928</u>
Change in technical provisions			
Gross amount		54,026	30,347
Reinsurers' share		<u>(61,167)</u>	<u>(84,374)</u>
Change in net technical provisions		<u>(7,141)</u>	<u>(54,027)</u>
Claims incurred, net of reinsurance		<u>(53,207)</u>	<u>10,901</u>
Net operating expenses	9	<u>24,284</u>	<u>(26,201)</u>
Balance on the technical account – general business		<u>(29,293)</u>	<u>(16,053)</u>

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

Profit and loss account
Non-technical account
for the year ended 31 December 2007

	2007	2006
	US\$'000	US\$'000
Balance on the technical account - general business	(29,293)	(16,053)
Investment income	10,063	9,658
Other income	0	209
Foreign currency exchange differences	(3,567)	(10,830)
	<u>(22,797)</u>	<u>(17,016)</u>
Movement in provision for policyholder liabilities assumed under an intra-group guarantee	136,734	88,303
Movement in provision against balances due from parent company in scheme of arrangement	(35,780)	0
Profit on ordinary activities before and after taxation and profit for the year	<u>78,157</u>	<u>71,287</u>

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

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 2007

	Notes	2007 US\$'000	2006 US\$'000
ASSETS			
Investments	12	187,272	233,561
Reinsurers' share of technical provisions	14	93,200	128,218
Debtors			
Debtors arising out of direct insurance and reinsurance operations	5	21,056	32,238
		<u> </u>	<u> </u>
Other assets			
Cash at bank		1,638	1,316
		<u> </u>	<u> </u>
Accrued income		768	1,299
		<u> </u>	<u> </u>
Total assets		<u>303,934</u>	<u>396,632</u>
LIABILITIES			
Capital and reserves			
Called up share capital	16	10,850	10,850
Accumulated losses	17	(1,439,775)	(1,517,932)
		<u> </u>	<u> </u>
Equity shareholders' deficit		(1,428,925)	(1,507,082)
		<u> </u>	<u> </u>
Technical provisions	14	1,036,394	1,219,787
		<u> </u>	<u> </u>
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	5	513,203	482,270
Deposits received from reinsurers		266	337
Amounts due to group companies	13(a)	182,983	201,291
		<u> </u>	<u> </u>
		696,452	683,898
		<u> </u>	<u> </u>
Accrued expenses		13	29
		<u> </u>	<u> </u>
Total liabilities		<u>303,934</u>	<u>396,632</u>

The financial statements on pages 7 to 21 were approved by the board of directors on 15 October 2008 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 31 December 2007

1. Financial statements reporting currency

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

	Year-end rate
31 December 2007	1.9906
31 December 2006	1.9573

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 December 2005 (as amended in 2006) 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 significant 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 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.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31 December 2007

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 ultimate 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 31 December 2007

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 (revised 1996) "Cash Flow Statements" 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 31 December 2007

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 gross of reinsurance statistics. IBNR net of reinsurance has been estimated either by applying the Company's' outwards reinsurance programme to the estimated gross IBNR or, where this was not possible, by applying the ratio of net to gross notified outstanding claims to the gross projected IBNR claims. 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:

	2007	2006
	US\$'000	US\$'000
Environmental pollution and asbestos	(54,994)	3,012
Other direct and reinsurance risks	1,787	7,888
	<u>(53,207)</u>	<u>10,900</u>

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31 December 2007

4. Prior years' claims provisions (continued)

The above movement on prior years' claim provisions do not take into account movements in the bad debt provision, which are included in operating expenses and disclosed in note 9.

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 "Reporting the Substance of Transactions" 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, this ledger is not yet fully populated. Accordingly, only a proportion of the Company's debtor and creditor balances as at 31 December 2007 are stated on a gross basis.

6. Staff costs

The Company incurs no staff costs, as all staff dealing with the affairs of the Company are employed by Whittington Insurance Services Limited, which is remunerated by a management fee.

7. Directors' remuneration

The current directors Messrs. P.A.B. Evans, who retired from the PricewaterhouseCoopers partnership on 30 June 2007 and D.Y. Schwarzmenn, who was a partner in PricewaterhouseCoopers as at 31 December 2007, received no remuneration from the Company. PricewaterhouseCoopers are in receipt of fees for the provision of services to the Scheme Administrators.

8. 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. The movement in the provision for 2007 is US\$25,104,000 (2006: no movement in the provision).

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31 December 2007

9. Net operating expenses

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

	2007 US\$'000	2006 US\$'000
Net operating expenses	1,047	1,474
(Decrease) / increase in bad debt provision	(25,331)	24,727
Net operating expenses	<u>(24,284)</u>	<u>26,201</u>

The bad debt provision as at 31 December 2007 was US\$37,530,000 (2006: US\$62,861,000). Of this amount US\$27,531,000 (2006: US\$26,790,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US\$9,999,000 (2006: US\$36,071,000) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US\$25,285,000 (2006: US\$25,633,000) is a specific provision and US\$2,246,000 (2006: US\$1,157,000) is a general provision. Of the amounts provided within technical provisions US\$2,081,000 (2006: US\$3,756,000) is a specific provision and US\$7,918,000 (2006: US\$32,315,000) is a general provision.

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

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

	2007 US\$'000	2006 US\$'000
Auditors' remuneration for audit services	90	82

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 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.

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

Notes to the accounts (continued)
for the year ended 31 December 2007

11. Taxation

(a) Tax on profit on ordinary activities	2007 US\$'000	2006 US\$'000
The charge based on the profit for the year comprises:		
Current tax	-	-
Group Relief recovered	-	-
Deferred tax	-	-
Tax on profit on ordinary activities	-	-

(b) Factors affecting tax charge for the year	2007 US\$'000	2006 US\$'000
Profit on ordinary activities before tax	78,157	71,287
Profit on ordinary activities before tax at 30%	23,447	21,386
Other differences relating to bad debt provision	-	-
Other permanent differences	(23,447)	(21,386)
Unrecognised tax losses carried forward	-	-
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\$62,600,000 (2006: US\$73,300,000) 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 as to whether future profits will arise, it is not known at what point in time 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.

12. Investments

	2007 Market value US\$'000	2007 Cost US\$'000	2006 Market value US\$'000	2006 Cost US\$'000
Deposits with credit institutions	<u>187,272</u>	<u>187,272</u>	<u>233,561</u>	<u>233,561</u>

Included in deposit accounts with credit institutions are deposits of US\$387,000 (2006: US\$389,000) 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 31 December 2007

13. Group balances

(a)	2007 US\$'000	2006 US\$'000
Amounts due to group companies		
Intermediate parent companies		
NNOFIC	182,983	180,824
OIC Run-Off Limited (in Scheme of Arrangement)	-	20,467
	<u>182,983</u>	<u>201,291</u>

- (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\$4,770,000 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\$40,193,000, 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 members of 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\$14,025,000, the claims paid by NNOFIC under this arrangement amounted to US\$193,754,000 of which US\$11,022,000 is the Company's portion, and the balance of US\$182,732,000 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).

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31 December 2007

14. Technical provisions

	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
At 31 December 2007			
Notified outstanding claims	36,811	21,285	15,526
Incurred but not reported ("IBNR") claims	148,117	81,914	66,203
Provision against potential irrecoverable reinsurance	-	(9,999)	9,999
	<u>184,928</u>	<u>93,200</u>	<u>91,728</u>
Additional provision for immediate parent company's policyholder liabilities assumed under an intra-group guarantee	851,466	-	851,466
Total	<u><u>1,036,394</u></u>	<u><u>93,200</u></u>	<u><u>943,194</u></u>
At 31 December 2006			
Notified outstanding claims	48,888	40,774	8,114
Incurred but not reported ("IBNR") claims	189,660	123,515	66,145
Provision against potential irrecoverable reinsurance	-	(36,071)	36,071
	<u>238,548</u>	<u>128,218</u>	<u>110,330</u>
Additional provision for immediate parent company's policyholder liabilities assumed under an intra-group guarantee	981,239	-	981,239
Total	<u><u>1,219,787</u></u>	<u><u>128,218</u></u>	<u><u>1,091,569</u></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

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Notes to the accounts (continued)

for the year ended 31 December 2007

15. Significant uncertainties

The financial statements of the Company reflect the following significant 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 2007 in respect of such environmental pollution and asbestos claims, after reinsurance recoveries of US\$18,602,000 (2006: US\$36,330,000) is US\$172,882,000 (2006: US\$240,959,000);
- (ii) a provision for incurred but not reported ('IBNR') claims of US\$728,787,000 (2006: US\$768,619,000) net of reinsurance, and US\$810,859,000 (2006: US\$892,114,000) gross of reinsurance, based on professional advice and a broad projection of observed developments to date; and
- (iii) a provision of US\$9,755,000 (2006: US\$35,091,000) for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US\$911,424,000 (2006: US\$1,044,669,000). This figure includes US\$821,689,000 (2006: US\$938,477,000) in respect of the policyholder liabilities of the immediate parent company assumed under an intra-group guarantee (see note 14).

b) Reinsurance recoveries and bad debt provision

The directors have recognised recoveries due from claims on the Company's reinsurers. Amounts of US\$93,200,000 (2006: US\$128,218,000) are included in reinsurers' share of technical provisions and US\$21,056,000 (2006: US\$32,238,000) 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\$9,999,000 (2006: US\$36,071,000) and US\$27,531,000 (2006: US\$26,790,000) respectively.

The London and Overseas Insurance Company Limited

(in Scheme of Arrangement)

Notes to the accounts (continued)

for the year ended 31 December 2007

15. Significant uncertainties (continued)

b) Reinsurance recoveries and bad debt provision (continued)

The reinsurance recoveries figures above are affected by the following significant uncertainties:

- (i) as a result of the insolvency of certain of the Company's reinsurers, and because the 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 Company 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 Company are unable to identify the extent to which there is possible exhaustion of vertical and horizontal reinsurance covers.

16. Called up share capital

	2007 US\$'000	2006 US\$'000
Ordinary shares of 25p each:		
Authorised: 100,000,000 (2006: 100,000,000)	38,750	38,750
Called up, allotted and fully paid: 28,000,000 (2006: 28,000,000)	10,850	10,850

17. Statement of movements on called up share capital and reserves

	Called up share capital US\$'000	Accumulated losses US\$'000
Balance at 1 January 2007	10,850	(1,517,932)
Profit for the year	-	78,157
Balance at 31 December 2007	10,850	(1,439,775)

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 31 December 2007

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 21 October 1994. Mr. Evans and Mr. Boys-Stones were 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 Joint Provisional Liquidator ceased to act and the Company and its immediate parent company entered into a Scheme of Arrangement with their creditors. P. A. B. Evans and D.Y. Schwarzmunn 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 2007, PricewaterhouseCoopers' fees for services provided to the Company amounted to US\$234,000 (2006: US\$202,000) 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\$25,000 (2006: US\$726,000).

20. 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. Increases in the Payment Percentage have been approved by the Creditors' Committee. As at 31 December 2007 the dividend rate was 45%. The dividend has subsequently been increased to 48% and was approved by the Creditors' Committee on 30 January 2008.