

Registered in England and Wales Number: 38706

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

**Annual Report and Financial Statements
31 December 2020**

Registered Office:
PricewaterhouseCoopers LLP
1 Chamberlain Square CS
Birmingham
United Kingdom
B3 3AX

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

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Directors and Advisors

Directors:

D.Y. Schwarzmann
P.A.B Evans

Secretary and registered office:

D.Y. Schwarzmann
PricewaterhouseCoopers LLP
1 Chamberlain Square CS
Birmingham
United Kingdom
B3 3AX

Independent auditor:

Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Scheme Administrators:

D.Y. Schwarzmann and P.A.B. Evans
PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Solicitors:

Hogan Lovells International LLP
Atlantic House
Holborn Viaduct
London
EC1A 2FG

Bankers:

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

Strategic report for the year ended 31 December 2020

The Directors present their strategic report on The London and Overseas Insurance Company Limited (in Scheme of Arrangement) (“the Company”) for the year ended 31 December 2020.

Review of the Business

The Company no longer underwrites business. Its principal activity is the run-off of general insurance and reinsurance business.

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 17(e), 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\$14,646,000 (2019: US\$14,555,000).

As described in Note 19, the OIC Group entered into a Scheme of Arrangement (“Original Scheme”) with effect from 7 March 1997. On 15 September 1997 an initial payment percentage of 15% of Scheme Creditors’ Established Liabilities was approved by the Creditors’ Committee. Subsequent increases in the payment percentage have been approved by the Creditors’ Committee. On 12 August 2020 the payment percentage was increased to 76%. An Amending Scheme of Arrangement (“Amending Scheme”) was approved at meetings of Scheme Creditors held on 11 December 2014. The High Court of Justice of England and Wales sanctioned the Amending Scheme by an order dated 29 October 2015 (“the Order”). The United States Bankruptcy Court granted an order under Chapter 15 of the United States Bankruptcy Code recognising and enforcing the Amending Scheme in the United States of America on 11 January 2016. The Order was lodged with the Registrar of Companies in England and Wales and the Amending Scheme accordingly became effective on 14 January 2016. The Amending Scheme sought to crystallise the majority of the Group’s liabilities so as to enable a final dividend payment percentage to be paid earlier than would otherwise be possible. The Bar Date for the final submission of all claims subject to the crystallisation provisions of the Amending Scheme expired on 12 September 2016 and all submitted claims have now been agreed. Consideration is now being given as to the determination and timing of the final dividend to be paid in relation to those claims. Certain groups of creditors were excluded from the provisions of the Amending Scheme and will continue to be able to bring claims against the Group in the normal course of business until 31 December 2035.

As part of running off its insurance operations, the Company continues to carry on investment activities in relation to the assets under its control. The portfolio of long-term investments was restructured during 2018 to meet the shorter dated cash requirements under the Amending Scheme. The final bond held in the portfolio matured on 30 June 2020, following which the funds were drawn down and placed on money market deposits.

Results

The results of the Company for the year, as set out on pages 12 to 13, show a profit after taxation attributable to the owners of the Company of US\$10,402,000 (2019: US\$128,732,000). The shareholders’ deficit in the Company is US\$325,842,000 (2019: US\$336,242,000).

Future development and strategy

The Company continues to run-off the remaining business that was not subject to the crystallisation process set out in the Amending Scheme and, as prescribed by the Amending Scheme, will continue to be run-off until 31 December 2035. Therefore, the financial statements have been prepared on the going concern basis. In reaching their conclusion, the Directors have also explicitly considered the impact of COVID-19, as detailed below.

Strategic report for the year ended 31 December 2020 (continued)

Principal risks and uncertainties

The Company has entered into the Original Scheme and the Amending Scheme and had a net deficit of US\$325,842,000 (2019: US\$336,242,000) as at the balance sheet date.

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

- Appointing the Scheme Actuarial Adviser to assess the adequacy of reserves in accordance with the provisions of the Amending Scheme. Remaining reserves relate to the groups of creditors that were not subject to the crystallisation process of the Amending Scheme. Under the terms of the Amending Scheme, future claims (and associated claims handling and administrative expenses) relating to these groups of creditors that cannot be met by the provisions set aside for those claims (and expenses) by the OIC Group will either be funded by NNOFIC or, if they are not covered by the arrangements in place with NNOFIC, will not be paid or incurred. The OIC Group's ability to fund future claims (and associated claims handling and administrative expenses) are therefore managed through these arrangements prescribed by the Amending Scheme. The provisions that may be subject to top-up funding by NNOFIC are to be agreed with NNOFIC;
- Appointing specialist claims handlers and debt collection services to perform the day-to-day monitoring of its insurance liabilities and to maximise the value from remaining reinsurance balances;
- Reviewing cash flow requirements to ensure its liquidity needs are met; and
- Matching foreign currency liabilities with corresponding currency assets to minimise the impact of movements in foreign exchange rates.

COVID-19 (coronavirus)

The Directors consider the likely financial impact to the Company of the coronavirus pandemic to be extremely limited in nature. That view is based on the following:

- During 2019 all investment holdings were realised; therefore, market volatility should have no impact on the Company;
- The development and implementation of contingency measures in response to market volatility arising due to the COVID-19 outbreak, including, amongst other things, increased credit risk monitoring;
- Cash deposits are held in US\$, materially matching the currency of the Company's liabilities and thus mitigating the volatility in currency markets recently seen; and
- There is no potential for claims deterioration as a direct result of the pandemic.

The Directors are satisfied that steps have been taken to ensure that plans are in place to enable key functions to operate, whilst protecting the welfare of stakeholders.

Section 172 Statement

The Directors of the Company must act in accordance with a set of general duties. These duties are detailed in Section 172 of the Companies Act 2006 and include a duty to take into consideration the interests of stakeholders in their decision making. The Directors continue to have regard to the interests of the stakeholders associated with the Company, including creditors and regulators as well as the impact of its activities on the community, the environment, and the Company's reputation, when making decisions.

The Directors, through the appointment of the Joint Scheme Administrators, assess and consider how to ensure that the orderly management of the run-off continues both now and, in the future, and that associated risks are identified and managed. This is achieved through consultation with

Strategic report for the year ended 31 December 2020 (continued)

Section 172 Statement (continued)

the Creditors Committee, established in accordance with the Amending Scheme, and other professional advisors including specialist tax, actuarial and legal advisors. In addition, whilst the Company has no direct employees of its own, a specialist run-off manager is engaged to undertake the day-to-day management of the Company's activities and the Directors look through to key staff members providing services to the Group as part of this arrangement. The Company monitors the performance of its third-party service provider through regular dialogue to develop and maintain a strong long-term relationship and to ensure that they act in accordance with the duties imposed on the Directors. Management reports are prepared and issued to the Creditors' Committee on a quarterly basis, copies of which are made available to regulators. An external website is maintained and updated with key information and news when appropriate.

Approved by order of the Board and signed on its behalf.



P.A.B. Evans
Director

30 September 2021

Directors' report for the year ended 31 December 2020

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

Future developments

Likely future developments in the business are discussed in the strategic report.

Financial risk management

Financial risk management objectives and policies are discussed in the strategic report.

Directors

The names of the current Directors are listed on page 3. There were no changes to the Directors holding office during 2020.

Employees

The Company has no employees.

Disclosure of relevant information to auditors

Each of the persons who is a Director, at the date of this report, confirms that:

- as far as each of them are aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2020 of which the auditors are unaware; and
- the Directors have taken all steps that they ought to have taken in their duty as Directors in order to make themselves aware of any relevant audit information and to establish the Company's auditors are aware of that information.

Independent Auditors

The auditors, Deloitte LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at a meeting of the Board of Directors.

Events after the end of the reporting period

The existing run-off manager, Armour Risk Management Limited, issued a notice of termination of its run-off services in relation to the OIC Group prior to the year-end as a result of the organisation being sold to a third party. In accordance with the run-off contract, six months' notice was provided. The process of seeking a replacement run-off manager commenced after the end of the reporting period and Hampden plc was appointed with effect from 4 June 2021. There have been no other significant events affecting the Group or the Company since the year-end.

Statement of Directors' responsibility

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 prepared the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' report for the year ended 31 December 2020 (continued)

Statement of Directors' responsibility (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 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.

Approved by order of the Board and signed on its behalf



P.A.B. Evans
Director

30 September 2021

Independent auditor's report to the members of The London and Overseas Insurance Company Limited (In Scheme of Arrangement)

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The London and Overseas Insurance Company Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account: Technical account – general business;
- the profit and loss account: Non-technical account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusion relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based

Independent auditor's report to the members of The London and Overseas Insurance Company Limited (In Scheme of Arrangement) (continued)

Other information (continued)

on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

- given the nature of the business and process of claims settlement, the insurance creditors balance has changed regularly due to claims payment or renegotiation, which increases the susceptibility of the balance to material misstatement due to error and fraud. In response, we have tested the year-over-year change in the insurance creditors balance to assess whether the changes are due to the agreement of claim liabilities with policyholders or approved payments of balances.

Independent auditor's report to the members of The London and Overseas Insurance Company Limited (In Scheme of Arrangement) (continued)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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.



Andrew Downes (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

30 September 2021

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 2020**

	Note	2020 US\$'000	2019 US\$'000
Earned premiums, net of reinsurance			
Gross premiums written		-	-
Outward reinsurance premiums		-	-
Earned premiums, net of reinsurance		<u>-</u>	<u>-</u>
Claims incurred, net of reinsurance			
Gross claims paid		-	10,596
Change in outstanding claims agreed		(1,863)	(20,024)
Gross claims agreed		<u>(1,863)</u>	<u>(9,428)</u>
Reinsurance recoverable		(1,331)	9,952
Net claims agreed		<u>(3,194)</u>	<u>524</u>
Change in technical provisions			
Gross amount		-	17,088
Reinsurers' share		-	(6,045)
Change in net technical provisions		<u>-</u>	<u>11,043</u>
Claims incurred, net of reinsurance		<u>(3,194)</u>	<u>11,567</u>
Movement in provision for policyholder liabilities assumed under an intra-group guarantee		9,972	103,510
Net operating expenses	8	-	(4,007)
Balance on the technical account – general business		<u><u>6,778</u></u>	<u><u>111,070</u></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 2020**

	Note	2020 US\$'000	2019 US\$'000
Balance on the technical account – general business		6,778	111,070
Investment income	10	-	-
Other charges		644	2,250
Foreign currency exchange differences		(420)	(769)
Profit before taxation		7,002	112,551
Movement in provision against balances due from parent company in Scheme of Arrangement		3,400	16,181
Tax on profit	11	-	-
Profit for the financial year		10,402	128,732

The Notes on pages 16 to 26 form an integral part of these financial statements.

All results were derived from continuing operations.

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

**Balance sheet
As at 31 December 2020**

	Notes	2020 US\$'000	2019 US\$'000
ASSETS			
Investments			
Other financial investments	15	99,092	93,677
Reinsurers' share of technical provisions	13	-	-
Debtors			
Debtors arising out of direct insurance and reinsurance operations	4j	226	226
Other debtors		10	10
		<u>236</u>	<u>236</u>
Other assets			
Cash at bank		407	5,166
Accrued income		157	157
Total assets		<u>99,892</u>	<u>99,236</u>
LIABILITIES AND EQUITY			
Capital and reserves			
Called up share capital	12	10,850	10,850
Accumulated losses		(336,690)	(347,092)
Equity shareholders' deficit		<u>(325,840)</u>	<u>(336,242)</u>
Technical provisions	13	20,783	22,195
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	4j	283,654	293,150
Deposits received from reinsurers		-	-
Amounts due to group companies	16	121,295	120,133
		<u>404,949</u>	<u>413,283</u>
Accrued expenses		-	-
Total liabilities and equity		<u>99,892</u>	<u>99,236</u>

The financial statements of The London and Overseas Insurance Company Limited (in Scheme of Arrangement), registered number 38706, on pages 12 to 26 were approved by the Board of Directors on 30 September 2021 and signed on their behalf by:



P. A. B. Evans
Director

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

**Statement of changes in equity
For the year ended 31 December 2020**

	Called-up share capital US\$'000	Accumulated losses US\$'000	Total deficit US\$'000
Balance as at 1 January 2019	10,850	(475,824)	(464,974)
Profit for the year	-	<u>128,732</u>	<u>128,732</u>
Total comprehensive income	-	128,732	128,732
Balance as at 31 December 2019	<u>10,850</u>	<u>(347,092)</u>	<u>(336,242)</u>
Balance as at 1 January 2020	10,850	(347,092)	(336,242)
Profit for the year	-	<u>10,402</u>	<u>10,402</u>
Total comprehensive income	-	10,402	10,402
Balance as at 31 December 2020	<u>10,850</u>	<u>(336,690)</u>	<u>(325,840)</u>

The Notes on pages 16 to 26 form an integral part of the financial statements.

Notes to the financial statements for the year ended 31 December 2020

1. General information

The London and Overseas Insurance Company Limited (in Scheme of Arrangement) is a general insurance company in run-off in the UK. The Company is a private company limited by shares and is incorporated in England. The address of its registered office is 1 Chamberlain Square CS, Birmingham, United Kingdom, B3 3AX.

2. Statement of Compliance

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006.

The Company continues to run-off the business and as not all claims will be crystallised under the Amending Scheme, the financial statements have been prepared on the going concern basis, as discussed in the Directors' Report, and are subject to a number of significant uncertainties which are set out in Note 5.

3. Run-off of the business

The Company is in run-off having ceased all underwriting activities on 30 September 1992. The Company and its parent company were placed into provisional liquidation on 21 October 1994 and entered into the Original Scheme with effect from 7 March 1997. The Amending Scheme became effective on 14 January 2016 and, with certain exceptions, creditors were required to submit their claims by the bar date, 12 September 2016. 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.

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

These financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

b. Going concern

As further explained in the Strategic Report, the Directors consider the likely financial impact to the Group of the coronavirus pandemic to be extremely limited in nature. Having assessed the principal risks, including the impact of COVID-19, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

c. Exemptions for qualifying entities under FRS102

The Company has taken advantage of the exemption from preparing a statement of cash flows.

d. Foreign currency

The Company's financial statements are presented in US Dollars and rounded to thousands. The Company's functional currency is US Dollars. Foreign currency transactions are translated into the functional currency using the average exchange rate during the year. At each year-end foreign currency monetary items are translated using the closing rate. For this purpose, all assets and liabilities arising from insurance contracts are monetary items.

Notes to the financial statements for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

d. Foreign currency (continued)

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

The relevant US Dollar/Sterling exchange rates are as follows:

	Year-end rate	Average rate
31 December 2019	1.3247	1.2772
31 December 2020	1.3663	1.2824

e. Insurance contracts

The Company is in run-off and no longer issues contracts of insurance.

(i) 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.

(ii) 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 ("IBNR"), 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.

(iii) Technical provisions

All claims submitted in accordance with the Amending Scheme have now been agreed. Remaining technical provisions relate solely to creditors whose claims were excluded from the crystallisation process of the Amending Scheme along with associated claims handling and administrative expenses. As prescribed by the Amending Scheme, claims relating to these creditors will continue to be processed as they arise in the normal course of business up to 31 December 2035. A level of uncertainty therefore remains with regard to these provisions, however this uncertainty is managed through the provisions of the Amending Scheme, whereby future claims (and associated claims handling and administrative expenses) relating to the groups of creditors excluded from the crystallisation process of the Amending Scheme that cannot be met by the provisions set aside for those claims (and expenses) in accordance with the Amending Scheme will either be funded by NNOFIC or, if they are not covered by the arrangements in place with NNOFIC, will not be paid or incurred. Whilst the Directors consider that the gross technical provision for claims and the associated claims handling and administrative expenses are fairly stated on the basis of the information currently available to them, these provisions are yet to be agreed with NNOFIC in accordance with the Amending Scheme and so may vary once they are agreed, resulting in an adjustment to the amounts to be provided. The adjustment to the amount of the provisions will be reflected in the financial statements for the period in which the adjustments are made. Creditors have decreased by the value of claims agreed less any dividends paid during the year to 31 December 2020.

Notes to the financial statements for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

f. Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of profit and loss.

Current tax is the expected tax payable on the taxable result for the period, after any adjustment in respect of prior periods.

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.

g. Cash and cash equivalents

Cash and cash equivalents comprise deposits held at call with banks.

h. Provisions and contingencies

Provisions are recognised where the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

i. Financial instruments

The Company has chosen to apply the recognition and measurement and disclosure under the requirements of FRS 102 in respect of financial instruments.

j. Debtors and Creditors

Before the Company entered provisional liquidation, it derived its business from underwriting both direct and inwards reinsurance. UK Accounting Standards require that the Company 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 the Original Scheme and the Amending Scheme, 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.

k. Investment return

All investment income is recognised in the non-technical account. Investment income comprises of interest on deposits with credit institutions and is dealt with on an accruals basis. Interest payable and expenses incurred in the management of investments are accounted for on an accruals basis.

l. Financial investments

Purchases and sales of these investments are recognised at the trade date, which is the date that the Company commits to purchase or sell the assets, at fair value adjusted for transaction costs. The fair value of investments are based on quoted prices.

m. Share capital

Ordinary shares are classified as equity.

Notes to the financial statements for the year ended 31 December 2020 (continued)

4. Summary of significant accounting policies (continued)

n. Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated.

5. Critical accounting judgements and key sources of estimation uncertainty

As described in Note 4e(iii), the financial statements of the Company reflect the following significant uncertainties:

a. The ultimate liability arising from claims made under insurance contracts

There is remaining uncertainty surrounding the ultimate cost of claims, which now solely relates to creditors whose claims were not crystallised in accordance with the Amending Scheme. The claims of these creditors, which include environmental pollution and asbestos claims, will be run-off in the normal course of business until 31 December 2035. The ultimate cost of these claims cannot therefore be known with certainty.

Technical provisions include a provision for incurred but not reported claims of US\$6,719,000 (2019: US\$6,719,000) net of reinsurance, and US\$6,719,000 (2019: US\$6,719,000) gross of reinsurance, based on professional advice in relation to the Amending Scheme.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US\$6,442,000 (2019: US\$6,442,000). This figure includes US\$6,285,000 (2019: US\$6,285,000) in respect of the policyholder liabilities of the Company's immediate parent assumed under an intra-group guarantee (see Note 13).

b. Reinsurance recoveries and bad debt provision

Most reinsurance debtor balances have now either been realised, collected through set-off, or written-off. Amounts of US\$226,000 (2019: US\$226,000) are included in debtors. These amounts are net of provisions against amounts due from reinsurers who may ultimately be unable to pay in full of US\$502,000 (2019: US\$502,000).

There are no other balances subject to judgement or estimate.

6. Management of insurance and financial risk

a. Insurance risk

The Company issued contracts that transferred insurance risk. The Company is exposed to the uncertainty surrounding the severity of claims under these contracts.

Concentration of insurance risk – claims reserve

The tables below set out the concentration of insurance risk by class of business:

Notified outstanding claims excluding IBNR at 31 December 2020	Gross US\$'000	Net US\$'000
Environmental pollution and asbestos	-	-
Other direct and reinsurance risks	-	-
	<u>-</u>	<u>-</u>
Notified outstanding claims excluding IBNR at 31 December 2019	Gross US\$'000	Net US\$'000
Environmental pollution and asbestos	-	-
Other direct and reinsurance risks	-	-
	<u>-</u>	<u>-</u>

Notes to the financial statements for the year ended 31 December 2020 (continued)

6. Management of insurance and financial risk (continued)

a. Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments

The sources of estimation uncertainty in establishing the ultimate liability arising from claims made under insurance contracts is discussed in Note 5.

Claims development

The Company is in run-off having ceased all underwriting activities on 30 September 1992 and entered into the Original Scheme with effect from 7 March 1997 and the Amending Scheme with effect from 14 January 2016. Claims, arising from 1992 and prior years and as represented by technical provisions, have developed as follows:

As at 31 December	2015 US\$'000	2016 US\$'000	2017 US\$'000	2018 US\$'000	2019 US\$'000	2020 US\$'000
Gross claim insurance liabilities	439,460	317,859	250,319	91,940	6,719	6,719
Gross recovery from reinsurers	39,826	27,476	22,386	5,294	-	-
Total net insurance liabilities	399,634	290,383	227,933	86,646	6,719	6,719

b. Financial risk management objectives

The Company is exposed to financial risk, through its financial assets, financial liabilities and technical provisions. The key financial risk is that proceeds from financial assets are insufficient to fund current and future claims. The most important components of these risks are; the timing and valuation risk in relation to technical provisions, and currency, credit and liquidity risk in relation to financial assets.

The timing and valuation risk in relation to technical provisions has been mitigated by the Amending Scheme, whereby future claims (and associated claims handling and administrative expenses) relating to the groups of creditors that were not subject to the crystallisation process of the Amending Scheme that cannot be met by the provisions set aside for those claims (and expenses) in accordance with the Amending Scheme will either be funded by NNOFIC or, if they are not covered by the arrangements in place with NNOFIC, will not be paid or incurred.

Market risk

Following a restructuring of long-term investments during 2018 to meet the shorter dated cash requirements under the Amending Scheme, the final bond held within the portfolio matured in 2019 thereby eliminating interest rate risk.

The Company manages its foreign exchange risk against its functional currency. Foreign exchange risk arises when recognised assets are denominated in a currency that is not the entity's functional currency. The Company seeks to mitigate the risk by matching the estimated liabilities with assets denominated in the same currency.

Liquidity risk

The Company holds cash and financial instruments of a liquid nature. Careful review of cash flow requirements ensures liquidity needs are met. Financial liabilities will settle in accordance with the terms of the Original Scheme and the Amending Scheme.

Credit risk

Credit risk is the risk that one party to a financial instrument or financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss. The assets exposed to credit risk are:

- i. Cash at bank;
- ii. Deposits with credit institutions; and
- iii. Reinsurance debtors

Funds held within (i) and (ii) are with institutions rated A or higher across an average of the major rating agencies. Most reinsurance debtor balances have now either been realised, collected through set-off, or written-off.

Notes to the financial statements for the year ended 31 December 2020 (continued)

6. Management of insurance and financial risk (continued)

b. Financial risk management objectives (continued)

Capital management

The Company's objectives in managing its balance sheet are:

- i. To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- ii. To satisfy the requirements of its creditors and regulators; and
- iii. To manage exposures to movement in exchange rates.

7. Movement in prior year's provision for claims outstanding

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:

	2020 US\$'000	2019 US\$'000
Environmental pollution and asbestos	-	9,677
9, Other direct and reinsurance risks	-	1,947
	<u>-</u>	<u>11,624</u>

8. Expenses

a. Net operating expenses

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

	2020 US\$'000	2019 US\$'000
Management expenses	-	(172)
(Decrease)/increase in bad debt provision	-	(3,835)
Net operating expenses	<u>-</u>	<u>(4,007)</u>

Most reinsurance balances have now either been realised, collected through set-off, or written-off. The bad debt provision as at 31 December 2020 was US\$502,000 (2019: US\$502,000). Of this amount US\$502,000 (2019: US\$502,000) was provided within debtors arising out of direct insurance and reinsurance operations and is a general provision.

b. Auditors' remuneration

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

	2020 US\$'000	2019 US\$'000
Auditor's remuneration for audit services	20	36

Remuneration of the Company's auditor for provision of non-audit services to the Company was US\$Nil (2019: US\$Nil).

Notes to the financial statements for the year ended 31 December 2020 (continued)

9. Employees and Directors

Employees

The Company incurs no staff costs, as throughout the current and prior financial years all staff dealing with the affairs of the Company were employed by an appointed run-off manager, which was remunerated by a management fee up to 30 June 2020 and on a time and materials basis from 1 July 2020. The run-off manager at year-end was Armour Risk Management Limited. The current run-off manager is Hampden Plc.

Directors

The current Directors Messrs. D.Y. Schwarzmann who was a partner in PricewaterhouseCoopers LLP as at 31 December 2020 and P.A.B. Evans, who retired from the PricewaterhouseCoopers LLP partnership on 30 June 2007, received no remuneration from the Company. PricewaterhouseCoopers LLP are in receipt of fees for the provision of services to the Scheme Administrators as detailed in note 17 (g).

10. Investment return

	2020 US\$'000	2019 US\$'000
Investment income		
Income from financial assets at fair value through profit and loss	-	-
Total investment return	<u>-</u>	<u>-</u>

11. Taxation

	2020 US\$'000	2019 US\$'000
Tax on profit		
The charge based on the profit for the year comprises:		
Current tax	-	-
Group Relief recovered	-	-
Deferred tax	-	-
Tax on profit	<u>-</u>	<u>-</u>

Factors affecting tax charge for the year.

	2020 US\$'000	2019 US\$'000
Profit / (loss) before taxation	10,402	128,732
Corporation tax at 19% (2019: 19%)	1,976	24,459
Other differences relating to bad debt provision	-	-
Other permanent differences	(2,098)	(24,036)
Unrecognised tax losses carried forward	122	-
Utilisation of tax losses brought forward	-	(423)
Total current tax	<u>-</u>	<u>-</u>

Factors that may affect the future tax charge

Following an agreement with HMRC the Company is taxed on the basis of 25% of the OIC Group consolidated profits. The OIC Group has consolidated losses in the period and therefore there is no current tax charge in 2020.

Tax losses, valued at the standard UK rate of tax of 19% (2019: 17%) of US\$17,646,000 (2019: US\$15,700,000) are available to offset against the Group's taxable profits in future periods. The corporation tax rate is 19% for profits arising from 1 April 2017 to 31 March 2023. In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would be increasing to 25%. This new law was substantively enacted on 24 May 2021 and because this is after the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance

Notes to the financial statements for the year ended 31 December 2020 (continued)

11. Taxation (continued)

sheet date, would be to increase the unrecognised deferred tax asset by US\$5.6m. 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 (2019: US\$Nil).

12. Share capital

	2020 US\$'000	2019 US\$'000
Called up, allotted and fully paid:		
28,000,000 ordinary shares of 25p each	10,850	10,850
	<u>10,850</u>	<u>10,850</u>

13. Technical provisions

	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
At 31 December 2020			
Notified outstanding claims	-	-	-
Incurred but not reported claims	158	-	158
Provision against potential irrecoverable Reinsurance	-	-	-

Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee:

APH	6,285	-	6,285
Non APH	276	-	276
Run off provision	14,064	-	14,064
Total	<u>20,783</u>	<u>-</u>	<u>20,783</u>

At 31 December 2019

Notified outstanding claims	-	-	-
Incurred but not reported claims	158	-	158
Provision against potential irrecoverable Reinsurance	-	-	-
	<u>158</u>	<u>-</u>	<u>158</u>

Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee:

APH	6,285	-	6,285
Non APH	276	-	276
Run off provision	15,476	-	15,476
Total	<u>22,195</u>	<u>-</u>	<u>22,195</u>

The Company has given a guarantee in favour of the policyholder liabilities of its immediate parent company, OIC Run-Off Limited (in Scheme of Arrangement) ("OIC"). 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.

Notes to the financial statements for the year ended 31 December 2020 (continued)

13. Technical provisions (continued)

Following the provisional liquidation of OIC, 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 policyholder liabilities of its immediate parent company, including the provision held in respect of future run-off costs, before taking account of the available assets of the immediate parent company.

14. Provisions for other risks and charges

Full provision has been made against balances due from OIC, the Company's immediate parent company, following the appointment of Joint Provisional Liquidators. The movement in the provision for 2020 is a decrease of US\$3,334,184 (2019: a decrease of US\$16,107,000).

15. Other financial investments

	2020 Market value US\$'000	2020 Cost US\$'000	2019 Market value US\$'000	2019 Cost US\$'000
Deposits with credit institutions	99,092	99,092	93,677	93,677
	99,092	99,092	93,677	93,677

16. Related party transactions

- (a) The Company's immediate parent company, OIC, acts as a collecting agent for part of the Company's brokers' ledger. The Company has taken advantage of the exemption allowed by FRS 102 Section 33.1A not to disclose related party transactions with OIC.
- (b) The Company is a wholly owned subsidiary of OIC, a company incorporated in Great Britain and registered in England and Wales. NN Group NV, a company incorporated in The Netherlands is the ultimate holding company of OIC and the Company. The results of the Company have not been consolidated in the ultimate holding company's financial statements. The results of the Company have been consolidated into the financial statements of its immediate parent company, OIC. These financial statements are available at its registered office at: 1 Chamberlain Square CS, Birmingham, United Kingdom, B3 3AX.

(c) Amounts due to group companies

	2020 US\$'000	2019 US\$'000
Intermediate parent company		
NNOFIC	121,295	120,133
	121,295	120,133

- (d) 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 inter-company loan from 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, were placed into provisional liquidation.

Notes to the financial statements for the year ended 31 December 2020 (continued)

16. Related party transactions (continued)

An amount of US\$3,175,000 due to OIM Limited (a fellow subsidiary company) at 31 December 1985 was assigned by this company to NNOFIC during 1996.

The above amounts totalling US\$38,598,000, 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 Original Scheme. This subordination became effective on 7 March 1997, the effective date of the Original Scheme.

- (e) 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 20 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\$14,646,000, the claims paid by NNOFIC under this arrangement amounted to US\$228,692,000 of which US\$10,656,000 is the Company’s portion, and the balance of US\$218,036,000 comprises the funding provided to its immediate parent company OIC. The amount paid during the year under this arrangement was US\$146,000 (2019: US\$157,000).

Under the agreement, the loan from NNOFIC ranks as a policyholder liability and falls under the intra-group guarantee (see Note 13).

- (f) 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 LLP, the firm which provided the services relating to the provisional liquidation of the Company and its immediate parent company.
- (g) With effect from 7 March 1997, the Joint Provisional Liquidators ceased to act and the Company and its immediate parent company entered into the Original Scheme with their creditors. D.Y Schwarzmann and P. A. B. Evans are the Joint Scheme Administrators of the Company and its immediate parent company. The Original Scheme and the Amending Scheme provide 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 their creditors, supervise and ensure the carrying out of the Original Scheme and the Amending 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 2020, PricewaterhouseCoopers LLP fees for services provided to the Company amounted to US\$Nil (2019: US\$Nil) excluding VAT.

17. PRA returns

The FSA, as predecessor to the PRA, has issued to the Company in May 2002 a waiver under section 148 of the Financial Services and Markets Act 2000 providing that Rule 9.3 of the Interim Prudential Sourcebook for insurers should be modified in its application to the Company so that the requirements under Rule 9.3 shall be satisfied instead by the Company preparing audited statutory accounts.

18. Scheme of Arrangement

The Company and its immediate parent company entered into the Original Scheme with effect from 7 March 1997. Details of the Original Scheme were sent to creditors and shareholders in a proposal document dated 20 November 1996. The Amending Scheme was then entered into with effect from 14 January 2016. Details of the Amending Scheme were sent to creditors and

Notes to the financial statements for the year ended 31 December 2020 (continued)

18. Scheme of Arrangement (continued)

shareholders in a proposal document dated 8 October 2014. These documents should be referred to by creditors of the OIC Group.

On 15 September 1997 an initial payment percentage of 15% of Scheme Creditors' Established Liabilities was approved by the Creditors' Committee. Subsequent increases in the payment percentage have been approved by the Creditor's Committee. On 12 August 2020 the payment percentage was increased to 76%. The Amending Scheme was approved at meetings of Scheme Creditors held on 11 December 2014. The High Court of Justice of England and Wales sanctioned the Amending Scheme by an order dated 29 October 2015 ("the Order"). The United States Bankruptcy Court granted an order under Chapter 15 of the United States Bankruptcy Code recognising and enforcing the Amending Scheme in the United States of America on 11 January 2016. The Order was lodged with the Registrar of Companies in England and Wales and the Amending Scheme accordingly became effective on 14 January 2016. The Amending Scheme sought to crystallise the majority of the Group's liabilities so as to enable a final dividend payment percentage to be paid earlier than would otherwise be possible. The bar date for the final submission of all claims subject to the crystallisation provisions of the Amending Scheme expired on 12 September 2016 and all submitted claims have now been agreed. Consideration is now being given as to the determination and timing of the final dividend to be paid in relation to those claims. Certain groups of creditors were excluded from the provisions of the Amending Scheme and will continue to be able to bring claims against the Group in the normal course of business until 31 December 2035.

19. Subsequent events

The existing run-off manager, Armour Risk Management Limited, issued a notice of termination of its run-off services in relation to the Group prior to the year-end as a result of the organisation being sold to a third party. In accordance with the run-off contract, six months' notice was provided. Hampden plc was appointed as the replacement run-off manager with effect from 4 June 2021. There have been no other significant events affecting the Group or the Company since the year-end.