Registered in England and Wales Number: 256100

OIC Run-Off Limited
(in Scheme of Arrangement)

Annual Report and Financial Statements
31 December 2019

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

Directors and Advisors

Directors:

D.Y. Schwarzmann
P.A.B. Evans

Secretary and registered office:

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

Independent auditor:

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Scheme Administrators:

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Strategic report for the year ended 31 December 2019

The Directors present their strategic report on OIC Run-Off Limited (in Scheme of Arrangement) ("the Company") for the year ended 31 December 2019.

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 and its subsidiary company, The London and Overseas Insurance Company Limited (in Scheme of Arrangement) (together "the Group") wrote non-life insurance and reinsurance business predominantly in the UK market. 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 Group's parent company provided funding for claims payments from 15 December 1993 until 21 October 1994, when the Group was placed under the control of Joint Provisional Liquidators.

As described in Note 20(d), on 30 June 1995 the 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$341,659,000 (2018: US$338,587,000).

As described in Note 22, the 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 14 August 2019 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 seeks to crystallise the majority of the Group's liabilities so as to enable a final payment percentage to be paid earlier than would otherwise be possible.

As part of running off its insurance operations, the Group continued 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 2019, following which the funds were drawn down and placed on money market deposits.

Results

The results of the Group for the year, as set out on pages 12 to 13, show a profit after taxation attributable to the owners of the Group of US$153,000 (2018: US$64,123,000). The shareholders' deficit in the Group is US$391,723,000 (2018: US$391,876,000).

Future development and strategy

The Amending Scheme sought to crystallise the majority of the liabilities of the Group. With certain exceptions, creditors were required to submit their claims by the bar date, 12 September 2016. Subject to the terms of the Amending Scheme, the claims agreement process, which commenced after the bar date, was completed subsequent to the year-end and, as a result, a final payment percentage will be declared once all remaining closure activities are concluded.

Strategic report for the year ended 31 December 2019

Future development and strategy (continued)
In the meantime, the Group 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.

Principal risks and uncertainties
The Group has entered into the Original Scheme and the Amending Scheme and had a consolidated net deficit of US$391,723,000 (2018: US$391,876,000) as at the balance sheet date.

The Group 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 interest rate, currency, credit and liquidity risk in relation to financial assets. The Group manages these risks by:

- Appointing specialist claims handlers who perform the day-to-day monitoring of its insurance liabilities and reinsurance assets;

- Under the terms of the Amending Scheme, future claims relating to the groups of creditors that were not subject to the crystallisation process of the Amending Scheme and which cannot be met by the provisions set aside for those claims will either be funded by NNOFIC or, if they are not covered by the arrangements in place with NNOFIC, will not be eligible to receive payment;

- Regularly reviewing the strategy to maximise value of its reinsurance asset, including reviewing the creditworthiness of its reinsurers

- Appointing external actuaries to assess the 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; and

- Prior to the realisation of all investments during the second quarter of 2019, the Group regularly reviewed its investment strategy to ensure that it remained in line with the overall strategy, including when required appointing third party investment managers to ensure the best possible returns on investments and minimising the impact of movements in interest rates.

COVID-19 (coronavirus)
Whilst recognising that the situation is extremely fluid and the full extent of the impact of the coronavirus pandemic is unclear, the Directors consider the likely financial impact to the Group 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 Group;

- Cash deposits are held in US$, materially matching the currency of the Group's liabilities and thus mitigating the volatility in currency markets recently seen;

- 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; and

- There is no potential for claims deterioration as a direct result of the pandemic.

Strategic report for the year ended 31 December 2019

COVID-19 (coronavirus) (continued)
The Directors are satisfied that steps have been taken to ensure that plans are in place to enable key functions to operate, whist protecting the welfare of stakeholders.

Section 172 Statement
The Directors of the Group 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 Group, including creditors and regulators as well as the impact of its activities on the community, the environment, and the Group’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 whereby the key financial risk is that proceeds from financial assets are not sufficient to fund claims as they fall due. This is achieved through consultation with 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 Group has no direct employees of its own, a specialist run-off manager is engaged to undertake the day-to-day management and the Directors look through to key staff members providing services to the Group as part of this arrangement. The Group 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.

By order of the Board.

P.A.B. Evans
Director

10 December 2020

Directors' report for the year ended 31 December 2019

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

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 2019.

Employees
The Group 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 Group's financial statements for the year ended 31 December 2019 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 Group'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 Coronavirus pandemic has been discussed within the strategic report. There have been no other significant events affecting 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 Group and 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 Group and the Company and of the profit or loss of the Group 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 Group will continue in business.

Directors' report for the year ended 31 December 2019

Statement of Directors' responsibility (continued)
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions, disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and 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.

By order of the Board

P.A.B. Evans
Director

10 December 2020

Independent auditor’s report to the members of OIC Run-Off Limited (In Scheme of Arrangement)

Report on the audit of the financial statements

Qualified opinion
In our opinion, except for the effects of the matter described in the basis for qualified opinion section of our report, the financial statements of OIC Run-Off Limited (the ‘parent company’) and its subsidiaries (the ‘group’):

- give a true and fair view of the state of the group’s and parent company’s affairs as at 31 December 2019 and of the group’s 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 consolidated profit and loss account: Technical account – general business;
- the consolidated profit and loss account: Non-technical account;
- the consolidated Balance Sheet;
- the Balance Sheet of the parent company;
- the consolidated statement of changes in equity;
- the company statement of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 23.

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 qualified opinion
As explained in Note 4l, the financial statements do not provide the disclosure required by United Kingdom Accounting Standards in respect of the analysis of debtors and creditors between reinsurance and direct business. In addition, under Section 11.38A of FRS 102, the group and the parent company are required to report their broker balances on a gross basis unless a legal right of offset exists, according to the principal involved. The group and the parent company have not complied fully with this disclosure requirement. In respect of these matters the group and the parent company have not complied with United Kingdom Generally Accepted Accounting Practice.

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 group and the parent 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 qualified opinion.

Emphasis of matter – technical provisions and significant uncertainties
We draw attention to note 4f(iii) and 5 in the financial statements, concerning the uncertain outcome 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.

Independent auditor's report to the members of OIC Run-Off Limited (In Scheme of Arrangement)

Emphasis of matter – technical provisions and significant uncertainties (continued)
The ultimate outcome of this matter cannot presently be determined, but this matter gives rise to significant uncertainties and their resolution may result in material, but presently unquantifiable, adjustments to the financial statements as presented. Adjustments to the amounts of technical provisions and related creditors are reflected in the financial statements for the period in which the adjustments are made. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based 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 respect to these matters.

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 group's and the parent 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 group or the parent 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.

Independent auditor's report to the members of OIC Run-Off Limited (In Scheme of Arrangement)

Auditor's responsibilities for the audit of the financial statements (continued)
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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, except for the effects of the matter described in the basis for qualified opinion section of our report, 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.

Except for the effects of the matter described in the basis for qualified opinion section of our report, in the light of the knowledge and understanding of the group and of the parent 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 to 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

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

10 December 2020

Consolidated Profit and loss account: Technical account – general business
For the year ended 31 December 2019

	Note	2019 US$'000	2018 US$'000
Earned premiums, net of reinsurance			
Gross premiums written		-	-
Outward reinsurance premiums		-	-
Earned premiums, net of reinsurance		-	-
Claims incurred, net of reinsurance			
Gross claims paid		(85,656)	(176,032)
Change in outstanding claims agreed		45,971	141,431
Gross claims agreed		(39,685)	(34,601)
Reinsurance recoverable		6,571	(2,388)
Net Claims Agreed		(33,114)	(36,989)
Change in technical provisions			
Gross amount		81,484	161,185
Reinsurers' share		(29,430)	(11,933)
Change in net technical provisions		52,054	149,252
Claims incurred, net of reinsurance		18,940	112,263
Net operating expenses	8	(8,840)	(23,318)
Balance on the technical account – general business		10,100	88,945

Consolidated Profit and loss account: Non-technical account
For the year ended 31 December 2019

	Note	**2019 US$'000**	2018 US$'000
Balance on the technical account – general business		10,100	88,945
Investment income	10	5,163	5,913
Profit on realisation of investments	10	298	14,611
Net unrealised (loss)/gain on investments	10	-	(16,911)
Other income		83	37
Other charges		(11,837)	(28,218)
Foreign currency exchange differences		(3,654)	(254)
Profit before taxation		153	64,123
Tax on profit	11	-	-
Profit for the financial year		153	64,123

The Group 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 comprehensive income is presented.

The profit for the financial year in the financial statements of the Company was US$28,432,000 (2018: US$121,609,000). As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company.

The Notes on pages 20 to 34 form an integral part of these financial statements.

All results were derived from continuing operations.

Consolidated Balance sheet
As at 31 December 2019

	Notes	2019 US$'000	2018 US$'000
ASSETS			
Investments			
Other financial investments	16	149,837	246,131
Reinsurers' share of technical provisions	13	-	8,569
Debtors			
Debtors arising out of direct insurance and reinsurance operations	4l	1,279	33,408
Deposits with ceding undertakings		-	369
Other debtors		599	835
		1,878	34,612
Other assets			
Cash at bank		8,293	5,512
Accrued income		397	396
Total assets		160,405	295,220

Consolidated Balance sheet (continued)
As at 31 December 2019

	Notes	2019 US$'000	2018 US$'000
LIABILITIES AND EQUITY			
Capital and reserves			
Called up share capital	12	85,250	85,250
Share premium		46,500	46,500
Non-distributable reserves		1,938	1,938
Accumulated losses		(525,411)	(525,564)
Equity shareholders' deficit		(391,723)	(391,876)
Technical provisions	4f(iii),13	22,195	103,661
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	4l	298,964	339,665
Deposits received from reinsurers		-	35
Amounts due to group companies	20	228,378	242,038
Other creditors including taxation and social security	17	400	337
		527,742	582,075
Accrued expenses		2,191	1,360
Total liabilities and equity		160,405	295,220

The financial statements of OIC Run-Off Limited (in Scheme of Arrangement), registered number 256100, on pages 12 to 34 were approved by the Board of Directors on 10 December 2020 and were signed on its behalf by:

P.A.B. Evans
Director

Balance sheet of the Company
As at 31 December 2019

	Notes	2019 US$'000	2018 US$'000
ASSETS			
Investments			
Other financial investments	16	56,160	161,009
Reinsurers' share of technical provisions	13	-	3,275
Debtors			
Debtors arising out of direct insurance and reinsurance operations	4l	1,053	13,329
Deposits with ceding undertakings		-	369
Other debtors		589	825
		1,642	14,523
Other assets			
Cash at bank		3,127	4,605
Accrued income		240	239
Total assets		61,169	183,651
LIABILITIES AND EQUITY			
Capital and reserves			
Called up share capital	12	85,250	85,250
Share premium		46,500	46,500
Accumulated losses		(633,779)	(662,211)
Equity shareholders' deficit		(502,029)	(530,461)
Technical provisions	13	22,195	103,661
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	4l	298,964	339,651
Deposits received from reinsurers		-	35
Amounts due to group companies	20	239,448	268,960
Other creditors including taxation and social security		400	445
		538,812	609,091
Accrued expenses		2,191	1,360
Total liabilities and equity		61,169	183,651

The financial statements of OIC Run-Off Limited (in Scheme of Arrangement), registered number 256100, on pages 12 to 34 were approved by the Board of Directors on 10 December 2020 and signed on their behalf by:

P. A. B. Evans
Director

Consolidated statement of changes in equity
For the year ended 31 December 2019

	Called-up share capital US$'000	Share premium US$'000	Non distributable reserve US$'000	Accumulated losses US$'000	Total deficit US$'000
Balance as at 1 January 2018	85,250	46,500	1,938	(589,687)	(455,999)
Profit for the year	-	-	-	64,123	64,123
Balance as at 31 December 2018	85,250	46,500	1,938	(525,564)	(391,876)
Balance as at 1 January 2019	85,250	46,500	1,938	(525,564)	(391,876)
Profit for the year	-	-	-	153	153
Balance as at 31 December 2019	85,250	46,500	1,938	(525,411)	(391,723)

The Notes on pages 20 to 34 form an integral part of the financial statements.

Company statement of changes in equity
For the year ended 31 December 2019

	Called-up share capital US$'000	Share premium US$'000	Accumulated losses US$'000	Total deficit US$'000
Balance as at 1 January 2018	85,250	46,500	(783,820)	(652,070)
Profit for the year	-	-	121,609	121,609
Balance as at 31 December 2018	85,250	46,500	(662,211)	(530,461)
Balance as at 1 January 2019	85,250	46,500	(662,211)	(530,461)
Profit for the year	-	-	28,432	28,432
Balance as at 31 December 2019	85,250	46,500	(633,779)	(502,029)

The Notes on pages 20 to 34 form an integral part of the financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2019

	Notes	2019 US$'000	2018 US$'000
Cash outflow from operating activities	18	(80,492)	(178,343)
Cash outflow from financing activities			
Funding repaid to NNOFIC		(10,965)	(19,565)
Net decrease in cash and cash equivalents		(91,457)	(197,908)
Cash and cash equivalents at the beginning of the year		251,643	467,464
Effect of foreign exchange rate and market value changes		(2,056)	(17,913)
Cash and cash equivalents at the end of the year		158,130	251,643
Cash and cash equivalents consist of:			
Cash at bank and in hand		8,293	5,512
Other financial investments		149,837	246,131
		158,130	251,643

Notes to the financial statements for the year ended 31 December 2019

1. General information
OIC Run-Off 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 Group and 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 Group 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 uncertainties which are set out in Note 5.

3. Run-off of the business
The Group is in run-off having ceased all underwriting activities on 30 September 1992. The Group was 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 Group's policy is to provide for the administrative and claims handling costs of running off the business to the extent that they are expected to exceed future investment income. Meaningful segmental analysis is not available due to the run-off nature of the business.

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 Group's 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
Whilst recognising that the situation is extremely fluid and the full extent of the impact of the coronavirus pandemic is unclear, as further explained in the Strategic Report, the Directors consider the likely financial impact to the Group to be extremely limited in nature. Having assessed the principal risks, 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
FRS 102 allows a qualifying entity certain disclosure exemptions subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the exemption from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these statements, includes the Company's cash flows.

d. Basis of consolidation
The consolidated profit and loss account, balance sheet and cash flow statement include the accounts of the Company and its subsidiary undertaking.

Notes to the financial statements for the year ended 31 December 2019 (continued)

4. Summary of significant accounting policies (continued)

e. Foreign currency

The Group's financial statements are presented in US Dollars and rounded to thousands. The Group'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 year-end rate. For this purpose, all assets and liabilities arising from insurance contracts are monetary items.

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 2018	1.2735	1.3435
31 December 2019	1.3247	1.2772

f. Insurance contracts

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

(i) <u>Premiums</u>

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) <u>Claims incurred</u>

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) <u>Technical provisions</u>

Technical provisions have been reduced for those creditors with whom agreement has been reached with regard to their claims for notified outstanding claims and IBNR claims under the Amending Scheme. In addition, technical provisions have been reduced to remove provisions relating to creditors who did not submit a claim for notified outstanding claims and IBNR at the bar date. The remaining provisions for the current year-end in relation to IBNR claims relate solely to creditors whose claims have not been crystallised in accordance with the Amending Scheme. 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 significant level of uncertainty therefore remains with regard to these provisions. Creditors have been increased by the value of the agreed claim, net of any dividend paid as at 31 December 2019.

Notes to the financial statements for the year ended 31 December 2019 (continued)

4. Summary of significant accounting policies (continued)

f. Insurance contracts (continued)

(iii) Technical provisions (continued)

Whilst the Directors consider that the gross technical 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. Notably, estimates of remaining technical provisions inevitably contain inherent uncertainties because of the long duration of the run-off up to 31 December 2035. This uncertainty is such that the ultimate liability, which will vary as a result of the actual claims that are made, 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.

g. 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.

h. Investments – Subsidiary undertaking

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

i. Cash and cash equivalents

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

j. 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.

k. Financial instruments

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

Notes to the financial statements for the year ended 31 December 2019 (continued)

4. Summary of significant accounting policies (continued)

l. Debtors and Creditors

Before the Group entered provisional liquidation, it derived its business from underwriting both direct and inwards reinsurance. UK Accounting Standards require that the Group disclose amounts due to and from policyholders, intermediaries and reinsurers analysed between those arising from direct and reinsurance business.

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

m. Investment return

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

Investment income comprises of interest on fixed interest securities and deposits with credit institutions and is dealt with on an accruals basis.

Realised gains or losses represent the difference between the net sale proceeds and the carrying amount of the investment.

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.

n. Financial investments

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

o. Share capital

Ordinary shares are classified as equity.

p. Related party transactions

The Group discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

Notes to the financial statements for the year ended 31 December 2019 (continued)

5. Critical accounting judgements and key sources of estimation uncertainty

As described in Note 4f(iii), the financial statements of the Group and 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 the following amounts:

(i) all known outstanding claims based on lawyers' advices, lawyers' reserve potentials and post balance sheet settlements in relation to the Amending Scheme. The net amount included in technical provisions at 31 December 2019 in respect of such claims, after reinsurance recoveries of US$Nil (2018: US$17,657,000) (Company: US$Nil (2018: US$16,056,000)), is US$Nil (2018: US$67,268,000) (Company: US$Nil (2018: US$68,869,000));

(ii) a provision for incurred but not reported claims of US$6,442,000 (2018: US$13,799,000) (Company: US$6,442,000 (2018: US$9,767,000) net of reinsurance, and US$6,442,000 (2018: US$3,988,000) (Company: US$6,442,000 (2018: US$6,096,000)) gross of reinsurance, based on professional advice and post balance sheet settlements in relation to the Amending Scheme; and

(iii) a provision of US$Nil (2018: US$19,427,000) (Company: US$Nil (2018: US$18,788,000)) for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US$6,442,000 (2018: US$72,896,000) (Company: US$6,442,000 (2018: US$77,890,000)). The Company figures include US$157,000 (2018: US$15,292,000) in respect of the policyholder liabilities of a wholly owned insurance subsidiary assumed under an intra-group guarantee (see Note 13b).

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$Nil (2018: US$8,569,000) (Company: US$Nil (2018: US$3,275,000)) are included in reinsurers' share of technical provisions and US$1,279,000 (2018: US$33,777,000) (Company: US$1,053,000 (2018: US$13,698,000)) are included in debtors. These amounts are net of provisions against amounts due from reinsurers whose solvency may be in doubt and who may ultimately be unable to pay in full of US$Nil (2018: US$20,855,000) (Company: US$Nil (2018: US$20,105,000)) and US$4,121,000 (2018: US$29,588,000) (Company: US$3,620,000 (2018: US$13,623,000)) respectively.

Notes to the financial statements for the year ended 31 December 2019 (continued)

5. Critical accounting judgements and estimation uncertainty (continued)

b. Reinsurance recoveries and bad debt provision (continued)

There are no other balances subject to judgement or estimate.

6. Management of insurance and financial risk

a. Insurance risk

The Group issued contracts that transferred insurance risk. The Group 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 2019	**Gross US$'000**	**Net US$'000**
Environmental pollution and asbestos	-	-
Other direct and reinsurance risks	-	-
	-	-

Notified outstanding claims excluding IBNR at 31 December 2018	**Gross US$'000**	**Net US$'000**
Environmental pollution and asbestos	84,925	67,268
Other direct and reinsurance risks	10,001	8,118
	94,926	75,386

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 Group 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, excluding provision for future run-off expenses, have developed as follows:

As at 31 December	**2014 US$'000**	**2015 US$'000**	**2016 US$'000**	**2017 US$'000**	**2018 US$'000**	**2019 US$'000**
Gross claim insurance liabilities	447,856	439,460	317,859	250,319	91,940	6,719
Gross recovery from reinsurers	42,809	45,920	32,313	25,742	8,569	-
Total net insurance liabilities	405,047	393,540	285,546	224,577	83,371	6,719

Notes to the financial statements for the year ended 31 December 2019 (continued)

6. Management of insurance and financial risk (continued)

b. Financial risk management objectives

The Group 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 interest rate, currency, credit and liquidity risk in relation to financial assets.

Market risk
The Group has exposure to interest rate risk arising from movements in financial investments that are measured at fair value and have fixed interest rates. The Group sets an investment strategy in order to control the impact of interest rate risk on anticipated cash flows and asset and liability values. 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 2019, following which the funds were drawn down and placed on money market deposits, and therefore the risk has now been eliminated.

The Group 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 Group seeks to mitigate the risk by matching the estimated liabilities with assets denominated in the same currency.

Liquidity risk
The Group 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. The Amending Scheme seeks to crystallise the majority of liabilities of the Group. With certain exceptions, creditors were required to submit their claims by the bar date, 12 September 2016. A claims agreement process commenced after the bar date and was completed after the year-end. A final payment percentage will be declared once all remaining closure tasks are concluded.

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;
(iii) Listed fixed interest securities; and
(iv) Reinsurance debtors

Funds held within (i) and (ii) are with institutions rated A or higher across an average of the major rating agencies. Listed fixed interest securities, held until 30 June 2019, contained only US Treasury bonds or UK Government gilts, rated at AA+ or higher.

Most reinsurance debtor balances have now either been realised, collected through set-off, or written-off.

Capital management
The Group'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.

Notes to the financial statements for the year ended 31 December 2019 (continued)

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

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

	2019 US$'000	**2018 US$'000**
Environmental pollution and asbestos	13,622	90,374
Other direct and reinsurance risks	10,463	7,419
	24,085	97,793

8. Expenses

a. Net operating expenses

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

	2019 US$'000	2018 US$'000
Management expenses	14,822	16,635
(Decrease)/increase in bad debt provision	(5,982)	6,683
Net operating expenses	8,840	23,318

Management fees amounting to US$2,657,000 (2018: US$3,004,000) were paid to Armour Risk Management Limited for providing run-off services to the Group.

Most reinsurance balances have now either been realised, collected through set-off, or written-off. The write off of reinsurance balances amounted to US$40,341,000 (2018: US$Nil) and the bad debt provision as at 31 December 2019 was US$4,121,000 (2018: US$50,444,000). Of this amount US$4,121,000 (2018: US$29,588,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US$Nil (2018: US$20,855,000) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US$Nil (2018: US$29,588,000) is a specific provision with a general provision of US$4,121,000 (2018: US$Nil). Of the amounts provided within technical provisions US$Nil (2018: US$15,598,000) is a specific provision and US$Nil is a general provision (2018: US$5,255,000).

b. Auditors' remuneration

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

	2019 US$'000	2018 US$'000
OIC Run-Off Limited (in Scheme of Arrangement)	90	110
The London and Overseas Insurance Company Limited (in Scheme of Arrangement)	36	44

Remuneration of the Group's auditor for provision of non-audit services to the Group was US$Nil (2018: US$Nil).

Notes to the financial statements for the year ended 31 December 2019 (continued)

9. Employees and Directors

Employees
The Group incurs no staff costs, as throughout the current and prior financial years all staff dealing with the affairs of the Group were employed by an appointed run-off manager, which was remunerated by a management fee. The current run-off manager is Armour Risk Management Limited.

Directors
The current Directors Messrs. D.Y. Schwarzmann who was a partner in PricewaterhouseCoopers LLP as at 31 December 2019 and P.A.B. Evans, who retired from the PricewaterhouseCoopers LLP partnership on 30 June 2007, received no remuneration from the Group. PricewaterhouseCoopers LLP are in receipt of fees for the provision of services to the Scheme Administrators as detailed in note 20 (f).

10. Investment return

	2019 US$'000	2018 US$'000
Investment income		
Income from financial assets at fair value through profit and loss	5,163	5,913
Net profit on realisation of investments	298	14,611
	5,461	20,524
Net unrealised (losses)/gains on investments	-	(16,911)
Total investment return	5,461	3,613

11. Taxation

	2019 US$'000	2018 US$'000
Tax on (loss)/profit		
The charge based on the profit for the year comprises:		
Current tax	-	-
Group Relief recovered	-	-
Deferred tax	-	-
Current year tax	-	-
Prior year adjustment for foreign tax	-	-
Tax on (loss)/profit	**-**	-

Factors affecting tax charge for the year.

	2019 US$'000	2018 US$'000
(Loss)/profit before taxation	153	64,123
Corporation tax at 19% (2018: 19%)	29	12,183
Timing differences (capital allowances)	-	-
Other permanent differences (legal fees and disallowed interest)	1,834	5,043
Utilisation of tax losses brought forward	(1,863)	(17,226)
Unrecognised tax losses carried forward	-	-
Prior year adjustment for foreign tax	-	-
Total current tax	**-**	**-**

Notes to the financial statements for the year ended 31 December 2019 (continued)

11. Taxation (continued)

The Group has consolidated losses brought forward and there is no current tax charge in 2019.

Factors that may affect the future tax charge

Tax losses, valued at the future standard UK rate of tax of 17% (2018: 17%) of US$62,900,000 (2018: US$64,300,000) are available to offset against the Group's taxable profits in future periods. The corporation tax rate is 19% for the profits arising after 1 April 2017. Due to the uncertainty as to the amount and timing of future profits, all tax losses have been valued at the lower rate of 17%. 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.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at 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 sheet date, would be to increase the unrecognised deferred tax asset by $7,400,000.

There are no deferred tax liabilities (2018: US$Nil).

12. Share capital

	2019 US$'000	2018 US$'000
Called up, allotted and fully paid:		
110,000,000 ordinary shares of 50p each	85,250	85,250
	85,250	85,250

13. Technical provisions

The closing provision for claims is comprised as follows:

(a) **Group**	**Gross US$'000**	**Reinsurance US$'000**	**Net US$'000**
At 31 December 2019			
Notified outstanding claims	-	-	-
Incurred but not reported claims	6,719	-	6,719
Provision for future run-off expenses	15,476	-	15,476
Provision against potential irrecoverable reinsurance	-	-	-
Total	22,195	-	22,195
At 31 December 2018			
Notified outstanding claims	94,926	19,540	75,386
Incurred but not reported claims	(2,986)	9,884	(12,870)
Provision for future run-off expenses	11,721	-	11,721
Provision against potential irrecoverable Reinsurance	-	(20,855)	20,855
Total	103,661	8,569	95,092

Notes to the financial statements for the year ended 31 December 2019 (continued)

13. Technical provisions (continued)

(b) **Company**	**Gross US$'000**	**Reinsurance US$'000**	**Net US$'000**
At 31 December 2019			
Notified outstanding claims	-	-	-
Incurred but not reported claims	6,561	-	6,561
Provision for future run-off expenses	15,476	-	15,476
Provision against potential irrecoverable reinsurance	-	-	-
	22,037	-	22,037
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee:			
APH	157	-	157
Non APH	1	-	1
Total	22,195	-	22,195
At 31 December 2018			
Notified outstanding claims	80,069	17,596	62,473
Incurred but not reported claims	(5,427)	5,784	(11,211)
Provision for future run-off expenses	11,721	-	11,721
Provision against potential irrecoverable Reinsurance	-	(20,105)	20,105
	86,363	3,275	83,088
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee:			
APH	15,292	-	15,292
Non APH	2,006	-	2,006
Total	103,661	3,275	100,386

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

Following the provisional liquidation of The London and Overseas Insurance Company Limited, the Directors consider that this guarantee has crystallised. The technical provisions of the Company therefore include the Company's own policyholder liabilities including the provision held in respect of future run-off costs and provision for the total policyholder liabilities of its subsidiary undertaking before taking account of the available assets of the subsidiary undertaking.

Notes to the financial statements for the year ended 31 December 2019 (continued)

14. Investment in Group undertakings

	2019 **US$'000**	2018 US$'000
Shareholding in subsidiary company	8,913	8,913
Provision for impairment	(8,913)	(8,913)
	-	-

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

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

Registered office: PricewaterhouseCoopers LLP, 1 Chamberlain Square CS, Birmingham, United Kingdom, B3 3AX.

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

15. Provisions for other risks and charges

A provision has been made to cover the costs of meeting the obligations of the Original Scheme entered into with effect from 7 March 1997, and the Amending Scheme entered into with effect from 14 January 2016. Reasonable assumptions for the future run-off and claims handling expenses of the Group to the extent they exceed the projected future investment income have been used.

16. Other financial investments

		Group		**Company**
	2019 US$'000	**2018 US$'000**	**2019 US$'000**	**2018 US$'000**
Measured at fair value through profit or loss				
Listed fixed interest securities	-	59,793	-	59,793
Measured at cost				
Deposits with credit institutions	149,837	186,338	56,160	101,216
	149,837	246,131	56,160	161,009

All listed fixed interest securities have been analysed as Level 1 in the fair value hierarchy and are measured by reference to quoted prices (unadjusted) in an active market for identical assets.

Notes to the financial statements for the year ended 31 December 2019 (continued)

17. Other creditors including tax and social security

	2019 US$'000	2018 US$'000
Other creditors	400	337
	400	337

18. Profit/(loss) before taxation to cash outflow from operating activities

	2019 US$'000	2018 US$'000
Profit before taxation	153	64,123
Profit on realisation of investments	(298)	-
Net unrealised loss on investments	-	16,912
Decrease in amounts due from debtors	32,734	5,450
Decrease in amounts due to creditors other than NNOFIC	(40,673)	(120,151)
(Increase)/decrease in accrued income	(1)	2,406
Foreign currency revaluation	(341)	(3,262)
Increase/(decrease) in accrued expenses	831	(214)
Decrease in net technical provisions	(72,897)	(143,607)
Net cash outflow from operating activities	(80,492)	(178,343)

19. Operating leases

The Group has no lease commitments.

20. Related party transactions

(a) The Company is a wholly owned subsidiary of NNOFIC. NN Group NV, a company incorporated in The Netherlands, is the ultimate holding company of NNOFIC and the Company.

The results of the Company and of the Group have not been consolidated in the ultimate holding company's financial statements.

(b)

	Group		**Company**	
Amounts due to group companies	**2019 US$'000**	**2018 US$'000**	**2019 US$'000**	**2018 US$'000**
Intermediate parent company				
NNOFIC	228,378	242,038	189,793	203,295
The London and Overseas Insurance Company	-	-	49,655	65,665
	228,378	242,038	239,448	268,960

Notes to the financial statements for the year ended 31 December 2019 (continued)

20. Related party transactions (continued)

(c) 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$136,419,000 (Company: US$100,996,000). The funding ceased on 21 October 1994, and the Company and its wholly owned insurance subsidiary, The London and Overseas Insurance Company Limited, were placed into provisional liquidation.

An amount of US$9,455,000 due to OIM Limited and Orion Insurance General Limited at 31 December 1995 was assigned by these companies to NNOFIC during 1996.

Amounts totalling US$145,874,000, 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.

(d) On 30 June 1995, the Group 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 its wholly-owned insurance subsidiary and on or after 28 August 1970 in respect of the Company. Certain claims payments have been made by the Group since 30 June 1995 using funds loaned to the Group by NNOFIC. As at the balance sheet date, total claims paid by the Group were US$341,659,000, the claims paid by NNOFIC under this arrangement amounted to US$227,131,000 of which US$216,576,000 is the Company's portion, and the balance of US$10,555,000 comprises the funding provided to the wholly owned insurance subsidiary, The London and Overseas Insurance Company Limited (in Scheme of Arrangement). The amount paid during the year under this arrangement was US$3,008,000 (2018: US$3,018,000) for the Group and US$2,868,000 (2018: US$2,996,000) for the Company.

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

(e) The Group was 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 services relating to the provisional liquidation of the Group.

(f) With effect from 7 March 1997, the Joint Provisional Liquidators ceased to act and the Group entered into the Original Scheme with their creditors. D.Y. Schwarzmann and P. A. B. Evans are the Joint Scheme Administrators of the Group. The Original Scheme and the Amending Scheme provide that the Scheme Administrators shall, in relation to the Group, manage the run-off of its business, realise its assets and apply them for the benefit of its 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 Group to manage their affairs, business and property. During the year ended 31 December 2019, PricewaterhouseCoopers LLP fees for services provided to the Group and Company amounted to US$10,019,000 (2018: US$9,895,000) and US$10,019,000 (2018: US$9,895,000) respectively, excluding VAT.

Notes to the financial statements for the year ended 31 December 2019 (continued)

21. 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.

22. Scheme of Arrangement

The Group 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 shareholders in a proposal document dated 8 October 2014. These documents should be referred to by creditors of the 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 Creditors' Committee. On 12 August 2019 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 seeks to crystallise the majority of the Group's liabilities. With certain exceptions, creditors were required to submit their claims by the bar date, 12 September 2016. Subject to the terms of the Amending Scheme, the claims agreement process commenced after the bar date and was completed after the year-end. A final payment percentage will be declared once all remaining closure activities are concluded.

23. Subsequent events

As at 31 December 2019 China had alerted the World Health Organisation (WHO) of several cases of an unusual form of pneumonia in Wuhan. However, substantive information about what has now been identified as coronavirus (or COVID-19) only came to light in early 2020.

The performance of the Group has not been materially affected by the COVID-19 outbreak and does not expect to be materially impacted due to any ongoing effects. The Group is currently forecasting no significant change to financial performance and will continue to operate as a going concern. This is a non-adjusting event.