

OIC RUN-OFF LIMITED
(in Scheme of Arrangement)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2005

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2005

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OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Directors and advisers

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

OIC Run-Off Limited (in Scheme of Arrangement) and its subsidiary company

Directors' report **for the year ended 31 December 2005**

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2005.

Principal activities and significant events

OIC Run-Off Limited and its subsidiary company, The London and Overseas Insurance Company Limited ("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 12(c), on 30 June 1995 the Company and its wholly owned insurance subsidiary entered 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\$225,842,000.

As described in note 22, the Company and its wholly owned subsidiary entered into a Scheme of Arrangement with effect from 7 March 1997. On 15 September 1997 an Initial Payment Percentage of 15% of creditors' Established Liabilities was approved by the Creditors' Committee. Subsequent increases in the Payment Percentage have been approved by the Creditors' Committee on an annual basis, with the current level of 45% being approved on 26 January 2005.

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

Future prospects of the Group

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

Financial risk

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

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

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

OIC Run-Off Limited (in Scheme of Arrangement) and its subsidiary company

Directors' report (continued) for the year ended 31 December 2005

Financial risk (continued)

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

Directors and directors' interests in shares of the Company

The names of the directors of the Company are shown on page 1 and, unless otherwise indicated, these directors held office throughout the year.

Neither of the directors (or their families) have any interests in the shares of the Company or of the Company's subsidiary.

No director is recorded in the register required to be kept pursuant to Section 325 of the Companies Act 1985 as having any interest in the share capital of the Company's ultimate holding company or of any of the Company's fellow subsidiary companies.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the Company and the Group in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the Company and of the profit or loss of the Group for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Group's system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

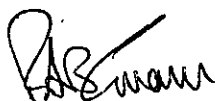
OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Directors' report (continued)
for the year ended 31 December 2005

Auditors

Pursuant to a members' resolution, the Company is not obliged to reappoint its auditors and Deloitte & Touche LLP will therefore continue in office.

By order of the board

A handwritten signature in black ink, appearing to read 'P. A. B. Evans', is written over a horizontal line.

P. A. B. Evans
Director

Independent Auditors' Report to the Members of OIC Run-Off Limited (in Scheme of Arrangement)

We have audited the Group and individual company financial statements (the "financial statements") of OIC Run-Off Limited (in Scheme of Arrangement) for the year ended 31 December 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Independent Auditors' Report to the Members of OIC Run-Off Limited (in Scheme of Arrangement) (continued)

Qualified opinion arising from omission of disclosures

As explained in note 11, the financial statements do not provide the disclosure required by The Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 in respect of the analysis of debtors and creditors between reinsurance and direct business. In addition, under Financial Reporting Standard 5 "Reporting the Substance of Transactions" the Group and Company are required to report their broker balances on a gross basis, according to the principal involved. The Group and Company have not complied fully with this disclosure requirement. In respect of these matters the Group and Company have not complied with Section 221 of The Companies Act 1985.

Except for the Group's and Company's partial non-disclosure of broker balances on a gross basis, by principal, and the omission of analysis of debtors and creditors between reinsurance and direct business as outlined in note 11, in our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the individual Company's affairs as at 31 December 2005 and of the Group's loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Emphasis of matter - significant uncertainties

Without qualifying our opinion, we draw attention to the disclosures made in note 14 of the financial statements concerning the significant uncertainties regarding the outcome of the following:

- the ultimate cost of claims, including North American liability claims, such as environmental pollution and asbestos claims, which have been included in the Group's and Company's technical provisions and new sources or types of claims which might emerge; and
- the ultimate amount recoverable by the Group and the Company from reinsurers in respect of gross claims.

These matters, taken together or individually, give rise to significant uncertainty and their resolution may result in material, but presently unquantifiable, adjustments to the financial statements as presented.

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

26 October 2006

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated profit and loss account
Technical account - general business
for the year ended 31 December 2005

Discontinued operations

	Note	2005 US\$'000	2004 US\$'000
Earned premiums, net of reinsurance		39	328
Gross premiums written		(726)	(882)
Outward reinsurance premiums		<u>(687)</u>	<u>(554)</u>
Earned premiums, net of reinsurance			
Claims incurred, net of reinsurance		(65,871)	(20,952)
Gross claims paid		20,231	(21,087)
Change in outstanding claims agreed		<u>(45,640)</u>	<u>(42,039)</u>
Gross claims agreed		(2,456)	32,793
Reinsurance recoverable		<u>(48,096)</u>	<u>(9,246)</u>
Net claims agreed			
Change in technical provisions		29,298	106,530
Gross amount		(82,795)	(76,009)
Reinsurers' share		<u>(53,497)</u>	<u>30,521</u>
Change in net technical provisions		<u>(101,593)</u>	<u>21,275</u>
Claims incurred, net of reinsurance			
Net operating expenses	7	12,503	(66,466)
Balance on the technical account - general business		<u>(89,777)</u>	<u>(45,745)</u>

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated profit and loss account
Non-technical account
for the year ended 31 December 2005

	Note	2005 US\$'000	2004 US\$'000
Balance on the technical account - general business		(89,777)	(45,745)
Investment income		21,741	34,265
Profit on realisation of investments		375	549
Net unrealised profit on investments		3,586	7,732
Other income		110	506
Other charges		(2,523)	17
Foreign currency exchange differences		(1,141)	1,232
Loss on ordinary activities before taxation		(67,629)	(1,444)
Group relief recovery	9	-	12,064
(Loss)/profit for the financial year		<u>(67,629)</u>	<u>10,620</u>

A statement of movements on reserves is given in note 16.

The Company and its wholly owned insurance subsidiary ceased all underwriting activities on 30 September 1992. Although these companies continue to trade, all of the results of the operations arise from discontinued activities.

The Group have no recognised gains or losses for the current and preceding year other than those which are included in the profit and loss account. Accordingly, no statement of total recognised gains and losses is presented.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated balance sheet
at 31 December 2005

	Notes	2005 US\$'000	2004 US\$'000
ASSETS			
Investments			
Other financial investments	10(a)	683,904	707,554
Reinsurers' share of technical provisions	13(a)	323,383	381,633
Debtors			
Debtors arising out of direct insurance and reinsurance			
Operations	11	100,136	109,110
Deposits with ceding undertakings		457	509
Other debtors		20,195	22,692
		<u>120,788</u>	<u>132,311</u>
Other assets			
Cash at bank		7,173	4,551
Accrued income		5,634	5,777
Total assets		<u>1,140,882</u>	<u>1,231,826</u>

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated balance sheet (continued)
at 31 December 2005

	Notes	2005 US\$'000	2004 US\$'000
LIABILITIES			
Capital and reserves			
Called up share capital	15	85,250	85,250
Share premium	16	46,500	46,500
Non-distributable reserves	16	1,938	1,938
Accumulated losses	16	(1,099,888)	(1,032,259)
		(966,200)	(898,571)
Equity shareholders' deficit			
		(966,200)	(898,571)
Technical provisions	3,13(a)	1,350,124	1,386,923
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	11	474,173	467,562
Deposits received from reinsurers		170	240
Amounts due to group companies	12(a)	280,608	273,036
Other creditors including taxation and social security		875	945
		755,826	741,783
Accrued expenses		1,132	1,691
Total liabilities		<u>1,140,882</u>	<u>1,231,826</u>

The financial statements on pages 7 to 28 were approved by the board of directors on 25 October 2006 and signed on their behalf by



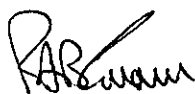
P. A. B. Evans
Director

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Balance sheet of the Company
at 31 December 2005

	Notes	2005 US\$'000	2004 US\$'000
ASSETS			
Investments			
Other financial investments	10(a)	521,152	547,581
Reinsurers' share of technical provisions	13(b)	85,427	153,033
Debtors			
Debtors arising out of direct insurance and reinsurance operations	11	71,977	79,097
Deposits with ceding undertakings		457	509
Other debtors		20,195	22,692
		92,629	102,298
Other assets			
Cash at bank		6,151	3,615
Accrued income		4,706	5,016
Total assets		710,065	811,543
LIABILITIES			
Capital and reserves			
Called up share capital	15	85,250	85,250
Share premium	16	46,500	46,500
Accumulated losses	16	(1,489,218)	(1,410,581)
Equity shareholders' deficit		(1,357,468)	(1,278,831)
Technical provisions	13(b)	1,350,124	1,386,923
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	11	474,173	467,562
Deposits received from reinsurers		170	240
Amounts due to group companies	12(a)	241,069	233,013
Other creditors including taxation and social security		875	945
		716,287	701,760
Accrued expenses		1,122	1,691
Total liabilities		710,065	811,543

The financial statements on pages 7 to 28 were approved by the board of directors on 26 October 2006 and signed on their behalf by



P. A. B. Evans
Director

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Consolidated cashflow statement
for the year ended 31 December 2005

	Notes	2005 US\$'000	2004 US\$'000
Net cash (outflow)/inflow from operating activities	17	(30,257)	19,027
Taxation		-	12,064
Group relief			
Financing		19,136	4,580
Funding provided by parent company		<u>19,136</u>	<u>4,580</u>
Cash available for investment		<u>(11,121)</u>	<u>35,671</u>
Cash flows were invested as follows :			
Increase/(decrease) in cash holdings	18	2,543	(2,770)
(Decrease)/increase in other financial investments	18	<u>(13,664)</u>	<u>38,441</u>
Net cash flows		<u>(11,121)</u>	<u>35,671</u>

OIC Run-Off Limited (in Scheme of Arrangement) and its subsidiary company

Notes to the accounts for the year ended 31 December 2005

1. Financial statements reporting currency

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

	Year-end rate
31 December 2005	1.7168
31 December 2004	1.9199

2. Principal accounting policies

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

(a) Disclosure requirements

The consolidated financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, except for the requirement of Financial Reporting Standard 5 regarding the presentation of broker balances on a gross basis as explained in note 11. Except as outlined in note 11, the consolidated financial statements have been prepared in accordance with Section 255A and Schedule 9A of the Companies Act 1985 and with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 by the Association of British Insurers (The ABI SORP).

The financial statements have been prepared on a basis appropriate for a group in run-off and are subject to a number of significant uncertainties which are set out in note 14.

(b) Basis of consolidation

The consolidated profit and loss account, balance sheet and cashflow statement include the accounts of the Company and its subsidiary undertaking.

(c) Run-off of the business

The Group is in run-off having ceased all underwriting activities on 30 September 1992. The Company and its wholly owned insurance subsidiary were placed into provisional liquidation on 21 October 1994, and entered into a Scheme of Arrangement with effect from 7 March 1997. 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.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31 December 2005

2. Principal accounting policies (continued)

(d) Basis of accounting for insurance business

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

(e) 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.

(f) Claims incurred

Claims incurred comprise claims agreed, claims payments and external settlement expense payments made in the financial year and the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation recoveries.

Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured.

(g) Claims outstanding

Provision is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. Included in the provision is an estimate of the external costs of handling the outstanding claims.

(h) Investments

Listed investments are shown at market value.

(i) Investments – subsidiary undertaking

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

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31 December 2005

2. Principal accounting policies (continued)

(j) Investment income

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

Investment income comprises interest and dividends, exclusive of tax credit, net rents, realised gains and losses on investments and the amortisation of fixed interest securities. Interest and net rents are dealt with on an accruals basis and dividends are included on an ex-dividend basis.

Realised gains or losses represent the difference between the net sale proceeds and purchase price.

Interest payable and expenses incurred in the management of investments are accounted for on an accruals basis.

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current period.

(k) Foreign currency

Transactions in currencies other than US Dollars and monetary assets and liabilities are translated to US Dollars at the rates of exchange ruling at the balance sheet date. Exchange differences are taken to the non technical account in the year in which they arise.

(l) Taxation

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

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

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31 December 2005

3. Basis of reserving

As stated in note 2, the Company sets its provision for claims outstanding based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

The adequacy of the claims outstanding provisions is assessed by reference to actuarial projections of the ultimate development of claims in respect of each accident year.

Asbestos and pollution IBNR claims have been calculated using exposure models. The ultimate claims, defined as the total payments from each loss until final settlement of the liability, have been estimated. The IBNR reserves are then calculated as the difference between ultimate claims and the total of paid claims to date and booked outstanding claims. Non - APH IBNR claims are calculated using net of reinsurance statistics, as in some cases gross statistics are not available. The gross IBNR has been calculated by applying the ratio of gross to net notified outstanding claims to the net projected IBNR claims, in the absence of gross IBNR statistics.

The methods used, and the estimates made, are reviewed regularly.

Whilst the directors consider that the gross provision for claims and the related recoveries are fairly stated on the basis of the information currently available to them, there is inherent uncertainty in relation to the insurance industry by its nature. Significant delays might occur in the notification of certain claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. In particular, estimates of technical provisions inevitably contain inherent significant uncertainties because extensive periods of time may elapse between the occurrence of an insured loss, the claim triggering the insurance under a claims-made coverage, the reporting of that claim to the Company and the Company's payment of the claim and the receipt of reinsurance recoveries. This uncertainty is such that the ultimate liability, which will vary as a result of subsequent information and events, may result in adjustments to the amount provided. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made.

In addition, the Group is exposed to significant issues causing uncertainties which are greater than normal, as explained in note 14.

4. Prior years' claims provisions

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

	2005 US\$'000	2004 US\$'000
Environmental pollution and asbestos	(133,843)	(9,081)
Other Direct and Reinsurance Risks	32,250	30,356
	<u>(101,593)</u>	<u>21,275</u>

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31 December 2005

5. Staff costs

No staff costs are incurred by the Group, as all staff dealing with the affairs of the Group are employed by Whittington Insurance Services Limited, which is remunerated by a management fee.

6. Directors' remuneration

The current directors Messrs. P.A.B. Evans and D.Y. Schwarzmenn were both partners in PricewaterhouseCoopers as at 31 December 2005, and receive no remuneration from the Group. PricewaterhouseCoopers are in receipt of fees for the provision of services to the Scheme Administrators.

7. Net operating expenses

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

	2005 US\$'000	2004 US\$'000
Management expenses	24,295	31,758
(Decrease)/increase in bad debt provision	(36,798)	34,708
Net operating expenses	<u>(12,503)</u>	<u>66,466</u>

Management fees amounting to US\$13,673,000 (2004: US\$16,902,000) were paid to Whittington Insurance Services Limited for providing run-off services to the Group.

The bad debt provision as at 31 December 2005 was US\$432,403,000 (2004: US\$469,201,000). Of this amount US\$100,592,000 (2004: US\$109,618,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US\$331,811,000 (2004: US\$359,583,000) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US\$90,342,000 (2004: US\$99,885,000) is a specific provision and US\$10,250,000 (2004: US\$9,733,000) is a general provision. Of the amounts provided within technical provisions US\$34,613,000 (2004: US\$55,514,000) is a specific provision and US\$297,198,000 (2004: US\$304,069,000) is a general provision.

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31 December 2005

7. Net operating expenses (continued)

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

	2005 US\$'000	2004 US\$'000
OIC Run-Off Limited (in Scheme of Arrangement)	162	155
The London and Overseas Insurance Company Limited (in Scheme of Arrangement)	70	66

Remuneration of the Company's auditors for provision of non-audit services to the Company and its subsidiary undertakings was US\$nil (2004: US\$nil).

8. Run-off expenses and claims handling expenses

The estimated costs of running off the business, including claims handling costs have been considered for the period to 31 December 2015. It is anticipated that, over this period, investment income will exceed such costs. Accordingly, no provision has been made for run-off costs.

9. Taxation

(a) Tax on profit on ordinary activities	2005 US\$'000	2004 US\$'000
The charge based on the profit for the year comprises:		
Current tax	-	-
Group Relief Recovered	-	(12,064)
Deferred tax	-	-
Tax on profit on ordinary activities	<u>-</u>	<u>(12,064)</u>
 (b) Factors affecting tax charge for the year	 2005 US\$'000	 2004 US\$'000
Loss on ordinary activities before tax	<u>(67,629)</u>	<u>(1,444)</u>
Loss on ordinary activities before tax at 30% thereon	(20,289)	(433)
Timing differences	(3)	(5)
 Unrecognised tax losses carried forward	 <u>20,292</u>	 <u>438</u>
Total current tax	<u>-</u>	<u>-</u>

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31 December 2005

9. Taxation (continued)

(c) Factors that may affect future tax charges

Tax losses, valued at the standard UK rate of tax of 30%, of US\$297,600,000 (2004: US\$277,300,000) are available to offset against the group's taxable profits in future periods. No deferred tax asset has been recognised in respect of these losses as, due to the uncertainty of future profits, it is not known if and when these losses will reverse. There are no deferred tax liabilities.

10. Investments

(a) Other financial investments

Group	2005 Market value US\$'000	2005 Cost US\$'000	2004 Market value US\$'000	2004 Cost US\$'000
Listed fixed interest securities	394,487	350,328	419,559	378,201
Deposits with credit institutions	289,417	289,417	287,995	287,995
	<u>683,904</u>	<u>639,745</u>	<u>707,554</u>	<u>666,196</u>
Company				
Listed fixed interest securities	394,486	350,328	419,559	378,201
Deposits with credit institutions	126,666	126,666	128,022	128,022
	<u>521,152</u>	<u>476,994</u>	<u>547,581</u>	<u>506,223</u>

Included in deposit accounts with credit institutions are deposits of US\$3,131,000 (2004: US\$3,745,000) supporting letters of credit providing security for certain overseas reinsureds.

OIC Run-Off Limited (in Scheme of Arrangement) and its subsidiary company

Notes to the accounts (continued) for the year ended 31 December 2005

10. Investments (continued)

(b) Investment in group undertaking

	2005 US\$'000	2004 US\$'000
Shareholding in subsidiary company	8,913	8,913
Provision for impairment	(8,913)	(8,913)
	<u>-</u>	<u>-</u>

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

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.

11. Debtors and creditors

Before the Group entered provisional liquidation, it derived its business from underwriting both direct and inwards reinsurance. Under the requirements of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, the Group and the Company are required to disclose amounts due to and from policyholders, intermediaries and reinsurers analysed between those arising from direct and reinsurance business.

In the past the 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 a Scheme of Arrangement, the directors do not consider these disclosures to be fundamental to the financial statements, and have not given them on the grounds of the additional resource required to extract this information.

Under Financial Reporting Standard 5 "Reporting the Substance of Transactions" the Group and Company are required to report their transactions with brokers, including debtor and creditor balances, on a gross basis, according to the principal involved. In May 1997 a principal to principal ledger was put in place and is now receiving data from the broker-based system for this purpose. However, it will take time to populate fully the principal to principal ledger. Accordingly, only a proportion of the Group's debtor and creditor balances as at 31 December 2005 are stated on a gross basis.

OIC Run-Off Limited (in Scheme of Arrangement)
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Notes to the accounts (continued)
for the year ended 31 December 2005

12. Group balances

(a)	Group		Company	
	2005 US\$'000	2004 US\$'000	2005 US\$'000	2004 US\$'000

Amounts due to group companies

Intermediate parent company

NNOFIC	280,608	273,036	241,069	233,013
	<u>280,608</u>	<u>273,036</u>	<u>241,069</u>	<u>233,013</u>

(b) As a result of continuing deterioration in claims reserves, Internationale-Nederlanden Verzekeringen NV ('INV') provided funding for gross claims payments made from 15 December 1993, with effect from 1 February 1994. The value of this funding, which was in the form of an unsecured interest free intercompany loan from Nationale-Nederlanden Overseas Finance and Investment Company Unlimited ('NNOFIC'), a subsidiary of INV, and intermediate parent of the Company, amounted to US\$143,047,000 (Company: US\$107,624,000). 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\$13,335,000 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\$156,382,000, currently included in amounts due to NNOFIC, have been subordinated to the Established Liabilities of all other Scheme Creditors, as defined in the Proposal document for the Scheme of Arrangement. This subordination became effective on 7 March 1997, the effective date of the Scheme of Arrangement.

(c) On 30 June 1995, the Company and its wholly owned insurance subsidiary 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 Company and its wholly owned insurance subsidiary since 30 June 1995 using funds loaned to the Company and its wholly owned insurance subsidiary by NNOFIC. As at the balance sheet date, total claims paid by the Company and its wholly owned subsidiary were US\$225,842,000, the claims paid by NNOFIC under this arrangement amounted to US\$174,091,000 of which US\$164,489,000 is the Company's portion, and the balance of US\$9,603,000 comprises the funding provided to the wholly owned insurance subsidiary, The London and Overseas Insurance Company Limited. Under the agreement, the loan from NNOFIC ranks as a policyholder liability and falls under the intra-group guarantee (see note 13(b)).

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31 December 2005

13. Technical provisions

	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
(a) Group			
At 31 December 2005			
Notified outstanding claims	401,915	159,473	242,442
Incurred but not reported ("IBNR") claims	948,209	495,721	452,488
Provision against potential irrecoverable reinsurance	-	(331,811)	331,811
	<u>1,350,124</u>	<u>323,383</u>	<u>1,026,741</u>
Total			
At 31 December 2004			
Notified outstanding claims	457,737	206,086	251,651
Incurred but not reported ("IBNR") claims	929,186	535,130	394,056
Provision against potential irrecoverable reinsurance	-	(359,583)	359,583
	<u>1,386,923</u>	<u>381,633</u>	<u>1,005,290</u>
Total			
	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
(b) Company			
At 31 December 2005			
Notified outstanding claims	333,314	94,049	239,265
Incurred but not reported ("IBNR") claims	749,794	313,214	436,580
Provision against potential irrecoverable reinsurance	-	(321,836)	321,836
	<u>1,083,108</u>	<u>85,427</u>	<u>997,681</u>
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra- group guarantee	<u>267,016</u>	<u>-</u>	<u>267,016</u>
	<u>1,350,124</u>	<u>85,427</u>	<u>1,264,697</u>
Total			

OIC Run-Off Limited (in Scheme of Arrangement)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31 December 2005

13. Technical provisions (continued)

	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
(b) Company (continued)			
At 31 December 2004			
Notified outstanding claims	373,141	125,773	247,368
Incurred but not reported ("IBNR") claims	750,921	375,209	375,712
Provision against potential irrecoverable reinsurance	-	(347,949)	347,949
	<u>1,124,062</u>	<u>153,033</u>	<u>971,029</u>
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra- group guarantee	<u>262,861</u>	<u>-</u>	<u>262,861</u>
Total	<u><u>1,386,923</u></u>	<u><u>153,033</u></u>	<u><u>1,233,890</u></u>

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 and provision for the total liabilities of its subsidiary undertaking before taking account of the available assets of the subsidiary undertaking.

14. Significant uncertainties

The financial statements of the Group and the Company reflect the following significant uncertainties:

(a) Ultimate gross technical provisions

There is considerable uncertainty surrounding the ultimate cost of claims including environmental pollution and asbestos claims, most of which are subject to litigation and are being resisted by the Group. The Group is also vulnerable to new sources or types of claims. The ultimate cost of these claims cannot be known with certainty.

Technical provisions include the following amounts in respect of environmental pollution and asbestos claims:

OIC Run-Off Limited (in Scheme of Arrangement)
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Notes to the accounts (continued)
for the year ended 31 December 2005

14. Significant uncertainties (continued)

(a) Ultimate gross technical provisions (continued)

- (i) all known outstanding environmental pollution and asbestos claims based on lawyers' advices and lawyers' reserve potentials. The net amount included in technical provisions at 31 December 2005 in respect of such environmental pollution and asbestos claims, after reinsurance recoveries of US\$126,633,000 (2004: US\$169,388,000) (Company: US\$69,231,000 (2004: US\$97,151,000)), is US\$209,071,000 (2004: US\$208,864,000) (Company : US\$266,473,000 (2004: US\$281,101,000));
- (ii) a provision for incurred but not reported claims of US\$448,107,000 (2004: US\$379,597,000) (Company: US\$630,417,000 (2004: US\$538,857,000)) net of reinsurance, and US\$939,925,00 (2004: US\$910,899) (Company: US\$939,925,000 (2004: US\$910,899,000)) gross of reinsurance, based on professional advice and a broad projection of observed developments to date; and
- (iii) a provision of US\$308,942,000 (2004: US\$337,080,000) (Company: US\$299,297,000 (2004: US\$325,869,000)) for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US\$966,120,000 (2004: US\$925,541,000) (Company: US\$1,196,187,000 (2004: US\$1,145,827,000)). The Company figures include US\$256,501,000 (2004: US\$250,434,000) in respect of the policyholder liabilities of a wholly owned insurance subsidiary assumed under an intra-group guarantee (see note 13(b)).

(b) Reinsurance recoveries and bad debt provision

The directors have recognised recoveries due from claims on the Group's and Company's reinsurers. Amounts of US\$323,383,000 (2004: US\$381,633,000) (Company: US\$85,427,000 (2004: US\$153,033,000)) are included in reinsurers' share of technical provisions and US\$100,593,000 (2004: US\$109,618,000) (Company: US\$72,434,000 (2004: US\$79,605,000)) 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\$331,811,000 (2004: US\$359,583,000) (Company: US\$321,836,000 (2004: US\$347,949,000)) and US\$100,592,000 (2004: US\$109,618,000) (Company: US\$72,434,000 (2004: US\$79,605,000)) respectively.

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

- (i) as a result of the insolvency of certain of the Group's and Company's reinsurers, and because the Group and Company are currently unable to fully identify reinsurance offsets, there remains material uncertainty as to the amount which will be recovered from these reinsurers; and

OIC Run-Off Limited (in Scheme of Arrangement)
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Notes to the accounts (continued)
for the year ended 31 December 2005

14. Significant uncertainties (continued)

(b) Reinsurance recoveries and bad debt provision (continued)

- (ii) the Group has a complex reinsurance programme, the recoveries under which depend on a number of factors including the size of individual claims. Until these gross claims amounts are known with certainty, the Group and Company are unable to identify the extent to which there is possible exhaustion of vertical and horizontal reinsurance covers.

15. Called up share capital

	2005 US\$'000	2004 US\$'000
Ordinary shares of 50p each:		
Authorised: 200,000,000 (2004: 200,000,000)	<u>155,000</u>	<u>155,000</u>
Called up, allotted and fully paid: 110,000,000 (2004: 110,000,000)	<u>85,250</u>	<u>85,250</u>

16. Statement of movements on reserves

	Share premium US\$'000	Non- distributable reserve US\$'000	Accumulated losses US\$'000
Group			
Balance at 1 January 2005	46,500	1,938	(1,032,259)
Loss for the year	-	-	(67,629)
Balance at 31 December 2005	<u>46,500</u>	<u>1,938</u>	<u>(1,099,888)</u>
Company			
Balance at 1 January 2005	46,500	-	(1,410,581)
Loss for the year	-	-	(78,637)
Balance at 31 December 2005	<u>46,500</u>	<u>-</u>	<u>(1,489,218)</u>

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts.

OIC Run-Off Limited (in Scheme of Arrangement)
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Notes to the accounts (continued)
for the year ended 31 December 2005

17. Reconciliation of consolidated loss before and after tax to consolidated net cash outflow from operating activities

	2005 US\$'000	2004 US\$'000
Loss before taxation	(67,629)	(1,444)
Profit on realisation of investments	(375)	-
Net unrealised profit on investments	(3,586)	(7,732)
Decrease in amounts due from debtors	9,226	10,864
Increase in amounts due to creditors other than parent company funding	7,362	15,714
Increase in accrued income	(384)	(12,368)
(Decrease)/Increase in accrued expenses	(573)	1,154
Increase in net Technical Provisions	25,702	12,839
Net cash (outflow)/inflow from operating activities	(30,257)	19,027

18. Movement in consolidated cash and portfolio investments

	Cash US\$'000	Other financial investments US\$'000	Total US\$'000
Balance at 1 January 2005	4,551	707,554	712,105
Cash flow	2,543	(13,664)	(11,121)
Changes to market values and currencies	79	(9,986)	(9,907)
Balance at 31 December 2005	7,173	683,904	691,077

	Cash US\$'000	Other financial investments US\$'000	Total US\$'000
Balance at 1 January 2004	7,386	651,643	659,029
Cash flow	(2,770)	38,441	35,671
Changes to market values and currencies	(65)	17,470	17,405
Balance at 31 December 2004	4,551	707,554	712,105

OIC Run-Off Limited (in Scheme of Arrangement) and its subsidiary company

Notes to the accounts (continued) for the year ended 31 December 2005

19. Lease commitments

The Company has no lease commitments.

20. FSA Returns

The FSA has issued to the Company in March 2003 a waiver under section 148 of the Financial Services and Markets Act 2000 providing that Rule 9.3 of the Interim Prudential Sourcebook for insurers should be modified in its application to the Company so that the requirements under Rule 9.3 shall be satisfied by the Company preparing audited statutory accounts in accordance with part 1 of the Schedule 9A to the Companies Act 1985.

21. Related parties

- (a) The Company is a wholly owned subsidiary of Nationale-Nederlanden (UK General) Limited, a company incorporated in Great Britain and registered in England and Wales. ING Groep NV, a company incorporated in The Netherlands, is the ultimate holding company. The results of the Company and of the Group have not been consolidated in the ultimate parent company's financial statements.
- (b) 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 are partners in PricewaterhouseCoopers, the firm which provided services relating to the provisional liquidation of the Group.
- (c) With effect from 7 March 1997, the Joint Provisional Liquidators ceased to act and the Company and its wholly owned insurance subsidiary entered into a Scheme of Arrangement with their creditors. P. A. B. Evans and D. Y. Schwarzmann are the Joint Scheme Administrators of the Company and its wholly owned insurance subsidiary. The Scheme provides that the Scheme Administrators shall, in relation to the Company and its wholly owned insurance subsidiary, manage the run-off of their business, realise their assets and apply them for the benefit of its creditors, supervise and ensure the carrying out of the Scheme, and gives them the power in the name and on behalf of the Company and its wholly owned insurance subsidiary to manage their affairs, business and property. During the year ended 31 December 2005, PricewaterhouseCoopers' fees for services provided to the Group and Company amounted to US\$6,893,000 (2004: US\$9,402,000) and US\$6,738,000 (2004: US\$9,230,000) respectively, excluding VAT.
- (d) As explained in note 12(c), certain claims are paid by the insurance subsidiary using funds loaned by NNOFIC, a subsidiary of the Company's ultimate holding company. The amount paid during the year under this agreement was US\$19,126,000 (2004: US\$5,172,000) for the Group and US\$17,909,000 (2004: US\$4,897,000) for the Company.

OIC Run-Off Limited (in Scheme of Arrangement)
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Notes to the accounts (continued)
for the year ended 31 December 2005

22. Scheme of Arrangement

The Company and its wholly owned insurance subsidiary entered into a Scheme of Arrangement with effect from 7 March 1997. Details of the Scheme of Arrangement were sent to creditors and shareholders in a Proposal document dated 20 November 1996. This document should be referred to by creditors of the Company and its wholly owned insurance subsidiary. On 15 September 1997 an Initial Payment Percentage of 15% of creditors' Established Liabilities was approved by the Creditors' Committee. Subsequent increases in the Payment Percentage have been approved by the Creditors' Committee on an annual basis, with the current level of 45% being approved on 26 January 2005.