Registered No: 256100

OIC RUN-OFF LIMITED
(in Scheme of Arrangement)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2008

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

REPORT AND FINANICAL STATEMENTS
for the year ended 31 December 2008

Directors and advisers

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

Directors' report
for the year ended 31 December 2008

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

Principal activities and significant events

OIC Run-Off Limited ("the Company") 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$278,293,000.

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 and subsequent increases have also been approved by the Creditors' Committee. A 3% increase in the Payment Percentage rate to 48%, was approved by the Creditors' Committee on 30 January 2008. As at 31 December 2008 the Payment Percentage rate was 48%. A further increase of 2% in the Payment Percentage rate to 50% was approved by the Creditors' Committee on 1 July 2009.

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;

Directors' report (continued)
for the year ended 31 December 2008

Financial risk (continued)

- regularly reviewing the credit worthiness of its reinsurers;
- 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; and
- appointing third party investment managers with a view to ensuring the best possible returns on investments and minimising the 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 in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group 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 judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' report (continued)
for the year ended 31 December 2008

Statement of directors' responsibilities (continued)

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

Disclosure of information to auditors

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

1) so far as each of the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and

2) each of the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Auditors

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

By order of the board

P. A. B. Evans
Director

Qualified 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 2008 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 legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Qualified Independent Auditors' Report to the Members of 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 the 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 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 parent company's affairs as at 31 December 2008 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – significant uncertainties

In forming our opinion on the financial statements, we have considered the adequacy of 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 Company from reinsurers in respect of gross claims.

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

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London

Date: 5 October 2009

Consolidated profit and loss account
Technical account – general business
for the year ended 31 December 2008

Discontinued operations

	Note	2008 US$'000	2007 US$'000
Earned premiums, net of reinsurance			
Gross premiums written		175	67
Outward reinsurance premiums		(2,065)	(1,166)
Earned premiums, net of reinsurance		(1,890)	(1,099)
Claims incurred, net of reinsurance			
Gross claims paid		(68,767)	(34,133)
Change in outstanding claims agreed		60,718	(29,026)
Gross claims agreed		(8,049)	(63,159)
Reinsurance recoverable		8,898	(26,845)
Net Claims Agreed		849	(90,004)
Change in technical provisions			
Gross amount		94,006	185,338
Reinsurers' share		(52,476)	(169,972)
Change in net technical provisions		41,530	15,366
Claims incurred, net of reinsurance		42,379	(74,638)
Net operating expenses	7	7,512	161,624
Balance on the technical account – general business		48,001	85,887

Consolidated profit and loss account
Non-technical account
for the year ended 31 December 2008

	Note	2008 US$'000	2007 US$'000
Balance on the technical account – general business		48,001	85,887
Interest income		26,094	34,409
Profit on realisation of investments		4,265	2,423
Net unrealised profit on investments		5,760	22,632
Other income		374	176
Other charges		(5,906)	-
Foreign currency exchange differences		(2,057)	(2,227)
Profit on ordinary activities before taxation		76,531	143,300
Tax		(107)	-
Profit for the financial year		76,424	143,300

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.

Consolidated balance sheet
at 31 December 2008

	Notes	2008 US$'000	2007 US$'000
ASSETS			
Investments			
Other financial investments	10(a)	748,066	793,053
Reinsurers' share of technical provisions	13(a)	109,541	168,508
Debtors			
Debtors arising out of direct insurance and reinsurance operations	11	74,835	71,623
Deposits with ceding undertakings		390	431
Other debtors		106	3,053
		75,331	75,107
Other assets			
Cash at bank		7,564	6,152
Accrued income		5,900	7,105
Total assets		946,402	1,049,925

Consolidated balance sheet (continued)
at 31 December 2008

	Notes	2008 US$'000	2007 US$'000
LIABILITIES AND EQUITY			
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	(865,969)	(942,393)
Equity shareholders' deficit		(732,281)	(808,705)
Technical provisions	3, 13(a)	932,477	1,036,394
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	11	450,179	513,202
Deposits received from reinsurers		242	266
Amounts due to group companies	12(a)	294,517	305,859
Other creditors including taxation and social security		400	974
		745,338	820,301
Accrued expenses		868	1,935
Total liabilities and equity		946,402	1,049,925

The financial statements on pages 7 to 28 were approved by the board of directors on 2 October 2009 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 2008

	Notes	2008 US$'000	2007 US$'000
ASSETS			
Investments			
Other financial investments	10(a)	547,894	605,781
Reinsurers' share of technical provisions	13(b)	25,463	75,309
Debtors			
Debtors arising out of direct insurance and reinsurance operations	11	46,739	50,566
Deposits with ceding undertakings		390	431
Other debtors		106	3,053
		47,235	54,050
Other assets			
Cash at bank		6,682	4,514
Accrued Income		5,375	6,337
Total assets		632,649	745,991
LIABILITIES AND EQUITY			
Capital and reserves			
Called up share capital	15	85,250	85,250
Share premium	16	46,500	46,500
Accumulated losses	16	(1,171,368)	(1,239,961)
Equity shareholders' deficit		(1,039,618)	(1,108,211)
Technical provisions	13(b)	932,477	1,036,394
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	11	450,179	513,203
Deposits received from reinsurers		242	266
Amounts due to group companies	12(a)	288,102	301,444
Other creditors including taxation and social security		400	974
		738,923	815,887
Accrued expenses		867	1,921
Total liabilities and equity		632,649	745,991

The financial statements on pages 7 to 28 were approved by the board of directors on 2 October 2009 and signed on their behalf by

P.A.B.Evans
Director

Consolidated cashflow statement

for the year ended 31 December 2008

	Notes	2008 US$'000	2007 US$'000
Net cash outflow from operating activities	17	(28,083)	(6,854)
Financing			
Funding provided by parent company		4,857	1,034
Cash available for investment		(23,226)	(5,820)
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	18	2,139	(13,401)
(Decrease)/increase in other financial investments	18	(25,365)	7,581
Net cash flows		(23,226)	(5,820)

Notes to the accounts
for the year ended 31 December 2008

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	Average rate for the year
31 December 2008	1.4503	1.8529
31 December 2007	1.9906	-

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 (as amended in December 2006) 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. The financial statements have been prepared on a going concern basis as the directors expect the group to continue to trade for the foreseeable future.

(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.

Notes to the accounts (continued)

for the year ended 31 December 2008

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 ultimate cost of claims incurred but not reported at that date. Included in the provision is an estimate of the external costs of handling the outstanding claims.

(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.

Notes to the accounts (continued)
for the year ended 31 December 2008

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

Monetary assets and liabilities in currencies other than US Dollars are translated to US Dollars at the rates of exchange ruling at the balance sheet date.

Transactions applied to the profit and loss account in currencies other than US Dollars for the period ended 31 December 2008 have been translated at average rates of exchange for the year. The comparative figures for the period ended 31 December 2007 have been translated at the rates of exchange ruling at the 2007 year-end 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.

Notes to the accounts (continued)
for the year ended 31 December 2008

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

The methods used, and 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 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:

	2008 US$'000	2007 US$'000
Environmental pollution and asbestos	51,700	(89,398)
Other direct and reinsurance risks	(9,321)	14,760
	42,379	(74,638)

Notes to the accounts (continued)
for the year ended 31 December 2008

4. Prior years' claims provisions (continued)

The above movement on prior years' claim provisions do not take into account movements in the bad debt provision, which are included in operating expenses and disclosed in note 7.

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, who retired from the PricewaterhouseCoopers LLP partnership on 30 June 2007 and D.Y. Schwarzmann who was a partner in PricewaterhouseCoopers LLP as at 31 December 2008, received no remuneration from the Group. PricewaterhouseCoopers LLP 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.

	2008 US$'000	**2007 US$'000**
Management expenses	22,785	25,784
(Decrease) in bad debt provision	(30,297)	(187,408)
Net operating expenses	(7,512)	(161,624)

Management fees amounting to US$10,746,000 (2007: US$13,465,000) were paid to Whittington Insurance Services Limited for providing run-off services to the Group.

The bad debt provision as at 31 December 2008 was US$150,965,000 (2007: US$181,262,000). Of this amount US$59,215,000 (2007: US$94,211,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US$91,750,000 (2007: US$87,051,000) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US$59,215,000 (2007: US$86,526,000) is a specific provision with no general provision (2007: US$7,685,000). Of the amounts provided within technical provisions US$43,046,000 (2007: US$18,120,000) is a specific provision and US$48,704,000 (2007: US$68,931,000) is a general provision.

Notes to the accounts (continued)
for the year ended 31 December 2008

7. Net operating expenses (continued)

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

	2008 US$'000	2007 US$'000
OIC Run-Off Limited (in Scheme of Arrangement)	202	209
The London and Overseas Insurance Company Limited (in Scheme of Arrangement)	87	90

Remuneration of the Company's auditors for provision of non-audit services to the Company and its subsidiary undertakings was US$nil (2007: US$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 2020. 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

	2008 US$'000	2007 US$'000
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	107	-
Tax on profit on ordinary activities	**107**	-

(b) Factors affecting tax charge for the year

	2008 US$'000	2007 US$'000
Profit on ordinary activities before tax	**76,531**	**143,300**
Profit on ordinary activities before tax at 28.5% thereon (2007: 30%)	21,811	42,990
Timing differences (capital allowances)	(1)	(2)
Utilisation of tax losses brought forward	(21,810)	(42,988)
Prior year adjustment for foreign tax	107	-
Total current tax	**107**	-

9. Taxation (continued)

The total current tax charge for the 2008 year end is higher than the standard rate of corporation tax in the UK of 28.5% (this being three months at a rate of 30% and the remaining nine months of the year at 28%) (2007: 30%).

(c) Analysis of prior year adjustment

In the process of CAD$1.4m of funds being repatriated from OIC's Canadian branch to the UK company, an amount of US$107,000 was paid during the year to the Canadian Revenue Agency ("CRA").
In the absence of any UK tax liability it will not be possible to set this Canadian tax against UK tax as the tax legislation requires brought forward trading losses to be utilised before overseas tax relief.

(d) Factors that may affect future tax charges

Tax losses, valued at the standard UK rate of tax of 28%, of US$212,200,000 (2007: US$250,300,000) 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 as to whether future profits will arise, it is not known at what point in time these losses will reverse.

10. Investments

(a) Other financial investments

Group	**2008 Market value US$'000**	**2008 Cost US$'000**	**2007 Market value US$'000**	**2007 Cost US$'000**
Listed fixed interest securities	487,398	435,839	516,060	468,143
Deposits with credit institutions	260,668	260,668	276,993	276,993
	748,066	696,507	793,053	745,136
Company				
Listed fixed interest securities	487,398	435,839	516,060	468,143
Deposits with credit institutions	60,496	60,495	89,721	89,721
	547,894	496,334	605,781	557,864

Included within cash deposits of US$1,258,000 (2007: US$1,668,000) are supporting letters of credit providing security for certain overseas reinsureds.

Notes to the accounts (continued)
for the year ended 31 December 2008

10. Investments (continued)

(b) Investment in Group undertaking

	2008 US$'000	2007 US$'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

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 ledger was put in place and is now receiving data from the broker-based system for this purpose. However, this ledger is not yet fully populated. Accordingly, only a proportion of the Group's debtor and creditor balances as at 31 December 2008 are stated on a gross basis.

Notes to the accounts (continued)
for the year ended 31 December 2008

12. Group balances

(a)	Group 2008 US$'000	Group 2007 US$'000	Company 2008 US$'000	Company 2007 US$'000
Amounts due to group companies				
Intermediate parent company				
NNOFIC	294,517	305,859	288,102	301,444
	294,517	305,859	288,102	301,444

(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$138,575,000 (Company:US$103,152,000). 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$11,266,000 due to OIM Limited and Orion Insurance General Limited at 31 December 1995 was assigned by these companies to NNOIFC during 1996.

Amounts totalling US$149,841,000, 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$278,293,000, the claims paid by NNOFIC under this arrangement amounted to US$201,393,000 of which US$190,872,000 is the Company's portion, and the balance of US$10,521,000 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)).

Notes to the accounts (continued)
for the year ended 31 December 2008

13. Technical provisions

(a) **Group**	**Gross US$'000**	**Reinsurance US$'000**	**Net US$'000**
At 31 December 2008			
Notified outstanding claims	281,976	77,587	204,389
Incurred but not reported ("IBNR") claims	650,501	123,704	526,797
Provision against potential irrecoverable reinsurance	-	(91,750)	91,750
Total	932,477	109,541	822,936
At 31 December 2007			
Notified outstanding claims	229,773	57,590	172,183
Incurred but not reported ("IBNR") claims	806,621	197,969	608,652
Provision against potential irrecoverable reinsurance	-	(87,051)	87,051
Total	1,036,394	168,508	867,886

(b) **Company**	**Gross US$'000**	**Reinsurance US$'000**	**Net US$'000**
At 31 December 2008			
Notified outstanding claims	241,641	54,781	186,860
Incurred but not reported ("IBNR") claims	528,656	54,269	474,387
Provision against potential irrecoverable reinsurance	-	(83,587)	83,587
	770,297	25,463	744,834
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee	162,180	-	162,180
Total	932,477	25,463	907,014

Notes to the accounts (continued)
for the year ended 31 December 2008

13. Technical provisions (continued)

(b) Company (continued)	Gross US$'000	Reinsurance US$'000	Net US$'000
At 31 December 2007			
Notified outstanding claims	192,962	36,305	156,657
Incurred but not reported ("IBNR") claims	658,504	116,056	542,448
Provision against potential irrecoverable reinsurance	-	(77,052)	77,052
	851,466	75,309	776,157
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee	184,928	-	184,928
Total	1,036,394	75,309	961,085

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 policyholder 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:

Notes to the accounts (continued)
for the year ended 31 December 2008

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 2008 in respect of such environmental pollution and asbestos claims, after reinsurance recoveries of US$71,620,000 (2007: US$46,103,000) (Company: US$50,147,000 (2007: US$27,501,000)), is US$184,994,000 (2007: US$145,381,000) (Company: US$206,467,000 (2007: US$163,983,000));

(ii) a provision for incurred but not reported claims of US$511,705,000 (2007: US$610,338,000) (Company: US$580,655,000 (2007: US$692,410,000)) net of reinsurance, and US$631,775,000 (2007: US$810,859,000) (Company: US$631,775,000 (2007: US$810,859,000)) gross of reinsurance, based on professional advice and a broad projection of observed developments to date; and

(iii) a provision of US$91,750,000 (2007: US$87,051,000) (Company: US$83,587,000 (2007: US$77,052,000)) for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US$788,449,000 (2007: US$839,283,000) (Company: US$870,709,000 (2007: US$930,202,000)). The Company figures include US$156,207,000 (2007: US$180,654,000) 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

The directors have recognised recoveries due from claims on the Group's and Company's reinsurers. Amounts of US$109,541,000 (2007: US$168,508,000) (Company: US$25,463,000 (2007: US$75,309,000)) are included in reinsurers' share of technical provisions and US$75,225,000 (2007: US$72,054,000) (Company: US$47,129,000 (2007: US$50,997,000)) 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$91,750,000 (2007: US$87,051,000) (Company: US$83,587,000 (2007: US$77,052,000)) and US$59,215,000 (2007: US$94,211,000) (Company: US$46,896,000 (2007: US$66,680,000)) 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

Notes to the accounts (continued)
for the year ended 31 December 2008

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. Share capital

	2008 US$'000	2007 US$'000
Ordinary shares of 50p each:		
Authorised: 200,000,000 (2007: 200,000,000)	155,000	155,000
Called up, allotted and fully paid: 110,000,000 (2007: 110,000,000)	85,250	85,250

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

(a)	Called up share capital US$'000	Share premium US$'000	Non-distributable reserve US$'000	Accumulated losses US$'000
Group				
Balance at 1 January 2008	85,250	46,500	1,938	(942,393)
Profit for the year	-	-	-	76,424
Balance at 31 December 2008	85,250	46,500	1,938	(865,969)
Company				
Balance at 1 January 2008	85,250	46,500	-	(1,239,961)
Profit for the year	-	-	-	68,593
Balance at 31 December 2008	85,250	46,500	-	(1,171,368)

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.

Notes to the accounts (continued)
for the year ended 31 December 2008

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

	2008 US$'000	2007 US$'000
Profit before taxation	76,531	143,300
Net unrealised (profit) on investments	(5,376)	(22,632)
(Increase)/decrease in amounts due from debtors	(4,264)	44,287
(Decrease)/increase in amounts due to creditors other than parent company funding	(58,562)	28,099
Decrease/(increase) in accrued income	950	(1,597)
Foreign currency revaluation	(4,479)	2,227
(Decrease)/increase in accrued expenses	(610)	181
(Increase) in net Technical Provisions	(32,273)	(200,719)
Net cash (outflow) / inflow from operating activities	(28,083)	(6,854)

18. Movement in consolidated cash and portfolio investments

	Cash US$'000	Other financial investments US$'000	Total US$'000
Balance at 1 January 2008	6,152	793,053	799,205
Cash flow	2,139	(25,365)	(23,226)
Changes to market values and currencies	(727)	(19,621)	(20,348)
Balance at 31 December 2008	7,564	748,067	755,631

	Cash US$'000	Other financial investments US$'000	Total US$'000
Balance at 1 January 2007	18,570	761,104	779,674
Cash flow	(13,401)	7,581	(5,820)
Changes to market values and currencies	983	24,368	25,351
Balance at 31 December 2007	6,152	793,053	799,205

Notes to the accounts (continued)
for the year ended 31 December 2008

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 were partners in PricewaterhouseCoopers LLP, 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 2008, PricewaterhouseCoopers LLP fees for services provided to the Group and Company amounted to US$7,444,000 (2007: US$7,402,000) and US$7,232,000 (2007: US$7,168,000) 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$12,390,000 (2007: US$1,564,000) for the Group and US$11,699,000 (2007: US$1,540,000) for the Company.

Notes to the accounts (continued)
for the year ended 31 December 2008

22. Scheme of Arrangement

The Company and 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 and subsequent increases have also been approved by the Creditors' Committee. A 3% increase in the Payment Percentage rate to 48%, was approved by the Creditors' Committee on 30 January 2008. As at 31 December 2008 the Payment Percentage rate was 48%. A further increase of 2% in the Payment Percentage rate to 50% was approved by the Creditors' Committee on 1 July 2009.