

OIC RUN-OFF LIMITED
(in Scheme of Arrangement)

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2011

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

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2011

	Pages
Directors and advisers	1
Directors' report	2 – 4
Qualified Independent Auditor's report	5 – 6
Consolidated profit and loss account – Technical account	7
Consolidated profit and loss account – Non-technical account	8
Consolidated balance sheet	9 - 10
Balance sheet of the Company	11
Consolidated cash flow statement	12
Notes to the accounts	13 - 28

Directors and advisers

Directors

P. A. B. Evans
D. Y. Schwarzmnn

Secretary and registered office

D. Y. Schwarzmnn
PricewaterhouseCoopers LLP
10-18 Union Street
London
SE1 1SZ

Independent Auditor

Deloitte LLP
London

Scheme Administrators

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

Solicitors

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

Bankers

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

Directors' report

for the year ended 31 December 2011

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

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\$298,447,000.

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. Increases in the Payment Percentage have been approved by the Creditors' Committee. As at 31 December 2011 the Payment Percentage rate was 55%.

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 and going concern

Due to the nature of some of the risks underwritten, the ultimate liability of the Group remains subject to uncertainty. However, proposals are continuing to be formulated 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 and accordingly the financial statements have been prepared on the going concern basis.

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 2011

Financial risk (continued)

- regularly reviewing the creditworthiness 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 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 has any disclosable interest in the share capital of the Company's ultimate holding Company or of any of the Company's fellow subsidiary companies.

Directors' responsibilities statement

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). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

for the year ended 31 December 2011

Directors' responsibilities statement (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 the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- 1) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of S.418 of the Companies Act 2006.

Auditor

Deloitte LLP have indicated their willingness to be appointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

By Order of the Board



P. A. B. Evans
Director

14 September 2012

Qualified Independent Auditor's Report to the Members of OIC Run-Off Limited (In Scheme of Arrangement)

We have audited the financial statements of OIC Run-Off Limited (in Scheme of Arrangement) for the year ended 31 December 2011 which comprise the Consolidated Profit and Loss Account, the Consolidated and parent Company Balance Sheets, the Consolidated Cash Flow Statement, and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Basis for qualified opinion on financial statements

As explained in note 11, the financial statements do not provide the disclosure required by United Kingdom Accounting Standards in respect of the analysis of debtors and creditors between reinsurance and direct business. In addition, under Financial Reporting Standard 5 "Reporting the Substance of Transactions" the group and the parent Company are required to report their broker balances on a gross basis, according to the principal involved. The group and the parent Company have not complied fully with this disclosure requirement. In respect of these matters the group and the parent Company have not complied United Kingdom Generally Accepted Accounting Practice.

Qualified opinion on financial statements arising from omission of disclosures

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements:

- give a true and fair view of the state of the group's and the parent Company's affairs as at 31 December 2011 and of group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Qualified Independent Auditor's Report to the Members of OIC Run-Off Limited (In Scheme of Arrangement) (continued)

Emphasis of matter – technical provisions and significant uncertainties

In forming our opinion on financial statements, we have considered the adequacy of the disclosures made in note 14 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 the parent Company's technical provisions and new sources or types of claims which might emerge; and
- the ultimate amount recoverable by the group and the parent 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. Adjustments to the amounts of technical provisions and reinsurers' share of technical provisions are reflected in the financial statements for the period in which the adjustments are made.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Andrew Downes (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

17 September 2012

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 2011

Discontinued operations

	Note	2011 US\$'000	2010 US\$'000
Earned premiums, net of reinsurance			
Gross premiums written		44	210
Outward reinsurance premiums		(1,607)	(279)
Earned premiums, net of reinsurance		<u>(1,563)</u>	<u>(69)</u>
Claims incurred, net of reinsurance			
Gross claims paid		(35,512)	(39,819)
Change in outstanding claims agreed		13,151	48,090
Gross claims agreed		<u>(22,361)</u>	<u>8,271</u>
Reinsurance recoverable		(20,765)	(14,836)
Net Claims Agreed		<u>(43,126)</u>	<u>(6,565)</u>
Change in technical provisions			
Gross amount		109,284	48,908
Reinsurers' share		(45,057)	(5,491)
Change in net technical provisions		<u>64,227</u>	<u>43,417</u>
Claims incurred, net of reinsurance		<u>21,101</u>	<u>36,852</u>
Net operating expenses	7	<u>54,793</u>	<u>(24,460)</u>
Balance on the technical account – general business		<u>74,331</u>	<u>12,323</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 2011

	2011 US\$'000	2010 US\$'000
Balance on the technical account – general business	74,331	12,323
Investment income	13,198	15,207
Profit on realisation of investments	8,288	4,030
Net unrealised profit on investments	23,866	11,331
Other income	114	95
Other charges	(4,562)	(6,824)
Foreign currency exchange differences	1,263	(1,780)
	<hr/>	<hr/>
Profit on ordinary activities before taxation	116,498	34,382
Tax on profit on ordinary activities	-	-
	<hr/>	<hr/>
Profit for the financial year	116,498	34,382
	<hr/>	<hr/>

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

The notes on pages 13 to 28 form an integral part of these financial statements.

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

Consolidated balance sheet
at 31 December 2011

	Notes	2011 US\$'000	2010 US\$'000
ASSETS			
Investments			
Other financial investments	10(a)	692,807	695,926
Reinsurers' share of technical provisions			
Debtors			
Debtors arising out of direct insurance and reinsurance operations	11	50,399	40,484
Deposits with ceding undertakings		398	397
Other debtors		1,335	890
		52,132	41,771
Other assets			
Cash at bank		1,497	3,947
Accrued income			
		4,105	4,870
Total assets		803,168	806,493

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

Consolidated balance sheet (continued)
at 31 December 2011

	Notes	2011 US\$'000	2010 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	(590,188)	(706,686)
Equity shareholders' deficit		(456,500)	(572,998)
Technical provisions	3, 13(a)	560,357	669,609
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	11	409,078	417,776
Deposits received from reinsurers		1,622	417
Amounts due to group companies	12(a)	286,884	290,310
Other creditors including taxation and social security		400	400
		697,984	708,903
Accrued expenses		1,327	979
Total liabilities and equity		803,168	806,493

The financial statements on pages 7 to 28 were approved by the Board of Directors on 14 September 2012 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 2011

	Notes	2011 US\$'000	2010 US\$'000
ASSETS			
Investments			
Other financial investments	10(a)	512,837	516,737
Reinsurers' share of technical provisions			
	13(b)	3,349	4,418
Debtors			
Debtors arising out of direct insurance and reinsurance operations	11	29,938	17,983
Deposits with ceding undertakings		398	397
Other debtors		1,334	890
		31,670	19,270
Other assets			
Cash at bank		1,260	3,100
Accrued Income			
		4,098	4,860
Total assets			
		553,214	548,385
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	(838,740)	(970,833)
Equity shareholders' deficit			
		(706,990)	(839,083)
Technical provisions			
	13(b)	560,357	669,609
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	11	409,078	417,776
Deposits received from reinsurers		1,622	417
Amounts due to group companies	12(a)	287,420	298,287
Other creditors including taxation and social security		400	400
		698,520	716,880
Accrued expenses			
		1,327	979
Total liabilities and equity			
		553,214	548,385

The financial statements on pages 7 to 28 were approved by the Board of Directors on 14 September 2012 and signed on their behalf by:


P. A. B. Evans
Director

Registered No: 256100

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

Consolidated cash flow statement
for the year ended 31 December 2011

	Notes	2011 US\$'000	2010 US\$'000
Net cash outflow from operating activities	17	(26,337)	(18,826)
Financing			
Funding provided by parent Company		(3,539)	(8,420)
Cash available for investment		<u>(29,876)</u>	<u>(27,246)</u>
Cash flows were invested as follows:			
Decrease in cash holdings	18	(2,425)	(7,645)
Decrease in other financial investments	18	(27,451)	(19,601)
Decrease in cash in the year		<u>(29,876)</u>	<u>(27,246)</u>

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

Notes to the accounts
for the year ended 31 December 2011

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
31 December 2011	1.5540	1.6044
31 December 2010	1.5466	1.5454

2. Principal accounting policies

The principal accounting policies observed by the Group and the Company 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. The consolidated financial statements have been prepared in accordance 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 going concern basis as appropriate for a group in run-off, as discussed in the Directors' Report, 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 cash flow 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 2011

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 2011

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.

Average exchange rates have been applied to the profit and loss statement during the period ended 31 December 2011. The resultant exchange differences are taken to the non-technical account in the year 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 2011

3. Basis of reserving

As stated in note 2, the Group 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 ("APH 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:

	2011 US\$'000	2010 US\$'000
Environmental pollution and asbestos	21,818	9,015
Other direct and reinsurance risks	(717)	27,836
	<u>21,101</u>	<u>36,851</u>

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

Notes to the accounts (continued)
for the year ended 31 December 2011

4. Prior years' claims provisions (continued)

The above movements 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

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

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 2011, 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.

	2011 US\$'000	2010 US\$'000
Management expenses	19,292	18,995
(Decrease)/increase in bad debt provision	(74,085)	5,465
Net operating expenses	<u>(54,793)</u>	<u>24,460</u>

Management fees amounting to US\$7,541,000 (2010: US\$8,447,000) were paid to Armour Risk Management Limited for providing run-off services to the Group.

The bad debt provision as at 31 December 2011 was US\$59,430,000 (2010: US\$133,515,000). Of this amount US\$11,830,000 (2010: US\$48,216,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US\$47,600,000 (2010: US\$85,300,000) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US\$11,830,000 (2010: US\$48,216,000) is a specific provision with no general provision (2010: US\$Nil). Of the amounts provided within technical provisions US\$47,600,000 (2010: US\$47,761,000) is a specific provision with no general provision (2010: US\$37,538,000).

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

Notes to the accounts (continued)
for the year ended 31 December 2011

7. Net operating expenses (continued)

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

	2011 US\$'000	2010 US\$'000
OIC Run-Off Limited (in Scheme of Arrangement)	169	163
The London and Overseas Insurance Company Limited (in Scheme of Arrangement)	73	70

Remuneration of the Company's auditor for provision of non-audit services to the Company and its subsidiary undertakings was US\$Nil (2010: US\$Nil).

8. Run-off expenses and claims handling expenses

A provision will be made where the future run-off management expenses exceed the projected future investment income, using reasonable assumptions.

9. Taxation

(a) Tax on profit on ordinary activities

	2011 US\$'000	2010 US\$'000
The charge based on the profit for the year comprises:		
Current tax	-	-
Group Relief recovered	-	-
Deferred tax	-	-
Current year tax	-	-
	<hr/>	<hr/>
Prior year adjustment for foreign tax	-	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	-	-
	<hr/>	<hr/>

(b) Factors affecting tax charge for the year

	2011 US\$'000	2010 US\$'000
Profit on ordinary activities before tax	116,498	34,382
	<hr/>	<hr/>
Profit on ordinary activities before tax at 26.5% thereon (2010: 28%)	30,872	9,627
Timing differences (capital allowances)	(1)	(1)
Other permanent differences (legal fees)	145	263
Unrecognised tax losses carried forward	-	-
Utilisation of tax losses brought forward	(31,016)	(9,889)
Unrecognised tax losses carried forward	-	-
Prior year adjustment for foreign tax	-	-
	<hr/>	<hr/>
Total current tax	-	-
	<hr/>	<hr/>

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

Notes to the accounts (continued)
for the year ended 31 December 2011

9. Taxation (continued)

As a result of brought forward losses there is no current tax charge in 2011. (2010: £nil).

(c) Factors that may affect future tax charges

Tax losses, valued at the standard UK rate of tax of 25% (2010: 27%) of US\$120,000,000 (2010: US\$161,000,000) 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.

During the year the UK main corporation tax rate was reduced from 28% to 26% with effect from 1 April 2011. A further change in the rate to 25% was substantially enacted on 5 July 2011, to be effective from 1 April 2012. Any relevant deferred tax balances or disclosures have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2012 budget. The main corporation tax rate will reduce from 26% to 24% (rather than the previously enacted 25%) from 1 April 2012. Thereafter, further changes, expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 22% by 1 April 2014. The changes announced in the March 2012 budget were not substantially enacted at the balance sheet date and therefore are not included in these financial statements.

There are no deferred tax liabilities. (2010: £nil).

10. Investments

(a) Other financial investments

Group	2011 Market value US\$'000	2011 Cost US\$'000	2010 Market value US\$'000	2010 Cost US\$'000
Listed fixed interest securities	423,308	349,010	504,209	453,878
Deposits with credit institutions	269,499	269,499	191,717	191,717
	<u>692,807</u>	<u>618,509</u>	<u>695,926</u>	<u>645,595</u>
Company				
Listed fixed interest securities	423,308	349,010	504,209	453,878
Deposits with credit institutions	89,529	89,529	12,528	12,528
	<u>512,837</u>	<u>438,539</u>	<u>516,737</u>	<u>466,406</u>

Included within cash deposits, US\$641,000 (2010: US\$723,000) are 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 2011

10. Investments (continued)

(b) Investment in Group undertaking

	2011 US\$'000	2010 US\$'000
Shareholding in subsidiary Company	8,913	8,913
Provision for impairment	(8,913)	(8,913)
	<u> </u>	<u> </u>
	-	-
	<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. UK Accounting Standards require that the Company disclose amounts due to and from policyholders, intermediaries and reinsurers analysed between those arising from direct and reinsurance business.

In the past the 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 2011 are stated on a gross basis.

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

Notes to the accounts (continued)
for the year ended 31 December 2011

12. Group balances

(a)	Group		Company	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000

Amounts due to group companies

Intermediate parent Company

NNOFIC	286,884	290,310	247,736	251,179
The London & Overseas Insurance Company	-	-	39,684	47,108
	<u>286,884</u>	<u>290,310</u>	<u>287,420</u>	<u>298,287</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\$140,506,000 (Company: US\$105,083,000). 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\$12,071,000 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\$152,577,000, 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\$298,447,000, the claims paid by NNOFIC under this arrangement amounted to US\$212,025,000 of which US\$201,071,000 is the Company's portion, and the balance of US\$10,954,000 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 2011

13. Technical provisions

(a) Group	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
At 31 December 2011			
Notified outstanding claims	360,534	79,859	280,675
Incurred but not reported ("IBNR") claims	199,823	20,368	179,455
Provision against potential irrecoverable reinsurance	-	(47,600)	47,600
Total	560,357	52,627	507,730
At 31 December 2010			
Notified outstanding claims	378,966	72,829	306,137
Incurred but not reported ("IBNR") claims	290,643	72,450	218,193
Provision against potential irrecoverable reinsurance	-	(85,300)	85,300
Total	669,609	59,979	609,630
(b) Company	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
At 31 December 2011			
Notified outstanding claims	307,371	53,546	253,825
Incurred but not reported ("IBNR") claims	149,749	(4,545)	154,294
Provision against potential irrecoverable reinsurance	-	(45,652)	45,652
	457,120	3,349	453,771
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee	103,237	-	103,237
Total	560,357	3,349	557,008

Notes to the accounts (continued)
for the year ended 31 December 2011

13. Technical provisions (continued)

(b) Company (continued)	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
At 31 December 2010			
Notified outstanding claims	334,106	49,346	284,760
Incurred but not reported ("IBNR") claims	215,645	32,594	183,051
Provision against potential irrecoverable reinsurance	-	(77,522)	77,522
	<u>549,751</u>	<u>4,418</u>	<u>545,333</u>
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee	119,858	-	119,858
Total	<u>669,609</u>	<u>4,418</u>	<u>665,191</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 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.

Notes to the accounts (continued)
for the year ended 31 December 2011

14. Significant uncertainties (continued)

(a) Ultimate gross technical provisions (continued)

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

- (i) all known outstanding environmental pollution and asbestos claims based on lawyers' advices and lawyers' reserve potentials. The net amount included in technical provisions at 31 December 2011 in respect of such environmental pollution and asbestos claims, after reinsurance recoveries of US\$76,477,000 (2010: US\$69,226,000) (Company: US\$50,943,000 (2010: US\$46,547,000)), is US\$263,935,000 (2010: US\$289,910,000) (Company: US\$289,469,000 (2010: US\$312,589,000));
- (ii) a provision for incurred but not reported claims of US\$169,058,000 (2010: US\$204,494,000) (Company: US\$193,735,000 (2010: US\$244,079,000)) net of reinsurance, and US\$188,016,000 (2010: US\$275,292,000) (Company: US\$188,016,000 (2010: US\$275,292,000)) gross of reinsurance, based on professional advice and a broad projection of observed developments to date; and
- (iii) a provision of US\$44,319,000 (2010: US\$81,243,000) (Company: US\$42,428,000 (2010: US\$73,587,000)) for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US\$477,312,000 (2010: US\$575,647,000) (Company: US\$525,632,000 (2010: US\$630,255,000)). The Company figures include US\$99,519,000 (2010: US\$115,577,000) 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\$52,627,000 (2010: US\$59,979,000) (Company: US\$3,349,000 (2010: US\$4,418,000)) are included in reinsurers' share of technical provisions and US\$50,797,000 (2010: US\$40,881,000) (Company: US\$30,336,000 (2010: US\$18,380,000)) 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\$47,600,000 (2010: US\$85,299,000) (Company: US\$45,652,000 (2010: US\$77,522,000)) and US\$11,830,000 (2010: US\$48,216,000) (Company: US\$11,482,000 (2010: US\$39,880,000)) 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)
and its subsidiary company

Notes to the accounts (continued)
for the year ended 31 December 2011

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

	2011 US\$'000	2010 US\$'000
Called up, allotted and fully paid: 110,000,000 ordinary shares of 50p each (2010: 110,000,000)	85,250	85,250

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

	Called up share capital US\$'000	Share premium US\$'000	Non- distributable reserve US\$'000	Accumulated losses US\$'000
Group				
Balance at 1 January 2011	85,250	46,500	1,938	(706,686)
Profit for the year	-	-	-	116,498
Balance at 31 December 2011	<u>85,250</u>	<u>46,500</u>	<u>1,938</u>	<u>(590,188)</u>
Company				
Balance at 1 January 2011	85,250	46,500	-	(970,833)
Profit for the year	-	-	-	132,093
Balance at 31 December 2011	<u>85,250</u>	<u>46,500</u>	<u>-</u>	<u>(838,740)</u>

As permitted by Section 408 of the Companies Act 2006, 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 2011

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

	2011 US\$'000	2010 US\$'000
Profit before taxation	116,498	34,382
Net unrealised profit on investments	(23,926)	(11,332)
(Increase) / decrease in amounts due from debtors	(10,363)	27,893
Decrease in amounts due to creditors other than parent		
Company funding	(6,781)	(35,454)
Decrease in accrued income	769	96
Foreign currency revaluation	(936)	(941)
Increase) / (decrease) in accrued expenses	343	(185)
Decrease in net Technical Provisions	(101,941)	(33,285)
Net cash outflow from operating activities	(26,337)	(18,826)

18. Movement in consolidated cash and portfolio investments

	Cash US\$'000	Other financial investments US\$'000	Total US\$'000
Balance at 1 January 2011	3,947	695,926	699,873
Cash flow	(2,425)	(27,451)	(29,876)
Changes to market values and currencies	(25)	24,332	24,307
Balance at 31 December 2011	1,497	692,807	694,304

	Cash US\$'000	Other financial investments US\$'000	Total US\$'000
Balance at 1 January 2010	11,605	708,573	720,178
Cash flow	(7,645)	(19,601)	(27,246)
Changes to market values and currencies	(13)	6,954	6,941
Balance at 31 December 2010	3,947	695,926	699,873

Notes to the accounts (continued)
for the year ended 31 December 2011

19. Lease commitments

The Company has no lease commitments. (2010: none).

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.

21. Related parties

- (a) The Company was a wholly owned subsidiary of Nationale-Nederlanden (UK General) Limited, a Company incorporated in Great Britain and registered in England and Wales. In 2011 this shareholding was transferred to NNOFIC. 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. Schwarzmans 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 2011, PricewaterhouseCoopers LLP fees for services provided to the Group and Company amounted to US\$7,135,000 (2010: US\$5,884,000) and US\$7,135,000 (2010: US\$5,884,000) 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\$2,249,000 (2010: US\$458,000) for the Group and US\$2,238,000 (2010: US\$454,000) for the Company.

Notes to the accounts (continued)
for the year ended 31 December 2011

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. Increases in the Payment Percentage have been approved by the Creditors' Committee. As at 31 December 2011 the Payment Percentage rate was 55%.

23. Profits attributable to the Company

The profits for the financial year dealt with in the financial statements of the parent Company was US\$132,093,000 (2010: US\$44,793,000). As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent Company.