Registered in England and Wales Number: 38706

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

Annual Report and Financial Statements 31 December 2015

Registered Office:
PricewaterhouseCoopers LLP
10-18 Union Street
London
SE1 1SZ

Directors and Advisors

Directors:

D.Y. Schwarzmann
P.A.B Evans

Secretary and registered office:

D.Y. Schwarzmann
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10-18 Union Street
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Independent auditor:

Deloitte LLP
London

Scheme Administrators:

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Barclays Bank PLC
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Strategic report for the year ended 31 December 2015

The directors present their strategic report on The London and Overseas Insurance Company Limited (in Scheme of Arrangement) ("the Company") for the year ended 31 December 2015.

Review of the Business

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

The results for the year are set out on page 10.

The Company wrote Marine and Aviation Insurance. It ceased underwriting activities on 30 September 1992, but continues to run-off its insurance operation.

As a consequence of deterioration on claims reserves, the Company's intermediate parent company provided funding for claims payments from 15 December 1993 until 21 October 1994, when the Company and its immediate parent company, OIC Run-Off Limited (formerly the Orion Insurance Company PLC) (collectively "the OIC Group") were placed under the control of Joint Provisional Liquidators.

As described in Note 17(e), on 30 June 1995 the OIC Group entered into an arrangement with Nationale – Nederlanden Overseas Finance and Investment Company Unlimited ("NNOFIC") whereby certain claims payments have been made in full. As at the balance sheet date, total claims paid under this arrangement amounted to US$14,178,000.

As described in Note 20, the OIC Group entered into a Scheme of Arrangement ("Original Scheme") with effect from 7 March 1997. On 15 September 1997 an initial Payment Percentage of 15% of creditors' Established Liabilities was approved by the Creditors' Committee. Subsequent increases in the Payment Percentage have been approved by the Creditors' Committee. As at 31 December 2015 the Payment Percentage was paid at 58%. An Amending Scheme of Arrangement ("Amending Scheme") was approved at meetings of scheme creditors held on 11 December 2014. The High Court of Justice of England and Wales sanctioned the Amending Scheme by an order dated 29 October 2015 ("the Order"). The United States Bankruptcy Court granted an order under Chapter 15 of the United States Bankruptcy Code recognising and enforcing the Amending Scheme in the United States of America on 11 January 2016. The Order was lodged with the Registrar of Companies in England and Wales and the Amending Scheme accordingly became effective on 14 January 2016. The Amending Scheme seeks to crystallise the majority of the OIC Group's liabilities so as to enable a final Payment Percentage to be approved and paid.

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

During the year, claims development has followed expectations.

Results

The results of the Company for the year, as set out on pages 10 to 26, show a profit on ordinary activities after taxation attributable to the owners of the Company of US$18,871,000 (2014: profit of US$30,021,000). The shareholders' deficit in the Company is US$764,862,000 (2014: US$783,733,000).

Future development and strategy

The Amending Scheme seeks to crystallise the majority of the liabilities of the OIC Group. With certain exceptions, creditors must submit their claims by the bar date, 12 September 2016. Subject to the terms of the Amending Scheme, a claims agreement process will then commence after the bar date and a final payment percentage will be declared.

In the meantime the Company continues to run-off the business and as: (1) certain conditions need to be met before the crystallisation provisions of the Amending Scheme become effective; and (2) not all claims will be crystallised under the Amending Scheme, the financial statements have been prepared on the going concern basis.

Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102 "The Financial Reporting Standard, applicable in the UK and Republic of Ireland". The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. In accordance with FRS 102, the Company has identified its insurance contracts and accounted for them in accordance with FRS 103 "Insurance Contracts". The impact of the transition to FRS 102 is set out in Note 18 "Transition to FRS 102". There is no impact on the profit after tax for the comparative period and the opening equity at 1 January 2014.

Principal risks and uncertainties

The Company has entered into the Original Scheme and the Amending Scheme and had a net deficit of US$764,862,000 as at the balance sheet date.

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 insufficient 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;
- regularly reviewing the creditworthiness of its reinsurers;
- appointing external actuaries to assess the adequacy of reserves;
- reviewing cash flow requirements to ensure its liquidity needs are met;
- matching foreign currency liabilities with corresponding currency assets to minimise the impact of movements in foreign exchange rates; and
- appointing third party investment managers with a view to ensuring the best possible returns on investments and minimising impact of movements in interest rates.

By order of the board.

P.A.B. Evans
Director

15 September 2016

Directors' report for the year ended 31 December 2015

The directors present their report and the audited financial statements for the year ended 31 December 2015.

Future developments

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

Directors

The names of the current directors are listed on page 3. There were no changes to the directors holding office during 2015.

Employees

The Company has no employees.

Disclosure of relevant information to auditors

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

- as far as each of them are aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2015 of which the auditors are unaware; and
- the directors have taken all steps that they ought to have taken in their duty as directors in order to make themselves aware of any relevant audit information and to establish the Company's auditors are aware of that information.

Independent Auditors

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

Statement of directors' responsibility

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

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

Directors' report for the year ended 31 December 2015 (continued)

Statement of directors' responsibility (continued)

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

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

By order of the board

P.A.B. Evans
Director

15 September 2016

Independent Auditor's Report to the Members of the London and Overseas Insurance Company Limited (In Scheme of Arrangement)

We have audited the financial statements of The London and Overseas Insurance Company Limited (in Scheme of Arrangement) for the year ended 31 December 2015 which comprise the Profit and loss account: Technical account – general business, the Profit and Loss Account: Non-technical account, the Balance Sheet, the statement of change in equity and the related Notes 1 to 20. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Basis for qualified opinion on financial statements

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

Qualified opinion on financial statements

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion on financial statements paragraph, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss 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.

- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – technical provisions and significant uncertainties

In forming our opinion on the financial statements, we have considered the adequacy of the disclosures made in Note 5 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 Company's technical provisions and new sources or types of claims which might emerge; and
- the ultimate amount recoverable by the 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 matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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

15 September 2016

Profit and loss account: Technical account – general business
For the year ended 31 December 2015

	Note	2015 US$'000	2014 US$'000
Earned premiums, net of reinsurance			
Gross premiums written		-	5
Outward reinsurance premiums		(11)	(8)
Earned premiums, net of reinsurance		(11)	(3)
Claims incurred, net of reinsurance			
Gross claims paid		(17)	(5)
Change in outstanding claims agreed		(6,894)	3,312
Gross claims agreed		(6,911)	3,307
Reinsurance recoverable		6,665	(2,404)
Net Claims Agreed		(246)	903
Change in technical provisions			
Gross amount		(2,292)	(628)
Reinsurers' share		(3,921)	4,058
Change in net technical provisions		(6,213)	3,430
Claims incurred, net of reinsurance		(6,459)	4,333
Movement in provision for policyholder liabilities assumed under an intra-group guarantee		12,542	28,549
Net operating expenses	8	3,146	(8,508)
Balance on the technical account – general business		9,218	24,371

Profit and loss account: Non-technical account
For the year ended 31 December 2015

	2015 US$'000	2014 US$'000
Balance on the technical account – general business	9,218	24,371
Investment income	369	136
Foreign currency exchange differences	2,912	2,770
Profit on ordinary activities before taxation	12,499	27,277
Movement in provision against balances due from parent company in Scheme of Arrangement	6,372	2,744
Profit for the financial year	18,871	30,021

The Notes on pages 14 to 26 form an integral part of these financial statements.

Balance sheet
as at 31 December 2015

	Notes	2015 US$'000	2014 US$'000
ASSETS			
Investments			
Other financial investments	15	197,059	196,809
Reinsurers' share of technical provisions	13	39,826	37,869
Debtors			
Debtors arising out of direct insurance and reinsurance operations	4j	6,728	3,413
Other debtors		10	10
		6,738	3,423
Other assets			
Cash at bank		284	173
Accrued Income		66	7
Total assets		243,973	238,281
LIABILITIES AND EQUITY			
Capital and reserves			
Called up share capital	12	10,850	10,850
Accumulated losses		(775,712)	(794,583)
Equity shareholders' deficit		(764,862)	(783,733)
Technical provisions	13	466,540	477,056
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	4j	374,550	376,829
Deposits received from reinsurers		35	42
Amounts due to group companies	17	167,710	168,087
		542,295	544,958
Accrued expenses		-	-
Total liabilities and equity		243,973	238,281

The financial statements on pages 10 to 26 were approved by the Board of Directors on 15 September 2016 and signed on their behalf by:

P. A. B. Evans
Director

Statement of changes in equity
for the year ended 31 December 2015

	Called-up share capital US$'000	Retained earnings US$'000	Total Equity US$'000
Balance as at 1 January 2014	10,850	(824,604)	(813,754)
Increase in share capital	-	-	-
Profit / (loss) for the year	-	30,021	30,021
Total comprehensive income for the year	-	30,021	30,021
Dividends	-	-	-
Total transactions with owners, recognised directly in equity	-	-	-
Balance as at 31 December 2014	10,850	(794,583)	(783,733)
Balance as at 1 January 2015	**10,850**	**(794,583)**	**(783,733)**
Increase in share capital	**-**	**-**	**-**
Profit / (loss) for the year	**-**	**18,871**	**(7,588)**
Total comprehensive income for the year	**-**	**(775,712)**	**(7,588)**
Dividends	**-**	**-**	**-**
Total transactions with owners, recognised directly in equity	**-**	**-**	**-**
Balance as at 31 December 2015	**10,850**	**(775,712)**	**(764,862)**

The Notes on pages 14 to 26 form an integral part of the financial statements.

Notes to the financial statements for the year ended 31 December 2015

1. General Information

The London and Overseas Insurance Company Limited (in Scheme of Arrangement) is a general insurance company in run-off in the UK. The Company is a private company limited by shares and is incorporated in England. The address of its registered office is 10-18 Union Street, London, SE1 1SZ.

2. Statement of Compliance

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006. The only exception is the requirement of Financial Reporting Standard 102 regarding the presentation of broker balances on a gross basis as explained in Note 4.

The financial statements have been prepared on the going concern basis as appropriate for a company in run-off, as discussed in the Directors' Report, and are subject to a number of significant uncertainties which are set out in Note 5.

3. Run-off of the business

The Company is in run-off having ceased all underwriting activities on 30 September 1992. The Company and its parent company were placed into provisional liquidation on 21 October 1994, and entered into the Original Scheme with effect from 7 March 1997. The Amending Scheme became effective on 14 January 2016 and, with certain exceptions, creditors must submit their claims by the bar date, 12 September 2016. The Company's policy is to provide for the administrative and claims handling costs of running off the business to the extent that they are expected to exceed future investment income. Meaningful segmental analysis is not available due to the run-off nature of the business.

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 102 and FRS 103 are disclosed in Note 18.

a. Basis of preparation

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

b. Going concern

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

c. Exemptions for qualifying entities under FRS102

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

Notes to the financial statements for the year ended 31 December 2015 (continued)

4. Summary of significant accounting policies (continued)

d. Foreign Currency

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

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

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

	Year-end rate	Average rate
31 December 2015	1.4739	1.5286
31 December 2014	1.5593	1.6551

e. Insurance contracts

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

(i) Premiums

Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business.

(ii) Claims incurred

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

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

(iii) Technical provisions

The Company sets its technical provisions for notified outstanding claims 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 technical provisions also include the estimated cost of IBNR claims at the balance sheet date based on statistical methods.

The adequacy of the technical provisions is assessed by reference to actuarial projections of the ultimate development of claims.

Notes to the financial statements for the year ended 31 December 2015 (continued)

4. Summary of significant accounting policies (continued)

(iii) Technical provisions (continued)

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 notified 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 technical provision for claims and the related recoveries is 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 Company is exposed to significant issues causing uncertainties which are greater than normal, as explained in Note 5a.

f. 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.

g. Cash and cash equivalents

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

h. Provisions and contingencies

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

i. Financial Instruments

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

Notes to the financial statements for the year ended 31 December 2015 (continued)

4. Summary of significant accounting policies (continued)

j. Debtors and Creditors

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

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

Under Financial Reporting Standard 102 the Company is required to report their transactions with brokers, including debtor and creditor balances, on a gross basis, unless a legal right of offset exists, according to the principal involved. In May 1997 a principal ledger was put in place and the Company now receives data from the broker-based system for this purpose. However, not all of the Company's debtor and creditor balances as at 31 December 2015 are stated on a gross basis.

k. Investment return

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

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

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

l. Share capital

Ordinary shares are classified as equity.

m. Related party transactions

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

5. Critical accounting judgements and estimation uncertainty

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

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

There is considerable uncertainty surrounding the ultimate cost of claims including environmental pollution and asbestos claims, many of which are subject to market litigation. The Company 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:

(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 2015 in respect of such environmental pollution and asbestos claims, after reinsurance recoveries of US$37,948,000 (2014: US$32,616,000), is US$355,854,000 (2014: US$318,122,000);

(ii) a provision for incurred but not reported claims of US$15,933,000 (2014: US$55,359,000) net of reinsurance, and US$22,881,000 (2014: US$71,495,000) gross of reinsurance, based on professional advice and a broad projection of observed developments to date; and

(iii) a provision of US$5,561,000 (2014: US$11,370,000) for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US$377,348,000 (2014: US$384,851,000). This figure includes US$327,274,000 (2014: US$335,780,000) in respect of the policyholder liabilities of a wholly-owned insurance subsidiary assumed under an intra-group guarantee (see Note 13).

b. Reinsurance recoveries and bad debt provision

The directors have recognised recoveries due from claims on the Company's reinsurers. Amounts of US$39,826,000 (2014: US$37,869,000) are included in reinsurers' share of technical provisions and US$6,728,000 (2014: US$3,413,000) 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$5,638,000 (2014: US$11,525,000) and US$4,325,000 (2014: US$1,794,000).

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

(i) all as a result of the insolvency of certain of the Company's reinsurers, there remains material uncertainty as to the amount which will be recovered from these reinsurers; and

(ii) the Company 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 Company is unable to identify the extent to which there is possible exhaustion of vertical and horizontal reinsurance covers.

There are no other balances subject to judgement or estimate.

Notes to the financial statements for the year ended 31 December 2015 (continued)

6. Management of insurance and financial risk

a. Insurance Risk

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

Concentration of insurance risk – claims reserve

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

Notified outstanding claims excluding IBNR at 31 December 2015	Gross US$'000	Net US$'000
Environmental pollution and asbestos	68,561	34,801
Other direct and reinsurance risks	8,406	3,769
	76,967	38,570

Notified outstanding claims excluding IBNR at 31 December 2014	Gross US$'000	Net US$'000
Environmental pollution and asbestos	58,363	46,595
Other direct and reinsurance risks	8,810	(12,510)
	67,173	34,085

Sources of uncertainty in the estimation of future claim payments

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

Claims development

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

As at 31 December	2011 US$'000	2012 US$'000	2013 US$'000	2014 US$'000	2015 US$'000
Gross claim insurance liabilities	560,357	527,281	459,858	447,856	439,460
Gross recovery from reinsurers	49,278	47,244	42,509	37,869	39,826
Total net insurance liabilities	511,079	480,037	417,349	409,987	399,634

b. Financial risk management objectives

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 insufficient to fund current and future claims. The most important components of these risks are: the timing and valuation risk in relation to technical provisions, and interest rate, currency, credit and liquidity risk in relation to financial assets.

Market Risk

The Company manages its foreign exchange risk against its functional currency. Foreign exchange risk arises when recognised assets are denominated in a currency that is not the entity's functional currency.

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

Liquidity Risk

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

6. Management of insurance and financial risk (continued)

b. Financial risk management objectives (continued)

Scheme and the Amending Scheme. The Amending Scheme seeks to crystallise the majority of liabilities of the OIC Group. With certain exceptions, creditors must submit their claims by the bar date, 12 September 2016. A claims agreement process will then commence after the bar date and a final payment percentage will be declared.

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

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

Funds held within (i) and (ii) are with institutions rated A or higher across an average of the major rating agencies.

Reinsurance debtors are regularly reviewed for creditworthiness and bad debt provided if appropriate.

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

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

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

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

	2015 **US$'000**	2014 US$'000
Environmental pollution and asbestos	(7,161)	3,803
Other direct and reinsurance risks	702	530
	(6,459)	4,333

8. Expenses

a. Net operating expenses

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

	2015 **US$'000**	2014 US$'000
Management expenses	211	(996)
(Decrease) / increase in bad debt provision	(3,357)	9,504
Net operating expenses	(3,146)	8,508

The bad debt provision as at 31 December 2015 was US$9,963,000 (2014: US$13,319,000). Of this amount US$4,325,000 (2014: US$1,794,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US$5,638,000 (2014: US$11,525,000) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US$4,325,000 (2014: US$1,794,000) is a specific provision with no

8. Expenses (continued)

a. Net operating expenses (continued)

general provision (2014: US$Nil). Of the amounts provided within technical provisions US$3,560,000 (2014: US$9,220,000) is a specific provision and US$2,078,000 is a general provision (2014: US$2,305,000).

b. Auditors' remuneration

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

	2015 US$'000	2014 US$'000
Auditor's remuneration for audit services	49	75

Remuneration of the Company's auditor for provision of non-audit services to the Company was US$Nil (2014: US$Nil).

9. Employees and directors

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

Directors
The current directors Messrs. D.Y. Schwarzmann who was a partner in PricewaterhouseCoopers LLP as at 31 December 2015 and P.A.B. Evans, who retired from the PricewaterhouseCoopers LLP partnership on 30 June 2007, received no remuneration from the Company. PricewaterhouseCoopers LLP are in receipt of fees for the provision of services to the Scheme Administrators.

10. Investment return

	2015 US$'000	2014 US$'000
Investment income		
Income from financial assets at fair value through profit and loss	369	136
Total investment return	369	136

Notes to the financial statements for the year ended 31 December 2015 (continued)

11. Taxation

	2015 US$'000	2014 US$'000
Tax on Profit on ordinary activities		
The charge based on the profit for the year comprises:		
Current tax	-	-
Group Relief recovered	-	-
Deferred tax	-	-
Tax on profit on ordinary activities	-	-

Factors affecting tax charge for the year.

	2015 US$'000	2014 US$'000
Profit on ordinary activities before tax	18,871	30,021
Profit on ordinary activities before tax at 20.25% (2014: 21.5%)	3,821	6,455
Other differences relating to bad debt provision	-	-
Other permanent differences	(3,514)	(5,807)
Unrecognised tax losses carried forward	-	-
Utilisation of tax losses brought forward	(307)	(648)
Total current tax	-	-

Factors that may affect the future tax charge
Following an agreement with HMRC the Company is taxed on the basis of 25% of the Orion Group consolidated profits. The Orion Group has consolidated losses brought forward and there is no current tax charge in 2015.

Factors that may affect the future tax charge

Tax losses, valued at the future standard UK rate of tax of 18% (2014: 20%) of US$21,400,000 (2014: US$24,000,000) are available to offset against the Group's taxable profits in future periods. As enacted in the Finance Act 2015, profits arising after 1 April 2015 will be taxable at 20%. The rate is set to reduce to 19% for the profits arising after 1 April 2017 and will be reduced by a further 1% to 18% for profits arising after 1 April 2020. Due to the uncertainty as to the amount and timing of future profits, all tax losses have been valued at the lower rate of 18%. No deferred tax asset has been recognised in respect of these losses as, due to the uncertainty as to whether future profits will arise, it is not known at what point in time these losses will reverse.

There are no deferred tax liabilities (2014: US$Nil).

12. Share capital

	2015 US$'000	2014 US$'000
Called up, allotted and fully paid:		
28,000,000 ordinary shares of 25p each	10,850	10,850
	10,850	10,850

Notes to the financial statements for the year ended 31 December 2015 (continued)

13. Technical provisions

	Gross US$'000	Reinsurance US$'000	Net US$'000
At 31 December 2015			
Notified outstanding claims	76,967	38,397	38,570
Incurred but not reported claims	15,419	7,067	8,352
Provision against potential irrecoverable reinsurance	-	(5,638)	5,638
	92,386	39,826	52,560
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee:			
APH	327,274	-	327,274
Non APH	19,800	-	19,800
Run off provision	27,080	-	27,080
Total	466,540	39,826	426,714
At 31 December 2014			
Notified outstanding claims	67,173	33,088	34,085
Incurred but not reported claims	23,007	16,306	6,701
Provision against potential irrecoverable reinsurance	-	(11,525)	11,525
	90,180	37,869	52,311
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee:			
APH	325,780	-	325,780
Non APH	21,896	-	21,896
Run off provision	29,200	-	29,200
Total	477,056	37,869	439,187

The Company has given a guarantee in favour of the policyholder liabilities of its immediate parent company, OIC Run-Off Limited (in Scheme of Arrangement) ("OIC"). Under this guarantee, any amounts paid by the Company in respect of its immediate parent company's liabilities are recoverable only after all policyholder liabilities have been met.

Following the provisional liquidation of OIC, the directors consider that this guarantee has crystallised. The technical provisions of the Company therefore include the Company's own policyholder liabilities and provision for the total policyholder liabilities of its immediate parent company, including the provision held in respect of future run-off costs, before taking account of the available assets of the immediate parent company.

14. Provisions for other risks and charges

Full provision has been made against balances due from OIC, the Company's immediate parent company, following the appointment of Joint Provisional Liquidators. The movement in the provision for 2015 is a decrease of US$6,364,000 (2014: a decrease of US$2,744,000).

A provision has been made using reasonable assumptions for the future cost of run-off and claims handling expenses of the OIC Group to the extent they exceed the projected future investment income. The provision has been established in the books of immediate parent company, OIC, and is reflected in the financial statements of the Company.

15. Other financial investments

	2015 Market value US$'000	2015 Cost US$'000	2014 Market value US$'000	2014 Cost US$'000
Deposits with credit institutions	197,059	197,059	196,809	196,809
	197,059	197,059	196,809	196,809

16. Operating leases

The Company has no lease commitments.

17. Related party transactions

(a) The Company's immediate parent company, OIC, acts as a collecting agent for part of the Company's brokers' ledger. The Company has taken advantage of the exemption allowed by FRS 102 Section 33.1A not to disclose related party transactions with OIC.

(b) The Company is a wholly-owned subsidiary of OIC, a company incorporated in Great Britain and registered in England and Wales. For the year ending 31 December 2014 ING Groep NV, a company incorporated in The Netherlands, was the ultimate holding company. In 2015 ING Groep NV's majority shareholding was reduced to a minority shareholding in NN Group NV, a company also incorporated in The Netherlands, and NN Group NV became the ultimate holding company of the Company The results of the Company have not been consolidated in the ultimate holding company's financial statements. The results of the Company have been consolidated into the financial statement of its immediate parent company, OIC. These financial statements are available at its registered office at: 10-18 Union Street, London SE1 1SZ.

(c)

Amounts due to group companies	**2015 US$'000**	**2014 US$'000**
Intermediate parent company		
NNOFIC	167,710	168,087
	167,710	168,087

Notes to the financial statements for the year ended 31 December 2015 (continued)

17. Related party transactions (continued)

(d) As a result of continuing deterioration in claims reserves Internationale-Nederlanden Verzekeringen NV ("INV") provided funding for gross claims payments made from 15 December 1993, with effect from 1 February 1994. The value of this funding, which was in the form of an unsecured interest free inter-company loan from NNOFIC, a subsidiary of INV, and intermediate parent of the Company, amounted to US$35,423,000. The funding ceased on 21 October 1994, and the Company and its immediate parent company, OIC, were placed into provisional liquidation.

An amount of US$3,532,000 due to OIM Limited (a fellow subsidiary company) at 31 December 1985 was assigned by this Company to NNOFIC during 1996.

The above amounts totalling US$38,955,000, currently included in amounts due to NNOFIC, have been subordinated to the Established Liabilities of all other Scheme Creditors, as defined in the proposal document for the Original Scheme. This subordination became effective on 7 March 1997, the effective date of the Original Scheme.

(e) On 30 June 1995, the Company and its immediate parent company entered an arrangement with The Institute of London Underwriters ("ILU"), now the International Underwriters Association, and NNOFIC, in respect of certain liabilities included in technical provisions arising on policies signed and issued by the members of ILU and incepting on or after 20 March 1969 in respect of the Company and on or after 28 August 1970 in respect of its immediate parent company. Certain claims payments have been made by the Company and its immediate parent company since 30 June 1995 using funds loaned to the Company and its immediate parent company by NNOFIC. As at the balance sheet date, total claims paid by the Company were US$14,178,000, the claims paid by NNOFIC under this arrangement amounted to US$214,603,000 of which US$10,537,000 is the Company's portion, and the balance of US$204,066,000 comprises the funding provided to its immediate parent company OIC. The amount paid during the year under this arrangement was US$7,000 (2014: US$2,000).

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

(f) The Company and its immediate parent company were placed under the control of Joint Provisional Liquidators P. A. B. Evans and R. Boys-Stones on 21 October 1994. Mr. Evans and Mr. Boys-Stones were partners in PricewaterhouseCoopers LLP, the firm which provided the services relating to the provisional liquidation of the Company and its immediate parent company.

(g) With effect from 7 March 1997, the Joint Provisional Liquidators ceased to act and the Company and its immediate parent company entered into the Original Scheme with their creditors. D.Y Schwarzmann and P. A. B. Evans are the Joint Scheme Administrators of the Company and its immediate parent company. The Original Scheme and the Amending Scheme provide that the Scheme Administrators shall, in relation to the company and its immediate parent company, manage the run-off of their business, realise their assets and apply them for the benefit of its creditors, supervise and ensure the carrying out of the Original Scheme and the Amending Scheme, and gives them the power in the name and on behalf of the Company and its immediate parent company to manage their affairs, business and property. During the year ended 31 December 2015, PricewaterhouseCoopers LLP fees for services provided to the Company amounted to US$Nil (2014: US$Nil) excluding VAT.

18. Transition to FRS102

This is the first year that the Company has presented their results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014.

The 2014 and 2015 numbers in the financial statements have not altered as a result of the change in accounting standards.

19. PRA returns

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

20. Scheme of Arrangement

The Company and its immediate parent company entered into the Original Scheme with effect from 7 March 1997. Details of the Original Scheme were sent to creditors and shareholders in a proposal document dated 20 November 1996. The Amending Scheme was then entered into with effect from 14 January 2016. Details of the Amending Scheme were sent to creditors and shareholders in a proposal document dated 8 October 2014. These documents should be referred to by creditors of the OIC Group.

On 15 September 1997 an initial Payment Percentage of 15% of creditors' Established Liabilities was approved by the Creditors' Committee. Subsequent increases in the Payment Percentage have been approved by the Creditor's Committee. As at 31 December 2015 the Payment Percentage was paid at 58%. The Amending Scheme of Arrangement seeks to crystallise the majority of the OIC Group's liabilities so as to enable a final Payment Percentage to be approved and paid.