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 2017

Registered Office:
PricewaterhouseCoopers LLP
Hays Galleria
1 Hays Lane
London
SE1 2RD

Directors and Advisors

Directors:

D.Y. Schwarzmann
P.A.B Evans

Secretary and registered office:

D.Y. Schwarzmann
PricewaterhouseCoopers LLP
Hays Galleria
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Independent auditor:

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Scheme Administrators:

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Solicitors:

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Bankers:

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Strategic report for the year ended 31 December 2017

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 2017.

Review of the Business

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

The Company 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$14,513,000 (2016: US$13,742,000).

As described in Note 19, 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 Scheme Creditors' Established Liabilities was approved by the Creditors' Committee. Subsequent increases in the Payment Percentage have been approved by the Creditors' Committee. In October 2017 the Payment Percentage increased from 58% to 65%. On 22 June 2018 the Payment Percentage was increased to 72%. 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.

Results

The results of the Company for the year, as set out on pages 11 to 12, show a loss after taxation attributable to the owners of the Company of US$27,891,000 (2016: profit of US$49,210,000). The shareholders' deficit in the Company is US$743,543,000 (2016: US$715,652,000).

Future development and strategy

The Amending Scheme seeks to crystallise the majority of the liabilities of the OIC Group. With certain exceptions, creditors were required to submit their claims by the bar date, 12 September 2016. Subject to the terms of the Amending Scheme, the claims agreement process commenced after the bar date and upon completion of that claims agreement process a final Payment Percentage will be declared.

In the meantime the Company continues to run-off the business and not all claims will be crystallised under the Amending Scheme. There are still material amount of claims to be agreed and settled in the next twelve months and therefore the financial statements have been prepared on the going concern basis.

Strategic report for the year ended 31 December 2017 (continued)

Principal risks and uncertainties
The Company has entered into the Original Scheme and the Amending Scheme and had a net deficit of US$743,543,000 (2016: US$715,652,000) as at the balance sheet date.

The Company is exposed to financial risk, through its financial assets, financial liabilities and technical provisions. The key financial risk is that proceeds from financial assets are insufficient to fund current and future claims.

The most important components of these risks are: 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 the impact of movements in interest rates.

By order of the board.

P.A.B. Evans
Director

26 September 2018

Directors' report for the year ended 31 December 2017

The directors present their report and the audited financial statements for the year ended 31 December 2017.

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

Financial risk management
Financial risk management objectives and policies are discussed in the strategic report.

Directors
The names of the current directors are listed on page 3. There were no changes to the directors holding office during 2017.

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 2017 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 a meeting of the Board of Directors.

Events after the end of the reporting period
There have been no significant events affecting the Company since the year end.

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

Company law requires the directors to prepare financial statements for each financial year. Under that law; the directors have prepared the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 2017 (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

26 September 2018

Independent auditor's report to the members of The London and Overseas Insurance Company Limited (In Scheme of Arrangement)

Report on the audit of the financial statements

Qualified opinion

In our opinion, except for the effects of the matter described in the basis for qualified opinion section of our report, the financial statements of The London and Overseas Insurance Company Limited (In Scheme of Arrangement) (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account: Technical account – general business;
- the profit and loss account: Non-technical account;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for qualified opinion

As explained in Note 4j, the financial statements do not provide the disclosure required by United Kingdom Generally Accepted Accounting Practice 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.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of matter – technical provisions and significant uncertainties

We draw attention to note 4e(iii) and 5 in the financial statements, concerning the uncertain 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 Company's technical provisions and new sources or types of claims which might emerge. A significant proportion of such claims are subject to the Amending Scheme effective 14 January 2016 where the company is in the process of agreeing the value of claims with Scheme Creditors; and
- the paid and outstanding amount recoverable by the Group and the Company from reinsurers in respect of gross claims.

The ultimate outcome of these matters cannot presently be determined, but 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, reinsurers' share of technical provisions and related debtors and creditors are reflected in the financial statements for the period in which the adjustments are made. Our opinion is not modified in respect of this matter.

Conclusion relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Use of our report

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

Andrew Downes

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

26 September 2018

Profit and loss account: Technical account – general business
For the year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Earned premiums, net of reinsurance			
Gross premiums written		-	-
Outward reinsurance premiums		-	-
Earned premiums, net of reinsurance		-	-
Claims incurred, net of reinsurance			
Gross claims paid		(515)	-
Change in outstanding claims agreed		(9,874)	(26,968)
Gross claims agreed		(10,389)	(26,968)
Reinsurance recoverable		13,357	4,546
Net Claims Agreed		2,968	(22,422)
Change in technical provisions			
Gross amount		11,565	25,186
Reinsurers' share		(3,095)	(17,966)
Change in net technical provisions		8,470	7,220
Claims incurred, net of reinsurance		11,438	(15,202)
Movement in provision for policyholder liabilities assumed under an intra-group guarantee		47,548	51,400
Net operating expenses	8	(9,316)	7,810
Balance on the technical account – general business		49,670	44,008

Profit and loss account: Non-technical account
For the year ended 31 December 2017

	Note	**2017 US$'000**	2016 US$'000
Balance on the technical account – general business		49,670	44,008
Investment income	10	1,838	963
Foreign currency exchange differences		(3,941)	6,239
Profit before taxation		47,567	51,210
Movement in provision against balances due from parent company in Scheme of Arrangement		(75,458)	(2,000)
Tax on (loss)/profit	11	-	-
(Loss)/profit for the financial year		(27,891)	49,210

The Notes on pages 15 to 27 form an integral part of these financial statements.

All results were derived from continuing operations.

Balance sheet
As at 31 December 2017

	Notes	2017 US$'000	2016 US$'000
ASSETS			
Investments			
Other financial investments	15	86,512	188,670
Reinsurers' share of technical provisions	13	22,386	27,476
Debtors			
Debtors arising out of direct insurance and reinsurance operations	4j	22,781	13,069
Other debtors		112	10
		22,893	13,079
Other assets			
Cash at bank		4,363	391
Accrued Income		44	161
Total assets		136,198	229,777
LIABILITIES AND EQUITY			
Capital and reserves			
Called up share capital	12	10,850	10,850
Accumulated losses		(754,393)	(726,502)
Equity shareholders' deficit		(743,543)	(715,652)
Technical provisions	13	265,162	335,859
Creditors			
Creditors arising out of direct insurance and reinsurance operations (including claims agreed)	4j	459,340	443,123
Deposits received from reinsurers		39	35
Amounts due to group companies	17	155,200	166,412
		614,579	609,570
Accrued expenses		-	-
Total liabilities and equity		136,198	229,777

The financial statements of The London and Overseas Insurance Company Limited (in Scheme of Arrangement), registered number 38706, on pages 11 to 27 were approved by the Board of Directors on 26 September 2018 and signed on their behalf by:

P. A. B. Evans
Director

Statement of changes in equity
For the year ended 31 December 2017

	Called-up share capital US$'000	Accumulated losses US$'000	Total Deficit US$'000
Balance as at 1 January 2016	10,850	(775,712)	(764,862)
Profit for the year	-	49,210	49,210
Balance as at 31 December 2016	10,850	(726,502)	(715,652)
Balance as at 1 January 2017	10,850	(726,502)	(715,652)
Loss for the year	-	(27,891)	(27,891)
Balance as at 31 December 2017	10,850	(754,393)	(743,543)

The Notes on pages 15 to 27 form an integral part of the financial statements.

Notes to the financial statements for the year ended 31 December 2017

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 Hays Galleria, 1 Hays Lane, London, SE1 2RD.

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 FRS 102 regarding the presentation of broker balances on a gross basis as explained in Note 4.

The Company continues to run-off the business and as not all claims will be crystallised under the Amending Scheme, the financial statements have been prepared on the going concern basis, as discussed in the Directors' Report, and are subject to a number of 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 were required to 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.

a. Basis of preparation

These financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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 FRS 102

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 2017 (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 rate 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 2017	1.3528	1.2827
31 December 2016	1.2357	1.3253

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

Technical provisions have been maintained at the same level as at 31 December 2016 other than reducing the provisions for those creditors with whom agreement has been reached with regard to their claims for notified outstanding claims and IBNR claims under the Amending Scheme. Creditors have been increased by the value of the agreed claim, net of any dividend paid as at 31 December 2017.

Given the high value of claims submitted by creditors as at the bar date and the ongoing work involved in agreeing claims it is not considered relevant to carry out a full reserving exercise similar to that which was carried out prior to 2015. In many cases the value of the claims submitted by creditors at the bar date significantly exceeds the carried reserves. Although claims agreed since the bar date are within the carried reserves, there remains significant uncertainty as to the value at which claims under the Amending Scheme will be agreed. Uncertainty also exists with respect to claims not crystallised under the Amending Scheme which are expected to remain in run-off for several years.

Prior to 2015 the OIC Group has set 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

Notes to the financial statements for the year ended 31 December 2017 (continued)

4. Summary of significant accounting policies (continued)

(iii) Technical provisions (continued)

salvage and subrogation recoveries. The technical provisions have included the estimated cost of IBNR claims at the balance sheet date based on statistical methods.

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

Asbestos and pollution IBNR ("APH IBNR") claims were calculated using exposure models. The ultimate claims, defined as the total payments from each loss until final settlement of the liability, were estimated. The IBNR reserves were then calculated as the difference between ultimate claims and the total of paid claims to date and notified outstanding claims. Non–APH IBNR claims were calculated using gross of reinsurance statistics. IBNR net of reinsurance was 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.

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. In particular, estimates of technical provisions inevitably contain inherent significant uncertainties because work is ongoing in agreeing the value of claims submitted at the bar date to which the technical provisions relate. This uncertainty is such that the ultimate liability, which will vary as a result of the subsequent claims agreement process, 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 further significant uncertainty in respect of reinsurance recoveries. Further information is provided in Note 5b.

f. Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of profit and loss.

Current tax is the expected tax payable on the taxable result for the period, after any adjustment in respect of prior periods.

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

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

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 that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Notes to the financial statements for the year ended 31 December 2017 (continued)

4. Summary of significant accounting policies (continued)

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.

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 FRS 102 the Company is required to report its 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 1997 a principal ledger was put in place and this, together with the implementation of the Amending Scheme, means that the vast majority of the Company's debtor and creditor balances as at 31 December 2017 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. Financial investments

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

m. Share capital

Ordinary shares are classified as equity.

n. 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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

5. Critical accounting judgements and key sources of estimation uncertainty

As described in Note 4e(iii), 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 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, lawyers' reserve potentials and post balance sheet settlements in relation to the Amending Scheme. The net amount included in technical provisions at 31 December 2017 in respect of such environmental pollution and asbestos claims, after reinsurance recoveries of US$10,744,000 (2016: US$20,725,000), is US$105,101,000 (2016: US$192,615,000);

(ii) a provision for incurred but not reported claims of US$99,155,000 (2016: US$78,360,000) net of reinsurance, and US$112,391,000 (2016: US$84,615,000) gross of reinsurance, based on professional advice, a broad projection of observed developments to date and post balance sheet settlements in relation to the Amending Scheme; and

(iii) a provision of US$1,962,000 (2016: US$ Nil) for potential irrecoverable reinsurance.

In total, the net amount included in respect of environmental pollution and asbestos claims in technical provisions is US$206,218,000 (2016: US$270,975,000). This figure includes US$174,870,000 (2016: US$233,493,000) 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$22,386,000 (2016: US$27,476,000) are included in reinsurers' share of technical provisions and US$22,781,000 (2016: US$13,069,000) 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$2,005,000 (2016: US$ Nil) and US$9,164,000 (2016: US$1,983,000).

The reinsurance recoveries figures above are affected by significant uncertainty with regard the complexity of the Company's reinsurance programme, the recoveries under which depend on a number of factors including the size of individual claims.

There are no other balances subject to judgement or estimate.

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:

Notes to the financial statements for the year ended 31 December 2017 (continued)

6. Management of insurance and financial risk (continued)

Notified outstanding claims excluding IBNR at 31 December 2017	Gross US$'000	Net US$'000
Environmental pollution and asbestos	19,653	8,909
Other direct and reinsurance risks	1,687	1,346
	21,340	10,255

Notified outstanding claims excluding IBNR at 31 December 2016	Gross US$'000	Net US$'000
Environmental pollution and asbestos	30,776	12,697
Other direct and reinsurance risks	7,790	4,744
	38,566	17,441

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	2012 US$'000	2013 US$'000	2014 US$'000	2015 US$'000	2016 US$'000	2017 US$'000
Gross claim insurance liabilities	527,281	459,858	447,856	439,460	317,859	250,319
Gross recovery from reinsurers	47,244	42,509	37,869	39,826	27,476	22,386
Total net insurance liabilities	480,037	417,349	409,987	399,634	290,383	227,933

b. Financial risk management objectives

The Company is exposed to financial risk, through its financial assets, financial liabilities and technical provisions. The key financial risk is that proceeds from financial assets are insufficient to fund current and future claims. The most important components of these risks are: the timing and valuation risk in relation to technical provisions, and interest rate, currency, credit and liquidity risk in relation to financial assets.

Market Risk

The Company has exposure to interest rate risk arising from movements in financial investments that are measured at fair value and have fixed interest rates. The Group sets an investment strategy in order to control the impact of interest rate risk on anticipated cash flows and asset and liability values.

The 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. Financial liabilities will settle in accordance with the terms of the Original Scheme and the Amending Scheme. The Amending Scheme seeks to crystallise the majority of liabilities of the OIC Group. With certain exceptions, creditors were

Notes to the financial statements for the year ended 31 December 2017 (continued)

6. Management of insurance and financial risk (continued)

b. Financial risk management objectives (continued)

to submit their claims by the bar date, 12 September 2016. A claims agreement process commenced after the bar date and on completion of that claims agreement process 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 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:

	2017	2016
	US$'000	US$'000
Environmental pollution and asbestos	11,509	(14,736)
Other direct and reinsurance risks	(72)	(467)
	11,437	(15,203)

8. Expenses

a. Net operating expenses

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

	2017	2016
	US$'000	US$'000
Management expenses	129	169
Increase / (decrease) in bad debt provision	9,187	(7,979)
Net operating expenses	9,316	(7,810)

Notes to the financial statements for the year ended 31 December 2017 (continued)

8. Expenses (continued)

a. Net operating expenses (continued)

The bad debt provision as at 31 December 2017 was US$11,169,000 (2016: US$1,983,000). Of this amount US$9,164,000 (2016: US$1,983,000) was provided within debtors arising out of direct insurance and reinsurance operations, and US$2,005,000 (2016: US$ Nil) was provided within technical provisions. Of the amounts provided within debtors arising out of direct insurance and reinsurance operations, US$9,164,000 (2016: US$1,983,000) is a specific provision with no general provision US$Nil (2016: US$Nil).

Of the amounts provided within technical provisions US$1,291,000 (2016: US$ Nil) is a specific provision and US$714,000 is a general provision (2016: US$ Nil).

b. Auditors' remuneration

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

	2017 US$'000	2016 US$'000
Auditor's remuneration for audit services	40	40

Remuneration of the Company's auditor for provision of non-audit services to the Company was US$Nil (2016: US$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 2017 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 as detailed in note 17 (g).

10. Investment return

	2017 US$'000	2016 US$'000
Investment income		
Income from financial assets at fair value through profit and loss	1,838	963
Total investment return	1,838	963

Notes to the financial statements for the year ended 31 December 2017 (continued)

11. Taxation

	2017 US$'000	2016 US$'000
Tax on profit		
The charge based on the profit for the year comprises:		
Current tax	-	-
Group Relief recovered	-	-
Deferred tax	-	-
Tax on profit	-	-

Factors affecting tax charge for the year.

	2017 US$'000	2016 US$'000
(Loss) / profit before taxation	(27,891)	49,210
Corporation tax at 19.25% (2016: 20.00%)	(5,369)	9,842
Other differences relating to bad debt provision	-	-
Other permanent differences	5,001	(9,293)
Unrecognised tax losses carried forward	(368)	-
Utilisation of tax losses brought forward	-	(549)
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 OIC Group consolidated profits. The OIC Group has consolidated losses brought forward and there is no current tax charge in 2017.

Tax losses, valued at the future standard UK rate of tax of 17% (2016: 17%) of US$20,100,000 (2016: US$19,700,000) are available to offset against the Group's taxable profits in future periods. The corporation tax rate is 19% for the profits arising after 1 April 2017 and as enacted in the Finance Act 2016, will be reduced to 17% 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 17%. No deferred tax asset has been recognised in respect of these losses as, due to the uncertainty as to whether future profits will arise, it is not known at what point in time these losses will reverse.

There are no deferred tax liabilities (2016: US$Nil).

12. Share capital

	2017 US$'000	2016 US$'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 2017 (continued)

13. Technical provisions

	Gross US$'000	Reinsurance US$'000	Net US$'000
At 31 December 2017			
Notified outstanding claims	21,340	11,085	10,255
Incurred but not reported claims	34,230	13,306	20,924
Provision against potential irrecoverable reinsurance	-	(2,005)	2,005
	55,570	22,386	33,184
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee:			
APH	174,870		174,870
Non APH	19,879	-	19,879
Run off provision	14,843	-	14,843
Total	265,162	22,386	242,776
At 31 December 2016			
Notified outstanding claims	38,566	21,125	17,441
Incurred but not reported claims	28,482	6,351	22,131
Provision against potential irrecoverable reinsurance	-	-	-
	67,048	27,476	39,572
Additional provision for subsidiary undertaking's policyholder liabilities assumed under an intra-group guarantee:			
APH	233,493	-	233,493
Non APH	17,318	-	17,318
Run off provision	18,000	-	18,000
Total	335,859	27,476	308,383

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.

Notes to the financial statements for the year ended 31 December 2017 (continued)

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 2017 is an increase of US$75,429,000 (2016: an increase of US$2,019,000).

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 the immediate parent company, OIC, and is reflected in the financial statements of the Company.

15. Other financial investments

	2017 Market value US$'000	2017 Cost US$'000	2016 Market value US$'000	2016 Cost US$'000
Deposits with credit institutions	86,512	86,512	188,670	188,670
	86,512	86,512	188,670	188,670

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. NN Group NV, a company incorporated in The Netherlands is the ultimate holding company of OIC and 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 statements of its immediate parent company, OIC. These financial statements are available at its registered office at: Hays Galleria, 1 Hays Lane, London SE1 2RD.

(c)

Amounts due to group companies	**2017 US$'000**	**2016 US$'000**
Intermediate parent company		
NNOFIC	155,200	166,412
	155,200	166,412

Notes to the financial statements for the year ended 31 December 2017 (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$3,242,000 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$38,665,000, 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$14,513,000, the claims paid by NNOFIC under this arrangement amounted to US$223,866,000 of which US$10,613,000 is the Company's portion, and the balance of US$213,252,000 comprises the funding provided to its immediate parent company OIC. The amount paid during the year under this arrangement was US$172,000 (2016: US$Nil).

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 their 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 2017, PricewaterhouseCoopers LLP fees for services provided to the Company amounted to US$Nil (2016: US$Nil) excluding VAT.

Notes to the financial statements for the year ended 31 December 2017 (continued)

18. 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 financial statements.

19. 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 Scheme Creditors' Established Liabilities was approved by the Creditors' Committee. Subsequent increases in the Payment Percentage have been approved by the Creditor's Committee. In October 2017 the Payment Percentage increased from 58% to 65%. On 22 June 2018 the Payment Percentage was increased to 72%. 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. With certain exceptions, creditors were required to submit their claims by the bar date, 12 September 2016. Subject to the terms of the Amending Scheme, the claims agreement process commenced after the bar date and upon completion of that claims agreement process a final Payment Percentage will be declared.