



**Equitas Policyholder and Reinsurer Road Show
Chicago, Wednesday 27 May 2009**

JANE BARKER

Good morning and welcome to the second of our roadshows. We held one in New York yesterday.

Let me introduce the members of the panel.

My name is Jane Barker. I am the Chief Executive of the Equitas Group of companies. I have been with Equitas since its formation and until the transaction in 2007 with National Indemnity I was the Finance Director.

On my far left is Dan Schwarzmann a partner in the UK firm of PricewaterhouseCoopers. Dan is an expert in the Insurance run off practice and is well known in the UK for his work in many reconstructions of insurance businesses.

On my left is Philip Hertz a partner in the UK firm of Clifford Chance, legal advisers to Equitas. Philip has more than 15 years experience in insurance run-off and restructuring and has been involved in advising on matters related to Equitas for the last 10 years or so.

The purpose of the meeting today is to inform you about the Insurance Business Transfer of the 1992 and prior years' non life liabilities of Lloyd's Names into a limited liability company. We will talk about the background and reasons for the transfer. We will then talk about the transfer process and the independent expert who has prepared a report for the Court. We will take you through what it means for the different groups of stakeholders and outline the queries raised to date. We will consider the issue of recognition in jurisdictions other than the UK. Finally we will explain what you need to do and give you a chance to ask any questions you might have.

First let me give you a little background.

Lloyd's Names are the individuals who underwrote the policies at Lloyd's. They operated in syndicates and had several, not joint, liability for the policies underwritten by their syndicates. The liability of Names in respect of their share of the policies underwritten is defined as being unlimited although clearly any one Name's liability is limited by the value of his assets. The syndicates operated as a series of annual ventures, called a year of account, which in the normal course of events remained open for three years. At the end of the three year accounting period, the syndicate purchased a reinsurance in order to close the year of account, generally from the next syndicate year of account. This allowed a distribution of profits or an allocation of losses and it also allowed the Names to resign from Lloyd's if they so chose.

Thus in most cases, the 1984 year of account for a syndicate would be reinsured by the 1985 year of account of that same syndicate, which in turn would be reinsured by the 1986 year of account and so on. This process of closure was called "Reinsurance to Close". Because of the now well documented problems that afflicted the Lloyd's market from the early 1980s, mainly escalating asbestos, pollution and health hazard claims, it became impossible for many managing agents to calculate the premium needed to close each year of account. An increasing number of syndicates therefore remained open. There was also widespread litigation.

In response, Lloyd's implemented its Reconstruction & Renewal plan or "R&R". The centrepiece of R&R was the formation of Equitas, which reinsured all the open years of account up to and including 1992 and by doing so took on the responsibility through the Reinsurance to Close mechanism for all the liabilities of all the prior years. Equitas also indemnified those Names on years already closed into later years in case their reinsurance is set aside or does not perform.

In the very unlikely event that any valid claim is not paid in full by Equitas the Names remain liable for their share of any unpaid amounts. A policyholder only has a claim against the Names on the syndicate that underwrote the policy. Thus policyholders would have to claim against the original Names; the policyholders cannot claim directly against the Names further along the Reinsurance to Close chain or directly against Equitas.

Since Equitas was formed in 1996 it has paid over \$27 billion in claims and is currently estimated to have further claims of about \$8.8 billion still to pay. Taking into account the external outwards reinsurance, other than from National Indemnity, the net reserves stood at \$7.8 billion at 31 December 2008.

In 2007, Equitas entered into a retrocession agreement with National Indemnity that provides cover now estimated to amount to \$13.1 billion. That is \$5.3 billion over and above the net reserves at 31 December 2008.

Enough of the background, turning now to the Transfer of Business.

Why are we doing this?

If the transfer is approved by the Court on or before 31 December 2009, Equitas will be entitled to exercise its option to purchase an additional US\$1.3 billion of reinsurance cover from National Indemnity Company thus providing additional security for policyholders as well as achieving its objective of obtaining legal finality for Names.

Under the Transfer, the liabilities of the Names will be transferred away from them into a limited liability company which will be an authorised insurance company in the UK.

At the same time we do not wish to prejudice policyholders and cedants but to improve their security. We will do this by buying the extra \$1.3 billion of cover from National Indemnity for £40 million, approximately \$60 million. This will take the total cover to \$14.4 billion, \$6.6 billion above the estimated net reserves.

I am now going to ask Philip to take you through the details of the transfer.

PHILIP HERTZ

Thank you Jane. As Jane explained, my name is Philip Hertz and I am a partner in the firm of Clifford Chance, UK legal advisers to Equitas.

As Jane explained, I will look in more detail at the proposed transaction.

A transfer of the type contemplated in respect of the 1992 and prior years' non life liabilities of Lloyd's Names is permitted under English law under Part VII of the UK Financial Services and Markets Act 2000 - that is the reason why you will sometimes hear us and others refer to it as a "Part VII transfer".

It is a UK Court approved process moving insurance business from one insurer (or in this case multiple insurers, the Names) to another (in this case a newly established limited liability company to be owned by the Equitas group). This company is presently called Speyford Limited but will, once authorised by the Financial Services Authority (or the FSA), be called Equitas Insurance Limited. Today, I shall simply refer to it as "Newco".

This process not only transfers the insurance and reinsurance policies underwritten but also transfers the assets, such as outwards reinsurance contracts protecting the insurance business, to the new insurer.

As already mentioned, no Part VII transfer may take place without UK Court approval.

Under the governing legislation, an expert independent of the parties is appointed to report to the Court on the impact of the transfer on policyholders and other key stakeholders, with particular reference to their security.

In addition, the FSA is involved at all stages of this process.

The FSA's regulatory objectives include maintaining market confidence and securing protection for consumers. In the Part VII transfer context, this means ensuring that policyholders affected by a transfer receive sufficient information about it and that their interests are protected. To this end, Equitas has provided notice directly to

policyholders, cedants and reinsurers and has advertised in over 100 countries worldwide in a number of publications in a manner approved by the FSA and in accordance with an order of the High Court made last November. Equitas has also provided notice directly to brokers and claims handlers of the transferring business. All information that was provided by direct notice to these people can be found on the Equitas website.

The FSA will also produce a report to the Court setting out its views. The FSA also has the right to be heard at the Court hearing for the approval of the transfer.

At the Court hearing, Counsel for the applicants, in this case Equitas and Newco, will explain to the Court the proposals, the notifications they have given and any responses received. The Court will then hear from any person who claims to be adversely affected and will consider the views of both the Independent Expert and of the FSA before reaching a conclusion as to whether it is appropriate to approve the transfer.

The Court has a wide discretion as to whether to grant this approval and will be concerned with whether anyone will be adversely affected if the transfer is implemented. The Court will not approve it unless it is satisfied that, as a whole, it is fair as between the interests of the different groups of persons affected. In coming to its conclusion, the Court will rely heavily on the views of the Independent Expert and those of the FSA.

The Court hearing is currently scheduled to commence on 24 June 2009 at the High Court in London. If you wish to attend the hearing you should check on the Equitas website which will be updated should the hearing date change.

Anyone (including policyholders and cedants) who believes that they are adversely affected can make written representations and/or appear at the Court hearing, either in person or by Counsel. As has been said in Equitas's communications, if you do have any concerns we encourage you to raise them with us as soon as possible so that we can discuss them with you.

Given the key role played by the Independent Expert, I thought it would be helpful if I spent a few minutes looking at his role and function. As the name suggests, the Independent Expert is not an advisor to anyone involved in the transfer but a person independent of the parties involved whom the FSA considers has the necessary skills to assess its effect.

The FSA must approve the appointment of the Independent Expert. Once appointed, the Independent Expert is required to prepare a report, in a form approved by the FSA, for the Court setting out his conclusion regarding the effects of the transfer on policyholders and other key stakeholders. In doing so, the Independent Expert has an overriding duty to the Court.

In this case, the Independent Expert approved by the FSA is Mr Allan Kaufman of Navigant Consulting, a US actuary who has worked for many years in the UK.

Mr Kaufman's report was produced on 8 April 2009 in a form approved by the FSA. It is worth noting that, subject to any different findings in a supplementary report (as to which a bit more later), the main conclusion in Mr Kaufman's lengthy and considered first report is that "*there are no groups of policyholders, or other parties, ..., that are materially disadvantaged in the event of the transfer*".

Mr Kaufman has indicated that he would be producing a supplemental report. The production of a supplemental report is fairly routine given that any initial report will have been issued some months prior to the final court hearing. This report will address some additional areas including, an update on National Indemnity's financial position; the result of his review of certain supporting documentation which had not been finalised at the time of his first report; and any issues which may have arisen or need clarification since the date of the first report.

The key issue, of course, is what the transfer will mean, in practice, for stakeholders.

As Jane has already explained, Equitas is promoting this because, if it is approved, it will significantly increase the security for policyholders by virtue of the additional reinsurance cover and it will achieve its objective of obtaining true finality for Names under English and European law.

Newco, the replacement insurer, will be an Equitas group company and will be authorised as an insurer by the FSA before the transfer takes effect. Newco will simply replace Names in the existing chain of reinsurance, with the

result that the reinsurance now provided to Names by Equitas Reinsurance Limited will be transferred, as a matter of English and European law to Newco. Equitas Reinsurance Limited will continue to be reinsured by Equitas and Equitas will continue to be reinsured by National Indemnity Company.

Newco's main asset for the payment of claims, therefore, will be the same reinsurance that now funds claims paid by Equitas on behalf of the Names. In other words, Newco will be reinsured in the same way that the Names are currently reinsured by Equitas and National Indemnity but it will have \$1.3 billion more than is now available. Equitas will buy this additional reinsurance protection from National Indemnity Company for a premium of £40 million.

Therefore, as a matter of English and European law the impact on policyholders and cedants will be that their insurer will become Newco, a UK insurance company authorised by the FSA. They will no longer be insured by the Names.

It follows, therefore, that policyholders and cedants will have no further claims, as a matter of English and European law, against the Names who underwrote their policies at Lloyd's. Instead they will have claims against Newco but with substantial additional security in the form of the extra US\$1.3 billion of reinsurance coverage from National Indemnity Company.

In effect, therefore, the potential benefit of unlimited several liability provided by the Names will be exchanged for the additional reinsurance provided by National Indemnity Company.

The benefit of unlimited several liability will be of value only in the event that the assets available via Equitas prove insufficient to pay all claims. The additional reinsurance significantly reduces the already small risk of such insufficiency.

Furthermore, the practical value of unlimited liability is limited as explained in the report of the Independent Expert. In particular, the recovery from Names (including the estates of deceased Names) will be affected by a number of factors including:

- 1.1. death and bankruptcy;
- 1.2. various practical and legal impediments to making recovery;
- 1.3. the costs of recovery; and
- 1.4. inevitable delays in the event any recovery is, in fact, made.

Based on his modelling work, the Independent Expert said he believes a reasonable recovery rate from Names for the average policyholder is no more than about 20% of the shortfall and that no policyholder group could expect to receive more than 30%.

Quite apart from this, however, policyholders' and cedants' rights to access overseas trust funds should not be impacted by the transfer.

In addition, and focussing on cedants for a moment:

- 1.1. any set-off rights that existed before the transfer will be preserved; and
- 1.2. US cedants should be able to continue to take credit for the reinsurance provided to them whether or not the transfer is recognised in the US (as to which, more later).

As regards outwards reinsurers, there should be no impact. All external syndicate reinsurance was assigned to Equitas at the time of R&R and any residual interest in such reinsurance that may have resided with the Names will also transfer. Any set-off rights will be preserved.

Finally, notice of claims should be given in the same way as before i.e. as required by the policy (for example, to your broker or designated agent for service). There will be no change to the claims agreement or payment process. In particular, policyholders and cedants will still be required to provide evidence that they held a policy that

constituted 1992 and prior years non-life business at Lloyd's and establish in the same way as now the subscribing syndicates.

In sum, Equitas believes that the transfer does not materially disadvantage policyholders / cedants or other stakeholders and this is a conclusion with which the Independent Expert concurs.

At this juncture, it is perhaps worth me touching on some queries which have been made and my views on them.

To date, it is fair to say that responses have been either positive or neutral. For the most part, the queries that have been raised have been relatively minor and are mostly all dealt with by the information on the Equitas website.

There have, however, been two queries raised which I wish to touch on:

- 1.1. whether Equitas has the authority to facilitate this transfer on behalf of all Open and Closed Year Names; and
- 1.2. whether it is right that we should seek to novate the liabilities of Closed Year Names (which, in turn, depends on whether the Lloyd's mechanism of reinsurance to close - already explained by Jane - is really a novation or reinsurance).

Dealing with each issue in turn:

(a) Authority

Equitas Reinsurance Limited was given absolute and irrevocable authority to manage the 1992 and prior years' non-life business on behalf of the Names as part of Lloyd's Reconstruction and Renewal in 1996 ("R&R"). This authority was delegated to Equitas.

On 24 September 2008, Lloyd's exercised its statutory power to certify that Equitas has the authority to act on behalf of the Names for the purposes of this transfer.

Therefore, we are in absolutely no doubt that Equitas has the requisite authority.

(b) Reinsurance to Close

It has been asserted that we are misconceived in attempting to transfer the 1992 and prior years' non-life liabilities of all Lloyd's Names (that is, Names on syndicates which were open at the time of R&R and those that had already been reinsured to close by that time) because it is asserted that the liabilities of those Names who have been reinsured to close were actually novated to the Names on succeeding years, with the result that we need only deal with the Names on syndicates which were open at the time of R&R.

The argument that reinsurance to close is a novation and not a reinsurance is unconvincing and inconsistent with law and practice. As a result, we consider it right and indeed essential that we should seek to transfer the 1992 and prior years' non-life liabilities of all Lloyd's Names.

It is also worth noting that if it is approved by the English Court, this whole issue will become completely irrelevant in any event.

Finally, I would like to touch upon the recognition of the Part VII transfer overseas and, in particular, in the US.

If the English Court approves it, the decision will bind all policyholders and cedants as a matter of English law and will automatically be recognised throughout Europe.

It should be appreciated, however, that this is a relatively new development in English law. There is, therefore, very little experience on which to form a conclusion as to whether the courts of overseas jurisdictions would recognise it in the event that a claim is brought against a Name in their jurisdiction after the transfer takes effect. We as Equitas' legal advisors are giving careful consideration to the extent to which it is possible and reasonably practicable to take steps in other major relevant overseas jurisdictions to obtain recognition of the UK Court Order. These jurisdictions are the USA, Canada and Australia.

Focussing for a moment on the US, no decision has yet been made as to whether Equitas will seek formal recognition of the transfer throughout the US.

That issue aside, you should be aware that there have been ongoing informational discussions with several leading US insurance regulators, including the New York Insurance Department, who act as the domiciliary regulator of Lloyd's Underwriters.

In the light of these discussions:

- 1.1. Equitas intends to establish a new trust fund in the US to ensure policyholders and cedants continued access to the Equitas American Trust Fund;
- 1.2. in addition, U.S. cedants who continue to have claims against underwriters under US law after the transfer is approved by the English Court should continue to be permitted to take credit for reinsurance from such Underwriters; and
- 1.3. moreover, based on the facts and law as they exist today and based on proposals to establish a further new trust fund dedicated to U. S. cedants, if and when the transfer is ultimately recognised in the US, it is our belief that U.S. cedants should also be able to continue to take credit for reinsurance in that eventuality.

More generally, regardless, however, of whether an overseas jurisdiction recognises the transfer, policyholders and cedants will benefit from the increased reinsurance that will be provided to Equitas if the transfer is approved before the end of this year.

So what do you need to do now? Well, no action is required by any policyholder or cedant.

However, as already explained, if you believe you are adversely affected and would like to make written representations and/or appear at the Court hearing, either in person or by Counsel, we ask that you provide written representations or written notice of your intention to appear at Court and details of your concerns as soon as possible, and preferably by no later than 9 June.

The relevant contact details can be obtained from the website or the notices which have already been circulated.

That is all I had to say but I would be happy to answer any questions once Jane wraps up...Jane.

JANE BARKER

Thank you Philip

The key formal documents that have been lodged with the Court in the UK are now available on the Equitas web site. The slide shows the details.

We also have a help line and of course you can contact us by email.

But now it is time for questions and I have asked Dan if he will chair this session.

Questions & Answers

DAN SCHWARZMANN

Thank you very much, Jane. Good morning, ladies and gentlemen. This is your opportunity to ask whatever questions you would like of us. There will be a roaming mic. I'd be very grateful if you could start by giving us your name and who you represent and then your question. Many thanks indeed

PAUL RYSKE

My name is Paul Ryske. I'm an attorney at Allstate Insurance Company. My main concern is the question of credit for reinsurance. You gave assurances that US ceding companies should be able to take credit for

reinsurance. Prior to a recognition of a transfer by a US court, it is my understanding that credit for reinsurance is granted by insurance departments and that it is the insurance department that determines whether or not a company is authorised and that a new reinsurer would be required to post collateral. I notice that Philip brought up the point that there are ongoing discussions with the New York insurance department regarding the existing Trust Funds and I believe he said that they are going to establish a new Trust Fund for Speyford Limited, is that correct? Or did I misunderstand that?

DAN SCHWARZMANN

That is correct. However, was that the whole question or have I interrupted you?

PAUL RYSKE

Well, the main concern was, because I didn't see it in the documents, whether there would be new collateral posted. I don't think that you can just automatically assume that because the trust funds securing Names are still in existence, a US ceding company can take credit for reinsurance for those trust funds when its reinsurer is a new company that is unauthorised. I found it a bit interesting that the statement in the documents was that an overriding concern is that Names would be recognised as being relieved of their liabilities going forward. Well, if you're going to have that recognised in the US, then I guess the whole Transfer is going to have to be recognised in the US, in which case the collateral goes away unless there is no collateral posted.

DAN SCHWARZMANN

Paul, you have asked a very good question, so thank you very much for that. Can I just make sure that, before I pass it over, I am clear, that at this stage, and as Philip said in his talk, the Transfer is not being recognised in the US. So am I right in understanding that as long as the Transfer is not being recognised in the US you are comfortable with the position and your query only arises in the event that the transfer becomes recognised in the US?

PAUL RYSKE

Well, I don't know what you mean by recognised in the US. We are governed by 50 states, so my concern, being domiciled in Illinois, is that the Illinois Insurance Commissioner is going to say 'Allstate you have a new reinsurer and there's no collateral so now you can't take credit for the insurance provided by that reinsurer, absent new collateral being posted.'

DAN SCHWARZMANN

Ok. Thank you very much for that. I think we should focus on if it does become recognised in the US and talk about what that recognition means. I think, Philip, I am going to start by handing over to you on that.

PHILIP HERTZ

Thanks Paul. As I said, there are ongoing discussions with the New York Insurance Department. Those discussions, I believe, include Illinois as well and other major regulators. Our belief at this stage is that US cedants will be able to take credit for reinsurance once the Transfer has taken place, whether that is from existing trust funds via the Names or, if we get the Transfer recognised, from new trust funds and arrangements.

PAUL RYSKE

Philip, do you have any time frame as to when we will get an official pronouncement by the Insurance Commissioner of New York and Illinois in particular as to whether or not they are going to recognise the existing trust funds as being transferred to or in the control of Speyford and/or when the new trust fund will be established?

PHILIP HERTZ

There won't be any official pronouncements. Just to be clear, nothing is going to happen to the existing trust funds as we know them, the Equitas American Trust Fund and the Lloyds American Trust Fund, as a result of this Transfer. The discussions we are having are around establishing a further small trust fund to provide the required surplus to allow for credit for reinsurance. As the discussions have not concluded I am afraid I cannot be more definitive. We would hope and expect it would happen by the end of the year to enable you to be able to account for it in the correct way.

DELEGATE

Sorry, because I don't think Philip answered the point you raised, could I just add one thing? It is my understanding that none of the Commissioners will make an announcement to say they will allow credit from the insurers. That is my understanding.

PHILIP HERTZ

That is right. All we are expecting is a non-objection. The ideal would be 50 letters from each of the State Commissioners. However, we are not going to get 50 letters, so we are just hoping for New York to set out where they aim to be with regards to this matter and for the other regulators to go along with that, because we are talking to New York and the other regulators together.

PAUL RYSKE

But at this point in time, there is no assurance to a US ceding company that if the Transfer were to take effect, we will continue to be able to take credit for reinsurance.

PHILIP HERTZ

No, I don't think that is right, Paul, because I think the way we look at it, you will still be able to continue to take credit from Names, from underwriters at Lloyd's, as the existing trust funds will remain in place. There will be no formal recognition of the Transfer in the US and we wouldn't seek to get that recognition without dealing with this issue, which is an important issue.

DAN SCHWARZMANN

So Paul, I hope that was helpful. I was just trying to make a distinction between whether or not the Transfer is recognised in the US. If it is not recognised in the US, just to be absolutely clear, there will be no impact on the existing trust funds and therefore there should be no impact on your ability to take credit for your reinsurance. If, down the line, the Transfer is going to be recognised in the US, I just want to emphasise that the process will take time and will require significant consultation. But that is not an issue for now.

JOHN SYLVESTER

Yes, hi, my name is John Sylvester from the Pittsburgh office of K&L Gates and we represent direct policyholders in their dealings with Lloyd's and Equitas. I have about five or six questions and maybe I will start with the one dealing with the trust funds here in the United States. Philip had said there won't be any change to the trust funds. Now this confuses me because I would presume there would have to be a change in the Trustees so that those Trust Funds would be available to satisfy judgments against Newco, as opposed to against Lloyd's Names, which they currently are structured to do. Is that correct?

DAN SCHWARZMANN

I don't even need to look at Philip, I know that is a question that Philip needs to answer.

PHILIP HERTZ

You're absolutely right. As I said, nothing is happening to the Equitas American Trust Fund or the Lloyd's American Trust Fund, but as I said in the presentation, there will be a parallel trust fund, which will mirror the LATF, set up to allow access to the Equitas American Trust Fund in the event that there was a judgment against Speyford in the US. So to put the point shortly, access to the Equitas American Trust Fund will not be prejudiced at all by this Transfer in the US.

JOHN SYLVESTER

Ok, but in order to do that there will have to be either this ancillary trust fund set up or an amendment to the existing Trust Fund, is that right?

PHILIP HERTZ

There are going to be both, actually, because the Equitas American Trust Fund will need to be tweaked to allow it to answer to both the LATF and its new conduit trust fund and we will also need to set up this conduit trust fund as well.

JOHN SYLVESTER

And will that happen effective on June 30 '09, which is, I understand, the effective date of the Transfer, if it is in fact approved?

PHILIP HERTZ

The ideal would be that we would have all documentation signed and held in escrow. The reality is that we may not get there in time, but everyone is moving forward and that documentation is pretty well advanced.

JOHN SYLVESTER

I see. Now, if I am representing a policyholder, we have a dispute under one of these pre-1993 Lloyd's policies, a dispute that leads to litigation under an existing Lloyd's policy as issued in the US or there's a service of suit clause that says that we can sue underwriters at Lloyd's here in the United States, they will submit to the personal jurisdiction of the US courts by law of the United States that would otherwise apply. Will that apply with regard to the Newco entity that will be the successor to underwriters at Lloyd's?

PHILIP HERTZ

Well obviously I can't advise you as to how you would advise your clients. If you were suing a Name in the UK, I would say that you would have to sue Speyford because obviously the Transfer is in force in the UK. Here? Well, I would imagine that would probably advise your client to sue everyone.

JOHN SYLVESTER

That is probably what I would advise my client. I was wondering how, if we sue Speyford or Newco or whatever you call the new company, how the US court would regard it.

PHILIP HERTZ

I suppose the real question is and we have got to pan back on it, if Equitas can pay the claims it shouldn't matter who you sue because you should be paid one way or the other because the money will come down one way or the other. At the moment we don't have that and unless and until we seek formal recognition of the Transfer in the US, that issue is not really and should not be a major issue, but you can't be wrong if you sue both.

JOHN SYLVESTER

Well, yes, from our perspective, we want to sue the entity that we can enforce the judgment against, if in fact we get a judgment, so if I sue underwriters at Lloyd's because Speyford isn't subject to personal jurisdiction in the United States and I get a judgment on a coverage dispute, then I go to collect and it turns out that all the money is held by Speyford and not by underwriters at Lloyd's or the Lloyd's American Trust Fund, then that in fact this Newco entity will submit to the jurisdiction of the United States court and litigate as if we were suing underwriters at Lloyd's right now, when, at least in all of my 25 years of experience of litigating disputes with Lloyd's, there has never been an issue of personal jurisdiction.

PHILIP HERTZ

Yes, well Speyford will basically stand in the shoes of Names, as a matter of English and European law, so as a matter of English and European law, they will be subject to the same services of suit.

JOHN SYLVESTER

Ok, and similarly to the extent that we have existing settlement agreements with underwriters at Lloyd's, is Newco assuming all of the obligations? Not just of the policies that underlie those agreements, but of the agreements themselves?

PHILIP HERTZ

Yes.

JOHN SYLVESTER

Now, I think, Philip, you mentioned something which surprised me a little bit. You mentioned that if we wanted to prevail on our claim we needed to not only prove the existence of a policy and the terms of the policy, but we also had to prove the specific listing of the subscribing syndicates on the policy and their respective percentages. You indicated that this had been the case in the past and I think you indicated that it would still be the case after the Transfer. My question is why is that? What difference does it make? If I can prove that I or a client have a Lloyd's policy and that policy is issued for X amount of limits, these terms and conditions for this policy period, what difference does it make which syndicate it is in or what percentage allocation it subscribed to that policy, given that now the obligations are all mutualised in this Newco entity?

DAN SCHWARZMANN

I think that is a question for you, Philip.

JANE BARKER

I'm happy to have a go if you want me to.

There is still an amount of outwards reinsurance to be recovered. Now, of course these outwards reinsurances will continue after the Part VII Transfer, but as they are syndicate specific and year specific, in order for Speyford to be able to claim on its outwards reinsurances it will be important to learn which syndicates the claims have been made on.

JOHN SYLVESTER

I understand that as a practical matter that is why you would like to know which the subscribing syndicates are, because it may, to the extent that you haven't already commuted the reinsurance, help you to collect. I guess from a policyholder's perspective, why should we have to prove the subscribing syndicate market on a policy? In other words, I understand why you want that information to help you collect your reinsurance, but why does that become an obligation on the policyholder if, from our perspective, it's the same pot of money regardless of which syndicate originally underwrote the policy?

JANE BARKER

The Part VII Transfer doesn't change your obligations; it doesn't remove the obligation you had under the policy to deliver this information.

PHILIP HERTZ

Yes, it is the same before and after.

JANE BARKER

The judge in the UK doesn't reduce your obligations as part of the Part VII Transfer.

PHILIP HERTZ

You need to be clear; the policy is just transferred as is. The only thing that changes is the insurer.

DAN SCHWARZMANN

And John, I think the answer that Jane gave about the ability to collect the reinsurance post the Transfer is a very, very relevant point.

JOHN SYLVESTER

I understand the rationale and we may agree to disagree on that point. But I understand the rationale and I will finish because I know I am monopolising the microphone but I did have another question.

DAN SCHWARZMANN

No, it is fine. I think you are asking questions that everybody else would want to ask.

JOHN SYLVESTER

Sort of a two part question, because one leads into the next. Who will have ultimate ownership and control over NewCo in two respects – firstly in terms of claims handling decision and secondly in terms of any other reorganisation schemes etcetera that might be contemplated? Who controls this new entity?

DAN SCHWARZMANN

Ok. I may pass over to Jane, but can I have a start on that one? Can I just remind the audience of the question that you have to be asking yourself? The question you have to be asking yourself with regard to all of these points is "am I in as good a position or a better position post the Transfer than I am now"? That is the question that the Court will be asking for you and is also the question that the regulator has been asking. So, why do I say that? Well, let's start by looking at the claims handling position. At the time that the NICO reinsurance was put in place, NICO assumed the claims handling role. That is the position now and that will be the position post the Transfer. The claims handling is regulated by the FSA and that will remain the same pre and post Transfer.

In the other part of your question I think you may be asking about schemes of arrangement, and the reason I think I had better answer that question is because, as you know, I have been involved with quite a few schemes of arrangement and normally when I come and talk in the US I'm talking about schemes of arrangement. I want to emphasise that that is not all I do. I do other work too, like Part VII work, and there is no discussion whatsoever about there being a scheme of arrangement for Speyford. I just want to be absolutely clear about that.

JOHN SYLVESTER

Well good. That was the second part of my question although, can tweak it a little bit? I understand that, and I have read the papers that say that, there is no discussion currently of this Newco entity going into a scheme of arrangement. However, I know a number of my policyholder clients are concerned that this is the first step toward a solvent scheme of arrangement which would be a cut off scheme and would force them to commute their policies early rather than leaving the coverage in place over time and letting the claims develop.

It is the case, at least when I saw in the independent expert's report, that policyholders are disadvantaged in that regard by this Transfer in a sense that Names currently cannot take advantage of the solvent scheme of arrangement, whereas this Newco entity will have the ability to do that.

DAN SCHWARZMANN

I am going to pass over to Jane in a moment, but I am just going to say that for those of you that haven't looked at the independent expert report, it is available on the website and sets out the detail that the independent expert goes into looking at the position pre and post the Transfer. I think I have been pretty categorical about what I have heard about a scheme of arrangement for Speyford, but I think it is only proper that I hand over to Jane, for Jane maybe able to give her views on whether or not Berkshire would be looking to do a scheme.

JANE BARKER

We're very aware of the point that you make. Equitas has no intentions at all of going for a scheme of arrangement. It's my understanding that in a scheme of arrangement we would need the consent and, more importantly than the consent, the assistance of our reinsurer which of course in Equitas' case is NICO. My understanding is that NICO are fairly well known for not supporting schemes of arrangement. So I think the idea that Equitas could get a scheme of arrangement with NICO help is, I believe, almost impossible to imagine. I think it's impossible.

DAN SCHWARZMANN

I would agree with that.

JANE BARKER

And in fact if you look at the Equitas balance sheet now and indeed after the Transfer there'd be no reason for us to think of doing a scheme of arrangement. This is because our balance sheet is made up of the liabilities to all the policyholders matched by a reinsurance asset from NICO. So there's nothing to be gained and I can therefore give you my assurance that we would not contemplate a scheme of arrangement and I find it difficult to imagine under what circumstances we would in the future contemplate a scheme of arrangement unless NICO came to us and said they wanted one.

JOHN SYLVESTER

My last question. If what you have just said is in fact the case, are you willing as part of this transaction to commit that for at least a certain period of time there will be no attempts at a scheme of arrangement as opposed to giving assurances that as of right now there are no plans for scheme of arrangement. In other words say something like you will commit that for the next ten years you will not propose and or try to pursue a scheme of arrangement.

JANE BARKER

I have a very anxious lawyer sitting on my right telling me under my breath that we can't do that, but I think I did try to get as close to that as I could.

PHILIP HERTZ

The only reason why I was muttering is because, as you know being a lawyer, directors and officers owe their

duty to the company and they can't give an undertaking now that would commit the company forever in the future. But I associate myself with the comments that have been made.

I was asked this exact question last year when I spoke about Equitas and this Part VII. NICO were in the room at the time. What I said was that as far as I was aware it would not fit with NICO's business model to have taken the assets of Equitas at a premium as part of the retrocession back in 2007 and then to end up paying them out quickly. Just paying them all out again wouldn't fit with what NICO normally do which is to invest.

JANE BARKER

I will also include Speyford and its position. It's owned by a Trust. The Trust is currently owned in the best interest of Names and that will continue in the future. The Equitas group including the new company will be under that Trust. All of the regulated companies in that group, being Equitas Reinsurance, Equitas Limited and the new company are regulated by the FSA and that will also continue into the future. The one interest that the Names will have going into the future is an interest in a return premium. A return premium can only be paid to Names if it is agreed by the FSA and the FSA have said there can be no return premium at this time. The assets of Equitas over and above the reinsurance policy with NICO will be something of the order of £80 million once we've paid the costs of getting a Part VII, assuming we're successful. Therefore, that £80 million will sit there and will be used in the unlikely event that the NICO cover is not sufficient as it is available for payment of claims. Obviously many years down the track it may have grown to something larger - if we're able to earn any interest on it in the future. But if we've got to a point, which will be long after my lifetime, where the regulators are satisfied that all claims had been paid or that the amount of liabilities left will be adequately covered by the NICO reinsurance, it is possible that they would allow a return premium to be paid to Names. But I must emphasise to you that it will be many, many years down the track before a regulator would even contemplate allowing that money out the system. And the Trust and Equitas cannot make that payment without the regulator's approval. I hope that's answered the earlier part of your question.

PAUL WALKER-BRIGHT

Paul Walker-Bright from Reed Smith. Let me see if I can come at a couple of John's questions from a slightly different angle. You've indicated that the reserves are currently of about \$8.8 billion. And you've indicated that it's unlikely that there would ever be an insolvency or a shortfall based on the way that Equitas is currently set up. Is there a way that we can take a look at how that estimate or those reserves were arrived at and what the basis is for estimating the future liabilities so that we can check and make sure that that is in fact correct because although I'm sure you've got very good actuaries over there, they have been known to make mistakes.

JANE BARKER

That's a perfectly fair point. Shall I answer this one? You'll understand that over the years Equitas has had many such enquiries. The way I would recommend for you to take a look at those reserves is to look at the independent expert's report because of course he has independently taken a look at our reserving. I don't know whether you've seen it however the document is on our website. It does carry a health warning because it's a PDF file with many pages. I would recommend that as the best way to look at it because in order for the independent expert to prepare his report he had to start by looking at our reserves.

PAUL WALKER-BRIGHT

Will we have the ability if we wanted to, to contact the independent expert and ask to take a look at the documents or information that he looked at? To have our own actuary review this information if we wanted to?

DAN SCHWARZMANN

That will not be possible as it is not the way the process works. The independent expert has a duty to the Court. And if we dealt with every single query to that level this process would never happen. So that isn't available but there is a fair amount of detail in the report. I think that if you read that report in a lot of detail and if you also take into account that there has been an audit and that the regulator has been involved, you will get enough comfort.

JANE BARKER

There's one other point we should raise. Whatever the estimate of our reserves, they are the same before and after the transaction. They don't change as a result of the transaction. And so from that point of view the test if you like that the independent expert has applied to start off with was to see whether he agreed with the starting position. But it isn't that they change because of the transaction.

PHILIP HERTZ

What is clear though is that if the transaction goes ahead there will be \$1.3 billion of extra reinsurance.

JANE BARKER

Yes but not reserves.

PHILIP HERTZ

The other point is to pick up on what Dan was saying about the independent expert having a duty to the Court. I would also add that he is appointed by the FSA. He's independent of the company and has a duty to the Court. He's basically your voice in looking at this.

PAUL WALKER-BRIGHT

John asked a question about who controls Speyford in terms of claims handling and so forth. My question following on from that is based on the first rule of law which is follow the money. So my question is who stands to make a profit from this transaction, how much profit are they anticipating from this transaction and how do they calculate it?

DAN SCHWARZMANN

Paul, I'm sorry but I need to make sure I understand the question. I've got to keep coming back to the context of the Part VII. Jane was absolutely correct when talking about the reserves to question what the difference would be pre and post Transfer. So I just want to understand your question a bit better before I pass it over to Philip or Jane. Precisely in the context of this Part VII what is your issue?

PAUL WALKER-BRIGHT

Well my issue is how do the parties that are involved in this transaction plan to make a profit as that might help give us some insight into how the handling of claims might be done going forward.

DAN SCHWARZMANN

And this is why I'm slightly struggling with your question because when the NICO reinsurance was put in place back in 2007, NICO assumed the claims handling role. The company, Speyford as it's called at present, will be regulated by the FSA and therefore the claims handling will overall be regulated by the FSA. So in the context of the Part VII I'm slightly struggling with your question. There is no change in claims handling now compared to post the Part VII. In the same way that there is no change to the reserves pre- and post- the Part VII. I think you've just got to keep coming back to that fundamental point.

JANE BARKER

And could I add one small point? When we did the first part of the transaction I think I'm right in remembering that Warren Buffet said something famous along the lines of it would be after his death that NICO would know whether or not this had been a profitable transaction for them. So I think we can take from that that Warren Buffet does expect to make a profit from the original transaction. Now we've told you the deal. The terms of the transaction. It's £40 million for an extra \$1.3 billion. Many of you in this room are probably better qualified than I am to calculate whether that's a good rate or not. But I would imagine that Berkshire Hathaway would hope never to pay out \$1.3 billion. So you could argue that they are hoping to make a profit on that as well and I would not argue with you if that's the point of your question. Dan's made it as clear as he can that from the claims handling point of view nothing changes. We have already ceded the claims handling to NICO and that will continue after the Part VII. The only other people who will benefit from this, and I don't think any of them would allow me to say they're going to make a profit, are the Names who will, at least under UK and European law, no longer be liable in the unlikely event that Equitas was to fail. So you could argue that that's a profit to them. But as I said I would find it hard to use that word since many of you feel they've lost a lot of money. However they will benefit from the transaction.

DAN SCHWARZMANN

I think that's a really excellent answer and Paul I hope I don't confuse it further, with what I'm about to say. I've had a similar question asked of me when we've been looking at schemes of arrangement which have already been talked about today. I must distinguish a scheme of arrangement from this Part VII Transfer. This Part VII is not being done in order to create profit; it is being done for two reasons. Firstly, to give the policyholders and cedants additional reinsurance cover, and the transaction needs to be done by the end of this year in order to

achieve that, and secondly, and as a consequence, to remove the Names' liabilities. But it's not being done as a profit transaction.

PAUL WALKER-BRIGHT

I just wanted to follow up on these two statements. You had a slide earlier that said Equitas had paid out \$27 billion I believe since 1996 and that your current reserves are \$14.4 billion overall if this deal goes through.

JANE BARKER

Our current reserves are \$8.8 billion. The amount of available cover would be \$14.4 billion assuming the Transfer takes place.

PAUL WALKER-BRIGHT

The amount of available cover would be \$14.4 billion. If you continue with the same payment history it seems to me that it's going to get used up. There is no further money coming in and that's why I think this is bound to be a scheme of arrangement within the next several years. And I think that's where the question has come up is that theoretically, and I realise there are collection problems going after individual Names, there is unlimited liability right now. Right now there is unlimited liability. There is no indication there's going to be a dropping off of claims. And I realise that you have reinsurance recoverables that will continue to come in on some of this business and that'll keep things going. Also, if claims handling is delayed or denied use of those funds could give you another investment opportunity to keep your funds going for a while. But with \$14.4 billion when you've paid out \$27 billion in 12/13 years it seems that this thing is going to end.

DAN SCHWARZMANN

Paul, I'm sorry, I don't think Jane and Philip could be any clearer about where we are with the scheme of arrangement. But I just want to make sure for everybody here that we're definitely answering the question.

I don't think you can look at the level of claims payment in the past to say what's going to happen in the future in terms of the current \$8.8 billion of reserves. I don't think you can make that statement. I'm going to go back to what Jane said earlier in terms of the reserves, they will be the same post the Transfer. There is definitely further reinsurance coming into play if this Transfer takes place. Paul, there are two conclusions which you've just made that I struggle with. One is that the liabilities are going to exceed the assets. I don't know how you make that deduction. And two, coming back to this scheme of arrangement point, I'm just going to re-emphasise one point before Jane or Philip can add any further comments, and that is that it is commercially impossible to do a scheme of arrangement unless the reinsurer, here NICO, who Jane has already mentioned does not like the scheme route, decides to go down the scheme route. It's commercially impossible. I don't think we can say anymore on that.

JANE BARKER

Can I add one small piece? You are entitled to your view and how can I sit here and say you're wrong because none of us know how the reserves will ultimately play out in any insurance / reinsurance company. But I would urge you to read what the independent expert has to say about the likelihood of Equitas failing once it has got the extra cover. From memory it's 3.1% likelihood of failure. So all I'd say to you is it isn't just our view. There is somebody who has looked at this dispassionately and taken a view. I would urge you to read the independent expert's report.

DAN SCHWARZMANN

He has not only looked at the likelihood of Equitas failing once it has got the extra cover, but he has also looked at the likely levels of recoveries you're going to make from the Names if this Transfer doesn't take place.

PAUL WALKER-BRIGHT

I guess I am still sceptical.

PHILIP HERTZ

Can I just reiterate something else that has been said? A solvent scheme of arrangement would imply that there's going to be payment out. Speyford can't make payments without Equitas and Equitas can't do it without NICO so it would need NICO to agree to a solvent scheme.

BILL BERNER

Bill Berner, Mine Safety Appliances out of Pittsburgh Pennsylvania. I like the independent expert's report. I did think Navigant did a good job. He's a little silent on his actuarial method, was it by year or decade or integer. Do you know if there was another actuary outside of Navigant that took a look at the report?

DAN SCHWARZMANN

A colleague of mine from PwC, Greg Overton is sitting at the front here. He is an actuary and I know he had a number of conversations with the independent expert. Greg do you want to take this question?

GREG OVERTON

Yes, as Dan said I'm an actuary. I've been working in the London market for 15 years. We have worked very closely with Allan Kaufman and with the Equitas actuaries throughout this whole process. Both in terms of looking at the exercise the independent expert has performed and also making sure that he understands the reserves that he's looking at. We actually performed a separate independent exercise ourselves on the model in work which essentially came up with very similar results to those which Allan Kaufman has been using himself. So, yes, there have been other actuaries involved in this process and they have been looking at the work that Allan Kaufman has been doing.

BILL BERNER

The pre-'92 Names, do you know how many they number?

JANE BARKER

I can tell you that when we reinsured the Names into Equitas there were 34,000 and a few I can't remember the few. And from memory I think I'm right in saying about 6,000 are now dead.

Bill Berner

We had had some discussions with people who were working with Equitas and then with Resolute and I understand that a number of people were let go last week. Should we anticipate continuing discussions with those individuals in the UK on either claims or buy backs or will that change?

DAN SCHWARZMANN

Bill did you say when you're talking about individuals that you are talking about the individuals that were let go? That was news to me. But you're saying that some of the people were asked to leave, is that what you're saying?

BILL BERNER

My understanding is that there's been some turnover of staff.

DAN SCHWARZMANN

I deal with many insurance companies that are handling claims, many of them companies that just handle claims, and there is staff turnover. There's no question about it. That will happen with any claims handling organisation. But you should continue to use the contacts you're using at the moment. I have to say if that has happened, and I wasn't aware of it, it would not be as a result of this Part VII.

BILL BERNER

My understanding is this is purely Equitas and does not involve the London companies.

JANE BARKER

Correct. Absolutely nothing to do with the London companies.

BILL BERNER

Thank you.

DELEGATE

Just to pick up on a couple of points that were made earlier. Claims handling, you said it's not going to change. Since 1936, my claims have been handled in pretty much the same way but now they are going to change. Dealing with Resolute in the States is going to be quite a big difference for me. I'm not entirely comfortable that the FSA has any control over what Resolute does in the US.

DAN SCHWARZMANN

I think I'll start by taking that and then open up if anybody wants to comment further. I think you'll find that if you wanted to talk to the FSA about how your claims were being handled they'd be very receptive to that. I just want to again come back to the question I have already mentioned, is the claims handling going to change as a result of this Part VII? And the answer to that is no because NICO have control of the claims handling at present and will continue to do so after the Transfer. If they change the process by which they review claims then if you have any concerns you really should speak to the regulator about those.

DELEGATE

I have coverage in place at the moment. We have several claims at the moment and I'm foreseeing huge changes in how I'm treated and what goes on.

DAN SCHWARZMANN

I am afraid I cannot comment on that. The point I was making was that irrespective of the Part VII, your claims will be handled in the same way.

DELEGATE

The second part is the reserving part. I have one or two potentially very large claims and the last times they were looked at by actuaries in the London market, I was given virtually zero value. Zero value. And it's hard for me to accept that which is the first point. But the second point is it would be worth knowing how the independent actuary viewed those claims because one of them could change your numbers drastically.

DAN SCHWARZMANN

I think it comes back to what Jane said earlier when you were asking about the reserve levels. I keep coming back to the same point, forgive me and do push me harder on this if it's not answering your question, but we're just looking at the position pre Transfer and post Transfer. How your individual claim is looked at pre the Transfer and post the Transfer won't be impacted. What happens to you on your individual claims, and I hope this isn't too direct, isn't something can be answered in this particular meeting. If you've got an individual claims issue then that should be addressed outside of this meeting. What you should be asking yourself is "am I in the same or better position post the Transfer?" And I come back to the additional \$1.3 billion in cover that will be available post the Transfer.

So what are the advantages or the disadvantages of the Part VII Transfer? From our perspective it is pretty clear that you have the advantage of the additional reinsurance and the independent expert report is quite clear about the ability to claim against Names.

PHILIP HERTZ

Dan you've said this a number of times and it is probably sounding like a broken record. But to be clear the other question you need to ask yourself is does the Transfer itself change the way your claims are handled? If NICO do something different is that because of this Transfer or would they have done it anyway? And I think the answer as far as we're concerned is the Transfer has no impact on what NICO does or doesn't do. If NICO were being put in place as part of the Transfer and if you see they do things differently then that's a relevant concern. But they are there now. They're going to be there afterwards. The Transfer itself doesn't change that.

PATRICK JASPER

Old Public Insurance Companies and I am not an attorney so forgive my bull in the china shop approach here. You did not answer his question about who owned Speyford but instead concentrated on the reinsurance behind it. If you are not able or willing to come out with the ownership structure of Speyford, are you willing to provide us cut through to National Indemnity?

DAN SCHWARZMANN

I don't think anybody was trying to avoid that question so if it wasn't answered clearly enough we will make sure that happens now. Jane.

JANE BARKER

The Equitas Group is owned by a Trust in the UK. The Equitas Group will own Speyford. And Speyford and the Equitas Group will continue to be owned by the same Trust. That Trust is a Trust for the benefit of the Names

and in answer to a question earlier I explained why the Names still have a remaining interest in that group. And the assets of that group of companies will be approximately £80 million plus the reinsurance recovery from NICO.

PATRICK JASPER

Thank you very much. Second, while this is all fairly fascinating about what the future may hold, the fact of the matter is, based on what you've said here today, come July 1st if the English High Court approves the Transfer nothing changes in the US. There is no recognition of this Transfer in the US. And so on July 1st how do we go about doing business with the Lloyd's market place? In the United States.

PHILIP HERTZ

You mean on an ongoing basis?

PATRICK JASPER

With regard to recognition in the United States somebody mentioned you're going to have to get 50 states approval plus you've got the Federal Government talking about getting more involved in insurance regulations. This could very well take five to ten years to get approved in the United States. In dealing with Lloyd's July 1st this year, July 1st 2010, July 1st 2012 and forward how do we go about dealing with Lloyd's going forward?

DAN SCHWARZMANN

Can I just ask this? Is this a claims handling question?

PATRICK JASPER

Not specifically. It is in relation to claims handling, disputes, and anything in relation to '92 and forward.

JANE BARKER

Exactly as you do now and I'm not a lawyer either. Exactly as you handle the claims now. Could I just be very clear with one thing? You've used the expression "how do we continue to do business with Lloyd's"? Clearly should you or any of the other people in this room want to buy insurance from Lloyd's you do not do it through Equitas.

PATRICK JASPER

I'm not talking current, '92 and prior.

JANE BARKER

'92 and prior you continue absolutely as you continue today. That is my understanding.

PHILIP HERTZ

Yes.

FRED SCHAEFER

We've been informed that the handling of the claims is going to be transferred to Resolute in Cambridge.

FRED SCHAEFER

The question is what business is being transferred to Cambridge? I know it's not part of this Part VII Transfer but the timing is quite coincidental. But what is happening? What is staying in the UK and what is coming to the US as far as the claims? As far as reinsurance direct etc.

DAN SCHWARZMANN

This meeting is being taped for your benefit actually, so would you mind give me your name and company.

FRED SCHAEFER

Fred Schaefer, Nationwide.

DAN SCHWARZMANN

Thank you very much indeed. Who would like to answer this?

JANE BARKER

I'm prepared to have a go. I don't know the exact terms only because I just don't have them exactly in my head but my understanding is that it's the North American direct business and I'm not sure about the North American reinsurance business. But I can easily find out and if afterwards you'd let me have your email I will make sure you know. But this is not something that Equitas is managing. It's Resolute Management Services Limited otherwise known as RMSL but I can certainly get you the information.

DAN SCHWARZMANN

You've made the point about being coincidental at this time. I can only emphasise that I think it is coincidental. It would happen irrespective of the Part VII.

FRED SCHAEFER

Beyond the NICO coverage and the claim handling agreement, does NICO have any other ownership or other interest in Equitas?

JANE BARKER

Sorry you mentioned two things can you just say again?

FRED SCHAEFER

Beyond the claim handling agreement and the NICO coverage, does NICO or any broker entity have any interest in Equitas?

JANE BARKER

No it does not. None at all.

FRED SCHAEFER

And the fee, what does NICO get for handling the claims?

JANE BARKER

Nothing. When we did the first part of this transaction two years ago, when we bought the original cover, NICO took all of Equitas assets except for approximately £180 million as the premium for that cover. And in return they undertook to handle the claims and to pay the operating expenses of handling those claims. So we will not pay NICO anything in the future other than hopefully purchasing this \$1.3 billion of reinsurance.

RICK O'ROURKE

My name is Rick O'Rourke with Wellington Wells. Who is paying the £40 million pounds premium on the new layer of reinsurance?

JANE BARKER

The £40 million will be paid by the Equitas Group. I'm not quite sure which of the legal entities will pay it but probably the holding company, Equitas Holdings Ltd, which currently holds the cash. We might actually contribute the money down into Speyford and Speyford might pay. Either way it will be money that is already in the Equitas Group.

RICK O'ROURKE

But it's not particularly the Names?

JANE BARKER

No. Not particularly the Names. The money is already there in the Equitas Group now. You could argue any money in the Equitas Group was provided originally by Names but they're not making a payment now.

ROSS MISHKIN

Ross Mishkin with the Claro Group. Was the independent expert's report written and issued before or after the recent downgrades of certain Berkshire companies and if it was done beforehand is there any effect at all to his view of the security based on those downgrades?

PHILIP HERTZ

The report was issued on the 8th April. I can't remember the exact date of the downgrade but as I mentioned in my presentation one of the issues that the independent expert will cover in the supplemental report will be National Indemnity's position going forward. What's happened between the 8th April report and now. will be covered by the independent expert.

ROSS MISHKIN

My second question is a follow up on the additional \$1.3 billion reinsurance cover. Will NICO gain any rights or additional rights in its review of the claims handling as a result of that additional cover?

DAN SCHWARZMANN

No.

ROSS MISHKIN

Just going back to this recognition issue once again. The credit for reinsurance going forward does not change then? We don't have to be concerned about that here in the US since we're not recognising the transfer?

DAN SCHWARZMANN

I think that was a question we were trying to address earlier with Paul [Ryske]. But I will come back to you Philip.

PHILIP HERTZ

I'm glad you raise it again. Dan would have asked at the end if anyone had anything further to add or emphasise and I would want to just come back and emphasise that credit for reinsurance should be able to be taken by US cedants whether or not we get recognition in the US.

ROSS MISHKIN

You say should be?

PHILIP HERTZ

Should be.

ROSS MISHKIN

Looking for something a little stronger.

PHILIP HERTZ

I would love to be able to sit here to tell you today that it will be but the discussions are still ongoing with the regulators and I cannot sit here and say what they may or may not say. They wouldn't thank me for that. What I can tell you is that to the extent that you take credit for reinsurance from US Names now as there's no formal recognition I think you will be able to take the credit and continue to take credit after the Transfer takes place.

DAN SCHWARZMANN

I'm going to butt in and say a non-lawyer comment. Since you're not a lawyer I feel I can share a non-lawyer comment as well, which is that if there isn't recognition in the US nothing should change. Please do come back Philip if I'm confusing what you said, but the point I was making earlier is that if there is ultimately going to be recognition there is going to have to be a lot of consultation with a lot of parties as to this particular issue.

PHILIP HERTZ

And just to make this absolutely clear after the transfer assuming there's no recognition you will be able to take credit from Names. What we're doing with the Department vis-à-vis Speyford and to use a golfing term, and I know Paul [Ryske] likes his golf, is to tee it up. Tee it up so that if we get to the stage where we go for recognition then we'll be in a position to be able to say to the relevant court that cedants will not be prejudiced.

DAN SCHWARZMANN

Hopefully that now is crystal clear so I appreciate you asking that question. Did that help?

Ross Mishkin

Yes it does thank you.

DAN SCHWARZMANN

Ladies and gentlemen any more questions? If there aren't any I will ask Jane and Philip and Gregory if they've have any further comments they'd like to make on any question.

JANE BARKER

I think I've said enough.

PHILIP HERTZ

Me too.

DAN SCHWARZMANN

That leaves me to make the concluding remarks. First of all I just wanted to thank you all for turning up today and for asking many, many questions which I think is greatly appreciated. We want to make this as open and transparent a process as possible. And I understand the scepticism but I really hope we've addressed the queries. If you leave today and we haven't addressed your queries or you think of further queries then please, please do contact us using any of the methods that we've provided on the contact brief. Thank you once again for attending today. It is greatly appreciated. Please do contact us if you have any further queries. Thank you.