



**Equitas Policyholder and Reinsurer Road Show
Los Angeles, Thursday 28 May 2009**

JANE BARKER

Good morning and welcome to our roadshow.

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 right 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 far left is Gregory Overton, an actuary with PricewaterhouseCoopers, who has worked on this project. He is kindly standing in today for Philip Hertz, who is a partner in the UK firm of Clifford Chance, who are the legal advisors to Equitas. Philip sends you his apologies as for personal reasons he is not able to be with us today and I do apologise to you all for that.

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 Gregory to take you through the details of the transfer.

GREGORY OVERTON

As Jane explained, my name is Gregory Overton and I am a director in the firm of PricewaterhouseCoopers.

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 Gregory

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 time, this is when you can ask any question you would like whatsoever on this Part VII, so over to you. Could I just ask, if you do have a question, it would be useful, as this is being taped, if you could just start by giving your name, the company you represent and then your question. Thank you. First question please.

SANDRA HART

Could you go over just once again what this means for policyholders in the United States?

DAN SCHWARZMANN

Sure, and could you be kind enough, just for the record, I hope you don't mind, just your name and the company you represent.

SANDRA HART

My name is Sandra Hart. I am from North West Natural Gas Company.

DAN SCHWARZMANN

Sandra, thank you very much indeed. I think this is a question about the Transfer and the recognition of the Transfer in the US. Shall I start with this point, Jane?

JANE BARKER

Yes, do.

DAN SCHWARZMANN

And then Jane and Greg and I will just talk to the questions but at the moment, this Transfer is not being recognised in the US and there was the point that Greg was making, and therefore from a US policyholder and cedant perspective, there should be no change. What Greg did mention is that there were trust funds being created to make sure that the trust funds that are in existence at the moment remain and your access to the EATF before the Transfer and post the Transfer would be the same. Now, there may well be steps to recognise this in the US in the future. If that does happen, that will be a complex process which will require quite a bit of discussion, but the thing to ask yourself in this transfer, and I am going to keep repeating this today because it is important, is what are my rights today and what are my rights post the Transfer? And given that we are not looking for recognition of this process at present, this should be no different. Jane, would you like to add to that?

JANE BARKER

Yes, if I could just add one thing. What Dan has talked about is for the practical day to day running of any claims that you might have, nothing changes. Obviously the one thing that does change is the security that you have for those claims because on the one hand, your security will increase by the 1.3 billion extra US dollars of coverage from National Indemnity, and it will decrease by whatever security you would ascribe to the Names who underwrote the policies and Greg made the point that the independent expert has evaluated what that security is worth and has given the percentage of 20 per cent. The independent expert has calculated your likely recovery, in the event that our current coverage from National Indemnity is not sufficient. Your likely recovery on average would be 20 per cent, but I would recommend that you pull up the independent expert's report on the Equitas website. It does carry a health warning because, as you can see, it is very long, it is a PDF file and you all know what that means in terms of printing it off, but you can print it off, and I would recommend that you have a look at that to see how he, an independent expert, evaluates the \$1.3 billion against the, if you like, the covenant, I will use that expression lightly, from the Names. This is the difference

that applies to all policyholders, wherever they are, regardless of recognition in the US, but as I say, I think Dan has explained the specific points about US dollar policyholders and the fact that it won't be recognised in the US until we take an action, which we may or may not take. No decision has been made, and as I understand it, any action that we do take in the US cannot be taken unilaterally. In other words, we can't just decide. It will be a process that will need a lot of consultation, not just with policyholders but also with the regulators in the States, in the US.

DAN SCHWARZMANN

I think I am going to, if I may raise, a question that we have had in our roadshows in New York and in Chicago. I think it is worth doing just to make sure that we are addressing all the issues and being up front. One of the queries that came up was from a US policyholder's perspective, who do you sue post this transfer taking place? I am no lawyer, but I can tell you that what I heard very clearly was that from a UK policyholder's perspective it is very clear, the transfer has taken place, it is effective in the UK and therefore you would be suing Speyford or, as it will be called in the future, Equitas Insurance Company. From the US perspective, I think the conclusion that I was generally hearing was that you would sue a number of parties, just to make sure that you were totally covered until the situation became clear. I am no lawyer, but that is what I was hearing in New York and Chicago.

ARIANNE ENTRIKIN

Hi, my name is Arianne Entrikin and I am with Devonshire.

DAN SCHWARZMANN

Hi.

ARIANNE ENTRIKIN

Does Equitas have any plans or any intention to enter into a scheme?

DAN SCHWARZMANN

Jane, do you mind if I start with this?

JANE BARKER

You can start, Dan, but I shall finish.

DAN SCHWARZMANN

Yes, I think the only reason I just wanted to start with this particular one is that, to my embarrassment, I am generally known to be talking about schemes of arrangement. I do quite a bit of Part VII work but I normally end up in roadshows like this when I am talking about schemes of arrangement. I just happen to have been involved in quite a few, so that question does not generally surprise me. I want to make it very plain from my perspective as an advisor, at no stage has anybody talked to me about a scheme of arrangement being done

for Equitas. That is absolutely not on the cards from my perspective as an advisor, but I think Jane it would be appropriate for you to finish.

JANE BARKER

Yes. Equitas has no intention of entering into a scheme of arrangement, but to help you believe that statement, our major and really only significant reinsurer is NICO. Now, my understanding is that NICO has not supported schemes of arrangement and as it is well known that they haven't, I am not giving out a secret, and it would be impossible, and I think I am allowed to use that word, it is a hard word to use but I will use it, impossible for Equitas to successfully apply for a scheme of arrangement without the active co-operation of NICO. So I think that gives you a little bit of tangible evidence for what I am asserting, which is that Equitas has no intentions of obtaining a scheme of arrangement. I can't make it any clearer.

DAN SCHWARZMANN

Yes, it is very clear. It is actually, in some respects, you know, it is not Equitas' call, is it? It is NICO's call because they are the major reinsurer.

PETE DOMENICI

My name is Pete Domenici. I am an attorney from New Mexico for a public service company in New Mexico.

DAN SCHWARZMANN

Thank you Pete.

PETE DOMENICI

And just so I am clear, Equitas is paying the 60 million or are the Names being assessed to pay the 60 million?

DAN SCHWARZMANN

Are we talking about the full, oh the 60 million dollars...

JANE BARKER

Yes, yes.

PETE DOMENICI

For the premium.

DAN SCHWARZMANN

...the 40 million pounds. Jane.

JANE BARKER

Yes. Equitas will pay that from funds that it already has. Putting it bluntly, of course, all the funds that Equitas

have come originally from Names but nevertheless, there is no call on the Names to pay this, we have the funds available to make that payment.

PETE DOMENICI

And that is in fact in the surplus in Equitas already?

JANE BARKER

Yes.

PETE DOMENICI

...so it would only come into play if all of Equitas' funds were expended, yes?

JANE BARKER

It is sort of the other way round. At the end of this transaction, we estimate that Equitas will have something of the order of 80 million pounds remaining in the group, after we have paid that 40 million pounds premium, and we will have the benefit of the NICO cover. The NICO cover is called on first and when the NICO, sorry, I shouldn't say that, if the NICO cover is exhausted, then the 80 million pounds would be, if you like, all that is left and that remains in the Equitas Group for that eventuality. But in his report again, the independent expert has assessed the probability of Equitas not remaining solvent at 3.1 per cent, after we have done this transaction, and again it is all set out in the document, which I do recommend you have a look at, if I have not been clear.

PETE DOMENICI

So, for a claim that arises, say, a year from now under a old policy, a 1970 policy or a series of older policies, that would be presented to the new company, also the old companies that are listed on those policies?

JANE BARKER

No, as things stand today, since we did the transaction with NICO, any claim today would be presented to the claims management company, which is a subsidiary of Berkshire Hathaway, known as RMSL – Resolute Services Management Limited in the UK, in London – and they handle all of the claims that come in against Equitas currently. Post the Transfer that will continue just as it was before, but there will be an extra 1.3 billion dollars of cover compared with the situation today, but nothing in the claims handling changes as a result of this transfer.

PETE DOMENICI

Is the objective of the claims handling by this entity you described to run off policies or to pay claims or both?

JANE BARKER

Well, it is really both. I mean, it is to pay claims first and foremost and I always am taught to say to pay valid

claims...

PETE DOMENICI

Yes.

JANE BARKER

...but equally in the end, as claims are paid, this will inevitably for some policies run them off. I mean, clearly there are some policies without limits, but for the ones with limits if you pay a valid claim it gradually runs them off and in the same way that Equitas, since its formation in 1996, has gradually been running off the business. It is in run off, it is solvent but it is in run off.

DAN SCHWARZMANN

And Pete, can I just add one thing to that, if I may?

PETE DOMENICI

Yes.

DAN SCHWARZMANN

And you are absolutely right to focus on this because again, you have got to be thinking what is the position now? What is it after the Transfer? What is changing? And as Jane has said very clearly, there is no change in the claims handling. The other thing that there is no change on is the company and its regulation in terms of ultimately who is responsible for the regulation of that claims handling and it is the FSA, and that is the same as it is now, as it will be post the Transfer.

PETE DOMENICI

I was really trying to just see if there was a philosophical change here, which it doesn't sound like there is.

JANE BARKER

I don't believe there is any philosophical change as a result of the transfer. Some people in our earlier meetings this week have indicated to me that they believe there is a philosophical change between old Equitas of some years ago and NICO and I wouldn't argue with that. They are two different entities owned by two different companies, but that change, if there is such a change, and if you subscribe to the view that it was a change, occurred two years ago. That occurred when we bought the major part of this reinsurance from NICO.

PETE DOMENICI

And what is that change? What is that change?

JANE BARKER

Well, as I say, I am just telling you what other people have told me. I don't subscribe to the view, but other

people say that there is a change, that NICO has different business objectives from Equitas. Put simply, NICO is way larger than Equitas ever was, but as I say, I am not trying to enter into that debate, I am just trying to say to you even if you do believe there was a change, it has already occurred, it doesn't occur as a result of the Transfer.

DAN SCHWARZMANN

I think, sorry Pete, I think Jane was just saying that it is comments she heard but the question that I am going to keep coming back to today is, without the Part VII and post Part VII, is there a change? And the answer is there is no change in the claims handling.

PETE DOMENICI

The reason I asked that is the written materials that came out with this announcement at the meeting seemed and it didn't really discuss at all that I could gather the run off concept. It basically talked about your ability to present claims is being assessed to see if it is roughly the same as it has been before and after, but it didn't talk about whether you are in a better or worse or different position if, in fact, you are looking at commuting your policies or something like that, and if that is changing at all by virtue of this.

JANE BARKER

I think Equitas used to commute a lot of policies but obviously could only commute with people who wished to commute and each of those different companies would have had all sorts of manner of reasons why they wanted to commute, but you can't commute with somebody unless they want to, it is not something you can force somebody into. We would have observed that gradually, as Equitas became a more mature book of business, there were probably fewer cedants who wished to commute with us, or policyholders who wished to commute with us, and I think that trend continues. The ones who, for whatever reasons of their own, wish to commute in the early days, we have probably commuted with, but there aren't that many now who seem to be as interested as others used to be, but I personally don't think that is as a result of doing the deal with NICO; I think it is just a consequence of the fact that all these policies were written in 1992 and before, so as you can imagine are quite mature. The claims that are coming up are claims that are known about, but I still would say to you, if you are interested in commuting, then you should be in discussions with RMSL and thus with NICO because I don't think they would ever say we won't commute.

DAN SCHWARZMANN

I agree, and sorry to sound like a broken record, Pete, I do apologise for this but your ability to commute today should be the same as your ability to commute post the transfer next month.

JANE BARKER

And could I just make, sorry, one extra small point? If you have, in reading the papers, felt that we were silent on the run off nature of this, I don't think that was done with any malice, in so far as Equitas has always been in run off and perhaps we don't see a need to say that it is still in run off because it has always been, ever since it

was formed in 1996, a company that runs off. We have never sold any more policies, so we have never turned our attention to new business in any way, and indeed we are not authorised to do that incidentally, it wasn't our choice, we were not authorised. But I think if you see an absence of comment on run off, it is just that we take it so much for granted that that is what we are in. It isn't in any way trying to hide the fact we are in run off.

PETE DOMENICI

Ok. Thank you.

DAN SCHWARZMANN

Thank you Pete.

ANDY YU OF FARMERS INSURANCE

We have been talking about the \$1.3 billion in additional security. That is conditional because if the Transfer is not completed before year end then it is not going to happen.

DAN SCHWARZMANN

Correct.

ANDY YU

So my question now is in two parts. First part – what are the chances of it being complete by year end? Second, what if it is not completed until the following year? Will there be additional security?

JANE BARKER

Most kind, thank you. The option that we have to buy the extra 1.3 billion dollars' cover expires in December, in other words when we did the original deal with NICO, they said we will give you an option to purchase this but it is conditional on two things – one, that you get a Part VII Transfer, so if I fail to get a Part VII Transfer, there will be no additional [reinsurance], there is no option; and secondly, they were not prepared to write this option forever, unlimited as to time, and they said by the 31st of December. When we did this deal, we thought that would be plenty of time. I think it is still enough time. It is getting a bit closer, but I still think it is enough time. What are the chances of us getting the Part VII? As things stand currently, I think we have a good chance of getting the Part VII and I say that because, as Gregory mentioned, we haven't yet been faced with any objections that we think are show stoppers. That isn't to say that somebody in this room may not know the showstopper that is going to stop it so I have to wait until we go into Court, but as we stand today, I feel quietly confident that we will be able to get the Part VII. However, if we fail to get the Part VII on a technicality and we can come back into Court in the autumn, what you call the fall, we will try again. In other words, we will try all we can to get this Part VII before the end of December because if we don't get the Part VII by the end of December then we don't have a deal and we don't have the option, and unless I can show the Court that we are replacing whatever you ascribe to the Names' support, the underpin of the Names' assets to this, unless I can replace that with something else, I haven't got a proposition to put before the judge. So if we fail to get it by

the 31st of December, as I stand today, I don't have a back up plan and things will have to stay as they are with Equitas, with its assets, the Names with their assets, but not the extra \$1.3 billion.

Now, can I mention one other thing, and Dan will be able to corroborate this – the board of Equitas, in order to make sure that it is spending its £40 million sensibly has tested the market to see whether it could buy more cover elsewhere, more than the \$1.3 billion. Those of you who are in the active market will know that that turned up nobody who is prepared to sell us more than \$1.3 billion for £40 million or less. You won't be surprised if you are anywhere close to the market, and added to which we have to be very careful about the security of who we buy that cover from. There may be somebody out there who would be prepared to take our £40 million and run away with it and, as you will all be very well aware, NICO may not be quite as strong as it used to be in terms of what the rating agencies think, but nevertheless it is still one of, if not the, strongest insurance/reinsurance companies in the world, so the board took the decision that its best offer was the £40 million for 1.3 billion dollars cover.

DAN SCHWARZMANN

And I can corroborate that. I think Jane answered the question extremely clearly and I just wanted to emphasise one thing which is probably some feedback that I was picking up, not just on the roadshows but generally, and I just want to say that the primary purpose of this Transfer is to get the \$1.3 billion additional cover. That is the benefit for the £40 million (\$60 million). As well as that, the Names' liabilities move over to Newco but the primary purpose is the \$1.3 billion. The other thing that Jane explained but I just want to reiterate for the audience because it is a UK process, the UK Court goes on holiday in the summer for a very long time, far too long. It goes on holiday for the whole of August and for the whole of September and in that period you can only get emergency business through the Court, and this would not be considered to be emergency business, and so for that reason, all efforts are being focused on trying to get this done before the summer holiday, before the summer recess of the Court which is why these roadshows are being held now.

ANDY YU

In my opinion, in my simple mind, the main reason is to get finality for the Names, it is not about \$1.3 billion. The Names want to get out of it.

JANE BARKER

They certainly do.

ANDY YU

That is all there is to it. I think that is the main objective. The \$1.3 billion is just the carrot.

DAN SCHWARZMANN

And it is quite a big carrot.

ANDY YU

[INAUDIBLE]

DAN SCHWARZMANN

Yes, I mean, as Jane said, post December 31st it doesn't happen but, as Jane said, we certainly tested the market on getting \$1.3 billion worth of cover for £40 million and that wasn't available. [PAUSE] Can I just reiterate one point. It is worth reading the independent expert report. It is worth reading the independent expert report on what the independent expert says about the chances of recovery from Names in the event of an Equitas insolvency. You should read that and then compare it to the \$1.3 billion.

SANDRA HART

Thank you. Sandra Hart, North West Natural Gas.

DAN SCHWARZMANN

Yes, hello Sandra.

SANDRA HART

I have sort of an administrative question but there is a rumour running rampant that the claims are being moved from London to Boston. Can you comment on that?

DAN SCHWARZMANN

Shall I take that one?

JANE BARKER

Yes, do.

DAN SCHWARZMANN

I have to say this is not something I had heard in the meetings that we have had on the Part VII Transfer, but I have since understood that this is to be the case for some claims, and I think it is just completely unfortunate that the timing of is at the same time as we are going live with the Part VII, because I can tell you, from everything I have heard, and I am sure Jane will corroborate this, that is pure coincidence. The claims handling is being done by NICO now. It is happening now, it has been happening since 2007 on that basis and, like any organisation who is handling their claims, they are free to look where it is appropriate for them to be handled. I suppose the only thing I would reiterate, if it gives you comfort is it doesn't matter where, from a locality perspective, those claims are handled. At the end of the day, the business is regulated by the FSA and if you did have queries, and I know this for a fact, if you have queries about the claims handling, they certainly can be raised with the FSA.

PETE DOMENICI

I don't want to beat a dead horse but again it seems from a policyholder's standpoint that without this, and I take what you said for what it is worth, that it seems like by replacing the Names with the reinsurance policy, there is an impression, maybe wrongly or rightly, from the policyholders that they can really look at this insurance mechanism differently and they can look at this as an indefinite policy that would protect them for 100 years, perhaps, on an occurrence policy as an example. Whereas when you have Names on these policies, you by practical considerations do not have an indefinite policy. There are some, you know, and you are giving these percentages and these other practical reasons, so I can just tell you from my clients' standpoint the impression was you have a viable indefinite policy that you may really look at differently after this, and after 2007, granted, those two circumstances combined, then pre 2007, where you needed really to look at this as a current value and try to value it and liquidate it, because it is not going to be there when some new liability comes up on 2040 that goes back to 1960, there will be nothing right there, but now there is an appearance that there will be because there is Equitas, there is NICO, there is...

DAN SCHWARZMANN

Pete, can I just make sure I understand the point you are making, and forgive me if I am...

PETE DOMENICI

Yes.

DAN SCHWARZMANN

...are you saying, is this a claims handling point?

PETE DOMENICI

It is a claim, it is valuing the policy as an asset of a policyholder, is the point because there are no Names left.

DAN SCHWARZMANN

And I think what we are trying to do today is, and again, forgive me for doing this, but today and post Transfer, is there a difference? Now, I think you have just said there was a difference in 2007, which is a view you are absolutely entitled to, but I have to keep going back to, for the purpose of today's meeting, what is the difference between today and post the Transfer? And...

JANE BARKER

Could I interrupt you?

DAN SCHWARZMANN

Yes.

JANE BARKER

Apologies. Pete, I think you have got it. I think you are spot on right and I, you know, don't wish to labour the point, but today it is perfectly plausible that there are many of the Names on, say, a 1960s policy, that are still alive, but should you have a claim in 2050, I recognise neither you nor I will be around to see that claim, but nevertheless, should there be a claim on those policies in 2050 and should Equitas be insolvent, Names are frankly long gone, so any policyholder would be chasing after estates of estates of estates, maybe with some success, but I think if you look again at this document (the independent experts report), you would see in that sort of timeframe there would be very little credence given to what success you would have, but if this policy has still got some of the cover left, it is there. There is no chasing after it, so if I have understood what you are saying correctly, I think you have got it spot on right which is why I wanted to just interrupt, because I just felt, you know, we shouldn't be arguing with you.

PETE DOMENICI

Yes, and I was wondering is there any expiration on this policy that you are purchasing? Is there a limit?

JANE BARKER

Only the value.

PETE DOMENICI

But other than that, it is open- ended?

DAN SCHWARZMANN

Time. From a time perspective?

PETE DOMENICI

Yes, time.

JANE BARKER

Yes, and that, you know, I hesitate to say this, and that NICO is still solvent in 2050 or 2070. Please form your own judgment.

PETE DOMENICI

But the policy itself?

JANE BARKER

There is no date on the policy no.

DAN SCHWARMANN

There is no date.

PETE DOMENICI

Ok. All right, thank you.

ANDY YU

What you just said, it really contradicts. You said if Equitas is insolvent, we will be chasing after the Names. That is if there is no Transfer. If there is a Transfer and Equitas is insolvent, that means Newco is already insolvent. That is why Equitas come into play.

JANE BARKER

No, now...

ANDY YU

So using that example, basically it is better to leave the Names because once Equitas goes insolvent, you still have a recourse.

JANE BARKER

No. No, no.

ANDY YU

If Equitas is insolvent with NewCo, NewCo has to go first before Equitas would use their 80 million, right?

JANE BARKER

You are quite right to pick me up but the \$1.3 billion means that Equitas will be insolvent \$1.3 billion later than if we hadn't done the Transfer. You are quite right, I didn't say it right, I accept that, but it is the \$1.3 billion difference. No, I accept, absolutely accept your correction.

ANDY YU

Because there is still a chance, right?

JANE BARKER

Yes, yes. But as I say, it is that \$1.3 billion difference.

ANDY YU

And therein lies confusion.

JANE BARKER

No, no, I have agreed with you, I absolutely agree with you.

ANDY YU

...so it's contingent ...

DAN SCHWARZMANN

I was almost not going to say anything but it is contingent on the Part VII being done and the Names' liabilities only transfer when the Part VII occurs, so when the Names transfer, Jane writes a cheque for £40 million and gets additional cover, so it happens at the same time.

I am sorry to come back on it, I just wanted to make sure we were explaining it properly. Thank you.

DELEGATE

Ok, one final question on that topic. I understand that it is going to provide additional security for the policyholders and I think I understood that this was a condition of National Indemnity that the Part VII take place before they would provide the additional \$1.3 billion, right?

JANE BARKER

At the same time, I think.

DELEGATE

Or at the same time. But what interest does National Indemnity have in removing the Names? Maybe I have missed something. That is not the actual purpose.

JANE BARKER

I don't think they have any interest in whether the Names are removed or not. They have sold a policy currently with a limit and they are prepared for a premium of £40 million to increase the limit.

DELEGATE

I was just curious, why isn't that coverage available without the Part VII Transfer?

JANE BARKER

Because they have said that it is contingent upon us getting the Part VII Transfer, so if you like they have made that a contingent point, as the colleague behind you was saying, it is contingent upon it but we can't have both.

DAN SCHWARZMANN

Thank you. Gentleman at the back.

DOUG DEEMS

Hi, Doug Deems of the Claro Group. Just a couple of questions about the materials that the independent expert relied upon. Is the independent expert going to make those materials available for the policyholders to review in advance of the hearing?

DAN SCHWARZMANN

You have got the independent expert's report. What sort of materials are you after?

DOUG DEEMS

Well, I assume that the independent expert relied on a variety of materials to make his assessment of how this is beneficial to policyholders.

DAN SCHWARZMANN

No, I mean, what is available is available. I think this will help in answering your question and help the audience generally, so I am just going to make this point. The independent expert's duty is to the Court, he is there to protect the policyholders so he is making his assessment and he has written his report and that is available. There will be some supplementary reports that he makes which Greg referred to, but there is going to be no further detail available after that.

DOUG DEEMS

And I admit I have not read the 200 plus page report as yet.

DAN SCHWARZMANN

It is a good read actually.

DOUG DEEMS

But is the methodology included within that report in which the expert goes through the evaluation of how this is more beneficial with respect to the solvency of the Names, for example?

DAN SCHWARZMANN

Indeed it is.

DOUG DEEMS

Ok.

DAN SCHWARZMANN

You should get that from the report.

DOUG DEEMS

And then the final question I have is, are you prepared to make a copy of the script available and maybe the audio presentation available to us for those of us who haven't taken terribly copious notes?

DAN SCHWARZMANN

I think I am going to look at Jane on this one.

JANE BARKER

I have no objection to doing that, if you would be kind enough, those of you who want it, let me have your email addresses afterwards, a business card, we will make sure you get the scripts.

DOUG DEEMS

That is great, thank you.

DAN SCHWARZMANN

Ok, I can just see everybody who has been scribbling down for the last 40 minutes or hour just going, why didn't you ask that question right at the beginning? Ok. Any other questions?

Ok, fantastic. Thank you. Thank you for those questions, really appreciated. It has brought to us that everybody has time to ask all these questions, for us to give the comprehensive answers, because we want to be very clear about the benefits to this transfer. Well, it is for me now to wrap up the meeting and I just want to say on behalf of Jane and Greg and myself, thank you very, very much for taking time to come here today, we have greatly appreciated it, thank you for those questions and if you think of a question now or later that you wished you had asked, then Jane gave all the contact details and we are always available to answer any questions. Thank you. Thank you very much indeed.

JANE BARKER

Thank you.