

## SUMMARY OF THE EQUITAS SCHEME AND INDEPENDENT EXPERT'S REPORT

### PRELIMINARY

#### *Proposed Transfer*

Equitas Limited ("**EL**"), on behalf of the Names, has agreed to transfer to Speyford Limited ("**Newco**") all the business carried on at Lloyd's (other than life business) by the Names and originally allocated to the 1992 year of account or any earlier year of account, excluding any such business re-signed, or reallocated pursuant to a premium transfer, into the 1993 year of account or any later year of account ("**Transferring Business**"), including all the insurance and reinsurance policies comprised in the Transferring Business ("**Transferring Policies**"). Holders of the Transferring Policies are referred to in this document as the "**Transferring Policyholders**".

The "**Names**" are (or were) underwriting members of Lloyd's that have been reinsured to close (directly or indirectly) into Equitas Reinsurance Limited ("**ERL**"), Lioncover Insurance Company Limited ("**Lioncover**") and/or Centrewrite Limited ("**Centrewrite**"). This includes those Names who had previously been reinsured to close by syndicates reinsured to close (directly or indirectly) by ERL, Lioncover and/or Centrewrite and who had no open years of account in respect of their 1992 and prior years' business at the time of Lloyd's Reconstruction and Renewal.

Newco is a wholly-owned subsidiary of Equitas Holdings Limited, which is the parent company of EL.

The liabilities of the Names under the Transferring Policies are wholly reinsured to close (directly or indirectly) by either ERL (under the "**Equitas Reinsurance Contract**"), Lioncover (under the "**PCW Reinsurance Contracts**") or Centrewrite (under the "**Warrilow Reinsurance Contracts**"). Names reinsured by the PCW Reinsurance Contracts are referred to as "**PCW Names**" and Names reinsured by the Warrilow Reinsurance Contracts are referred to as "**Warrilow Names**".

ERL has reinsured Lioncover in respect of all of its liabilities under the PCW Reinsurance Contracts (under the "**Lioncover Reinsurance Contract**") and Centrewrite in respect of all of its liabilities under the Warrilow Reinsurance Contracts (under the "**Centrewrite Reinsurance Contract**").

EL has reinsured ERL in respect of all of its liabilities under the Equitas Reinsurance Contract, Lioncover Reinsurance Contract and Centrewrite Reinsurance Contract. In turn, EL has retroceded these liabilities, subject to an aggregate retroceded limit, to National Indemnity Company ("**National Indemnity**").

It is proposed that the Transferring Business, including the Transferring Policies, will be formally transferred from the Names to Newco by way of a scheme (the "**Scheme**") pursuant to Part VII of the Financial Services and Markets Act 2000 ("**FSMA**"), which requires the appointment of an independent expert to report on the effect of the Scheme on the persons who may be affected by it and the sanction of the Scheme by the High Court of Justice in England and Wales.

The principal outwards reinsurance arrangements, including the reinsurances provided by ERL and EL and the retrocession provided by National Indemnity, will continue to apply to the Transferring Business following the transfer. The only material difference to these arrangements

is that an additional US \$1.3 billion of retrocession cover will be purchased by EL from National Indemnity for a premium of £40m when the transfer becomes effective, provided the transfer is approved by the Court on or prior to 31 December 2009.

Resolute Management Services Limited ("**RMSL**"), formerly known as Equitas Management Services Limited, currently provides operational functions, including claims management, in relation to the Transferring Business and will continue to do so following the transfer. RMSL has stated that it does not intend to make any material changes to the way in which it conducts these functions by reason only of the transfer.

### ***Outwards Reinsurance Contracts***

The Equitas Reinsurance Contract, PCW Reinsurance Contracts and Warrilow Reinsurance Contracts are the principal outwards reinsurance contracts that cover the Transferring Business. It is proposed that the rights and obligations of the Names as reinsureds under these contracts will transfer under the Scheme. Certain rights and obligations of the Names that are not wholly related to the ongoing reinsurance obligations, for example the historic obligation to pay the initial premium and any right to a return premium under the Equitas Reinsurance Contract, will not transfer under the Scheme and will remain with the Names. In addition, certain amendments will be made to the contracts to reflect that the Transferring Business will be transferring from individuals (the Names) to a company (Newco).

The benefit of essentially all third party outwards reinsurance contracts covering the Transferring Policies (other than the Equitas Reinsurance Contract, PCW Reinsurance Contracts, Warrilow Reinsurance Contracts and any inter-syndicate reinsurances) ("**Syndicate Reinsurance Contracts**") has already been assigned to ERL, Lioncover or Centrewrite. It is proposed that any residual interest that the Names may have under these contracts will be transferred to Newco under the Scheme.

### ***Lioncover***

It is proposed to simplify the reinsurance structure relating to Lioncover to reduce administrative time and costs by removing Lioncover from the reinsurance chain. EL and ERL have agreed to this request from Lloyd's on the basis that Transferring Policyholders of the PCW Names must not be economically disadvantaged by it. It is therefore proposed that, under the Scheme, immediately following the transfer to Newco of the rights and obligations of the PCW Names under the PCW Reinsurance Contracts, Lioncover's rights and obligations as reinsured under the Lioncover Reinsurance Contract will transfer to Newco (so that Newco will become directly reinsured by ERL in respect of the business covered by the PCW Reinsurance Contracts) and the PCW Reinsurance Contracts will terminate.

When Lioncover was authorised as an insurer in 1987, Lloyd's executed a bond in favour of Lioncover pursuant to which it has agreed to provide certain financial support to ensure that, in effect, Lioncover is able to meet its liabilities as they fall due. As Transferring Policyholders of the PCW Names that are reinsured to close by Lioncover will cease to benefit from this support upon termination of the PCW Reinsurance Contracts, Lloyd's will undertake, on the terms of a substitute undertaking, to pay the claims of these policyholders following the transfer in the event that Newco fails to meet its liabilities in respect of the Transferring Policies of the PCW Names.

Lloyd's will give this undertaking to Equitas Policyholders Trustee Limited ("**EPTL**"), who will hold the rights for the benefit of the relevant policyholders on trust.

PCW Names who accepted the 1987 PCW settlement offer have the benefit of an undertaking from Lloyd's that they will not be called upon to pay or provide further monies towards liabilities or losses incurred as members of PCW Syndicates. This undertaking will remain in place following the transfer.

#### ***Equitas Policyholders Trustee Limited***

The Names have assigned their rights as reinsureds under the Equitas Reinsurance Contract to EPTL who holds these rights for the benefit of the Transferring Policyholders on the terms of a trust deed (the "**EPTL Trust Declaration**"). These arrangements will remain in place following the transfer. Under the Scheme, the transfer of the rights to Newco will be subject to the assignment in favour of EPTL and the EPTL Trust Declaration will be varied to reflect the transfer of the Transferring Business from the Names to Newco.

When Centrewrite was authorised as an insurer in 1991, Lloyd's executed a bond in favour of Centrewrite on substantially similar terms as the bond that it executed in favour of Lioncover. Although the Centrewrite bond will remain in place following the transfer, unless appropriate steps are taken the indirect security that it provides to Transferring Policyholders of the Warrilow Names that are reinsured to close by Centrewrite will be diluted as a result of a difference between the application of insurance insolvency legislation to companies (such as Newco) and to individuals (such as the Names). In order to maintain the current position and prevent such dilution, upon the Scheme taking effect Newco will assign its rights as reinsured under the Warrilow Reinsurance Contracts to EPTL, who will hold the rights for the benefit of these policyholders on the terms of a trust deed.

#### ***Other Lloyd's Guarantees***

In the case of certain Names who were unable to meet their underwriting liabilities ("**Assisted Names**"), Lloyd's entered into agreements to discharge their liabilities under relevant Transferring Policies. For as long as such agreements are in force, Assisted Names are able to call on Lloyd's to meet their share of liabilities under a Transferring Policy if ERL fails to meet its liabilities.

In order to ensure that the Transferring Policyholders of the Assisted Names do not lose the indirect benefit of these agreements as a result of the transfer, Lloyd's will undertake, on the terms of a deed poll, to pay the Assisted Names' proportion of the claims of such policyholders following the transfer if Newco fails to meet its liabilities in respect of the Transferring Policies of Assisted Names.

#### ***Independent Expert***

Mr Allan Kaufman of Navigant Consulting, a Fellow of the Casualty Actuarial Society and an Honorary Fellow of the Institute of Actuaries, has been appointed as the independent expert (the "**Independent Expert**") to provide a report (the "**Report**") on the effects of the Scheme on, amongst others, the Transferring Policyholders. The Financial Services Authority ("**FSA**") has approved Mr Kaufman's appointment.

### ***Purpose of this document***

The purpose of this document is to summarise the principal terms of the Scheme and the conclusions of Mr Kaufman in the Report.

Part A of this document summarises the terms of the Scheme and Part B of this document summarises the Report.

Copies of the full Report and this document can be viewed on [www.equitas.co.uk](http://www.equitas.co.uk) and [www.lloyds.com](http://www.lloyds.com) and will be made available free of charge to anyone requesting such copies by contacting PricewaterhouseCoopers LLP in writing at Plumtree Court, London, EC4A 4HT, United Kingdom (for the attention of Deirdre Won), by telephone on +44 (0) 20 7213 5125 or by email to [info@equitas.co.uk](mailto:info@equitas.co.uk) until the date on which the Scheme will be presented before the Court, which is expected to be on or about 24 June 2009.

## **PART A - SUMMARY OF THE SCHEME**

### **1. Introduction**

The proposed transfer of the Transferring Business will become effective if the Court makes an order sanctioning the Scheme. It is proposed that the effective date of the Scheme will be 30 June 2009 (the "**Effective Date**").

### **2. Transfer of Transferring Policies**

On the Effective Date, the liabilities of the Names under the Transferring Policies will transfer to Newco, becoming liabilities of Newco, and will cease to be liabilities of the Names.

At the same time, the rights of the Names under the Transferring Policies, and their rights and claims against any third party in relation to the Transferring Policies, will transfer to Newco.

Every Transferring Policyholder will, on and from the Effective Date and to the exclusion of any rights he may have against the Names under any Transferring Policy, be entitled to the same rights against Newco as were available to him against the Names under the Transferring Policies.

### **3. Outwards Reinsurance Contracts**

#### **3.1 *Syndicate Reinsurance Contracts***

From the Effective Date, Newco will be entitled to any residual interest the Names may have left in the Syndicate Reinsurance Contracts, which will continue to operate and cover the Transferring Policies in the same way and to the same extent after the Effective Date as prior to the Effective Date and, in particular, no additional set-off rights or obligations will be created (or any lost) purely by virtue of the transfer of the Transferring Business into one entity.

### 3.2 *Equitas Reinsurance Contract*

On the Effective Date, the interest of the Names as reinsureds and certain outstanding liabilities of the Names as reinsureds, under the Equitas Reinsurance Contract, will transfer to Newco. The interest of the Names as reinsureds under the Equitas Reinsurance Contract will transfer subject to the previous assignment in favour of EPTL.

Certain provisions of the Equitas Reinsurance Contract will continue to apply to the Names as well as Newco following the Effective Date, for example the provisions in relation to the delegation to ERL of the run-off of the Transferring Business and confidentiality.

The provisions that apply to Newco will be amended as appropriate to reflect that Newco is a company whereas the Names are individuals.

Certain provisions of the Equitas Reinsurance Contract will continue to apply to Names following the Effective Date and will not transfer to Newco as they are not relevant to (or necessary for) the assumption by Newco of the Transferring Business or the continuing reinsurance cover provided by ERL. For example the historic obligation of the Names to pay the initial premium and any right of the Names to receive a return premium will not transfer to Newco.

### 3.3 *PCW Reinsurance Contracts and Lioncover Reinsurance Contract*

In order to transfer the benefit of the Lioncover reinsurance arrangements to Newco and give effect to the proposal to remove Lioncover from the reinsurance chain, on the Effective Date:

- (a) The rights of the PCW Names as reinsureds and the outstanding liabilities of the PCW Names as reinsureds under the PCW Reinsurance Contracts will transfer to Newco.
- (b) Immediately following such transfer, the rights of Lioncover as reinsured and certain outstanding liabilities of Lioncover as reinsured under the Lioncover Reinsurance Contract will transfer to Newco. Certain provisions of the Lioncover Reinsurance Contract will continue to apply to Lioncover and will not transfer to Newco as they are not relevant to, or necessary for, the assumption by Newco of the Transferring Business, for example the warranties given by Lioncover to ERL as to information supplied by Lioncover at inception of the contract. Certain provisions of the Lioncover Reinsurance Contract will continue to apply to PCW Names as well as Newco, for example the interpretative provisions. The Lioncover Reinsurance Contract will be amended as appropriate to reflect that the Transferring Business is transferring from the Names to Newco.
- (c) Immediately following the transfer and amendment of the Lioncover Reinsurance Contract, the PCW Reinsurance Contracts will terminate, each party thereto will be released from all liabilities thereunder and, to the extent reinsurance claims thereunder have not been paid, all such outstanding claims will be deemed to become reinsurance claims under the Lioncover Reinsurance Contract.

3.4 ***Warrilow Reinsurance Contracts and Centrewrite Reinsurance Contract***

On the Effective Date, the rights of the Warrilow Names as reinsureds and the outstanding liabilities of the Warrilow Names as reinsureds under the Warrilow Reinsurance Contracts will transfer to Newco.

Although Centrewrite will remain in the reinsurance chain, on the Effective Date the rights of the Warrilow Names under the provision of the Centrewrite Reinsurance Contract relating to receipt of annual reports and accounts will transfer to Newco. Certain provisions of the Centrewrite Reinsurance Contract will continue to apply to Warrilow Names as well as Newco, for example the interpretative provisions. The Centrewrite Reinsurance Contract will be amended as appropriate to reflect that the Transferring Business is transferring from the Names to Newco.

4. **Continuity of Proceedings**

From the Effective Date, any judicial, quasi-judicial, administrative or arbitration proceedings which are pending by or against any of the Names in connection with the Transferring Business will be continued by or against Newco and Newco will be entitled to all defences, claims, counterclaims and rights of set-off that would have been available to the Names and the Names will have no liability under those proceedings.

5. **Indemnity in favour of Names**

Newco will discharge on behalf of the Names or, failing that, indemnify the Names from the Effective Date against all liabilities under the Transferring Policies and, to the extent the same would be recoverable by the Names under the Equitas Reinsurance Contract, PCW Reinsurance Contracts or Warrilow Reinsurance Contracts but for the Scheme, any other liability or expense incurred in connection with the Transferring Business.

Any payment made on behalf of, or to, the Names pursuant to such indemnity will, to the extent it relates to a risk that has been ceded to a third party under an outwards reinsurance contract (including the Equitas Reinsurance Contract, Lioncover Reinsurance Contract, Warrilow Reinsurance Contracts and Syndicate Reinsurance Contracts), be deemed to be a payment by Newco for the purposes of the outwards reinsurance contract and will give rise to a claim thereunder.

6. **EPTL Trust Declaration**

On the Effective Date, the EPTL Trust Declaration will be varied to reflect that the Transferring Business is transferring from the Names to Newco.

7. **Costs and Expenses**

EL will bear the costs and expenses incurred by it in the preparation and carrying into effect of the Scheme. Unless otherwise ordered by the Court, costs of the Court proceedings in relation to the sanction of the Scheme, the Independent Expert and any other third party that are incurred by EL will also be borne by EL. No such costs will be borne by Transferring Policyholders.

## **PART B - THE REPORT**

### **8. Introduction**

This is a summary of the Report dated 8 April 2009 that the Independent Expert has prepared on the terms of the Scheme, having been appointed by EL and approved by the FSA to act as the independent expert. The Independent Expert is a Fellow of the Casualty Actuarial Society and an Honorary Fellow of the Institute of Actuaries and is a Managing Director of Navigant Consulting. The Independent Expert has no shareholding, investment or any other financial connection with EL (or any other company that is an affiliate of EL), National Indemnity or Newco.

The Report has been prepared in accordance with section 109 of FSMA and its scope and form have been approved by the FSA. The Report describes the proposed transfer of the Transferring Business under the Scheme and discusses the possible effects on, amongst others, Transferring Policyholders, including effects on security and levels of service.

The Independent Expert has approved this summary of the Report for insertion in this document. The Independent Expert considers this summary sufficient to convey the general nature of his review and his conclusions on the terms and effect of the Scheme. Any person wishing to understand the analysis that has led to these conclusions should refer to the full Report.

This summary is subject to the same limitations on its use as are set out in the Report. In the event of any conflict of interpretation between this summary and the Report, the interpretation contained in the Report will prevail.

The Independent Expert intends to issue a supplemental report in respect of certain matters that arise or develop after the date of the Report and prior to the date on which the Scheme is presented to the Court. The supplemental report will be made available on [www.equitas.co.uk](http://www.equitas.co.uk) and [www.lloyds.com](http://www.lloyds.com) or on request using the contact details set out in Part A of this document.

### **9. The Scheme**

The description of the Scheme set out in Part A of this document is consistent with the Independent Expert's understanding of the Scheme.

### **10. Information**

The Independent Expert considers that he has been provided with access to sufficient information and has had sufficient discussions with the relevant members of EL's staff to understand the proposals under the Scheme and to assess the potential impact on Transferring Policyholders. The Independent Expert has also relied on legal advice when considered necessary.

### **11. Newco existing Policyholders**

Newco is a newly incorporated company and currently has no policyholders.

The Independent Expert has performed his work and analysis under the assumption that Newco will be a UK authorised insurance and reinsurance company before the transfer takes effect. The only business that Newco will be authorised to insure/reinsure is the Transferring Business and therefore following the transfer Newco's only policyholders will be the Transferring Policyholders.

## 12. **Transferring Policyholders**

In assessing the likely effect of the Scheme on the Transferring Policyholders, the main risk to consider is whether the Transferring Policyholders are materially disadvantaged by the transfer in respect of financial resources that will be available to them following the transfer.

The Independent Expert begins his assessment by considering the extent to which assets are likely to be sufficient to pay all claims in full in the unlikely event of an insolvency of any member of the Equitas group of companies (including Newco) (an "**Equitas Insolvency**") (before consideration of potential recoveries from Names in the absence of the transfer).

This assessment involved considering the adequacy of the capital in the Equitas group of companies as well as the National Indemnity retrocession cover under both the current structure and the structure following the transfer. The assessment was undertaken by reference to an actuarial "Liability Model" and a "Coverage Model". These models have shown that without any reference to any recoveries from Names, the probability that liabilities can be paid in full following the Transfer is 96.9%, compared to 95.5% in the current structure. This means that there is a 3.1% risk of an Equitas Insolvency following the transfer compared to a 4.5% risk in the current structure, which represents a reduction in the risk of an Equitas Insolvency of approximately 30%.

The risk of an Equitas Insolvency is reduced as a result of the transfer because the Transferring Policyholders will have the benefit of an additional \$1.3bn of retrocession cover from National Indemnity. However, as a matter of English law following the transfer the Transferring Policyholders will no longer have any claim against Names, including if there is an Equitas Insolvency. The Independent Expert therefore considered the current potential for recoveries from Names in the event of an Equitas Insolvency. His analysis shows that a reasonable recovery rate from Names for the average Transferring Policyholder is no more than approximately 20% of any shortfall if there were an Equitas Insolvency. Subject to the assumptions set out in detail in the Report, the Independent Expert's view is that no Transferring Policyholder group can reasonably expect a recovery rate of more than 30%.

Other matters that potentially affect Transferring Policyholders and which need to be considered in the light of the Scheme are:

- Claims handling – RMSL currently handles claims and will continue to do so following the transfer.
- Credit for reinsurance – US cedants should be able to continue to take credit for reinsurance recoverable under the structure following the transfer.



- Regulation – this remains largely unchanged, except that Names will not have a role in the structure following the transfer and Newco will be a newly authorised and regulated entity.

The Independent Expert does not believe that Transferring Policyholders will be disadvantaged as a result of the transfer with respect to these matters.

The Scheme is drafted, and certain ancillary arrangements have been made, so that the following will remain unaltered from the perspective of the Transferring Policyholders in the event of an Equitas Insolvency:

- Set-off.
- Access to overseas trust funds (in the US, Canada, South Africa and Australia).
- The protection afforded by Lloyd's bonds and undertakings relating to certain Names' liabilities in respect of the Transferring Business.
- Priority of payment between direct and reinsurance Transferring Policyholders.

The Independent Expert has considered the risk of a National Indemnity insolvency. This risk already exists under the current structure. The transfer involves a marginal increase in the size of that risk (due to the increased exposure to National Indemnity as a result of the additional \$1.3bn retrocession cover), although, in the event of the transfer, Transferring Policyholders would no longer have the right to seek recovery from Names for any shortfall in retrocession cover.

At the date of the Report, National Indemnity had the highest "Insurer Financial Strength" ratings available for a reinsurer and the Independent Expert's review of publicly available information had revealed nothing inconsistent with those ratings. The Berkshire Hathaway group (of which National Indemnity is a part) has had changes in ratings in March 2009 and April 2009, but the changes are modest compared to the changes in ratings for other financial institutions. Moreover, although the National Indemnity Insurer Financial Strength rating from Moody's Investors Service fell from the highest to the second highest available rating in April 2009 (after the date of the Report), National Indemnity's ratings remain very high.

The Independent Expert has concluded that the increase in exposure of National Indemnity due to the extra reinsurance cover provided, will not have a material effect on National Indemnity's ability to meet its obligations to EL or its other policyholders.

**13. Transferring Business - Remaining policyholders**

Unless the Court orders otherwise, all of the Transferring Policies will transfer to Newco under the Scheme.

**14. Third Party Outwards Reinsurers**

The Scheme provides for the continuation of the existing third party outwards reinsurance arrangements. RMSL currently handles reinsurance aspects of the Transferring Business and will continue to do so following the transfer.

The Independent Expert has concluded that third party outwards reinsurers will not be disadvantaged as a result of the transfer.

15. **Conclusion**

The Independent Expert has considered the Scheme and its likely effect on Transferring Policyholders.

The Independent Expert has analysed the likely effect of replacing the current structure, including the security offered by the current level of retrocession cover provided by National Indemnity and the unlimited liability of Names, with the structure following the transfer, including the additional \$1.3bn of retrocession cover provided by National Indemnity and the limited liability of Newco.

The Independent Expert has analysed the other changes in the structure associated with the Scheme.

The Independent Expert has examined the position of all Transferring Policyholders combined and has also considered the position of each relevant group of Transferring Policyholders separately.

Subject to the findings in any supplemental report, the Independent Expert has concluded that there are no groups of Transferring Policyholders that are materially disadvantaged as a result of the Scheme.

22 April 2009