OIC Run-Off Limited and The London and Overseas Insurance Company Limited

Dan Yoram Schwarzmann
Fourth Witness Statement
Exhibits DYS4 1 to 15

Made 23 September 2015

Claim Nos 5812 and 5813 of 2014

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

COMPANIES COURT

IN THE MATTER OF OIC RUN-OFF LIMITED

AND IN THE MATTER OF THE LONDON AND OVERSEAS INSURANCE COMPANY LIMITED

AND IN THE MATTER OF THE COMPANIES ACT 2006, PART 26

EXHIBIT DYS4 7

This is the exhibit marked "DYS4 7" referred to in the fourth witness statement of Dan Yoram Schwarzmann dated this 23 September 2015

OIC Run-Off Limited

and

The London and Overseas Insurance Company Limited

Amending Scheme of Arrangement

Report of Vote Assessor ("Report")

Colin J W Czapiewski FIA
17th September 2015

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Report

1. The Parties

1.1 The Scheme Companies

OIC Run-Off Limited, (formerly Ralli Brothers Insurance Company Limited and The Orion Insurance Company plc) ("OIC"), and The London and Overseas Insurance Company Limited, (formerly Hull Underwriters' Association Limited and The London and Overseas Insurance Company plc) ("L&O"), are currently both subject to a scheme of arrangement. This is known as the Original Scheme.

OIC and L&O are collectively referred to in this Report as the "Scheme Companies".

1.2 The Vote Assessor

Colin Jan William Czapiewski of Bayeux, Benenden, Kent TN17 4AS, is referred to in this Report as the "Vote Assessor".

2. Introduction

2.1 Appointment

I, Colin J W Czapiewski, have been appointed by the Court, in accordance with the Amending Scheme, to act as the independent Vote Assessor for the purpose of reviewing the values placed on certain selected claims, for voting purposes, at the meetings of potential Scheme Creditors ("Scheme Creditors") held on 11th December 2014 to vote on the Amending Scheme of Arrangement proposed by the Scheme Companies pursuant to the Companies Act 2006 (the "Amending Scheme").

A copy of the agreement for me to act as the independent Vote Assessor is attached as Appendix 1 of this Report.

2.2 Instructions

I am instructed by the Court to review the value of all claims that the Chairman of the Amending Scheme Meetings ("Chairman") has passed to me, and to prepare a Report on the reasonableness of those valuations.

I have relied on the Chairman to provide me with files in respect of the population of votes selected.

I do not know the identity of the individual Scheme Creditors whose votes I have reviewed, or whether the individual Scheme Creditors voted for or against the Amending Scheme. The Chairman and I have ensured that I do not have access to such information, see Section 2.6 of this Report regarding independence.

I understand that voting for the Amending Scheme took place in 3 classes of Scheme Creditor.

2.2.1. Policyholders (other than Qualifying ILU Policyholders) with IBNR Liabilities and Notified Outstanding Liabilities.

The amounts in respect of the above are referred to in this Report as "GSC OS & IBNR".

2.2.2. Policyholders (other than Qualifying ILU Policyholders) with Scheme Liabilities (other than IBNR Liabilities and Notified Outstanding Liabilities), plus Dual Scheme Creditors and Ordinary Creditors.

The amounts in respect of the above are referred to in this Report as "GSC Agreeds".

2.2.3. Qualifying ILU Policyholders.

The amounts in respect of the above are referred to in this Report as "QSC".

2.3 Curriculum Vitae

A copy of my curriculum vitae is contained in Appendix H of the Amending Explanatory Statement prepared in connection with the Amending Scheme (the "Amending Scheme Document").

I have had more than 35 years of actuarial general insurance experience including substantial experience in relation to asbestos, environmental pollution, health hazard and other latent ("APH") claims as defined in section 15.3 on page 28 of the Amending Explanatory Statement within the Amending Scheme Document, which account for the vast majority of the reserves of the Scheme Companies.

2.4 Terms in Report

Terms used in this Report shall bear the same meanings as those given to them in the Amending Scheme Document, unless the context requires otherwise.

2.5 Purpose of Report

I understand that the purpose of my Report is primarily to assist the Court in assessing the reasonableness of the amounts for which votes have been proposed to be admitted by the Chairman at the Amending Scheme Meetings (the "Meetings") for the purposes of voting.

In order to prepare this Report, I reviewed all of the documents passed to me, I asked questions of the Scheme Actuarial Adviser for clarification purposes and I assessed whether the values proposed to be admitted by the Chairman for the votes of the Scheme Creditors were reasonable.

2.6 Independence

I did not attend the Meetings although I offered to make myself available by telephone in case I was required to answer any questions or to respond to any comments made during the Meetings. In the event, my assistance was not required during the Meetings.

I was appointed as the Vote Assessor, and instructed, prior to the Meetings. After the Meetings, in accordance with the Amending Scheme Document, I was informed that I would be required to produce a Report and assess the reasonableness of the values proposed to be admitted by the Chairman for certain votes. Soon after that, I received information in respect of the voting in tranches, and this is described in detail within this Report.

2.7 **Conditions and qualifications**

There is no specific guidance issued by the actuarial profession in the UK which governs the work that I have performed in relation to the Amending Scheme.

However, the Financial Reporting Council ("FRC") oversees the use of Technical Actuarial Standards ("TAS") by actuaries. The FRC requires actuaries to comply with the TAS for various types of actuarial work. I believe that this Report has been prepared in accordance with guidance provided by the Faculty and Institute of Actuaries, where appropriate.

This particularly includes guidance issued in relation to:

a) the production of reports in general insurance, known as TAS-R,

b) the data, known as TAS-D, and

c) modelling, known as TAS-M.

I have applied the principles of proportionality to the extent that I considered them relevant in the context of the Report when considering the materiality of the underlying issues involved.

I have relied on the information as provided to me by the Chairman without any checks or other means to verify the accuracy of the data. Nonetheless, I have made certain observations about the data to assess its reasonableness.

The Amending Scheme inevitably involves the estimation of claims amounts that have not yet been settled, and so the valuations of such claims, whether in the voting process or in the Amending Scheme itself, are subject to a degree of uncertainty. Where appropriate, I consider that the amounts that I have suggested are consistent with the Estimation Guidelines of the Amending Scheme and are based upon a best estimate approach to valuation as described in Section 3.2 below, and discussed in Appendix 2 of this Report, including allowance for the time value of money as set out in the Amending Scheme. I recognise that estimates established for voting purposes are not binding upon the Scheme Creditor or the Scheme Companies.

Should the Amending Scheme proceed, all claims will be subject to the process of agreement and, where necessary, independent adjudication as described in the Amending Scheme Document. This process may result in different valuations from those contained within this Report.

It is important that there is consistency in the manner in which the Scheme Creditors' votes have been valued, and I have considered this carefully when performing my role as independent Vote Assessor.

It is possible that parts of this Report, if used in isolation, may be misleading, and the Report should always be used in its entirety.

2.8 **Information provided and approach**

I received details of the amounts proposed to be admitted by the Chairman in respect of 34 selected Scheme Creditors. Substantial efforts were made to ensure that I was unaware of the identity of the Scheme Creditors, and whether they had voted for or against the Amending Scheme.

These details were accompanied by a letter to the Chairman. This letter included information from the Scheme Actuarial Adviser, setting out details of relevant issues relating to the Chairman's projection and allocation methodologies, plus a copy of the Estimation Guidelines, set out in Appendix 2 of the Amending Scheme Document.

The amounts of the total claims made by each of the 34 Scheme Creditors, and the assessment of each of those claims made by the Chairman, for voting purposes only, were provided to me.

I understand that such amounts were calculated in accordance with the Estimation Guidelines within the Amending Scheme Document, where appropriate.

In addition, a commentary prepared by the Scheme Actuarial Adviser regarding the valuation methodology was provided in each case where I was asked to review the amount in respect of the vote.

As it was impractical to do so, I did not reproduce or check all of the calculations, although I assessed the calculation of the amounts that the Chairman proposed to admit for reasonableness.

I also asked for clarification of several issues related to claims estimation. These relate to issues including asbestos premises claims and aspects of claims allocation.

I considered, as appropriate, the legal advice obtained by the Chairman, relating to a number of the 34 Scheme Creditors. Given my knowledge, experience and expertise, I assessed this advice as being reasonable, and I sought clarification from the Chairman where I deemed it to be necessary. I determined that the legal advice that I was passed was reasonable for my purposes, given my knowledge, experience and expertise. I therefore decided that I did not need to obtain any further, independent, legal advice.

In April 2015, the Chairman sent a letter to each of the 34 Scheme Creditors setting out, in each case, the Chairman's initial valuation of the Scheme Creditor's vote, and requesting further information from the relevant Scheme Creditor in support of its vote value. 12 of the 34 Scheme Creditors responded. I used this correspondence, and accompanying information, both from the Scheme Creditors and from the Chairman, in my assessment of the reasonableness of the amounts for voting purposes.

In June 2015, the Chairman requested 10 of the above 12 Scheme Creditors to provide further specific information. This data was received by 22 June 2015. I used this correspondence, and accompanying information, both from the

Scheme Creditors and from the Chairman, in my assessment of the reasonableness of the amounts for voting purposes.

2.9 **Discussions and requests for further information**

I had telephone conversations and email correspondence with representatives of the Chairman about the content of the information provided.

I specifically requested details from the Chairman of the ground up ultimate loss amounts for all Scheme Creditors, where appropriate, that would trigger the policies of the Scheme Companies.

I reviewed the models as used by the Chairman, including his assumptions.

To ensure that I could assess the quantum of liabilities independently, I tested the effects of my own assumptions on each of these claims, and where I deemed it to be appropriate, I produced my own versions of vote valuation amounts that I felt were reasonable.

In some cases, I tested my own assumptions but concluded that the assumptions of the Chairman were equally reasonable.

My reviews in some cases gave rise to amounts that were higher or lower than the estimates of the Chairman.

3. Estimation Guidelines

3.1 Definition

The Voting Forms used by Scheme Creditors to submit their claims for voting purposes requested Scheme Creditors to provide information supporting those claims in accordance with the Estimation Guidelines.

The Estimation Guidelines are at Appendix 2 of the Amending Scheme Document and set out the claim estimation techniques that are generally accepted within the insurance and reinsurance market. I understand that the Estimation Guidelines will be formally applied to the calculations of claims values after the New Effective Date, but in my opinion the Estimation Guidelines reflect market practice. Hence they are of assistance to Scheme Creditors in developing their estimation of amounts in respect of both votes and claims for the purposes of the Amending Scheme.

My opinion is that these techniques should be well known to Scheme Creditors submitting claims under the Amending Scheme. In essence, they are designed to require Scheme Creditors to show that their claims are valid, properly calculated and fall within the policies of insurance of the Scheme Companies that were triggered by the claims. Scheme Creditors are permitted, within the Amending Scheme, to adopt other approaches and methods where these can be shown to be reasonable, as discussed below.

The supporting evidence that should be provided by Scheme Creditors submitting claims in accordance with the Estimation Guidelines is set out at Appendix 2 of the Amending Scheme Document.

3.2 Alternatives

The Amending Scheme Document and the Short Form Explanatory Statement state that the Scheme Companies will adopt the Estimation Guidelines in valuing claims including amounts for voting purposes.

However, the Estimation Guidelines also state that Scheme Creditors are not precluded from using other projection techniques where they consider these techniques to be appropriate, provided that such techniques are shown to be robust and that they use assumptions that can reasonably be justified by the Scheme Creditor.

For the purposes of this Report, I have considered a vote value to be reasonable if, based on the information made available to me (as to which see paragraph 4 of this Report), and in accordance with my assumptions, the valuation constitutes the "Best Estimate" of the likely future claim payments that would be made by the Scheme Companies in respect of the relevant claims.

"Best Estimate" for these purposes has the meaning given to that term in the Definitions at Appendix 1 of the Amending Scheme Document; that is: "an

estimate that is intended to represent the mean of the distribution of possible outcomes".

This is discussed further in Appendix 2 of this Report.

3.3 **Source of information**

I had no direct correspondence with the Scheme Creditors and relied solely on the information provided to me by the Chairman and that provided to him by the Scheme Creditors in support of their claims.

I was unable to verify any of this information independently, and in each case, I was not informed of the identity of the Scheme Creditor or whether its vote had been cast for or against the Amending Scheme.

4. Detailed Information Provided

4.1 Files provided

The Chairman provided me with files in respect of 34 of the Scheme Creditors who voted on the Amending Scheme.

4.2 Content of Files

The identity of the Scheme Creditor was redacted for all of the information provided to me. Similarly, details of whether the Scheme Creditor had voted for or against the Amending Scheme were also excluded.

In relation to each of the 34 Scheme Creditors, I reviewed, as a minimum, the following information:

4.2.1 The value of claims submitted for voting purposes by the Scheme Creditor.

4.2.2 A copy of the Voting Form.

4.2.3 Any other supporting documentation supplied by the Scheme Creditor with its Voting Form, any relevant correspondence between the Chairman (and his advisers) and the Scheme Creditor in relation to that documentation, and information which I requested the Chairman to obtain from the Scheme Creditor or from the Scheme Companies' own records.

4.2.4 The analysis by the Chairman of the claims submitted by the Scheme Creditors for voting purposes together with his conclusions.

5. Process for assessment

5.1 What was reviewed

Using the information provided, I was asked to review the value of the claims submitted by the Scheme Creditors for voting purposes and to report on the reasonableness of the values at which the Chairman proposed to admit such claims.

For this purpose, the outstanding and IBNR claims of the Scheme Creditors against the Scheme Companies were considered gross of any set off and reinsurance of the Scheme Companies by the Scheme Creditors.

In order to arrive at my opinion of the valuation by the Chairman, I undertook the following steps in relation to each claim:

5.1.1 I reviewed the Voting Form.

5.1.2 I reviewed the information provided by the relevant Scheme Creditor in support of that Scheme Creditor's values.

5.1.3 I reviewed the valuation that the Chairman proposed to admit, and the commentary provided by the Chairman.

5.1.4 I reviewed the information and calculations provided by the Chairman in support of his initial valuation.

5.2 Presentation of results

My comments in respect of each of the claims that I reviewed for voting purposes are set out in Section 6 of this Report, and a summary of the total amounts is set out in Section 7 of this Report.

5.3 Overview of results

5.3.1 I was passed the files in respect of 34 Scheme Creditors.

5.3.2 Some of these 34 Scheme Creditors had claims arising from Qualifying ILU Policies only, some of them had claims arising from policies other than Qualifying ILU Policies and some of them had claims under both types of policy (i.e. Qualifying ILU Policies and policies other than Qualifying ILU Policies).

5.3.3 Details of my findings in respect of these 34 Scheme Creditors are set out in Section 6 of this Report.

6. **Results**

6.1 **Votes in respect of Outstanding and IBNR claims arising from policies other than Qualifying ILU Policies**

33 of the 34 Scheme Creditors (whose votes I was asked to review) had votes in respect of Outstanding and IBNR claims arising from policies other than Qualifying ILU Policies.

A summary of the amounts in respect of those Outstanding and IBNR claims submitted by the 33 Scheme Creditors and proposed to be admitted by the Chairman, including my assessments, is as follows:

GSC O/S + IBNR					
Creditor reference	Vote value submitted by Scheme Creditor	Vote value proposed to be admitted by the Chairman	Difference from Scheme Creditor	Vote Assessor Value	Difference from Chairman
A1	2,859,500	0	(2,859,500)	0	0
A2	6,763,500	0	(6,763,500)	0	0
A3	12,124,299	2,438,403	(9,685,896)	2,438,403	0
A4	6,844,672	4,968,719	(1,875,953)	4,968,719	0
A5	13,554,387	6,056,298	(7,498,089)	5,708,066	(348,232)
A6	1,015,900	20,079	(995,821)	20,079	0
A7	701,654	0	(701,654)	0	0
A8	2,234,325	102,158	(2,132,167)	102,158	0
A9	5,826,577	1,596	(5,824,981)	1,596	0
A10	3,042,600	1,830,199	(1,212,401)	1,830,199	0
A11	9,351,472	1,514,385	(7,837,087)	1,514,385	0
A12	6,757,194	0	(6,757,194)	0	0
A13	3,695,061	2,876,839	(818,222)	2,966,516	89,677
A14	1,704,434	1,704,434	(0)	1,704,434	0
A15	6,640,970	2,460,845	(4,180,125)	2,948,688	487,843
A16	17,935,342	981,912	(16,953,430)	981,912	0
A17	6,184,628	213,504	(5,971,124)	230,528	17,024
A18	7,910,109	9,362,271	1,452,162	9,561,785	199,514
A19	2,436,883	0	(2,436,883)	0	0
A21	43,677,660	1,308,666	(42,368,994)	1,686,055	377,389
A22	6,310,415	0	(6,310,415)	0	0
A23	11,368,320	102,644	(11,265,676)	8,812	(93,832)
A24	6,401,765	2,505,210	(3,896,555)	2,505,210	0
A25	3,175,101	2,439,952	(735,149)	2,439,952	0
A26	215,267	11,550	(203,717)	21,571	10,021
A27	1,461,711	213,060	(1,248,651)	245,717	32,657
A28	4,664,768	2,909,911	(1,754,857)	2,909,911	0
A29	1,491,445	669,181	(822,264)	669,181	0
A30	1,151,078	1,231,315	80,237	1,231,315	0
A31	854,302	113,953	(740,349)	113,953	0
A32	295,717	288,904	(6,813)	288,904	0
A33	137,336	137,336	(0)	75,653	(61,683)

A34	96,613	10,352	(86,261)	13,237	2,885
	198,885,004	46,473,676	(152,411,328)	47,186,937	713,261

Of these 33 files, I deemed that 22 vote values as calculated by the Chairman were appropriate, and I amended 11 vote values.

6.1.1. Creditor 1

The amount submitted by this Scheme Creditor was $2,859,500. $0 was proposed to be admitted by the Chairman.

The Scheme Creditor supplied no supporting information in respect of any of the liability types.

In addition, there are also only very limited policy details available within the records of the Scheme Companies.

Publicly available information was limited to the Scheme Creditor being involved in two sites. It was one of 35 named Potentially Responsible Parties ("PRPs") at a known and named EPA pollution superfund site, although the work at this site finished in 2000, according to the EPA website. Also, the Scheme Creditor was one of 49 named PRPs at another known and named superfund site where the first clean up notice was in 1981, although the clean up is listed as still ongoing.

As the Scheme Creditor did not provide the Chairman with any usable policy or claims information, I consider that it is reasonable that the Chairman was unable to calculate a value and proposed to admit a zero amount.

6.1.2. Creditor 2

The amount submitted by this Scheme Creditor was $6,763,500 which represented full policy limits. $0 was proposed to be admitted by the Chairman.

In its supporting information, the Scheme Creditor indicated that it had exposure to asbestos and pollution claims, although it provided no evidence to this effect.

Only 4 of the 11 policies presented by the Scheme Creditor could be verified by the Run-off Company. Further information was not available, as the Scheme Creditor stated that it was unwilling to provide any. The claims were asserted by the Scheme Creditor to be both asbestos and pollution related, although I understand that no

claims of either type have ever been received by the Scheme Companies.

There was no publicly available information that indicated any material exposure of this Scheme Creditor to either asbestos or pollution claims.

Based on the information provided, the Chairman considered that Illinois US State law was applicable for allocation purposes, as this is the headquarters of the Scheme Creditor.

The threshold asbestos ground up ultimate amount would have to be about $80m to impact any of the policies of the Scheme Companies, or a significant pollution site cost would have to be about $40m to impact these policies. Hence, I consider that it is very difficult to conceive of a likely scenario where the liability of the Scheme Companies is anything other than zero.

As the Scheme Creditor did not provide the Chairman with any usable policy or claims information, I consider that it is reasonable that the Chairman was unable to calculate a value and proposed to admit a zero amount.

6.1.3. Creditor 3

The amount submitted by this Scheme Creditor was $12,124,299. Of this amount, $2,438,403 was proposed to be admitted by the Chairman.

The submitted amount was entirely in respect of asbestos premises claims arising from a single site in the US State of Louisiana.

The Scheme Creditor made assumptions about the possible future bankruptcy of two of its seven remaining co-defendants, and about the latency and exposure of future claims.

The Scheme Creditor also made assumptions about aspects of the policies on which the Scheme Companies participated. These included treating each claim as a single occurrence and that these claims would not aggregate. Although this approach is sometimes found in practice, I believe that it is far more common for claims to be on a per site basis instead. However, the Scheme Companies have followed market practice in the past for this Scheme Creditor where market practice treats claims on a per occurrence basis, and so I believe that it is reasonable to continue to pay amounts on this per occurrence basis.

Also assumed by the Scheme Creditor was that the claims would only be allocated over the years to which the claimant was exposed rather than under a continuous trigger allocation, which is the normal market practice. I consider that the exposure trigger is appropriate under

Louisiana US State law (and taking account of the legal advice that was passed to me).

To calculate the future liabilities of the policies of the Scheme Companies, the Scheme Creditor did not calculate a ground up ultimate loss amount for all of its losses. Rather, it has used the historical claims settlements for notifications to the policies of the Scheme Companies, and then projected the payments patterns over 25 years. In my opinion, this is not a robust approach, and it is unlikely to produce an accurate and reasonable estimate of future claims to the Scheme Companies.

The Chairman calculated a much smaller amount in relation to future claims in respect of the liabilities.

The Chairman produced alternative scenarios to illustrate the sensitivity of the results of his calculations to his differing assumptions.

I consider that it is reasonable to make some provision for a co-defendant to become bankrupt within the next few years. Hence, I assessed the effect of zero, one and two defendants becoming bankrupt.

I examined the assumptions made by the Chairman as to the future claims, and I tested the effect of my own alternative assumptions.

In my opinion, the amount proposed to be admitted by the Chairman is reasonable.

6.1.4. Creditor 4

The amount submitted by this Scheme Creditor was $6,844,672. Of this amount, $4,968,719 was proposed to be admitted by the Chairman.

Although these amounts mainly relate to the reinsurance of underlying UK asbestos claims from UK Employers Liability policies, some small amounts are also in respect of bone necrosis claims.

The Outstanding Claims amount calculated by the Scheme Creditor of $398,000 was calculated by allocating the Scheme Creditor's underlying outstanding claims against the policies of the Scheme Companies using a weighted average of several known allocation methods. The Chairman constructed a model and this produced a similar amount. I believe that the Chairman's amount is reasonable based on the underlying assumptions used.

For the much larger IBNR amount of $6,446,672, the Scheme Creditor calculated an amount using complex models that appear to be based on those approaches used by the UK actuarial asbestos working party, but

there is little support for, or explanation of the methods and underlying assumptions, and the Scheme Creditor has not provided much detailed information for comparison and clarification purposes. The Chairman has calculated his amount on several allocation bases and has produced a smaller amount, but with full details of his assumptions and justification. I examined these assumptions to assess whether they were reasonable.

The Chairman also produced alternative IBNR calculation results by performing sensitivity analyses to illustrate the effect on his calculations of different parameters. These assisted me in reviewing the effect of using different assumptions for reasonableness purposes.

Given the support and justification for the assumptions and approach of the methods used by the Chairman, I consider that the amount proposed to be admitted by the Chairman is reasonable.

6.1.5. Creditor 5

The amount submitted by this Creditor was $13,554,387. Of this amount, $6,056,298 was proposed to be admitted by the Chairman.

The asbestos products and (much smaller) asbestos non products liabilities were in respect of two entities of the Scheme Creditor.

The Scheme Creditor aggregated non products and products claims into one aggregate occurrence. Although, in general, this is inappropriate and is not normal market practice, some of the primary policies of the Scheme Creditor include wording aggregating types of claims into combined single limits ("CSL"). Hence, only for these policies, products and non products claims should be aggregated. The other primary policies and the policies of the Scheme Companies do not contain CSL policy wording, and hence products and non products claims for these policies should not be aggregated. There is no evidence that CSL policy wording exists for other primary policies or for any excess policies (such as written by the Scheme Companies). The Chairman has not aggregated products and non products in respect of the policies of the Scheme Companies, which I consider is reasonable.

In his calculations, the Chairman estimated a ground up ultimate liability amount for the whole period and then removed the allocation for one entity prior to 1957, the year in which the Creditor acquired it. I consider that this approach is reasonable.

I note that the past costs are only from 1993 and 2001 for the two entities. Costs incurred prior to these dates have been excluded from the data provided by the Scheme Creditor, and in the valuation provided by the Scheme Creditor. Further, they have not been applied by the Scheme Creditor to the erosion of the primary layers.

Rather than a best estimate, which I consider is appropriate, the Scheme Creditor has used the 75th percentile level for its calculation of ground up ultimate liability claims amounts; its reason being that it has used conservative assumptions elsewhere. In my opinion, using a percentile is not appropriate for the reasons discussed in Appendix 2 of this Report.

Some of the asbestos ground up ultimate losses after 1993 and 2001, for the respective entities, will have been included within the liabilities of the primary policies which have been commuted. Hence, to include these amounts in the estimated residual liabilities applied to the excess policies will result in double counting. I consider that the exclusion of these specific asbestos amounts is appropriate.

I believe that it would be appropriate to consider that the apparent gaps in cover following commutations of primary layers are treated as self insurance, and thus those gaps should take up their share of asbestos losses. I consider that this is normal market practice in a Pro Rata allocation, which I consider is appropriate as the headquarters of the main entity is in the US State of Connecticut.

I examined the model produced by the Chairman, and tested the effects of my alternative assumptions including regarding the numbers of future claims, their expected average amounts and the dismissal rates.

I consider that some of the assumptions of the Chairman in calculating the ground up ultimate amounts were overly cautious and, in my opinion and using my assumptions, resulting in a lower cost per claims for both indemnity and defence costs, although offset to some extent by a lower dismissal rate, I believe that a ground up ultimate amount of $455m is more appropriate than his proposed amount of $473m.

Hence, I consider that a valuation of $5,708,066 is more appropriate than the amount proposed to be admitted by the Chairman of $6,056,298.

6.1.6. Creditor 6

The amount submitted by this Scheme Creditor was $1,015,900. Of this, an amount of $20,079 was proposed to be admitted by the Chairman.

The general liability claims relate to asbestos and other toxic torts claims, plus some pollution claims. In addition, there were aviation asbestos and toxic torts claims. However, there is no split of these claims provided between general liability and aviation, or by specific claim type.

The amount of other toxic tort claims had been assumed by the Scheme Creditor to be 20% of the asbestos claims, but with no supporting information.

The Scheme Creditor has used a market share approach for its calculation of aviation asbestos claims based on data from a 2005 publicly available report. The actual development of market aviation asbestos claims has differed significantly from that estimated in 2005. Also, using a market data approach without the support of actual claims from the Scheme Creditor is not a robust approach, in my opinion. I consider that the actual experience of the claims incurred by the Scheme Creditor will normally provide a better guide to future and ultimate claims.

No information was provided regarding the split of past asbestos claims between general liability and aviation, or by claim type. Hence, the Chairman calculated a grossed up ultimate amount in respect of total asbestos claims plus toxic tort claims for general liability and aviation combined. This amount was applied to the liability policies and to the aviation policies of the Scheme Companies to assess the amount proposed to be admitted by the Chairman (thus potentially overstating the ultimate amounts).

The Chairman adopted a weighting for the US State of Rhode Island between Pro Rata and All Sums (for which I believe that a Net of Contributions approach is appropriate for reasons given in Appendix 2 of this Report) allocation methods, which I consider is reasonable. The Chairman requested a full coverage profile from the Scheme Creditor from which, where appropriate, he was able to give full allowance for gaps in coverage and insolvency of the insurers of the Scheme Creditor.

For both the general liability and aviation policies of the Scheme Companies, the asbestos plus toxic tort claims amounts, using the assumptions of the Chairman which I consider are reasonable, were significantly less than those needed to impact the policies (even combining the past filings for both general liability and aviation asbestos and toxic tort claims). Hence, I consider that zero amounts for general liability and aviation asbestos and toxic tort claims are reasonable.

The pollution claims are in respect of 5 known sites, but the Scheme Creditor provided insufficient information in support of its estimated costs and no evidence of an independent calculation by environmental claims consultants.

The Chairman assumed his normal 50% weighting for the scenario with unsupported estimated future site costs and 50% to the scenario with no future site costs, which I consider is a reasonable approach.

The sites are in US States with differing allocation methods. Overall, the calculations of the Chairman produced small amounts of claims to the Scheme Companies only in respect of one site. I believe that his underlying assumptions are reasonable.

Considering these, and other less material, issues, I believe that the amount proposed to be admitted by the Chairman is reasonable.

6.1.7. Creditor 7

The amount submitted by this Scheme Creditor was $701,654. $0 was proposed to be admitted by the Chairman.

The Scheme Creditor has assumed exhaustion of full policy limits to the policies of the underlying asbestos trust, which was set up to pay the asbestos personal injury claims for the original company. This trust is currently paying a 12.5% dividend, which is estimated to be the final amount. However, from the information provided by it, the Scheme Creditor has not allowed for a 12.5% recovery rate from insurers, and the normal practice is to allow for it as "pay as paid". I consider that in these circumstances, it is reasonable to adopt a pay as paid approach and not to permit a 100% recovery.

The Scheme Creditor has assumed an allocation methodology of Pro Rata. However, as the headquarters of the original company was in the US State of New Jersey, I believe that New Jersey law is appropriate for these claims, as supported by the legal advice obtained by the Chairman and passed to me, and so the Carter Wallace allocation method is appropriate. As this places less emphasis on the earlier years, owing to the overall insurance coverage profile for the Scheme Creditor, the amount due from the Scheme Companies is much less under a Carter Wallace approach than under a Pro Rata allocation.

As a result, the estimated claims amounts were substantially less than those required to impact the GSC policies of the Scheme Companies. However, the QSC policies would be impacted, as discussed in Section 6.3.1 of this Report.

Hence, the Chairman has assessed a zero amount for the proposed admitted amount for the GSC policies, which I consider is reasonable.

6.1.8. Creditor 8

The amount submitted by this Scheme Creditor was $2,234,325 for full policy limits for asbestos products claims arising from 5 Scheme Company policies. An amount of $102,158 was proposed to be admitted by the Chairman.

No support has been provided to justify the full policy limits.

The approach by the Scheme Creditor has been to defend claims vigorously, and so the defence costs are substantial as compared to the indemnity costs. As the primary policies are written on the basis that defence costs are paid in addition to the indemnity costs of the policy, this ratio of defence to indemnity costs is critical to the calculation of the ultimate claims, as the primary policies will be due to pay most or all of the defence costs.

There may be a greater weight given to indemnity payments, and less to defence payments, in future, if the Scheme Creditor changes its approach to defending claims. The Scheme Creditor has assumed a significant increase in claims to the Scheme Companies in the near future, with its indemnity costs (as opposed to its defence costs) rising materially.

If the past pattern of indemnity and defence costs in relation to losses notified is used to project into the future, it is clear to me that the policies of the Scheme Companies are highly unlikely to be impacted. Conversely, if an alternative and new pattern is assumed then there is a possibility of these policies being impacted.

The Chairman assumed with a specific probability that the pattern might change in the future with the Scheme Creditor paying increased indemnity amounts. My assessment is that the specific assumptions made by the Chairman are reasonable.

The Scheme Creditor used a Pro Rata allocation. I believe that it is more appropriate to use the allocation approach for the US State of the headquarters of the Scheme Creditor, which is the US State of Missouri, where I understand that the basis of allocation is unclear as between All Sums and Pro Rata. Hence this would indicate part Pro Rata and part All Sums. For the All Sums allocation, I believe that All Sums Net of Contributions is appropriate for the reasons given in Appendix 2 of this Report.

In my opinion, the assumptions and calculations for the proposed admitted amounts of the Chairman are reasonable.

6.1.9. Creditor 9

The amount submitted by this Scheme Creditor was $5,826,577. Of this amount, $1,596 was proposed to be admitted by the Chairman.

The claims are in respect of liabilities for asbestos premises, pollution and unknown IBNR claims. There was a report submitted by the Scheme Creditor providing the background to the estimates that was prepared in 2001.

For pollution, there are 5 sites with an estimated total amount in the 2001 report of $48m, although this amount was increased to $65m within the Scheme Creditor's own later estimates of 2008.

Both amounts were discounted for the time value of money by the Scheme Creditor. The Chairman constructed the undiscounted amounts for calculation and comparison purposes, and then discounted for the time value of money at a later stage.

The sites are in the US States of Texas, Oregon, South Carolina and two in Louisiana meaning that there are various allocation precedents, both All Sums and Pro Rata. However, the Scheme Creditor has allocated all site costs on a Pure All Sums basis. Where All Sums is deemed to apply, I believe that a basis of All Sums Net of Contributions is appropriate for reasons given in Appendix 2 of this Report.

For the largest site, a cost of $49m is required to impact the policies of the Scheme Companies. The estimate of the Chairman is slightly lower, based on a 50% weighting applied for future site costs and 50% for no future site costs, which is consistent with the approach used by the Chairman for all Scheme Creditors, and which I consider is reasonable given the information provided. Given a distribution of potential outcomes, the valuation by the Chairman for the largest site, discounted for the time value of money, is $1,596. Given the assumptions used, I consider that this amount is reasonable. This compares to the Scheme Creditor's much larger total pollution submitted amount of $2.9m.

For the asbestos premises liabilities, based on assumptions made by the Chairman for the sites, an amount of $98m would be required to impact the policies. The largest site estimate by the Scheme Creditor is much lower than this. As a result, I believe that a zero claim is reasonable.

From my understanding about recent pollution claims notifications and developments, it appears that there have been very few new material EPA sites reported. Hence, I consider that there is no reasonable likelihood of a new significant site emerging that would give rise to claims affecting the policies of the Scheme Companies (which have relatively high attachment points), and especially so given the time elapsed since the reports were produced. Hence, I believe that a zero IBNR amount is reasonable.

I consider that the total amount proposed to be admitted by the Chairman of $1,596 is reasonable.

6.1.10. Creditor 10

The amount submitted by this Scheme Creditor was $3,042,600, being full policy limits for 5 non products policies. Of this amount, $1,830,199 was proposed to be admitted by the Chairman.

The amounts are all in respect of asbestos premises claims arising from a named and known site in the US State of Louisiana. As it deemed that full policy limits would be exhausted by past claims, the Scheme Creditor did not consider future costs. However, the Chairman included calculations in respect of future claims within his valuations for voting purposes, which I regard as appropriate.

As primary policies have already been exhausted, all claims can now be aggregated and will impact the policies of the Scheme Companies. Hence, future costs need to be considered. I have assessed the assumptions of the Chairman in his estimates and I consider that these assumptions and his estimates are reasonable.

Another issue, that has a lesser impact on the vote value, is that the Scheme Creditor is part of an asbestos trust that is paying a current dividend of 78%. The Scheme Creditor obtained advice based on its cash flow projections that indicates that a final dividend of between 87.3% and 99.5% is likely. I believe that a mid point between these two percentages is reasonable, based on this forecast, and so in my opinion, based on the information received, it is reasonable to assume that the final dividend will increase from the current 78% to 93.4%.

As the normal approach is "pay as paid", the Chairman has assumed a greater final dividend of 93.4%. Whilst I consider that the "pay as paid" approach is not unreasonable, based on legal advice, the Chairman believes that it would be reasonable to allocate a 95% probability to "pay as paid" and a 5% probability to a full 100% payment. This is reasonable, in my opinion.

Some of the defence costs of the amount claimed by the Scheme Creditor are associated with the costs of the actual running of the asbestos trust and not just to the defence of claims. The Chairman obtained legal advice, and from this he assessed that 85% of these defence costs are assumed to be recoverable and that 15% of these defence costs are assumed not to be recoverable. Given that legal advice, I consider that to assume 85% of total defence costs claimed by the Scheme Creditor is a reasonable approach.

The Scheme Creditor believes that indemnity costs that have yet to be recovered, and that are subject to the full limits of the policies of the Scheme Companies, can be claimed. Based on legal advice, the Chairman proposed probabilities such that 15% of this full policy limit amount, as proposed by the Scheme Creditor, and 85% of his total calculated amount should be admitted. I consider that this is a reasonable approach.

I consider that the assumptions and approaches of the Chairman are reasonable, and that his amount proposed to be admitted is reasonable.

6.1.11. Creditor 11

The amount submitted by this Scheme Creditor was $9,351,472. Of this amount, $1,514,385 was proposed to be admitted by the Chairman.

The claims arise from pollution, asbestos and toxic tort liabilities.

The Scheme Creditor's claim was not explicitly discounted for the time value of money, although the Scheme Creditor applied some reductions in the course of its calculations.

Of the 12 pollution sites, 11 are known and 1 is unknown. The amounts submitted for future claims payments in relation to the 11 known pollution sites are not supported, and so the Chairman has applied a 50% weight to the scenario of the future cost estimates of the Scheme Creditor and a 50% weight to the scenario where there are no future site costs. This is a consistent approach of 50% as normally applied by the Chairman for all Scheme Creditors, which, in the absence of further information, and independent verification, I consider to be reasonable.

The claimed amounts for the single unknown pollution site are very large considering the time elapsed, and the Chairman assumed a zero amount for this site. Given the paucity of new pollution sites emerging in the USA, I consider that this zero assumption is reasonable.

Whilst the Scheme Creditor assumed a Pure All Sums approach to allocation for all sites, the Chairman assumed a Carter Wallace, Pro Rata or All Sums (Net of Contributions, which is appropriate for reasons given in Appendix 2 of this report) approach to allocation, depending on the US State of the site. I consider that this latter approach is appropriate.

I consider that only the largest of the 11 known sites is of a size that would impact the policies of the Scheme Companies. The remaining 10 sites have estimated costs much less than the amount required to impact these policies. I have assessed the assumptions of the Chairman underlying the calculations of his amounts, and in my opinion, they are reasonable.

The Scheme Creditor provided an asbestos assessment report dated 2005.

For asbestos products and asbestos premises combined, the Scheme Creditor produced a grossed up ultimate amount, which was mainly in respect of estimated future costs. The Scheme Creditor combined asbestos products and asbestos premises claims, which, in my opinion,

is inappropriate and is not market practice, unless there are specific policy wordings to the contrary (and the policies of the Scheme Creditor do not contain these policy wordings).

For total asbestos claims, the Scheme Creditor has based its estimate on the 2005 report. At that time, the market had experienced a significant increase in asbestos claims owing to specific market situations. In subsequent years, the number of such market claims reduced to a material extent, and the forecasts of future market asbestos claims in 2005 have been found to be substantially excessive.

In the absence of further information, the Chairman has combined all asbestos premises claims into one occurrence, which I consider will overestimate the total amount, and so will increase the claim amount for voting purposes. In practice, this made no difference to the outcome as the claims in respect of asbestos premises are considerably less than the amounts required to impact the policies of the Scheme Companies.

In line with market practice, as there are aggregate limits, the Chairman has aggregated past asbestos products and toxic tort ground up ultimate claims, which I consider is reasonable absent further information.

For toxic tort claims, the Scheme Creditor has assumed that future costs will equal past costs. I think that this is unreasonable as there have been very few toxic tort claims notifications to the Scheme Creditor for many years.

The Scheme Creditor pointed out that future types of toxic tort claims could emerge, but after such a long time since the policies were issued, I consider that the emergence of a new type of claim that could impact the policies of the Scheme Companies is so extremely unlikely that it can be excluded.

Without further support, I believe that a zero amount for future toxic tort claims is reasonable.

For the asbestos and toxic tort claims, the Scheme Creditor has assumed an equal weight of Pure All Sums and Pro Rata allocation. However, as the headquarters of the Scheme Creditor when the policies were written was in the US State of Ohio, the Chairman has used an All Sums allocation method. He has used All Sums Net of Contribution, which I believe is appropriate for reasons given in Appendix 2 of this Report. I consider that the approach by the Chairman is reasonable. The Chairman requested a full coverage profile from the Scheme Creditor from which, where appropriate, he was able to give full allowance for gaps in coverage and insolvency of the insurers of the Scheme Creditor.

I believe that the total amount proposed to be admitted by the Chairman is reasonable.

6.1.12. Creditor 12

The amount submitted by this Scheme Creditor was $6,757,194. $0 was proposed to be admitted by the Chairman.

The claims are in respect of pollution, general liability asbestos and a small amount of aviation asbestos liabilities.

For pollution, the claims are in respect of future claims at 3 unknown sites with no past claim amounts, and with no supporting information regarding the potential for the Scheme Creditor to be obliged to respond for the costs of future remediation of any pollution site. No other sites of the Scheme Creditor have been identified to date.

Further, the Scheme Creditor has allocated claims on a Pure All Sums basis, rather than to the weighted combination of Pro Rata and All Sums Net of Contributions (which I consider is appropriate). This is discussed more fully in Appendix 2 of this Report.

The Chairman has assigned a zero amount for pollution liabilities, given the above, which I consider to be reasonable.

For the general liability asbestos claims, there are no historic claims filings, so the Scheme Creditor has assumed 10% of the parent company's exposure. A report produced in 2005 for the parent company was provided as support. I consider that this is inadequate support as no justification is given as to why the Scheme Creditor has assumed 10% of its parent company's exposure, the market data within the 2005 report is out of date and there is no evidence of claims filings or of exposure to future asbestos claims in respect of that Scheme Creditor.

A Pure All Sums allocation method was used by the Scheme Creditor, which, I believe, is not appropriate for reasons given in Appendix 2 of this Report.

As there are no supporting details, and no evidence of historical claims filings or exposure to asbestos, I consider that a zero amount for general liability asbestos claims is reasonable.

I consider that it is reasonable to assign a zero amount for aviation asbestos claims, given the lack of any past claims filings, the unsupported approach used by the Scheme Creditor of an assumed exhaustion of all Scheme Company aviation policies between 1968 and 1971, and no evidence of any exposure to asbestos.

Overall, I consider that a total amount of zero, as proposed to be admitted by the Chairman, is reasonable.

6.1.13. Creditor 13

The amount submitted by this Scheme Creditor was $3,695,061. Of this amount, $2,876,839 was proposed to be admitted by the Chairman.

The claims arise mainly from one major underlying asbestos assured, plus residual asbestos, pollution and other claims. Detailed discussions have taken place between the Scheme Creditor and the Run-off Company in respect of that one major assured. The Chairman also has considerable background knowledge about the claims in respect of this major assured as he has had commutation dealings with it in the course of the Original Scheme.

No information was provided by the Scheme Creditor as to the claims of individual assureds apart from the major asbestos assured. Hence, it is impossible to produce an amount in respect of ground up ultimate losses.

Differences exist in the way that the Scheme Creditor and the Chairman have estimated IBNR amounts. Although both have used an IBNR claims to outstanding claims ratio approach, the former has estimated IBNR recoveries from the Scheme Companies by claim type for its insurance programme as a whole, then derived its IBNR recoveries from the Scheme Companies as per the recoveries for historical claims. The Scheme Creditor did not provide details of its claims data or underlying assumptions except for data in respect of the one major assured.

The Chairman used more detailed information about the major underlying assured which has enabled him to produce, in my opinion, a more robust estimate of the IBNR claims. He has used this information to produce an estimate of the ultimate claims in respect of the one major insured, rather than a simplistic ratio of IBNR to outstanding claims.

For the remaining asbestos claims, with no claims details at an individual level, I consider that the Chairman has had no option but to select a ratio of IBNR to outstanding claims. The Scheme Creditor has selected a higher ratio. I have selected a ratio of IBNR to outstanding claims in excess of that selected by the Chairman, as I consider that my ratio is more appropriate given the nature of the underlying residual assureds.

Similarly, for pollution claims and also for other claims, the Chairman has had to use ratios of IBNR to outstanding claims. I consider that these ratios are reasonable. In addition, these amounts are less material than those for asbestos.

I have increased the ratio of IBNR to outstanding for the residual asbestos claims from that used in the Chairman's valuation as I consider that this ratio is more appropriate. This results in an increase in the amount of the Scheme Creditor's vote value to $2,966,516 from the proposed admitted amount of the Chairman of $2,876,839.

6.1.14. Creditor 14

The amount submitted by this Scheme Creditor was $1,704,434. This entire amount of $1,704,434 was proposed to be admitted by the Chairman.

The claims are all in respect of asbestos products claims.

The Scheme Creditor pointed out that, by 2003, its primary coverage was exhausted. This was agreed by the Chairman, and reflected in his calculations. In my opinion, this is a reasonable approach.

Although both the Scheme Creditor and the Chairman have stated that they have used the Carter Wallace allocation approach, differences still arise, but these are small.

The Chairman calculated an amount of $1,666,729 which is very close to the amount submitted by the Scheme Creditor. Hence, the Chairman has determined that this submitted amount be used as his proposed admitted amount.

I believe that the proposed admitted amount by the Chairman of $1,704,434, which is the same as that submitted by the Scheme Creditor, is reasonable.

6.1.15. Creditor 15

The amount submitted by this Scheme Creditor was $6,640,970. Of this amount, $2,460,845 was proposed to be admitted by the Chairman.

The claims are in relation to asbestos products and (much smaller) pollution liabilities.

For asbestos claims, the Scheme Creditor has reached a settlement agreement with other London market insurers, excluding the Scheme Companies.

The Scheme Creditor also has an agreement with its primary insurers, and assumed that these policies would include the payment of all defence costs.

The primary policies are deemed to pay $500,000 for each and every asbestos products loss. This is not the accepted market practice, but the Chairman sought legal advice to clarify this. Having read this legal

advice, I agree that, for this Scheme Creditor, it is reasonable for the Scheme Creditor to assume that the primary policies pay $500,000 for each and every asbestos products loss, and that these losses are not to be aggregated.

However, I consider that claims to the excess policies should be aggregated, as per the normal market practice, and especially so as the excess policies include aggregate products limits.

For pollution claims, the Scheme Creditor has provided low and high estimated site costs for 2 known sites. No support has been provided to justify these estimates. The Chairman has assigned 25% to the low estimate, 25% to the high estimate and 50% to zero amounts. Absent further information, I consider that these proportions are reasonable.

The Chairman has calculated the asbestos ground up ultimate losses based on certain explicit assumptions. However, I have selected alternative assumptions for the inflation of future numbers of claims that I consider are more appropriate, and I have thus produced higher amounts.

The effect of this change is to increase the ground up ultimate amount, and hence I increased the amount of the Scheme Creditor's vote value to $2,948,688 from the proposed admitted amount of the Chairman of $2,460,845.

6.1.16. Creditor 16

The amount submitted by this Scheme Creditor was $17,935,342. Of this amount, $981,912 was proposed to be admitted by the Chairman.

The amounts are mainly in respect of pollution claims with a small amount for asbestos claims.

As the asbestos claims arise from an entity purchased after the expiry of the cover provided by the policies of the Scheme Companies, the Chairman deemed that the amount submitted in respect of this entity by the Scheme Creditor should be zero. I believe that this is reasonable and is in line with market practice.

The pollution claims arise from 3 entities acquired by the Scheme Creditor, all with headquarters in the US States of Illinois or Missouri.

Extensive details were provided of past and estimated future claims for 19 of the 27 known pollution sites. There were differences in some of the assumptions between the Scheme Creditor and the Chairman, such as the share of the EPA estimate of future site costs for one major known site out of the 19. Given the detailed information, weightings of 75% to the scenario where the future cost estimates of the Scheme Creditor are assumed to be valid and 25% to the scenario with no

future site costs (rather than the normal 50% in such circumstances) were proposed to be admitted by the Chairman, although there was no evidence of the independence of the calculations of the estimates for 18 out of the 19 sites. I consider that given the detail in the information provided by the Scheme Creditor, this increased proportion is reasonable and consistent.

For the remaining pollution sites, with no detailed information, a 50% weighting was applied to the scenario of future site costs and 50% to the scenario of no future site costs, as per the normal and consistent practice of the Chairman for all relevant Scheme Creditors' votes at the Meetings.

For all of the pollution sites, the Scheme Creditor applied a Pure All Sums approach. I consider that this is inappropriate for the reasons given in Appendix 2 of this Report, and an All Sums Net of Contributions approach should be used for the allocation instead.

The Chairman obtained legal advice as to the position in the US States of Illinois and Missouri for allocation, and he assumed a combination of Pro Rata and All Sums (Net of Contributions, for reasons given in Appendix 2 of this Report). I have read the legal advice. I consider that, given my interpretation of it, the approach by the Chairman is reasonable.

For the reasons that I have given above, I believe that the amount proposed to be admitted by the Chairman is reasonable.

6.1.17. Creditor 17

The amount submitted by this Scheme Creditor was $6,184,628, all in respect of asbestos products claims. Of this amount, $213,504 was proposed to be admitted by the Chairman.

The Scheme Creditor did not discount its vote values for the time value of money.

The amount of $6,184,628 submitted by the Scheme Creditor is in respect of the full policy limits. The Scheme Creditor also produced a valuation of $2,630,000, based on an allocation approach of All Sums Net of Contributions.

Although the Scheme Creditor suggested that products and non products claims paid by the primary policies should be aggregated, because the primary policies have combined single limits, it provided no supporting information (such as policies that include combined single limit wordings). Hence, I consider that it is reasonable not to aggregate its products and non products claims.

However, the Scheme Creditor provided details of the partial erosion of the primary policies which was taken into account by the Chairman in his calculations.

For one entity, the Scheme Companies only issued aviation liability policies. These policies are not triggered by the products claims of the Scheme Creditor, as these claims arise from other than aviation liabilities.

For another entity, the policies were QSC, and no vote was submitted for this class.

For the single remaining entity, the Scheme Creditor provided a ground up ultimate amount. Most of this amount was in respect of estimated future costs (for indemnity and defence combined with no split provided). The Chairman produced a similar amount based on his own assumptions. However, I consider that some of the assumptions could reasonably be amended, resulting in more estimated future claims, and so I produced an increased amount that I consider is more appropriate.

Legal advice was obtained by the Chairman as to the appropriate allocation approach given the current headquarters of the Scheme Creditor and those of the entities when the policies were written. I have read this legal advice and I concur that given the US States and their jurisdictions, All Sums is the correct allocation approach. For reasons given in Appendix 2 of this Report, I believe that All Sums Net of Contributions, and not Pure All Sums, is appropriate.

I consider that some alternative assumptions in calculating the ground up ultimate amounts are more appropriate from those used by the Chairman, and, in my opinion and using my assumptions as discussed above, I believe that a ground up ultimate amount of $232m is more appropriate than his proposed amount of $228m.

Hence, I believe that the amount should be increased to $230,528 from the proposed admitted amount of the Chairman of $213,504.

6.1.18. Creditor 18

The amount submitted by this Scheme Creditor was $7,910,109. An increased amount of $9,362,271 was proposed to be admitted by the Chairman.

The claims are in respect of asbestos, Polychlorinated Biphenyl ("PCB"), Agent Orange and other toxic tort claims, mainly in respect of products liabilities, but with a small amount of non products liabilities.

The products policies in respect of the Scheme Companies have aggregate limits, so all products claims can be aggregated.

The Scheme Creditor assumed that claims until 2004 had already been paid. The Scheme Creditor thus allowed for claims paid after 2004 in calculating his ultimate claims amount and hence in determining its estimated amount of outstanding and IBNR claims. The approach used by the Chairman was to calculate the ultimate amount and then to deduct his estimate of the agreed claims amount.

The amount that the Scheme Creditor has estimated for future asbestos and toxic tort costs is very low as compared with past costs, but there has been little claims activity since 2008. Mainly owing to the significantly different estimates of the pre 2004 costs, the amount of the ground up ultimate liabilities as calculated by the Chairman is much greater than that calculated by the Scheme Creditor. The estimates of the Scheme Creditor and the Chairman for future costs are similar. I consider that the assumptions and amounts as calculated by the Chairman are reasonable.

Whilst the estimated past costs in respect of PCB claims for the Scheme Creditor and the Chairman are the same, the Scheme Creditor has estimated significant future costs. However, the Chairman believes that these future costs should be zero as there have been no PCB indemnity payments made since 2006, and there has been very little other claims activity since then. I consider that, given the information provided, whilst it is very unlikely that future PCB claims will emerge, it is not impossible, and so I have made an allowance for such claims.

When the products claims are aggregated, the Scheme Creditor has allocated using a Pro Rata approach whereas the Chairman has interpreted the current legal precedent in the US State of Missouri as indicating 40% Pro Rata and 60% All Sums (where I believe that Net of Contributions is appropriate for reasons given in Appendix 2 of this Report). I believe that the latter approach (adopted by the Chairman) is appropriate.

Whereas the Scheme Creditor has aggregated its non products premises, separately for asbestos claims and for PCB claims, I consider that this is not appropriate and these claims (for both asbestos and PCB) should all be considered on a per site basis. This is supported by the legal advice obtained by the Chairman.

The submitted non products premises claims were solely in respect of 2 asbestos sites, although there was also a further PCB site.

There has been little recent claims activity for the asbestos premises liabilities, and a zero allowance for future site costs is reasonable, because claims in respect of asbestos premises liabilities would most

likely fall well below the amounts required to impact the policies of the Scheme Companies.

However, on assumptions that I believe to be reasonable, the PCB premises claims would impact the policies.

I concluded that some alternative assumptions, as explained above, than those as used by the Chairman were more appropriate for the future costs in respect of PCB claims, and, in my opinion and using my assumptions, I believe that a ground up ultimate amount of $187m is more appropriate than his proposed amount of $183m.

Hence, I increased the amount to $9,561,785 from the amount proposed to be admitted by the Chairman of $9,362,271.

6.1.19. Creditor 19

The amount submitted by this Scheme Creditor was $2,436,883, although it was not discounted for the time value of money. $0 was proposed to be admitted by the Chairman.

The claims are in respect of asbestos premises liabilities at 3 sites.

The Scheme Creditor has not produced an estimate of ground up ultimate claims but has assumed that all policies of the Scheme Companies would be fully exhausted using a Pure All Sums allocation approach. I consider that a Pure All Sums approach is inappropriate for the reasons set out in Appendix 2 of this Report and that an All Sums Net of Contributions allocation is the correct approach.

I examined the model used by the Chairman for calculation of the ground up ultimate claims, and I believe that the assumptions and results are reasonable.

Using an All Sums Net of Contributions approach, the Chairman calculated the amount of ultimate claims likely to be required to impact the policies of the Scheme Companies. However, his calculated ultimate amount for the liabilities is substantially below the threshold amount of ultimate claims, even assuming that the premises claims can be aggregated across sites. I therefore consider that the Chairman's approach and conclusion are reasonable.

Hence a zero amount was proposed by the Chairman to be admitted, which I consider is reasonable.

6.1.20. Creditor 21

The amount submitted by this Scheme Creditor was $43,677,660. Of this amount, $1,308,666 was proposed to be admitted by the Chairman.

These amounts are all in respect of asbestos products and asbestos premises claims from 3 entities acquired by the Scheme Creditor.

For the first entity, the claims are in respect of asbestos products liabilities, and the Scheme Creditor provided no details of its estimated ground up ultimate claims amount.

The Chairman has calculated his ground up ultimate amount using the incurred costs to date. I consider that the assumptions he used and the estimates he made are reasonable.

The claims for the second entity arise from both asbestos products and asbestos premises claims.

The approach of the Scheme Creditor to the number of occurrences for its premises claims is not stated, except that it has assumed some degree of aggregation for the reason that substantially the same conditions apply across sites and geographical locations. The legal advice obtained by the Chairman, which I have read, indicates that a weighted approach to the number of occurrences is appropriate, although he has assumed that site costs per US State are aggregated (rather than on a per site basis because the required data is not available). This assumption will increase the vote value of the Scheme Creditor. I consider that the weights used are reasonable.

I consider that some alternative assumptions in calculating the ground up ultimate amounts for asbestos products claims for the second entity are more appropriate from those used by the Chairman in his model, and, in my opinion and using my assumptions, resulting in more estimated future claims, and larger indemnity and defence average costs per claim, I believe that a ground up ultimate claims amount of $16m is more appropriate than his proposed amount of $10m.

There are only asbestos products liability claims within the third entity.

The Scheme Creditor has not provided details of its ground up ultimate claims calculations, but the Chairman has calculated an estimated ground up ultimate amount in accordance with his assumptions. The actual historic claims information as provided by the Scheme Creditor included substantial yearly variation.

I consider that some alternative assumptions in calculating the ground up ultimate amounts for asbestos products claims for the third entity are more appropriate from those used by the Chairman in his model, and, in my opinion and using my assumptions, I believe that a ground up ultimate amount of $58m is more appropriate than his proposed amount of $43m.

The Scheme Creditor and the Chairman have both assumed that All Sums is the appropriate allocation methodology. The Scheme Creditor

has provided no further details. The Chairman has used an All Sums Net of Contributions approach, which I consider is appropriate for the reasons given in Appendix 2 of this Report.

As discussed above, I consider that amendments to some of the assumptions of the Chairman are appropriate, and hence the amount of the Scheme Creditor's vote increases to $1,686,055 from the amount proposed to be admitted by the Chairman of $1,308,666.

6.1.21. Creditor 22

The amount submitted by this Scheme Creditor was $6,310,415. $0 was proposed to be admitted by the Chairman.

The claims are in respect of pollution, general liability asbestos and aviation asbestos liabilities.

The Scheme Creditor produced details of past and estimated future pollution site costs. However, there was no supporting information in respect of the calculations of future costs for the three known pollution sites, and, from the information provided by the Scheme Creditor, the estimates have not been shown to have been produced independently. Hence, in his calculations, being consistent in his approach to all Scheme Creditors where there is no recent independent valuation of future site costs, the Chairman has given 50% weight to the scenario of the future site costs estimates of the Scheme Creditor, and 50% to the scenario of no future site costs. I consider that this is reasonable.

There was a significant allowance by the Scheme Creditor for past and future liabilities in respect of an unknown site, but there was no supporting justification, so the Chairman gave no weight to this site in his calculations. For an unknown site, given the time elapsed and paucity of new major sites being notified, it is difficult for me to envisage a new unknown site arising that has material future costs. Hence I consider that a zero allowance for the unknown site is reasonable.

The allocation used by the Scheme Creditor was Pure All Sums, rather than All Sums Net of Contributions (which I consider is appropriate for the reasons given in Appendix 2 of this Report). The Chairman requested a full coverage profile from the Scheme Creditor from which, where appropriate, he was able to give full allowance for gaps in coverage and insolvency of the insurers of the Scheme Creditor.

I assessed the assumptions used in the model of the Chairman. As a result, I believe that the amount of pollution site claims submitted was substantially less than that required to impact the general liability policies of the Scheme Companies (that have an attachment of $7m). Thus a zero valuation for pollution liabilities is reasonable.

The Scheme Creditor calculated its estimate of its general liability asbestos claims as being 10% of the amount of its parent company's general asbestos liabilities with no justification. This 10% estimate was applied to the results of a report in respect of the parent company of the Scheme Creditor that was produced in 2005. In my opinion, this approach is not robust as it excludes the actual claims data of the Scheme Creditor, the data within the report is out of date and the Scheme Creditor provides no reasons for selecting the 10% figure.

The ground up ultimate amount would have to be extremely large to impact the policies of the Scheme Companies.

Also, as there are no supporting details, and no evidence of historical claims filings or exposure to asbestos, I consider that a zero amount for general liability asbestos claims is reasonable.

Similarly, there was no evidence (and no historic filings of claims) produced to support the aviation asbestos amount submitted by the Scheme Creditor.

I consider that it is reasonable to assign a zero amount for aviation asbestos claims, given the lack of any past claims filings, the unsupported approach used by the Scheme Creditor of an assumed exhaustion of all Scheme Company aviation policies between 1963 and 1973, and no evidence of any exposure to asbestos.

I consider that the total proposed admitted amount of the Chairman of $0 is reasonable.

6.1.22. Creditor 23

The amount submitted by this Scheme Creditor was $11,368,320 for full policy limits. Of this, an amount of $102,644 was proposed to be admitted by the Chairman.

The claims were all in respect of general liability asbestos premises liabilities.

The Scheme Creditor did not provide the assumptions underlying its calculations relating to the number of occurrences or its estimate of ground up liabilities.

The Chairman sought legal advice as to the aggregation approach of claims, and used his interpretation of this, together with the costs to date, to produce an estimate of ground up ultimate claims. This is based on a weighted approach to occurrence aggregation issues. I have read the legal advice and assessed the assumptions used by the Chairman. I note that the Scheme Company policies do not contain a “premises deemer” clause for this Scheme Creditor. A "premises deemer" clause states that all property injury and bodily damage claims

arising out of continuous or repeated exposure to substantially the same general conditions should be considered as arising out of one occurrence. The legal advice and resultant weightings differ from when such a clause is included. I consider that this is reasonable.

For all claims aggregated together, I consider that alternative assumptions from those selected by the Chairman are more appropriate in the calculation of the resultant estimated ground up loss amounts. These alternative assumptions resulted in an increase in the dismissal rate and defence costs per claim but a decrease in the indemnity costs per claim, and hence gave rise to a smaller amount of ground up ultimate claims of $56m as compared to those proposed by the Chairman of $105m.

For the per site aggregation approach, the ground up loss estimate as calculated by the Chairman was close to the amount required to impact the policies of the Scheme Companies. Hence, he produced a distribution of potential outcomes to assess the likely level of impact. The amount of the claim was very small, but reasonable in my opinion.

For the single claimant scenario, there were no signs of any individual claims impacting the policies of the Scheme Companies, and so I consider that a zero allowance is reasonable.

Although the amounts estimated by the Chairman were materially less than those estimated by the Scheme Creditor, I consider that some of the underlying assumptions of the Chairman were overly cautious, as described above, and my valuation of the Scheme Creditor's vote was, in fact, lower than the Chairman's valuation.

I consider that a reduction in the amount is more reasonable, and hence I have calculated an amount of $8,812 that I consider to be more appropriate, as compared to the amount proposed to be admitted by the Chairman of $102,644.

6.1.23. Creditor 24

The amount submitted by this Scheme Creditor was $6,401,765. Of this amount, $2,505,210 was proposed to be admitted by the Chairman.

The claims relate to asbestos, benzene and lead paint public nuisance liabilities.

Detailed support was provided by the Scheme Creditor for its previous submission.

The Scheme Creditor has assumed a Pure All Sums allocation.

The Scheme Creditor assumed that the probability of the policies of the Scheme Companies being fully exhausted was 70%, with no justification or support.

I consider that the 70% probability estimated by the Scheme Creditor is outside of a reasonable range of outcomes, given the information provided to me.

I considered the legal advice obtained by the Chairman in respect of these claims and used this in determining my conclusions.

I considered the alternative assumptions of the Chairman in a staged approach assessing each probability separately in respect of:

1. The insured Scheme Creditor losing a lead paint public nuisance claim in at least one jurisdiction;
2. The Scheme Creditor recovering claims from the policies of the Scheme Companies;
3. Whether the claims are deemed to aggregate, or each claim is a single occurrence;
4. Whether either a continuous trigger (i.e. where the claim is triggered over a continuous period of time) or installation trigger (i.e. where the claim is triggered on a certain event) applies.

Whilst the Chairman assessed an 18% probability overall by this step by step approach, I consider that this is a cautious overestimate. When I assessed my probabilities, I obtained a much reduced overall percentage. However, given the uncertainty in that the recent verdict relating to lead paint claims in the US State of California has yet to be appealed, I consider that such caution is reasonable for voting purposes.

For the asbestos liabilities, the estimated ground up ultimate claims amounts calculated by the Scheme Creditor and the Chairman are similar, although the former has more indemnity and less defence costs. I consider that the amounts determined by the Chairman are reasonable.

The Chairman has used an allocation approach of All Sums Net of Contributions. For the reasons given in Appendix 2 of this Report, I consider that this approach is appropriate.

I consider that there is very little likelihood of any future activity for benzene claims as I understand that the resultant diseases have a latency period of up to 15 years. Hence any claims filed in recent years will be highly unlikely to affect the policies of the Scheme Companies, as they were written prior to 1970. I consider that a zero amount for such claims is reasonable.

I note that some of the policies of the Scheme Companies contain aggregate limits. Under the assumptions and estimates of the Chairman, this would lead to an exhaustion of some policies when the claims in respect of lead paint public nuisance and asbestos aggregate. Allowance has been made by the Chairman for such potential exhaustion within the policy limits, which I consider is reasonable.

I consider that the vote value amount proposed to be admitted by the Chairman is reasonable.

6.1.24. Creditor 25

The amount submitted by this Scheme Creditor was $3,175,101 in respect of 5 known pollution sites. Of this amount, $2,439,952 was proposed to be admitted by the Chairman.

For one site, there is an issue about coverage as to whether an insurer is liable for contamination occurring after the policy expiry. Policy wordings invariably state that insurers are not liable for contamination by policyholders commencing after the date of expiry of the policy. In addition, the Chairman calculated that even if the allocation basis started when any operations commenced at the site, the policies of the Scheme Companies would not be impacted. Consequently, I consider that it is reasonable that a zero amount is determined for this site.

For all of the other four pollution sites, there are varying levels of detail within the supporting information, so the Chairman has had to make assumptions and apply weights in arriving at his estimates. He has used his normal consistent assumption of applying a 50% weight to the scenario with future site costs and 50% to the scenario with no future site costs, unless there is further supporting information or an up to date independent valuation. I consider that these amounts are reasonable.

The Scheme Creditor allocated using an All Sums Net of Contributions type of approach for all of the pollution sites. However, whilst this is appropriate for three of the remaining four sites, the US State of the remaining site, namely Michigan, indicates that a Pro Rata allocation approach is applicable for it.

Whilst the Scheme Creditor has assumed that no costs can be allocated after 1971, as the sudden and accidental pollution exclusion was introduced in that year, normal market practice is to apply win factors for this and several other issues, giving a probability of the exclusion being applicable depending on the US State. As a result, costs for pollution should be extended to years until the absolute pollution exclusion was introduced in 1985. This is discussed in Appendix 2 of this Report.

The Chairman has assumed that even if the 1971 Sudden and Accidental exclusion applied to the site that was subject to the Pro Rata allocation, then the Pro Rata limit would still extend to 1985, with coverage after 1971 being treated as if it was self insured. I consider that this is a reasonable assumption.

I consider that the use of such win factors by the Chairman, and their amounts for these claims, is reasonable and is in line with market practice.

I consider that the approach and the underlying assumptions used by the Chairman in his model are reasonable, and that the amount he proposes to admit is reasonable.

6.1.25. Creditor 26

The amount submitted by this Scheme Creditor was $215,267. Of this amount, $11,550 was proposed to be admitted by the Chairman.

The claims arise from asbestos and other (mainly not identified) toxic tort liabilities from both general liability and aviation policies.

For the calculations of the estimated ground up liabilities made by the Scheme Creditor, the Scheme Creditor has estimated a much greater amount than that estimated by the Chairman, for both general liability and aviation.

Together with the difference in approach to the aviation amount, this causes the main difference between the amounts submitted by the Scheme Creditor and proposed to be admitted by the Chairman.

For general liability, the toxic tort claim amount of the Scheme Creditor is based on 20% of that for asbestos, although no support for the 20% figure has been provided. The Chairman has performed his calculations based on historic claims for all claims types combined. Given the lack of detailed supporting claims information, I consider that the Chairman's approach is reasonable, as more refined approaches are not possible.

The headquarters of the Scheme Creditor is in the US State of Rhode Island. An All Sums allocation approach has been applied by the Scheme Creditor. However, the allocation approach in Rhode Island is uncertain and so the Chairman has assumed that an equal weighting of All Sums (Net of Contributions for the reasons given in Appendix 2 of this Report) and Pro Rata is appropriate. I believe that the approach of the Chairman is reasonable. The Chairman requested a full coverage profile from the Scheme Creditor from which, where appropriate, he was able to give full allowance for gaps in coverage and insolvency of the insurers of the Scheme Creditor.

Based on what I consider to be reasonable assumptions, the ground up ultimate loss amounts calculated by the Chairman are significantly less than those required to impact upon the general liability policies of the Scheme Companies. Hence, I consider that a zero amount in respect of the general liability claims is reasonable.

For aviation, the Scheme Creditor used a market share approach instead, basing this on a report relying on 2005 information. I do not consider that this approach will lead to a robust or reasonable estimate of future liabilities. I consider that an approach based on actual notifications is more appropriate.

Very small amounts of aviation losses have been notified to the Scheme Creditor to date. The number and amount of market claims since the time of that report, based on 2005 information, have been substantially less than those anticipated at that time.

I have assessed the assumptions of the Chairman in his calculations of claims amounts. I believe that alternative assumptions are more appropriate that result in an increase in the numbers of estimated future claims. Hence, I have increased the amount of ground up ultimate losses for the aviation claims to \$6m from that proposed by the Chairman of \$3m.

I have assessed the assumptions and used alternatives for comparison purposes. As a result, I consider that it is more appropriate for an amount of \$21,571 to be admitted as the Scheme Creditor's vote rather than the amount proposed to be admitted by the Chairman of \$11,550.

6.1.26. Creditor 27

The amount submitted by this Scheme Creditor was \$1,461,711, all in respect of asbestos premises claims, mostly in respect of future costs. Of this, an amount of \$213,060 was proposed to be admitted by the Chairman.

No details have been provided about the calculation by the Scheme Creditor of the estimated ground up ultimate claims amount or its split at site level.

For some of the sites, much of the past costs are for defence, thereby impacting more on the primary policies than those of the Scheme Companies.

The ground up ultimate loss amounts, as calculated by the Scheme Creditor, include substantial amounts in respect of estimated future liabilities. I consider that, given the information received, these are excessive.

Whereas the Scheme Creditor has assumed that each site represents a separate occurrence, the Chairman has obtained legal advice which suggests that it is more appropriate to adopt a weighted combination of three definitions of an occurrence (being all claims aggregated into one occurrence, each site is one occurrence and each claim is a separate occurrence). I have read the legal advice and I consider that the approach to the weightings by the Chairman is reasonable, as are the weightings themselves.

I have examined the assumptions used by the Chairman, when all claims aggregate, as described above. However, I consider that other assumptions are more appropriate, and these result in an increase in the numbers of estimated future claims, and these alternative assumptions increase the ground up ultimate amount of the claims to $122m compared to those of $111m as proposed by the Chairman.

The Scheme Creditor only purchased insurance between 1955 and 1979. Hence, the amounts of ground up ultimate liabilities are allocated between when insurance was first purchased in 1955 and the end of coverage in 1979.

For allocation, the Scheme Creditor has used a modified Pro Rata approach, but without details of its modification. My view is that given that most claims have been filed in the US State of Ohio, most sites are in Ohio and that the Scheme Creditor maintains its headquarters in Ohio, then an All Sums (being Net of Contributions for reasons given in Appendix 2) allocation approach is appropriate based on the legal precedent of the US State of Ohio. The Chairman requested a full coverage profile from the Scheme Creditor from which, where appropriate, he was able to give full allowance for gaps in coverage and insolvency of the insurers of the Scheme Creditor.

I consider that, using my ground up ultimate amount, a more appropriate amount for the discounted value for the claims is $245,717, rather than the proposed admitted amount by the Chairman of $213,060.

6.1.27. Creditor 28

The amount submitted by this Scheme Creditor was $4,664,768 for 5 pollution sites. Of this amount, $2,909,911 was proposed to be admitted by the Chairman.

Whereas the Chairman accepted the past costs provided by the Scheme Creditor, he applied a 50% or 100% weighting to the estimates for future costs depending on the levels of support for, and the independence of, those performing the estimation process. Where no support was provided for an independent valuation of future site costs, a 50% weighting was applied by the Chairman and 50% to the scenario where there are no future site costs. When up to date independent

estimates were obtained from reputable third parties, then a 100% weighting was applied. This was a consistent approach applied to vote values by the Chairman to all Scheme Creditors, and in the absence of further information, I consider that this weighting is reasonable.

Where available, details of the site clean up costs were obtained from the EPA website.

For allocation, the Scheme Creditor provided court rulings to support its assertion that Pure All Sums was appropriate, although some allowance was, in fact, made by the Scheme Creditor for contributions, thus reducing the submitted amount. The Chairman sought legal advice and made this available to me. This suggested a weighted combination of the All Sums (which should be Net of Contributions, in line with my views as discussed in Appendix 2) and Pro Rata allocation methods. I consider that this weighting is reasonable based on the available information.

I consider that the amount proposed to be admitted by the Chairman is reasonable.

6.1.28. Creditor 29

The amount submitted by this Scheme Creditor was $1,491,445, all for aviation asbestos claims. Of this amount, $669,181 was proposed to be admitted by the Chairman.

The Scheme Creditor has calculated an estimated ground up ultimate claims amount, with a substantial portion in respect of future costs. Based on detailed claims data provided by the Scheme Creditor, the Chairman has calculated a lower estimated amount for future costs. I consider that the assumptions used by the Chairman, and his estimates, are reasonable.

For allocation, both the Scheme Creditor and the Chairman used a Pro Rata approach, as the Scheme Creditor is based in the US State of Connecticut. I believe that this is reasonable.

I studied the model used by the Chairman, and I assessed his assumptions, as well as the effects on the results of my own assumptions. As a result, I consider that the amount proposed to be admitted by the Chairman is reasonable.

6.1.29. Creditor 30

The amount submitted by this Scheme Creditor was $1,151,078, all in respect of claims arising from liabilities at two known pollution sites. An increased amount of $1,231,315 was proposed to be admitted by the Chairman.

Although 47 policies of the Scheme Companies were believed by the Scheme Creditor to be affected by these claims, the Run-off Company has verified only 14 of these 47 policies, but they have identified a further 73 policies. Hence, I consider that 87 policies are potentially affected.

The claims information provided by the Scheme Creditor is in respect of past and estimated future claims amounts, although there is no evidence that the latter estimate was produced or verified independently, and there is no support for its calculation of site costs. Hence, the Chairman has assigned a 50% weighting to the scenario with estimated future costs and 50% to the scenario with no future site costs, which I consider is reasonable and is consistent with his assumptions for other Scheme Creditors.

Whereas the Scheme Creditor has assumed that these two pollution sites can be combined into one occurrence, I consider that market practice, given standard policy wording, is to treat each one as a separate occurrence.

The Scheme Creditor has allocated site costs on a Pro Rata basis, but as the sites are in the US State of Oregon, I consider that an All Sums allocation (being Net of Contributions for the reasons given in Appendix 2 of this Report) is appropriate. The Chairman has applied win factors based on his understanding and interpretation of the practice in the US State of Oregon. I believe that these are reasonable, and win factors are discussed in Appendix 2 of this Report.

I have assessed the model used by the Chairman, using his assumptions, as well as the effect of using my own alternative assumptions. As a result, I consider that the proposed admitted amount of the Chairman is reasonable.

6.1.30. Creditor 31

The amount submitted by this Scheme Creditor was $854,302 arising from asbestos products claims. Of this amount, $113,953 was proposed to be admitted by the Chairman.

Although 7 Scheme Company policies were presented by the Scheme Creditor, another 7 policies were identified by the Run-off Company, but 6 of these were at a high level of coverage and I consider that they would not be impacted as part of this vote assessment.

The Creditor provided its estimate of ground up ultimate claims which are mainly in respect of estimated future claims costs. I am unable to reconcile its workings given the supporting information, and its allocation method is unclear. The Chairman calculated a much reduced ground up ultimate claims cost based on assumptions that I consider to be reasonable.

For allocation, I believe that the current legal framework in the US State of Virginia is uncertain. The Chairman has used a weighted 50% allocation approach for both Pro Rata and All Sums (being Net of Contributions for the reasons given in Appendix 2 of this Report), which I consider is reasonable.

I consider that the proposed admitted amount of the Chairman is reasonable.

6.1.31. Creditor 32

The amount submitted by the Scheme Creditor was $295,717. Of this amount, $288,904 was proposed to be admitted by the Chairman.

This amount is all in respect of inwards silica reinsurance claims arising from one known and named underlying insured.

The Scheme Companies also participated on some aviation reinsurance policies in the 1980s, but no losses have been reported for over 20 years and there are no outstanding claims amounts. Hence, I consider that a zero amount is reasonable.

The claims filings from the underlying insured have reduced significantly, and I understand that the majority of the outstanding claims filings, in the opinion of the lead insurer of the underlying insured, are likely to be dismissed.

The statute of limitations and causation have a significant effect on silica claims, both of which are likely to limit IBNR claims.

Hence the Scheme Creditor and the Chairman have valued the IBNR claims at zero, which I consider to be reasonable.

The only difference between the estimates of the Chairman and the Scheme Creditor relates to the small amount due to the discounting of claims for the time value of money. The Chairman has assumed a typical settlement pattern for silica claims which I consider to be reasonable.

I consider that the amount proposed to be admitted by the Chairman is reasonable.

6.1.32. Creditor 33

The amount submitted by this Scheme Creditor was $137,336 in respect of one pollution site. This amount was proposed to be admitted by the Chairman.

There are several issues regarding the low lying policies of the Scheme Companies, as opposed to the other policies. Some low lying policies

might provide duplicate cover. Some might be products policies as they have aggregate limits. Some may have been previously eroded by other claims. Hence, like the Scheme Creditor, the Chairman has not allocated any costs to these low lying policies. I consider that this is a reasonable approach.

Both the Scheme Creditor and the Chairman assume that there will be no further costs and that past costs are $30m.

The headquarters of the Scheme Creditor when the policies were written was in the US State of Delaware. I understand that an All Sums approach to allocation is normally applicable in Delaware. However, the Scheme Creditor has used a Pro Rata approach to allocation.

As the pollution site is in the US State of New Jersey, I believe that the Carter Wallace allocation method would be appropriate instead. As the policies of the Scheme Companies were written many years ago, the use of the Carter Wallace allocation approach rather than Pro Rata will increase the amounts to years with high limits, which are the more recent years, and reduce the amounts to the earlier years that have low limits, thus resulting in much lower amounts being allocated to the policies of the Scheme Companies.

There were policies on higher layers written by the Scheme Companies that do not appear in the coverage profile produced by the Scheme Creditor. These would have the effect of distorting the calculations under the Carter Wallace allocation approach. Hence, the Chairman has used a standard coverage profile rather than that produced by the Scheme Creditor. I consider that this is a reasonable approach.

I consider that, without further information, it is reasonable to apply a weighting of 75% to the US State of New Jersey being the appropriate jurisdiction and 25% to the US State of Delaware being the appropriate jurisdiction, rather than the 50% loading applied to each US state by the Chairman. The Chairman requested a full coverage profile from the Scheme Creditor from which, where appropriate, he was able to give full allowance for gaps in coverage and insolvency of the insurers of the Scheme Creditor.

There are still reconciliation issues in that the Pro Rata allocation amounts calculated by the Scheme Creditor and the Chairman are different, but I do not have the information from the Scheme Creditor to perform the necessary calculations.

As the amount submitted by the Scheme Creditor is similar to that calculated by the Chairman, the Chairman proposed to admit the amount of $137,336 submitted by the Scheme Creditor.

However, taking into account the matters described above, I consider that an amount of $75,653 is more appropriate, rather than the amount of $137,336 as proposed to be admitted by the Chairman.

6.1.33. Creditor 34

The amount submitted by this Scheme Creditor was $96,613. Of this, an amount of $10,352 was proposed to be admitted by the Chairman.

The claims were in respect of aviation asbestos and toxic tort liabilities, plus aviation pollution liabilities.

The Scheme Creditor assessed its asbestos and toxic tort claims using a market share analysis approach based on a report dated 2008, that was in itself based on data prior to 2005, that was produced for the Scheme Creditor. I consider that a market share approach is not normally appropriate for a robust calculation of liabilities, and that the use of actual claims experience of the Scheme Creditor is preferable.

Further, the amount for toxic tort claims is calculated by the Scheme Creditor at 20% of the amount for asbestos claims with no justification. Without supporting information, this is unreasonable, in my opinion.

The underlying data in the 2008 report provided by the Scheme Creditor shows the position as at 2005, and is hence considerably out of date. Moreover market asbestos claims development since 2005 has been considerably less than that forecast.

The Scheme Creditor has ignored its own past claims experience, which is very small. Most of its ground up ultimate losses are in respect of estimated future liabilities.

The Chairman has utilised the claims experience of all asbestos and toxic tort claims combined of the Scheme Creditor in his calculations, and he has assessed his assumptions and based his projections on these past claims amounts. However, I have selected alternative assumptions that I believe are more appropriate, and that result in an increase in the numbers of estimated future claims, and that increase the ground up ultimate claims amount to $5m from that proposed by the Chairman of $4m.

The Scheme Creditor has stated that it has applied an All Sums allocation approach. However, in the US State of Rhode Island the allocation approach is uncertain, and so the Chairman has assumed that weights of 50% be applied to Pro Rata and All Sums, the latter being Net of Contributions in accordance with my views as in Appendix 2 of this Report. I consider that this assumption is reasonable. The Chairman requested a full coverage profile from the Scheme Creditor from which, where appropriate, he was able to give full allowance for

gaps in coverage and insolvency of the insurers of the Scheme Creditor.

The pollution liabilities are in respect of two sites.

The Run-off Company has confirmed that the policies do not respond to non products claims, and in the absence of supporting information, I consider that a zero amount for pollution claims is reasonable.

Whilst assessing the model used by the Chairman, I selected different assumptions from those of the Chairman, which I believe are more appropriate, as discussed above. Hence, I consider that an amount of $13,237 is more appropriate, rather than the proposed amount to be admitted by the Chairman of $10,352.

6.2 **Votes in respect of agreed claims arising from policies other than Qualifying ILU Policies**

9 of the 34 Scheme Creditors (whose votes I was asked to review) had votes in respect of agreed claims arising from policies other than Qualifying ILU Policies.

A summary of the amounts in respect of those agreed claims submitted by the 9 Scheme Creditors and proposed to be admitted by the Chairman is set out below.

Of the 9 Scheme Creditor claims originally identified, 8 were passed to me for review. The other claim was subsequently found to have been assigned to another party outside of the scope of my Report.

Only one of these 8 presented claims amounts had differences between the amount submitted by the Scheme Creditor and that assessed by the Chairman. However, the claims in respect of the other 7 Scheme Creditors are included, as it was not possible for the Chairman to provide supporting information separately for each of the 3 individual classes of business. When I have been referred such information in this class, I have included it in my review as below.

I consider that all 8 of these amounts proposed to be admitted by the Chairman are reasonable.

GSC Agreeds		OIC Scheme	
Appendix reference	Vote value submitted by Scheme Creditor	Vote value proposed to be admitted by the Chairman	Difference from Scheme Creditor
A1	1,071,474	1,071,474	0
A3	691,313	691,313	0

A4	180,652	180,652	0
A10	46,746	46,746	0
A13	3,149,775	3,149,775	0
A15	447,313	348,472	(98,841)
A19	88,298	88,298	0
A32	331,683	331,683	0
	6,007,255	5,908,414	(98,841)

Of these 8 files, I deemed the following 8 vote values as determined by the Chairman to be reasonable:

6.2.1. Creditor 1

The amount submitted by the Scheme Creditor was $1,071,474. All of the $1,071,474 was proposed to be admitted by the Chairman.

This amount was all in respect of a full and final asbestos products settlement, and so I consider that it is reasonable.

6.2.2. Creditor 3

The amount submitted by the Scheme Creditor was $691,313. All of the $691,313 was proposed to be admitted by the Chairman.

This amount was in respect of asbestos premises claims from the US State of Louisiana in respect of general liability policies, and was fully validated by the Run-off Company.

Hence, I consider that the amount is reasonable.

6.2.3. Creditor 4

The amount submitted by the Scheme Creditor was $180,652. All of the $180,652 was proposed to be admitted by the Chairman.

This amount is mainly related to UK asbestos claims plus a very small number of bone necrosis claims. The amount was validated by the Run-off Company.

I consider that this amount is reasonable.

6.2.4. Creditor 10

The amount submitted by the Scheme Creditor was $46,746. All of the $46,746 was proposed to be admitted by the Chairman.

The claim related to past costs for asbestos premises claims from a known site.

The Run-off Company validated this amount, which I consider is reasonable.

6.2.5. Creditor 13

The amount submitted by the Scheme Creditor was $3,149,775. A predominant amount of the $3,149,775 was in respect of USA APH reinsurance losses, and is proposed to be admitted by the Chairman.

The Run-off Company validated this amount, which I consider is reasonable.

6.2.6. Creditor 15

The amount submitted by the Scheme Creditor was $447,313. Of this amount, $348,472 was proposed to be admitted by the Chairman.

The Creditor has submitted both asbestos products and environmental pollution claims. Of the submitted amount for GSC Agreed claims, $348,472 was validated by the Run-off Company. The remaining amount could not be validated by the Run-off Company.

In the absence of information from the Scheme Creditor about the amount of claims that were not validated by the Run-off Company, I consider that the amount that was proposed to be admitted by the Chairman, being that which was validated by the Run-off Company, is reasonable.

6.2.7. Creditor 19

The amount submitted by the Scheme Creditor was $88,298. All of this $88,298 was proposed to be admitted by the Chairman.

This is all in respect of a pollution settlement and has been validated by the Run-off Company.

I consider that this amount is reasonable.

6.2.8. Creditor 32

The amount submitted by the Scheme Creditor was $331,683. All of this $331,683 was proposed to be admitted by the Chairman.

The claims are all inwards reinsurance claims in respect of one underlying known insured. The Run-off Company has validated this amount.

I consider that this amount is reasonable.

6.3 Votes in respect of all claims arising from Qualifying ILU Policies

A summary of the amounts in respect of claims arising from Qualifying ILU Policies ("QSC") submitted by the Scheme Creditors and proposed to be admitted by the Chairman is as below.

Although claims in respect of 12 Scheme Creditors were initially identified, 7 abstained from voting and hence only 5 were passed to me for review. I am not required to value the votes for the Scheme Creditors who abstained, and hence did not vote.

However, it was not possible for the Chairman to provide me with supporting information separately for each of the 3 individual classes of vote. The Chairman provided information to me for the full submission across all 3 classes, and he identified the classes in which the relevant Scheme Creditor had abstained from voting.

I believe that all 5 of the amounts are reasonable. Hence, my amounts are the same as those proposed to be admitted by the Chairman.

QSC	OIC Scheme		
Appendix reference	Vote value submitted by Scheme Creditor	Vote value proposed to be admitted by the Chairman	Difference from Scheme Creditor
A7	1,124,593	1,028,675	(95,918)
A16	810,000	0	(810,000)
A20	1,459,840	0	(1,459,840)
A24	98,236	0	(98,236)
A30	169,838	753,500	583,662
	3,662,507	1,782,175	(1,880,332)

6.3.1. Creditor 7

The QSC amount submitted by the Scheme Creditor was $1,124,593, being full policy limits. Of this amount, $1,028,675 was proposed to be admitted by the Chairman.

This relates totally to asbestos personal injury claims in respect of products liabilities arising from general liability policies.

The Scheme Creditor is part of an asbestos trust. Although the undiscounted amounts as calculated by the Chairman and the Scheme Creditor are the same at $1,173,000, there was a relatively small difference in the amounts after they were discounted for the time value of money.

I consider that the amount proposed to be admitted by the Chairman is reasonable given his discounting calculations.

6.3.2. Creditor 16

The QSC amount submitted by the Scheme Creditor was $810,000. $0 was proposed to be admitted by the Chairman.

The Scheme Creditor deemed that its claim arose under a QSC policy, whereas the Run-off Company confirmed that the claim did not arise under a QSC policy and so the amount submitted was considered by the Chairman within the GSC Outstanding and IBNR amount.

I consider that this is a reasonable approach.

6.3.3. Creditor 20

The total amount submitted by the Scheme Creditor was $1,459,840, solely for claims arising from QSC policies. $0 was proposed to be admitted by the Chairman.

Although an amount was submitted, there was no justification or a description of the nature of the vote made by the Scheme Creditor.

I understand that the Chairman sought publically available information in respect of potential claims from the Scheme Creditor, but was unable to find any information that might give rise to material exposure.

The Chairman proposed to admit the claim at zero, which, in the absence of further supporting information from the Scheme Creditor, I consider is reasonable.

6.3.4. Creditor 24

The QSC amount submitted by the Scheme Creditor was $98,236. $0 was proposed to be admitted by the Chairman.

A small proportion of the amount submitted was in respect of claims arising from a policy presented by the Scheme Creditor as a QSC policy, which was confirmed by the Run-off Company not to be a QSC policy. Hence, that amount was considered by the Chairman within the GSC Outstanding and IBNR amount.

I consider that this is a reasonable approach.

6.3.5. Creditor 30

The amount submitted by the Scheme Creditor was $169,838 in relation to two known pollution sites. An amount of $753,500 was proposed to be admitted by the Chairman.

Although the Scheme Creditor calculated the submitted amount in respect of 47 policies of the Scheme Companies, only 14 of those policies were verified by the Run-off Company, but it identified

another 73 policies. This is the main reason for the difference in the amount of the Scheme Creditor's and the Chairman's calculations, although there are others; more details of the issues, approach and calculations are included within Section 6.1.29.

I consider that the amount proposed to be admitted by the Chairman is reasonable, given the additional policies identified by the Run-off Company.

7. **Conclusions**

I was asked to review 34 files in respect of the Scheme Creditors. Based on the information that I received, I considered it reasonable to accept 23 and amend 11 of the values proposed to be admitted by the Chairman.

Based on my review of the reasonableness of the votes proposed to be admitted by the Chairman, the aggregated summary of amounts is as follows:

OIC Scheme					
Voting Class	Vote value submitted by Scheme Creditor	Vote value proposed to be admitted by the Chairman	Difference from Scheme Creditor	Vote Assessor Value	Difference from Chairman
QSC	3,662,507	1,782,175	(1,880,332)	1,782,175	0
GSC Agreeds	6,007,255	5,908,414	(98,841)	5,908,414	0
GSC O/S + IBNR	198,885,004	46,473,676	(152,411,328)	47,186,937	713,261
Total	208,554,766	54,164,265	(154,390,501)	54,877,526	713,261

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Colin J W Czapiewski
17th September 2015

Appendix 1
Letter of Agreement

Private & Confidential

Colin Czapiewski
Bayeux
Benenden
Kent
TN17 4AS

3 July 2014

OIC Run-Off Limited and The London and
Overseas Insurance Company Limited (both in
scheme of arrangement)
PricewaterhouseCoopers LLP
7 More London Riverside
London, SE1 2RT

Attention: Dan Schwarzmann, Joint Scheme Administrator

Dear Sir

OIC Run-Off Limited and The London and Overseas Insurance Company Limited (together hereinafter referred to as the "Companies") acting by their joint scheme administrators, Dan Schwarzmann and Paul Evans (the "Joint Scheme Administrators"), and subject to schemes of arrangement pursuant to section 425 of the Companies Act 1985

Proposed amending scheme of arrangement (pursuant to Part 26 of the Companies Act 2006) (the "Amending Scheme")

Independent vote assessor ("Vote Assessor")

Terms used (but not otherwise defined in this letter) shall have the meanings given to them in the Amending Scheme.

The Companies propose that I act as the Vote Assessor for the purpose of the Amending Scheme (which is proposed between the Companies and their respective Scheme Creditors).

I am therefore writing to confirm that I accept the appointment and consent to act as the Vote Assessor (as such term and role is defined and described in the Amending

Explanatory Statement and attached at Appendix A). Conditions relating to the resignation and removal of the Vote Assessor are also set out at Appendix A.

I agree that neither the Joint Scheme Administrators, nor any agent, advisor, representative, affiliate, employee, director, officer, partner, member, beneficiary, investor, servant, shareholder, trustee, attorney, or other person acting on behalf of, or otherwise related to or affiliated with the Joint Scheme Administrators or the Companies, nor any of their respective successors, shall have any personal liability directly or indirectly, under or in connection with: (a) this letter; (b) any agreement made or entered into under or pursuant to the provisions of this letter; or (c) any amendment or amendments to any of the foregoing made at any time or times, heretofore or hereafter. I, on behalf of myself and any of my successors and assigns as Vote Assessor, hereby waive any right to bring any claims related to this letter against individual persons. This paragraph shall survive termination of this letter and the Amending Scheme.

I understand that I may receive information that is confidential (including, but not limited to, in respect of the Companies and the Amending Scheme). I agree that I will maintain the confidentiality of any such information and will not pass it or divulge it to anyone without the prior express written permission of the Joint Scheme Administrators, their staff or the Companies.

My initial retainer for acting as Vote Assessor will be a fixed sum of £10,000.00, plus VAT at the applicable rate at the time of payment. This sum will cover my initial work in reading into the Amending Scheme prior to the Amending Scheme Meetings but after the Companies have received the Court order ("Court Order") to convene the Amending Scheme Meetings. The Companies will pay the retainer when the Court Order has been received.

My further work in relation to performing the role as Vote Assessor, following the Amending Scheme Meetings, will be charged on an hourly basis at £250 per hour, plus VAT at the applicable rate at the time of payment. I will produce timesheets on a weekly basis, or such other time as agreed with the Companies, showing the hours I have worked together with a reasonable level of information concerning the work I have undertaken.

Subject to the Companies Act and the terms of the Amending Scheme:

1) I shall not be liable for any loss incurred by me unless such loss is attributable to my own negligence, wilful default, breach of duty, breach of trust, fraud or dishonesty; and

2) the Companies shall indemnify me against any Liability incurred by me in defending any proceedings, whether civil or criminal, in which judgment is given in my favour or which are discontinued before judgment is given or in which I am acquitted. The Companies shall also indemnify me in connection with any application in which relief is granted to me by the Court from any Liability for negligence, wilful default, breach of duty or breach of trust including without prejudice to the generality of the foregoing, the matters referred to in sub-paragraph 1) above.

I look forward to hearing more from you and your colleagues in due course.

Yours faithfully

Signature____

Colin J W Czapiewski FIA MAAA

Tel: +44 (0) 1580 240415

Email: colin@czapiewski.co.uk

APPENDIX A

EXTRACTS OF THE VOTE ASSESSOR'S ROLE AS DEFINED AND DESCRIBED IN THE AMENDING EXPLANATORY STATEMENT

Paragraphs 9.7, 46.5 and 46.6 - A Vote Assessor will be appointed to review the values placed on Scheme Creditors' claims for voting purposes. The Vote Assessor will prepare a report for submission to the Court at the sanction hearing on the reasonableness of those voting values. This report will include his determination of the value that should be attributed for voting purposes to any Scheme Creditor's claim, where that Scheme Creditor was unable to agree on the voting value of the claim with the relevant Company. The Chairman of the Amending Scheme Meetings will provide the Vote Assessor with details of all votes submitted in relation to the Amending Scheme. The direction of the vote (i.e. whether the Scheme Creditor has voted for or against the Amending Scheme) will not, however, be disclosed to the Vote Assessor. The Chairman of the Amending Scheme Meetings will indicate to the Vote Assessor which, if any, other votes should, in his opinion, be reviewed by the Vote Assessor. The Vote Assessor will report his findings to the Chairman of the Amending Scheme Meetings and subsequently prepare a report for the Court to be made available prior to the sanction hearing.

Paragraph 35.10 - In the event of conflicts of interest arising between the Vote Assessor and the Companies or a Scheme Creditor, the Vote Assessor may continue to act with the informed consent of the relevant parties, or a suitably qualified alternate may be appointed by the Scheme Administrators in respect of the conflicted matter. Where the conflicted matter relates to a Qualifying Liability, the appointment of any alternate must also be approved in writing by NNOFIC and the ILU.

Paragraph 45.7 - Where a Scheme Creditor has assigned a Scheme Liability after the date of the Winding-up Petitions, notice of that Assignment has been provided to the Companies and the Scheme Administrators are satisfied that such Assignment is legally valid, the Assignee will be treated by the Companies as the Scheme Creditor in respect of that Scheme Liability for voting purposes (but subject to any amounts that may be due to the Companies from the Assignor). Where a Scheme Creditor has assigned a Scheme Liability after the date of the Winding-up Petitions and notice of that Assignment has not been provided to the Companies, the Assignor will be treated by the Companies as the Scheme Creditor in respect of that Scheme Liability for voting purposes. Where both the Assignor and the Assignee submit a claim for voting purposes the matter will be referred to the Vote Assessor for inclusion in his report on the reasonableness of voting values for submission to the Court.

Paragraph 46.1 - If Colin Czapiewski is unable to act as the Vote Assessor for any reason, it is proposed that his replacement be such other independent and sufficiently qualified person as the Scheme Administrators may nominate.

Paragraph 46.4 - The Scheme Administrators consider that Colin Czapiewski is independent of the Companies in that he has had no direct previous employment with them and will not be remunerated on any form of contingency basis.

RESIGNATION AND REMOVAL

The role of Vote Assessor shall be vacated if the person holding that office shall:

1. die;

2. be convicted of an indictable offence (or an offence which, if committed in the United Kingdom, would amount to an indictable offence);

3. resign his office at any time by giving not less than three months' notice in writing sent by Post to the Scheme Administrators (or such shorter period of notice as may be agreed by the Scheme Administrators);

4. become unable to pay his debts within the meaning of the Insolvency Act or enter into any composition or arrangement with his creditors within the meaning of the Insolvency Act;

5. be disqualified from acting as a director of a company under the CDDA or equivalent legislation in any other jurisdiction;

6. become Mentally Disordered; or

7. be removed for good cause by the Scheme Administrators.

If there is a vacancy in the office of the Vote Assessor (otherwise than by reason of his removal from office at a meeting of Scheme Creditors at which another individual or person is appointed in his place), the Scheme Administrators may, with the consent of the Creditors' Committee, NNOFIC and the ILU, fill that vacancy by appointing another individual or person with the relevant qualifications for that role.

Upon the appointment of a new Vote Assessor, the Scheme Administrators shall place a notice of his or its appointment on the Website and shall send such notice by Post to those Scheme Creditors who have previously made a Postal Service Request.

Appendix 2
Discussion of some specific issues

I have included in this Appendix a discussion of some of the issues arising within the calculations of liabilities in respect of several of the Scheme Creditors. These represent my opinions, and they are based on my actuarial experience, expertise and understanding. Hence, they are my interpretation of relevant issues, and they have been applied where appropriate in arriving at my conclusions.
When assessing the underlying assumptions and calculations, I carefully considered the issues from a perspective of reasonableness in totality for each individual Scheme Creditor separately, as well as consistency and equity (or fairness) between all of the Scheme Creditors.

1. Allocation of US APH claims

1.1 The normal methods of allocation of US APH claims, such as asbestos and pollution, as ruled by the courts in US State jurisdictions, are types of Pro Rata and All Sums allocation.

The most notable exception is a version of Pro Rata, being proportional to limits, known as Carter Wallace, as used in the jurisdiction of the US State of New Jersey.

1.2 It is important to clarify that a correct procedure of an allocation of liabilities does not affect the **quantum** in total from the perspective of the insured. Rather, it is the **apportionment** of those liabilities between the policies of the various insurers, plus any amount retained by the insured.

1.3 A fundamental difference between the approaches for All Sums and Pro Rata allocation is that, for the All Sums approach to allocation, no amounts are allocated to the following:

a) periods when the insured had no insurance coverage,
b) self insured retentions,
c) insolvent coverage.

Conversely, under a Pro Rata approach to allocation, amounts are allocated to the above.

As a result of the characteristics of the All Sums approach to allocation, including the above, for the All Sums approach to allocation, the insured normally receives claims amounts from insurers for such periods of time including those where the insured:

1.3.1 was not insured,
1.3.2 had self insured retentions,
1.3.3 had claims exceeding the limits of the insurance policies, or,
1.3.4 had one or more insolvent insurers.

Conversely, the Pro Rata approach to allocation usually does not permit the insured to claim in respect of some, or all, of these amounts.

Under All Sums, claims amounts are only subject to the application of one self insured retention for each policy year selected by the insured, whereas under Pro Rata, each and every year of coverage triggered for the claims is subject to a self insured retention.

Typically, the above means that the amounts recovered by insureds from insurers under All Sums allocations are more than those recovered under Pro Rata.

1.4 I understand that these allocation methods have all been generally accepted by insurers and insureds for a considerable number of years; the method being whichever is appropriate for the particular US State, as determined by the legal rulings of that US State.

The appropriate US State will often be determined by the headquarters of the Scheme Creditor, either at the time of the claim or when the policies were written. Alternatively, the allocation method adopted may be that for the US State in which the asbestos premises or pollution site is situated. Finally, the allocation may be determined by some other factor that is deemed to be appropriate for determining the required US State.

In many, but certainly not all, cases, sufficient rulings may have been determined within the US State to indicate which allocation method is appropriate.

For the US States with no definitive rulings, there is no single accepted allocation method and a weighted combination of the results of applying All Sums and Pro Rata allocation methods in certain proportions is appropriate.

The application of these proportions calls for an element of subjective judgement. The Scheme Actuarial Adviser produced a schedule based on his understanding of the rulings and judgments in the various US States. I believe that this included his interpretation of legal advice that he obtained. I reviewed this schedule based on my own experience and knowledge, and I consider it to be reasonable.

1.5 US APH claims are typified by the uncertainty inherent in their ultimate evaluation. Such uncertainty can be considerable.

US APH claims are likely to continue to be notified well into the future, despite no new business having been written by the Scheme Companies for more than 20 years.

1.6 The courts have considered various issues such as fairness between insureds and insurers, fairness between insurers, consistency and the reduction in potential for further litigation.

It is thus reasonable to include such issues within the allocation method selected.

I consider that these issues are generally accepted by the majority of insureds and insurers.

1.7 In my experience, the approach taken by the Chairman to All Sums (being All Sums Net of Contributions) is that which is normally used in commutations and other claims settlement agreements.

The Chairman's approach satisfies the requirements of being fair to insureds and insurers and fair as between insurers. It can thus reduce further litigation and the approach further incorporates a level of consistency.

1.8 My understanding of the approach taken by the Chairman to All Sums Net of Contributions is that it follows the same lines as for normal settlements of such claims. Initially, the amount is determined for allocation using the policy years selected by the insured. Together with input from the brokers and lead insurers, the calculations are made for those years. Gaps in cover, self insured retentions and other specific issues as discussed in section 1.3 above are addressed in accordance with the procedures for All Sums in that US State. The above results in amounts that are apportioned to all of the insurers in a fair and equitable manner according to the policies involved, within, of course, the relevant and appropriate policy years of coverage.

1.9 I have seen some legal discussions about the All Sums allocation approach, and sometimes this has included the issue of contributions, but I have never seen a reasonable argument which indicates that making allowance for contributions would be inequitable or inappropriate.

1.10 I believe that any experienced actuary, and indeed any reasonable insurers and insureds, would consider that the All Sums Net of Contributions allocation approach is the appropriate All Sums allocation approach and that Pure All Sums, which does not affect any apportionment of liabilities as described in section 1.8 above, is wholly inappropriate.

1.11 The above must be considered within the context of the policy wording of the insurance policy which forms a contractual agreement between the insured and insurer, although the courts may determine that parts of the agreement (for example allocation methodology) may not be appropriate in certain circumstances.

1.12 Finally, I reiterate my introduction to this appendix where I say that the assumptions, calculations and approaches must be considered within the terms of consistency and equity (fairness).

2. Best Estimate

2.1 It is important that the amounts of claims in respect of the liabilities are consistent, fair and robust.

2.2 A best estimate is normally defined as an estimate that is intended to represent the statistical mean of the distribution of possible outcomes.

This is also the definition used in the Amending Scheme.

The best estimate is for the valuation of the overall amount of the claim, and, by inference, also for the notified outstanding claims and the IBNR claims.

The best estimate must neither be biased such that it is too high nor too low, and it should exclude any margins.

A best estimate is appropriate for insolvent schemes of arrangement as there is a fixed amount of funds available for distribution.

Hence, if one insured obtains more, then another obtains less, so equity (fairness) and consistency are very important.

2.3 The best estimate is normally the starting point for many aspects of the insured's business.

For many regulatory or tax reasons, the best estimate is required.

In any discussions for commutations or settlement agreements, the best estimate is recognised as the equitable amount at which a willing and knowledgeable buyer and a willing and knowledgeable seller would come to an agreement.

2.4 The proposed Amending Scheme requires a best estimate valuation of claims.

2.5 Percentile estimates are included by some Scheme Creditors in their calculations.

I cannot envisage when these percentile estimates might be appropriate or suitable.

I understand that these percentiles are calculated so that a percentage of claims estimates would be higher or lower than the specified percentiles, without allowing for a weighting.

These cannot be directly compared with the weighted amounts that form the distribution for the purpose of calculating a mean.

Hence, they will normally produce wholly inappropriate estimates of claims amounts.

These could produce amounts significantly different from the best estimate amounts and introduce considerable inequity and inconsistency.

3. Occurrence

3.1 Asbestos Products bodily injury claims are in my experience normally, but not always, assumed to aggregate.

I consider that aggregation is appropriate owing to the claims being deemed to arise from continuous or repeated exposure to substantially the same conditions.

The normal practice is for such claims to aggregate in total unless the policy terms specifically provide otherwise.

3.2 Pollution claims are in my experience normally, but not always, aggregated on a per polluted site basis.

3.3 Asbestos premises claims are in my experience normally, but not always, aggregated on a per site basis.

3.4 However, the above are not wholly exclusive definitions. Other factors such as the policy wording, precedents or US State rulings can amend these and introduce other definitions of occurrence.

3.5 When the occurrence definition of asbestos premises or pollution claims is not specified in the policy wording, although there is most likely one occurrence per site, there may be a small probability of total aggregation, and a non zero probability of a separate occurrence for each individual claim.

3.6 The Chairman has assumed that most asbestos premises claims aggregate on a per site basis, and he assigns an 80% default probability to this form of occurrence. A variation of this is to include all sites within one US State as one occurrence, normally when there is insufficient information to identify the per site amounts.

The Chairman also assumes that such claims have a small probability of being aggregated in total, and he assigns a 10% probability to this.

Finally, the Chairman assumes, with a 10% probability, that each claim will be a separate occurrence.

Specific circumstances may dictate that alternative probabilities are assigned, such as relevant policy wordings.

I consider that this consistent approach is reasonable when specific information is not available.

In such cases, within my independent vote assessment role, I examined the effect of selecting different probabilities from those above to assess the effects and materiality of such different assumptions.

4. Pollution Win factors

4.1 The Scheme Actuarial Adviser produced a schedule of Pollution Win Factors by US State.

These were based on his interpretation of legal advice that he has received based on the relevant US State case law.

4.2 These Win Factors are designed to reflect the probability that one of several policy exclusions would be upheld within a given US State.

4.3 I consider that it is generally accepted that, for commercial general liability policies, no claims can be made after 1985 when total and absolute pollution exclusions were introduced (although not for aviation policies).

4.4 In 1971, "Sudden and Accidental" exclusion clauses were introduced into most commercial general liability policies, whereby claims that occurred suddenly and accidentally were not considered to be recoverable.

However, this exclusion was only partially successful in negating the liability of the insurer for pollution claims, and the degree of this success thus varied by US State.

4.5 Later, in 1981, the "Own Property" exclusion was introduced into many commercial general liability policies, whereby damages to the insured's own property were not covered by the insurance policy.

Again, this exclusion was only partially successful in negating the liability of the insurer for pollution claims, and the degree of this success thus varied by US State.

4.6 Although I did not check these Win Factors, I assessed the results broadly for reasonableness based on my knowledge, and in my opinion, the schedule does not look unreasonable.