

Our Ref:

TO ALL KNOWN POLICYHOLDERS, CEDANTS, BROKERS AND INTERMEDIARIES

29 November 2010

Dear Sir/Madam

**OIC RUN-OFF LIMITED
(FORMERLY THE ORION INSURANCE COMPANY PLC)
THE LONDON AND OVERSEAS INSURANCE COMPANY LIMITED (FORMERLY THE LONDON
AND OVERSEAS INSURANCE COMPANY PLC)
(BOTH COMPANIES SUBJECT TO A SCHEME OF ARRANGEMENT AND TOGETHER
REFERRED TO AS "THE COMPANIES")**

1. Introduction

I am writing to provide you with an update of the progress with regard to the Scheme of Arrangement for the Companies which became effective on 7 March 1997.

You have received this letter as you may be a policyholder or cedant of the Companies and you may have a claim against them or you may be an agent of a policyholder or cedant. This letter is being distributed to a large number of parties whose details have been obtained from a range of sources and it may be that this letter is not relevant to you. If you are unsure as to the status of your relationship, if any, with the Companies, you should consult your insurance broker or intermediary in the first instance. If you need any further information or wish to have your details removed from the mailing list, please contact the run-off manager, Armour Risk Management Limited ("Armour"), whose details may be found at the end of this letter.

2. Payment percentage

The current payment percentage was set at the Creditors' Committee meeting in July 2010 when it was agreed to increase the payment percentage to 53% from the previous level of 50%. Scheme Creditors with Established Liabilities who are entitled to further top ups should have already received this additional payment.

In addition, certain claims continue to be paid in full to Qualifying ILU Policyholders ("QUIPS") under the terms of the arrangements put in place with Nationale-Nederlanden Overseas Finance and Investment Company Unlimited ("NNOFIC") and The Institute of London Underwriters ("ILU") ("the Arrangements").

3. Financial position

The audited consolidated balance sheet as at 31 December 2009 is summarised below:

	US\$m
ASSETS	
Reinsurance	144
Investments & other assets	<u>727</u>
	<u>871</u>
LIABILITIES	
Gross insurance reserves	719
Agreed claims & other creditors	759
Subordinated debt	<u>(154)</u>
	<u>1,324</u>
NET DEFICIENCY	<u>(453)</u>

The ratio of assets to liabilities (which are stated after deducting Scheme of Arrangement dividend payments) in the above summary balance sheet is 66%. However, for a variety of reasons the summary balance sheet must not be relied upon to estimate the likely ultimate payment percentage. In particular, there remain uncertainties surrounding the development of insurance reserves as well as the level of set-off.

4. Closure

In my last letter in 2008 I indicated that it was hoped that an Amending Scheme of Arrangement (“Amending Scheme”), to enable future liabilities to be crystallised and final payments to be made to policyholders and cedants, might be issued in the near term. This was following an assessment by NNOFIC of the overall proposals.

The formulation of an Amending Scheme has taken much longer than originally anticipated. Discussions continue with interested parties, including NNOFIC and the ILU, and their legal advisors and it is currently hoped draft proposals will be explained in broad terms to creditors in early 2011.

The Scheme Administrators have continued to progress the closure process with the crystallisation of claims (both actual and contingent) with individual Scheme Creditors. The following benefits to Scheme Creditors have resulted since the implementation of this closure and settlements strategy at the beginning of 2003:

- staged increases in the payment percentage from 38% to 53%;
- an increase in the proportion of agreed claims to gross actual and contingent claims from 31% to 60%; and
- the payment of \$310m in dividends to Scheme Creditors with Established Liabilities, bringing total dividend payments since 7 March 1997 to over \$543m as at 30 September 2010.

If your claims are not established and you wish to commute these, please contact Armour at the contact details given below.

I am also aware that there are a number of third parties who are seeking to purchase Scheme Creditor claims against the Companies, including but not limited to Established Liabilities in respect of which the above payment percentage has been paid. Although offers to purchase claims are unlikely to be of interest to QUIPS as they are paid in full in accordance with the Arrangements, should you wish to sell your claims against the Companies to any such interested third party, please contact the Scheme Administrators by email at pic.run-offlimited@uk.pwc.com and we will provide you with relevant details. Please note that the Scheme Administrators express no views on the merits or otherwise of Scheme Creditors selling their claims against the Companies to any other party. Individual Scheme Creditors should take their own professional advice and form their own view on whether or not to sell their claims against the Companies to third parties and, if appropriate, on the legal documentation.

5. Creditors' Committee ("Committee")

The Scheme Administrators continue to report to and meet with the Committee on a regular basis. The Committee are updated on progress with regard to the Scheme of Arrangement as well discussions with NNOFIC and the ILU concerning closure and the Amending Scheme. While the Scheme Administrators and Committee alike would clearly have preferred a more rapid move to closure, they continue to believe that closure at the earliest possible time is in the best interests of Scheme Creditors as a whole. The Scheme Administrators continue to be grateful for the support and assistance given to them by the Committee.

6. (i) Website

There is a dedicated website for the Companies, www.oicrun-offltd.co.uk, which includes copies of the current Scheme of Arrangement document and the latest audited financial statements for the Companies.

The Scheme Administrators may be contacted by e-mail at oic.run-offlimited@uk.pwc.com

(ii) The run-off manager

A new run-off manager, Armour Risk Management Limited, was appointed in May 2010. The staff previously involved with the day-to-day management of the run-off have been retained by Armour and can be contacted at OICClosureHelpdesk@armour-risk.com or, alternatively, at:

Armour Risk Management Limited
20 Old Broad Street
London EC2N 1DP

Telephone No: +44 (0) 20 7382 2020

Fax No: +44 (0) 20 7382 2001

Please confirm any change in your contact details to Armour and provide an e-mail address for future communication if you have not already done so. Should you have any queries in relation to the matters referred to in this letter, please contact Armour in the first instance.

Yours faithfully
For and on behalf of
OIC Run-Off Limited
The London and Overseas Insurance Company Limited



DY Schwarzmann
Joint Scheme Administrator