

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should consult your insurance broker or other professional adviser without delay.

In an endeavour to ensure that insurance brokers are in a position to advise their clients, a copy of this document has been sent to all brokers known to have placed business with or on behalf of The Orion Insurance Company PLC and The London and Overseas Insurance Company PLC.

Further copies of this document and the enclosed voting forms can be obtained from Price Waterhouse at the addresses listed on page 73.

**PROPOSAL IN RELATION TO
A SCHEME OF ARRANGEMENT**

between

**THE ORION INSURANCE COMPANY PLC
(formerly Ralli Brothers Insurance Company Limited)
THE LONDON AND OVERSEAS INSURANCE COMPANY PLC
(formerly Hull Underwriters' Association Limited)**

and their respective

**SCHEME CREDITORS
(as defined in the Scheme of Arrangement)**

The meetings of Scheme Creditors to consider the Scheme of Arrangement will be held on 14 February 1997. Notices of the meetings are set out on pages 145 and 147.

The action required to be taken by you is set out on page 7. Whether or not Scheme Creditors intend to be present at the meetings, they are requested to complete and return the relevant voting form(s) enclosed with this document as soon as possible.

20 November 1996

IMPORTANT NOTICE

The Joint Provisional Liquidators of The Orion Insurance Company PLC ("Orion") and The London and Overseas Insurance Company PLC ("L&O") accept responsibility for the statements, opinions and information contained in this document upon the basis that, to the best of their knowledge and belief, having taken all reasonable care to ensure that such is the case, the statements, opinions and information contained in this document are correct.

The statements, opinions and information contained in this document are made, held or given respectively as at the date of this document unless another time is specified and such statements, opinions and information are made, held or given solely by or on behalf of Orion and/or L&O unless expressly attributed to another party.

None of the PPB, NNUK, NNOFIC, Nat-Ned, 1845, ING Groep NV, any other member of its group or the ILU (other than in the case of the ILU in respect of Appendix 2) or any of their directors, officers, employees or agents are responsible for any of the statements, opinions and information contained in this document.

Nothing contained in this document constitutes an admission of any fact or liability on the part of either Orion or L&O or any other person in respect of any asset to which they may be entitled or any claim against them. No estimate of the amount of any claim against Orion or L&O specified in the voting forms returned to the Joint Provisional Liquidators, or otherwise provided for voting purposes, shall be admissible against Orion, L&O, the PPB or any other party, or shall be taken into account in calculating payments under the Scheme of Arrangement ("the Scheme"). Any such estimate shall only be used for voting purposes at the meetings of creditors to consider the Scheme.

The summary of the principal provisions of the Scheme and related matters contained herein is qualified in its entirety by reference to the Scheme itself, the full text of which is set out on pages 75 to 143.

The Joint Provisional Liquidators have not authorised any person to make any representation, whether oral, written, express or implied, concerning the proposed Scheme, which is inconsistent with the statements made in this document. Consequently, if such representations are made, they should not be relied upon.

Each creditor of Orion or L&O should not construe the contents of this document as legal, tax, financial or other professional advice. Each creditor should consult his own professional advisers as to the legal, tax, financial or other matters relevant to the action he should take in connection with the Scheme.

Joint Provisional Liquidators	Legal advisers	Actuarial advisers
Paul Evans Richard Boys-Stones Price Waterhouse No 1 London Bridge London SE1 9QL England	Lovell White Durrant 65 Holborn Viaduct London EC1A 2DY England Chadbourne & Parke LLP 30 Rockefeller Plaza New York NY 10112-0127 USA	Lane, Clark & Peacock 30 Old Burlington Street London W1X 2NN England

Please turn over for key definitions used in the Explanatory Statement.

PART I

EXPLANATORY STATEMENT

A: KEY DEFINITIONS

The Explanatory Statement is intended to explain the main provisions of the Scheme. The following definitions shall apply throughout the Explanatory Statement. They correspond to defined words and phrases in the Scheme and are in some instances summaries of longer definitions. They are not intended to be comprehensive and where they are inconsistent with the terms as used in the Scheme, the Scheme prevails over them.

"Companies"	L&O and Orion, L&O or Orion individually being referred to as "the", or "a", "Company" or "the relevant Company";
"Court"	the High Court of Justice of England and Wales;
"Court Orders"	the orders of the Court sanctioning the Scheme;
"Creditors' Committee"	the committee of creditors established in accordance with the Scheme;
"Directors"	the directors of either or both of the Companies from time to time;
"Dual Scheme Creditor"	a Scheme Creditor who has a claim against both of the Companies in respect of the same Scheme Liability other than a Policyholder or a Qualifying ILU Policyholder;
"Effective Date"	the date on which office copies of the Court Orders sanctioning the Scheme are delivered to the Registrar of Companies in England for registration;
"Established Liability"	a Scheme Liability or Account Balance as defined in the Scheme which has become established;
"Insurance Contract"	any contract or policy of insurance, reinsurance or retrocession of any kind whatsoever entered into by or on behalf of either or both of L&O or Orion;
"ILU"	The Institute of London Underwriters;
"L&O"	The London and Overseas Insurance Company PLC;
"Nat-Ned"	ING Verzekeringen NV (formerly Internationale Nederlanden Verzekeringen NV or Nationale-Nederlanden NV);
"1845"	Nationale-Nederlanden Internationale Schadeverzekering NV (formerly The Netherlands Insurance Company Est 1845 Limited);
"NNOFIC"	Nationale-Nederlanden Overseas Finance and Investment Company Unlimited;
"NNUK"	Nationale-Nederlanden (UK General) Limited;

"Ordinary Creditor"	a Scheme Creditor other than a Policyholder, a Qualifying ILU Policyholder, a Dual Scheme Creditor or NNOFIC;
"Orion"	The Orion Insurance Company PLC;
"Payment Percentage"	the percentage of an Established Liability that the Scheme Administrators determine from time to time should be paid to Scheme Creditors;
"Policyholder"	a Scheme Creditor of either or both of L&O and Orion under an Insurance Contract (other than a Qualifying ILU Policy);
"PPB"	the Policyholders Protection Board established by the Policyholders Protection Act 1975;
"Provisional Liquidators"	the persons appointed by the Court to act as joint provisional liquidators of the Companies;
"Qualifying Established Liability"	a Scheme Liability to a Qualifying ILU Policyholder which has become established;
"Qualifying ILU Policyholder"	a Scheme Creditor of either or both of L&O and Orion under a Qualifying ILU Policy;
"Qualifying ILU Policy"	a contract of insurance, reinsurance or retrocession between either or both of L&O or Orion and a Scheme Creditor evidenced by a policy signed and issued by the ILU: (1) in the case of L&O with an inception date on or after 20 March 1969; and (2) in the case of Orion with an inception date on or after 28 August 1970;
"Scheme"	the Scheme of Arrangement as set out on pages 75 to 143 of this document in its present form or as modified;
"Scheme Administrators"	the persons appointed to administer the Scheme;
"Scheme Creditor"	a creditor of either or both of the Companies in respect of a Scheme Liability;
"Scheme Liability"	an obligation or liability of either or both of the Companies as defined in the Scheme;
"Scheme Meetings"	the meetings of Scheme Creditors convened by each of the Companies with leave of the Court to consider and, if thought fit, to approve the Scheme;
"Voting Forms"	the forms to be used by Scheme Creditors for the sole purpose of voting on the Scheme and the composition of the Creditors' Committee;
"Winding-up Petitions"	the petitions to wind up the Companies, both of which were presented to the Court on 20 October 1994.

TABLE OF CONTENTS

PART I	Explanatory Statement	Page
A:	Key definitions	Inside Cover
B:	Summary	3
C:	Detailed contents	9
D:	Factors to consider when voting on the Scheme	11
E:	History and financial information	18
F:	Sources of additional payment	27
G:	Operation of the Scheme	33
H:	The voting process	46
I:	Appendices	49
PART II	The Scheme	75
PART III	Notices of the Scheme Meetings	145
PART IV	Guidance notes for completion of the Voting Forms	149

PROVISIONAL TIMETABLE

Scheme Meetings

The Scheme Meetings of the following classes of Scheme Creditors for each Company shall all commence at 11.00am on 14 February 1997 at Glaziers Hall, 9 Montague Close, London Bridge, London SE1 9DD, England:

- Policyholders and Dual Scheme Creditors
- Qualifying ILU Policyholders
- Ordinary Creditors

A description of the various classes of Scheme Creditor for voting purposes only is given in Appendix 1.

Court hearings in February 1997

- In England, to sanction the Scheme
- In the United States, to obtain a permanent injunction under section 304 of the United States Bankruptcy Code

Scheme becomes effective in March 1997

The above dates, other than that of the Scheme Meetings, are tentative only since the dates of the Court hearings will only be confirmed if the Scheme is approved at the Scheme Meetings.

PART I
EXPLANATORY STATEMENT
B: SUMMARY

1 Introduction

Orion and its wholly owned subsidiary, L&O, are insurance companies incorporated in England which are insolvent because each Company has insufficient assets to meet all its liabilities, including estimated future liabilities. They have ceased paying claims except under special arrangements in respect of liabilities under Qualifying ILU Policies.

On 21 October 1994 Paul Evans and Richard Boys-Stones, both partners in the United Kingdom firm of Price Waterhouse, were appointed Provisional Liquidators by the Court to manage the Companies for the benefit of all their creditors and to consider the best way of dealing with the insolvencies of the Companies. During the course of their appointments the Provisional Liquidators have reported on a regular basis to, and consulted with, an informal creditors' committee. The members of the informal creditors' committee are given on pages 155 to 158.

The Companies are now proposing to enter into the Scheme with their Scheme Creditors, a proposal which in many respects is similar to a plan of reorganisation under United States law. If approved, the Scheme will affect the rights of all Scheme Creditors against each of the Companies. However, nothing in the Scheme is intended to affect the rights and obligations of Scheme Creditors against or towards any person other than each of the Companies.

2 Why have you been sent this document?

A copy of this document has been sent to you because, in most cases, a broker or intermediary has indicated that either or both of the Companies may be responsible for some or all of your insurance or reinsurance cover, or because you might otherwise have a claim against either or both of the Companies. However, receipt of this document does not mean that you are a creditor or potential creditor of either or both of the Companies or that you will be affected by the Scheme. You may need to ask your broker for further details of your involvement with the Companies.

3 What is a scheme of arrangement and how does it become binding?

A scheme of arrangement, such as that proposed here, is an arrangement prescribed by English statute (section 425 Companies Act 1985) which is entered into by a company and its creditors or any class of them. To become legally binding on a company and its creditors or any class of them (even if they did not vote or voted against it), a majority in number representing 75% in value of the creditors or class of creditors, present and voting in person or by proxy, must vote in favour of the scheme of arrangement and the Court must then approve it. It becomes effective (and so legally binding) when the order of the Court sanctioning the scheme of arrangement is filed with the Registrar of Companies in England.

4 Why has the Scheme been proposed?

In practice there are two alternative solutions for the Companies given their insolvency: liquidation or a scheme of arrangement. The Provisional Liquidators have concluded that a scheme of arrangement outside liquidation is the most advantageous route for creditors.

5 The position for Policyholders and Ordinary Creditors

The advantages of the Scheme for Policyholders and Ordinary Creditors as a whole are:

- (1) the prospect of some payments being made to Scheme Creditors earlier than would be likely in a liquidation;
- (2) in respect of cash assets, the avoidance of the investment and handling fees payable to the Department of Trade and Industry ("DTI") which are required by statute in a liquidation and which are estimated to be substantial;
- (3) Scheme Creditors will receive payments in the currency provided for by their policies, thus minimising the exposure to changes in exchange rates that they could suffer in a liquidation;
- (4) a more flexible investment policy than would be permitted in a liquidation;
- (5) the resolution of disputed claims by a method which is expected to produce substantial cost savings;
- (6) the arrangements with NNOFIC in relation to Qualifying ILU Policyholders will permit the Companies to make subrogated recoveries from third parties; and
- (7) in order to facilitate the payment of a common Payment Percentage NNOFIC will, if the Scheme is approved, subordinate to the Established Liabilities of all other Scheme Creditors amounts owing to it by the Companies totalling £98 million.

6 The position for Qualifying ILU Policyholders

Prior to the appointment of the Provisional Liquidators, an agreement was entered into between the ILU and Nat-Ned and 1845, both subsidiaries of ING Groep NV (formerly Internationale Nederlanden Groep NV), the ultimate shareholder of the Companies. The agreement recorded, amongst other things, the surrender and discharge of guarantees given to the ILU by Nat-Ned and 1845, and the establishment of a credit facility by Nat-Ned and 1845, secured by an irrevocable letter of credit in favour of the ILU, for payment of liabilities arising on Qualifying ILU Policies. The Provisional Liquidators have reviewed the agreement and are satisfied that the guarantees were validly discharged and surrendered.

On 30 June 1995 detailed arrangements were agreed for the payment of liabilities to Qualifying ILU Policyholders, except those where rights of set-off were involved. A copy of the related ILU announcement is at Appendix 2. Agreed claims covered by these arrangements are currently being paid by each of the Companies using funds borrowed for the purpose from NNOFIC which has become a Scheme Creditor in respect of the amounts borrowed. NNOFIC has agreed to be bound by the Scheme.

Upon the Scheme becoming effective and once a "principal-to-principal" accounting system is operational (anticipated within six months of the Scheme becoming effective), payments to other Qualifying ILU Policyholders with agreed claims net of set-off will commence under similar arrangements. A further announcement was made about this by the ILU on 20 August 1996 and a copy of that announcement is at Appendix 2.

The Provisional Liquidators have been involved in the agreement of the payment arrangements in order to assist in creating a process for handling these claims as efficiently as possible, and have obtained the consent of the Court for the Companies to enter into those arrangements.

The advantages of the Scheme for Qualifying ILU Policyholders as a whole are:

- (1) the continuation and extension of the claims agreement and payment arrangements, which should facilitate quicker and more efficient settlement of liabilities arising on Qualifying ILU Policies than would be likely in a liquidation;
- (2) the application of set-off in a manner that is likely to allow payment earlier than would be practicable in a liquidation; and
- (3) payments in the currency provided for by their policies, thus minimising the exposure to changes in exchange rates that they could suffer in a liquidation.

7 How does the Scheme work?

The Scheme has been designed to ensure that the Companies' businesses are run-off in as orderly a manner as possible. It will be managed by the Scheme Administrators who will be supervised by a Creditors' Committee, whose members other than the PPB will be elected.

To the extent that claims are agreed, the run-off of the businesses will resemble that of a solvent insurer, except that Scheme Creditors will receive only part payment of their Established Liabilities. Where claims are disputed, the process by which such claims are agreed will differ from a solvent run-off.

Cross-guarantees between the Companies in favour of each other's Policyholders were executed in the 1970's to enable the Companies to prepare consolidated, as opposed to individual, annual returns for the DTI. The effect of the cross-guarantees is that any Policyholder or Qualifying ILU Policyholder will have the same net claims against both Companies. In order to minimise administrative costs during the Scheme and take account of the effect of the cross-guarantees, all Scheme Creditors will receive a common Payment Percentage on their Established Liabilities against each of the Companies (as principal debtors). During the Scheme, Scheme Creditors will not be able to enforce their rights under the cross-guarantees.

Once the Payment Percentage has been set, the Companies will make payment to Scheme Creditors in respect of Established Liabilities as soon as practicable after they are agreed, and each time the Payment Percentage subsequently increases, as is anticipated. The Payment Percentage will be set at a level such that the assets retained by the Companies are estimated to be more than sufficient to make similar payments to Scheme Creditors whose claims are not agreed for a number of years. This allows each of the Companies to fulfil their obligations, albeit in part only, to Scheme Creditors in such a way as to be fair both to such creditors whose claims are established quickly and to those whose claims may not be agreed for some time. Qualifying ILU Policyholders will receive further payments, as referred to in paragraph 6 above.

The Provisional Liquidators anticipate that the Companies will be able to commence payments to Scheme Creditors with Established Liabilities within six months of the Effective Date. The Payment Percentage is likely to be around 15% initially and could eventually rise to over 50%. Scheme Creditors should bear in mind that it is impossible to guarantee these figures. They are calculated with reference to the Companies' audited consolidated balance sheet as at 31 December 1995, and there remains great uncertainty as to the extent to which further claims will erode reserves, the ultimate level of the Companies' bad debts arising from difficulties in collecting reinsurance recoveries and the extent of set-off between amounts payable by and to each Company. The combination of these factors makes it impossible to predict the Payment Percentage which the Companies will ultimately pay.

Certain Scheme Creditors may have other sources of payment in respect of either or both of the Companies' liabilities to them either in addition, or as an alternative, to the Companies' payment obligations under the Scheme. In particular the PPB will join in the Scheme and make additional payments to those Scheme Creditors who are Policyholders and who would be eligible for protection under the Policyholders Protection Act 1975 on a liquidation of the relevant Company and under section 16 of that Act.

8 Cedants who are also reinsurers

Insurance companies or Lloyd's syndicates which have ceded business to the Companies may also be their reinsurers or retrocessionaires. Consequently, at any time there may be agreed amounts due both to and from either of the Companies in respect of an individual cedant or syndicate. Set-off will be applied where, prior to the date of the Winding-up Petitions, there existed mutual liabilities between a Company and that Scheme Creditor. Set-off will be applied in the Scheme in respect of amounts actually agreed as due both by and to that Company. Because of the cross-guarantees, amounts due from and to both Companies will be taken into account. A net balance of agreed liabilities may be struck at any time during the Scheme. Liabilities which at that time are not yet agreed, including those which are unascertained or not yet reported, shall be taken into account by the Scheme Administrators in determining whether or not the net balance due to a Scheme Creditor will become an Established Liability and enable the Scheme Creditor to receive payment under the Scheme. This will minimise the risk to creditors as a whole of overpaying a Scheme Creditor whose net balance reduces over time as claims mature, or who may become a net debtor. Broadly, the overall effect should be that set-off is applied on a basis similar to that which would apply in a liquidation, but with set-off operating over the period of the run-off as claims mature rather than as at the date of liquidation.

For a Qualifying ILU Policyholder who is a reinsurer or retrocessionaire of either or both of the Companies, it is proposed that the only amounts available for set-off against liabilities arising under Qualifying ILU Policies will be amounts arising on those of the Companies' outwards reinsurance policies taken out after the same inception dates as Qualifying ILU Policies and protecting the same business. In general, liabilities under such reinsurance policies will arise as a result of liabilities under Qualifying ILU Policies. Agreed net balances due to a Qualifying ILU Policyholder by either or both of the Companies may become Qualifying Established Liabilities on the basis set out above, and if this happens they will be paid under the arrangements set out in paragraph 6 above.

Where a Scheme Creditor is both a Policyholder and a Qualifying ILU Policyholder, separate net balances will be taken from time to time and a separate account will be kept for each. The Scheme contains terms which allows balances remaining towards the end of the Scheme to be transferred from one account to the other. In consequence, no Scheme Creditor should be prejudiced by having to pay sums owed to one of the Companies in full, while receiving only the Payment Percentage in respect of sums owed (and agreed as Established Liabilities) by the other.

The Provisional Liquidators have taken independent legal advice and believe that the set-off provisions in the Scheme provide a fair and workable basis for allocating amounts available for set-off between sums due to a cedant who is both a Policyholder and a Qualifying ILU Policyholder. The provisions are also likely to be better for Qualifying ILU Policyholders than the basis of set-off which would be applied in a liquidation of the Companies where there might not be any payment to Qualifying ILU Policyholders for many years.

9 **United States Policyholders**

The attention of Scheme Creditors of Orion who are resident in the United States is drawn to page 30 where a proposal is set out for dealing with a trust fund held for United States insureds by the Superintendent of Insurance of the State of New York.

10 **What are you required to do?**

For reasons of administrative convenience, the Court has authorised all scheme meetings to be held concurrently and in the same room provided that no objection is made at the meeting concerned or in writing prior to the meeting. Subject to this, the Scheme meetings will all commence at 11.00am on 14 February 1997 at Glaziers Hall, 9 Montague Close, London Bridge, London SE1 9DD, England.

When Scheme Creditors vote upon the Scheme they will also be asked to vote upon the composition of the initial Creditors' Committee which will be formed if the Scheme is approved. If you are a Scheme Creditor, you are entitled to attend and vote at the appropriate Scheme Meetings. Whether or not you intend to be present at the Scheme Meetings, you should complete the appropriate Voting Form(s) in accordance with the guidance notes.

You may wish to discuss with your insurance broker or other professional adviser the estimate of your claims against the Companies which you will need to disclose on the Voting Forms. Estimates of claims will not be used for the purpose of establishing or settling claims under the Scheme; they are required for voting purposes only.

11 **Conclusion**

If the proposed Scheme is not approved, it is probable that the Companies would be put into liquidation. If this were to occur, the Scheme would not be implemented and none of the advantages for Scheme Creditors as a whole would arise.

On the basis of the information in this document, the informal creditors' committee (which does not include the PPB) has considered the advantages of the Scheme to Scheme Creditors as a whole. Each member of the informal creditors' committee has confirmed to the Provisional Liquidators that it is in favour of the Scheme.

The Provisional Liquidators believe that the Scheme is in the best interests of Scheme Creditors as a whole, and accordingly recommend that Scheme Creditors vote in favour of the Scheme.

PART I
EXPLANATORY STATEMENT
C: DETAILED CONTENTS

		Page
D:	Factors to Consider when Voting on the Scheme	
1	Who is a Scheme Creditor?	11
2	Which debts are not covered by the Scheme?	11
3	Classes of Scheme Creditors	12
4	Cross-guarantees	12
5	The advantages of the Scheme compared with liquidation of the Companies	13
6	Causes of action in a liquidation	14
7	Setting the Payment Percentage	14
8	Safety for Policyholders	16
E:	History and Financial Information	
1	Background	18
2	The nature of the Companies' businesses	18
3	Events leading up to the appointment of the Provisional Liquidators	20
4	Professional costs of the Provisional Liquidators and their legal advisers	21
5	Change in net assets since 31 December 1992	22
6	Summarised balance sheets as at 31 December 1995	23
7	Basis of preparation of the financial statements	25
8	Receipts and payments	26
F:	Sources of Additional Payment	
1	Qualifying ILU Policyholders	27
2	The Policyholders Protection Act 1975	28
3	United States	30
4	Canada	31
5	Australia	32
6	France	32
7	Belgium	32
G:	Operation of the Scheme	
1	Establishment of liabilities	33
2	Payments to Scheme Creditors	35
3	Review of the Payment Percentage	36
4	Changes in the Payment Percentage	36
5	Currency of payment	36
6	Enforcement of rights outside the Scheme	37
7	Rights in relation to security interests, trusts, letters of credit and set-off	37
8	Current policies	37
9	Commutations and other arrangements	38
10	Interest on Scheme Liabilities	38
11	Lloyd's syndicates	38
12	Third Parties (Rights Against Insurers) Act 1930	39

13	The Companies' activities during the Scheme	39
14	Duration of the Scheme	40
15	Valuation option	40
16	Taxation	41
17	Administration of the Scheme and management of the Companies	42
18	The Creditors' Committee	43
19	Meetings of Scheme Creditors	44
20	Responsibility of the Scheme Administrators, the Creditors' Committee and the Directors	44
21	Ownership of the Companies	44
H:	The Voting Process	
1	The Scheme Meetings	46
2	Whom the Scheme binds	46
3	The Voting Forms	46
4	Valuation of claims for voting purposes	46
5	Cross-guarantees	47
6	Dual Scheme Creditors	47
7	Currency conversion for voting purposes	47
8	Appointment of a proxy	47
9	The Creditors' Committee	47
10	Return of the Voting Form(s)	48
11	After the Scheme Meetings	48
12	Sanction by the Court	48
13	Effective Date of the Scheme	48
I:	Appendices	
1	Description of classes of Scheme Creditor for voting purposes only	49
2	Announcements by the ILU on 30 June 1995 and on 20 August 1996 regarding arrangements with Nat-Ned	53
3	Summary of the preliminary injunction under section 304 of the United States Bankruptcy Code	60
4	PPB memorandum	61
5	Summary of the proposed permanent injunction under section 304 of the United States Bankruptcy Code intended to apply during the Scheme	67
6	Curricula vitae of the Scheme Administrators	70
7	Curricula vitae of the proposed Directors of North Star Management Services Limited	71
8	List of documents available for inspection	72

PART 1

EXPLANATORY STATEMENT

D: FACTORS TO CONSIDER WHEN VOTING ON THE SCHEME

1 Who is a Scheme Creditor?

A Scheme Creditor is any person who has a claim against either of or both of the Companies, other than a claim referred to in section 2 below, which is now in existence or which arises under a policy, contract, transaction or arrangement that has already been effected.

If you have a policy which will not have expired by the Effective Date, the policy cover will be deemed to have ceased on that date as if that date were the start of liquidation of the Companies. Accordingly, you may have a claim against either or both of the Companies equivalent to the proportion of the premium which relates to the policy's unexpired period from the Effective Date. You will be entitled to vote at the relevant Scheme Meetings in respect of that claim. If you have a policy which will have expired by the Effective Date and you have no actual or potential claim against the Companies, you will not be entitled to attend or vote at the Scheme Meetings.

The Scheme does not affect any right that any person may have to take any appropriate action to:

- (1) enforce any trust (other than the United States trust fund) or letter of credit in existence at the Effective Date; and
- (2) enforce any security by way of mortgage, charge, lien, assignment or other security interest in existence at the Effective Date.

If you are, or you believe you may be, a Scheme Creditor and you have the benefit of a trust, letter of credit or security interest, or a right of set-off arises, any balance of your claim which remains thereafter will be affected by the Scheme. Accordingly, you will be entitled to vote at the appropriate Scheme Meetings in respect of any such balance.

If you are a direct insured (ie not a reinsured) and you are bankrupt, in liquidation or are subject to any similar insolvency proceedings, anybody making a claim against you (in respect of which you are covered by either or both of the Companies) may have rights under the Third Parties (Rights Against Insurers) Act 1930. This may mean that such a third party is a Scheme Creditor in your place. Further details of the effect of this are set out in paragraph 12 on page 39.

2 Which debts are not covered by the Scheme?

The Scheme does not apply to the following claims, costs and expenses, all of which will be paid by the Companies in full as and when they fall due:

- (1) any claim which would be preferential (ie would have statutory priority) if the Companies were wound up, although the Provisional Liquidators are not aware of any such claim; and
- (2) all costs and expenses incurred before and after the Scheme comes into operation which relate to the negotiation, preparation and implementation of the Scheme or the management of the Companies' businesses since the appointment of the Provisional Liquidators.

3 **Classes of Scheme Creditors**

There are three classes of Scheme Creditors for each Company:

- (1) Policyholders and Dual Scheme Creditors;
- (2) Qualifying ILU Policyholders; and
- (3) Ordinary Creditors.

It is possible that a Scheme Creditor may be entitled to vote in more than one class. A Dual Scheme Creditor is a Scheme Creditor who has a claim against both of the Companies in respect of the same Scheme Liability, other than under the cross-guarantees. The Provisional Liquidators are not aware of the existence of any such Dual Scheme Creditors. A description of each class for voting purposes only is set out in Appendix 1. Both NNOFIC and the PPB have agreed to be bound by the Scheme and do not consider it appropriate to vote at the Scheme Meetings on the resolutions to approve the Scheme. However, if the Scheme becomes effective, they will both be entitled to vote at any subsequent meetings of Scheme Creditors.

4 **Cross-guarantees**

Following the acquisition by Orion of L&O on 20 March 1969, Orion applied to the DTI to file consolidated accounts for the Companies. As a condition of such consolidation, the DTI required that Orion enter into a guarantee of L&O's policyholders. On 1 June 1971 Orion and L&O entered into an agreement under which Orion guaranteed the payment of debts and liabilities falling due from L&O to any of its present or future policyholders. The expression "policyholder" had the meaning given to it in section 33 of the Insurance Companies Act 1958 as amended. In 1976, the DTI carried out a review of companies which were filing consolidated accounts and, as part of that review, became aware that there was no corresponding guarantee by L&O in respect of the debts and liabilities of Orion to Orion's policyholders. Accordingly, on 24 August 1977, L&O entered into an Agreement which guaranteed the debts and liabilities of Orion to Orion's policyholders, on the same terms that Orion had guaranteed L&O's liabilities to L&O's policyholders. In this Guarantee, the expression "policyholder" had the meaning given to it by section 85 of the Insurance Companies Act 1974. The Provisional Liquidators have been advised that by virtue of sections 17(2)(a) and 23(3) of the Interpretation Act 1978, references in the guarantee given by L&O to the Insurance Companies Act 1974 should become references to section 96 of the Insurance Companies Act 1982. The Provisional Liquidators have been further advised that the Interpretation Act 1978 does not affect the use of the expression "policyholder" in relation to Orion's guarantee of L&O's liabilities to its "policyholders", as the Insurance Companies Act 1958 was repealed before the Interpretation Act 1978 came into force.

The Provisional Liquidators have taken independent legal advice from separate leading counsel in respect of each Company on the validity of the cross-guarantees and have been advised in each case that the cross-guarantees are valid. Virtually every Scheme Creditor will therefore have the same net claims against one Company as he would have against the other. In order to minimise administrative costs, and take account of the effect of the cross-guarantees, the Scheme provides for all Scheme Creditors to receive a common Payment Percentage.

During the period of the Scheme, Scheme Creditors may not pursue the same claims against both Companies, in particular under the cross-guarantees, and in general no claims by either Orion or L&O against each other can be pursued. This will avoid the need to maintain the complex

intercompany accounts (with its consequent administrative cost) which would otherwise be required to reflect the accounting entries arising from the effects of the cross-guarantees.

Ordinary Creditors, whom the Provisional Liquidators believe to be small in number and value, do not have the benefit of the cross-guarantees as they are not policyholders. By paying one Payment Percentage to all Scheme Creditors, the Ordinary Creditors will obtain (at the expense of Policyholders) a benefit that they would not otherwise receive if there was not a common Payment Percentage. However, the Provisional Liquidators believe that the avoidance of accounting complexity and the saving of administrative costs will outweigh the value of the benefit. Accordingly the Provisional Liquidators are satisfied that paying one Payment Percentage is in the interests of Scheme Creditors as a whole.

NNOFIC is a Scheme Creditor in respect of non-Policyholder claims totalling £90 million. Additionally, Orion Insurance (General) Plc and OIM Limited, both subsidiaries of NNOFIC, have assigned to NNOFIC with effect from the Record Date the Companies' debts to them totalling £8 million. NNOFIC has agreed, in order to facilitate the paying of a common Payment Percentage, to subordinate all these claims to the Established Liabilities of all other Scheme Creditors provided the Scheme becomes effective. On this basis there will be no benefit to NNOFIC arising from the common Payment Percentage.

5 The advantages of the Scheme compared with liquidation of the Companies

The advantages of the Scheme compared with liquidation of the Companies vary for each of the three classes of Scheme Creditors.

- (1) The advantages for Policyholders, Dual Scheme Creditors and Ordinary Creditors are as listed below:
 - (a) they will be paid a percentage of their claims as they are agreed. However, in a liquidation it is unlikely that interim dividends would be paid to creditors before substantially all claims were identified and quantified;
 - (b) in contrast to a liquidation, the Companies will not be legally required to place their cash assets, currently more than £250 million, in the Insolvency Services Account at the Bank of England. Consequently, the Companies will avoid having to pay the statutory investment and handling fees (estimated at more than £50 million over the period of the run-off);
 - (c) Policyholders will be paid in the currency provided for by their policies (although any payments made by the PPB will be subject to a capped sterling equivalent as described on page 29). In a liquidation, creditors' claims would be converted into pounds sterling using the exchange rate at the date of the winding-up order, regardless of the fact that many of these claims may not be established for some time. Consequently, in a liquidation creditors could be exposed to exchange rate movements resulting from currency mismatches between dividends and claims;
 - (d) a more flexible investment policy may be adopted which is suitable to the security, currency, handling and yield requirements of the Companies. For example, under the Scheme it will be possible to maintain funds in different currencies to reflect the need to make payments to Policyholders in the different currencies of their claims. In a liquidation, however, the cash assets could only be invested in United Kingdom government securities to the extent that they were not required in the short-term;

- (e) material savings in future legal fees are likely to be achieved (probably in excess of £3 million in the first year of the Scheme alone) as a result of the Scheme's proposed method for resolving disputed claims. It is unlikely that these cost savings would be achievable in a liquidation without a scheme of arrangement or a special direction from the Court reproducing the effect of the stay of proceedings;
 - (f) the arrangements with NNOFIC in relation to Qualifying ILU Policyholders will permit the Companies to make subrogated recoveries from third parties, which by reason of their insolvencies they would not otherwise be able to make; and
 - (g) if the Scheme is approved, NNOFIC will subordinate to the Established Liabilities of all other Scheme Creditors amounts owing by the Companies totalling £98 million as is more fully set out in paragraph 4.
- (2) While Qualifying ILU Policyholders are in a different position from other Scheme Creditors, the Provisional Liquidators nevertheless consider that the Scheme has a number of advantages for them. Qualifying ILU Policyholders should not assume that any of the advantages below would be available if the Scheme fails to take effect. These are:
- (a) the continuation and extension of the current claims agreement and payment arrangements, which will avoid the possibility of alternative arrangements in a liquidation which would be likely to result in more time-consuming and less efficient settlement of liabilities arising on Qualifying ILU Policies;
 - (b) the application of set-off in a manner that is likely to allow payment to Qualifying ILU Policyholders earlier than would be practicable in a liquidation; and
 - (c) the payment of liabilities arising on Qualifying ILU Policies in the currency provided by such policies, whereas in a liquidation the liquidator would be required to convert claims into pounds sterling at the date of the winding-up order. Accordingly, where these liabilities may not be established for some time, Qualifying ILU Policyholders could be exposed to currency mismatches in a liquidation.

6 Causes of action in a liquidation

Certain causes of action are available to a liquidator which are not available under a scheme of arrangement outside a liquidation. In particular, a liquidator may be able to recover monies for the benefit of the company where there has been wrongful or fraudulent trading in respect of which its past or present directors or others may be liable to contribute to its assets, or where it has given any voidable preferences or been party to any transaction at an undervalue.

Even if a liquidator were able to recover monies for the benefit of either or both of the Companies in winding-up proceedings, the Provisional Liquidators do not consider that any recoveries of a material nature would be lost to the detriment of Scheme Creditors if the Scheme were to be agreed as an alternative to the liquidation of the Companies.

7 Setting the Payment Percentage

During the operation of the Scheme it is intended that the Companies will make payments to Scheme Creditors in respect of Established Liabilities. The payments made from time to time will be a percentage of every Established Liability and will be the amount which the Scheme

Administrators consider that the Companies are able to pay, having regard, amongst other things, to their assets and estimated liabilities.

Accordingly, the Scheme Administrators are required to establish the amount of the known agreed claims against each Company (ie those where both the liability and amount have been established) and to estimate, on a prudent basis after taking actuarial advice, (a) the likely recoveries under reinsurance policies in respect of the Companies, and (b) the amount of the potential liabilities including claims which have been reported but not yet agreed and claims which may be made in the future as a result of events which would be covered by policies underwritten by either or both of the Companies.

It is likely that the approach to setting the initial Payment Percentage that the Scheme Administrators will adopt will be to divide the existing cash assets of the Companies in aggregate (excluding those held as collateral for letters of credit or on trust) by their aggregate liabilities including claims incurred but not reported ("IBNR"), after adding to the liabilities an additional margin of safety. Appropriate provision will be made for estimated Scheme expenses net of estimated investment income.

In summary, the audited consolidated balance sheet of the Companies as at 31 December 1995, adjusted for assets held on trust or as collateral for letters of credit and excluding the amounts to be subordinated by NNOFIC, is as follows:

	Consolidated	
	£ million	% of total liabilities
Assets, including reinsurance	812	
Less: letters of credit and trusts	<u>(22)</u>	
	<u>790</u>	69
Insurance reserves (gross)	1,035	
Other liabilities	223	
Less: NNOFIC debt to be subordinated	<u>(98)</u>	
	1,160	
Less: letters of credit and trusts	<u>(22)</u>	
	<u>1,138</u>	<u>100</u>
Estimated deficiency for unsubordinated Scheme Creditors	<u>(348)</u>	<u>31</u>

If this balance sheet were to reflect the eventual outcome, then, subject to set-off and costs, the Companies would be able to pay 69% of their liabilities. The extent to which there will be set-off, however, is currently unknown and its possible effect is illustrated below. In the first example, set-off is assumed to be 20% of reinsurance assets and, in the second, 40%.

Owing to the uncertainties surrounding the estimates of claims, reinsurance recoveries and the effects of set-off, and because of the need to protect the interests of policyholders whose claims have not yet matured, it is anticipated that the initial Payment Percentage is likely to be around 15% based on the current cash assets of both Companies.

The ultimate Payment Percentage is not capable of prediction for many years. Extreme caution must therefore be exercised when considering these examples.

	<u>Consolidated</u>	
	Example 1 £ million	Example 2 £ million
Reinsurance recoverable - debtors	99	99
- fund	<u>439</u>	<u>439</u>
	538	538
Less: assumed set-off at 20%/40%	<u>(108)</u>	<u>(215)</u>
	<u>430</u>	<u>323</u>
Other assets	274	274
Less: letters of credit and trusts	<u>(22)</u>	<u>(22)</u>
	<u>252</u>	<u>252</u>
	<u>682</u>	<u>575</u>
Insurance liabilities	1,035	1,035
Less: letters of credit and trusts	<u>(22)</u>	<u>(22)</u>
	1,013	1,013
Less: assumed set-off	<u>(108)</u>	<u>(215)</u>
	905	798
Other liabilities (excluding NNOFIC £98m)	<u>125</u>	<u>125</u>
	<u>1,030</u>	<u>923</u>
Theoretical ultimate Payment Percentage	<u>66%</u>	<u>62%</u>

8 Safety for Policyholders

The effect of the Scheme is that, unless the initial Payment Percentage (at say 15%) is increased (which will happen when the Scheme Administrators, after consulting with the Creditors' Committee, consider it appropriate), no more than 15% of the Companies' liabilities will be paid under the Scheme. The Scheme does not reduce or in any way compromise the Companies' liabilities, with the intention that reinsurance recoveries are not prejudiced.

Accordingly, it is possible to compare the assets of the Companies as at 31 December 1995 with the estimated total payout at the likely initial Payment Percentage as follows:

	<u>Consolidated</u>
	£ million
Asset (gross, less letters of credit and trusts)	790
Payment at the likely initial Payment Percentage:	
Insurance reserves (gross, less letters of credit and trusts)	152
Other liabilities (excluding NNOFIC £98m)	<u>19</u>
	<u>171</u>
Reserve for increase in total liabilities	<u>619</u>

The effect of setting the initial Payment Percentage at 15% would be to create a reserve for any increase in the total liabilities of the Companies, estimated at £619 million. The consequence is that, assuming the initial Payment Percentage is set at the above level, the total liabilities of the Companies could increase to more than five times the present estimated level (ignoring any consequent increase in reinsurance assets) and all Scheme Creditors with agreed claims would still receive the same initial Payment Percentage. The reserve will decrease during the Scheme if the Payment Percentage increases or if total liabilities increase. The Payment Percentage will only be increased when it is considered appropriate to do so, such as when additional cash has been collected or reinsurers are paying on a regular basis.

The amount of the reserve for any increase in total liabilities depends substantially upon the collectability of future reinsurance recoveries. The Provisional Liquidators have been advised that, in general, reinsurers are liable to pay a Company as soon as that Company incurs liability to its insureds, and this position has recently been upheld by the House of Lords in the case of *Charter Reinsurance Company Limited v Patrick Feltrim Fagan and Others*. However, the risk for the Companies of defaulting reinsurers is significant and an appropriate provision has been made in the audited accounts.

In comparing the Scheme with liquidation of the Companies it should be emphasised that although the Scheme is considered to be more beneficial for Scheme Creditors than liquidation and should result in a quicker and more efficient distribution with lower costs than in liquidation, each Scheme Creditor must make up his own mind whether to vote in favour of it. He must take whatever professional advice he considers appropriate on whether the Scheme would be better for him than liquidation of the Companies. For example, a quicker distribution may have risks for long-tail Scheme Creditors if too much cash is paid out to Scheme Creditors with settled claims in the first few years in which the Scheme operates.

The Scheme has been designed to minimise the risk of this happening by requiring the Scheme Administrators, in setting the Payment Percentage, to make proper estimates of, and reserves for, unmaturing claims and to build in an appropriate safety margin above the actuarially determined level of reserves. The reinsurance assets of the Companies also represent a considerable reserve against the possibility of liabilities increasing, as explained above.

PART 1

EXPLANATORY STATEMENT

E: HISTORY AND FINANCIAL INFORMATION

1 Background

Orion was incorporated on 30 April 1931 under the Companies Act 1929 in the name of Ralli Brothers Insurance Company Limited. The Company changed its name to The Orion Insurance Company Limited on 16 January 1940, and re-registered as a public limited company on 22 December 1981.

L&O was incorporated on 25 April 1893 under the Companies Acts 1862 to 1890 in the name of Hull Underwriters' Association Limited. The Company changed its name to The London and Overseas Insurance Company Limited on 25 July 1956, and re-registered as a public limited company on 23 December 1981.

L&O was acquired on 20 March 1969 by Orion. On 28 August 1970, Orion was itself acquired by 1845, a subsidiary of Nat-Ned. Following a series of group reorganisations, the direct parent of Orion at the date of its provisional liquidation was NNUK, another subsidiary of Nat-Ned. The ultimate parent company of the Companies is ING Groep NV.

2 The nature of the Companies' businesses

Orion was authorised to write insurance business in the United Kingdom under the Insurance Companies Act 1982. It principally wrote marine, aviation, non-marine and personal lines business but also had smaller accounts in commercial and healthcare business. From 1 January 1992, all new and renewal motor and other personal lines business was written by a newly incorporated fellow subsidiary of Nat-Ned, Orion Insurance (General) Plc ("OIG") and on 29 March 1992 the motor business previously written by Orion was transferred to OIG by way of a portfolio transfer approved by the DTI. Orion ceased underwriting all classes of business with effect from 1 September 1992. On 1 April 1993, the remaining personal lines and healthcare businesses of both Orion and OIG were sold to Guardian Insurance Limited ("GI"), a member of the Guardian Royal Exchange group of companies. Orion Personal Insurances Limited, which is a wholly owned subsidiary of GI, transacts personal lines business and is entirely separate from Orion. All insurance contracts issued by Orion Personal Insurances Limited remain unaffected by the appointment of the Provisional Liquidators. Some personal lines and commercial business Policyholders of Orion (but not in respect of motor or healthcare policies) continue to hold Orion policies issued before September 1992 and may have claims against that Company.

L&O was also authorised to write insurance business in the United Kingdom under the Insurance Companies Act 1982 and wrote marine, aviation, transit and property damage business. L&O ceased all underwriting with effect from 1 January 1992. L&O shared in a proportion of Orion's marine and aviation business from 1 January 1972, pursuant to a pooling arrangement entered into between the Companies.

The Companies were members of the ILU from 1939 in respect of Orion and 1940 in respect of L&O. The ILU is an association of insurers offering marine and aviation insurance in the London market and provides members with a central accounting and settlement system. Most of the Companies' marine and aviation business was written through the ILU and was normally written on a co-insurance basis. Orion and L&O's full ILU membership ceased on 1 September 1992 but the Companies continue to receive the ILU's accounting and settlement information. Orion was also a member of The London Insurance and Reinsurance Market Association ("LIRMA") through which it wrote a significant amount of non-marine business. Orion's full membership ceased in August 1994 but it still receives accounting and settlement information from this association.

Orion commenced underwriting some marine and non-marine risks through pools that it managed in 1953 and 1954 respectively until 1967. Orion later conducted some marine underwriting through pools managed by its subsidiary, OMIUAL Limited (formerly Orion Marine Insurance Underwriting Agency Limited), from 1977 until 1989, and by Orion itself from 1990 until the cessation of its underwriting in 1992. Orion did not write any non-marine business through pools after 1967. Orion also commenced underwriting some aviation business through pools (which it managed) from 1977 onwards.

Gross premiums receivable by the Companies during the last five years of underwriting were:

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
	£ million	£ million	£ million	£ million	£ million
Marine	48	50	46	51	66
Aviation	43	27	21	21	29
Non-marine	33	33	34	24	14
Personal lines	<u>54</u>	<u>64</u>	<u>72</u>	<u>77</u>	<u>43</u>
Total	<u>178</u>	<u>174</u>	<u>173</u>	<u>173</u>	<u>152</u>

Net premiums receivable by the Companies during the last five years of underwriting were:

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
	£ million	£ million	£ million	£ million	£ million
Marine	33	29	19	25	42
Aviation	14	9	3	2	8
Non-marine	15	13	11	11	6
Personal lines	<u>50</u>	<u>59</u>	<u>67</u>	<u>72</u>	<u>42</u>
Total	<u>112</u>	<u>110</u>	<u>100</u>	<u>110</u>	<u>98</u>

3 Events leading to the appointment of the Provisional Liquidators

Orion began to experience financial difficulties due to a combination of factors affecting the London market from 1988 onwards. These factors were principally declining premium rates due to over capacity in the London market, the increased notification of asbestos related and environmental pollution claims arising from occurrences in the 1960's, 1970's and 1980's and losses from catastrophes arising in 1988, 1989 and 1990. L&O was similarly affected as a consequence of the pooling arrangement referred to in paragraph 2 above.

In 1988 the Companies were exposed to significant claims arising from Hurricane Gilbert, the Piper Alpha oil rig loss and the bombing of the Pan Am flight over Lockerbie. This was followed in 1989 by large claims including those as a result of Hurricane Hugo, the Exxon Valdez and Phillips Petroleum losses, and a series of aviation claims by Korean Air, United Airlines, US Air and Independent Air. In 1990, the Companies suffered as a result of exposure to major claims arising from the Iraqi invasion of Kuwait and a series of storms affecting Europe.

In 1990, payments in respect of claims combined with the escalating cost of obtaining reinsurance protection placed increasing pressure on the Companies' cash flow. The resulting deterioration in the financial position of the Companies necessitated a series of cash injections into Orion of £40 million and £25 million in 1990 and 1991 respectively. The consideration for these cash injections was the allotment of an additional 70 million shares in Orion to its shareholder. The net assets of Orion were also increased in 1992 by the sale of tax losses. With effect from 31 December 1992, Orion entered into a limited stop-loss reinsurance with a fellow group company. The net effect of this was to increase the net assets of that Company by £24.5 million.

In August 1993 the Companies commissioned an external actuarial investigation into the adequacy of their reserves. This actuarial investigation covered all classes of insurance business to which the Companies were exposed. In December 1993, as a result of the investigation, it became apparent to the Directors that the Companies required additional capital.

In order to permit the continued payment of claims the Directors agreed in December 1993 to an interim funding arrangement between the Companies and Nat-Ned. Under the agreement, Nat-Ned procured that NNOFIC advanced funds, by way of unsecured loan equivalent to £90 million between 15 December 1993 and 20 October 1994 when the Companies were informed that no further funds would be forthcoming. On the same date, petitions were presented to the Court for the winding up of the Companies. Paul Evans and Richard Boys-Stones, both partners in the United Kingdom firm of Price Waterhouse, were appointed Provisional Liquidators on 21 October 1994.

Following their appointment, the Provisional Liquidators wrote to all attorneys known to be representing either or both of the Companies in litigation in the United States requesting details of litigation in which they were currently acting. A number of such attorneys made it clear to the Provisional Liquidators that they would not continue to act without a commitment from the Provisional Liquidators to meet outstanding fees and expenses owed to them. The Provisional Liquidators did not consider that it was in the interests of creditors of the Companies as a whole to pay the costs of continuing legal representation on that basis and accordingly many of the attorneys concerned withdrew, or threatened to withdraw, from actions which they were defending or monitoring on behalf of either or both of the Companies.

In order to prevent default judgements being entered against either or both of the Companies in proceedings in which they were no longer represented, and with a view to protecting United States

assets of the Companies such as reinsurance recoveries, the Provisional Liquidators applied for relief under section 304 of the United States Bankruptcy Code on 24 October 1994.

On 28 October 1994 the United States Bankruptcy Court in the Southern District of New York made a temporary restraining order staying proceedings against the Companies and protecting their property. A preliminary injunction in broadly the same terms was granted by the United States Bankruptcy Court on 14 March 1995 and has since been extended at further hearings. The preliminary injunction remains in force at the date of this document and a summary of its principal terms is included in Appendix 3.

To permit the development of the Scheme, the Winding-up Petitions were adjourned on a number of occasions, the latest adjournment being for five months on 31 July 1996.

4 Professional costs of the Provisional Liquidators and their legal advisers

Fees and expenses incurred for the period from 21 October 1994 to 30 September 1996 are as follows:

	Provisional Liquidators	Legal Advisers	
		UK	US
	£'000	£'000	£'000
Management of the run-off	3,533	1,238	522
Negotiation and preparation of the Scheme	517	436	22
Out of pocket expenses	<u>127</u>	<u>65</u>	<u>94</u>
	<u>4,177</u>	<u>1,739</u>	<u>638</u>

The figures are exclusive of United Kingdom Value Added Tax which, where applicable, is charged at the standard rate of 17.5%.

Management of the run-off includes claims agreement procedures (other than the implementation of the arrangements to pay Qualifying ILU Policyholders, the costs of which were met by Nat-Ned), reinsurance and subrogated recoveries, treasury management, handling the run-off of the pools, employee and property matters as well as the taxation affairs of the Companies. The category also includes the design and implementation of the computer and accounting systems required to meet the new needs of the Companies since the appointment of Provisional Liquidators. The fees and expenses for legal advisers set out above do not include legal fees in respect of defence or representation costs on specific claims, or in respect of specific reinsurance disputes.

Periodic reports detailing the Provisional Liquidators' fees and expenses have been laid before the informal creditors' committee. The remuneration of the Provisional Liquidators is also subject to approval by the Court and fees and expenses incurred in the period to 31 March 1996 (totalling £3.3 million exclusive of United Kingdom Valued Added Tax) have been approved to-date.

5 Change in net assets since 31 December 1992

When the Provisional Liquidators were appointed, the most recent audited financial statements of the Companies were as at 31 December 1992. Those financial statements of Orion and L&O disclosed net assets of £24 million and £10 million respectively. The reduction in their net assets during the three years ended 31 December 1995 comprised:

	<u>note</u>	<u>Orion</u> £ million	<u>L&O</u> £ million	<u>Consolidated</u> £ million
Net assets at 31 December 1992		24	10	28
Investment income	a	24	11	41
Net premiums		29	4	33
Net claims		(102)	(31)	(133)
Management charges and commissions	b	(39)	(25)	(52)
Foreign currency movements	c	24	43	20
Movements in net insurance reserves:				
Provision for environmental pollution IBNR		(105)	(31)	(136)
Provision required under cross-guarantees	d	(390)	(800)	-
Other development of insurance liabilities		<u>(122)</u>	<u>(125)</u>	<u>(247)</u>
Net liabilities at 31 December 1995		<u>(657)</u>	<u>(944)</u>	<u>(446)</u>

notes

- a the consolidated number includes the reversal of a provision of £6 million in Orion against its investment in L&O.
- b the consolidated number excludes a provision of £12 million in L&O against the inter-company balance due from Orion.
- c the consolidated number includes an adjustment of £47 million in order to eliminate the foreign currency effect of the provisions under cross-guarantees.
- d The effect of the provisions is to provide in each Company's balance sheet an amount equal to the Liabilities of the other Company that have been guaranteed. When the balance sheets are consolidated, those provisions disappear in order to avoid duplicating the gross claims reserves.

Summarised balance sheets as at 31 December 1995

The 31 December 1995 audited balance sheets of the Companies are shown in summarised form below:

	<u>note</u>	<u>Orion</u> £ million	<u>L&O</u> £ million	<u>Consolidated</u> £ million
Assets				
Investments and cash	a	210	49	263
Reinsurance recoverable (net of provisions)		280	159	439
Other assets		<u>97</u>	<u>17</u>	<u>110</u>
		<u>587</u>	<u>225</u>	<u>812</u>
Liabilities				
Reserves - outstanding and IBNR (gross)	b	1,035	1,035	1,035
Due to NNOFIC	c	80	40	103
Other creditors	d	<u>129</u>	<u>94</u>	<u>120</u>
		<u>1,244</u>	<u>1,169</u>	<u>1,258</u>
Net liabilities		<u>(657)</u>	<u>(944)</u>	<u>(446)</u>
Represented by:				
Issued share capital (including share premium)		85	7	85
Accumulated losses		<u>(742)</u>	<u>(951)</u>	<u>(531)</u>
		<u>(657)</u>	<u>(944)</u>	<u>(446)</u>

notes

- a the consolidated number includes cash of £4 million held in North Star Management Services Limited, a subsidiary of the Companies.
- b the same number appears in all three columns because of the effect of the cross-guarantees.

c the balances due to NNOFIC are made up as follows:

	<u>Orion</u>	<u>L&O</u>	<u>Consolidated</u>
	£ million	£ million	£ million
Arising before 21 October 1994	67	23	90
Borrowed since 30 June 1995	17	-	17
Due in respect of tax relief (paid in 1996)	(4)	-	(4)
Provision under cross-guarantees in relation to claims discharged from amounts borrowed since 30 June 1995	-	17	-
Balances at 31 December 1995	<u>80</u>	<u>40</u>	<u>103</u>

A full explanation of the treatment of amounts borrowed by the Companies since 30 June 1995 is in section F on page 27.

d other creditors include provisions under the cross-guarantees in respect of agreed claims, which are eliminated on consolidation. The amounts totalling £8 million due to OIG and OIM Limited are also included. These balances have been assigned subsequently to NNOFIC and, together with the amount of £90 million referred to in note b, will be subordinated to the Established Liabilities of all other Scheme Creditors if the Scheme becomes effective.

An audit opinion in respect of each of these financial statements was signed on 27 September 1996. In arriving at their opinion, the auditors considered the adequacy of the disclosures made in the financial statements in respect of fundamental uncertainties regarding the ultimate cost of North American liability claims, including environmental pollution claims, the amount recoverable from reinsurers and the calculation of gross insurance funds based on net statistics. Each audit opinion was qualified on the basis that some detailed analysis of debtors and creditors was omitted and in the case of L&O disclosure relating to segmental information was omitted. This analysis was only required under insurance regulations for the first time in the Companies' 1995 accounts, but the directors did not consider these disclosures to be fundamental to the financial statements and did not give them on the grounds of the additional resources required to extract the information. In all other respects it is the auditors' opinion that the financial statements show a true and fair view of the Companies' balance sheets as at 31 December 1995. Copies of the audited financial statements for the year ended 31 December 1995 are available on request from, or may be viewed at, the locations detailed in Appendix 8.

7 **Basis of preparation of the financial statements**

Lane, Clark & Peacock, independent consulting actuaries, were instructed by the Provisional Liquidators to advise the Companies on their net and gross insurance reserves. In September 1996 Lane, Clark & Peacock presented their report which was taken into account when estimating the insurance reserves in the financial statements for the year ended 31 December 1995.

Gross reserves held by the Companies at 31 December 1995 comprise:

	<u>Outstanding</u>	<u>IBNR</u>	<u>Total</u>
	£ million	£ million	£ million
Environmental pollution	164	323	487
Marine and aviation	152	71	223
Asbestos related	59	123	182
London Market excess of loss	49	32	81
Other latent claims	26	19	45
Non-marine	8	3	11
Personal lines	<u>6</u>	<u>0</u>	<u>6</u>
	<u>464</u>	<u>571</u>	<u>1,035</u>

A number of fundamental uncertainties in the financial statements, which arise because of the nature of the Companies' businesses, have been referred to by the auditors and accordingly, the statements of financial position should be considered with caution. As regards the insurance reserves, where possible these have been derived by analysing, using generally accepted actuarial techniques, the past development history of claims and extrapolating that analysis using a set of differing assumptions about the future. In some instances, however, such statistical methods would not provide informative results given the uncertain claims development history of the Companies. Accordingly, the actuaries have utilised an approach based on knowledge of specific claims, which requires a greater element of judgement. There are also further uncertainties in the level of insurance reserves since new claims may arise on policies where there is still uneroded cover, from causes of a kind not already reflected in the historical data and therefore not allowed for in the actuarial projections.

The balance sheets should not, therefore, be regarded as a prediction of the eventual outcome of the proposed Scheme.

8 Receipts and payments

The receipts and payments of the Provisional Liquidators from 21 October 1994 to 30 September 1996 can be summarised as follows:

Receipts	<u>£ million</u>
Reinsurance recoveries	45
NNOFIC under the CPLA	34
Interest	30
Group relief and tax repayments	10
Other income	5
	<u>124</u>
Payments (including Value Added Tax)	
Qualifying ILU Policyholders under the CPLA	34
North Star Management Services	15
Provisional Liquidators' fees and expenses	5
Legal advisers fees and expenses	2
Other professional fees and charges	3
LOC drawdowns	<u>5</u>
	<u>64</u>
Movements in cash and investments	<u>60</u>

Of the net movement of £60 million, net receipts of £19 million have been received since 31 December 1995.

PART 1

EXPLANATORY STATEMENT

F: SOURCES OF ADDITIONAL PAYMENT

1 Qualifying ILU Policyholders

On 20 March 1969, Orion executed a guarantee addressed to the ILU in relation to certain liabilities of L&O on policies signed and issued by the ILU on behalf of L&O. On 28 August 1970, Nat-Ned and 1845 executed guarantees, to which the Companies were not parties, addressed to the ILU in relation to certain liabilities of one or other of the Companies on policies signed and issued by the ILU on that Company's behalf. These are the dates when, respectively, Orion gained control of L&O and Nat-Ned and 1845 gained control of Orion.

An agreement dated 20 October 1994 between Nat-Ned, 1845 and the ILU recorded, amongst other things, the surrender and discharge of all the guarantees addressed to the ILU. Pursuant to this agreement, Nat-Ned and 1845 established a credit facility secured by an irrevocable letter of credit in favour of the ILU for the payment of liabilities arising under policies signed and issued by the ILU on behalf of one or other of the Companies with an inception date on or after 20 March 1969 in respect of L&O and on or after 28 August 1970 in respect of Orion.

The terms of this agreement state that payment of monies drawn down under the letter of credit can only be made by the ILU upon submission to it of a duly executed subrogation receipt in the prescribed form in favour of Nat-Ned and 1845, in respect of each agreed claim. However, the parties agreed that a more efficient claims payment system for Qualifying ILU Policyholders than that put in place on 20 October 1994 could be created. This was important as during 1994, the Companies agreed claims arising under Qualifying ILU Policies at the rate of approximately 4,000 per month on average.

Consequently, a further agreement was entered into on 30 June 1995 (the Claims Payment Loan Agreement ("CPLA")) between the Companies, the ILU and NNOFIC, under which NNOFIC has lent funds to the Companies on trust for the purpose of enabling the Companies to pay the claims of Qualifying ILU Policyholders which were unaffected by rights of set-off. Since 30 June 1995, sums totalling the equivalent of £40 million have been paid (up to 29 October 1996) in accordance with the terms of the CPLA and claims are being processed on a regular monthly basis. Such payments have, to the extent of the amounts paid, discharged the liabilities of one or other of the Companies to the Qualifying ILU Policyholders who received them, and NNOFIC will accordingly become a Scheme Creditor with Established Liabilities equal to such liabilities.

If the Scheme is approved Nat-Ned, 1845 and the ILU intend that the mechanism set out in the CPLA should continue to provide the method of dealing with claims on policies covered by the arrangements between Nat-Ned, 1845 and the ILU. A revised and extended form of the CPLA (revised and extended to take account of the provisions of the Scheme and Qualifying ILU Policyholders in respect of whom rights of set-off arise) will operate if the Scheme is approved and, once a Payment Percentage has been set by the Companies in the Scheme, Qualifying ILU Policyholders will receive the Payment Percentage on their agreed claims together with the funds advanced to one or other of the Companies by NNOFIC.

Until the Companies are in a position to verify the net position relating to agreed and outstanding claims by individual cedant or Lloyd's syndicate, the processing of agreed claims from

Policyholders and Qualifying ILU Policyholders who are also reinsurers of either or both of the Companies is unlikely to commence. As is common in all insurance company insolvencies, the need to design and implement a "principal-to-principal" ledger and populate it with accurate data is a key element in establishing such net positions. The Provisional Liquidators estimate that the systems and data handling work necessary for the "principal-to-principal" accounting ledger to become operational should be completed within six months of the Scheme becoming effective.

On 20 August 1996 the ILU made an announcement about the proposed revised CPLA which stated that:

"... the Institute, on the basis of the information then available to it and having taken account of:

- (1) the uncertainties of the estimation process;
- (2) the addition of IBNR for possible pollution claims;
- (3) the addition of substantial margins for possible deterioration; and
- (4) the estimation of the likely payment percentages available from Orion and L&O; but
- (5) without any discount for the effect of set-off,

agreed with Nat-Ned that, once US Dollars 450 million have been paid out, Nat-Ned will pay no more than US Dollars 3.5 million annually. It is therefore possible that if a very serious deterioration in the Companies' accounts were to occur, some claimants would not receive reimbursement of their claims as they were presented. However, there is no limit to the amount of money which Nat-Ned will be obliged to pay in respect of Qualifying ILU Policyholders' claims". The full text of the announcement is in Appendix 2.

Qualifying ILU Policyholders who wish to contact the ILU should write to EJ Walker Esq, The Institute of London Underwriters, 49 Leadenhall Street, London EC3A 2BE, England.

2 The Policyholders Protection Act 1975

The Policyholders Protection Board ("PPB") was established under the Policyholders Protection Act 1975 ("the Policyholders Protection Act") to protect certain policyholders who may be prejudiced as a result of the inability of authorised insurance companies carrying on business in the United Kingdom to meet certain of their liabilities.

The PPB has an obligation, on a liquidation of such an insurance company, to pay 90% (or, in limited cases, 100%) of the company's liabilities to certain categories of policyholder in respect of certain types of insurance policy.

The PPB also has a discretion under section 15 of the Policyholders Protection Act to make interim payments to policyholders of companies in provisional liquidation, on such terms and conditions as the PPB thinks fit. Such payments have been made to certain policyholders of Orion. If the Scheme becomes effective, the Companies will no longer be in provisional liquidation and therefore the PPB would cease to make interim payments under the Policyholders Protection Act. At any time prior to its payment obligation under the Scheme having arisen (see clause 26 of the Scheme on page 110) the Board has discretionary power to make payments to eligible policyholders on such terms and on such conditions as the PPB thinks fit.

In order to assist those Scheme Creditors who would have been protected under the Policyholders Protection Act in the event of a liquidation of each of the Companies, the PPB has agreed to be bound by the Scheme and to make payments to such Scheme Creditors in accordance with the terms of the Scheme. When a claim against a Company is established, the Company will pay the

current Payment Percentage of that claim to the Scheme Creditor. If it is established that the Scheme Creditor would have been entitled to a payment from the PPB in respect of that claim if the relevant Company had gone into liquidation on the Record Date, the PPB will secure that, subject to payment having been made by the Company of the then Payment Percentage in accordance with the terms of the Scheme (and subject also to the other terms of the Scheme), he is paid as soon as reasonably practicable an additional amount in the currency in which the policy is denominated (subject to a currency cap described below), sufficient to ensure that he receives in total (after taking account of all amounts, including a Compensatory Payment, then paid or payable by the Company) the percentage of his claim that the PPB would have been under a duty to secure that he was paid if the Company had gone into liquidation on the Record Date. If it appears to the PPB that the funds available to it fall short of what is required to make the payment in question, and to meet its responsibilities under the Policyholders Protection Act or otherwise, then the PPB may postpone the payment until after it appears to the PPB that its funds are adequate for those purposes.

The payment obligations of the PPB under the Scheme are subject to certain conditions, limitations, qualifications and other provisions which would have applied or could have been imposed by the PPB under the Policyholders Protection Act if the relevant Company had been a company in liquidation (as defined in the Policyholders Protection Act) on the Record Date. If the PPB makes a payment to a Scheme Creditor there is an automatic assignment to the PPB of certain rights held by the Scheme Creditor in relation to the Protected Liability (as defined in the Scheme) in respect of which the payment was made including rights under the relevant policy and the right to further payments under the Scheme as well as any rights the Protected Policyholder (as defined in the Scheme) may have against other persons in respect of any event giving rise to the Protected Liability. The rights and claims assigned also include all those which a Protected Policyholder may have in respect of a Protected Liability to any payment out of, or interest in, any trust fund or funds in other jurisdictions as described in paragraphs 3 to 7 below. Alternatively, the PPB may require a separate assignment to it of such rights in advance, and as a condition of payment by it. The relevant Company will then make any further payments in respect of that claim to the PPB, rather than to the Policyholder, in the event that the Payment Percentage is increased.

There is an overall limitation on the obligations of the PPB under the Scheme in respect of any Scheme Creditor or liability of a Company, by reference to the obligations (including the calculation of the extent of those obligations) which the PPB would have had if that Company had been a company in liquidation, except for the PPB's obligation to make payment in the currency of the claim. Under the Scheme, no Scheme Creditor or Company will have any different or greater relief or remedy against the PPB that he or it would have had if that Company had been a company in liquidation. There is also a limitation on the PPB's obligations under the Scheme in respect of liabilities in relation to which amounts are paid or payable out of any trust fund or funds in other jurisdictions or as described in paragraphs 3 to 7 below.

The PPB may also make a payment to any person other than the Protected Policyholder where it would be required or entitled to do so under the Policyholders Protection Act if the relevant Company were in liquidation. A policyholder who has already received an interim payment from the PPB in respect of an Established Liability and who has duly assigned his rights to the PPB will not be entitled to vote on the Scheme, or to receive payments, in respect of that Established Liability. It is a condition of payment from the PPB that, unless it consents in any case, the Scheme Creditor is entitled and able to assign to the PPB the above-mentioned rights and claims free from any third party rights.

Under the Scheme, an amount payable in respect of any Protected Liability by the PPB in a currency other than sterling is not to exceed a capped sterling equivalent calculated by (a)

converting that amount into sterling at a rate of 12.5% below the average daily exchange rate over the 3 month period before the Effective Date, and (b) reconverting the resulting balance into the original currency using the exchange rate on the business day immediately before payment.

No payment will be made by the PPB in respect of any part of a Scheme Liability which represents interest unless it arises under a policy for a period which ends on the Effective Date. Where the Scheme Administrators reduce an Established Liability in respect of which the PPB (and the relevant Company) has made a payment, the PPB (and the relevant Company) may reclaim the difference from the Scheme Creditor concerned.

If anyone paid by the PPB has knowingly provided it with false, misleading or incomplete information, he will have to repay on demand all sums he has received from the PPB in respect of the relevant Liability together with interest. The PPB will not have an obligation to pay any subsidiary or parent of the Companies, or any member of the Companies or anyone who has had any responsibility for or who may have profited from the circumstances giving rise to the financial difficulties of the Companies. For such purposes, any benefit which might accrue to any such member or person who was a policyholder of the relevant Company in his capacity as such will be disregarded.

A Scheme Creditor will only be eligible for payments from the PPB under the Scheme in respect of a claim if he would have been eligible for protection under the Policyholders Protection Act in respect of that claim had the relevant Company been in liquidation on the Record Date, and if he is eligible under section 16(9) of that Act. A memorandum containing a brief summary of certain provisions of the Policyholders Protection Act is contained in Appendix 4.

Under the terms of the Scheme, Qualifying ILU Policyholders will not be eligible to receive payments from the PPB, as they are subject to the separate arrangements under the revised CPLA described above. Payments under the revised CPLA will be made without regard to whether or not such Scheme Creditors have any rights under the Policyholders Protection Act.

Scheme Creditors who believe that they may be entitled to the benefit of protection under the Policyholders Protection Act should contact the PPB at 51 Gresham Street, London EC2V 7HQ, England.

3 **United States**

Orion has set up a trust fund in New York in accordance with the insurance regulations of the State of New York Insurance Department for the purpose of providing security for "United States insureds" (as defined in the trust agreement). The trust fund, established pursuant to the terms of a trust agreement dated 13 December 1989 between Orion and Bankers Trust Company, New York, is to the value of US Dollars 3 million, which represents less than 0.2% of the total estimated liabilities of Orion (including the liabilities of L&O guaranteed by Orion). The Superintendent of Insurance of the State of New York intends to apply to the Supreme Court of the State of New York for an order appointing him Conservator of the trust fund.

The Superintendent (as Conservator) and the Provisional Liquidators anticipate that the Superintendent (as Conservator) and the Provisional Liquidators (or, if applicable, the Scheme Administrators) will enter into an agreement by which the Superintendent will deliver the trust fund to the Provisional Liquidators (or, if applicable, the Scheme Administrators) for distribution to the Scheme Creditors. The purpose of the agreement is to avoid duplication of effort and expense. It will provide that:

- (1) if Orion's United States insureds would receive a greater pro rata distribution from the Scheme assets than they would receive from the trust fund, the Provisional Liquidators (or, if applicable, the Scheme Administrators) will combine the trust fund with other Scheme assets for distribution to all the Scheme Creditors; or
- (2) if Orion's United States insureds would receive a greater pro rata distribution from the trust fund than they would receive from the Scheme assets, the Provisional Liquidators (or, if applicable, the Scheme Administrators) will distribute the trust fund to those insureds, as agent for the Superintendent.

The agreement will also provide that the Scheme Administrators will determine the value of all claims and that the final adjudication of claims under the Scheme will be binding on the Superintendent.

United States insureds of Orion who wish to be notified of the final terms of the proposed agreement and to have the opportunity to appear at the hearing in the Supreme Court of the State of New York must notify the Superintendent in writing by 31 January 1997. Any United States insured who fails to do so will neither be notified of the terms of the proposed agreement, nor receive notice of the application for approval of the agreement and is therefore unlikely to have the opportunity to be heard. Notification under this paragraph should be sent to the Superintendent of Insurance of the State of New York at 123 William Street, New York, NY 10038-3889, USA with a copy to Chadbourne & Parke LLP, 30 Rockefeller Plaza, New York, NY 10112, USA (Attention: Kenneth Coleman Esq).

4 **Canada**

Orion's Canadian branch was registered to operate in Canada from 1949 onwards and primarily wrote marine and aviation business. The branch voluntarily ceased underwriting business in October 1992.

Philip Cook of Focus Group Inc was appointed Chief Agent in Canada in early 1994 for the purpose of continuing the run-off of the branch. On 27 October 1994, the Superintendent of Financial Institutions took control of Orion's assets in Canada. A winding-up petition was presented on 10 February 1995 to the Ontario Court of Justice which appointed the Superintendent of Financial Institutions as liquidator and the latter immediately appointed Deloitte & Touche Inc to manage the liquidation of the Canadian branch.

At 31 December 1994, the Chief Agent estimated that the total liabilities of the branch were Can\$7.5 million (excluding IBNR provisions) and that 1,500 policies or contracts had been issued.

It is estimated that approximately two-thirds of the branch's policies have been written through the ILU since 28 August 1970. Claims relating to such Qualifying ILU Policies will fall to be dealt with under the arrangements between the ILU and Nat-Ned. If you believe that you are a creditor of the Canadian branch and have a claim under a Qualifying ILU Policy, you should present it through your broker to The Orion Insurance Company PLC, 56/59 Fenchurch Street, London EC3M 4AD, England.

Other claims will, in the first instance, be dealt with by the liquidator of the branch and, in the case of any shortfall in funds, under the Scheme. The liquidator called for claims to be submitted to him by 15 September 1996 and failure to have advised him of a claim by that date may result in distributions being made regardless of that claim. The Canadian liquidator has recently filed a statement of claimants and creditors of the branch with the Office of the Superintendent of

Financial Institutions in Ottawa. All valid claims for losses arising under the policies of the branch of which the liquidator had notice prior to the filing of that statement will have priority in the distribution of dividends. Claims of which notice is received following the filing of that statement will not receive such priority and may not be paid at all by the Canadian liquidator. If you believe that you are a creditor of the Canadian branch and have a claim which is not covered by the arrangements between the ILU and Nat-Ned, or are unsure as to the nature of your claim, you should contact Deloitte & Touche Inc, Agent to the Liquidator of the Canadian Branch of The Orion Insurance Company PLC, 181 Bay Street, BCE Place, Suite 1400, Toronto, Ontario M5H 2VL, Canada.

5 Australia

The business written directly in Australia was predominantly through the Australian Aviation Underwriting Pool ("AAUP"). On 11 November 1994 the Insurance and Superannuation Commissioner in Australia ("ISC") froze the assets of Orion's Australian branch. Greg Kelly, a partner in the Australian firm of Price Waterhouse, was appointed on 14 December 1994 as administrator of the branch. At a meeting on 10 March 1995, the creditors of the branch resolved that Orion would execute a Deed of Arrangement which bound all creditors. Consequently Australian creditors of the branch were paid in full and with regard to the AAUP pool, twelve deeds of assignment were signed. These had the effect of assigning the Orion's branch portion of its interests in the pool to the other members whilst at the same time the other pool members assumed the liabilities and obligations of the Orion branch.

The ISC would not release any funds until all Orion's branch liabilities in Australia were paid in full. Accordingly, once this had taken place, the surplus of AUD \$3.8 million was released and received by the Provisional Liquidators on 22 January 1996.

Orion was struck off the register of Australian companies on 30 April 1996. This had the effect of terminating the Deed of Arrangement, ending the Company's existence in Australia.

6 France

Orion wrote marine, hull and cargo business in France through an agent, G Bellivier S.A., who resigned shortly after Provisional Liquidators were appointed to the Company. Funds of FF4.9 million have been repatriated from France consistent with European insurance directives which permit an insurance company authorised in a Member State to localise assets anywhere within the European Union. If you believe that you have a claim against Orion in respect of a policy written in France, you should contact the Mandataire Generale, R Allen, Allen & Associates, 11 Rue la Boetie 75008 Paris, France.

7 Belgium

L&O wrote marine business in Belgium through an agent, J Haenecour & Co, who are dealing with claims and will continue to manage the run-off for the foreseeable future. Under European insurance directives (see paragraph 6 above) all local assets amounting to BF1.7 million have been repatriated to the United Kingdom. If you believe that you have a claim against L&O in respect of a policy written in Belgium, you should contact J Haenecour & Co, Mechelsesteenweg 152, B-2018 Antwerpen, Belgium.

PART I

EXPLANATORY STATEMENT

G: OPERATION OF THE SCHEME

1 Establishment of liabilities

Under the Scheme, Scheme Creditors will be expected to notify claims to either or both of the Companies as they arise. The liabilities of the Companies will be run off in the ordinary course, so far as possible, and the Companies will commence paying a percentage of their Established Liabilities once the initial Payment Percentage has been set.

When the Companies were still underwriting insurance and reinsurance business, claims by policyholders were handled by agents, company staff or representatives, as appropriate. If policyholders' claims could not be agreed in the ordinary course, any dispute would be resolved by litigation, generally against either or both of the Companies and other London market insurers. Typically, the insurers would share the defence costs. Before the appointment of the Provisional Liquidators, the Companies would participate as defendants along with their co-insurers and bear a proportionate share of the costs.

The Provisional Liquidators consider that the continued participation of the Companies in litigation to resolve disputed claims would be disadvantageous to Scheme Creditors as a whole. Based on a limited analysis of historical information available to them, the Provisional Liquidators have estimated that the approximate cost to the Companies of participating in such litigation during 1995, had they been doing so on a normal basis, might have been in excess of £3 million. The Provisional Liquidators have concluded that, as the Companies are insolvent, it would not be in the Scheme Creditors' interests for them to continue to incur costs of participating in litigation on the same scale. In particular, continued participation on such a scale would inevitably have an adverse impact on the level of the Payment Percentage because a provision for litigation costs would have to be made out of cash assets otherwise available for payment to Scheme Creditors.

In preparing the Scheme for the Companies, the Provisional Liquidators and their advisers have included a method of resolving disputed claims, having regard to the need to:

- (1) reduce the costs to the Companies of participating in litigation;
- (2) deal with Scheme Creditors' claims fairly without prejudicing the interests of those whose claims are not agreed in the ordinary course; and
- (3) protect the Companies' principal assets, namely their reinsurance recoveries.

Accordingly, the Scheme contains provisions staying proceedings against the Companies by Scheme Creditors, subject to certain qualifications. The Provisional Liquidators intend to apply to the United States Bankruptcy Court in the Southern District of New York for a permanent injunction under section 304 of the United States Bankruptcy Code giving effect to the provisions of the Scheme. The substance of the proposed permanent injunction is set out in Appendix 5.

In summary, the provisions staying proceedings enable either or both of the Companies to stand aside from a dispute until it has been resolved by means of a substantive judgment or by the reaching of a final settlement, in each case between the Scheme Creditor and a majority in value

of co-insurers, or by proceedings between the Scheme Creditor and all the co-insurers having been stayed or restrained or having resulted in a default judgement. After the relevant Company has been given notice of any of these events and full details of the claim, it will then have six months in which to agree the claim before the stay is lifted and the Scheme Creditor is entitled to bring proceedings for the purpose of having the claim accepted by the Scheme Administrators. For risks where no co-insurers are involved, similarly a Scheme Creditor cannot institute proceedings until six months after having given full details of their claim.

The Scheme does nothing to affect a Scheme Creditor's right to bring or resume proceedings to establish the existence or amount of a claim once the stay has been lifted. The Scheme does not restrain actions by either or both of the Companies against Scheme Creditors. However, if an action is commenced against a Scheme Creditor, the stay of proceedings will be lifted to permit that Scheme Creditor to prosecute that claim against either or both of the Companies.

The Provisional Liquidators anticipate that in practice the Companies will agree the overwhelming majority of disputed claims on exactly the same basis as their co-insurers whilst avoiding most of the litigation expenses. There are two main reasons why the Scheme does not commit the Companies to follow the resolution of the dispute reached by the majority of co-insurers:

- (1) the Scheme Administrators may identify factors which, in their opinion, make it inappropriate that the claim be agreed by them on the same basis; and
- (2) the Provisional Liquidators have concluded, having taken legal advice, that such a provision should not be included in the Scheme because binding the Companies in this way could prejudice their entitlement to make reinsurance recoveries in relation to the claims in question.

The Provisional Liquidators and the prospective Scheme Administrators intend to agree claims on the same basis as co-insurers wherever possible. However, if either or both of the Companies cause a Scheme Creditor to re-litigate a claim and the Scheme Creditor obtains a judgement or settlement that is more favourable (taking into account both principal and interest (if any) up to the Effective Date) than the judgement or settlement with the co-insurers, then the Scheme Creditor's reasonable costs incurred in such re-litigation will be paid.

The Provisional Liquidators are of the opinion that the risk of re-litigation is unlikely to present Scheme Creditors with a problem in practice for the following reasons:

- (1) the Scheme imposes an obligation on the Scheme Administrators to make all reasonable efforts to agree claims on the basis of final judgments against, or settlements with, the co-insurers in relation to the liability in question;
- (2) the Scheme Administrators' task will be to agree Scheme Creditors' claims so that payments may be made to them. In the ordinary course, and subject to any special facts which may arise, they may be expected to follow a final judgment against, or settlement with, the co-insurers;
- (3) the Scheme Administrators will be responsible for administering the Companies' affairs for the benefit of Scheme Creditors as a whole and, as such, have a responsibility not to deplete the Companies' assets by engaging in any unnecessary re-litigation; and
- (4) the Scheme Administrators may be unable to force Scheme Creditors to re-litigate their claims in some cases because of the operation of legal doctrines such as *res judicata* or *collateral estoppel*.

In practice, the Provisional Liquidators would expect most disputed claims against the co-insurers to be resolved by settlement. It is envisaged that, where any such claims are resolved by settlement, the Scheme Administrators would be able to agree such claims on the same terms, subject to there being no special factors and to being provided with sufficient information about any such settlement to enable them to make an informed decision. Indeed, it is hoped that the Scheme Administrators would be afforded access to settlement negotiations between Scheme Creditors and co-insurers at an early stage, so that claims might be agreed where appropriate, without undue delay. The Companies have, since the appointment of the Provisional Liquidators, been able to agree certain claims when informed of such negotiations and when provided with details of the allocations of such claims over various layers of cover or various contract years.

In summary, the Provisional Liquidators consider that the proposed stay of proceedings should reduce substantially the costs which would otherwise be incurred in participating in litigation alongside the co-insurers while dealing fairly with all Scheme Creditors' claims and protecting the Companies' reinsurance recoveries.

2 Payments to Scheme Creditors

The initial Payment Percentage will be set as soon as practicable after the Scheme becomes effective. Scheme Creditors whose claims have become Established Liabilities before the date when the initial Payment Percentage is set ("the Commencement Date") will be paid the initial Payment Percentage as soon as practicable thereafter. It is anticipated that the Companies will be in a position to commence payment within six months of the Effective Date. After the Commencement Date, Scheme Creditors will be paid, in respect of each Established Liability, an amount equal to the current Payment Percentage within 90 days of their claim being established.

Payments in respect of Qualifying ILU Policies are currently being made by the Companies using funds borrowed from NNOFIC. During the Scheme further funds borrowed from NNOFIC will continue to be paid to Qualifying ILU Policyholders pursuant to the CPLA.

In respect of any one claim made by a Qualifying ILU Policyholder who is not a reinsurer of either or both of the Companies, payments of US Dollars 50,000 or more (or the equivalent in other currencies) will normally be made directly to the Policyholder unless he specifically instructs the Companies otherwise, and payments of less than this amount will normally be made to his placing broker under arrangements agreed between the broker and the Companies. All payments in respect of Qualifying ILU Policies to reinsureds will normally be made to them directly unless they specifically direct otherwise.

Qualifying ILU Policyholders in receipt of payments (in respect of direct business) of over US Dollars 50,000 (or the equivalent in other currencies) in respect of any one claim will need to sign a simple form of receipt and discharge prior to payment, and return this to the relevant Company either directly or through their placing broker. Qualifying ILU Policyholders in receipt of payments (in respect of direct business) under US Dollars 50,000 (or the equivalent in other currencies) in respect of any one claim will not be asked to sign a receipt and discharge unless required to by their placing broker. All Qualifying ILU Policyholders who are reinsureds and who are in receipt of payments under the Scheme will be asked to sign a general receipt and discharge.

In respect of Policyholders and Ordinary Creditors, payments will normally be made directly to them. However, amounts payable to a Policyholder or Ordinary Creditor of less than £50 (or the equivalent in other currencies) in aggregate will not be paid until the Scheme terminates, unless the Scheme Creditor asks for payment.

3 Review of the Payment Percentage

The Payment Percentage will be reviewed (and may be re-set) each year by the Scheme Administrators, who will act in consultation with the Creditors' Committee. This review will normally take place as soon as practicable following the annual actuarial review which is necessary to produce the figures on which the review will be made. It is anticipated that, after the Commencement Date, the next review of the Payment Percentage will take place in 1998.

The Scheme Administrators have the power to set a revised Payment Percentage between the annual reviews if they believe that the Payment Percentage is at a level which is not in the best interests of the Scheme Creditors as a whole. When deciding whether or not to implement a change to the Payment Percentage, the Scheme Administrators can suspend payment to Scheme Creditors for up to six months to allow them to reassess the Companies' position and the level of the Payment Percentage.

4 Changes in the Payment Percentage

If, as a result of any annual review or between annual reviews, the Payment Percentage is increased, Scheme Creditors who have already received payments in respect of their Established Liabilities at the lower Payment Percentage will each receive an additional payment, plus a compensatory payment calculated by reference to a notional rate of interest on the difference ("a Compensatory Payment" as set out in the Scheme), a provision designed to put them in the position they would have been in had they originally received payments at the higher rate on their Established Liabilities.

If the Payment Percentage is reduced, Scheme Creditors whose claims have previously been paid at the higher level will not be required to make any repayment of sums received in respect of Established Liabilities, because repayment would be impractical and would create uncertainty, and Scheme Creditors' obligations to repay would be difficult to enforce. Nevertheless, they would have to wait until the Payment Percentage was increased to a level beyond that at which they had been paid (or until further Established Liabilities had been determined in their favour) before they received any further payments.

In the unlikely event that, by virtue of an increase in the Payment Percentage, the amount paid to any Scheme Creditor (including any Compensatory Payment) reaches 100% of any Established Liability, the Companies will pay interest.

5 Currency of payment

Scheme Creditors will be entitled to receive payment under the Scheme in the currency in which their policies have been written (although any payments made by the PPB are subject to a capped sterling equivalent). The Scheme includes provisions for dealing with the possibility of a common European currency. In cases where claims by and against a Company are subject to set-off and are in different currencies, each claim will be converted into US Dollars or such other currency as the Scheme Administrators may determine. The exchange rates which will apply to those currencies will be the rates specified in the contracts of insurance or reinsurance. If there is no such rate specified, the rate applied will be the mid-market rate for the currencies in question published by The Financial Times at the date of the agreement of the set-off or, in the absence of such publication, such rate as the Scheme Administrators may reasonably determine.

6 Enforcement of rights outside the Scheme

A Scheme Creditor is prohibited from taking any proceedings, subject to the provisions set out in paragraph 1 above, against either or both of the Companies or their property for the purpose of obtaining payment of a Scheme Liability. If a Scheme Creditor does take such proceedings and as a result obtains any money, property or advantage at the expense of either or both of the Companies, then without prejudice to any other remedy which they may have, he will be treated in any such case as having received an advance payment under the Scheme equal to the amount of any money, property or advantage obtained by him at the expense of either or both of the Companies or the Scheme Creditors and the extent, if any, to which such Scheme Creditor is entitled to be paid any payment by way of Payment Percentage under the Scheme shall be reduced accordingly.

7 Rights in relation to security interests, trusts, letters of credit and set-off

If a person had a security interest or was the beneficiary of a trust or letter of credit at the Effective Date, nothing in the Scheme affects the proper enforcement of the security interest, trust or letter of credit. The balance, if any, of a Scheme Liability, after any security interest, trust or letter of credit has been enforced or right of set-off has been exercised (as outlined in paragraph 8 on page 6), may be an Established Liability. A Scheme Creditor is entitled to receive the relevant current Payment Percentage in respect of any such balance.

The Scheme does not affect the rights of either or both of the Companies against any person in respect of any wrongful drawdown of any letter of credit issued or enforcement of any security interest or trust. The Scheme Administrators intend, where practicable, to pursue any rights either or both of the Companies may have against Scheme Creditors in respect of the wrongful enforcement of a letter of credit and hold such Scheme Creditors to account for any loss suffered as a result. The Scheme also contains provisions obliging Scheme Creditors to provide the Scheme Administrators with information sufficient to enable them to reconcile any wrongful drawdown. The attention of Scheme Creditors in the United States is drawn to the summary of the proposed permanent injunction under section 304 of the United States Bankruptcy Code intended to apply during the Scheme, at Appendix 5. This requires that these Scheme Creditors give notice of any drawdown on letters of credit to the Scheme Administrators.

8 Current policies

Where a person has the benefit of a policy which has been written by either or both of the Companies and which has an unexpired policy period on the Effective Date, the policy cover will be deemed to have ceased on that date. Such a person will consequently be a Scheme Creditor of the Companies in respect of an amount equal to that proportion of the premium which relates to the unexpired period of the policy. Accordingly, such a person will be treated as he would have been treated on a liquidation, except that, where relevant, his claim will be in the currency in which his policy is denominated and not, as would have been the case in a liquidation, in pounds sterling.

Holders of policies where the policy period has expired before the Effective Date but a period of extended discovery or extended claims reporting is continuing beyond that date will not be affected by these provisions.

9 **Commutations and other arrangements**

The Scheme enables the Companies to enter into contractual arrangements (known as commutations) with Scheme Creditors whereby all or part of the total liability of either or both of the Companies to a Scheme Creditor either (a) is discharged in full in consideration for a payment, or (b) becomes an Established Liability otherwise than by the agreement of the claim in the normal course, and on the basis that no other claim or claims may be made in respect of such liability or part of such liability.

Such commutations can only be entered into with the consent of the Scheme Administrators if the Scheme Administrators are satisfied that the arrangement is in the best interests of the Scheme Creditors as a whole. In particular, the Scheme Administrators must be satisfied that the arrangement will not adversely affect or prejudice rights under any reinsurance contract. It is likely that, for Policyholders, in the early years of the Scheme commutations of the kind referred to in (a) above will be difficult, as payments will be restricted to a level equivalent to the Payment Percentage on any agreed liability and this will necessarily be conservative. Commutations may be considered in respect of Qualifying ILU Policies, with the consent of the ILU and Nat-Ned. In relevant cases, the PPB also has to agree to commutations.

The Scheme also allows the Companies to enter into arrangements with their reinsurers for the full discharge of their obligations to the Companies for a cash payment.

If Scheme Creditors wish to enter into a commutation or other arrangement with either or both of the Companies they should contact the Scheme Administrators in writing with details of their proposals.

10 **Interest on Scheme Liabilities**

In relation to interest on judgment debts or contractual interest, Scheme Creditors will receive payments in respect of interest as part of an Established Liability only where such interest has accrued and is payable in respect of a period or periods ending on or before the Effective Date. Accordingly, any interest which accrues after the Effective Date will not be payable whether it is payable by virtue of any contract, policy, judgment or otherwise.

11 **Lloyd's syndicates**

In law a contract with a Lloyd's syndicate is a series of separate contracts with the individual members, under which each is liable for his own proportion of the policy. The result is that each individual member of a Lloyd's syndicate which has reinsured with either or both of the Companies is their creditor, each to the extent of his own share of each syndicate, whatever the year. Individual members may also have a share of syndicates which have written reinsurance or retrocessional cover for either or both of the Companies, and consequently may be their debtors.

Except where any question of set-off arises, there is no problem in dealing with a Lloyd's syndicate as one entity. Where, however, any member of Lloyd's is both a debtor and a creditor of a Company on any syndicates (not necessarily the same syndicate) this would not accord with legal theory. In order to establish each member's net claim against that Company for the purposes of set-off, it would be necessary to review the position for each policy in any year during which the member was part of any syndicate; the individual overall position of each person who was a member of any syndicate so affected would have to be calculated separately. It is likely that many thousands of separate calculations would be needed in order to assess the overall position of each member of any relevant syndicate. The Companies do not possess the detailed information

required to make such calculations, as the names of individual members and their shares in each syndicate are held only by the managing agents of the syndicates involved. If this approach were to be adopted, it would be likely to present an almost insurmountable administrative burden, especially as all Lloyd's members would have to be treated in the same way.

The Provisional Liquidators propose a practical alternative which has also been used in other insolvencies of London market companies. It is proposed that each syndicate will be treated for the purposes of set-off as being one separate "person" for all underwriting years. Within that syndicate, netting will be allowed to the extent that set-off would be available in the case of any other party. Where the affairs of two or more syndicates have been handled by the same managing agents, or indeed where two or more such syndicates are parties to the same policies, each such syndicate will be treated separately and there will be no combining of accounts of more than one such syndicate. It will be necessary for all syndicates to be treated in the same way.

The Reconstruction and Renewal plan at Lloyd's has been approved and responsibility for the run-off of individual syndicates, with business written up to and including the 1992 year of account, has been delegated to Equitas Limited, which has also provided retrocessional cover for the liabilities of those individual syndicates. However, in calculating the net amounts due to or by a Company, the Provisional Liquidators propose that set off will continue to be calculated on a syndicate basis as would be likely in liquidation.

12 Third Parties (Rights Against Insurers) Act 1930

The Third Parties (Rights Against Insurers) Act 1930 ("the 1930 Act") provides that in certain circumstances a third party claimant has directly enforceable rights against the insurer of an insolvent insured. The benefit of the 1930 Act is not available in respect of insolvent reinsureds. The 1930 Act applies where, in the case of an individual insured, he becomes bankrupt or makes a composition or arrangement with his creditors, or, if the insured is a company, where a winding-up or administration order is made, a resolution is passed for a voluntary winding up, a receiver or manager of the company's business or undertaking is appointed, possession is taken by or on behalf of the holders of any debentures secured by a floating charge over any property comprised in or subject to the charge or a company voluntary arrangement is approved.

There is uncertainty as to the application of the 1930 Act in circumstances where the insolvent insured is foreign. It is proposed to require that, unless the insolvent insured has been subject to any of the English insolvency procedures specified above, both the insured and the claimant should consent in all cases to the payment being made to the third party (in the case of the insured, such consent would have to be given by the trustee, liquidator or receiver). In the absence of such consent where the insured is not subject to any of the English insolvency procedures specified above, the relevant procedure should be invoked before payment can be made direct to the third party claimant.

Please notify the Companies immediately if you are bankrupt, in liquidation or subject to any insolvency procedures in any jurisdiction and provide them with the name of any such third party. You should also inform any such third party of the Scheme.

13 The Companies' activities during the Scheme

During the Scheme the Companies will not enter into any new or renewal insurance or reinsurance business. The Companies will continue to be regulated by the DTI and, if appropriate, receive accounting and settlement information from the ILU and LIRMA.

14 **Duration of the Scheme**

It is anticipated that the Scheme may continue for between 15 and 20 years, since claims on some policies or contracts of insurance underwritten by the Companies may be made at any time, provided the loss giving rise to the claim occurred or is deemed to have occurred during the policy or contract period. Consequently, it is not possible to set a termination date for the Scheme because the Provisional Liquidators are not able to determine when all claims will have arisen.

However, the Scheme will be terminated if:

- (1) the Scheme Administrators give notice to the Companies that:
 - (a) all the liabilities of the Companies have been paid in full; or
 - (b) there are no further Scheme assets to be distributed in accordance with the provisions of the Scheme; or
- (2) over the period of 2 years from the Effective Date, the aggregate payment made by the Companies in respect of Established Liabilities is less than would have been made if the Payment Percentage had been at a level of 5% for the same period, unless, within that time, the Scheme Administrators determine otherwise and the Creditor's Committee passes a resolution (by a majority including the PPB) that the Scheme should not be terminated.

As the initial payment percentage is expected to be around 15%, it is unlikely that the last termination event will be relevant. As it is most unlikely that the Companies will be able to pay their Established Liabilities in full (other than to Qualifying ILU Policyholders), it is also unlikely that the first termination event will be relevant.

Accordingly, it is likely that the Scheme will continue until all assets have been realised and payments made to Scheme Creditors in accordance with the terms of the Scheme. In the unlikely event of the Companies being put into liquidation before the Scheme has terminated, the Scheme will continue. Payment to Scheme Creditors in respect of Established Liabilities will then proceed in accordance with the terms of the Scheme except that the PPB's obligations under the Scheme towards Protected Policyholders may cease at the PPB's election. In that event payments by the PPB of any remaining Protected Policyholders' claims will be dealt with by the PPB outside the terms of the Scheme in accordance with the terms of the Policyholders Protection Act. The Scheme also contains provisions limiting the obligations of the PPB in the event that termination of the Scheme is followed by liquidation of either or both of the Companies. During the Scheme no Scheme Creditor can take any steps to wind up the Companies.

15 **Valuation option**

Some of the Companies' Scheme Liabilities have a very "long tail" as referred to in paragraph 14 above. It could be up to 20 years or more before some liabilities mature. In those circumstances it is considered that it might be in the interests of Scheme Creditors as a whole to find a way of bringing the Scheme to an earlier conclusion. One method by which this might be achieved is by providing a once and for all cut-off for all liabilities which have not finally matured and become Established Liabilities. Accordingly, the Scheme contains provisions under which the Scheme Creditors can meet (in different classes, if appropriate) to consider and vote on whether to introduce such a cut-off. The basis of the cut-off would be that all outstanding claims and IBNR claims would be valued as at the cut-off date. If the value cannot be agreed between a Scheme Creditor and the Scheme Administrators, then it will be referred for adjudication to an independent

adjudicator. The valuation of any liabilities in respect of Qualifying ILU Policies (if any) would also need to be agreed with the ILU and Nat-Ned. In relevant cases, the PPB also would have to agree the value.

This procedure would only be brought into effect by a special resolution at a meeting of Scheme Creditors (or at class meetings if appropriate) which would be convened only if the Scheme Administrators and the Creditors' Committee considered that it was in the interests of Scheme Creditors that they should have at least the opportunity of considering whether to invoke this procedure. The resolution would have to be approved by majorities in number representing not less than 75% in value of those creditors or class of creditors who, being entitled to do so, attended and voted at the relevant Scheme Meetings.

It is likely that the procedure would be invoked only when substantially all of the Companies' outward reinsurance recoveries had been collected or commuted. A valuation of liabilities earlier in the Scheme might prejudice the Companies' ability to recover some of these reinsurance recoveries although the legal position is uncertain. Accordingly, it is likely that the procedure would not be invoked until the Scheme had been running for at least seven to ten years.

This valuation option is likely to produce Established Liabilities for policyholders with occurrence policies or other long tail claims whereas, if events were to run their natural course, such policyholders might prove not to have been entitled to anything. It would also mean that those policyholders whose claims had already become Established Liabilities would be likely to receive less than they might otherwise receive if the run-off were allowed to proceed normally. However, the valuation would provide a means of settling all outstanding or future claims, thus enabling the Scheme Administrators to assess the total liabilities of the Companies, and make a final payment bringing the Scheme to an end earlier than would otherwise be possible. After seven to ten years Scheme Creditors may believe that to be desirable.

16 Taxation

The Inland Revenue have confirmed that the Companies' tax losses, which are significant, are available to offset taxation suffered, or otherwise arising, on future investment income. The Inland Revenue have confirmed that these tax losses are available for carry forward. As a result of the agreement of the Inland Revenue to the tax position for all years up to 1992, negotiated by the Provisional Liquidators, the Companies have received tax repayments including interest, totalling £5.1 million.

With regard to the Scheme Creditors' tax position, the Provisional Liquidators are advised that, in general, payments received under the Scheme are likely to be subject to taxation in the United Kingdom or United States as if the Companies had met claims in the normal way. However, the amount and timing of any taxation of payments under the Scheme will depend upon all the particular facts and circumstances as they affect each Scheme Creditor.

The Scheme will create an arrangement between the Companies and their Scheme Creditors whereby payment of Established Liabilities is dependent on the Companies having the assets to do so. To the extent that they do not, payment will be deferred at the Scheme Administrators' discretion until assets become available. The Provisional Liquidators understand that Scheme Creditors may wish to obtain bad debt relief for the deferred element of the Established Liability due to them, either for United Kingdom or United States federal tax purposes.

For United Kingdom tax purposes, corporate Scheme Creditors may be taxed on payments received under the Scheme as part of the profits of their business or trade where the payment arises from

a claim in the course of that business or trade. In circumstances where the Established Liability is brought into account in full for tax purposes, a Scheme Creditor may, in practice, be able to obtain agreement from the Inspector of Taxes that bad debt relief is available for the deferred element of an Established Liability. If the Payment Percentage increased in subsequent years there would then be further taxable receipts in those years.

For United States federal tax purposes, the Provisional Liquidators are advised that for corporate Scheme Creditors, insurance receipts, in common with most sources of income, will in general be included in computations of net taxable income and bad debt relief may be available, for accrual basis tax payers who have included the original claim in taxable income, for the deferred element of the Established Liability. Where the Scheme Creditor is a direct insured and receives insurance payments for damage to capital assets in excess of United States tax cost, there may be opportunities to roll over the gain into expenditure on qualifying assets for tax purposes.

Under the terms of the Scheme, Scheme Creditors receive Compensatory Payments in the event of an increase in the Payment Percentage. The Inland Revenue have confirmed that Compensatory Payments may be paid without deduction of United Kingdom income tax. However, in the unlikely event that all payments in respect of an Established Liability, including Compensatory Payments, exceed the amount of the Established Liability, United Kingdom income tax must be deducted from the excess.

17 Administration of the Scheme and management of the Companies

The Scheme provides for the appointment of Scheme Administrators who will be responsible for the day-to-day management of the Companies and for administering the Scheme. The Scheme grants wide powers to the Scheme Administrators in order to enable them to carry the Scheme into effect. The Scheme Administrators are to have general powers of management and control over the affairs of the Companies during the Scheme and are also granted specific powers. One of the main functions of the Scheme Administrators is to set the Payment Percentage. In carrying out their functions under the Scheme, the Scheme Administrators must act bona fide and with reasonable care in the interests of Scheme Creditors as a whole.

The Scheme Administrators may resign their appointment by giving not less than three months' notice in writing to the Companies and the Creditors' Committee and may be removed from office by a resolution passed by Scheme Creditors at meetings convened to review the Scheme Administrators' appointment. If either one or both of the Scheme Administrators are so removed, the Scheme Creditors shall be entitled to appoint one or more (as applicable) new Scheme Administrators at the same meeting. In any other case, immediately on, and in any event within 30 days of, the office of a Scheme Administrator being vacated for one of the reasons set out in the Scheme, the Creditors' Committee will be entitled to appoint one or more (as applicable) persons, who are qualified to act in such capacity, as Scheme Administrators.

It is proposed that Paul Evans and Colin Bird, both partners in the United Kingdom firm of Price Waterhouse, be appointed to act jointly and severally as the first Scheme Administrators. If the Scheme is approved by the Scheme Creditors and is sanctioned by the Court, the Winding-up Petitions will be dismissed and the Provisional Liquidators will cease to act. These proposed appointments will ensure that the knowledge and experience of the Companies accumulated whilst acting as Provisional Liquidators, in particular by Paul Evans as lead engagement partner, are not forfeited and that the management of the run-off continues uninterrupted. Copies of their curricula vitae are set out in Appendix 6.

Following their appointment, the Provisional Liquidators acquired a newly incorporated company as a subsidiary of Orion, North Star Management Services Limited ("North Star"). The contracts of employment of all those engaged in the run-off of the Companies' businesses were transferred to North Star from another subsidiary of NNUK, OIM Limited, which has since ceased to trade. Certain other assets of OIM Limited were also transferred to North Star. Since 1 December 1994, North Star has provided services to the Companies to enable them to continue the run-off under the supervision and control of the Provisional Liquidators. From the Effective Date of the Scheme, it is proposed that a full run-off contract will be entered into between North Star and the Companies by which North Star will carry out most of the day-to-day activities relating to the run-off of the Companies' businesses, reporting to the Scheme Administrators.

The directors of North Star from the Effective Date will be Anthony McQueen, Thomas Masney and Trevor Partridge. Messrs McQueen and Masney are also Directors of the Companies subject to the rules of the Scheme. Copies of their curricula vitae are set out in Appendix 7. North Star will deal with the majority of claims against the Companies, except those arising in Canada, France or Belgium (see pages 31 to 32) and those arising from the residual personal lines and commercial businesses. Personal lines claims will continue to be handled on behalf of Orion by Orion Personal Insurances Limited, Bouverie House, Bouverie Road West, Folkestone, Kent, CT20 2RW (Attention: Customer Care Manager). Any commercial claims (which are mainly in respect of employers' Liability) should be sent to Thomas Howell Group (Claims Management) Limited, Tempus, 249 Mid Summer Boulevard, Central Milton Keynes, MK9 1YA (Attention: Margaret Clubley).

18 **The Creditors' Committee**

The main function of the Creditors' Committee is to oversee the implementation of the Scheme and, in particular, to provide the Scheme Administrators with the Creditors' Committee's views on important issues relating to the Scheme.

Any Scheme Creditor (or authorised representative of a Scheme Creditor) is eligible to serve on the Creditors' Committee, provided the Scheme Creditor concerned has a Scheme Liability of at least US Dollars 100,000. Any other person may serve with the written consent of the Scheme Administrators. The Creditors' Committee may consist of up to ten members. Seven may be elected by the Scheme Creditors at the meetings held for the purpose of voting on the Scheme, and an additional place on the Committee will be reserved for the PPB. The two remaining places may be allocated to persons at the Scheme Administrators' discretion. Nominations received from Scheme Creditors for the initial Creditors' Committee are set out on page 155. When filling any vacancy and appointing additional Committee members, the Creditors' Committee must ensure that the composition of the Committee is such as to secure a proper balance between the interests of the Scheme Creditors.

The Creditors' Committee must act bona fide at all times in the best interests of Scheme Creditors as a whole. The Creditors' Committee is able to meet at any time it chooses, but must meet at least once a year to consider the operation of the Scheme, including the level of the Payment Percentage.

The Scheme Administrators must, after the Payment Percentage has been reviewed annually, provide the Creditors' Committee with a report on the affairs of the Companies and the operation of the Scheme generally. The Creditors' Committee also has the power to request from the Scheme Administrators specific information concerning the operation of the Scheme. The Scheme Administrators are obliged to give to the Creditors' Committee reasonable information concerning the affairs of the Companies and the operation of the Scheme, except where they make a

determination that to divulge such information would be detrimental to the interests of Scheme Creditors. The Creditors' Committee must keep information which is provided to them concerning the Scheme strictly private and confidential, unless they have received the prior written consent of the Scheme Administrators.

19 **Meetings of Scheme Creditors**

The Scheme provides for meetings or class meetings of the Scheme Creditors to be held. Meetings will be held when convened by the Scheme Administrators, or when either 50 Scheme Creditors or Scheme Creditors owed liabilities of not less than 10% in value of all Scheme Liabilities request that meetings be held. The PPB will, for this purpose, be counted as a separate Scheme Creditor in relation to each Scheme Creditor who has assigned Scheme Liabilities to it.

The voting procedure provides that each Scheme Creditor shall have one vote for every US Dollar of his Scheme Liability which, if established, will be the amount agreed with the Companies or, if not established, the amount estimated by the Scheme Creditor, subject to a final determination (for the purposes only of voting and convening meetings) by the Chairman of the meetings who, in most instances, will be a Scheme Administrator. For this purpose it is necessary to have all claims expressed in one currency, and since the majority of the Companies' policies, in terms of both number and value, are denominated in US Dollars all Scheme Liabilities denominated in currencies other than US Dollars will be converted into US Dollars at the mid-market rate for the relevant currency published by The Financial Times on a specified day, or if no such rate is published, as the Scheme Administrators may reasonably determine.

A resolution may only be passed at meetings of Scheme Creditors if it is passed by a majority in number representing 75% in value of Scheme Creditors in each class who, being entitled so to do, vote in person or by proxy at those meetings. The Scheme Creditors have the power to pass a resolution to remove the Scheme Administrators.

It is unlikely that meetings of Scheme Creditors will be convened except in the most exceptional circumstances, although meetings may be called after the Scheme has been effective for a number of years to consider passing a special resolution as described in paragraph 15 above.

20 **Responsibility of the Scheme Administrators, the Creditors' Committee and the Directors**

The Scheme provides that acts done or omitted to be done in good faith and with reasonable care by the Scheme Administrators, their employees or agents, any directors or any member of the Creditors' Committee (or their nominated representative or alternate or, in the case of the PPB, the PPB's representative or alternate) in carrying out their duties or exercising their powers under the Scheme, may not be challenged by any Scheme Creditor, and that no such person shall be liable for any loss, unless such loss is attributable to his own negligence, wilful default, breach of duty, breach of trust, fraud or dishonesty.

The Companies will indemnify such persons against liabilities incurred by them in defending proceedings brought against them, relating to their respective responsibilities under the Scheme, in which they are found not to be liable.

21 **Ownership of the Companies**

All the shares in Orion are beneficially owned by NNUK which continues to trade. NNUK has agreed to be bound by the Scheme as a shareholder and, during the Scheme, not to put Orion into liquidation without the consent of the Scheme Administrators. NNUK also agrees that upon any

sale, transfer or charging of its shares in Orion, it will at the same time procure that the relevant transferee or chargee also agrees to be bound by the Scheme as a shareholder.

All the shares in L&O are beneficially owned by Orion. Orion has agreed to be bound by the Scheme as a shareholder and, during the Scheme, not to put L&O into liquidation without the consent of the Scheme Administrators. Orion also agrees that upon any sale, transfer or charging of its shares in L&O, it will at the same time procure that the relevant transferee or chargee also agrees to be bound by the Scheme as a shareholder.

It is customary in schemes of arrangement of this type to transfer the whole of the shareholding in the scheme company to trustees for the period of the scheme, on the basis that the beneficial ownership remains with the shareholder, but the voting rights are to be exercised at the direction of the Scheme Administrators. This procedure ensures that no function or power of the shareholders can be exercised in such a way as to interfere with the exercise by a Scheme Administrator of his powers.

In this case, the Provisional Liquidators have concluded that it is desirable to maintain the Companies in the tax group including NNUK and its subsidiaries. For this purpose, inter alia, a minimum of 75% of the shares in the Companies must continue to be held by the immediate parent company. Under English company law, agreement to short notice of a shareholders' meeting requires a majority of at least 95% in nominal value of the shares giving a right to attend and vote at the meeting. In order to ensure that no shareholder resolutions affecting the Companies can be passed without proper notice being given to the Scheme Administrators, 10.1% of the shares in the Companies have been transferred to Serjeants' Inn Nominees Limited, to hold as trustees upon trust for their respective shareholders, but on terms that the voting rights in respect of those shares are in the hands of the Scheme Administrators. The Provisional Liquidators believe that these arrangements are commercially sensible and in the interest of Scheme Creditors, as they maintain the possibility of further surrenders of tax losses.

None of the Directors has any beneficial interest in the shares (nor is he a creditor) of either or both of the Companies.

PART 1

EXPLANATORY STATEMENT

H: THE VOTING PROCESS

1 **The Scheme Meetings**

Before the Scheme can become effective as regards all Scheme Creditors, a resolution to approve it must be passed by the requisite majority, as provided by section 425 of the Companies Act 1985, of each class of Scheme Creditors (see paragraph 3 below) of each of the Companies. The requisite majority is that representing in excess of 50% in number and 75% or more in value of each class of Scheme Creditors who, being so entitled, are present in person or by proxy at their respective Scheme Meeting(s) and vote.

As there are three classes of Scheme Creditor for each Company there will be six votes to approve the Scheme. Notices convening the Scheme Meetings are on pages 145 to 148.

2 **Whom the Scheme binds**

If the Scheme becomes effective, it will bind the Companies and all Scheme Creditors whether they voted for the Scheme or not.

3 **The Voting Forms**

There are three Voting Forms enclosed with this document, one for each class of Scheme Creditor. It is possible that a Scheme Creditor may be entitled to vote in more than one class. For a description of the classes of Scheme Creditor for voting purposes, please refer to Appendix 1.

Policyholders (and Dual Scheme Creditors) who have claims against either or both of the Companies and wish to vote on the Scheme should complete the GREEN Voting Form.

Qualifying ILU Policyholders who have claims against either of the Companies and wish to vote on the Scheme should complete the BLUE Voting Form.

Ordinary Creditors who have claims against either of the Companies and wish to vote on the Scheme should complete the PINK Voting Form.

Guidance notes for completion of the Voting Forms may be found on pages 149 to 158 at the back of this document.

4 **Valuation of claims for voting purposes**

You are required to estimate the amount of your present and future claims against either or both of the Companies for voting purposes only. Claims will be admitted at the agreed amount or at an estimated amount in the case of claims which have been reported but not established or incurred but not reported, less the amount of any known letters of credit, trusts, mortgages, charges, liens, other security interests or set-off.

You will need to provide particulars of any estimated claim and will need to include details regarding the basis upon which the figure has been calculated. The Chairman of the Scheme

Meetings (who is to be one of the proposed Scheme Administrators) will verify these claims against the Companies' records and will determine whether or not any estimates are fair and reasonable before they are counted for voting purposes. It is your responsibility to provide sufficient information to enable the Chairman of the Scheme Meetings to judge whether, and to what extent, your estimate of each claim can be accepted for voting purposes.

These estimates will not be relevant for the purpose of establishing or settling claims under the Scheme; they are for voting purposes only. Even if you are currently in dispute with either or both of the Companies with regard to any claim, you will still be eligible to vote at the relevant Scheme Meeting(s). Acceptance of a Scheme Creditor's estimate of any claim for voting purposes will not prejudice either party's rights to dispute the claim for any other purpose.

5 **Cross-guarantees**

Any Policyholder or Qualifying ILU Policyholder with an insurance or reinsurance claim against either of the Companies will also have an identical net claim against the other provided that they satisfy the requirements set out in Appendix 1. Such a Scheme Creditor will therefore be entitled to vote on the Scheme in respect of both Companies. However, Scheme Creditors should not record claims under the cross-guarantees on the claims table for voting purposes, but may vote in respect of both Companies as indicated in Section A of the appropriate Voting Form.

6 **Dual Scheme Creditors**

Any Dual Scheme Creditor with a claim against either one of the Companies will also have an identical net claim against the other. Such a Scheme Creditor will therefore be entitled to vote on the Scheme in respect of both Companies. However, Scheme Creditors should only record claims on the claims table for voting purposes in respect of one Company, but may vote in respect of both Companies as indicated in Section A of the appropriate Voting Form.

7 **Currency conversion for voting purposes**

Claims against either or both of the Companies may be denominated in various currencies. In order to determine whether or not the requisite majorities (as to the value of the claims of each class of Scheme Creditor voting in favour of the Scheme) have been achieved, the value of all claims of Scheme Creditors who vote on the Scheme will be converted into US Dollars using the rates of exchange in existence immediately prior to the date of the Scheme Meetings.

8 **Appointment of a proxy**

If you are a Scheme Creditor, you are entitled to vote at the relevant Scheme Meeting(s) either in person (or, in the case of corporations, by a duly authorised representative) or by proxy. If you wish to appoint a proxy, please complete the instructions on Section A of the relevant Voting Form(s) in accordance with the guidance notes on pages 149 to 158 of this document. This will not prevent you from attending in person at the relevant Scheme Meeting(s).

9 **The Creditors' Committee**

Prior to the issue of this document, Scheme Creditors were invited to nominate candidates for election to the Creditors' Committee. The Creditors' Committee Voting Form lists all candidates properly nominated including the members of the informal creditors' committee.

As a Scheme Creditor, you are invited to vote at the Scheme Meetings for up to seven of the candidates regardless of whether you voted for or against the Scheme or abstained. The value attributed to your vote(s) shall depend on your estimate of the total value of your net claim against the Companies as detailed on the claims and set-off tables used for voting on the Scheme. For this purpose your net claims against both Companies will be aggregated and claims under the cross-guarantees ignored. If you choose to vote for more than one candidate, the value attributed to each vote shall be the aggregate of your net claims divided by the number of votes cast. Those elected to the Creditors' Committee will be the first seven candidates who, in descending order, receive the most votes by value.

10 **Return of the Voting Form(s)**

The Voting Form(s) should be returned to the Joint Provisional Liquidators, The Orion Insurance Company PLC/The London and Overseas Insurance Company PLC, 56-59 Fenchurch Street, London EC3M 4AD England, fax number 0171 481 2384 or, if outside the United Kingdom, (44) 171 481 2384. For your convenience, a pre-addressed envelope is enclosed with this document.

In order to have your vote counted, the Voting Form(s) should be submitted at any time before or at the start of the respective Scheme Meeting(s). However, it would be appreciated if you were to return the Voting Form(s) in advance. Faxes will be accepted subject to receipt of originals by post or personal delivery not later than 5pm on 21 February 1997.

11 **After the Scheme Meetings**

After the Scheme Meetings the votes must be checked and verified. The verification process may take a few weeks depending on the number of votes involved.

12 **Sanction by the Court**

Following its approval by the requisite majorities of Scheme Creditors, the Scheme must be sanctioned by the Court. The Court orders sanctioning the Scheme will be delivered to the Registrar of Companies in England and the Scheme will then become binding and effective. Notification to this effect will appear in The Financial Times, Insurance Day and Business Insurance.

13 **Effective Date of the Scheme**

The Scheme is unlikely to become effective unless a permanent injunction under section 304 of the United States Bankruptcy Code staying all proceedings against the Companies in accordance with the terms of the Scheme and protecting all the United States assets of the Companies is obtained in substantially the terms summarised in Appendix 5. It is anticipated that if the Scheme is sanctioned by the Court it will become operational during March 1997.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

1. DESCRIPTION OF CLASSES OF SCHEME CREDITOR FOR VOTING PURPOSES ONLY

Set out below is a guide for Scheme Creditors as to which of the Scheme Meetings they will be entitled to vote at in respect of each of their present or future claims against either or both of Orion and L&O.

Dependent upon the type of his claim(s), a Scheme Creditor may be entitled to exercise his right to vote at more than one of the Scheme Meetings of either Company.

A. ORION SCHEME MEETINGS

1. ORION: POLICYHOLDERS' AND DUAL SCHEME CREDITORS' MEETING

The following Scheme Creditors will be entitled to vote at this Scheme Meeting:

- 1.1 Scheme Creditors of Orion with claims under Insurance Contracts (other than Qualifying ILU Policyholders) who meet the requirements for being a Policyholder set out in Note 1 below; and
- 1.2 Scheme Creditors of L&O with claims under Insurance Contracts (other than Qualifying ILU Policyholders) who meet the requirements for being a Policyholder set out in Note 2 below; and
- 1.3 Dual Scheme Creditors, i.e. Scheme Creditors other than Policyholders or Qualifying ILU Policyholders with claims against both of the Companies in respect of the same Scheme Liability.

2. ORION: QUALIFYING ILU POLICYHOLDERS' MEETING

The following Scheme Creditors will be entitled to vote at this Scheme Meeting:

- 2.1 Scheme Creditors of Orion with claims under Qualifying ILU Policies (see note 3.1 below); and
- 2.2 Scheme Creditors of L&O with claims under Qualifying ILU Policies (see note 3.2 below) who also meet the requirements for being a Policyholder set out in Note 2 below.

3. ORION: ORDINARY CREDITORS' MEETING

Any Scheme Creditor of Orion not entitled to vote at the Orion Policyholders' and Dual Scheme Creditors' Meeting or the Orion Qualifying ILU Policyholders' Meeting will be entitled to vote at this Scheme Meeting.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

1. DESCRIPTION OF CLASSES OF SCHEME CREDITOR FOR VOTING PURPOSES ONLY

B. L&O: SCHEME MEETINGS

1. L&O: POLICYHOLDERS' AND DUAL SCHEME CREDITORS' MEETING

The following Scheme Creditors will be entitled to vote at this Scheme Meeting:

- 1.1 Scheme Creditors of L&O with claims under Insurance Contracts (other than Qualifying ILU Policyholders) who meet the requirements for being a Policyholder set out in Note 2 below; and
- 1.2 Scheme Creditors of Orion with claims under Insurance Contracts (other than Qualifying ILU Policyholders) who meet the requirements for being a Policyholder set out in Note 1 below; and
- 1.3 Dual Scheme Creditors, i.e. Scheme Creditors other than Policyholders or Qualifying ILU Policyholders with claims against both of the Companies in respect of the same Scheme Liability.

2. L&O: QUALIFYING ILU POLICYHOLDERS' MEETING

The following Scheme Creditors will be entitled to vote at this meeting:

- 2.1 Scheme Creditors of L&O with claims under Qualifying ILU Policies (see note 3.2 below); and
- 2.2 Scheme Creditors of Orion with claims under Qualifying ILU Policies (see note 3.1 below), who also meet the requirements for being a Policyholder set out in Note 1 below.

3. L&O: ORDINARY CREDITORS' MEETING

Any Scheme Creditor of L&O not entitled to vote at the L&O Policyholders' and Dual Scheme Creditors' Meeting or the L&O Qualifying ILU Policyholders' Meeting will be entitled to vote at this Scheme Meeting.

NOTES

1. Orion: Policyholder

A Policyholder in respect of an Insurance Contract entered into by or on behalf of Orion must be a person who for the time being is the legal holder of the policy for securing the contract with Orion and includes a person who is not the legal holder of the policy but to whom, under such a policy, a sum is due or a periodic payment is payable.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

1. DESCRIPTION OF CLASSES OF SCHEME CREDITOR FOR VOTING PURPOSES ONLY

It is expected that any person with a valid claim in respect of any such Insurance Contract will satisfy these requirements, although admission of a claim for voting purposes will not be relevant for the purpose of establishing or settling claims under the Scheme.

2. L&O: Policyholder

A Policyholder in respect of an Insurance Contract entered into by or on behalf of L&O must be a person who for the time being is the legal holder of the policy for securing the contract with L&O and in relation to accident insurance business, motor vehicle insurance business, or marine, aviation and transit insurance business, includes a person who is not the legal holder of the policy but to whom, under any policy, any sum is due or a weekly or other periodic payment is payable, and in relation to employers' liability insurance business, includes a person who is not the legal holder of the policy but to whom, under any policy, any sum is due or a weekly payment is payable.

It is expected that any person with a valid claim in respect of any such Insurance Contract will satisfy this requirement, although admission of a claim for voting purposes will not be relevant for the purpose of establishing or settling claims under the Scheme.

3. Qualifying ILU Policy

3.1 Orion

A contract of insurance, re-insurance or retrocession between Orion and a Scheme Creditor evidenced by a policy signed and issued by the ILU with an inception date on or after 28th August, 1970.

3.2 L&O

A contract of insurance, re-insurance or retrocession between L&O and a Scheme Creditor evidenced by a policy signed and issued by the ILU with an inception date on or after 20th March, 1969.

If Scheme Creditors need further assistance to determine in which of the above classes they are entitled to vote, or generally, they should contact the Companies on 0171 488 3422 or, if outside the United Kingdom, (44) 171 488 3422.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

**2. ANNOUNCEMENT BY THE ILU ON 30 JUNE 1995
REGARDING ARRANGEMENTS WITH NAT-NED**

The Institute of London Underwriters

49 Leadenhall Street London EC3A 2BE

PRIVATE AND CONFIDENTIAL

Enquiries to:
Mr E J Walker (ext 4021)

Market Release
30 June 1995

**THE ORION INSURANCE COMPANY PLC (IN PROVISIONAL LIQUIDATION) ("ORION")
THE LONDON & OVERSEAS INSURANCE COMPANY PLC
(IN PROVISIONAL LIQUIDATION) ("L&O")**

1 **The ILU/Nat-Ned Arrangement**

Following the announcement made in October 1994, details have now been agreed regarding the implementation of the arrangements between the Institute of London Underwriters ("ILU") and Internationale Nederlanden Verzekeringen NV ("NatNed") in respect of Orion and L&O.

2 **Liabilities covered**

The liabilities of Orion and L&O ("the companies") covered by the arrangement are those arising on policies signed and issued by the ILU and incepting on or after 20 March 1969 in respect of L&O and on or after 28 August 1970 in respect of Orion. These were the dates when respectively Orion gained control of L&O and Nat-Ned gained control of Orion.

Liabilities of the companies for other items in the nature of expenses, which arise from express obligations under a policy of insurance or reinsurance, are covered by the arrangement. This could include defence costs (whether on a "costs in addition" or "costs inclusive" basis). Where expenses do not arise from express obligations under a policy of insurance or reinsurance, they will not be covered by the arrangement, for example most loss adjuster's fees or the companies' legal representation costs.

Liabilities on policies incepting before the relevant dates or written outside the ILU are not covered by the arrangement, and all such liabilities will fall to be dealt with by the companies, through any proposed Scheme of Arrangement, or a liquidation of the companies.

cont

3 Two phases

The first phase will deal with direct policyholders and, in due course, reinsureds that are not also retrocessionnaires or that have not had any contractual involvement with the companies in respect of the companies' outwards business. This is because reinsureds that are, or have been, reinsurers of the companies may have rights of set-off (as may the companies) and the basis for dealing with set-off under the ILU/Nat-Ned arrangement raises difficult issues which have yet to be resolved. The companies will also need to have completed the reprocessing of data onto a principal-to-principal basis before the extent of set-off (if any) in respect of any one reinsured can be ascertained, and, as in all insurance insolvencies, this will take considerable time. Accordingly a further agreement is planned, dealing with reinsureds that are also reinsurers, and a further announcement will be made in due course.

4 Claims processing

Claims not involving arbitration or litigation are continuing to be processed and agreed by the companies in the normal way. For co-insured risks involving arbitration or litigation the companies are not taking part in these proceedings, but will be dealing with their share of judgements or market settlements that may be agreed in respect of claims falling under the arrangement.

Policyholders and brokers are not required to provide any additional information to support the agreement of any claim, except in unusual circumstances. However efficient handling of the companies' share of claims under the arrangement will be made easier if the companies are involved in any settlement discussions or negotiations as early as possible. As outlined in paragraph two of 2 above, the only incidental expenses which will be covered under the arrangement are those which arise from an express obligation under the policy in question. To assist the claims adjusters in correctly ascertaining and allocating these expenses brokers are requested to identify separately each expense element of any claim.

Based on an analysis of claims settled by the companies during 1994, it is estimated that on average 2000 direct claims could be dealt with per month under the arrangement. The companies also settled on average 1800 claims per month by reinsureds during 1994, but many such claims are likely to be affected by set-off and will be dealt with in the later phase of the arrangement.

5 Payment

Funds will be provided by a subsidiary of Nat-Ned to the companies and all payments will be made by the companies, by cheque drawn in US or Canadian dollars or sterling. The ILU expects that policyholders will have claims which are covered by the arrangement met in full.

In respect of any one claim made by direct policyholders, payments of \$50,000 or more (or the equivalent in other currencies) will be made to the party entitled to them unless they specifically direct otherwise, and payments of less than this amount will be made to the placing broker unless that broker requests direct payment. All payments to reinsureds will be made to them, unless they specifically direct otherwise.

cont

6 Requirements

Recipients of payments (in respect of direct business) over \$50,000 (or the equivalent in other currencies) will need to sign a simple form of receipt and discharge in respect of each such claim prior to payment, and return this to the companies through the placing broker.

Recipients of payments (in respect of direct business) under \$50,000 (or the equivalent in other currencies) will not be asked to sign a receipt and discharge unless their placing broker requires them to, and it is expected that payments will normally be made to the broker under arrangements agreed between the broker and the companies.

Reinsureds (who are not and have not been reinsurers of the companies) will be asked to sign a general receipt and discharge, and to confirm that they have taken account of any set-off of amounts due to the companies.

7 Timetable

According to the Provisional Liquidators from Price Waterhouse it will take several months to clear the backlog, because of the volume of claims that are unpaid since the companies ceased paying in October 1994. In due course, it is intended that payments will be based on claims closed through the ILU in any one month, and that payments will take place on or after a date approximately seven weeks after the month end. This is to allow time for the accounting processing that will be required and a number of other necessary internal control checks by the ILU and Nat-Ned.

The proposed dates for the first payment will fall in early July with further payments in August and September. After that the parties to the arrangement and the companies will review the operation of the process, and will consider any necessary alterations in order to ensure that payments are made as efficiently as possible.

Enquiries about claims

Enquiries about specific claims should be directed to the claims managers at the companies, or to the Provisional Liquidators' staff at:

56/59 Fenchurch Street
London
EC3M 4AD

TEL: (44) 171 488 3422
FAX: (44) 171 481 2384

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

**2. ANNOUNCEMENT BY THE ILU ON 20 AUGUST 1996
REGARDING ARRANGEMENTS WITH NAT-NED**

The Institute of London Underwriters

49 Leadenhall Street London EC3A 2BE

PRIVATE AND CONFIDENTIAL

Enquiries to:
Mr E J Walker (ext 4021)

Market Release
20th August 1996

**THE ORION INSURANCE COMPANY PLC
(IN PROVISIONAL LIQUIDATION) ("ORION")
THE LONDON AND OVERSEAS INSURANCE COMPANY PLC
(IN PROVISIONAL LIQUIDATION) ("L&O")**

Just over a year has gone by since the Institute last issued a circular (95/90) to the market about the implementation of arrangements with Internationale Nederlanden Verzekeringen NV ("NatNed") in respect of Orion and L&O. On that occasion, it was announced that a payment mechanism had been put in place so that claims not involving reinsurance set-off could be processed in large numbers. In the past year, almost 30,000 claims totalling over U.S. Dollars 50 million have been paid, principally to direct policyholders, by Orion and L&O, using funds provided by a subsidiary of NatNed. The backlog of direct claims, covering 20 months since Orion was placed into insolvency in October 1994, has been largely eliminated. The processing of claims is now relatively quick, so that direct claims agreed during June 1996 are currently being paid.

The Institute has been informed by the companies' provisional liquidators that later this year they intend proposing to creditors a Scheme of Arrangement under Section 425 of the Companies Act 1985. The proposed Scheme will include provisions dealing with set-off between the companies and those ILU policyholders who are also their retrocessionnaires, or who have had a contractual involvement with the companies in respect of the companies' outward business. Such policyholders have yet to benefit from the arrangements with NatNed. If approved by the companies' creditors, in simple terms, those provisions will be as follows:

1. The arrangements with NatNed, further described later in this circular, will provide the funds needed to make good any deficiency (after any payment percentage distributed by Orion/L&O from their own assets) in the payment by Orion/L&O of an Established Liability, as determined by the Scheme Administrators, in respect of the eligible claims of a policyholder.
2. In outline, an Established Liability in respect of eligible claims will be arrived at by the application of set-off as follows:
 - (a) There will be taken into account on one side ILU business written by Orion and L&O with inception dates on or after 28th August 1970 and 20th March 1969 respectively; and on the other side reinsurance of Orion and L&O's MAT accounts with the same inception date range.

...Contd/

- (b) From time to time, a net balance of agreed claims on the above business will be taken by Orion and L&O. In exercising their discretion to determine an Established Liability, if any, the Scheme Administrators will also take into account the likely future development of such a balance. The Established Liability will, however, be no greater than the balance of agreed claims, and may well be smaller.

It is currently envisaged that the Scheme of Arrangement will be in place before payments begin. It will, in any event, be necessary for Principal-to-Principal ledgers to have been completed by the prospective Scheme Administrators so that a cedent's net position can be established. Further details of the set-off principles will appear in the Explanatory Statement to the Scheme of Arrangement, which is currently expected to be put to creditors later this year. The introduction of these set-off provisions for reinsurance balances will not affect the processing of direct claims.

As is already well known, funds are available to meet claims against ILU policies issued on behalf of Orion and/or L&O with inception dates on or after 28th August 1970 and 20th March 1969 respectively. To qualify for reimbursement, such claims must have been notified (but no more) to Orion or L&O before 6 years have elapsed after the final payment by the companies, but no later than 31st December 2035.

In October 1994, the Institute, on the basis of the information then available to it and having taken account of:

1. the uncertainties of the estimation process;
2. the addition of IBNR for possible pollution claims;
3. the addition of substantial margins for possible deterioration; and
4. the estimation of the likely payment percentages available from Orion and L&O; but
5. without any discount for the effect of set-off,

agreed with NatNed that, once U.S. Dollars 450 million have been paid out, NatNed will pay no more than US Dollars 3.5 million annually. It is therefore possible that if a very serious deterioration in the companies' accounts were to occur, some claimants would not receive reimbursement of their claims as they were presented. However, there is no limit to the amount of money which NatNed will be obliged to pay in respect of qualifying ILU policyholders' claims.

Enquiries about specific claims should continue to be addressed to the claims managers at the companies, or to the Provisional Liquidators' staff.

A J Funnell
Chief Executive

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

3. SUMMARY OF THE PRELIMINARY INJUNCTION UNDER SECTION 304 OF THE UNITED STATES BANKRUPTCY CODE

The Provisional Liquidators have obtained injunctive relief from the United States Bankruptcy Court for the Southern District of New York in a case filed under section 304 of the United States Bankruptcy Code.

The relief obtained was a temporary restraining order made on 28 October 1994 that was converted to a preliminary injunction order made on 14 March 1995 which was subsequently extended and remains in effect as at the date of this document.

It has been ordered that all persons be:

- (1) enjoined and restrained from commencing or continuing any judicial, administrative or regulatory action or proceeding against the Companies or any of their property in the United States;
- (2) enjoined and restrained from transferring any property of the Companies in the United States and enforcing any judicial, administrative or regulatory judgment, assessment or order and commencing or continuing any act or any judicial, administrative or regulatory proceeding to create, perfect or enforce any lien or other claim against the Companies or any of their property in the United States; and
- (3) enjoined and restrained from drawing down on letters of credit established by either of the Companies or otherwise applying property that is the subject of any escrow or similar arrangement in which either of the Companies has an interest, in excess of what is expressly authorised by the terms of the contracts and any related trust or other agreements pursuant to which such letters of credit, escrows or similar arrangements have been posted or established.

All persons and entities who are beneficiaries of letters of credit established by the Companies, or parties to escrows or similar arrangements are required to:

- a provide notice to the Provisional Liquidators' United States counsel of any draw down on letters of credit or withdrawal from any escrows or similar arrangements established by either of the Companies, together with information sufficient to permit the Provisional Liquidators to assess the propriety of such draw down or withdrawal, including, without limitation, the date and amount of such draw down or withdrawal and a copy of the agreement pursuant to which any such draw down or withdrawal was made; and
- b turn over and account to the Provisional Liquidators for all funds resulting from such draw downs or withdrawal from any escrows or similar arrangements in excess of what is expressly authorised by the terms of the contracts and any related trust or other agreements pursuant to which such letters of credit escrows or similar arrangements have been established.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

4. PPB MEMORANDUM

1 Preliminary

This memorandum contains a summary of certain provisions of the Policyholders Protection Act 1975 ("the Policyholders Protection Act"). It is not an exhaustive guide to all the provisions of the Policyholders Protection Act which may be relevant to establishing whether, and if so to what extent, a Policyholder of one of the Companies is eligible for protection or assistance from the PPB under the Scheme or in a liquidation of that Company. Certain expressions used herein are defined in the Scheme on pages 79 to 88 of this document.

Any creditor who is in any doubt as to his own position should take his own legal advice.

2 The PPB

The PPB is a body corporate established under the Policyholders Protection Act for indemnifying (in whole or in part) or otherwise assisting or protecting policyholders and others who have been or may be prejudiced in consequence of the inability of authorised insurance companies carrying on business in the United Kingdom to meet certain of their liabilities. The PPB finances its functions by means of levies on insurance companies or other persons engaged in the insurance industry in the United Kingdom. Members of the PPB are appointed by the Secretary of State for Trade and Industry.

3 Payment obligations

The PPB's obligations under the Scheme are determined principally by reference to the duties which, in the event of the liquidation of either of the Companies, it would owe to certain of that Company's Policyholders or security holders in respect of policies issued or securities given by that Company. There would be two categories of liabilities of either of the Companies towards such Policyholders or security holders which would qualify for protection from the PPB:

- (a) those where the liability may be protected as to 100% of its amount; and
- (b) those where the liability may be protected as to 90% of its amount.

It should be noted that the duties of the PPB referred to in the previous paragraph (and hence its obligations under the Scheme) are subject to a number of important qualifications. Furthermore, the existence of any duty of the PPB in any particular case depends upon the relevant conditions of the Policyholders Protection Act being satisfied.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

4. PPB MEMORANDUM

Some of these qualifications and conditions are summarised below.

(1) 100% protection

Subject to the relevant provisions of the Policyholders Protection Act, it is the duty of the PPB to secure that a sum equal to the full amount of any "liability subject to compulsory insurance" of a company in liquidation towards any policyholder (who need not be for these purposes a "private policyholder") or security holder under the terms of any policy or security which satisfies the requirements of specified enactments is paid to the policyholder or security holder as soon as reasonably practicable after the beginning of the liquidation. For such purposes, as well as for the purposes of the 90% protection referred to below, a policy must have been a policy of insurance which was a "United Kingdom policy" at the time when the liquidation of the company began.

A "liability subject to compulsory insurance" is a liability required under specified enactments to be covered by insurance (or by some other provision for ensuring its discharge). The specified enactments are section 1(4A)(d) of the Riding Establishments Act 1964, section 1 of the Employers' Liability (Compulsory Insurance) Act 1969, part VI of the Road Traffic Act 1988, and the equivalent provisions applicable to Northern Ireland. Policies evidencing contracts of insurance effected for the purpose of section 19 of the Nuclear Installations Act 1965 are also covered.

Where a claim relates to a liability under a policy of one of the types specified above which is not a liability subject to compulsory insurance it is only eligible for 90% protection. This 90% protection is discussed below.

The PPB also has a duty, subject to the relevant provisions of the Policyholders Protection Act, to secure that a sum equal to the full amount of any liability of a company in liquidation in respect of a sum payable to a person entitled to the benefit of a judgment under certain legislation (section 149 of the Road Traffic Act 1972 or section 151 of the Road Traffic Act 1988 or the equivalent provisions in force in Northern Ireland) is paid to that person as soon as reasonably practicable after the beginning of the liquidation.

(2) 90% protection

The 90% protection is available only in respect of the liabilities of a company in liquidation towards "private policyholders". Subject to the relevant provisions of the Policyholders Protection Act, it is the duty of the PPB to secure that a sum equal to 90% of the amount of the liability of a company in liquidation towards a "private policyholder" under the terms of the relevant policy is paid to the policyholder as soon as reasonably practicable after the beginning of the liquidation.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

4. PPB MEMORANDUM

A liability will not qualify for the 90% protection unless the relevant policy is a "general policy", or unless the policy is one of the types described in relation to the 100% protection above. A "general policy" means any policy evidencing a contract the effecting of which constituted the carrying on of general business within the meaning of the Insurance Companies Act 1982, with the exception of reinsurance and certain specified classes of business. The categories of "general business" which are relevant for the 90% protection are accident, sickness, land vehicles, railway rolling stock, fire and natural forces, damage to property, motor vehicle liability, general liability, credit, suretyship, miscellaneous financial loss and legal expenses.

4 Interpretation

The Policyholders Protection Act contains, or incorporates by reference, definitions of some of the more significant words and expressions mentioned above. Three definitions particularly relevant to the Scheme are set out below.

(1) United Kingdom policy

The policy in question must have been a "United Kingdom policy" within the meaning of section 4(2) of the Policyholders Protection Act at the relevant time. A policy of insurance is a United Kingdom policy if, had any of the obligations under the contract evidenced by the policy been performed at the relevant time, such performance would have formed part of an insurance business which the insurer was authorised to carry on in the United Kingdom, whether or not such obligations would have been performed in the United Kingdom.

(2) Policyholder

A claimant must be a "policyholder". A policyholder is the person who, for the time being, is the legal holder of the policy for securing the contract with the insurance company and includes a person to whom, under a policy, a sum is due or a periodic payment is payable.

(3) Private Policyholder

The 90% protection described above is only available to policyholders who are "private policyholders".

A "private policyholder" means a policyholder who is either an individual or a partnership or other unincorporated body of persons, all of whom are individuals.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

4. PPB MEMORANDUM

Consequently, a body corporate cannot be a private policyholder. Furthermore, it has recently been established by the English courts that:

- a a professional corporation is not an individual and cannot be a private policyholder;
- b no partnership, one or more of whose partners is a professional corporation, can be a private policyholder, nor can any individual in his capacity as a partner in such partnership; and
- c being in partnership with a professional corporation does not disqualify an individual from being a private policyholder if he contracts with the insurance company in a capacity other than as a partner.

5 **Basis of participation**

The PPB will participate in the Scheme pursuant to its discretionary powers under section 16(4) of the Policyholders Protection Act to take such measures as it considers appropriate, for the purposes of assisting policyholders of a company in financial difficulties, to enable the company to continue to carry on insurance business. The PPB has power to make payments pursuant to section 16(4) of the Policyholders Protection Act on such terms and on such conditions as it thinks fit.

Assignments

Any duty of the PPB to assist a policyholder of a company in liquidation by the measures described in the preceding paragraph is subject to compliance on the part of the policyholder with any conditions imposed by the PPB with respect to the total or partial assignment to the PPB of his rights under or in respect of the policy and certain other rights.

The Scheme contains a provision by which all rights which a Protected Policyholder has in respect of or in connection with a Protected Liability in relation to which payment has been made by the PPB are automatically and absolutely assigned to the PPB with effect from payment being made. Alternatively, or in addition, the PPB may require a separate assignment to it of such rights in advance and as a condition of it making payment.

6 **Other relevant provisions**

Section 16

To receive protection from the PPB under the Scheme, and to qualify as a "Protected Policyholder" for the purposes of the Scheme, a Scheme Creditor must, in addition to satisfying the other specified eligibility criteria, meet the requirements of section 16(9) of the Policyholders Protection Act.

PART 1
EXPLANATORY STATEMENT

I: APPENDICES

4. PPB MEMORANDUM

Accordingly, a Scheme Creditor must be a policyholder in respect of a general policy of the relevant Company which was a United Kingdom policy on 20 October 1994, being the date when the Winding-Up Petitions were presented against the Companies.

7 General

The obligations of the PPB to Protected Policyholders under the Scheme are expressly made subject to the same conditions, limitations, qualifications and other provisions contained or referred to in, or capable of being imposed under, specified sections of the Policyholders Protection Act. Some potentially significant aspects of the provisions are summarised below.

(1) Insufficiency of funds

The PPB finances its functions in relation to general business by means of levies imposed upon authorised insurance companies carrying on general business in the United Kingdom. The amount a company can be required to pay in respect of general business is limited, in any financial year, to 1% of its income liable to the levy in the year ending before that financial year. Accordingly, the PPB's duties under sections 6 to 11 of the Policyholders Protection Act, including the duties described in the paragraphs concerning its payment obligations above (and therefore its obligations under the Scheme), are qualified to the extent that they do not require the PPB to make any payment at a time when it appears to the PPB that the funds available for it fall short of what it needs to carry out its various responsibilities (including any responsibilities towards policyholders of companies other than Orion and L&O).

However, in the event that funds do fall short, the obligations of the PPB to make payment under the Scheme will be postponed and not avoided. It is not possible to forecast the amounts required for the PPB to perform all its responsibilities which may arise during the operation of the Scheme. Although since its establishment the PPB has not had to postpone a payment on the grounds of insufficiency of funds, it is possible that responsibilities giving rise to substantial payments will arise in future years.

(2) Duplication of liability

Section 9(1) of the Policyholders Protection Act provides that the PPB shall not, by virtue of any provision of sections 6 to 8 of the Policyholders Protection Act, be required to secure any sum for a policyholder in respect of a policy of a company in liquidation which was a United Kingdom policy at the beginning of the liquidation by reference to any liability (or any part of any liability) which is duplicated by the liability of any other authorised insurance company which is not a company in liquidation.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

4. PPB MEMORANDUM

By virtue of section 9(2) of the Policyholders Protection Act, a liability of a company towards a policyholder is duplicated by the liability of another company for such purposes in so far as that other company is also under a liability, under the terms of any general policy which was a United Kingdom policy at the beginning of the first mentioned company's liquidation, to make any payment to or on behalf of the policyholder in respect of the matter to which the liability of the first mentioned company relates.

(3) Payments to a person other than the policyholder

Under section 13(1) of the Policyholders Protection Act, where it appears to the PPB, in the case of any policy of a company in liquidation:

- a that payment in respect of any sums falling due under the policy could have been made in accordance with the policy to a person other than the policyholder; or
- b that any sums paid under the policy would have been subject to any trust, charge or other agreement binding on the policyholder;

the PPB may secure the payment of any sum payable to the policyholder in accordance with any of the provisions of sections 6 to 8 of the Policyholders Protection Act (in whole or in part) to that other person or (as the case may be) to the person appearing to the PPB to be entitled under the trust, charge or agreement in question, instead of to the policyholder.

Any payment made by virtue of the provisions of section 13(1) of the Policyholders Protection Act to a person other than the policyholder is treated as a payment to the policyholder and may be made on such conditions (with respect to the total or partial assignment to the PPB of any rights of the recipient against the policyholder or any other person, or otherwise) as the PPB thinks fit.

(4) Payments to the policyholder by third parties

Section 14(1) of the Policyholders Protection Act provides that any payment made by any other person other than the PPB (such as an insurance broker or other intermediary or a guarantee fund) to the policyholder, or to any person, being a payment referable to any such liability of a company in liquidation as is mentioned in sections 6, 7 or 8 of the Policyholders Protection Act, is to be treated as reducing any sum payable by the PPB to the policyholder in accordance with any provision of those sections, by reference to that liability.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

5. SUMMARY OF THE PROPOSED PERMANENT INJUNCTION UNDER SECTION 304 OF THE UNITED STATES BANKRUPTCY CODE INTENDED TO APPLY DURING THE SCHEME

Subject to the High Court of Justice in England sanctioning the Scheme, the Provisional Liquidators of The Orion Insurance Company PLC and The London and Overseas Insurance Company PLC ("the Companies") will apply for permanent injunctive relief by order from the United States Bankruptcy Court for the Southern District of New York in a case filed under Section 304 of the United States Bankruptcy Code.

The injunctive relief which the Provisional Liquidators will seek will be substantially as follows:

- (1) the Scheme be given full force and effect and be binding on and enforceable against all Scheme Creditors in the United States;
- (2) all persons be permanently enjoined and restrained from:
 - a relinquishing or disposing of any property of the Companies, or the proceeds of such property, to third parties;
 - b commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Companies or any of their property, except as provided in the Scheme;
 - c enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order or arbitration award and commencing or continuing any act or any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) to create, perfect or enforce any lien, set-off or other claim against the Companies or any of their property, except as expressly permitted in the Scheme;
 - d drawing down any letter of credit established by, on behalf or at the request of the Companies, or withdrawing from, setting off against, or otherwise applying property that is the subject of any escrow agreement or similar arrangement in which either of the Companies has an interest, in excess of what is expressly authorised by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, escrow or similar arrangement has been established and no such drawing, withdrawal, set-off or other application shall be made in connection with any commutation unless the amount has been agreed in writing with the Scheme Administrators or permitted by further order of the Court;

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

5. SUMMARY OF THE PROPOSED PERMANENT INJUNCTION UNDER SECTION 304 OF THE UNITED STATES BANKRUPTCY CODE INTENDED TO APPLY DURING THE SCHEME

- e invoking, enforcing or relying on the benefit of any statute, rule or requirement of federal, state, or local law or regulation requiring the Companies to establish or post security in the form of a bond, letter of credit or otherwise as a condition of prosecuting, defending or appealing any action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) and such statute, rule or requirement will be rendered null and void for such actions and proceedings; provided, however, that nothing in the order shall in any respect affect any security in existence at the Effective Date or the replacement for such security;
- (3) nothing in the order in any respect prevents the continuance or commencement of proceedings against or involving London Market insurers or any insurance company defendant other than the Companies;
- (4) all persons be permanently enjoined and restrained from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Companies, the Provisional Liquidators of the Companies, the members of the informal Creditors' Committee or any of their respective directors, officers, agents, employees, representatives, financial advisers or attorneys ("the Pre-Scheme Parties") or any of them with respect to any claim or cause of action, in law or in equity, arising out of or relating to any action taken or omitted to be taken as of the Effective Date by any of the Pre-Scheme Parties in connection with the section 304 case or in preparing, disseminating, applying for or implementing the Scheme or the order;
- (5) except as otherwise provided herein, or in the Scheme, all persons be permanently enjoined and restrained from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Scheme Administrators, the Companies, the members of the Creditors' Committee or any of their respective directors, officers, agents, employees, representatives, financial advisers or attorneys ("the Scheme Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, which may arise out of the construction or interpretation of the Scheme or out of any action taken or omitted to be taken by any of the Scheme Parties in connection with the administration of the Scheme;

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

5. SUMMARY OF THE PROPOSED PERMANENT INJUNCTION UNDER SECTION 304 OF THE UNITED STATES BANKRUPTCY CODE INTENDED TO APPLY DURING THE SCHEME

- (6) the High Court of Justice in England has exclusive jurisdiction to hear and determine any suit, action, claim or proceeding and to settle any dispute which may arise out of the construction or interpretation of the Scheme, or out of any action taken or omitted to be taken by any of the Scheme Parties in connection with the administration of the Scheme, provided, however, that nothing in the order affects the validity of provisions determining governing law and jurisdiction, whether contained in any contract between the Companies and any of the Scheme Creditors or otherwise;
- (7) the Provisional Liquidators be authorised to transfer to the foreign proceedings for distribution pursuant to the Scheme any monies or assets of the Companies located in the United States which the Provisional Liquidators (or the Scheme Administrators) have or may hereafter recover;
- (8) the United States Bankruptcy Court retain jurisdiction with respect to the enforcement, amendment or modification of the order or requests for any additional relief in the case filed under section 304 of the United States Bankruptcy Code and all adversary proceedings in connection therewith properly commenced and within the jurisdiction of the United States Bankruptcy Court;
- (9) no action taken by the Provisional Liquidators of the Companies or the Scheme Administrators, their successors, agents or representatives, or any of them, or their counsel, in preparing, disseminating, applying for, implementing or otherwise acting in furtherance of the Scheme, the order, the section 304 case, any further order for additional relief in the section 304 case, or any adversary proceeding in connection therewith as the United States Bankruptcy Court may make, be deemed to constitute a waiver of the immunity afforded to the Provisional Liquidators of the Companies or the Scheme Administrators, their successors, agents or representatives pursuant to section 306 of the United States Bankruptcy Code; and
- (10) the order be served:
 - a by United States mail, first class postage prepaid, on or before the date prescribed by the United States Bankruptcy Court upon the parties in interest appearing in the case at the time of such service; and
 - b by publication in Business Insurance Magazine on or before the date prescribed by the United States Bankruptcy Court;

and that such service be good and sufficient service and adequate notice for all purposes.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

6. CURRICULA VITAE OF THE SCHEME ADMINISTRATORS

Paul Evans

Paul Evans has been involved with corporate recovery work since 1976 and is a partner in the London office of Price Waterhouse. He is a leading specialist in reorganisations and insolvencies within the insurance industry.

In recent years his assignments have included a number of substantial companies in the London insurance market, including London United Investments plc (the parent of HS Weavers and the KWELM companies) and English & American Group plc. He has been particularly concerned with the development of innovative means of dealing with insurance company failure, through the mechanism of a scheme of arrangement. He is currently scheme administrator of Trinity Insurance Company Limited, Bryanston Insurance Company Limited and Andrew Weir Insurance Company Limited. He is also provisional liquidator of Paramount Insurance Company Limited and liquidator of a number of agencies at Lloyd's.

He is a member of the International Association of Insurance Receivers, a member of the United Kingdom Society of Practitioners of Insolvency ("SPI") General Technical Committee and a member of the SPI working group liaising with the Department of Trade and Industry about possible changes to insolvency law relating to insurance companies.

Colin Bird

Colin Bird has specialised in corporate reorganisation since 1972. He is the Senior client partner of Price Waterhouse's United Kingdom corporate recovery practice and is a leading specialist in the restructuring of financial services companies, in particular in the insurance and banking sectors.

He acted as the administrator of London United Investments plc which was the holding company for the KWELM companies and comprised the second largest casualty insurance underwriters in the world. He is currently scheme administrator of Trinity Insurance Company Limited, Bryanston Insurance Company Limited and Andrew Weir Insurance Company Limited. He is also provisional liquidator of Paramount Insurance Company Limited.

As one of the administrators appointed to Maxwell Communication Corporation plc he was one of the leading participants in the creation of the transatlantic protocols that governed the first ever common insolvency procedure under United States and United Kingdom laws.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

7. CURRICULA VITAE OF THE PROPOSED DIRECTORS OF NORTH STAR MANAGEMENT SERVICES LIMITED

Thomas Masney

Thomas Masney joined North Star as Financial Controller after spending four years as the group financial director of a London based UK merchant bank where he was appointed to assist with winding up the bank under the terms of a company voluntary arrangement. He was responsible for financial and management accounting, treasury, reporting to the creditors' committee and day to day management matters.

From 1990 to 1992 he was employed by Price Waterhouse, London, as a senior manager in the corporate recovery department and worked on a number of insolvency assignments.

From 1985 to 1990 he worked on the liquidation of Mentor Insurance Limited in Bermuda involved in budgeting, litigation support, claim admission and reporting to creditors.

Trevor Partridge

Trevor Partridge joined the IT department of Orion in 1979 where he was responsible for all major accounting systems. From 1984 to 1993 he was Project Manager with responsibilities for all London Market insurance and accounting systems. In September 1993 he was appointed IT Manager and became a member of the senior management team.

Anthony McQueen

Following a background in professional accounting, Tony McQueen has had 20 years of experience in the UK general insurance industry. He worked in a variety of roles within Trinity Insurance Company, covering all aspects of insurance accounting, both statutory and management, together with budgeting and treasury functions. During his later years at Trinity, he was Reinsurance Manager with an involvement in the planning and placing of reinsurance programmes, extending to reinsurance security control and debt collection.

Since 1992 he has been General Manager and Chief Executive of Insurance Management Associates Limited, the company handling the run-offs of Trinity Insurance Company Limited, Bryanston Insurance Company Limited and Andrew Weir Insurance Company Limited for their respective Scheme Administrators. In August 1996, he was also appointed General Manager of North Star.

During his involvement in the run-off sector, he has spoken at seminars for the London and United States markets and written articles for the general insurance press on issues related to run-off management, insurance insolvency and Schemes of Arrangement.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

8. LIST OF DOCUMENTS AVAILABLE FOR INSPECTION

- 1 Memoranda and Articles of Association of the Companies.
- 2 The audited financial statements of the Companies for the year ended 31 December 1995.
- 3 The cross-guarantees.
- 4 The Winding-up Petitions.
- 5 The Court orders appointing the Provisional Liquidators of the Companies.
- 6 Letters of consent to act in relation to the Scheme from each of:
 - (1) Paul Anthony Brereton Evans, prospective Scheme Administrator; and
 - (2) Colin Graham Bird, prospective Scheme Administrator.
- 7 Letters in favour of the Scheme from each of the members of the informal creditors' committee.
- 8 Letters agreeing to support the Scheme from:
 - (1) NNUK; and
 - (2) NNOFIC.
- 9 The Claims Payment Loan Agreement and Deed of Settlement.
- 10 The trust deeds relating to the shares of the Companies.
- 11 Draft Agreement between (1) the proposed Scheme Administrators on behalf of the Companies, and (2) the Superintendent of Insurance of the State of New York.

PART 1

EXPLANATORY STATEMENT

I: APPENDICES

8. LIST OF DOCUMENTS AVAILABLE FOR INSPECTION

The above documents or copy documents will be available for inspection on reasonable notice by Scheme Creditors (after the date hereof until the close of the Scheme Meetings) at the following locations during ordinary business hours on weekdays (excluding Saturdays and public holidays):

Price Waterhouse
No 1 London Bridge
London SE1 9QL
England
Reference:
Paul Evans
Daniel Schwarzmann

Price Waterhouse
200 East Randolph Drive
Chicago
Illinois 60601
USA
Reference:
Ben Perks
Kevin Creb

Price Waterhouse
1177 Avenue of the Americas
New York
New York 10036
USA
Reference:
Scott Davis
Philip Upton

Price Waterhouse
1700 Pacific Avenue
Suite 1400
Dallas
Texas 75201-4698
USA
Reference:
Mike Benson
Karen Goodwin

Price Waterhouse
50 Hurt Plaza
Suite 1700
Atlanta
Georgia 30303
USA
Reference:
Steve Pierce
Delain Gray

Price Waterhouse
400 South Hope Street
Los Angeles
California 90071-2889
USA
Reference:
Freddie Reiss
Glenn Hiraga

