



20 January 2014

**TO ALL POLICYHOLDERS, CREDITORS, BROKERS, AGENTS AND INTERMEDIARIES
OF OIC RUN-OFF LIMITED AND THE LONDON AND OVERSEAS INSURANCE
COMPANY LIMITED**

THIS LETTER IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Dear Sir/Madam

Proposed Amending Scheme of Arrangement for OIC Run-Off Limited ("OIC") (formerly The Orion Insurance Company plc and Ralli Brothers Insurance Company Limited) and The London and Overseas Insurance Company Limited ("L&O") (formerly The London and Overseas Insurance Company plc and Hull Underwriters' Association Limited) (both subject to a scheme of arrangement) (each a "Company" and together the "Companies")

1. Why have we written to you?

As explained in our update letter of 12 July 2012, the Companies (acting by their scheme administrators (the "**Scheme Administrators**")) have been developing an amending scheme of arrangement under Part 26 of the Companies Act 2006 (the "**Amending Scheme**"). Further closure updates have also been posted on the Companies' website.

We are writing to you as we believe that you are, or may be, a creditor of the Companies (a "Scheme Creditor") and that you may be affected by the proposed Amending Scheme. Alternatively you may be a broker, agent or other intermediary who has acted for Scheme Creditors in placing business with the Companies. If this is the case, please forward a copy of this letter to any of your clients you believe may be affected by the Amending Scheme or, if you have not already done so, please provide us with your clients' names and addresses so we can write to them directly.

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PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

The purpose of this letter is to notify you of:

- (a) the Scheme Administrators' decision to propose the Amending Scheme and briefly explain its background, key features and main objectives it has been designed to achieve;
- (b) the Scheme Administrators' intention to apply to the High Court of Justice, London, for permission for the Companies to convene the necessary meetings of Scheme Creditors to consider and, if thought appropriate, approve (with or without modification) the Amending Scheme; and
- (c) the composition of the classes of Scheme Creditors entitled to vote at such meetings.

2. **What is the Companies' current position?**

The Companies are insurance companies incorporated in England, both of which ceased writing new business and went into run-off in 1992.

Richard Boys-Stones and Paul Evans, both partners at that time in the UK firm of Price Waterhouse, were appointed joint provisional liquidators of the Companies on 21 October 1994.

On 7 March 1997 the Companies implemented a scheme of arrangement (the "**Original Scheme**"). The Original Scheme is a reserving scheme of arrangement (also known as a run-off scheme of arrangement) under which the Companies continue to agree Scheme Creditors' claims in the ordinary course of business. Scheme Creditors are paid a percentage of those claims (the "**Payment Percentage**") as and when they become established liabilities ("**Established Liabilities**") under the terms of the Original Scheme. The current Payment Percentage is 58%.

Each Company has guaranteed the obligations of the other with the result that every policyholder has the same net claims against each Company. Accordingly, under the Original Scheme all Scheme Creditors receive the same Payment Percentage on their Established Liabilities.

Certain of the Companies' policies were written through the Institute of London Underwriters (the "**ILU**") ("**Qualifying ILU Policies**"). For the purposes of the Original Scheme, a Qualifying ILU Policy in relation to OIC is one which was signed and issued by the ILU with an inception date on or after 28 August 1970 and a Qualifying ILU Policy in relation to L&O is one which was signed and issued by the ILU with an inception date on or after 20 March 1969.

Under the Original Scheme, in addition to the Payment Percentage, Scheme Creditors who hold Qualifying ILU Policies ("**Qualifying ILU Policyholders**") receive a further payment from the Companies of the balance of their qualifying Established Liabilities so that they recover the full amount (i.e. 100p in the £1) of these claims. The Companies make these "top-up" payments out of funds borrowed for that purpose from Nationale-Nederlanden Overseas Finance and Investment Company ("**NNOFIC**"), a company in the ING group of companies. These arrangements are described in more detail at pages 4 and 5 of the explanatory statement

to the Original Scheme (the “**Original Explanatory Statement**”). Copies of the Original Scheme and the Original Explanatory Statement can be downloaded from the Companies’ website at www.oicrun-offltd.com (the “**Website**”).

The current Scheme Administrators are Dan Schwarzmann, a partner of PricewaterhouseCoopers LLP, and Paul Evans, a consultant of PricewaterhouseCoopers LLP.

3. **Why are we proposing the Amending Scheme?**

The Companies have now been in run-off for over 21 years and subject to the Original Scheme for over 16 years.

During this time, the majority of Scheme Creditors’ claims have been agreed. Most of the Companies’ liabilities which are yet to be agreed are very long-tail in nature and, in the absence of the Amending Scheme, many of those liabilities would not be agreed for years. In particular, if the Companies remain under the Original Scheme the Scheme Administrators estimate that the run-off would continue until at least 2035. The Scheme Administrators also estimate that, absent the Amending Scheme, total run-off costs for the period 2014 to 2035 could reach US\$200 million (or more).

In addition, with the exception of certain amounts payable by Lloyds Bank plc (“**Lloyds Bank**”) (see paragraph 4(f) below for details), the majority of the Companies’ realisable assets have now been collected.

The Scheme Administrators estimate that the final Payment Percentage under the Amending Scheme would be higher than under the Original Scheme, under which the Payment Percentage is currently 58%, primarily as a result of the savings in run-off costs that should be achieved if the Amending Scheme becomes effective. The Scheme Administrators and the Creditors’ Committee (the “**Creditors’ Committee**”) therefore believe that it is no longer in the best interests of Scheme Creditors to continue with the Original Scheme. The Scheme Administrators therefore wish to implement the Amending Scheme to enable Scheme Creditors’ claims to be valued and the Companies’ assets to be distributed to Scheme Creditors earlier than would be the case under the Original Scheme.

4. **What are the key features of the proposed Amending Scheme?**

If the Amending Scheme becomes effective, it would convert the Original Scheme from a reserving scheme of arrangement into a crystallisation scheme of arrangement, also sometimes referred to as a “cut-off” or “valuation” scheme of arrangement.

The key features of the proposed Amending Scheme are as follows:

(a) **Valuation of claims**

If you are a Scheme Creditor, the Amending Scheme would provide for an accelerated valuation of your unagreed claims, including an estimate of your contingent claims. The Amending Scheme would achieve this by establishing a bar date (the “**Bar Date**”), which would be eight months after the date the Amending Scheme becomes

effective (the “**Effective Date**”) and by which time all Scheme Creditors must submit details of all their claims against the Companies. Claim forms which are received by the Companies after the Bar Date would be valued at nil apart from claims which:

- (i) are in respect of Established Liabilities and agreed liabilities, which will be set out on the Scheme Creditor’s claim form provided to it by the Companies;
- (ii) are in respect of Qualifying ILU Policies and for which the Scheme Creditor elects to opt out from the Amending Scheme (see paragraph 4(d) below for details);
- (iii) are future claims of Pre-1969 L&O Policyholders, but only if such claims have reverted to run-off (see paragraph 4(f) below for more details);
- (iv) are protected by virtue of the Policyholders Protection Act 1975 and/or the rules of the Financial Services Compensation Scheme (“**Protected Liabilities**”); or
- (v) may, in certain very limited circumstances, be made after the Bar Date under the terms of the Amending Scheme (see paragraph 4(g) below for details).

Scheme Creditors’ outstanding claims (“**Notified Outstanding Liabilities**”) and incurred but not reported claims (“**IBNR Liabilities**”) would be valued in accordance with an actuarial estimation methodology.

The Scheme Administrators would also value any present and future amounts owed by a Scheme Creditor to the Companies, including any amounts arising under reinsurance contracts, for the purposes of quantifying the net amount, after set-off and any security interests, of that Scheme Creditor’s claim against the Companies (a “**Net Liability**”).

If your claims are not agreed as submitted, the Scheme Administrators will enter into discussions with you to seek to reach an agreed valuation of your claims. However, if agreement cannot be reached, there will be a procedure for the adjudication of those claims by an independent adjudicator.

(b) **Payment of claims**

The Companies would pay the Payment Percentage in respect of each Net Liability. After the Bar Date, the Payment Percentage would be reviewed in consultation with the Creditors’ Committee and, if considered appropriate, increased from time to time by the Scheme Administrators.

In addition to the Payment Percentage, Qualifying ILU Policyholders with qualifying Net Liabilities would continue to receive a further “top-up” payment from the Companies up to the full amount of these claims.

(c) **Qualifying ILU Policyholder Premium**

In addition to receiving payment in full of their qualifying Net Liabilities, Qualifying ILU Policyholders, who have not opted out of the crystallisation and payment provisions of the Amending Scheme (see paragraph 4(d) below) would, subject to satisfying certain conditions, also receive a further payment funded by NNOFIC in the form of a premium (the “**Qualifying ILU Policyholder Premium**”).

The Qualifying ILU Policyholder Premium payable to each Qualifying ILU Policyholder would be an amount equal to:

- (i) the time value discount applied to that Qualifying ILU Policyholder’s Notified Outstanding Liabilities and IBNR Liabilities; plus
- (ii) 10% of the undiscounted value of those Notified Outstanding Liabilities and IBNR Liabilities.

The payment of the Qualifying ILU Policyholder Premium is subject to certain conditions which include but are not limited to:

- (i) **Policy limit:** The amount of the Qualifying ILU Policyholder Premium may be reduced, possibly to zero, where that Qualifying ILU Policyholder’s claim is at or near its remaining policy limit; and
- (ii) **Underlying liabilities:** A Qualifying ILU Policyholder Premium would only be paid to those Qualifying ILU Policyholders who are, or who have at any time been, liable to pay any of the underlying liabilities which give rise to their respective claims against the Companies.

(d) **Qualifying ILU Policyholder opt out**

The Companies have given particular consideration to the position of Qualifying ILU Policyholders, having regard to the fact that, as noted in paragraph 2 above, they receive payment of their Qualifying Established Liabilities in full under the terms of the Original Scheme. The Companies appreciate the value of these arrangements to Qualifying ILU Policyholders.

The Amending Scheme allows Qualifying ILU Policyholders to opt out of the crystallisation and payment provisions of the Amending Scheme at any time up until the Bar Date so as to leave their insurance coverage in place. Those Qualifying ILU Policyholders who opt out would continue to have their claims agreed and paid in accordance with the provisions of the Original Scheme, with the NNOFIC top up arrangements also remaining in effect for the Qualifying ILU Policyholders who opt out in this way. By electing to opt out they would not, however, be entitled to receive the Qualifying ILU Policyholder Premium.

If over 30% by value of Qualifying ILU Policyholders opt out, the Scheme Administrators would not implement the crystallisation and payment provisions of the

Amending Scheme. In those circumstances all Scheme Creditors would revert to run-off and continue to have their claims agreed and paid in the ordinary course under the Original Scheme.

(e) **Protected Policyholders**

Scheme Creditors with Protected Liabilities ("**Protected Policyholders**") would not be affected by the crystallisation and payment provisions of the Amending Scheme. Protected Policyholders should continue to present their claims to the Companies as they fall due in the ordinary course of business. Protected Policyholders would, as they would in an insolvent liquidation, continue to receive payment of their claims from the Financial Services Compensation Scheme (the "**FSCS**").

(f) **Pre-1969 L&O Policyholders**

Certain amounts remain payable by Lloyds Bank under the terms of an agreement with the Companies (the "**Lloyds Agreement**"). The Lloyds Agreement covers liabilities arising from the claims of Scheme Creditors under policies underwritten by L&O with an inception date before 20 March 1969 ("**Pre-1969 L&O Policyholders**").

Any payments received by the Companies from Lloyds Bank under the Lloyds Agreement are treated as assets of the Companies, which are available for distribution to all Scheme Creditors.

Given the size of the estimated recovery, we understand that Lloyds Bank may not settle the amounts arising as a result of the crystallisation provisions of the Amending Scheme. In this instance, the Scheme Administrators would then determine, in consultation with the Creditors' Committee, whether the future claims of the Pre-1969 L&O Policyholders should revert to run-off, so that payment could be requested from Lloyds Bank as and when those claims are agreed by the Companies in the ordinary course. If these claims do revert to run-off, the impact on the estimated final payment percentage would not be material.

Pre-1969 L&O Policyholders would only revert to run-off in respect of their future claims. Any claims of Pre-1969 L&O Policyholders which have already been agreed by the Companies prior to the Bar Date would be dealt with and paid in accordance with the crystallisation and payment provisions of the Amending Scheme.

(g) **Claims received after the Bar Date**

The Amending Scheme would contain provisions that would enable:

- (i) certain policyholders, in specific and very limited circumstances, to bring a claim against the Companies after the Bar Date; and

- (ii) the appointment of an independent claims representative to represent the rights of policyholders (who are individuals) in the setting of a provision to pay such claims.

A Qualifying ILU Policyholder who is not an individual would be entitled to submit a claim after the Bar Date where it can demonstrate to the satisfaction of a separate independent adjudicator (the **"No Notice Adjudicator"**) that it neither knew, nor could reasonably have been expected to have known, about the Amending Scheme and the requirement to submit its claim before the Bar Date.

Similarly, an individual, whether or not that individual is a Qualifying ILU Policyholder, would be entitled to submit a claim after the Bar Date where he or she could demonstrate to the satisfaction of the No Notice Adjudicator that he or she acquired rights against the Companies by law or under the terms of the relevant policy with the Companies and either:

- (i) he or she neither knew, nor could reasonably have been expected to have known, about the Amending Scheme before the Bar Date; or
- (ii) no claim had arisen in his or her favour in connection with the relevant policy before the Bar Date; or
- (iii) before the Bar Date, he or she neither knew, nor could reasonably be expected to have known, that he or she had suffered significant injury.

Any decision of the No Notice Adjudicator under the provisions of the Amending Scheme would be final and binding.

These features have been included solely to address the unique circumstances of the Amending Scheme, including the nature of the arrangements entered into by NNOFIC and the ILU in respect of Qualifying ILU Policyholders.

5. What happens next?

The Companies will apply to the High Court of Justice (the **"Court"**) at the Royal Courts of Justice, 7 Rolls Building, Fetter Lane London, EC4A 1NL for a court hearing (the **"Court Hearing"**) which is anticipated to be held in early 2014. The purpose of the Court Hearing will be to request permission to convene the necessary meetings of Scheme Creditors to consider and, if thought appropriate, approve the Amending Scheme. The exact date of the Court Hearing will be confirmed on the Website.

The Amending Scheme would not become effective until it was sanctioned by the Court following its approval by the requisite majorities of Scheme Creditors of each class referred to in paragraph 6 below and a copy of the Court order sanctioning the Amending Scheme was delivered to the Registrar of Companies.

The Scheme Administrators intend to apply under Chapter 15 of the US Bankruptcy Code for an order recognising and enforcing the Amending Scheme. This order will prevent Scheme

Creditors from proceeding against the Companies in relation to Scheme Liabilities in the US and require them instead to rely on the provisions of the Amending Scheme for the satisfaction of such Scheme Liabilities. If for any reason an order enforcing the Amending Scheme under the US Bankruptcy Code is not issued, the Court order will not be delivered to the Registrar of Companies and the Amending Scheme will not become effective.

6. **What are the proposed voting classes for the meetings of Scheme Creditors?**

To become legally binding on each of the Companies and their respective Scheme Creditors, the Amending Scheme must be approved by a majority in number, and at least 75% in value, of those Scheme Creditors who vote (in person or by proxy) at each meeting of Scheme Creditors ("**Scheme Meeting**") in respect of each Company.

Where the existing rights of the Scheme Creditors under the Original Scheme or their new rights under the Amending Scheme are so different as to make it impossible for them to consult together, with a view to their common interest, in considering the Amending Scheme, the Scheme Creditors must be divided into separate classes and a separate Scheme Meeting must be held for each class.

After careful consideration, each Company proposes to invite the Court to direct it to convene three Scheme Meetings for the purpose of voting on the Amending Scheme:

- (a) the first Scheme Meeting would be for Qualifying ILU Policyholders;
- (b) the second Scheme Meeting would be for policyholders of the Company (other than Qualifying ILU Policyholders) with Notified Outstanding Liabilities and IBNR Liabilities; and
- (c) the third Scheme Meeting would be for all other Scheme Creditors of the Company including but not limited to:
 - (i) policyholders of the Company (other than Qualifying ILU Policyholders) with claims other than Notified Outstanding Liabilities and IBNR Liabilities; and
 - (ii) non-insurance creditors of the Company ("**Ordinary Creditors**").

It should be noted that some Scheme Creditors may, depending on the nature of their claims, be entitled to vote at more than one Scheme Meeting.

Qualifying ILU Policyholders and other Scheme Creditors have been placed into separate classes because of the difference between their payment entitlements under the Amending Scheme. Whereas other Scheme Creditors would only receive the Payment Percentage in respect of their Net Liabilities, Qualifying ILU Policyholders would receive payment of their qualifying Net Liabilities in full plus, subject to satisfying certain conditions, the Qualifying ILU Policyholder Premium. In addition, the opt out election (referred to in paragraph 4(d) above) is only available to Qualifying ILU Policyholders. These different rights are considered sufficiently material for Qualifying ILU Policyholders to vote as a separate class of creditors.

Under the Original Scheme, all Scheme Creditors have their claims agreed in the ordinary course. Under the Amending Scheme, Scheme Creditors with claims for Notified Outstanding Liabilities and IBNR Liabilities would have their claims valued in accordance with an actuarial estimation methodology. Each Company therefore proposes that those policyholders (other than Qualifying ILU Policyholders) with claims for Notified Outstanding Liabilities and IBNR Liabilities be placed into a separate class of creditors from policyholders (other than Qualifying ILU Policyholders) with Established Liabilities and agreed claims.

The Scheme Administrators do not consider it necessary to convene separate meetings of Qualifying ILU Policyholders with Notified Outstanding Liabilities and IBNR Liabilities. This is on the basis that all Qualifying ILU Policyholders would retain the right to opt out of the crystallisation and payment provisions of the Amending Scheme, if they wish to do so.

The Amending Scheme would treat Ordinary Creditors in the same way as policyholders of the Companies that have claims against the Companies other than in respect of Notified Outstanding Liabilities and IBNR Liabilities. Ordinary Creditors would be required to give details of their claims in the same way and would be paid the same Payment Percentage in respect of their agreed claims. Given this, and recognising that the exposure of the Companies to Ordinary Creditors is small, the Scheme Administrators do not consider that it is necessary to convene a separate meeting of Ordinary Creditors.

The Scheme Administrators also consider that it is not necessary to convene separate Scheme Meetings in relation to the following:

(a) **Protected Policyholders**

Under the Amending Scheme, Protected Policyholders should continue to present their claims to the Companies as they fall due in the ordinary course of business and would continue to receive payment from the FSCS in respect of their agreed claims. Accordingly, the Scheme Administrators consider that the Amending Scheme does not materially affect the rights of Protected Policyholders. In addition, it should be noted that the Companies are aware of only a small number of Protected Policyholders and that the value of their claims is very small in the overall context of the Amending Scheme.

(b) **Pre-1969 L&O Policyholders**

Pre-1969 L&O Policyholders have no different rights against the Companies under the Original Scheme than other general policyholders.

Although, as noted above in paragraph 4(f), it is possible that the Pre-1969 L&O Policyholders might be required to revert to run-off in respect of their future claims, they would in all other respects be in the same position as other policyholders as regards their rights against the Companies under both the Original Scheme and the Amending Scheme. In particular, the Pre-1969 L&O Policyholders would receive the same Payment Percentage in respect of their Net Liabilities as all other Scheme Creditors. However, the Pre-1969 L&O Policyholders may have to wait a considerable

period of time (up to 770 days after the Bar Date) before they find out whether or not they would revert to run-off in respect of their future claims.

(c) Reinsurers

A number of Scheme Creditors are also reinsurers of the Companies. Such reinsurers would be affected by the provisions of the Amending Scheme in relation to set-off.

Under the Amending Scheme, all claims between the Companies and a Scheme Creditor who is also a reinsurer, both present and contingent, would be determined and set off for the purposes of agreeing that Scheme Creditor's Net Liabilities. In determining such set-off the same estimation guidelines would be applied with the result that the Net Liabilities of Scheme Creditors subject to set-off would be valued on a consistent basis to those of Scheme Creditors who are not also reinsurers.

7. What action should you now take?

If you have any concerns on the proposed constitution of classes you should write, fax or email us, using the contact details below, as soon as possible and in any event at least seven days prior to the date of the Court Hearing (which will be posted on the Website). Any concerns which you communicate in writing to us will be drawn to the Court's attention. You also have the right to attend the Court Hearing for the purpose of making representations and we will be pleased to provide you with further information in this respect if requested.

Should you wish to consult with other Scheme Creditors, please contact us using the details below. Your details will be shared with other Scheme Creditors who have agreed to such consultation.

Please note if the Amending Scheme is approved at the Scheme Meetings it will be possible for Scheme Creditors to raise objections on the question of classes at the subsequent Court hearing to sanction the Amending Scheme. However, in such circumstances the Court would be likely to require Scheme Creditors to show good reason why they did not object at an earlier stage.

8. Contact details and further information

By Post: Armour Risk Management Limited, 4th Floor, 20 Old Broad Street, London EC2N 1DP, United Kingdom, marked for the attention of Andrew Jones

By e-mail: OICCclosureHelpdesk@armourrisk.com

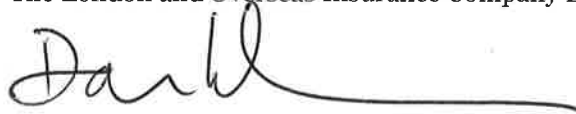
By phone: +44 (0) 20 7382 2020

By fax: +44 (0) 20 7382 2001

Further information regarding the Companies' business is available on the Website. Notice of the date and time of the Court Hearing referred to in paragraph 5 above together with copies of the Amending Scheme documentation, once finalised by all parties, will also be made available

on the Website. If you are unable to access the Website and would like details to be sent to you by alternative means, or if you have any other queries, please contact the Companies' helpline on +44 (0) 20 7382 2020.

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

A handwritten signature in black ink, appearing to read 'Dan', followed by a long horizontal line extending to the right.

DY Schwarzmann
Joint Scheme Administrator

Dan Schwarzmann and Paul Evans were appointed as Joint Scheme Administrators of OIC Run-Off Limited and The London and Overseas Insurance Company Limited to manage their affairs, business and property as agents without personal liability. Both are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. The Joint Scheme Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the scheme of arrangement.