



8 October 2014

TO ALL KNOWN POLICYHOLDERS, CREDITORS, BROKERS, AGENTS AND INTERMEDIARIES OF OIC RUN-OFF LIMITED ("OIC") AND THE LONDON AND OVERSEAS INSURANCE COMPANY LIMITED ("L&O") (BOTH SUBJECT TO A SCHEME OF ARRANGEMENT)

THIS IS A LETTER CONSTITUTING A SHORT FORM EXPLANATORY STATEMENT

THIS LETTER AND THE DOCUMENTS TO WHICH IT REFERS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION

Dear Scheme Creditor

Proposed amending scheme of arrangement between OIC (formerly The Orion Insurance Company plc and Ralli Brothers Insurance Company Limited) and 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") and their Scheme Creditors

1 INTRODUCTION

- 1.1 We are writing to you on behalf of the Companies in connection with an amending scheme of arrangement pursuant to Part 26 of the Companies Act 2006 (the "**Amending Scheme**") which the Companies propose to enter into with their creditors (the "**Scheme Creditors**").
- 1.2 Capitalised terms in this letter bear the same meaning as in the Amending Scheme. This letter is, however, no substitute for reading the Amending Scheme and the accompanying explanatory statement ("**Amending Explanatory Statement**") in their entirety. In the event of any inconsistency between the terms of this letter and the provisions of the Amending Scheme, the provisions of the Amending Scheme shall prevail over the terms of this letter.

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1.3 The Amending Scheme is being proposed in order to allow the Companies to agree Scheme Liabilities and distribute the Companies' assets to Scheme Creditors earlier than would be the case if the original scheme of arrangement (the "**Original Scheme**") was to continue in its existing form. The Payment Percentage is expected to be higher under the Amending Scheme than it would be under the Original Scheme, given the significant estimated reduction in the length of the Companies' run-off and the resultant significant saving in run-off costs if the Amending Scheme is implemented in accordance with its terms.

1.4 The purpose of this letter is to:

- i. provide background information in relation to the Companies and events since the Original Scheme became effective;
- ii. summarise the main provisions of the Amending Scheme; and
- iii. summarise the principal advantages and disadvantages of the Amending Scheme;

in order to assist Scheme Creditors in reaching an informed decision on whether or not to vote in favour of the Amending Scheme at the forthcoming Amending Scheme Meetings.

1.5 This letter has been sent to those parties whom the Companies' records indicate are or may be a Scheme Creditor of the Companies, and to agents, representatives and brokers identified by the Companies as having placed business with or on behalf of the Companies. However, receipt of this letter does not necessarily mean that you are a Scheme Creditor of the Companies or that you will be affected by the Amending Scheme. If you are a policyholder of the Companies, you may wish to ask your broker for further details of your involvement, if any, with the Companies.

1.6 Full copies of the Amending Scheme, the Amending Explanatory Statement and the Original Scheme are available for download at www.oicrun-offltd.com (the "**Website**") or, upon request, from the Run-off Company using the details set out at paragraph 13 below.

1.7 A web-based presentation will be held at 5.30 pm (English time) on 18 November 2014. The purpose of this presentation will be for the Scheme Administrators to explain the main features of the Amending Scheme as outlined in this letter and answer any specific questions raised by Scheme Creditors. The details for the web-based presentation will be placed on the Website in due course. If you would like to attend the presentation please send an email to: oic-run-offlimited@uk.pwc.com.

2 **EVENTS SINCE THE ORIGINAL SCHEME**

2.1 The Companies are currently subject to the terms of the Original Scheme, which was approved by the Companies' respective Scheme Creditors on 14 February 1997, sanctioned by an order of the Court on 5 March 1997 and which became effective on 7 March 1997. The Joint Scheme Administrators, Dan Schwarzmans and Paul Evans, manage the affairs, business and property of the Companies as agents and without personal liability.



- 2.2 The Original Scheme is a reserving scheme of arrangement under which the Companies agree Scheme Creditors' claims in the ordinary course of business and Scheme Creditors are paid a percentage of those claims as and when they become Established Liabilities. Scheme Creditors who are Qualifying ILU Policyholders receive additional payments under the arrangements agreed with Nationale-Nederlanden Overseas Finance and Investment Company ("NNOFIC") and the ILU, so that their claims, when they become Established Liabilities, are paid in full.
- 2.3 Each Company has guaranteed the obligations of the other, with the result that every Scheme Creditor under the Original Scheme has the same net claims against each Company. Accordingly, to minimise administrative costs and take account of the effect of these cross guarantees, under the Original Scheme all Scheme Creditors receive the same Payment Percentage in respect of their Established Liabilities.
- 2.4 The initial Payment Percentage was set at 15% in September 1997. Following consultation with the Creditors' Committee, the Payment Percentage has been increased in stages to its current level of 58%. The most recent increase in the Payment Percentage, from 57% to 58%, was approved by the Creditors' Committee in November 2013.
- 2.5 The Companies' run-off is managed by Armour Risk Management Limited, whose contact details are set out in paragraph 13 below.
- 2.6 The majority of the Companies' Scheme Liabilities by value have been agreed. Most of the remaining Scheme Liabilities are very long-tail in nature. In the ordinary course, they would be unlikely to be agreed for many years. In recent times, the Scheme Administrators have commuted some of these long-tail liabilities with Scheme Creditors bilaterally. Whilst this has increased the level of certainty in the Companies' reserves and led to increases in the Payment Percentage, the large number of Scheme Creditors remaining with relatively low claim values means that the continuation of the Original Scheme is no longer the most cost effective method of supporting further increases in the Payment Percentage.
- 2.7 The Scheme Administrators therefore propose that the Companies enter into the Amending Scheme which, upon it becoming effective, will convert the Original Scheme from a reserving scheme of arrangement into a crystallisation scheme of arrangement. Under the Amending Scheme, Scheme Creditors will, subject to the exceptions set out in paragraph 4.7 (i) to (iv) below, be required to submit details of all their claims against the Companies by the Bar Date, and those claims will be subject to a process of crystallisation and determination by the Scheme Administrators or, if disputed, by the Scheme Adjudicator. Subject to the exceptions set out in paragraph 4.7 (i) to (iv) below, any Scheme Creditors who do not submit claims by the Bar Date will not be entitled to receive any payment in respect of any additional claims other than the Established Liabilities and Agreed Liabilities that are accepted by the Companies and which are set out on their respective Claim Forms made available by the Companies to those Scheme Creditors.



2.8 The Amending Scheme will amend the terms of the Original Scheme. The provisions of the Original Scheme will therefore remain in effect, save as amended by the Amending Scheme. In the event of any inconsistency between the provisions of the Original Scheme and the terms of the Amending Scheme, the terms of the Amending Scheme will prevail.

3 **WHAT IS A SCHEME OF ARRANGEMENT AND HOW DOES IT BECOME BINDING?**

3.1 A scheme of arrangement, such as the Amending Scheme, is a compromise or arrangement provided for by Part 26 of the Companies Act 2006 between a company and its creditors (or any class of them). It becomes legally binding when:

- i. a majority in number representing not less than 75% in value of creditors or any class of creditors, present and voting in person or by proxy, vote in favour of the scheme of arrangement at a specially convened meeting held at the direction of the Court;
- ii. the Court subsequently makes an order sanctioning the scheme of arrangement; and
- iii. an office copy of that order is delivered to the Registrar of Companies for registration.

3.2 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 fails to be issued, the Court order will not be delivered to the Registrar of Companies and the Amending Scheme will not become effective.

3.3 Having considered and taken legal advice on the rights of Scheme Creditors in general and under the Original Scheme, and the effect of the Amending Scheme on those rights, each Company intends to convene three meetings of Scheme Creditors for the purpose of voting on the Amending Scheme, as follows:

- i. Policyholders (other than Qualifying ILU Policyholders) with Notified Outstanding Liabilities and IBNR Liabilities;
- ii. Policyholders (other than Qualifying ILU Policyholders) with Scheme Liabilities (other than Notified Outstanding Liabilities and IBNR Liabilities), Dual Scheme Creditors and Ordinary Creditors; and
- iii. Qualifying ILU Policyholders.

Please refer to the letter sent by the Companies to Scheme Creditors dated 20 January 2014 (which is available on the Website) for further explanation of the rationale for holding these three meetings of Scheme Creditors for each Company to consider and, if thought fit, approve the Amending Scheme.



4 THE CLOSURE PROPOSAL

4.1 This section summarises and explains the main provisions of the Amending Scheme. If further information is required, Scheme Creditors should refer to the full copy of the Amending Scheme and the Amending Explanatory Statement (see paragraph 1.6 above).

4.2 Determination of claims

4.2.1 The Amending Scheme provides, subject to the exceptions outlined in paragraphs 4.3.3 and 4.7 below, for the crystallisation and determination of all remaining Scheme Liabilities, through the application of the Estimation Guidelines as set out in the Amending Scheme.

4.2.2 Under the Amending Scheme, all Scheme Creditors, with the exceptions outlined in paragraph 4.7 (i) to (iv) below, must submit a Claim Form by the Bar Date. Within 60 days of the New Effective Date, each Scheme Creditor will be provided with a Claim Form, setting out details of its Established Liabilities and Agreed Liabilities, as shown in the Companies' records. Each Scheme Creditor will be asked to submit details on its Claim Form of any other claims it considers that it has against the Companies, including Notified Outstanding Liabilities and IBNR Liabilities. If a Scheme Creditor does not submit an amended Claim Form, the Claim Form made available by the Companies will be deemed to have been accepted.

4.2.3 Each Scheme Creditor will also be required to provide supporting information relating to these other claims for the purpose of agreeing the value of its Gross Liabilities. In determining a Scheme Creditor's Net Liabilities, the Scheme Administrators will take into account any discount for the time value of money (in respect of any Notified Outstanding Liabilities and IBNR Liabilities), any Offset Amounts that may be due to the Companies from that Scheme Creditor and any Security Interests.

4.2.4 If a Scheme Creditor disputes the determination of its Net Liabilities, the matter can be referred to the Scheme Adjudicator for adjudication under the Dispute Resolution Procedure.

4.3 Qualifying ILU Policyholders

4.3.1 As set out in paragraphs 5.2.5 and 5.2.6 below, Qualifying ILU Policyholders will, subject to certain conditions, be entitled to receive a Qualifying ILU Policyholder Premium in respect of their claims for Notified Outstanding Liabilities and IBNR Liabilities.

4.3.2 Alternatively, Qualifying ILU Policyholders will be able to opt out of the crystallisation and payment provisions of the Amending Scheme and continue to have their claims paid in accordance with the provisions of the Original Scheme. Qualifying ILU Policyholders electing to opt out will, however, not be entitled to receive the Qualifying ILU Policyholder Premium. A Qualifying ILU Policyholder wishing to opt out must inform the Scheme Administrators of its decision to do so before the Bar Date.



4.3.3 If over 30% by value of Qualifying ILU Policyholders elect to opt out, the crystallisation and payment provisions of the Amending Scheme will cease to have effect and all Scheme Creditors will revert to run-off, with their claims being agreed and paid in the ordinary course under the terms of the Original Scheme.

4.4 **Pre-1969 L&O Policyholders**

4.4.1 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**").

4.4.2 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.

4.4.3 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.

4.4.4 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.

4.5 **Protected Policyholders**

4.5.1 Scheme Creditors with Protected Liabilities will not be affected by the crystallisation and payment provisions of the Amending Scheme and should therefore continue to present their claims to the Companies in the ordinary course of business. In particular, where a claim from a Protected Policyholder or a Potentially Protected Policyholder is determined to be a Protected Liability and it is reported after the New Effective Date, that claim will, as is currently the case under the Original Scheme, be paid by the FSCS Scheme Manager.

4.6 **Payment of claims**

4.6.1 The current Payment Percentage of 58% applies to all Scheme Creditors with Established Liabilities under the Original Scheme. As and when Net Liabilities are agreed under the Amending Scheme, Scheme Creditors will receive the then current Payment Percentage on those Net Liabilities.



4.6.2 As Net Liabilities are agreed, the Scheme Administrators will review the Payment Percentage and, if appropriate, continue to revise it until the final Payment Percentage is determined following the agreement of all Net Liabilities and the recovery of all Scheme Assets. Whenever the Payment Percentage is increased or the final Payment Percentage is determined, Scheme Creditors who have already received payments in respect of their Net Liabilities will receive an additional payment (including compensatory interest) to reflect any difference between the Payment Percentage they have received thus far and the final Payment Percentage.

4.6.3 Qualifying ILU Policyholders will, subject to the terms of the claims payment loan agreement ("CPLA"), continue to have their Net Liabilities paid in full under the arrangements agreed with NNOFIC and the ILU.

4.7 **Claims received after the Bar Date**

4.7.1 Under the Amending Scheme, certain Scheme Creditors may be able to submit their claims after the Bar Date and still receive payment. In each case this is subject to specific conditions, full details of which are set out in the copy of the Amending Scheme document referred to in paragraph 1.6 above. These Scheme Creditors are:

- i. Qualifying ILU Policyholders who elect to opt out of the crystallisation and payment provisions of the Amending Scheme referred to in paragraph 4.3.2 above. These Scheme Creditors would therefore receive payment of their claims in accordance with the Original Scheme;
- ii. Qualifying ILU Policyholders (who are not individuals) who can demonstrate that they did not submit a Claim Form before the Bar Date because they neither knew, nor could reasonably have been expected to have known, about the requirement to do so. These Scheme Creditors would receive payment of their claims in accordance with the Amending Scheme;
- iii. Individuals who can demonstrate that, before the Bar Date, no claim had arisen in their favour or that they neither knew, nor could reasonably have been expected to have known, about the Amending Scheme or that they had suffered significant injury. Such Scheme Creditors would receive payment of their claims in accordance with the terms of the Amending Scheme;
- iv. Protected Policyholders and Potentially Protected Policyholders as noted in paragraph 4.5 above. These Scheme Creditors would receive payment of their claims in accordance with the Original Scheme; and
- v. Pre-1969 L&O Policyholders with future claims, but only if such claims have reverted to run-off (see paragraph 4.4 above).

The provisions set out in paragraph 4.7 (ii) and (iii) above have been included solely to address the unique circumstances of the Amending Scheme, including the nature of the arrangements entered into with NNOFIC and the ILU in respect of Qualifying ILU Policyholders.



5 **FACTORS TO CONSIDER WHEN VOTING ON THE AMENDING SCHEME**

5.1 **Options facing Scheme Creditors**

5.1.1 Scheme Creditors may continue to have their claims agreed by the Companies in run-off under the Original Scheme with a forecast closure date of beyond 2035. Alternatively, Scheme Creditors may decide to implement the crystallisation provisions of the Amending Scheme with a forecast closure date of 2018.

5.1.2 The main advantages and disadvantages for Scheme Creditors to consider in deciding whether to vote in favour of the Amending Scheme are summarised below. It is impossible, however, to address each Scheme Creditor’s individual circumstances. Hence this list of advantages and disadvantages should not be regarded as exhaustive. Each Scheme Creditor must therefore make its own assessment of how the Amending Scheme would affect its own interests.

5.2 **Advantages of the Amending Scheme**

Reduction in costs resulting in a higher Payment Percentage

5.2.1 The Companies’ total run-off costs should be significantly lower under the Amending Scheme than if claims were left to mature and be managed in the ordinary course under the Original Scheme. The Original Scheme is projected to continue beyond 2035. It is estimated that the total run-off costs for the period 2014 to 2035 could reach US\$200 million (or more). Under the Amending Scheme, whilst there would be a short term increase in the costs incurred by the Companies as they sought to crystallise the vast majority of Scheme Liabilities, the estimated cost savings of over US\$100 million that are expected to be generated as a result of the Amending Scheme would result in an increase in the amount of the Companies’ assets available for distribution to Scheme Creditors. These cost savings should result in a higher final Payment Percentage than would have been the case under the Original Scheme. The Scheme Administrators estimate that the final Payment Percentage under the Amending Scheme in comparison to the Original Scheme would be as follows:

	Estimated final Payment Percentage
Original Scheme	71%
Amending Scheme	78%

Early payment

5.2.2 Claims that would not, under the Original Scheme, be agreed for a number of years would be agreed in accordance with the procedure set out in the Amending Scheme at a much earlier date. Under the projected timetable for the Amending Scheme, the majority of assets would be distributed to Scheme Creditors by 2018. This is considerably earlier than anticipated under



the Original Scheme. The benefit of the higher estimated final Payment Percentage (78%) under the Amending Scheme (as shown in paragraph 5.2.1 above) is therefore increased by the fact that it would be paid to Scheme Creditors at an earlier date than the lower estimated final Payment Percentage (71%) under the Original Scheme.

Early release of safety margin

- 5.2.3 In accordance with the Original Scheme, the Scheme Administrators, when calculating the Payment Percentage, have used conservative estimates of future liabilities and built in a safety margin above the actuarially determined level of the Companies' reserves. Under the Original Scheme, this safety margin would have to be retained at an appropriate level until a date beyond 2035. In contrast, the Amending Scheme requires the valuation of all future and contingent Scheme Liabilities so that the majority of the Scheme Liabilities of the Companies would, according to the current timetable, be agreed by 2017. The Scheme Administrators would not need to retain any safety margin after that date if the Pre-1969 L&O Policyholders did not revert to run-off. Even if Pre-1969 L&O Policyholders were to revert to run-off, the Scheme Administrators would be able to retain a much reduced safety margin. As a result, the majority or all of the safety margin could be released and assets distributed to Scheme Creditors earlier under the Amending Scheme than would otherwise have been possible under the Original Scheme.

Improved terms and administrative features

- 5.2.4 The Original Scheme contains outline provisions allowing for its conversion into a crystallisation scheme of arrangement. However, the Scheme Administrators believe that this conversion would be better achieved through implementing the Amending Scheme, which contains more extensive and complete valuation provisions than the Original Scheme along with new provisions to deal with electronic communications, uncashed cheques and the treatment of pools and agents.

Qualifying ILU Policyholder Premium

- 5.2.5 Qualifying ILU Policyholders who participate in the crystallisation and payment provisions of the Amending Scheme would, subject to certain conditions set out in paragraph 31 of the Amending Explanatory Statement, receive the Qualifying ILU Policyholder Premium. This Qualifying ILU Policyholder Premium would be funded by NNOFIC and not by the Companies. It would not be paid to any Qualifying ILU Policyholders who elected to opt out of the crystallisation provisions of the Amending Scheme or if the crystallisation provisions of the Amending Scheme did not become effective.
- 5.2.6 The Qualifying ILU Policyholder Premium paid to each Qualifying ILU Policyholder would, subject to certain conditions, be an amount equal to:
- i. the discount for the time value of money applied to that Qualifying ILU Policyholder's Notified Outstanding Liabilities and IBNR Liabilities; plus



- ii. 10% of the undiscounted value of its Notified Outstanding Liabilities and IBNR Liabilities.

5.3 **Potential disadvantages of the Amending Scheme**

Failure to submit a Claim Form

- 5.3.1 The Amending Scheme provides a deadline of the Bar Date for returning Claim Forms. With the exceptions outlined in paragraph 4.7 (i) to (iv) above, Scheme Creditors who have additional Scheme Liabilities (including Notified Outstanding Liabilities and/or IBNR Liabilities): (i) which are not shown on their Claim Form; or (ii) who do not have a Claim Form, and who, in each case, do not submit details of their claims on their Claim Form before the Bar Date, will receive no payment in respect of those additional claims under the Amending Scheme. Any such Scheme Creditor would only receive payment in respect of those Established Liabilities and Agreed Liabilities that have been accepted by the Companies and were set out on the Claim Form provided to the Scheme Creditor by the Companies.

Estimation of Scheme Liabilities

- 5.3.2 The claims agreement process under the Amending Scheme would result in Scheme Liabilities, including any claims for Notified Outstanding Liabilities and IBNR Liabilities, being estimated and agreed in accordance with the Estimation Guidelines and, if necessary, the Dispute Resolution Procedure. Scheme Creditors whose Scheme Liabilities matured after the Bar Date would receive a payment on the basis of these agreed amounts. Scheme Creditors would benefit from the anticipated higher Payment Percentage in the Amending Scheme, but they could ultimately receive an amount in respect of their Scheme Liabilities that is different (either greater or smaller) from the amount that they would have received, had the Companies' run-off been concluded under the Original Scheme.

Failure to provide sufficient supporting information

- 5.3.3 If a Scheme Creditor does not provide sufficient information before the Bar Date to establish part or all of its claim for Scheme Liabilities (including Notified Outstanding Liabilities and/or IBNR Liabilities) against the Companies, its claim (or the relevant part of its claim) for these additional amounts may be valued at nil under the Amending Scheme. In such circumstances, the Scheme Creditor would receive no payment under the Amending Scheme in respect of those additional claims whereas it would have received a payment under the Original Scheme had that Scheme Creditor been able to provide, in the future, sufficient evidence in support of its additional claims.

Waiver of legal privilege

- 5.3.4 In the course of a Scheme Creditor providing information to establish part or all of its claim for Scheme Liabilities (including Notified Outstanding Liabilities and/or IBNR Liabilities) against the Companies, that Scheme Creditor may inadvertently waive any legal privilege that it or a



third party has over that information. A Scheme Creditor who is in any doubt as to the effect of waiving such legal privilege is advised to seek its own independent legal advice prior to providing such information.

Reversion to run-off and Scheme Creditors' costs

- 5.3.5 If the 30% opt out threshold, applied to Qualifying ILU Policyholders who elect to opt out, is exceeded, the Companies will revert to run-off. In such circumstances, Scheme Creditors would not receive any of the intended benefits of the accelerated claims determination mechanism under the Amending Scheme. Furthermore, Scheme Creditors may incur costs in preparing and submitting the Voting Forms and Claim Forms in respect of their claims, which would not be reimbursed by the Companies.

Pre-1969 L&O Policyholders

- 5.3.6 Whilst Pre-1969 L&O Policyholders must submit claims before the Bar Date in accordance with the Amending Scheme, the Pre-1969 L&O Policyholders may subsequently be required to revert to run-off in respect of their future claims in order to maximise the final Payment Percentage for all Scheme Creditors. Prior to such reversion to run-off, Pre-1969 L&O Policyholders may have incurred costs in preparing and submitting the Voting Forms and Claim Forms in respect of those future claims, which will not be reimbursed by the Companies. In these circumstances, and subject to any individual commutations, the Pre-1969 L&O Policyholders would have to continue the existing process of submitting and agreeing their claims as and when those claims fell due. They would only receive the Payment Percentage in respect of their future claims once those claims had been submitted, agreed and become Established Liabilities in accordance with the terms of the Original Scheme. The Pre-1969 L&O Policyholders would, however, still receive the benefit of any increased Payment Percentage on their claims, resulting from the operation of the Amending Scheme.

Operation of set-off/effect on reinsurers

- 5.3.7 The Amending Scheme allows the Companies to set off against a Scheme Creditor's Gross Liabilities any present and future, contingent and unliquidated liabilities that Scheme Creditor may owe to the Companies. The extent to which reinsurers are affected by the set-off provisions will, to a very large extent, depend upon the relative size of their claims against the Companies and their potential reinsurance Liabilities to the Companies. Some reinsurers may receive an increased payment but others may receive a reduced, or no, payment under the Amending Scheme.
- 5.3.8 Any payments made from time to time to Scheme Creditors under the Original Scheme have already been reduced to reflect the Scheme Administrators' estimation of the Scheme Creditors' contingent reinsurance liabilities to ensure that such Scheme Creditors have not been overpaid.



5.3.9 Therefore, in practical terms, the accelerated set-off mechanism under the Amending Scheme should not materially prejudice reinsurers of the Companies.

6 WHAT SHOULD SCHEME CREDITORS DO NOW?

6.1 If you are a Scheme Creditor, you are entitled to attend and vote at the relevant Amending Scheme Meetings. The Amending Scheme Meetings are being convened at the direction of the Court for the purpose of considering and, if thought fit, approving the Amending Scheme.

6.2 Formal notice of the Amending Scheme Meetings is given with this letter, together with a map of the location of those meetings. Scheme Creditors may attend the Amending Scheme Meetings in person (or, if a corporation, by a duly authorised representative) or may vote by proxy.

6.3 Voting Forms, incorporating a form of proxy, to be used for voting at the Amending Scheme Meetings are provided with this letter. Whether or not Scheme Creditors intend to be present in person at the Amending Scheme Meetings, they are requested to complete and sign the Voting Form (and, if relevant, the form of proxy) in accordance with the instructions accompanying them.

6.4 **Completed Voting Forms should be returned by hand, post, fax or email to the Run-off Company at the address detailed in paragraph 13 below by noon (English time) on 10 December 2014 or otherwise handed to the chairman of the Amending Scheme Meetings prior to their commencement.**

6.5 The Companies will consider returned Voting Forms in order to determine the value of each Scheme Creditor's vote(s) at the Amending Scheme Meetings. The value attributed to each Scheme Creditor's Scheme Liability for voting purposes will be determined by the chairman of the Amending Scheme Meetings and calculated on a net basis, taking into account any discount for the time value of money, Offset Amounts and Security Interests. The chairman's determination shall be based on (i) the information provided by the Scheme Creditor; and (ii) the information available to the Companies from their existing records, where necessary, applying the Estimation Guidelines.

6.6 If agreement cannot be reached between the Companies and a Scheme Creditor on the value of a Scheme Creditor's claim for voting purposes, the matter will be referred to the Vote Assessor for inclusion in his report on the reasonableness of voting values for submission to the Court.

6.7 Scheme Creditors should provide evidence in accordance with the Estimation Guidelines to support the calculation of their estimates of Scheme Liabilities. Estimates of Scheme Liabilities admitted for voting purposes will not be used for the purpose of agreeing Net Liabilities under the Amending Scheme unless the Scheme Creditor confirms that the Voting Form is to be used as the Claim Form and that the information provided on the Voting Form remains true and accurate in all respects. Acceptance by the chairman of the Amending Scheme Meetings of a Scheme Creditor's estimate of its claim(s) for voting purposes will not



affect or prejudice the Scheme Administrators' rights to dispute the claim(s) for any other purpose.

- 6.8 A copy of this letter shall be made available to all brokers and agents identified as having placed business with or on behalf of the Companies. The Companies urge those brokers and agents to inform their clients of the Amending Scheme to ensure that all possible creditors of the Companies, in particular Scheme Creditors, receive notice of the Amending Scheme terms and the action that they may be required to take prior and subsequent to the Amending Scheme Meetings.
- 6.9 If Scheme Creditors are unclear about, or have any questions concerning, the action they are required to take, they should contact the Run-off Company using the details set out in paragraph 13 below.

7 KEY DATES AND PROVISIONAL TIMETABLE

Valuation Date	31 December 2013
Voting Forms to be returned to the Scheme Administrators	10 December 2014
Date of Amending Scheme Meetings	11 December 2014
Expected New Effective Date	28 February 2015
Expected Bar Date	31 October 2015
Latest expected date for confirmation that the crystallisation provisions of the Amending Scheme apply	31 March 2016
Latest expected date for determination of whether the Pre-1969 L&O Policyholders will revert to run-off	31 December 2017
Current estimate of the expected date of distribution of the final Payment Percentage to Scheme Creditors	31 March 2018

- 7.1 The dates included above that relate to events subsequent to the Amending Scheme Meetings are only indicative.

8 WHAT WILL HAPPEN IF THE AMENDING SCHEME BECOMES EFFECTIVE?

- 8.1 If the Amending Scheme becomes effective, the Companies will then send notice by post to all known Scheme Creditors that the Amending Scheme is effective and will provide details of the Bar Date. A further letter with, where applicable, details of the relevant Scheme Creditor's login ID and password for accessing its Claim Form on the Website, will be sent by post within 60 days of the New Effective Date. The Scheme Creditor may then amend its Claim Form using the Website. Blank Claim Forms can also be accessed from the Website or otherwise obtained from the Run-off Company whose contact details are set out in paragraph 13 below.



8.2 The Companies will also place advertisements and post a notice on the Website informing Scheme Creditors that the Amending Scheme is effective and calling for Scheme Creditors to complete and return their Claim Form by the Bar Date. Such advertisements will be placed in the same publications in which the Amending Scheme Meetings were advertised.

8.3 **Scheme Creditors will be required to give full details of their claim and supporting documents by completing the Claim Form and ensuring that it is received by the Companies by midnight (English time) on the Bar Date, being the first Business Day falling 240 days after (and not including) the New Effective Date. Subject to paragraph 4.7 (i) to (iv) above, Scheme Creditors who have additional Scheme Liabilities (including Notified Outstanding Liabilities and/or IBNR Liabilities): (i) which are not shown on their Claim Form; or (ii) who do not have a Claim Form, and who, in each case, do not submit details of their claims on their Claim Form before the Bar Date, will receive no payment in respect of those additional claims under the Amending Scheme. Any such Scheme Creditor will only receive payment for any Established Liabilities and Agreed Liabilities as set out on its Claim Form provided to it by the Companies.**

9 **PRUDENTIAL REGULATION AUTHORITY ("PRA") AND FINANCIAL CONDUCT AUTHORITY ("FCA")**

9.1 In drafting the proposed Amending Scheme, the Scheme Administrators have been advised by their legal advisers and have kept the PRA and the FCA informed of their proposals. This letter and the Amending Scheme document have been provided to the PRA and FCA for consideration and, on the basis of the information available to them, they have confirmed that they have no objection to the Amending Scheme proceeding to a vote of the Scheme Creditors.

10 **DIRECTORS' INTERESTS**

10.1 The Companies' directors are Dan Schwarzmann, who is a partner in PricewaterhouseCoopers LLP, and Paul Evans. Neither of the directors receive any remuneration or incentives from the Companies and nor will they receive any compensation or incentives as a result of the implementation of the Amending Scheme or under the terms of the Amending Scheme. The directors are also the Scheme Administrators of the Companies. PricewaterhouseCoopers LLP are in receipt of fees for the provision of services to the Scheme Administrators.



11 RECOMMENDATION OF THE SCHEME ADMINISTRATORS IN RESPECT OF THE AMENDING SCHEME

11.1 It is the opinion of the Scheme Administrators that the advantages of the Amending Scheme outweigh its potential disadvantages and the Amending Scheme is therefore in the best interests of Scheme Creditors. In particular, the cost savings that would arise as a result of implementing the Amending Scheme would increase the amount of the Companies' assets available for distribution, leading to a higher expected final Payment Percentage for all Scheme Creditors.

11.2 The Scheme Administrators recognise that some of the key advantages relating to the final Payment Percentage are less relevant for Qualifying ILU Policyholders than for other Scheme Creditors. It is nonetheless the opinion of the Scheme Administrators that the specific provisions and safeguards built into the Amending Scheme, which allow Qualifying ILU Policyholders to opt out or to receive the Qualifying ILU Policyholder Premium if they do not opt out, ensure that the advantages of the Amending Scheme also outweigh the potential disadvantages for Qualifying ILU Policyholders.

11.3 The Creditors' Committee has confirmed in writing their support for the Amending Scheme and the FSCS Scheme Manager has approved and agreed to be bound by the Amending Scheme.

11.4 **Accordingly, all Scheme Creditors who are entitled to vote are recommended to do so in favour of the Amending Scheme.**

12 EXCLUSION OF PERSONAL LIABILITY

Neither the Scheme Administrators, nor any partner, employee, agent, adviser, representative, affiliate, director, officer, member, beneficiary, investor, servant, shareholder, trustee, attorney, or other person acting on behalf of, or otherwise related to or affiliated with the Scheme Administrators or the Companies, nor any of their respective successors shall have any personal liability directly or indirectly, under or in connection with: (a) this letter, the Amending Scheme, the Amending Explanatory Statement and any notices convening the Amending Scheme Meetings; (b) any agreement made or entered into under or pursuant to this letter, the Amending Scheme, the Amending Explanatory Statement and any such notices; or (c) any amendment or amendments to any of the foregoing made at any time or times, heretofore or hereafter. This exclusion of personal liability shall survive any termination of the Amending Scheme.



13 **FURTHER INFORMATION AND DOCUMENTS**

13.1 Further information and copy documents (including a paper copy of the Amending Scheme document containing the full text of the Amending Scheme and the Amending Explanatory Statement) may be obtained by contacting the Run-off Company as follows:

By phone: +44 (0) 207 382 2020
By email: Oicclosurehelpdesk@armourrisk.com
By fax: +44 (0) 207 382 2001
By post: Armour Risk Management Limited
20 Old Broad Street
London EC2N 1DP
United Kingdom

An electronic copy of the Amending Scheme document is also available from the Website at www.oicrun-offltd.com.

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

Dan 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.