

EQUITAS LIMITED

AGREEMENT WITH NATIONAL INDEMNITY COMPANY

THIS DOCUMENT REQUIRES YOUR IMMEDIATE ATTENTION IN RESPECT OF THE TWO ACTIONS DESCRIBED BELOW. IN ALL OTHER RESPECTS IT IS PURELY FOR INFORMATION

ACTION 1

If the conditions for Phase 1 of the proposed transaction described in this document are met it is intended that, subject to the approval of the Financial Services Authority, a return premium will be payable. **Reinsured Names must return the pink card enclosed confirming or correcting their details in order to receive any return premium due.** We apologise to those Reinsured Names who have recently informed us of a change of details, but in order to ensure that our records are accurate we do need this card returned by all Reinsured Names.

ACTION 2

Three Reinsured Names' meetings are planned in January:

Monday 15 January 2007, Edinburgh International Conference Centre

Thursday 18 January 2007, The Lowry, Manchester

Friday 19 January 2007, The Queen Elizabeth II Conference Centre, London

All meetings will start at 11.00 a.m. **If you wish to attend one of these meetings it is essential that you return the blue card enclosed no later than 5 January 2007.**

This document provides details of the agreement with National Indemnity. The document is in six parts:

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The Equitas Trust

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12 December 2006

Dear Reinsured Name,

Only last December I wrote to you on behalf of my fellow Trustees in the lead up to the tenth anniversary of the foundation of Equitas. I ended that letter by saying

“whilst we must continue to prepare for the worst, I am increasingly hoping for the best!”

So we should all be delighted with the transaction with the Berkshire Hathaway subsidiary, National Indemnity, which was announced on 20 October 2006 and about which Hugh Stevenson wrote to you at the time. The agreement signed on 10 November 2006 between Equitas and National Indemnity now brings the “best” within our grasp. Equitas has always had two objectives: true finality; and, if there is a surplus which can be distributed, some return of premium to Reinsured Names. This transaction has the potential to deliver both.

Three more things have to happen before the transaction can be closed, at which point Phase 1 begins. The Financial Services Authority (FSA) in London and the New York Insurance Department must both approve it; and, that done, the Equitas Trustees must also approve it, after consulting Reinsured Names and giving it such other consideration as may be appropriate.

The Equitas Trustees now have the task of informing Reinsured Names of what is proposed; considering their questions; and giving them the opportunity to raise any concerns they may have about whether the transaction is in their interests. At this point the Equitas Trustees see no reasons whatever for not supporting the deal, which has received widespread and enthusiastic endorsement.

To that end, you will find later in this “information document” letters from Hugh Stevenson and Scott Moser and much detailed information about the National Indemnity transaction.

If all goes well, National Indemnity, Equitas and the Equitas Trustees intend to complete the transaction at some point in the New Year and, in any case, before 31 March 2007. We are holding three public meetings for Reinsured Names: in Edinburgh (15 January 2007), Manchester (18 January 2007) and London (19 January 2007). Details are given on the blue card. These will give interested Reinsured Names an

opportunity to hear a presentation from the Equitas Trustees and Equitas, and to ask questions. **Please advise Equitas as soon as possible, and in any case by 5 January 2007, if you would like to attend any of these meetings, using the reply-paid blue card enclosed with this document.**

The Equitas Trustees have monitored the negotiation of the agreement with National Indemnity closely and it is our unanimous opinion that this transaction represents good value for money and is in the interests of all Reinsured Names. In particular,

- a. if it comes into effect as proposed by the end of March 2007, Reinsured Names will then achieve practical finality in what is described as “Phase 1”, with the inception of a massive reinsurance policy for US\$5.7 billion in addition to the group’s existing reserves;
- b. furthermore, if Reinsured Names’ 1992 and earlier liabilities can subsequently be transferred as intended to some other entity and Phase 2 then begins, Reinsured Names will, from that point, enjoy true finality (assuming foreign courts recognise the transfer).

The Equitas Trustees, therefore, consider that the position of Reinsured Names has been transformed by this transaction. Moreover, the agreement permits Equitas to invoke appropriate measures to protect the interests of Reinsured Names should the need arise. These are outlined in Part IV, Schedules E and F, of this information document.

Once we have obtained the FSA’s approval, it is planned to distribute £50 million as a return premium as soon as possible after the closing date of the transaction when Phase 1 starts.

The information document gives further details of arrangements for the return premium in Part IV Schedule G, including an explanation of how the return premium is calculated and of the adjustment to each Reinsured Name’s entitlement which is made to allow for debt credits. This formula was established in 1996 as part of Reconstruction and Renewal. As a rough guide to what Reinsured Names might expect, around half of Reinsured Names should be entitled to £1,000 or more from the initial return premium, before tax.

Even if all goes well, it may take a year or two for Equitas and the Equitas Trustees to complete the Transfer of Business, and more time thereafter to close the Equitas Trust and remaining companies in the Equitas Group and to wind up affairs generally. As that process draws to its close, we expect and hope that a further payment can be made. However, neither its size nor its timing can be estimated precisely.

I should note that no Equitas Trustee will receive any bonus as a result of this transaction, although it is proposed that Richard Spooner and I should receive fees, pursuant to the provisions of the Equitas Trust Deed, for the additional work we have undertaken for the Equitas Trustees and Reinsured Names in relation to the National Indemnity transaction.

I should close by underlining how much all Reinsured Names owe to the exceptional skill, ingenuity and hard work of Scott Moser and his team at Equitas. The record and reputation they have built up over the last decade is the keystone of this transaction, and the Equitas Trustees are delighted to take this opportunity to recognise it. I would also like to thank on all your behalf Hugh Stevenson and all those who have served as directors and officers of Equitas for their contribution.

To sum up, the Equitas Trustees strongly believe that this transaction is in the interests of all Reinsured Names. We look forward to seeing you at the Reinsured Names' meetings in January next year.

Yours sincerely

Adam Ridley

Sir Adam Ridley

Trustees

Sir Adam Ridley (*Chairman*) Michael Deeny (*Deputy Chairman*) David Gilchrist Richard Keeling Richard Spooner

Corporate Secretary

SG Hambros Trust Company Limited

41 Tower Hill London EC3N 4SG

Tel: 020 7597 3112 Fax: 020 7702 3056

EQUITAS



EQUITAS LIMITED
33 ST MARY AXE LONDON EC3A 8LL
TEL: 020 7342 2000 FAX: 020 7342 2001

12 December 2006

Dear Reinsured Name,

In my letter of 20 October 2006 I informed you of our agreement in principle with National Indemnity, a member of the Berkshire Hathaway group.

The agreement in principle is now reflected in a signed document. The agreement is, however, conditional on a number of matters, including certain regulatory approvals, which must be obtained before 31 March 2007. We are now taking the steps required to satisfy the conditions necessary to the finalisation of the agreement.

One such condition is the approval of the Equitas Trustees as shareholders of Equitas Holdings Limited. The Equitas Trustees wish to inform Reinsured Names about the transaction and a letter from the Chairman of the Equitas Trustees, Sir Adam Ridley, forms Part I of this document. As part of this process, three meetings will be held, in Edinburgh, Manchester and London, as set out on the front page. If you wish to attend, I would stress the importance of completing and returning the enclosed blue card by 5 January 2007.

Further details of the transaction are given in the letter from our Chief Executive Officer, Scott Moser, in Part III. Other issues relevant to the transaction are addressed in Part IV.

Equitas and the Equitas Trustees will continue to have a role after the transaction closes, not least to ensure that the run-off of liabilities continues to be managed in the best interests of Reinsured Names (for as long as they have liabilities) and that the interests of Reinsured Names are protected generally throughout all phases of the transaction. Consequently, Equitas will still require a Board of Directors, although with fewer directors than before. I have agreed to serve as Chairman of that board. I am pleased to report that Jane Barker will serve as Chief Executive Officer and a member of the Equitas board after the transaction becomes final. She has stepped down as the Finance Director of Equitas to focus on her new responsibilities and she and I, together with the rest of the continuing Board of Directors, will work with the Equitas Trustees towards completion of the second phase of the transaction.

Part IV Schedule H of this document sets out details of the compensation which I, as Chairman, and the Non Executive Directors have agreed will be paid to the Executive Directors and to all the staff of the company upon the finalisation of the agreement with National Indemnity, including a special one-off bonus. This special bonus pool totals £15.1 million, of which £10.4 million will be payable to the Executive Directors.

Each of the Executive Directors joined a company with a high risk of failure and each has devoted roughly a decade of the prime years of their careers to Equitas. If at any time Equitas had failed, their careers in the insurance industry would have been seriously compromised. While all too often in business mediocrity, or even failure, is highly rewarded, this is an unquestionable success and those who have achieved it deserve to be compensated for it, particularly as they do not have any equity interest in Equitas. None of the Non Executive Directors (including myself) will receive any payments as a result of this transaction, save that the Equitas Trustees have proposed that Richard Spooner should receive a fee for additional work in his capacity as an Equitas Trustee in relation to the National Indemnity transaction.

I must repeat what I said in my earlier letter. This transaction is wonderful news for Reinsured Names. Equitas has achieved a great deal since it was set up in 1996 but we still face many threats and uncertainties. This agreement with one of the world's largest insurance groups transforms the outlook for Equitas and for Reinsured Names. **The Directors of Equitas recommend it to you unanimously and unreservedly.**

 sincerely,



Hugh Stevenson
Chairman

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12 December 2006

Dear Reinsured Name

In this letter and the other parts of this information document, we aim to give you a full picture of the agreement with National Indemnity and answer the questions that you may have about it.

There are two phases to the transaction. Each of these is described below.

Phase 1 – The National Indemnity Reinsurance Agreement

National Indemnity, part of Berkshire Hathaway (and one of the very few insurance companies with a AAA rating), will reinsure all Equitas' reinsurance obligations and will provide an additional US\$5.7 billion of reinsurance cover over and above the current reserves. National Indemnity will also take on the staff and operations (and all the cost of operations apart from those relating to governance and Phase 2 of the transaction) of Equitas through the acquisition of Equitas' management services company, as explained below. The premium for this reinsurance consists of:

- (i) all of Equitas' existing assets less £172 million; and
- (ii) a contribution of £72 million from the Corporation of Lloyd's.

Phase 1 will come into effect when three conditions are satisfied:

- The Financial Services Authority gives all necessary approvals;
- The Superintendent of Insurance of the State of New York consents to the withdrawal and application of the assets held in the Equitas American Trust Fund towards payment of the premium;
- The Equitas Trustees approve the agreement.

The agreement will terminate if these conditions are not satisfied by 31 March 2007.

The reinsurance cover from National Indemnity amounts to US\$14.4 billion (Equitas' net undiscounted claims reserves of US\$8.7 billion as calculated as at 31 March 2006, plus the US\$5.7 billion additional reinsurance cover) less payments between 1 April 2006 and the effective date of the transaction.

If the three conditions are satisfied, the £172 million of assets left in Equitas at Phase 1 will be allocated as follows:

- £50 million will be paid as a return premium at Phase 1 (subject to the approval of the Financial Services Authority). See Part IV Schedule G.
- Approximately £15.1 million will be paid to the Executive Directors and staff of Equitas as a special one-off bonus. Part IV Schedule H describes the remuneration of Executive Directors and staff, including Long Term Incentive Plan (LTIP) payments. A total of £3.3 million of these LTIP payments will also be paid out of the £172 million of assets left in Equitas at Phase 1. After making allowance for employer's National Insurance contributions and other adjustments, £19.9 million will be payable out of the £172 million.
- Approximately £102 million will remain in Equitas, of which £22 million will be set aside to purchase additional reinsurance cover at Phase 2. It is hoped that most of the balance of £80 million will ultimately be payable to Reinsured Names, although future governance costs and the legal and other transaction costs associated with Phase 2 must also be paid out of these retained funds.

Phase 1 of the transaction provides very significant additional reinsurance cover to Equitas. However it does not disturb the existing chain of reinsurance established as part of Lloyd's Reconstruction & Renewal (R&R). See Part IV Schedule A. The reinsurance cover purchased is an **additional** asset of Equitas.

Phase 1 is **not** dependent on Phase 2. Reinsured Names will have the benefit of the US\$5.7 billion additional reinsurance cover under Phase 1 (assuming the transaction closes) whether or not Phase 2 is successfully implemented.

How the run-off will be managed

The run-off will be managed by Equitas Management Services Limited (EMSL). EMSL is the management services company in the Equitas Group which employs the Equitas staff and which makes premises and other facilities available to Equitas. As part of the transaction, EMSL will be transferred in its entirety to the National Indemnity Group. The costs of EMSL, which we usually refer to as the operating expenses of Equitas, will be met by National Indemnity.

EMSL will manage the run-off as agent for Equitas. National Indemnity currently expects the run-off to be managed in London by essentially the same people and in essentially the same way as at present, although following the transaction the name of EMSL will be changed.

Since Reinsured Names remain ultimately responsible for their insurance liabilities before Phase 2 of the transaction, the agreement includes a number of provisions that allow continued monitoring of the run-off and protect Equitas (and thereby indirectly Reinsured Names). In order to carry out those monitoring and protective functions, Equitas and the Equitas Trustees, as shareholders, will continue to have an important role during Phase 1, as detailed in Part IV Schedule E.

In addition, Part IV Schedule F outlines provisions of the agreement that protect Reinsured Names in the event of a deterioration in the financial condition of National Indemnity, as well as giving further details of how the run-off will be conducted.

Phase 2 – The Transfer of Business

Phase 2 involves the transfer of Names' obligations to policyholders to another company, which will be one of Equitas, Equitas Reinsurance or a specially-created insurance company. If completed, this Transfer of Business will achieve our ultimate objective of complete finality for Names (assuming foreign courts recognise the transfer). Part IV Schedule D gives further details on this.

Provided that the Transfer of Business is completed by 31 December 2009, Equitas has an option to purchase up to US\$1.3 billion of additional reinsurance cover from National Indemnity at a maximum cost of £40 million. Lloyd's have committed to pay £18 million which we will use towards the cost of this additional reinsurance cover (in addition to all or part of the £22 million set aside at the time of Phase 1).

The option to purchase the additional reinsurance cover is not available in the unlikely event that Equitas' net undiscounted reserves (inclusive of IBNR) have deteriorated by more than US\$2 billion since 31 March 2006.

The Transfer of Business will be implemented under the provisions of the Financial Services and Markets Act 2000 (FSMA 2000) which govern the transfer of insurance portfolios. This type of transfer is sometimes referred to as a "novation". In our case, amendments to the FSMA 2000 provisions are required to permit those Names who ceased to be underwriting members of Lloyd's prior to December 1996 to participate in the transfer. We hope that the amendments will come into effect by summer 2007. HM Treasury have already published a consultation document on the proposed changes and wrote to Reinsured Names on 15 November 2006 to advise them of the consultation. We intend to prepare for the transfer with a view to implementing Phase 2 as soon as possible after these amendments have been made. More details of the Transfer of Business are given in Part IV Schedule D.

FSMA 2000 requires the Transfer of Business to be approved by the High Court. We cannot guarantee that the High Court will do so. However, we are optimistic that we will obtain the High Court's approval for the Transfer of Business, particularly as the Transfer of Business would enable additional reinsurance cover of up to US\$1.3 billion to be purchased for the ultimate benefit of policyholders.

Provided the Financial Services Authority agrees, a second return premium is contemplated following the Transfer of Business. The amount of this payment will, however, depend upon a number of factors that cannot be determined at this point,

including any additional FSA capital requirements or costs incurred by Equitas and the Equitas Trustees during Phase 1.

If it is not possible to pay out all the remaining funds to Reinsured Names immediately following the Transfer of Business, then future payments will be paid as soon as funds can prudently be released (subject to FSA approval).

What happens if the Transfer of Business does not occur?

If the Transfer of Business does not occur by 31 December 2009, for whatever reason, Lloyd's will still make the additional payment to Equitas of £18 million. Assuming that the run-off is proceeding as planned, we hope to make a second payment to Reinsured Names at that time.

If there is no Transfer of Business, Equitas will need to retain sufficient funds to meet future governance costs. The amount and timing of any additional further payments to Reinsured Names will therefore depend upon a number of factors, including the future capital requirements of Equitas.

Timetable

An outline of the proposed timetable for both phases of the transaction is set out in Part IV Schedule I.

Questions

Part V answers a number of questions that Reinsured Names may have about the transaction.

Conclusion

As Hugh Stevenson said in his covering letter, this agreement is wonderful news for Reinsured Names and we will continue to work diligently toward the finalisation of this transaction. In the meantime, I look forward to seeing many of you at the Reinsured Names' meetings scheduled for January 2007.

Yours Sincerely,

Scott P. Moser.

Scott P. Moser
Chief Executive Officer

Part IV

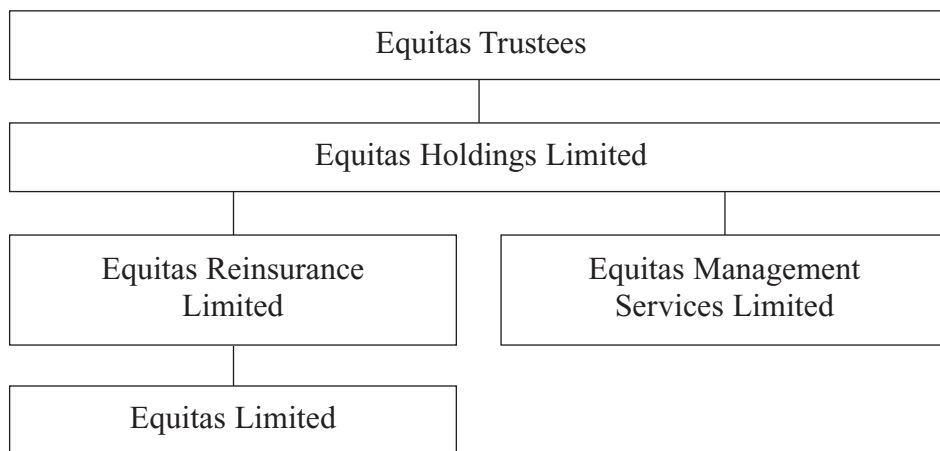
Schedules

- A The Equitas reinsurance arrangements put in place as part of Lloyd's R&R
- B Who is National Indemnity?
- C "At a glance" summary
- D The Transfer of Business
- E Future governance of the Equitas Group
- F Operation of run-off and financial protection
- G Return premium arrangements
- H Remuneration of Executive Directors and staff
- I Outline of proposed timetable

Schedule A

The Equitas reinsurance arrangements put in place as part of Lloyd's R&R

The Equitas Group comprises Equitas Holdings Limited (the share capital in which is owned by the Equitas Trustees), its direct subsidiaries Equitas Reinsurance Limited ("Equitas Reinsurance") and Equitas Management Services Limited ("EMSL"), and Equitas Reinsurance's direct subsidiary, Equitas Limited ("Equitas"). EMSL is a management services company which provides staff, premises and other facilities to Equitas. This structure is illustrated below:



The reinsurance by Equitas Reinsurance of Reinsured Names' 1992 and prior non-life business under the Reinsurance and Run-off Contract (RROC) took effect on 4 September 1996 when the Lloyd's Reconstruction & Renewal (R&R) settlement offer became effective. At the same time, Equitas Reinsurance agreed to reinsure Centrowrite Limited (a subsidiary of Lloyd's) in respect of certain syndicates which it had reinsured.

As part of R&R, Equitas Reinsurance also agreed to reinsure Lioncover Insurance Company Limited ("Lioncover"), a subsidiary of Lloyd's, subject to Lioncover settling certain reinsurance disputes. Lioncover had been established in 1987 in order to reinsure the liabilities of a number of syndicates at Lloyd's which were formerly managed by PCW Underwriting Agencies Limited. In the event, Equitas Reinsurance reinsured Lioncover in 1997.

All of the business reinsured by Equitas Reinsurance was in turn reinsured by Equitas and the management of the run-off was also delegated to Equitas under a retrocession agreement (the "Equitas Retrocession").

Schedule B

Who is National Indemnity?

National Indemnity is a wholly owned subsidiary of Berkshire Hathaway, a large and diversified insurance and reinsurance group which also has substantial investments in numerous non-insurance related companies. Both Berkshire Hathaway and National Indemnity are rated AAA by rating agency Standard & Poor's, the highest rating provided by that agency. The Berkshire Hathaway Group is currently the only non-life reinsurer that has been awarded this rating by Standard & Poor's (other than entities that benefit from a government guarantee). The Berkshire Hathaway Group has also been awarded the highest rating available by Fitch and AM Best.

Berkshire Hathaway is listed on the New York Stock Exchange. Its total market capitalisation as at 31 December 2005 was in excess of US\$135 billion. The company is led by Warren Buffett, who holds a significant ownership interest. However, the group has a highly decentralised management structure, with decision making largely devolved to operating company level.

Further information on Berkshire Hathaway can be obtained from the group's website: www.berkshirehathaway.com

Insurance and reinsurance operations of Berkshire Hathaway

Berkshire Hathaway's insurance and reinsurance activities comprise four main elements:

- *Berkshire Hathaway Reinsurance Group*. This group specialises in writing large or unusual risks (often exposed to catastrophes such as hurricanes or earthquakes), and a wide spectrum of other types of business as market opportunities arise. The group has also been a leader in the reinsurance of insurance liabilities arising from policies written many years ago, often referred to as run-off reinsurance. The Berkshire Hathaway Reinsurance Group is led by Ajit Jain, who has been involved with all of the major run-off reinsurance transactions Berkshire has completed to date.
- *General Re and its subsidiaries*. General Re is one of the world's largest reinsurers in its own right measured by capital and premiums written.
- *GEICO*, one of the largest motor insurers in the United States.
- *Berkshire Hathaway Primary Group*, which writes a wide variety of insurance risks through numerous primarily US-based insurance companies.

National Indemnity is a substantial company in its own right and forms the principal part of the Berkshire Hathaway Reinsurance Group. It also assumes risks on behalf of the Berkshire Hathaway Primary Group.

The table below provides illustrative financial information on the company and the Berkshire Hathaway Group as a whole:

	National Indemnity ⁽¹⁾	Berkshire Hathaway ⁽²⁾
Total assets	US\$62.0 billion	US\$198.3 billion
Capital and surplus / Shareholder equity at 31 December 2005	US\$28.7 billion	US\$91.5 billion
Reported net income for the year ended 31 December 2005	US\$2.8 billion	US\$8.5 billion

(1) Per 2005 Annual Statement filed with the Nebraska Insurance Department.

(2) Per the annual report filed with the SEC, figures include National Indemnity.

Other run-off reinsurance transactions completed by National Indemnity

At 31 December 2005 National Indemnity disclosed total net retroactive reinsurance reserves of US\$9.1 billion. A large part of this reserve is for insurance liabilities where the underlying liabilities are similar to the obligations reinsured by Equitas, including significant US asbestos and environmental liabilities. Some of National Indemnity's most notable transactions, all of which are subject to a cap, include:

- Century Indemnity (part of the ACE Group) – a US based run-off company
- The London market run-off liabilities of Winterthur Swiss Insurance
- The London market run-off liabilities of the Aviva Group
- Potomac Insurance (part of the White Mountains Group) – a US-based company that contains the run-off liabilities of former US subsidiaries of CGU

The proposed reinsurance of Equitas' obligations would be by far the largest run-off reinsurance that National Indemnity has completed, measured by value of reserves transferred.

Berkshire Hathaway involvements with the current Lloyd's market

The Berkshire Hathaway group is directly involved in the Lloyd's market through its participation in Syndicate 1861 (Marlborough), and General Re participates in Syndicate 435 (Faraday). In addition, in the recent past, the Berkshire Hathaway Reinsurance Group participated in several other Lloyd's syndicates through reinsurance arrangements (known as Qualifying Quota Shares), although the quantity of business sourced from Lloyd's has fallen off significantly in 2005 and 2006.

Schedule C

“At a glance” summary

Phase 1

Conditions for Phase 1

Phase 1 automatically proceeds when three conditions have been met:

- the Financial Services Authority gives all necessary approvals
- the Superintendent of Insurance of the State of New York consents to the withdrawal and application of the assets held in the Equitas American Trust Fund towards payment of the premium
- the Equitas Trustees approve the agreement

Reinsurance Cover

Cover for future claims payments (net of reinsurance recoveries) equal to:

- Equitas’ undiscounted claims reserves (net of reinsurance recoveries and excluding operating expenses) as at 31 March 2006 (approximately US\$8.7 billion)
- plus US\$5.7 billion
- less claims payments (net of reinsurance recoveries and excluding operating expenses) from 1 April 2006 to the effective date of the transaction

National Indemnity will be responsible for all future operating expenses other than those relating to governance and Phase 2.

Premium

The premium payable will be:

- all assets of Equitas, less £172 million, *plus*
- a contribution of £72 million from Lloyd’s

Return premium

A return premium of £50 million will be payable (provided the FSA agrees).

Security

If National Indemnity’s insurer financial strength rating drops below Standard & Poor’s AA-, it will be required to provide a letter of credit or trust fund equal to 102% of the estimated value of the relevant liabilities (provided that it does not exceed the remaining reinsurance cover), plus future operating expenses. If the rating drops below A-, the 102% increases to 125% (again provided that it does not exceed the remaining reinsurance cover).

Governance

Until Phase 2, Equitas and the Equitas Trustees will continue to protect the interests of Reinsured Names. There is provision for two levels of governance. The first will be the normal state of affairs and is a high level monitoring role. However Equitas can opt to have a greater say in the management of the run-off if certain events occur, such as the level of the unused cover dropping below US\$1 billion on an incurred basis (including IBNR), or if National Indemnity materially breaches its duties.

Phase 2

Transfer of Business

The agreement contemplates a Transfer of Business from Names to another company following amendments to FSMA 2000.

Additional Reinsurance Cover

National Indemnity has agreed to provide additional reinsurance cover of up to US\$1.3 billion at a cost of up to £40 million. This reinsurance cover is available provided that the Transfer of Business occurs prior to 31 December 2009 and provided that reserves (including IBNR) have not deteriorated by more than US\$2 billion from the level at 31 March 2006.

Return premium

A second distribution is contemplated following the Transfer of Business. The amount of this distribution will depend upon a number of factors that cannot be determined at this point, including any additional FSA capital requirements or costs incurred by Equitas during Phase 1.

Schedule D

The Transfer of Business

The Transfer of Business will be brought forward under the provisions of the Financial Services and Markets Act 2000 which permit insurers to transfer their insurance business (including liabilities) subject to receiving the sanction of the High Court. The legislation needs to be amended, however, in order to give Names who ceased to be underwriting members before December 1996 the same rights to transfer their business as other Names. Currently former Names who ceased to be underwriting members of Lloyd's before December 1996 cannot participate in such a transfer. It is not practical to proceed with a transfer unless all Names can be included.

HM Treasury published a consultation document on 3 November 2006 explaining the changes they propose to introduce. That document also contains drafts of the regulations proposed along with some useful background information about insurance business transfer schemes. The consultation is open until 26 January 2007 and we hope that the regulations making the necessary changes will come into effect by summer 2007.

A copy of the document may be obtained from HM Treasury's website www.hm-treasury.gov.uk (in the "Consultation & Legislation" section) or by applying to:

HM Treasury's Correspondence and Enquiry Unit
1 Horse Guards Road
London SW1A 2HQ
Tel: (+44) (0) 207 270 4558

Once the regulations are brought into force, Equitas will promote the Transfer of Business which will be dependent on the approval of the FSA and the sanction of the High Court.

Equitas is committed to proceeding with the Transfer of Business as soon as possible after these changes are made and National Indemnity has agreed, as long as it does not cause an increase in its liabilities, to assist us in this regard. The Transfer of Business will be a transfer of all Names' 1992 and prior non-life business. The business will be transferred from Names either to Equitas, Equitas Reinsurance or to a new insurance company specially formed for the purpose. National Indemnity has the right to ask us to make the transfer to a specially formed company and, if they do so, they are committed to take ownership of that company.

The effect of a court sanctioned transfer is that the transferors (the Names in this case) cease, as a matter of English law, to have any continuing liability for the business transferred. We intend as part of the Transfer of Business to seek an order from the High Court to the effect that if any foreign judgments are made against Names which ignore the Transfer of Business, they should not be enforced by the High Court.

It is theoretically possible that policyholders may nevertheless make claims against Names in overseas jurisdictions arguing that the Transfer of Business should not be

recognised by the courts of those jurisdictions. Equitas will therefore take steps in the major relevant jurisdictions to protect Names from such action, to the extent that the laws of such jurisdictions permit this.

In the unlikely event that any claims are, nevertheless, brought against Names, National Indemnity has agreed to indemnify them within the limits of the reinsurance cover. However, as a condition for such indemnity cover, Names must ensure that they keep National Indemnity informed of any action or claim (actual or threatened) brought against them and generally permit National Indemnity to control the conduct of any such action or claim.

Schedule E

Future governance of the Equitas Group

Since Names remain ultimately responsible for their insurance liabilities prior to Phase 2 of the transaction, the agreement includes a number of provisions that allow continued monitoring of the run-off and protection for Equitas (and thereby indirectly, for Reinsured Names). In order to carry out those monitoring and protective functions, Equitas and the Equitas Trustees will continue to have an important role during Phase 1.

It is currently intended that the Directors of Equitas will be:

- Hugh Stevenson (Chairman)
- Jane Barker (Chief Executive)
- Ian Agnew (Lloyd's representative)
- Michael Deeny (nominated Equitas Trustee Director)
- Richard Spooner (nominated Equitas Trustee Director)

All of these individuals currently serve on the Board of Equitas. Equitas will continue to operate from the current offices following the transaction.

Equitas will continue to be ultimately owned by the Equitas Trustees. The Equitas Trustees will be:

- Sir Adam Ridley (Chairman)
- Michael Deeny (Deputy Chairman)
- David Gilchrist
- Richard Keeling
- Richard Spooner

All of the above currently serve as Equitas Trustees.

The agreement requires EMSL to make quarterly reports to Equitas about the conduct of the run-off, including details of claims payments, commutations, reinsurance recoveries and any transactions involving affiliates of the National Indemnity Group. Equitas will be entitled to challenge the terms of any transaction with such affiliates in order to ensure that the reinsurance cover has not been eroded by such transactions to a greater extent than warranted under the underlying insurance contracts. Any disputes in this regard will be referred to an independent expert for determination.

At such time (if ever) as the remaining cover provided by National Indemnity is less than US\$1 billion on an incurred basis (inclusive of IBNR), Equitas will have the option to have a greater say in the continuing management of the run-off through the right to appoint two representatives to a claims and commutations committee with power to make decisions on important claims, reinsurance issues and commutations. National Indemnity will also appoint two representatives to the committee, which will be chaired by an independent person with long experience in the London market.

If National Indemnity or EMSL is in serious breach of the agreement or certain specified events occur (for example serious regulatory action), Equitas is entitled to appoint a majority of the claims and commutations committee. National Indemnity is also required to provide collateral for its remaining reinsurance obligations in these circumstances, and to meet the future operating costs of the run-off. As an alternative, Equitas is entitled to revoke EMSL's management of the run-off and to make arrangements to resume management of the run-off itself or to appoint a third party to manage the run-off on its behalf.

Schedule F

Operation of run-off and financial protection

Operation of the run-off

The run-off will be managed by EMSL. EMSL is the management services company in the Equitas Group which employs the Equitas staff and which makes premises and other facilities available to Equitas. As part of the transaction, EMSL will be transferred to the National Indemnity Group. The costs of EMSL (which we usually refer to as the operating expenses of Equitas) will be met by National Indemnity for as long as the total claims paid (net of reinsurance recoveries) by National Indemnity is less than the total cover provided.

EMSL will manage the run-off as agent for Equitas (and consequently as sub-agent for Equitas Reinsurance, Names, Centrewrite and Lioncover) and will be regulated by the FSA. We understand that National Indemnity expects the run-off to be managed in London and by essentially the same people and in the same way as at present, although following the transaction the name of EMSL will change.

The re-named EMSL will be entitled to exercise wide powers to manage the retroceded business and will be required to exercise those powers in the interests of:

- Equitas,
- Equitas Reinsurance,
- Names,
- Centrewrite and Lioncover.

Financial protection

The re-named EMSL will receive money to pay claims and expenses from National Indemnity as needed. Provided that National Indemnity's insurer financial strength rating, as measured by Standard & Poor's, remains at AA- or higher, National Indemnity will not be required to provide security to back its reinsurance obligations. If its rating drops below this level, it must either provide a letter of credit or set up a trust fund, equal to 102% of its net liabilities under the agreement (provided that this does not exceed the remaining reinsurance cover), plus their estimated future operating expenses. If its rating falls below A- then the 102% increases to 125% (provided that this does not exceed the remaining reinsurance cover).

Schedule G

Return premium arrangements

If the agreement becomes unconditional, the Directors of Equitas Reinsurance propose to pay an initial return premium of £50 million in aggregate provided the FSA agrees. The timing and amount of any further payments will depend upon a number of factors, including:

- Whether a Transfer of Business is achieved
- Who owns the company to which the liabilities are transferred
- Any FSA capital requirements
- The costs incurred during Phase 1, including those expected in the implementation of Phase 2 and those incurred thereafter
- Whether or not the Equitas Trustees need to continue to retain a charge against any assets in order to secure indemnities given to them

Any return premium is payable in accordance with Reinsured Names' entitlements in their capacity as reinsureds under the RROC. Equitas Reinsurance is entitled to offset any unpaid premium against return premium rights.

Calculation of return premium shares

The entitlement to return premium of each individual Reinsured Name is based on the proportion which his or her Equitas reinsurance premium bears to the total Equitas reinsurance premiums paid under the RROC and by Lioncover and Centrewrite. The return premium amount for each Reinsured Name is calculated in accordance with the RROC (and after deducting debt credits awarded to Reinsured Names).

Waiver of return premium rights

Certain Reinsured Names have waived their rights to return premium and accordingly will not receive any such payment.

Taxation

The tax treatment of any return premium payment in the hands of Reinsured Names who are resident for tax purposes in the United Kingdom has not been confirmed by HM Revenue & Customs, but our understanding is that:

- return premium payments will be taxable as an income receipt in the hands of Reinsured Names;

- for Reinsured Names who are trading at Lloyd's at the time any return premium payment is made, a return premium payment will be attributable to the tax year beginning in the calendar year in which the payment is made; and
- for Reinsured Names who have ceased to trade at Lloyd's, any return premium paid is likely to be taxable by reference to the tax year in which it is received. However, if a return premium payment is received by a Reinsured Name in a tax year beginning no later than six years after they ceased to trade then they can elect to carry the receipt back and it will be treated as though they had received the payment on the date trading ceased.

Reinsured Names should not rely on the above summary and should instead seek their own tax advice in relation to the receipt of return premium.

Estates

A Reinsured Name's entitlement to a return premium can be transmitted to his successors as part of his estate, but is not otherwise capable of transfer. Where a Reinsured Name has died we will need to have sight of a sealed office copy of the grant of probate or letters of administration issued by the Principal Probate Registry or a District Registry in England or Wales. We reserve the right to require additional documents on a case by case basis. Further guidance relating to the payment of return premium where a Reinsured Name has died is given in Part V, Frequently Asked Questions and Answers.

Schedule H

Remuneration of Executive Directors and staff

The Chairman and Non-Executive Directors have approved the payment of the regular bonus for the financial year ending 31 March 2007 and all outstanding Long Term Incentive Plan (LTIP) amounts at Phase 1 of this transaction. This decision recognises that these payments have been earned in the normal course of business.

Under normal circumstances and assuming all of the conditions for the LTIP had been met, the regular bonus and the LTIP for the year ended 31 March 2005 would have been paid in July 2007, the LTIP for the year ended 31 March 2006 would have been paid in July 2008 and the LTIP for the year ended 31 March 2007 would have been paid in July 2009.

The regular bonus and the LTIPs for the years ended 31 March 2005 and 31 March 2006 will be charged against the operating expense reserve of Equitas before the transaction is completed. The LTIP for the year ended 31 March 2007 will be provided out of the amount retained in Equitas.

The total amounts payable are:

Bonus for year ended 31 March 2007	£3.2 million
LTIP for the year ended 31 March 2005	£3.9 million
LTIP for the year ended 31 March 2006	£3.8 million
LTIP for the year ended 31 March 2007	£3.3 million
Total	£14.2 million

Included in these totals are the following amounts payable to the Executive Directors:

	Regular bonus	LTIP	LTIP	LTIP	Total
	Year ended 31 March 2007	Year ended 31 March 2005	Year ended 31 March 2006	Year ended 31 March 2007	
S P Moser	£300,000	£400,000	£400,000	£400,000	£1,500,000
J V Barker	£185,000	£300,000	£300,000	£300,000	£1,085,000
G E Brace	£220,000	£300,000	£300,000	£300,000	£1,120,000
J A Collins	£150,000	£300,000	£300,000	£300,000	£1,050,000
J W Heap	£150,000	£300,000	£300,000	£300,000	£1,050,000
Total	£1,005,000	£1,600,000	£1,600,000	£1,600,000	£5,805,000

In addition, the Chairman and Non-Executive Directors, supported by the Trustees, have approved a bonus pool of £15,100,000 in recognition of the extraordinary success achieved by Equitas. They have also agreed that all employees should receive a share of this award. This bonus pool will be provided out of the amount retained in Equitas.

Payments to Executive Directors out of this pool will be as follows:

S P Moser	£3,000,000
J V Barker	£2,000,000
G E Brace	£1,800,000
J A Collins	£1,800,000
J W Heap	£1,800,000
Total	£10,400,000

None of the Chairman or the Non Executive Directors will receive any payments as a result of this transaction, save that the Trustees have proposed that Richard Spooner should receive a fee for additional work in his capacity as a Trustee, pursuant to the provisions of the Equitas Trust Deed, in relation to the National Indemnity transaction.

Schedule I

Outline of Proposed Timetable

5 January 2007	Last date for receiving replies to attend one of the Reinsured Names' meetings
15 January 2007	Reinsured Names' meeting – Edinburgh
18 January 2007	Reinsured Names' meeting – Manchester
19 January 2007	Reinsured Names' meeting – London
31 March 2007	Latest date for the fulfilment of the conditions for Phase 1*
Spring / Summer 2007	Return premium paid (subject to FSA approval)
Spring / Summer 2007	Amendments to FSMA 2000 made
Summer 2007 onwards	Formal process for applying to High Court for Transfer of Business begins
31 December 2009	Latest date for completion of the Transfer of Business (Phase 2)
2010 or earlier	Second distribution (subject to FSA approval)

*An announcement will be made to Reinsured Names once the conditions have been satisfied.

Part V

Frequently Asked Questions and Answers

- **Do I need to do anything now?**

You must confirm that your details are correct, otherwise you will not receive any return premium due to you. If you are the executor or other representative of a deceased Reinsured Name you should also note the additional documents we require from you, as outlined in Part IV Schedule G. You should also tell us if you intend to attend one of the meetings for Reinsured Names.

- **Will there be any more Open Meetings?**

We do not intend to hold annual Open Meetings. However special Open Meetings may be called in the future, such as before the Transfer of Business.

- **Will Reinsured Names get a vote?**

No, although any Reinsured Name who wishes to give their views to the Equitas Trustees about the proposed transaction is welcome to do so, either at one of the three meetings or in writing.

- **Do I have to keep telling you if I change address? Do my executors have to tell you when I die?**

It is essential that Reinsured Names let us know if their contact details change. We also ask executors and other representatives of deceased Reinsured Names to ensure we have an up to date contact address.

- **Will you keep sending me your Report and Accounts?**

We intend to provide our Report and Accounts to those who request it. The Report will not contain as much detail as in the past.

- **Will you let Reinsured Names know how things are progressing?**

We intend to keep Reinsured Names informed of progress periodically up to the completion of the Transfer of Business.

- **Do I have to tell HM Revenue & Customs or any other tax authorities about the return premium?**

Our understanding of the tax position is set out in Part IV Schedule G, although we would stress that Reinsured Names should seek their own tax advice in relation to the receipt of return premium.

- **Will my executors still need to go through the Re Yorke process to close my estate?**

The Re Yorke process is a procedure under English law to obtain a court order to protect the executors or personal representatives of a deceased Name's estate against any claims against him for having distributed the estate to beneficiaries whilst there is still the potential of a Lloyd's-related claim arising against the estate.

There is not currently, and never has been, an obligation on any executor to obtain a Re Yorke order and whether executors should do so is dependent on the particular circumstances of the Name's estate. In some cases it might be decided, in the light of the National Indemnity transaction, as well as other factors, that the risk of an executor being sued is relatively remote, and clearly the risk is reduced after the National Indemnity reinsurance comes into force, in comparison with the current position. The risk of executors being sued should be even more remote after the Transfer of Business. Nevertheless, the extent of the risk at that stage will be dependent on the particular estate's exposure to foreign claims.

In any event, each executor will need to take his or her own legal advice on this important issue.

- **What is the "sealed office copy" of the grant of probate you mention? How do I get one? Is it expensive?**

It is an official copy of the front page of the grant of probate or letters of administration with the court's seal affixed on it. If you do not have a copy, one can be obtained at a cost of £5 by application to the Principal Probate Registry in London or to the District Probate Registry from which the grant was issued.

- **I was the executor of an estate that was finalised and fully distributed a long time ago. Do I still have to send you the sealed office copy of the grant of probate? Can I get one now?**

Yes. You can use the same procedure outlined above.

- **My husband/wife/father/mother was a Reinsured Name and died without leaving a will. What do I have to do to claim the return premium?**

You will need to send us a sealed office copy of the letters of administration that should have been issued to allow the estate to be dealt with.

- **My husband/wife/father/mother was a Reinsured Name. The estate was so small we never bothered with probate. What do we do?**

You must obtain a grant of probate or letters of administration (if there is no Will) and send a sealed office copy to us. The cost is currently £40 to obtain this if your solicitor applies or £50 if you apply for the grant yourself.

- **Why did you do the transaction in two phases?**

The current legislation would enable us to apply for a Transfer of Business by Reinsured Names, i.e. those with open years who were reinsured directly by Equitas Reinsurance. However, until the legislation is amended as proposed by HM Treasury we cannot do so for all Names who had been directly or indirectly reinsured to close by Reinsured Names (since reinsurance to close is, as its name implies, reinsurance and not a transfer of liabilities). It is not practical to apply for a transfer unless all of the Names' 1992 and prior business can be transferred. Thus the deal needs to be in two phases, the second after the law has been changed.

- **What exactly will happen at Phase 2? Where will the liabilities be transferred and who will decide this? What factors will be relevant to this decision?**

The Transfer of Business may be to Equitas, Equitas Reinsurance or a specially formed company. National Indemnity has the right to ask us to make the transfer to a specially formed company and, if they do so, they are committed to take ownership of, and provide the regulatory capital for, that company. The factors relevant to such a decision are likely to be a combination of financial, regulatory and tax. However, even if National Indemnity does not exercise its rights initially to ask us to make the transfer to a specially formed company of which it takes ownership, Equitas Holdings or Equitas could sell the entity into which transfer has been made to National Indemnity or an interested third party at a later date. In such eventuality, National Indemnity has a right of first refusal.

- **Is Phase 2 *really* finality?**

The effect of a court sanctioned transfer is that the transferors (the Names in this case) cease, as a matter of English law, to have any continuing liability for the business transferred. We intend as part of the Transfer of Business to seek an order from the High Court to the effect that if any foreign judgments are made against Names which ignore the Transfer of Business, they should not be enforced by the High Court.

It is theoretically possible that policyholders may nevertheless make claims against Names in overseas jurisdictions arguing that the Transfer of Business should not be recognised by the courts of those jurisdictions. Equitas will therefore attempt to take steps in the major relevant jurisdictions to protect Names from such action, to the extent that the laws of such jurisdictions permit this.

In the unlikely event that any claims are, nevertheless, brought against Names, National Indemnity has agreed to indemnify them within the limits of the reinsurance cover. However, as a condition for such indemnity cover, Names must ensure that they keep National Indemnity informed of any action or claim (actual or threatened) brought against them and generally permit National Indemnity to control the conduct of any such action or claim.

- **What happens if the Transfer of Business does not occur or it occurs but it is not ultimately recognised in relevant overseas jurisdictions?**

If the Transfer of Business is not successful, for whatever reason, then Equitas will retain the US\$5.7 billion reinsurance cover from National Indemnity. If the Transfer of Business is successful, but some jurisdictions do not recognise the Transfer, Reinsured Names will, subject to the limit of the reinsurance cover, still have the protection of an indemnity from National Indemnity.

- **Are Lloyd's legally bound to pay the £90 million?**

The payment of the £90 million needs to be approved at an Extraordinary General Meeting of the current membership of Lloyd's.

- **Do you anticipate objections from policyholders to the Transfer of Business?**

We believe that the Transfer of Business will improve the position for policyholders, so we see no valid reason why they should object.

- **Why can't you pay out all the return premium sooner?**

The £50 million return premium at Phase 1 is the maximum that the FSA have said they would consider at this point. Equitas will make further distributions as soon as it can, taking into account the funds which must be retained as regulatory capital and other constraints.

- **How secure is National Indemnity and what would happen if it were to become insolvent?**

National Indemnity is one of the few insurance companies in the world to have a AAA insurer financial strength rating from Standard & Poor's, indicating that the prospect of its insolvency is extremely remote.

If the rating of National Indemnity falls below AA- before the Transfer of Business, the contract requires National Indemnity to provide security for the remaining reinsurance and run-off obligations. This arrangement will provide significant protection for Reinsured Names and policyholders. However, if National Indemnity were to become insolvent shortly after such a rating downgrade, it is theoretically possible that National Indemnity would not, as a matter of law, be able to provide such security.

- **What happens to all Equitas' investments?**

Apart from the £172 million retained, all our investments are passed to National Indemnity as part of the premium. National Indemnity's reinsurance obligations are in no way linked to the future performance of those assets.

- **What happens to Equitas and the Equitas Trustees after the Transfer of Business has occurred?**

There is no simple answer to this question at this point. However some kind of residual responsibilities will have to be discharged until the FSA is satisfied that the shareholders/Directors of Equitas can dismantle their businesses and end their roles.

- **The net undiscounted reserve figure of US\$8.7 billion that you quote does not seem to reconcile with the figure in the 31 March 2006 Accounts. Why is this?**

The main reason is that the US\$8.7 billion figure does not include the provision for operating expenses because these will be the responsibility of National Indemnity.

Whilst we have done our best to anticipate a number of your questions, we encourage anyone with additional questions to attend one of the Reinsured Names' meetings.

Part VI

Glossary

This part sets out the defined meanings of words and expressions used in this document with capitalised initial letters;

Berkshire Hathaway means Berkshire Hathaway Inc., the parent company of National Indemnity;

Equitas means Equitas Limited, a direct wholly-owned subsidiary of Equitas Reinsurance, to which the insurance liabilities of Equitas Reinsurance have been retroceded, or such other member of the Equitas Group as the context may require;

Equitas American Trust Fund (the “EATF”) means the trust fund that was established at the time of R&R to secure the payment by Equitas of US dollar claims on behalf of Reinsured Names. The EATF took the assets (together with some additional funding) of those Reinsured Names which were primarily held in the Lloyd’s American Trust Funds;

Equitas Group means Equitas Holdings Limited and its direct and indirect wholly-owned subsidiaries, Equitas Reinsurance, Equitas Limited and EMSL;

Equitas Holdings Limited is the holding company of the Equitas Group;

EMSL means Equitas Management Services Limited, the management services company of the Equitas Group;

Equitas Reinsurance means Equitas Reinsurance Limited, a wholly-owned subsidiary of Equitas Holdings Limited;

Equitas Retrocession means the retrocession agreement between Equitas and Equitas Reinsurance dated 3 September 1996 by which Equitas Reinsurance retroceded to Equitas its liabilities under the RROC;

Executive Directors means the Executive Directors of Equitas;

FSA means the Financial Services Authority, the regulator of the financial services industry in the UK;

FSMA 2000 means the Financial Services and Markets Act 2000;

IBNR means incurred but not reported claims;

LTIP means the Long Term Incentive Plan for the Executive Directors and senior staff of Equitas;

Name means a member of Lloyd’s (where the context requires also includes former Names and the estates and representatives of Names who have died) in his capacity as an underwriter of 1992 and prior non-life business at Lloyd’s;

National Indemnity means National Indemnity Company, the US insurance company with which Equitas has reached an agreement to reinsure its liabilities;

Non Executive Directors means the Non Executive Directors of Equitas;

Phase 1 means the reinsurance of Equitas by National Indemnity as described in Part III and Part IV Schedule C of this document;

Phase 2 means the Transfer of Business and the period thereafter, as described in Part III and Part IV Schedule D of this document;

R&R means Lloyd's Reconstruction & Renewal;

RROC means the Reinsurance and Run-off Contract between Equitas Reinsurance, the Reinsured Names and others dated 3 September 1996 pursuant to which Equitas Reinsurance agreed to reinsure the Reinsured Names in respect of 1992 and prior business on the terms set out therein;

Reinsured Name means a member of a syndicate that was directly reinsured by Equitas Reinsurance pursuant to the RROC (where the context requires, this also includes former Reinsured Names and the estates and representatives of Reinsured Names who have died);

Transfer of Business means the transfer of the Names' obligations to policyholders to one of Equitas, Equitas Reinsurance or a specially created reinsurance company under the provisions of FSMA 2000 as described in more detail in Part IV Schedule D.