Equitas Policyholder and Reinsurer Road Show
London, Friday 5 June 2009

JANE BARKER

Good morning and welcome to our London roadshow.

Let me introduce the members of the panel.

My name is Jane Barker. I am the Chief Executive of the Equitas Group of companies. I have been with Equitas since its formation and until the transaction in 2007 with National Indemnity I was the Finance Director.

On my furthest right is Dan Schwarzmann a partner in the UK firm of PricewaterhouseCoopers. Dan is an expert in the Insurance run off practice and is well known in the UK for his work in many reconstructions of insurance businesses.

Closer to me is Philip Hertz a partner in the UK firm of Clifford Chance, legal advisers to Equitas. Philip has more than 15 years experience in insurance run-off and restructuring and has been involved in advising on matters related to Equitas for the last 10 years or so.

The purpose of the meeting today is to inform you about the Insurance Business Transfer of the 1992 and prior years' non life liabilities of Lloyd's Names into a limited liability company. We will talk about the background and reasons for the Transfer. We will then talk about the Transfer process and the independent expert who has prepared a report for the Court. We will take you through what it means for the different groups of stakeholders and outline the queries raised to date. We will consider the issue of recognition in jurisdictions other than the UK. Finally we will explain what you need to do and give you a chance to ask any questions you might have.

First let me give you a little background.

Lloyd's Names are the individuals who underwrote the policies at Lloyd's. They operated in syndicates and had several, not joint, liability for the policies underwritten by their syndicates. The liability of Names in respect of their share of the policies underwritten is defined as being unlimited although clearly any one Name's liability is limited by the value of his assets. The syndicates operated as a series of annual ventures, called a year of account, which in the normal course of events remained open for three years. At the end of the three year accounting period, the syndicate purchased a reinsurance in order to close the year of account, generally from the next syndicate year of account. This allowed a distribution of profits or an allocation of losses and it also allowed the Names to resign from Lloyd's if they so chose.

Thus in most cases, the 1984 year of account for a syndicate would be reinsured by the 1985 year of account of that same syndicate, which in turn would be reinsured by the 1986 year of account and so on. This process of closure was called "Reinsurance to Close". Because of the now well documented problems that afflicted the Lloyd's market from the early 1980s, mainly spiralling asbestos, pollution and health hazard claims, it became impossible for many managing agents to calculate the premium need to close each year of account. An increasing number of syndicates therefore remained open. There was also widespread litigation.

In response, Lloyd's implemented its Reconstruction & Renewal plan or "R&R". The centrepiece of R&R was the formation of Equitas, which reinsured all the open years of account up to and including 1992 and by doing so took on the responsibility through the Reinsurance to Close mechanism for all the liabilities of all the prior years. Equitas also indemnified those Names on years already closed into later years in case their reinsurance is set aside or does not perform.

In the very unlikely event that any valid claim is not paid in full by Equitas the Names remain liable for their share of any unpaid amounts. A policyholder only has a claim against the Names on the syndicate that underwrote the policy. Thus policyholders would have to claim against the original Names; the policyholders cannot claim directly against the Names further along the Reinsurance to Close chain or directly against Equitas.

Equitas was formed in 1996 to reinsure the non life liabilities underwritten in 1992 and prior years by Lloyd's Names. Since that time Equitas has paid over $27 billion in claims and is currently estimated to have further claims of about $8.8 billion still to pay. Taking into account the external outwards reinsurance, other than from National Indemnity, the net reserves stood at $7.8 billion at 31 December 2008.

In 2007, Equitas entered into a retrocession agreement with National Indemnity that provides cover now estimated to amount to $13.1 billion. That is $5.3 billion over and above the net reserves at 31 December 2008.

Enough of the background, turning now to the Transfer of Business.

Why are we doing this?

If the Transfer is approved by the Court on or before 31 December 2009, Equitas will be entitled to exercise its option to purchase an additional US$1.3 billion of reinsurance cover from National Indemnity Company thus providing additional security for policyholders as well as achieving its objective of obtaining legal finality for Names.

Under the Transfer, the liabilities of the Names will be Transferred away from them into a limited liability company which is an authorised insurance company in the UK.

At the same time we do not wish to prejudice policyholders and cedants but to improve their security. We will do this by buying the extra $1.3 billion of cover from National Indemnity for £40 million, approximately $60 million. This will take the total cover to $14.4 billion, $6.6 billion above the estimated net reserves.

As part of the Part VII communication process, we were in the US last week making this presentation to groups of policyholders and cedants in New York, Chicago and Los Angeles. These meetings went well with lively question sessions. Most of the questions centred on the issue of recognition of the Part VII in the US and the related topic of credit for reinsurance in the accounts of the US cedants. We were not surprised by these questions and were able to explain that we expect nothing to change in the US until and unless we decide to try to obtain recognition. And if we do so decide, there will be further opportunities for the US companies to consider the next steps.

On Tuesday of this week we made a similar presentation to Names. All of this communication, including today's meeting is designed to ensure that all parties that might be affected by the Part VII Transfer have been informed and given opportunities to ask questions.

I am now going to ask Philip to take you through the details of the Transfer.

PHILIP HERTZ

Thank you Jane.

As Jane explained, my name is Philip Hertz and I am a partner in the firm of Clifford Chance, UK legal advisers to Equitas.

As Jane explained, I will look in more detail at the proposed transaction.

What is an Insurance Business Transfer?

A Transfer of the type contemplated in respect of the 1992 and prior years' non life liabilities of Lloyd's Names is permitted under English law under Part VII of the UK Financial Services and Markets Act 2000 - that is the reason why you will sometimes hear us and others refer to it as a "Part VII Transfer".

It is a UK Court approved process moving insurance business from one insurer (or in this case multiple insurers, the Names) to another (in this case a newly established limited liability company to be owned by the Equitas group). This company is presently called Speyford Limited but will, once authorised by the Financial Services Authority (or the FSA), be called Equitas Insurance Limited. Today, I shall simply refer to it as "Newco".

This process not only Transfers the insurance and reinsurance policies underwritten but also Transfers the assets, such as outwards reinsurance contracts protecting the insurance business, to the new insurer.

Insurance Business Transfer process

As already mentioned, no Part VII Transfer may take place without UK Court approval.

Under the governing legislation, an expert independent of the parties is appointed to report to the Court on the impact of the Transfer on policyholders and other key stakeholders, with particular reference to their security.

In addition, the FSA is involved at all stages of this process.

The FSA's regulatory objectives include maintaining market confidence and securing protection for consumers. In the Part VII Transfer context, this means ensuring that policyholders affected by a Transfer receive sufficient information about it and that their interests are protected. To this end, Equitas has provided notice directly to policyholders, cedants and reinsurers and has advertised in over 100 countries worldwide in a number of publications in a manner approved by the FSA and in accordance with an order of the High Court made last November. Equitas has also provided notice directly to brokers and claims handlers of the Transferring business. All information that was provided by direct notice to these people can be found on the Equitas website.

The FSA will also produce a report to the Court setting out its views. The FSA also has the right to be heard at the Court hearing for the approval of the Transfer.

At the Court hearing, Counsel for the applicants, in this case Equitas and Newco, will explain to the Court the proposals, the notifications they have given and any responses received. The Court will then hear from any person who claims to be adversely affected and will consider the views of both the Independent Expert and of the FSA before reaching a conclusion as to whether it is appropriate to approve the Transfer.

The Court has a wide discretion as to whether to grant this approval and will be concerned with whether anyone will be adversely affected if the Transfer is implemented. The Court will not approve it unless it is satisfied that, as a whole, it is fair as between the interests of the different groups of persons affected. In coming to its conclusion, the Court will rely heavily on the views of the Independent Expert and those of the FSA.

The Court hearing is currently scheduled to commence on 24 June 2009 at the High Court in London. If you wish to attend the hearing you should check on the Equitas website which will be updated should the hearing date change.

Anyone (including policyholders and cedants) who believes that they are adversely affected can make written representations and/or appear at the Court hearing, either in person or by Counsel. As has been said in Equitas' communications, if you do have any concerns we encourage you to raise them with us as soon as possible so that we can discuss them with you.

The Independent Expert

Given the key role played by the Independent Expert, I thought it would be helpful if I spent a few minutes looking at his role and function.

As the name suggests, the Independent Expert is not an advisor to anyone involved in the Transfer but a person independent of the parties involved whom the FSA considers has the necessary skills to assess its effect.

The FSA must approve the appointment of the Independent Expert. Once appointed, the Independent Expert is required to prepare a report, in a form approved by the FSA, for the Court setting out his conclusion regarding the effects of the Transfer on policyholders and other key stakeholders. In doing so, the Independent Expert has an overriding duty to the Court.

In this case, the Independent Expert approved by the FSA is Mr Allan Kaufman of Navigant Consulting, a US actuary who has worked for many years in the UK.

Mr Kaufman's report was produced on 8 April 2009 in a form approved by the FSA. It is worth noting that, subject to any different findings in a supplementary report (as to which a bit more later), the main conclusion in Mr Kaufman's lengthy and considered first report is that "*.there are no groups of policyholders, or other parties,…, that are materially disadvantaged in the event of the Transfer*

Mr Kaufman has indicated that he would be producing a supplemental report which as many of you know is not unusual. The production of a supplemental report is fairly routine, given that any initial report will have been issued some months prior to the final court hearing. This report will address some additional areas including, an update on National Indemnity's financial position; the result of his review of certain supporting documentation which had not been finalised at the time of his first report; and any issues which may have arisen or need clarification since the date of the first report.

Impact on Stakeholders

The key issue, of course, is what the Transfer will mean, in practice, for stakeholders.

As Jane has already explained, Equitas is promoting this because, if it is approved, it will significantly increase the security for policyholders by virtue of the additional reinsurance cover and it will achieve its objective of obtaining true finality for Names under English and European law.

Newco, the replacement insurer, will be an Equitas group company and will be authorised as an insurer by the FSA before the Transfer takes effect. Newco will simply replace Names in the existing chain of reinsurance, with the result that the reinsurance now provided to Names by Equitas will be transferred, as a matter of English and European law to Newco. Equitas will continue to be reinsured by Equitas and Equitas will continue to be reinsured by National Indemnity Company.

Newco's main asset for the payment of claims, therefore, will be the same reinsurance that now funds claims paid by Equitas on behalf of the Names. In other words, Newco will be reinsured in the same way that the Names are currently reinsured by Equitas and National Indemnity but it will have $1.3 billion more than is now available. Equitas will buy this additional reinsurance protection from National Indemnity Company for a premium of £40 million.

Therefore, as a matter of English and European law the impact on policyholders and cedants will be that their insurer will become Newco, a UK insurance company authorised by the FSA. They will no longer be insured by the Names.

It follows, therefore, that policyholders and cedants will have no further claims, as a matter of English and European law, against the Names who underwrote their policies at Lloyd's. Instead they will have claims against Newco but with substantial additional security in the form of the extra US$1.3 billion of reinsurance coverage from National Indemnity Company.

In effect, therefore, the potential benefit of unlimited several liability provided by the Names will be exchanged for the additional reinsurance provided by National Indemnity Company.

The benefit of unlimited several liability will be of value only in the event that the assets available via Equitas prove insufficient to pay all claims. The additional reinsurance significantly reduces the already small risk of such insufficiency.

Furthermore, the practical value of unlimited liability is limited as explained in the report of the Independent Expert. In particular, the recovery from Names (including the estates of deceased Names) will be affected by a number of factors including:

- death and bankruptcy;
- various practical and legal impediments to making recovery;
- the costs of recovery; and
- inevitable delays in the event any recovery is, in fact, made.

Based on his modelling work, the Independent Expert said he believes a reasonable recovery rate from Names for the average policyholder is no more than about 20% of the shortfall and that no policyholder group could expect to receive more than 30%.

Quite apart from this, however, policyholders' and cedants' rights to access overseas trust funds should not be impacted by the Transfer.

In addition, and focussing on cedants for a moment:

- any set-off rights that existed before the Transfer will be preserved; and
- US cedants should be able to continue to take credit for the reinsurance provided to them whether or not the Transfer is recognised in the US (as to which, more later).

As regards outwards reinsurers, there should be no impact. All external syndicate reinsurance was assigned to Equitas at the time of R&R and any residual interest in such reinsurance that may have resided with the Names will also Transfer. Any set-off rights will be preserved.

Finally, notice of claims should be given in the same way as before i.e. as required by the policy (for example, to your broker or designated agent for service). There will be no change to the claims agreement or payment process. In particular, policyholders and cedants will still be required to provide evidence that they held a policy that constituted 1992 and prior years non-life business at Lloyd's and establish in the same way as now the subscribing syndicates.

In sum, Equitas believes that the Transfer does not materially disadvantage policyholders / cedants or other stakeholders and this is a conclusion with which the Independent Expert concurs.

Queries made to date in relation to the Part VII

At this juncture, it is perhaps worth me touching on some queries which have been made and my views on them.

To date, it is fair to say that responses have been either positive or neutral. For the most part, the queries that have been raised have been relatively minor and are mostly all dealt with by the information on the Equitas website.

There have, however, been two queries raised which I wish to touch on:

- whether Equitas has the authority to facilitate this Transfer on behalf of all Open and Closed Year Names; and

- whether it is right that we should seek to novate the liabilities of Closed Year Names (which, in turn, depends on whether the Lloyd's mechanism of reinsurance to close - already explained by Jane - is really a novation or reinsurance).

Dealing with each issue in turn

Authority

Equitas Reinsurance Limited was given absolute and irrevocable authority to manage the 1992 and prior years' non-life business on behalf of the Names as part of Lloyd's Reconstruction and Renewal in 1996 ("R&R"). This authority was delegated to Equitas.

On 24 September 2008, Lloyd's exercised its statutory power to certify that Equitas has the authority to act on behalf of the Names for the purposes of this Transfer.

Therefore, we are in absolutely no doubt that Equitas has the requisite authority.

Reinsurance to Close

It has been asserted that we are misconceived in attempting to Transfer the 1992 and prior years' non-life liabilities of <u>all</u> Lloyd's Names (that is, Names on syndicates which were open at the time of R&R and those that had already been reinsured to close by that time) because it is asserted that the liabilities of those Names who have been reinsured to close were actually novated to the Names on succeeding years, with the result that we need only deal with the Names on syndicates which were open at the time of R&R.

The argument that reinsurance to close is a novation and not a reinsurance is unconvincing and inconsistent with law and practice. As a result, we consider it right and indeed essential that we should seek to Transfer the 1992 and prior years' non-life liabilities of <u>all</u> Lloyd's Names.

It is also worth noting that if it is approved by the English Court, this whole issue will become completely irrelevant in any event.

Overseas Recognition

Finally, I would like to touch upon the recognition of the Part VII Transfer overseas and, in particular, in the US.

If the English Court approves it, the decision will bind all policyholders and cedants as a matter of English law and will automatically be recognised throughout Europe.

It should be appreciated, however, that this is a relatively new development in English law. There is, therefore, very little experience on which to form a conclusion as to whether the courts of overseas jurisdictions would recognise it in the event that a claim is brought against a Name in their jurisdiction after the Transfer takes effect. We as Equitas' legal advisors are giving careful consideration to the extent to which it is possible and reasonably practicable to take steps in other major relevant overseas jurisdictions to obtain recognition of the UK Court Order. These jurisdictions are the USA, Canada and Australia.

Focussing for a moment on the US, no decision has yet been made as to whether Equitas will seek formal recognition of the Transfer throughout the US.

That issue aside, you should be aware that there have been ongoing informational discussions with several leading US insurance regulators, including the New York Insurance Department, who act as the domiciliary regulator of Lloyd's Underwriters.

In the light of these discussions:

- Equitas intends to establish a new trust fund in the US to ensure policyholders and cedants continued access to the Equitas American Trust Fund;
- in addition, U.S. cedants who continue to have claims against underwriters under US law after the Transfer is approved by the English Court should continue to be permitted to take credit for reinsurance from such Underwriters; and
- moreover, based on the facts and law as they exist today and based on proposals to establish a further new trust fund dedicated to U. S. cedants, if and when the Transfer is ultimately recognised in the US, it is our belief that U.S. cedants should also be able to continue to take credit for reinsurance in that eventuality.

More generally, regardless, however, of whether an overseas jurisdiction recognises the Transfer, policyholders and cedants will benefit from the increased reinsurance that will be provided to Equitas if the Transfer is approved before the end of this year.

What do you need to do now?

So what do you need to do now? Well, no action is required by any policyholder or cedant.

However, as already explained, if you believe you are adversely affected and would like to make written representations and/or appear at the Court hearing, either in person or by Counsel, we ask that you provide written representations or written notice of your intention to appear at Court and details of your concerns as soon as possible, and preferably by no later than 9 June.

The relevant contact details can be obtained from the website or the notices which have already been circulated.

That is all I had to say but I would be happy to answer any questions once Jane wraps up.

JANE BARKER

Thank you Philip

The key formal documents that have been lodged with the Court in the UK are now available on the Equitas web site. The slide shows the details.

We also have a help line and of course you can contact us by email.

But now it is time for questions and I have asked Dan if he will chair this session. A transcript of the meeting will be made available after the meeting.

DAN SCHWARZMANN

Thank you very much, Jane. Good morning, ladies and gentlemen. This is your opportunity to ask whatever questions you would like of us. There will be a roaming mike. I'd be very grateful if you could start by stating your name and the company that you are representing and then your question. Many thanks indeed.

STEVE GOODLUD - ENGLISH AND AMERICAN

When do you expect the Independent Expert's supplemental report to be available?

JANE BARKER

We don't have an absolute date, but we are hoping it will be in the next couple of weeks. It will clearly be before 24 June but we haven't got an absolute date.

PETER PAYNE - WILLIS

The original R&R built in the ability for Equitas to discount liabilities of Names in the event of insolvency. Does this stay in place post the Part VII Transfer of will it fall away?

PHILIP HERTZ

RROC, the contract between Equitas and Names, is being amended so that NewCo is substituted in the place of Names.

The proportional cover provisions included within RROC are preserved post Part VII Transfer.

In addition, the Independent Expert has concluded that the chance of Equitas insolvency is remote.

PETER PAYNE - WILLIS

If the discount fell away post Transfer and armageddon occurred the impact to timelines would be to accelerate potential insolvency.

PHILIP HERTZ

Yes, that would be the result post-Transfer if that was how the RROC was drafted but the RROC is not drafted in that manner.

DAN SCHWARZMANN

This is a question that has been asked of me, and I think is worth raising. In the unlikely event of insolvency, cedants have equal priority rights now. What would happen post the Part VII Transfer?

PHILIP HERTZ

I will start with what would happen now. In the event of insolvency, there is a structure in the Equitas group called EPTL which has right in an Equitas insolvency event to call for money from Names/Equitas and hold it on trust on behalf of policyholders. The money is held pari passu for policyholders and cedants. In the event of an Equitas insolvency pre-Transfer, this would be the principal source of recovery for policyholders

This structure will be maintained post Part VII Transfer with the reinsurance chain from NewCo to Equitas being interrupted in the same way by EPTL so that cedants should not be impacted by the Transfer.

DAN SCHWARZMANN

So the situation is pari passu before and pari passu after the Transfer.

JANE HARTE - LOVELACE – K&L GATES

I would like you to confirm, if you can, that in the event of claims or litigation NewCo will submit to agree to US jurisdiction and law as now.

PHILIP HERTZ

In the UK NewCo will be the party that should be named in any litigation. For the US, I cannot give you advice as you will need to consider how to proceed for your clients however, I would imagine that in the US litigants will sue both Names and NewCo.

DAN SCHWARZMANN

It looks like you have a follow up question.

JANE HARTE - LOVELACE – K&L GATES

Thank you. I am just considering the answer.

JONATHAN RODGERS – TAYLOR WESSING

By amalgamating all syndicates into NewCo is there a chance that new set-off rights will arise?

PHILIP HERTZ

As the Independent Expert has explained in his report, the Transfer should not affect set-off rights.

Set-off rights were modified by R&R when Names' outwards reinsurance was assigned to Equitas and this position will not change as a result of the Transfer. Indeed the scheme includes express provisions for set-off rights to be maintained.

As the business has been in run-off for many years now I cannot see an opportunity for new set-off rights to be created.

STEVE GOODLUD – ENGLISH AND AMERICAN

To give full effect to the transaction how important is getting recognition in other jurisdictions for the Independent Expert, the FSA and the Court?

DAN SCHWARZMANN

Before passing the question to Jane I would just like to point out that timing is an important aspect for this transaction.

JANE BARKER

In an ideal world we would like all jurisdictions to recognise the Part VII Transfer at the same time. However, as Philip has said we don't even know if it is possible to get recognition.

We have taken what I call a step by step approach, starting with the UK. The second most important jurisdiction would be the US and as Philip has said we are keeping things the same there.

If we get the Part VII, and we are not complacent about this as we recognise that we may not, US sited policyholders will be in the same position before and after the Transfer until and unless we make changes. As I said in the road shows in the US, there is currently no mechanism for the Transfer to be recognised and we would consult before proceeding with steps towards recognition there.

DAN SCHWARZMANN

Some people might ask why we have not waited to go for the Part VII until we have got the recognition arranged in other jurisdictions.

JANE BARKER

The NICO transaction gave the option for Equitas to buy the additional $1.3 billion of reinsurance for £40 million. This option expires on 31 December 2009 which, at the time that the NICO transaction was agreed, seemed like sufficient time to progress the Transfer.

However, we were not able to proceed with the Part VII Transfer until the appropriate changes were made to FSMA which, as you probably know contained an incorrect definition for Names. This took longer that we thought and as a result we are now running up against the deadline because, as you know, the Court is in recess for August and September.

Those of you who know Ajit Jain will not be surprised that he had set a deadline on the option of purchasing the additional reinsurance.

DAVE WINSTON – KPMG

Have you had notice of any material objections to date? If so what are you planning to do about them?

PHILIP HERTZ

We have had one main objection. Stephen Merrett, one of the Names, has raised the two points that I covered earlier. The first being on Equitas' authority to act and the second on whether RITC is a novation rather than reinsurance.

Mr Merrrett has corresponded with Equitas for 10 -12 years on these matters. He has also put submissions into Court which required us to go for a further Directions hearing in April. At that hearing the judge set a timetable for his further submissions which we have now received and answered.

Mr Stockwell, another Name, has raised similar questions and has also asked that another law firm be instructed to act on behalf of and provide advice to the Names. We do not consider that this is appropriate as the FSA and the Independent Expert are involved in reviewing the transaction. In addition it would hinder other Names who may wish to have their own representation in Court.

DAVE WINSTON – KPMG

Has there been anything yet from US policyholders objecting?

DAN SCHWARZMANN

No, we have not had any notice of such objections.

PHILIP HERTZ

I would point out that I am not sure that Mr Merrett and Mr Stockwell are actually objecting to the Transfer. They are just saying that it is not being done the right way.

JANE BARKER

Some of you will know these gentlemen and the points they are raising. But to come back to your point, we have not had any notice of objections.

DAN SCHWARZMANN

If there are no further questions, I would like to thank you all for your attention. As Jane mentioned earlier if you would like to speak to any of the panel privately we will now be available for your questions.