

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE
ATTENTION**

Save where otherwise specified, a capitalised term used in this Scheme Document has the meaning given to it in Section II: The Scheme (see pages 57 to 129).

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

Copies of this document can be downloaded from www.ukhighlands.co.uk or obtained from the Administrators using the contact details given on page 4 of this Scheme Document.

PROPOSAL IN RELATION TO A SCHEME OF ARRANGEMENT

pursuant to Part 26 of the Companies Act 2006 of Great Britain

between

**HIGHLANDS INSURANCE COMPANY (U.K.) LIMITED
(in Administration)**

and its

SCHEME CREDITORS

(as defined in the Scheme)

A Scheme Meeting of Scheme Creditors of the Company to consider and, if thought fit, approve the Scheme will be held on 18 June 2009 commencing at 10.00 a.m. (London time) at PricewaterhouseCoopers LLP, One Embankment Place, London WC2N 6RH. Notice of the Scheme Meeting is given at Section III of this Scheme Document.

The action to be taken by you is set out on pages 24 to 25 of this Scheme Document. Whether or not Scheme Creditors intend to be present at the Scheme Meeting, they are requested to complete and return a voting form comprising a form of proxy and claims table (in the form shown at Section IV of this Scheme Document) as soon as possible.

1 May 2009

Dan Schwarzmann and Mark Batten were appointed joint administrators to Highlands Insurance Company (U.K.) Limited on 1 November 2007, to manage its affairs, business and property as agents without personal liability. Dan Schwarzmann and Mark Batten are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. PRO Insurance Solutions Limited continues to act as run off manager for the Company.
The Scheme helpline number is +44 (0) 1452 413 985.

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IMPORTANT NOTICE TO SCHEME CREDITORS

Save where otherwise specified, a capitalised term used in this Scheme Document has the meaning given to it in Section II: The Scheme (see pages 57 to 129).

This Scheme Document has been prepared in connection with a scheme of arrangement proposed pursuant to Part 26 of the Companies Act 2006 between the Company and its Scheme Creditors.

The information contained in this Scheme Document has been prepared by Dan Schwarzmann and Mark Batten (acting in their capacity as Administrators) for and on behalf of the Company (based upon information available to them).

The statements, opinions and information contained in this Scheme Document are made, held or given respectively as at the date hereof unless another time is specified and such statements, opinions and information are made, held or given solely by or on behalf of the Company unless expressly attributed to another party. Service of this Scheme Document shall not give rise to any implication that the facts set out in it since the date of service remain unchanged.

Nothing contained in this Scheme Document constitutes an admission of any fact or liability on the part of the Company, the Administrators or any other person in respect of any asset to which they may be entitled or any claim against them. No estimate of the amount of any claim against the Company specified in a voting form returned to the Company, or otherwise provided for voting purposes, shall be admissible against the Company or shall be taken into account in calculating payments under the Scheme. Any such estimate shall only be used for voting purposes at the Scheme Meeting.

The summary of the principal provisions of the Scheme and the related matters contained herein is qualified in its entirety by reference to the Scheme itself, the full text of which is set out at Section II. Scheme Creditors are advised to read in full and consider carefully the text of the Scheme.

No person has been authorised to make any representation, whether oral, written, express or implied, concerning the proposed Scheme, which is inconsistent with the statements contained within this Scheme Document. Consequently, if such representations are made, they should not be relied upon.

Scheme Creditors should not construe the contents of this Scheme Document as legal, tax, financial or other professional advice. Each Scheme Creditor should consult its own professional advisers as to the action it should take.

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SECTION I: EXPLANATORY STATEMENT

in compliance with Part 26 of the Companies Act 2006 of Great Britain

in relation to the proposed Scheme of Arrangement pursuant to Part 26 of the Companies Act
2006 of Great Britain

between

HIGHLANDS INSURANCE COMPANY (U.K.) LIMITED
(in Administration)

and its

SCHEME CREDITORS
(as defined in the Scheme)

Dan Schwarzmann and Mark Batten were appointed joint administrators to Highlands Insurance Company (U.K.) Limited on 1 November 2007 to manage its affairs, business and property as agents without personal liability. Dan Schwarzmann and Mark Batten are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

PRO Insurance Solutions Limited continues to act as run-off manager for the Company.

The Scheme helpline number is +44 (0) 1452 413 985.

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SECTION I: EXPLANATORY STATEMENT

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PART A: LETTER CONSTITUTING SHORT FORM EXPLANATORY STATEMENT UNDER PART 26 COMPANIES ACT 2006 OF GREAT BRITAIN

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

1 May 2009

Dear Scheme Creditor

Meeting of Scheme Creditors in respect of a proposed Scheme of Arrangement between Highlands Insurance Company (U.K.) Limited (in Administration) (the "Company") and its Scheme Creditors

1. INTRODUCTION

We are writing to you on behalf of the Company in connection with a scheme of arrangement pursuant to Part 26 of the Companies Act 2006 (the "**Scheme**") which the Company proposes to enter into with certain of its creditors (the "**Scheme Creditors**").

Scheme Creditors are creditors in respect of:

- (a) any liability to which the Company was subject at 1 November 2007 (the date the Company went into administration); or
- (b) any liability to which the Company became subject after that date,

in each case under any Insurance Contract.

An "**Insurance Contract**" is a contract or policy of direct insurance entered into by or on behalf of the Company (or in relation to which the Company has assumed liability) other than any contract of insurance written in accordance with section 1(1) of the UK Employers' Liability (Compulsory Insurance) Act 1969 ("**Employers' Liability Act**"). Claims arising out of contracts or policies of direct insurance are afforded priority to certain other debts in the insolvency of the Company by virtue of the Insurers (Reorganisation and Winding Up) Regulations 2004 (SI 2004/353) (the "**2004 Regulations**").

Dan Schwarzmann and Mark Batten were appointed joint administrators to Highlands Insurance Company (U.K.) Limited on 1 November 2007, to manage its affairs, business and property as agents without personal liability. Dan Schwarzmann and Mark Batten are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. PRO Insurance Solutions Limited continues to act as run off manager for the Company.
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Where the Company wrote an Insurance Contract as a member of a pool, the Scheme Creditor will only be entitled to claim in the Scheme for an amount representing the Company's percentage participation in such Insurance Contract as set out on the relevant underlying underwriting stamp.

We would strongly encourage you to read this letter in its entirety but would in particular draw your attention to Paragraph 10 "*What will happen after the Scheme becomes effective?*" on page 26 below.

The purpose of this letter is to:

- (i) provide background information in relation to the Company and its business;
- (ii) explain certain advantages and disadvantages of the Scheme; and
- (iii) explain the main provisions of the Scheme,

in order to assist Scheme Creditors in reaching an informed decision on whether to vote in favour of the Scheme at a forthcoming meeting.

In brief (and as described in more detail in Paragraph 6 of this letter "*Why has the Scheme been proposed?*"), if implemented, the Scheme will have the effect of concluding the run-off of the Company's direct insurance business earlier and in a more efficient manner than would be the case if another insolvency proceeding was implemented. In particular, since the implementation of the Scheme will trigger the payment of certain settlement monies to the Company, it is more likely that it will be possible to pay the claims of Scheme Creditors in full (subject to discounting at a rate designed to reflect a risk free rate of return and other relevant deductions, if any, in accordance with the Scheme). If the Scheme is not approved and, consequently, the settlement monies not paid, the likelihood of this will clearly reduce.

This letter has been sent to those parties in respect of whom the Company's records indicate that they have or may have a claim against the Company, and, where known, to agents, representatives and brokers identified by the Company as having placed insurance business with or on behalf of the Company. However, receipt of this letter does not necessarily mean that you are a creditor of the Company or a Scheme Creditor or that you will be affected by the Scheme. If you are a policyholder of the Company in respect of a direct insurance contract written by the Company or in respect of which the Company has assumed liability, you may wish to ask your broker for further details of your involvement with the Company.

A full copy of the document (the "**Scheme Document**"), containing a copy of the Scheme as well as a more detailed description of the terms thereof is available to be downloaded from www.ukhighlands.co.uk (the "**Website**") or, upon request, from the Administrators' team using the details set out at Paragraph 14 of this letter "*Further information and documents*". Capitalised terms defined in this letter have been defined in summary for ease of reference. Full definitions of capitalised terms are given in the Scheme. Please note that this letter should not be relied upon as a substitute for reading the Scheme in its entirety. In the event of any inconsistency between the terms of this letter and the provisions of the Scheme, the provisions of the Scheme shall prevail.

2. EVENTS LEADING UP TO THE APPOINTMENT OF THE ADMINISTRATORS

2.1 BACKGROUND

The Company

The Company was incorporated in England and Wales on 18 November 1974 as a private limited company. The Company is a wholly owned subsidiary of Highlands Holdings (UK) Limited ("**Highlands Holdings**"), which in turn is wholly owned by Highlands Insurance Group, Inc. ("**HIGI**"). On 31 October 2002, HIGI (together with several subsidiaries) filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. HIGI's Bankruptcy Plan became effective on 31 March 2003, as a result of which all the shares of HIGI were cancelled and new shares were issued to a Liquidating Trust which now manages HIGI (the "**HIGI Liquidating Trust**")

The Company began writing business in 1983. Between 1983 and 1994, the Company predominantly wrote London market excess of loss business. On 1 January 1987, H.J. Roelofs-Assuradeuren B.V. ("**HJR**") were appointed as authorised underwriting agents of the Company in the Netherlands. Between 1987 and 1993, HJR predominantly wrote marine, fire and loss of profit, and liability and accident business on the Company's behalf within the Netherlands. HJR ceased to write new or renewal business for the Company on 1 January 1994.

The Company ceased underwriting new and renewal business in January 1994, after which the Company became primarily involved in the agreement of claims and reinsurance collections. PRO Insurance Solutions Limited was appointed to manage the run-off of the Company's business on 1 November 2003.

Relationship with Highlands Insurance Company ("HIC(US)**")**

The Company has extensive reinsurance arrangements with HIC(US), an insurance company organised under the laws of the State of Texas, United States of America. HIC(US) is also a subsidiary of HIGI.

Between 1972 and 1975, HIC(US), through its unincorporated London branch, wrote business as part of an underwriting pool (the "**Tower X Pool**") with London & Edinburgh Insurance Company Limited and American Home Assurance Company, through the underwriting agent Tower Underwriting Management Limited ("**TUM**"). The Tower X Pool wrote all classes of marine, aviation and non-marine business. During this period, HIC(US)'s London branch also wrote similar business through Highlands Underwriting Agents Limited ("**HUAL**"), a new underwriting agency organised by HIC(US). During 1975 it was decided to combine the capacities of TUM and HUAL into a new underwriting pool (the "**HUA Pool Account**", and together with the Tower X Pool, the "**Pools**" and each individually a "**Pool**"). The HUA Pool Account continued writing business until the end of 1977. From the beginning of 1978 until 1982, HUAL underwrote excess of loss business on behalf of HIC(US) London branch only. This business became known as "HUA P A/C".

On 9 October 1986, the business written by HIC(US)'s London branch between 1978 and 1982 through HUAL was transferred to the Company (the "**1986 Transfer**") by way of statutory novation pursuant to Section 51 of the Insurance Companies Act 1982 of Great Britain

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("Section 51"). In return for the 1986 Transfer, HIC(US) entered into a 34% quota share reinsurance treaty with the Company in relation to the HUA P A/C liabilities.

On 29 December 1988, the business written by HIC(US)'s London branch between 1972 and 1977 through TUM and HUAL as part of the Tower X Pool and HUA Pool Account business and the business written by the branch between 1972 and 1975 through HUAL, were also transferred to the Company by way of statutory novation pursuant to Section 51 (the "**1988 Transfer**" and, together with the 1986 Transfer, the "**Section 51 Transfers**"). In return for the 1988 Transfer, HIC(US) entered into a quota share reinsurance treaty pursuant to which HIC(US) reinsured the Company in respect of 100% of the transferred business. All policies or contracts of insurance and/or reinsurance written by HIC(US)'s London branch and transferred to the Company pursuant to the Section 51 Transfers are referred to herein as the "**Section 51 Policies**".

In February 2002, the Texas Department of Insurance placed HIC(US) under a supervisory order due to its financial condition. On 6 November 2003, HIC(US) was placed under a Rehabilitation Order by the Judicial District Court of Travis County, Texas (the "**Texas Court**") and a Permanent Receiver, José Montemayor, the then Texas Commissioner of Insurance, was appointed to oversee the management of HIC(US) (the "**Permanent Receiver**"). On 30 January 2004, the Permanent Receiver appointed Prime Tempus, Inc. as Special Deputy Receiver to oversee the management of HIC(US) (the "**Special Deputy Receiver**"). On 24 July 2006, the Special Deputy Receiver filed a proposed rehabilitation plan in respect of HIC(US) in the Texas Court (the "**Original Rehabilitation Plan**").

2.2 THE TEXAS LITIGATION

Following the filing of the Original Rehabilitation Plan in July 2006, the then directors of the Company considered it prudent to review the position of the Company in respect of the Section 51 Transfers with the benefit of further legal and financial advice. Following such advice, in or around August 2006 the Company became concerned that, under U.S. federal and state law, the Section 51 Transfers did not constitute valid novations of HIC(US)'s liabilities under policies and contracts of insurance written in favour of US domiciled insureds covering risks in the US (the "**Section 51 US Policies**").

Under Texas law, the creditors of insurance companies are divided into different classes. "Class 2" claims are claims brought by policyholders under policies of insurance. The Company was concerned that, amongst other things, the Original Rehabilitation Plan did not:

- (a) acknowledge that the Section 51 US Policies were liabilities of HIC(US) and Class 2 claims; and
- (b) ensure that all Class 2 claimants (including claimants under the Section 51 US Policies) would be paid *pari passu* in accordance with Texas law.

On 21 August 2006, the Company filed a formal objection to the approval of the Original Rehabilitation Plan. As part of that ongoing litigation the Company sought to require the Special Deputy Receiver, whether pursuant to a revised rehabilitation plan or in a liquidation of HIC(US), to treat all Class 2 claimants, including claimants under the Section 51 US Policies,

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equally and to ensure that they were paid *pari passu* in the event of any inability of HIC(US) to pay the claims in full.

On 18 April 2007, the Special Master of the Texas Court issued a "Memorandum of Recommendation and Findings of Fact and Conclusions of Law", which found that the Original Rehabilitation Plan lacked sufficient evidence to prove that all Class 2 creditors would be paid in full and treated equally.

Following this, the Special Deputy Receiver filed a formal objection to the Special Master's recommendation and requested a trial in the Texas Court. Whilst the trial was commenced, proceedings were discontinued pending settlement of the dispute between the HIC(US) and the Company. Following detailed discussions between the Company and the Special Deputy Receiver to settle this dispute, an agreement was reached in principle in October 2007.

2.3 DETERIORATION IN THE COMPANY'S FINANCIAL POSITION

Given the uncertainty surrounding the Texas litigation and its outcome, the Company ceased to pay claims in August 2006.

On 21 June 2007, the Company was served with an administration application presented by a potential creditor (the "**potential creditor**") of the Company (the "**Administration Application**"). The reasons for such application were that:

- (a) the potential creditor saw no discernible benefit to the Company or its creditors in the Company's involvement in the Texas litigation and wished to ensure that an independent officeholder was appointed to see whether that litigation was for the benefit of the Company's creditors; and
- (b) the Company's financial position was such that it was, or was likely to become, unable to pay its debts.

The Company, acting by its directors (the "**Directors**") opposed the Administration Application on the basis that, amongst other things:

- (i) it did not consider itself to be insolvent;
- (ii) there was no evidence that placing the Company into administration at that time would be of any practical benefit to the Company or its creditors; and
- (iii) the Company's pursuit of the Texas litigation would be of direct benefit to the Company's creditors.

Prior to a substantive hearing of the issues, the potential creditor agreed to seek permission to withdraw the Administration Application on the basis that a non-executive Director be appointed to the Company's board to carry out an independent analysis of the Company's situation. That analysis would comprise two reviews: first, an assessment of the Company's financial position and second, a review of the Directors' strategy in respect of the Texas litigation and the Section 51 Transfers. Mr. Philip James Grant was appointed as non-executive Director to carry out these reviews. Those reviews were to be provided to the Company's creditors on or before 30 September 2007, although it was subsequently agreed that the date for

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presenting the report on the Texas litigation would be extended to 5 October 2007 and the date for presenting the report on the financial position would be extended to 31 October 2007.

By order of Mr. Justice Peter Smith dated 13 July 2007, permission was granted for the Administration Application to be withdrawn.

Mr. Grant presented his independent report in respect of the Texas litigation on 5 October 2007 in which he concluded, broadly, that the Company's strategy towards HIC(US) and the Texas litigation was sound and in the best interests of the Company and its creditors. However, following Mr. Grant's completion of the report on the Company's financial position, with assistance from the Company's actuarial and financial advisers, it became clear that the Company was in fact insolvent on a balance sheet basis.

Having ascertained this fact, and given the agreement in principle reached with the Special Deputy Receiver in respect of the Texas litigation in October 2007, the Directors considered whether a targeted programme of commutations with certain of the Company's reinsurance creditors would enable the Company's balance sheet position to be restored to solvency. However, the Directors concluded that the size and spread of such creditors, and the level at which commutations would need to be agreed, meant that such a programme would be extremely difficult to achieve in a reasonable time-frame outside of a formal administration proceeding under the Insolvency Act 1986 (the "**Insolvency Act**").

2.4 THE ADMINISTRATION

Appointment of the Administrators

On 25 October 2007, the Directors made an application to the High Court of Justice of England and Wales, Chancery Division to appoint Dan Schwarzmann and Mark Batten, each partners of PricewaterhouseCoopers LLP ("**PwC**"), as joint administrators (the "**Administrators**"), declaring that the Company was unable, or likely to become unable, to pay its debts. The Administrators were formally appointed on 1 November 2007. The purpose of the administration of the Company (the "**Administration**") was to, if possible, rescue the Company as a going concern or, failing that, achieve a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration).

On 22 January 2008, an order recognising the Administration in the United Kingdom ("**UK**") was granted by the United States Bankruptcy Court for the Southern District of New York (the "**US Bankruptcy Court**") pursuant to Chapter 15 of the US Bankruptcy Code (the "**Chapter 15 Administration Order**"). In addition to recognising the Administration, the Chapter 15 Administration Order restrains all persons from carrying out certain actions against the Company and/or its property, including commencing or continuing any proceedings as against the Company or taking any actions to gain control of the Company's property.

Conduct of the Administration to date

The Administrators have been engaged in various activities since their appointment on 1 November 2007, a summary of which is provided in the six monthly reports posted to the Website. However, one key objective of the Administrators has been to enter into a binding settlement of the Texas litigation.

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Following their appointment, the Administrators conducted a review of the terms of the agreement in principle reached between the Company and the Special Deputy Receiver in October 2007, prior to their appointment. Following such review, there was a period of intensive due diligence and lengthy negotiation, as a result of which revised terms were agreed between the Administrators and the Special Deputy Receiver. A binding settlement agreement (which replaced the previous agreement in principle reached between the Special Deputy Receiver and the Company) was entered into between the Company (acting by the Administrators) and HIC(US) (acting by the Special Deputy Receiver) on 9 May 2008 (as amended from time to time, the "**Settlement Agreement**").

A key aspect of the Settlement Agreement is that it provides both the Company and HIC(US) with certainty with respect to the obligations arising under the Section 51 Policies. In particular, the Settlement Agreement provides as follows:

- (a) HIC(US) is to pay the Company the sum of US\$13,000,000 (the "**Settlement Amount**"). This Settlement Amount is to be paid in two instalments. The first instalment of \$6,625,000 (the "**First Instalment**") is to be paid into an escrow account within 10 business days of the conditions specified in paragraphs (i) to (iii) below having occurred. This amount will be released from escrow and paid to the Company on the Final Claims Submission Date, being the date by which all Scheme Creditors are required to have filed details of their claims against the Company. The second instalment of \$6,375,000 (the "**Second Instalment**") is to be paid direct from HIC(US) to the Company within 10 business days of the Final Claims Submission Date;
- (b) the Company will administer all Section 51 Policies;
- (c) the Company will utilise the Settlement Amount to discharge claims arising, directly or indirectly, out of those Section 51 Policies which are direct policies or contracts of insurance (the "**Section 51 Direct Policies**"), as well as certain other liabilities of the Company as more specifically identified in the Scheme; and
- (d) the Company will take, and will cooperate in the taking of, certain steps, including the implementation of the Scheme, to ensure that the holders of the Section 51 Direct Policies are prohibited from making claims against HIC(US) in respect of such policies both in the UK and the US.

The obligation of HIC(US) to pay the Settlement Amount to the Company is subject to the following conditions, each of which is designed to ensure that the Settlement Agreement is recognised and given full force and effect in the UK and US:

- (i) the Texas Court must enter an order approving an amended plan of rehabilitation filed in respect of HIC(US) (the "**Rehabilitation Plan Order**");
- (ii) the Texas Court must enter an order on certain specified terms approving the terms of the Settlement Agreement (the "**Approval Order**");
- (iii) the time to appeal the Rehabilitation Plan Order and the Approval Order must have expired with no appeal having been filed or, if an appeal is filed, no stay must be granted pending the determination of such appeal;

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- (iv) a scheme of arrangement containing certain specified provisions must become effective in respect of the Company; and
- (v) the US Bankruptcy Court must have granted relief pursuant to Chapter 15 enforcing and giving effect to the Scheme (the "**Chapter 15 Scheme Order**").

If these conditions have not been satisfied by 30 September 2009, or such other date as is agreed between the Company and HIC(US), the Settlement Agreement shall be void. On 6 June 2008, the Texas Court entered the Rehabilitation Plan Order and the time to appeal such order expired with no appeal having been filed. On 13 October 2008, the Texas Court entered the Approval Order approving the terms of the Settlement Agreement in all respects and the time to appeal such order expired with no appeal having been filed.

Following satisfaction of the conditions set out in paragraphs (i) to (iii) above, the First Instalment was paid into a joint account held in the names of both the Company and HIC(US).

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

A scheme of arrangement, such as that proposed here, 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:

- (a) a majority in number representing not less than 75% in value of creditors or any class of them, 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 (the "**Scheme Meeting**");
- (b) the court subsequently makes an order sanctioning the scheme of arrangement; and
- (c) an office copy of that order is delivered to the registrar of companies for registration.

Having (a) considered the rights of Scheme Creditors in general; (b) considered the effect of the Scheme on these rights; and (c) taken legal advice, the Company intends to convene a single Scheme Meeting of all Scheme Creditors. Please refer to the letter sent by the Company to Scheme Creditors dated 9 March 2009 (which is available from the Website) for further explanation of the rationale for holding a single Scheme Meeting.

4. WHO WILL BE AFFECTED?

The Scheme is proposed between the Company and its Scheme Creditors. Scheme Creditors are defined in the Scheme itself but, in general, will:

- (a) include those persons who have, or may in the future have, a claim against the Company in respect of a liability (a "**Scheme Liability**") arising, directly or indirectly, out of any Insurance Contract (as more specifically described below); and
- (b) not include those creditors more specifically described in Paragraph 5 of this letter "*Which creditors are not covered by the Scheme?*".

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As a result, Scheme Creditors will generally be those creditors whose claims relate to "insurance debts" (as such term is defined in the 2004 Regulations), and therefore whose claims rank in priority to other debts of an insolvent insurance company such as the Company.

Where the Company wrote an Insurance Contract as a member of a Pool (or, in respect of the Section 51 Direct Policies, where HIC(US) originally wrote an Insurance Contract as a member of a Pool), the Scheme Creditor will only be entitled to claim in the Scheme for an amount representing the Company's percentage participation in such Insurance Contract as set out on the relevant underlying stamp. Where the Company (or, in respect of the Section 51 Direct Policies, where HIC(US) originally) fronted an Insurance Contract on behalf of one or more other Pool Members, Scheme Creditors may claim for the entire amount fronted by the Company or, as relevant, fronted by HIC(US) and transferred to the Company pursuant to the Section 51 Transfers.

Parties with no actual or potential claims against the Company in relation to a Scheme Liability will be unable to attend or vote at the Scheme Meeting.

Scheme Creditors should note that, once effective, the Scheme will bind the Company and all its Scheme Creditors, irrespective of whether or not those Scheme Creditors were notified of the Scheme and/or whether they voted at the Scheme Meeting or, if they voted, whether they voted for or against the Scheme.

5. WHICH CREDITORS ARE NOT COVERED BY THE SCHEME?

The Scheme will not affect any creditor of the Company otherwise than as a Scheme Creditor in respect of Scheme Liabilities.

Scheme Liabilities do not include any liability of the Company arising out of:

- (a) **any contract of insurance written in accordance with Section 1(1) of the Employers' Liability Act; or**
- (b) **any contract of reinsurance or retrocession of any kind whatsoever.**

Any creditor of the Company in respect of liabilities which are not Scheme Liabilities will have their claim against the Company dealt with separately in the Administration in accordance with the Insolvency Act (and other applicable legislation).

6. WHY HAS THE SCHEME BEEN PROPOSED?

The Scheme has been proposed for two key reasons:

- (a) in furtherance of the settlement of the Texas litigation pursuant to the terms of the Settlement Agreement; and
- (b) to offer Scheme Creditors the most effective and economical method for having their claims against the Company in respect of Scheme Liabilities determined and paid in full (subject to discounting at a rate designed to reflect a risk free rate of return and other relevant deductions, if any, in accordance with the Scheme) in the shortest practicable time.

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Settlement of litigation between the Company and HIC(US)

One of the aims of the Scheme is to satisfy one of the conditions of the Settlement Agreement, as noted in Paragraph 2.4(iv) above. Upon the Settlement Agreement becoming fully effective, HIC(US) will be required to pay the Settlement Amount to the Company. This payment will represent a significant additional asset to the Company, which shall be available for distribution to the Scheme Creditors. Should the Scheme not be approved (or other conditions to the Settlement Agreement not be satisfied) HIC(US) will have no obligation to pay the Settlement Amount to the Company and the Settlement Agreement shall lapse. It should be noted that nothing in the Scheme alters or amends the terms of the Settlement Agreement.

The insolvency of the Company

There are a number of claims against the Company arising in relation to direct insurance contracts written or assumed by the Company (including the Section 51 Direct Policies). In the ordinary course, claims arising under these insurance contracts would not be run-off or otherwise crystallised for a number of years. However, given the insolvency of the Company and the priority which Scheme Creditors enjoy in an insolvency of the Company under the 2004 Regulations, it is necessary to implement the Scheme in order to achieve the purposes of the Administration. The reason for this is that the Scheme will have the effect of concluding the run-off of the Company's direct insurance business (other than direct insurance contracts written under the Employers' Liability Act) earlier and in a manner more advantageous to creditors than the other alternatives available for dealing with the Company's business given its insolvency. In particular, the Administrators believe that, with the Settlement Amount, it is likely that the Scheme Liabilities of Scheme Creditors will be paid in full (subject to discounting at a rate designed to reflect a risk free rate of return and other relevant deductions, if any, in accordance with the Scheme) under the terms of the Scheme. Clearly, if the Scheme is not approved and the Settlement Amount not paid, the likelihood of this will be reduced.

7. FACTORS TO CONSIDER WHEN VOTING ON THE SCHEME

7.1 ALTERNATIVES TO THE SCHEME

The Company's overall financial position is such that it will not be able to meet all of its obligations in full, although, if the Settlement Agreement is implemented, it is likely to be able to meet its obligations to Scheme Creditors in full (subject to discounting designed to reflect a risk free rate of return and other relevant deductions, if any, in accordance with the Scheme), as these have priority as against other obligations of the Company. The Administrators consider that the proposed Scheme has significant advantages for Scheme Creditors over the other alternatives.

Given the Company's insolvency, the alternative approaches for dealing with Scheme Creditors, other than a scheme of arrangement, broadly comprise:

- (a) the commutation of liabilities on an *ad hoc* basis;
- (b) an informal arrangement with creditors;
- (c) a company voluntary arrangement under Part I of the Insolvency Act (a "CVA");

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- (d) an insolvent liquidation; and
- (e) a distribution in administration.

These alternatives, whilst capable of being utilised to tackle the problems of an insurance company in financial difficulties in appropriate circumstances, have significant disadvantages which render them inappropriate for the Company.

The commutation of liabilities on an ad hoc basis

An *ad hoc* commutation of liabilities would require the Company to settle its obligations on the basis of individual negotiations with a potentially large number of creditors. Given the priority afforded to direct insurance creditors of an insolvent insurance company pursuant to the 2004 Regulations, it would be necessary to reach agreement and pay all direct insurance creditors first, before paying reinsurance creditors.

The administrative burden and cost of *ad hoc* commutations renders it impracticable. However, even if *ad hoc* commutations were possible, each settlement would be on the basis of the best terms which the Company could negotiate with each individual creditor. Therefore there would be no certainty that equality of treatment for all creditors would be possible. Moreover, given the period of the commutation exercise, even with the benefit of Administration protection, the risks of litigation or the attachment of assets by individual creditors would remain and potentially increase the longer the Administration continues (albeit that, in the absence of consent from the Administrators, the rights of parties to commence or continue proceedings can only be exercised with the permission of the UK court). Finally, there would always be the possibility that the cost of effecting early settlements might be so high that insufficient funds would remain available to meet them or the cost of later settlements, either on a similar basis or at all.

Informal arrangement with creditors

An informal arrangement or compromise, unless agreed to by every creditor, would not bind all creditors to the arrangement, but only those who agreed to be bound by it. With a potentially large number of creditors worldwide, it is unlikely that the Company could obtain the agreement of its creditors either within a reasonable time or at all. As noted above, even with the benefit of Administration protection, the risks of litigation or the attachment of assets by individual creditors would remain.

CVA

A CVA could lay before creditors proposals for a compromise with them similar to those contained in the Scheme. However, unlike a scheme of arrangement, where a creditor does not receive notice of the CVA, it may mount proceedings to challenge the CVA within 28 days of becoming aware of it. Given that the Company has a potentially large number of creditors, there is a possibility that some creditors may not receive notice notwithstanding the Company's best efforts to reach them. The supervisors of the CVA would, therefore, be uncertain as to the ultimate level of claims which could lead to significant delay in payments to affected creditors.

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Insolvent liquidation

If the Company were to be placed into insolvent liquidation, it would become subject to the regime applicable under the Insolvency Act and the Insolvency Rules 1986 (SI 1986/1925) (the "**Insolvency Rules**") (as modified by the Insurers (Winding Up Rules) 2001 (SI 2001/3635) and the 2004 Regulations). While this option may be suitable for those companies which wrote short tail business, this procedure is not the optimal method of dealing with insolvent insurance companies which wrote longer tail business where the aim is to ensure the quickest and most efficient return to creditors.

The principal reason for this is that any liquidator of such an insolvent insurance company would be in a position where he was administering an estate where both the ultimate level of claims and realisations would be unlikely to be known for some considerable time. While the legislation governing the winding up of companies in the UK requires a liquidator to make a just estimate of a company's unquantified and contingent liabilities as at the date of the liquidation, it is unlikely that a liquidator, mindful of personal liability, would wish to make any distribution until such time as he is satisfied that he could gauge with accuracy the level of ultimate liabilities. As a result, unless a liquidator were to use a scheme similar to the present Scheme there would usually be a material delay between the appointment of the liquidator and the payment of a first interim distribution. This would have the effect that creditors would have to wait longer before receiving distributions out of the estate and bear the financing costs of delayed payment of their claims for a longer period than anticipated under the Scheme, thus reducing the time value of any distributions. Given the priority afforded to direct insurance creditors of an insolvent insurance company pursuant to the 2004 Regulations, it would be necessary to pay direct insurance creditors in full first, before making any payments to reinsurance creditors.

Further, in a conventional liquidation, there is a statutory requirement for all claims denominated in a currency other than pounds sterling to be converted to pounds sterling, at the rate of exchange prevailing at the date of liquidation of the Company. Since a substantial majority of the claims of creditors against the Company are denominated in United States dollars, those creditors would bear the associated foreign exchange risk in a liquidation. Under the terms of the Scheme, foreign exchange risk for the majority of creditors may be avoided by providing that Scheme Creditors' claims be established in the currency of the relevant contract, provided that such currency is one of the principal currencies in which the Company wrote or has assumed business, being US dollars, pounds sterling or euros.

Finally, in an insolvent liquidation, the liquidator is legally required to place cash assets into a prescribed account, the Insolvency Services Account at the Bank of England, in respect of which certain investment and handling fees are payable. Similarly, cash assets may only be invested in UK government securities, to the extent that they are not required in the short term.

Distribution in the Administration

An administrator may make a distribution to creditors of a company in accordance with the provisions of the Insolvency Act and the Insolvency Rules, as amended and/or supplemented by the Financial Services and Markets Act 2000 (Administration Orders Relating to Insurers) Order 2002 (SI 2002/1242). However, given that any payments to a creditor in an administration must not exceed, in aggregate, the amount which the administrator reasonably considers the creditor

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would be entitled to receive on a distribution of the insurer's assets in a winding up, any administrator making a distribution to creditors would in any event have the same concerns as any liquidator appointed in respect of the Company in relation to the ultimate level of liabilities. As highlighted above, these concerns could result in a potentially significant delay in the making of any payments in the Administration.

Schemes of arrangement

A scheme of arrangement pursuant to Part 26 of the Companies Act 2006 is a flexible method of binding creditors to a proposed course of action and has become the acknowledged method of administering the insolvency of troubled insurance companies in the London market. It is essentially an agreement between a company and its creditors (or a class of them) and, as a result, may contain provisions which provide the most efficient framework for concluding the business of a company.

Schemes of arrangement which have been implemented for insolvent insurance companies will generally:

- (a) seek as far as possible to preserve for creditors any benefits which would be available to them under a liquidation whilst at the same time providing a mechanism for effecting the earliest practicable distribution of funds to creditors;
- (b) not affect the rights of creditors with a security interest to exercise their rights over that security interest (this applies equally to all creditors worldwide); and
- (c) avoid the other attendant disadvantages of an insolvent liquidation set out above.

While schemes of arrangement generally allow for the establishment of a company's ultimate liabilities at an earlier date than would be the case in a conventional liquidation, the method by which this is achieved will depend upon the type of scheme of arrangement utilised. The two principal types of scheme of arrangement which have been used to date in the London market are:

- (i) "**reserving**" schemes: where a company's business is run-off in the normal way with interim distributions being paid to creditors with established claims, whilst reserves are maintained to pay an equivalent amount to those creditors with unquantified and contingent claims which subsequently materialise; and
- (ii) "**cut-off**" schemes: where creditors are required to submit their claims to a company by a particular date, after which no further claims may be submitted. The ultimate liabilities of the insolvent company (based on the claims made) are then determined by reference to an actuarial or other type of estimation methodology.

In the present case, the Administrators consider that a reserving scheme is not appropriate because the increased costs that would inevitably be incurred during an extended run-off of the Company's direct book may prejudice the Company's ability to pay all direct insurance creditors in full (subject to discounting and other relevant deductions, if any, in accordance with the Scheme) and in a timely fashion.

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For these reasons, the Scheme proposed between the Company and its Scheme Creditors is a cut-off scheme.

7.2 SPECIFIC ADVANTAGES OF THE SCHEME

In addition to the general advantages that a scheme of arrangement may offer when compared to other insolvency procedures, there are a number of specific advantages of this Scheme of which Scheme Creditors should be aware.

- (a) **Payment of Settlement Amount by HIC(US):** Pursuant to the terms of the Settlement Agreement, if the Scheme becomes effective, and certain other conditions are satisfied, HIC(US) shall be required to pay the Company the sum of US\$13,000,000, such funds to be applied in discharge of liabilities established as outstanding to Scheme Creditors in the Scheme (after applying a discount at a rate designed to reflect a risk free rate of return and other relevant deductions, if any, in accordance with the Scheme) ("**Established Liabilities**"), as well as the other purposes specified in the Scheme. The payment of this Settlement Amount means that the Company will have additional assets available to it, thereby making it more likely that the Established Liabilities of Scheme Creditors will be paid in full. Given the current insolvency of the Company, this is a significant advantage to all creditors of the Company, including the Scheme Creditors. This additional cash will not be available to pay Scheme Creditors if the Scheme does not become effective.
- (b) **Settlement of the Texas litigation:** In addition to the payment of the Settlement Amount, the advantage of having reached agreement to settle the Texas litigation, which agreement requires the implementation of the Scheme, is that the risks of litigation, in particular significant costs, uncertainty of outcome and delay, have been avoided. This advantage also benefits the Company's creditors individually who can now avoid the potential cost and uncertainty of claiming against two estates where the liability of both is in dispute.
- (c) **Simplified claims agreement process:** The Scheme will provide a process for Scheme Creditors to agree all present and future Scheme Liabilities including those which may not easily be evaluated, such as incurred but not reported claims ("**IBNR**"). In the event that agreement cannot be reached between the Company and a Scheme Creditor in relation to a given Scheme Liability, the Scheme provides for the determination of that Scheme Liability to be referred to an independent adjudicator (the "**Scheme Adjudicator**") to determine the level of the Established Liability in what is intended to be a fair and efficient manner.
- (d) **Early payment in full:** The Scheme should enable Scheme Creditors to receive payment in respect of their Established Liabilities in full sooner than would be the case under any of the alternatives to the Scheme discussed in Paragraph 7.1 of this letter "*Alternatives to the Scheme*". As noted above, such Established Liabilities will have been calculated after applying a discount rate designed to reflect a risk free rate of return as well as other relevant deductions, if any, in accordance with the Scheme. The Company anticipates that once each Scheme Creditors' Established Liability has been calculated, it will be paid in full. This provides a degree of comfort for Scheme Creditors as to the actual amounts that they can expect to receive. In the event that the Scheme Administrators

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determine that it is not possible to pay all Scheme Creditors in full, an event which the Administrators currently consider to be unlikely, the Scheme shall terminate. It is currently anticipated that final payment to Scheme Creditors under the Scheme will take place in or around July 2010.

- (e) **Reduced professional fees in the Administration:** An early agreement or determination of the Scheme Liabilities of Scheme Creditors in the Administration is likely to minimise the level of professional fees incurred when compared to those that may become payable if such claims were left to mature in the ordinary course in the Administration. This in turn will result in greater assets being available to be applied in discharge of the claims of Scheme Creditors, as well as other creditors of the Company.

7.3 POTENTIAL DISADVANTAGES OF THE SCHEME

In considering the Scheme, Scheme Creditors should also be aware of the following possible disadvantages:

- (a) **Potential claims against HIC(US):** Following the implementation of the Scheme, the Settlement Agreement and the Chapter 15 Scheme Order, policyholders/claimants with claims arising under Section 51 Direct Policies shall be prohibited from asserting such claims against HIC(US). However, if the Established Liabilities of Scheme Creditors are paid in full in accordance with the Scheme (as is currently anticipated), the ability or otherwise to pursue HIC(US) would be immaterial.
- (b) **Estimation:** The simplified claims agreement process (see the advantages above) will result in certain Scheme Liabilities being estimated and Scheme Creditors could ultimately receive less (or more) in respect of their Scheme Liabilities than would have been the case had the insurance business of the Company been run-off in the ordinary course. However, given the insolvency of the Company, it is unclear that claims would be permitted to be run-off in the Administration. Instead, it is more likely that claims against the Company would need to be valued and paid pursuant to an alternative scheme of arrangement under the Administration or otherwise in a liquidation.
- (c) **Failure to submit a Claim Form:** If any Scheme Creditor:
 - (i) is required, but fails, to lodge its Claim Notification so that it is received by the Company by the Claim Notification Date; or
 - (ii) fails to lodge its Final Claim Form so that it is received by the Company by the Final Claims Submission Date,

in each case as further described in Paragraph 10 of this letter "*What will happen after the Scheme becomes effective?*", that Scheme Creditor's Scheme Liabilities will be valued at nil.

7.4 OTHER ISSUES

Other issues to be considered in respect of the Scheme are the respective positions of those Scheme Creditors who may have claims as against the NAIC Trust Fund (in the US) or the Financial Services Compensation Scheme (the "FSCS") (in the UK).

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- (a) **NAIC Trust Fund:** Certain Scheme Creditors may be entitled to make claims as against a trust fund established by the Company in the US as security for policyholders in the US if their claims are not paid in full by the Company. However, if the Scheme Creditors' claims, once established in accordance with the Scheme, are paid in full as is anticipated, no claim against the NAIC Trust Fund should arise.
- (b) **FSCS:** Whilst the Company has not, to date, identified any Scheme Creditors whom it considers may have claims against the FSCS, it remains possible that certain Scheme Creditors may be entitled to compensation from the FSCS if their claims are not paid in full by the Company. However, if the Scheme Creditors' claims, once established in accordance with the Scheme, are paid in full, as is anticipated, no claim against the FSCS should arise. For the avoidance of doubt, creditors with claims arising under insurance contracts written pursuant to section 1(1) of the Employers' Liability Act are not covered by the Scheme, and therefore retain such rights as they may have against the Company and the FSCS.

These are the main advantages, disadvantages and other issues to consider in respect of the Scheme identified by the Company. The Company considers that the advantages referred to above outweigh the possible disadvantages. It is impossible, however, to address each Scheme Creditor's individual circumstances and, therefore, it is impossible to regard this list of advantages, disadvantages and other issues as exhaustive. Each Scheme Creditor must therefore make its own assessment of how the Scheme would affect its own interests.

8. WHAT SHOULD SCHEME CREDITORS DO NOW?

If you are a Scheme Creditor, you are entitled to attend and vote at the Scheme Meeting. The Scheme Meeting is being convened at the direction of the High Court of Justice of England and Wales for the purpose of considering and, if thought fit, approving the Scheme.

Formal notice of the Scheme Meeting is given with this letter. Scheme Creditors may attend the Scheme Meeting in person (or, if a corporation, by a duly authorised representative) or may vote by proxy.

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

Completed voting forms should be returned as soon as possible, and in any event so that they are received by PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester, GL1 1DA, United Kingdom marked for the attention of Áine Davies/Ian Leighton to be received by 5.00 p.m. (London time) on 16 June 2009 or otherwise handed in at the registration desk at the Scheme Meeting prior to its commencement.

The Company will consider returned voting forms in order to determine the value of each Scheme Creditor's vote at the Scheme Meeting. The value attributed to each Scheme Creditor's Scheme Liability for voting purposes will be determined by the chairman of the Scheme Meeting (the "**Chairman**"). The Chairman's determination shall be based on (i) the information provided by the Scheme Creditor; and (ii) the information available to the Company from its

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existing records, where necessary, applying the guidance given at Schedule 3 to the Scheme "*Estimation Guidelines*".

The Chairman has the power to reject a Scheme Creditor's claim, in whole or in part, for voting purposes only if he considers that it does not represent a reasonable assessment of the sum due from the Company. The decision of the Chairman as to the value to be placed on a claim for voting purposes is final and, where the Chairman has amended a Scheme Creditor's assessment of the value of its claim for voting purposes, he will, if possible, notify the relevant Scheme Creditor of such amendment, and the reasons therefor, before the Scheme Meeting or, in any event, afterwards but before the Court hearing to sanction the Scheme. It is anticipated that the Chairman will be one of the Administrators.

Scheme Creditors should provide sufficient and appropriate evidence in accordance with Schedule 3 to the Scheme 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 establishing or settling Scheme Liabilities under the Scheme. **The amount of a Scheme Liability admitted for voting purposes will neither constitute an admission of the existence or amount of any liability of the Company nor bind the Company, the Administrators, the Scheme Administrators, the Scheme Creditors, the Scheme Adjudicator or any other person for any other purpose.**

As Scheme Liabilities are denominated in various currencies, any Scheme Liabilities which are not denominated in US dollars will be converted into US dollars for the purpose of voting at the Scheme Meeting. They will be converted at the mid-market rate of exchange as quoted for the relevant currency in the *Financial Times* on 1 November 2007, being the date that the Administrators were appointed to the Company.

A copy of the Scheme Document shall be made available to all brokers in the London market and agents identified as having placed business with or on behalf of the Company. The Company urges those brokers and agents to inform their clients of the Scheme to ensure that all possible creditors, in particular Scheme Creditors, receive notice of the Scheme terms and the action that they may be required to take prior and subsequent to the Scheme Meeting.

If Scheme Creditors are unclear about, or have any questions concerning, the action they are required to take, they should contact the helpline number at the bottom of the page.

9. **KEY DATES AND PROVISIONAL TIMETABLE**

Administration Date	1 November 2007
Filing date for voting form	16 June 2009 ^{(a)(b)}
Scheme Meeting	18 June 2009
Court hearing to sanction the Scheme	30 July 2009 ^(c)
Hearing of the application for the Chapter 15 Scheme Order	30 July 2009 ^(c)
Date the Scheme becomes effective (the " Effective Date ")	31 July 2009 ^(c)
Claim Notification Date	29 October 2009 ^{(c)(d)}
Final Claims Submission Date	27 January 2010 ^{(c)(e)}

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Currently anticipated date of commencement of payments to Scheme Creditors July 2010^(b)

The following points should be noted in respect of the above mentioned timetable:

- (a) Guidance notes and instructions for completion of the voting form are set out at Section IV of the Scheme Document.
- (b) Voting forms may otherwise be handed in at the registration desk at the Scheme Meeting prior to its commencement.
- (c) Dates subsequent to the Scheme Meeting are indicative only. The date of the Court hearing to sanction the Scheme can only be confirmed after the Scheme has been approved by Scheme Creditors at the Scheme Meeting.
- (d) This date assumes an Effective Date of 31 July 2009. The Claim Notification Date is the first Business Day falling 90 elapsed calendar days after (but not including) the Effective Date. The Claim Notification Date may occur before or after the date indicated above. Scheme Creditors will be notified of the actual Claim Notification Date within 7 days of the Effective Date in accordance with Clause 4.2.1 of the Scheme.
- (e) This date assumes an Effective Date of 31 July 2009. The Final Claims Submission Date is the first Business Day falling 180 elapsed calendar days after (but not including) the Effective Date. The Final Claims Submission Date may occur before or after the date indicated above. Scheme Creditors will be notified of the actual Final Claims Submission Date within 7 days of the Effective Date in accordance with Clause 4.2.1 of the Scheme.

10. **WHAT WILL HAPPEN AFTER THE SCHEME BECOMES EFFECTIVE?**

Once the Scheme becomes effective, the Company will, within 7 days, send notice by post that the Scheme is effective together with a blank "Claim Notification" and "Final Claim Form" (in each case as more fully defined below and, together, the "**Claim Forms**") to all Scheme Creditors at their last known addresses. The Company will also place advertisements and post a notice on the Website informing Scheme Creditors that the Scheme is effective and calling for Scheme Creditors to complete and return the Claim Forms. Such advertisement will be placed in *Insurance Day*, in the UK, *Business Insurance*, in the US, *NRC Handelsblad*, in the Netherlands and the international editions of each of the *Financial Times* and the *Wall Street Journal*, these being the same publications in which the Scheme Meeting was advertised.

Blank Claim Forms will also be sent by post to all brokers in the London market and agents identified as having placed business with or on behalf of the Company to ensure that all possible Scheme Creditors are notified of the Scheme and the action that they are required to take.

Blank Claim Forms can also be accessed from the Website or otherwise obtained from the Scheme Administrators' team upon request using the contact details provided at Paragraph 14 of this letter "*Further information and documents*".

Scheme Creditors should note that there are TWO important deadlines.

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Scheme Creditors are first required to give advance notice of their intention to claim against the Company in the Scheme. This notice may be given by a simple 'check-the-box' notification (the form of which is provided with the Scheme) or such other written notice which in the reasonable opinion of the Scheme Administrators contains substantially the same information (the "Claim Notification"). Scheme Creditors must ensure that the Claim Notification is received by the Company, in accordance with the instructions thereon, by no later than 5 pm (London time) on the first Business Day falling 90 elapsed calendar days after (but not including) the Effective Date (the "Claim Notification Date"). If a Claim Notification is not received by the Company by the Claim Notification Date, the claims of that Scheme Creditor in respect of its Scheme Liabilities will be attributed a nil value with the result that such Scheme Creditor will not be entitled to any payment from the Company under the Scheme in respect of such liabilities, irrespective of whether such Scheme Creditor subsequently submits a Final Claim Form.

Where the Company's records indicate that a Scheme Creditor has an Agreed Claim, such Scheme Creditor shall not be required to submit a Claim Notification. Those Scheme Creditors who appear in the Company's records as having an unpaid Agreed Claim will be notified in writing by the Company within 7 days after the Effective Date. For the avoidance of doubt, any Scheme Creditor who is not specifically notified in writing by the Company that it has an Agreed Claim will be required to file a Claim Notification if it wishes to claim in the Scheme (save to the extent that it files a Final Claim Form (as described below) prior to the Claim Notification Date).

Scheme Creditors who have submitted a Claim Notification by the Claim Notification Date must ensure that they then provide full details of their claim and supporting documents by completing a form (the "Final Claim Form") and ensuring that it is received by the Company by 5 pm (London time) on the first Business Day falling 180 elapsed calendar days after (but not including) the Effective Date (the "Final Claims Submission Date"). If a Final Claim Form is not received by the Company by the Final Claims Submission Date, the claims of that Scheme Creditor in respect of its Scheme Liabilities will be attributed a nil value with the result that such Scheme Creditor will not be entitled to any payment from the Company under the Scheme in respect of such liabilities. For the avoidance of doubt, a Scheme Creditor is not required to submit a Final Claim Form where it is seeking to claim against the Company in respect of only an Agreed Claim. Those Scheme Creditors who appear in the Company's records as having an unpaid Agreed Claim will be notified in writing by the Company within 7 days after the Effective Date.

The requirement in the Scheme for Scheme Creditors to provide advance notice of their intention to claim against the Company is a result of limitations in policy information available to the Company. The filing of a Claim Notification is designed to enable the Company to identify earlier than would otherwise be the case the likely population of direct claimants and, therefore, to confirm, as currently anticipated, that it will be able to meet the claims of all Scheme Creditors in full in accordance with the Scheme. The procedure should also allow for the earlier consideration of the most appropriate strategy for dealing with the claims of reinsurance creditors.

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The Company will endeavour to agree and to establish all notified Scheme Liabilities in accordance with the Scheme for each Final Claim Form returned to it. Any Scheme Liability, set-off, counterclaim or deduction in relation to such Scheme Liability which is not agreed between the relevant Scheme Creditor and the Company within the times prescribed in the Scheme, or permitted extension thereof, will be referred to the Scheme Adjudicator. The Scheme Adjudicator will make a final determination in respect of each disputed matter referred to him in accordance with the dispute resolution procedures set out in the Scheme. In making such determination, the Scheme Adjudicator will be entitled to engage such appropriate independent professional advice as he considers necessary. The Scheme Adjudicator's decision will be final and there will be no right of appeal, except insofar as the law allows. The Scheme obliges the Scheme Adjudicator to notify conflicts of interest to the Company. It also provides for the appointment of an alternate Scheme Adjudicator to deal with those claims where conflicts of interest have arisen.

As soon as reasonably practicable after the Final Claims Submission Date and determination by the Administrators (acting in their capacity as administrators of the Scheme) that all Established Liabilities will be paid in full, the Company shall make a full and final payment to each Scheme Creditor in respect of all Established Liabilities. Following the Effective Date (and subject to the Company's power to commute, details of which are set out at Clause 3.11 of the Scheme), the Company will not make any payments to Scheme Creditors in respect of Established Liabilities except in accordance with the Scheme.

It is currently anticipated that payments to Scheme Creditors under the Scheme in respect of Established Liabilities will commence in or around July 2010.

11. FSA

In drafting the proposed Scheme, the Administrators have been advised by their legal advisers and have kept the United Kingdom Financial Services Authority ("**FSA**") informed of their proposals. A near final draft of this letter and the Scheme Document have been provided to the FSA for consideration and the FSA has confirmed that it has no objection to the Scheme.

12. DIRECTORS' INTERESTS

The Directors are:

Stephen J. Greenberg	Chief Executive Director
Lee Christopher Brandon	Non-executive Director
Philip James Grant	Non-executive Director

None of the Directors will receive any remuneration, compensation or other incentives as Directors as a result of the successful implementation of the Scheme or under the terms of the Scheme itself. None of the Directors is a Scheme Creditor.

Stephen J. Greenberg is also a director of HUAL and Highlands Holdings and a trustee of the HIGI Liquidating Trust. Neither of the other Directors has any shareholdings in the Company or in other companies within the group.

13. **RECOMMENDATION IN RESPECT OF THE SCHEME**

The Administrators consider that the Scheme will:

- (a) succeed in satisfying one of the conditions to the Settlement Agreement which, once effective, will mean an additional US\$13,000,000 becoming available for distribution by the Company to discharge the claims of Scheme Creditors through the Scheme; and
- (b) therefore offer Scheme Creditors the most effective and economical method for having their claims against the Company in respect of Scheme Liabilities determined and paid in full in accordance with the Scheme in the shortest practicable time.

For these reasons, all Scheme Creditors who are entitled to vote are encouraged to do so in favour of the Scheme.

14. **FURTHER INFORMATION AND DOCUMENTS**

Further information and copy documents (including a paper copy of the Scheme Document containing the full text of the Scheme and the Explanatory Statement) may be obtained by contacting the Company as follows:

By phone: +44 (0) 1452 413 985

By email: pro_hicukhelpline@pro-ltd.co.uk

By fax: +44 (0) 1452 782 582

By post: PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester, GL1 1DA, United Kingdom, attention: Áine Davies/Ian Leighton.

An electronic copy of the Scheme Document is available from the Website at www.ukhighlands.co.uk

**For and on behalf of
Highlands Insurance Company (U.K.) Limited (in Administration)**



**Dan Schwarzmann
Joint Administrator**

SECTION I: EXPLANATORY STATEMENT
PART A: LETTER CONSTITUTING SHORT FORM EXPLANATORY STATEMENT

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PART B: SUMMARY OF THE SCHEME

1. INTRODUCTION

The proposed rules of the Scheme are set out at Section II of this Scheme Document. Its main provisions are summarised below to help Scheme Creditors understand how the Scheme will operate. A capitalised term used in this Section I, Part B has the meaning given to it in Section II: The Scheme (see pages 57 to 129). This summary should not be relied upon as a substitute for reading the Scheme itself in its entirety.

The objectives of the Scheme are two fold. First, the Scheme seeks to implement the relevant terms of the Settlement Agreement, the terms of which have been described in Section I, Part A, Paragraph 2.4. Second, the Scheme aims to crystallise all claims arising from direct insurance policies written or assumed by the Company (save those insurance policies written in accordance with the Employers' Liability (Compulsory Insurance) Act 1969) earlier than would be the case if an alternative to the Scheme was implemented. The Scheme establishes a method by which the claims of Scheme Creditors (present and in the future) will be valued and paid in full (subject to discounting to reflect a risk free rate of return and other relevant deductions, if any, in accordance with the Scheme) at the values agreed or determined in accordance with the provisions of the Scheme.

2. APPLICATION OF THE SCHEME

The Scheme applies to any Liability arising out of either:

- (a) an Insurance Contract (including, but not limited to the Section 51 Direct Policies); or
- (b) a direct right of action under an Insurance Contract or a contribution or subrogation claim based on an Insurance Contract,

in each case to which the Company is subject at the Administration Date or to which it became subject after that date under any Insurance Contract. In other words, but subject to specified exceptions described below, the Scheme is intended to apply to those creditors whose claims are "insurance debts" as such term is defined in the 2004 Regulations (as defined on page 9 of this Scheme Document) and therefore whose claims rank in priority to other debts of the Company in accordance with those regulations.

The Scheme will not apply to: (i) any liabilities arising under or pursuant to an insurance contract written in accordance with Section 1(1) of the Employers' Liability (Compulsory Insurance) Act 1969; (ii) liabilities arising under or pursuant to any contract or policy of reinsurance or retrocession of any kind whatsoever; or (iii) Liabilities to trade or other non-insurance creditors of the Company. Pre-Scheme Expenses and Scheme Expenses shall be paid in full in accordance with Clause 8.1 of the Scheme.

SECTION I: EXPLANATORY STATEMENT
PART B: SUMMARY OF THE SCHEME

3. **TREATMENT OF SECTION 51 DIRECT POLICIES AND THE SETTLEMENT AMOUNT**

Under the Scheme, all policyholders/claimants with actual or potential claims arising under or pursuant to Section 51 Direct Policies are required to pursue any and all such claims exclusively against the Company in accordance with the provisions of the Scheme. In addition, such policyholders/claimants are expressly prohibited from commencing or continuing Section 51 Direct Claims against HIC(US) whether under or pursuant to the Rehabilitation Plan or otherwise.

Section 51 Direct Claims shall be considered and, if appropriate, established and paid by the Company in accordance with the Scheme consistently with the Scheme Liabilities of all Scheme Creditors. In accordance with the Settlement Agreement, the Company shall not reject or deny any Section 51 Direct Claim which is a Scheme Liability by sole reason that it was transferred under Section 51 (although it reserves its right to reject, defend against or deny coverage under such a policy for any other reason).

The Company shall apply the Settlement Amount received by it in payment of Pre-Scheme Expenses, Scheme Expenses, Established Liabilities and any other amounts payable under or in accordance with the Scheme. In the event and to the extent that any part of the Settlement Amount remains undistributed following implementation of the Scheme, the balance may be applied by the Company in such manner as it thinks fit.

4. **PROHIBITED ACTS**

Following the Effective Date (and subject to the Company's powers to commute - see Paragraph 14 below "*Commutations*"), the Company will not make payment to Scheme Creditors in respect of Scheme Liabilities other than Established Liabilities.

The Scheme will prohibit Scheme Creditors from commencing or continuing any Proceedings or other regulatory process against the Company or its Property for the purpose of obtaining payment in whole or in part, either directly or indirectly, of any Scheme Liability except:

- (a) in relation to an Established Liability established in accordance with the terms of the Scheme which remains unpaid after the due time for payment described in the Scheme; or
- (b) otherwise with the express written consent of the Scheme Administrators,

(together, "**Excepted Proceedings**"). Any Excepted Proceedings taken by a Scheme Creditor in this regard shall be deemed to have been taken with the consent of the Administrators for the purposes of paragraph 43 of Schedule B1 of the Insolvency Act, which paragraph imposes a moratorium on the taking of certain actions without the consent of the Administrator or the permission of the Court.

The Scheme will also prohibit Scheme Creditors from commencing or continuing any Proceedings or other regulatory process against HIC(US) or its Property for the purpose of obtaining payment in whole or in part, either directly or indirectly, of any Scheme Liability including any Section 51 Direct Claim and, pursuant to the terms of the

SECTION I: EXPLANATORY STATEMENT
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Settlement Agreement, the Scheme Administrators will not consent to the commencement by a Scheme Creditor of any such Proceedings.

5. **CONSEQUENCES OF PROHIBITED ACTS**

If a Scheme Creditor does commence or continue Proceedings against the Company, HIC(US) or their Property after the Effective Date and receives money, Property or any other benefit, such Scheme Creditor shall be treated as having received an advance payment on account of its Scheme Liabilities equal to the amount (to be determined by the Company or, in the case of a dispute, the Scheme Adjudicator) of any such money, Property or other benefit received together with any costs incurred by the Company in respect of such Proceedings.

This provision of the Scheme will operate without prejudice to any rights of action the Company may have against such a Scheme Creditor pursuant to Clause 4.3.8 of the Scheme.

6. **CHAPTER 15 RELIEF IN THE UNITED STATES OF AMERICA**

It is intended that an application will be made in the US pursuant to Chapter 15 of the US Bankruptcy Code (the "**Bankruptcy Code**") by the Company for a permanent injunction recognising and giving effect to the Scheme and in particular providing that:

- (a) all Scheme Creditors, including all persons making a claim under a Section 51 Direct Policy shall be administered exclusively through the Scheme;
- (b) all Scheme Creditors, including all persons making a claim under a Section 51 Direct Policy shall be required to make any and all claims in respect of such policy and seek payment of such claims exclusively through the provisions of the Scheme and shall be prohibited and enjoined from making any claims except as specifically provided for in the Scheme; and
- (c) all Scheme Creditors, including all Scheme Creditors in the US, are restrained from proceeding against the Company in relation to Scheme Liabilities in that jurisdiction and are required to rely instead on the provisions of the Scheme for such claims to be paid.

It is intended that the hearing of such an application will take place shortly after the Scheme has been sanctioned by the Court. A summary of the proposed order is set out in Section I, Part C, Appendix 4 of this Scheme Document.

7. **RIGHTS IN RELATION TO SECURITY INTERESTS**

Scheme Creditors will retain the right to enforce any Security Interests (including any letters of credit) which they hold in respect of a Scheme Liability and any steps taken by a Scheme Creditor to obtain payment under a Security Interest in accordance with the Scheme will be deemed to have been taken with the consent of the Administrators for the purposes of paragraph 43 of Schedule B1 of the Insolvency Act (which paragraph imposes a moratorium on the taking of certain actions without the consent of the Administrator or the permission of the Court).

SECTION I: EXPLANATORY STATEMENT
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The Company expects that Scheme Creditors will not wish to enforce Security Interests and/or drawdown on letters of credit where they are going to receive payment in full (subject to discounting and other relevant deductions, if any, in accordance with the Scheme) in respect of their Established Liabilities. Therefore, to the extent that a Scheme Creditor with the benefit of a Security Interest does not recover sums under such Security Interest (an "**Unrealised Security Interest**") the Company will, subject to the terms of the Scheme, make no deduction in the amount of such Unrealised Security Interest in calculating the Scheme Creditors' Established Liability and the Company will make a payment to the Scheme Creditor in respect of such Established Liability in full.

Prior to the Company being required to make payment in respect of the Established Liability of a Scheme Creditor with the benefit of an Unrealised Security Interest, the Scheme Creditor shall be required to take such steps as the Company may, in its sole discretion, require to release the relevant Unrealised Security Interest.

The rights of the Company against any improper or excessive enforcement of any Security Interests are unaffected by the Scheme.

8. DISCOUNTING

A discount for the time value of money will be applied to Scheme Liabilities. The discount rate is designed to reflect the risk free rate of return and will be determined by applying a discount rate equal to the yield, as at the Final Claims Submission Date, on

- (a) US Treasury bonds (in respect of the Scheme Liabilities payable in US dollars);
- (b) UK Government bonds (in respect of Scheme Liabilities payable in Pounds Sterling); and
- (c) German Government bonds (in respect of Scheme Liabilities payable in Euros),

in each case of an appropriate term to the overall nature of the Scheme business over the period from the Administration Date to the date of payment anticipated by the Company for the Scheme Creditor in question.

9. SET-OFF

Any Liability of a Scheme Creditor to the Company and any cross-claim the Company may have against that Scheme Creditor, will be taken into account or set-off in determining or adjudicating upon the value of that Scheme Creditor's Established Liability. Should the net amount result in a sum being due to the Company, the balance will be payable by the Scheme Creditor to the Company.

Scheme Creditors shall be prohibited from setting off any amount owed by:

- (a) them to HIC(US) against any amounts payable by the Company in the Scheme; and
- (b) them to the Company against any amounts payable by HIC(US) to such Scheme Creditor.

SECTION I: EXPLANATORY STATEMENT
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10. **INTEREST**

Scheme Creditors will only be entitled to receive amounts in respect of interest as part of their payment under the Scheme in respect of a Scheme Liability where they are entitled to such interest by reason of contract, judgment, decree or otherwise, this being Admissible Interest for the purposes of the Scheme. Admissible Interest will be calculated for the period from the date when the interest became due to the Business Day prior to the Administration Date. No other interest will be payable.

11. **CURRENCY OF PAYMENT**

Any amount owed to a Scheme Creditor in respect of a Scheme Liability which, in accordance with the underlying agreement constituting such Scheme Liability, is payable in any currency other than Pounds Sterling, US dollars or Euros, will be paid (once the relevant Established Liability in respect of that Scheme Liability has been determined) in US dollars, converted at the mid-market rate of exchange for that particular currency quoted in the *Financial Times* on the Administration Date. Claims in Pounds Sterling, US dollars or Euros will be paid (once established as Established Liabilities) in the currency of the claim. Claims in any of the currencies which were replaced by the Euro will be converted into Euros at the rate at the date of conversion and paid in Euros.

Where set-off is applied, the Company will, where necessary, convert the set-off into the currency in which the Established Liability will be paid. The rate of any such currency conversion will be the mid-market rate of exchange for that particular currency quoted in the *Financial Times* on the Administration Date, being the date on which the set-off is determined.

12. **BROKER FUNDING**

Some brokers or Agents may have, with or without the Company's knowledge, made payments to Scheme Creditors in respect of claims against the Company. The Scheme does not envisage that brokers or Agents who have engaged in such funding will automatically become Scheme Creditors in respect of the amounts so paid. The Company will need to be provided with evidence of a written assignment or other authority to pay the relevant Scheme Liability to a broker or Agent, or be satisfied that any payment by the broker or Agent was made under pre-existing contractual obligations with the Company or at the request of the Company or pursuant to a statutory or other legal obligation. Notwithstanding that Scheme Liabilities claimed by brokers or Agents in respect of such funding may be disputed, such brokers or Agents may be entitled to vote at the Scheme Meeting at the absolute discretion of the chairman of the meeting.

13. **EXTENSION OF TIME LIMITS**

The Company (acting by the Scheme Administrators) may at its absolute discretion, extend any time period referred to in the Scheme in relation to the determination of Established Liabilities or payments to Scheme Creditors (other than the Claim Notification Date and the Final Claims Submission Date and any time period under the Dispute Resolution Procedure).

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The Scheme Adjudicator may in his sole discretion extend any time period under the Dispute Resolution Procedure contained in the Scheme by such period as he deems necessary to determine any disputed Scheme Liability.

14. **COMMUTATIONS**

For the avoidance of any doubt, following the Effective Date, the Company may, in its absolute discretion but subject always to the terms of the Insolvency Act and any other relevant legislation, enter into contractual arrangements with a Scheme Creditor under which all or part of the Liability of the Company to that Scheme Creditor is discharged in full in consideration for a cash payment made by the Company.

Any sums payable pursuant to such contractual arrangements shall, where appropriate, be calculated on a basis consistent with the terms of the Scheme and the Estimation Guidelines.

15. **ADMINISTRATION DATE**

Scheme Liabilities will be valued as at 1 November 2007, being the date upon which the Administrators were appointed. This is in accordance with the provisions that would apply to the valuation of claims upon a distribution being made in an Administration or any subsequent liquidation of the Company.

16. **DISTRIBUTION OF CLAIM FORMS**

Once the Scheme becomes effective, the Company will, within 7 days of the Effective Date, send notices by Post to each of its Scheme Creditors of whose address it is aware:

- (a) informing them:
 - (i) that the Scheme is effective;
 - (ii) of the Claim Notification Date; and
 - (iii) of the Final Claims Submission Date; and
- (b) enclosing a blank Claim Notification and Final Claim Form.

Such notices and blank Claim Forms will also be sent by Post to brokers, representatives and Agents with known addresses identified as having placed business with or on behalf of the Company as well as the Special Deputy Receiver. Blank Claim Forms can also be downloaded or accessed from the Website. In addition, the Company will place advertisements setting out the same information and calling for Scheme Creditors to complete and return Claim Forms. Such advertisements will be placed in *Insurance Day*, in the United Kingdom, *Business Insurance*, in the US, *NRC Handelsblad* in the Netherlands and the international editions of each of the *Financial Times* and the *Wall Street Journal*, these being the same publications in which the Scheme Meeting was advertised.

Brokers and Agents are urged to notify all possible Scheme Creditors of the action that they should take and to advise Scheme Creditors to submit (i) where required to do so,

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their Claim Notification so that it is received by the Company by the Claim Notification Date and (ii) their Final Claim Form so that it is received by the Company by the Final Claims Submission Date.

17. **CLAIM NOTIFICATIONS**

Under the Scheme, each Scheme Creditor is required to give advance notice of its intention to claim against the Company in respect of the Scheme. This advance notice is given by completing a Claim Notification, the form of which is set out in Schedule 1 to the Scheme. One Claim Notification may be submitted by a group of companies, provided that the full name of each company to be covered by such Claim Notification is included in such Claim Notification.

Where the Company's records indicate that a Scheme Creditor has an unpaid Agreed Claim, such Scheme Creditor shall not be required to submit a Claim Notification. Those Scheme Creditors who appear in the Company's records as having an unpaid Agreed Claim will be notified in writing by the Company within 7 days after the Effective Date. For the avoidance of doubt, any Scheme Creditor who is not specifically notified in writing by the Company that it has an unpaid Agreed Claim will be required to file a Claim Notification if it wishes to claim in the Scheme (save to the extent that it files a Final Claim Form (as described below) prior to the Claim Notification Date).

Where required, a Claim Notification must be returned to the Company by the Claim Notification Date in accordance with the instructions printed thereon.

18. **CLAIM NOTIFICATION DATE**

The Claim Notification Date will be the last date by which Claim Notifications may be received by the Company.

Under the Scheme, the Claim Notification Date will be 5p.m., London time, on the first Business Day falling 90 elapsed calendar days after (but not including) the Effective Date. This date will be notified to Scheme Creditors in the notices and advertisements referred to in Paragraph 16 above "*Distribution of Claim Forms*".

Where a Scheme Creditor is required to submit a Claim Notification and such Claim Notification is not returned to the Company by the Claim Notification Date, such Scheme Creditor will be prohibited from submitting a Final Claim Form whether prior to, on or after the Final Claims Submission Date and the Scheme Liabilities of that Scheme Creditor will be valued at nil.

For the avoidance of doubt, a Scheme Creditor is not required to submit a Claim Notification:

- (a) if it is notified in writing by the Company that it has an unpaid Agreed Claim;
or
- (b) if it submits a Final Claim Form prior to the Claim Notification Date.

Scheme Creditors who are unsure as to their position should submit a Claim Notification by the Claim Notification Date.

19. **COMPLETING FINAL CLAIM FORMS**

If a Scheme Creditor:

- (a) is not required to submit a Claim Notification; or
- (b) has submitted a Claim Notification by the Claim Notification Date; and
- (c) wishes to make a claim against the Company other than for Agreed Claims only,

it will then be required to submit details of its Scheme Liabilities on a Final Claim Form. Scheme Creditors are required to provide details on their Final Claim Form of Pre-Administration Agreed Claims, Post-Administration Agreed Claims, Notified Outstanding Claims and/or IBNR Claims which are all taken into account in determining their Scheme Liability. Scheme Creditors should also supply documents and other information in support of such claims and estimates. The form of the Final Claim Form to be used for submitting these details is set out at Schedule 2 to the Scheme. **For the avoidance of doubt, a Scheme Creditor is not required to submit a Final Claim Form where it is seeking to claim against the Company in respect of only an Agreed Claim.**

The Estimation Guidelines set out in Schedule 3 to the Scheme provide guidance to Scheme Creditors in estimating their IBNR Claims. The Estimation Guidelines will be employed by the Company in reviewing Scheme Creditors' IBNR Claims. For these purposes, it should be noted that the Company will not be bound by, or prepared to follow, any settlement made between the Scheme Creditor and another insurer if it believes that settlement to be unreasonable. Schedule 4 to the Scheme sets out the supporting evidence the Company expects to see in relation to the claims of Scheme Creditors.

Scheme Creditors will also be invited to submit details of any sums owed to the Company which are to be set off under the Scheme in reduction of the Scheme Liabilities of the Company to the Scheme Creditor.

Each Scheme Creditor is required to complete a Final Claim Form in accordance with the instructions accompanying the Final Claim Form and return it so as to reach the Company at any time on or before the Final Claims Submission Date.

Each Scheme Creditor is required to:

- (a) identify each Insurance Contract, together with broker details, under or in relation to which a Scheme Liability of the Company arises;
- (b) specify the amount of the Scheme Liabilities of the Company arising under or in relation to each Insurance Contract;
- (c) supply documents and the other information required in accordance with the Schedules 3 and 4 to the Scheme "*Estimation Guidelines*" and "*Supporting Evidence*";

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- (d) identify and specify details of any realised Security Interest (including any drawn letters of credit), trust, set-off or counterclaim and any other sums owed to the Company which are to be applied or set-off under the Scheme in reduction of the Scheme Liabilities of the Company to the Scheme Creditor; and
- (e) provide details of their bank account for the purpose of payment of their Established Liabilities (if any) by way of telegraphic transfer.

Scheme Creditors are required to provide information relating to their Scheme Liabilities as at the Administration Date. However, in estimating the value of its:

- (i) Notified Outstanding Claims, a Scheme Creditor shall exclude any Post-Administration Agreed Claims; and
- (ii) IBNR Claims, a Scheme Creditor shall include any losses notified to the Scheme Creditor after the Administration Date (such notified losses to nevertheless comprise part of its IBNR Claims) but shall exclude any Post-Administration Agreed Claims.

Brokers or Agents who submit Claim Forms on behalf of their clients who are Scheme Creditors, are required to provide evidence of their authority to act.

Scheme Creditors should note that such information may not be protected by privilege under English law and may be discoverable at the instance of a third party with a claim against the Scheme Creditor in any action or Proceedings to which the Scheme Creditor may be party.

Scheme Creditors should consult their own legal advisers as to the consequences of furnishing such particulars in the event that they are, or may become, involved in any litigation with third parties.

Scheme Creditors may contact the Company's run-off agent, PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester, GL1 1DA, United Kingdom, email: pro_hicukhelpline@pro-ltd.co.uk; telephone: 44 (0)1452 413 985; fax: +44 (0) 1452 782 582, attention Áine Davies/Ian Leighton for assistance in providing any of the contract information required in the Final Claim Form.

20. **FINAL CLAIMS SUBMISSION DATE**

The Final Claims Submission Date will be the last date by which Final Claim Forms may be received by the Company.

Under the Scheme, the Final Claims Submission Date will be 5p.m., London time, on the first Business Day falling 180 elapsed calendar days after (but not including) the Effective Date. This date will be notified to Scheme Creditors in the notices and advertisements referred to in Paragraph 16 above "*Distribution of Claim Forms*".

Each Scheme Creditor which:

- (a) is not required to submit a Claim Notification; or

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(b) has submitted a Claim Notification by the Claim Notification Date,

will be entitled to submit a new or revised Final Claim Form, and to provide revised or further information, to the Company in respect of Scheme Liabilities at any time up to the Final Claims Submission Date, provided that such revised or further information is received by the Company by the Final Claims Submission Date. No Scheme Creditor will, however, have any right after the Final Claims Submission Date to submit a new or revised Final Claim Form. A Scheme Creditor may provide revised or further information in response to a notice or a request from the Company or a Scheme Adjudicator.

Where a Final Claim Form is required to be submitted but is not returned to the Company by the Final Claims Submission Date, the Scheme Liabilities of the Company to the Scheme Creditor will be valued at nil.

21. **REVIEW OF FINAL CLAIM FORMS**

The Company will review each Final Claim Form in accordance with the Scheme and the Estimation Guidelines. This review will form the basis of the determination of any Scheme Creditor's Established Liability under the Scheme.

The Company will consider, amongst other things, whether any estimates relating to future or contingent Scheme Liabilities are reasonable and whether there are any amounts owed by that Scheme Creditor to the Company.

If a Scheme Creditor notifies the Company that it has a Notified Outstanding Claim and/or an IBNR Claim but does not submit an estimate for all or part of the claim concerned, the Company will attribute a nil value to all or that part of the Notified Outstanding Claim and/or IBNR Claim for which no estimate is given.

22. **DETERMINATION OF ESTABLISHED LIABILITIES**

If the Company agrees with the information provided on a Final Claim Form, including amounts in relation to set-off, it will notify the relevant Scheme Creditor in writing to that effect. This agreed claim, after application of discount in accordance with Clause 4.3.2 of the Scheme and any rights of set-off, counterclaim or deduction under the Scheme (if applicable), shall become the relevant Scheme Creditor's Established Liability.

If the Company does not agree with all or part of the information provided on a Final Claim Form, it will provide written notification to the relevant Scheme Creditor of the reasons for the disagreement and request any additional information as soon as reasonably practicable.

The relevant Scheme Creditor must provide such additional information within 28 days of such request being made and the Company will then endeavour to agree each claim by no later than 60 days after the Final Claims Submission Date.

If such disagreement is not subsequently resolved between the Scheme Creditor and the Company within 60 days of the Final Claims Submission Date, the Company will send

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the Scheme Creditor a copy of a Final Claim Form completed in such a manner as it is prepared to accept but will inform the Scheme Creditor that, if this is not accepted, it will refer the Scheme Creditor's claim to the Scheme Adjudicator. If the Scheme Creditor wishes its claim to be referred to the Scheme Adjudicator, then it must respond to the Company within 28 days of receipt of this communication confirming that the matter is to be referred to the Scheme Adjudicator. If such confirmation is received from the Scheme Creditor, the Company must refer the disputed matter to the Scheme Adjudicator. If the Scheme Creditor does not respond to the communication from the Company within 28 days, then the Final Claim Form so completed by the Company will be deemed to be determinative of the disputed matters and the claim as set out in the Final Claim Form, after application of any discount in accordance with Clause 4.3.2 of the Scheme and any right of set-off, counterclaim or deduction if applicable, shall become the relevant Scheme Creditor's Established Liability.

When referring a disputed matter to the Scheme Adjudicator, the Company will pass both Final Claim Forms (as completed by the Scheme Creditor and by the Company) and all correspondence and documents received in relation to the Scheme Creditor's claim to the Scheme Adjudicator.

Notwithstanding the above, the Company may, on its own initiative, refer a claim to the Scheme Adjudicator at any time after the Final Claims Submission Date if it believes in its sole discretion that it will be impossible or impracticable to reach agreement with the relevant Scheme Creditor. A Scheme Creditor has no independent right to refer its Scheme Liability to the Scheme Adjudicator.

23. PAYMENTS OF ESTABLISHED LIABILITIES TO SCHEME CREDITORS

After the Effective Date and subject to the power of the Company to commute (see Paragraph 14 above "*Commutations*"), payments to Scheme Creditors may only be made in respect of Established Liabilities.

Under the Scheme, Scheme Creditors' Established Liabilities will be determined by valuing each Scheme Creditor's Scheme Liabilities and then taking into account or applying the discount in accordance with Clause 4.3.2 of the Scheme and any rights of set-off, counterclaim or other deductions in accordance with the Scheme.

Payments in respect of Established Liabilities shall commence after the later of (a) the Final Claims Submission Date; and (b) the date upon which the Scheme Administrators determine that, in their reasonable opinion, based on then currently available information, all Established Liabilities will be paid in full. It is currently anticipated that payments will commence in or around July 2010.

The Company may, at its discretion, if requested by a broker or Agent who has provided written evidence of his authority to act on behalf of a Scheme Creditor to the Company and provided no notice is received by the Company to the contrary from such Scheme Creditor, make payments to the broker or Agent in respect of the relevant Scheme Creditor's Established Liability.

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Payment in full (subject to discounting and other relevant deductions, if any, in accordance with the Scheme) by the Company to a Scheme Creditor or to any broker or Agent (actually or ostensibly) authorised by the Scheme Creditor to receive such payment in respect of any Established Liability shall constitute a valid discharge of the Scheme Creditor's entitlement to payment in respect of such Established Liability and the Company will have no further liability to that Scheme Creditor in respect of the relevant Established Liability.

Payments will be made by way of telegraphic transfer (at the expense of the relevant Scheme Creditor) to the bank account specified by that Scheme Creditor on its Final Claim Form. Alternatively, if no such bank account details are provided by the Scheme Creditor with its Final Claim Form, payments will be made by cheque and sent by Post. Payments made by way of telegraphic transfer and/or payment of any cheque by any bank on which it is drawn shall constitute a valid discharge of the Scheme Creditor's entitlement to payment in respect of any Established Liability. If any payment is uncashed or otherwise unclaimed by the intended payee after the expiration of six months from the date of the posting of the cheque or the making of the attempted payment (as relevant), the Scheme Creditor's right to such payment shall be extinguished.

24. THE SCHEME ADMINISTRATORS

It is proposed that Dan Schwarzmann and Mark Batten, each partners of PricewaterhouseCoopers LLP (a United Kingdom limited liability partnership) shall be appointed to act as Scheme Administrators, with the powers, rights and functions conferred upon them by the Scheme. The Scheme Administrators from time to time will be those persons appointed as Administrators in the Company's administration in accordance with the Insolvency Act (and related legislation) from time to time.

A copy of the curriculum vitae of each of the proposed Scheme Administrators is contained at Section I, Part C, Appendix 1 of this Scheme Document. Their function will be to supervise and ensure the carrying out of the Scheme in accordance with its terms. For these purposes, they will have the power in the name and on behalf of the Company to manage its affairs, business and property and, in particular, all the functions and powers set out in Clause 5.2 of the Scheme. Any function, duty, right or power conferred on the Company or its officers which could be exercised in such a way as to interfere with the performance or exercise by the Scheme Administrators of their powers, rights, duties and functions under the Scheme may not be exercised without their consent.

The Scheme Administrators are not Scheme Creditors, shareholders or directors of the Company. The Scheme Administrators will be entitled to an indemnity out of the Property of the Company for defending any action brought against them in relation to the Scheme as is more fully set out in Clause 8.8 of the Scheme.

25. THE SCHEME ADJUDICATOR

The initial Scheme Adjudicator under the Scheme will be Colin Czapiewski whose powers, duties, functions and rights are conferred upon him by the Scheme.

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The Scheme Adjudicator will act as an independent expert and not as an arbitrator and his specific function will be to determine any disputed Established Liability (or element thereof) that has been referred to him in accordance with the Scheme. In this respect, the Scheme Adjudicator will be entitled to engage and consult with such appropriate independent professional advice as he considers necessary, including with legal advisers and insurance industry experts.

The Scheme Adjudicator will be entitled to be paid his remuneration and costs as is more fully set out in Clause 6.2.5 and 6.2.6 of the Scheme save for where he is entitled to reimbursement by a third party in respect of such fees and costs. The Scheme Adjudicator will also be entitled to an indemnity out of the Property of the Company for defending any action brought against him in relation to the Scheme as is more fully set out in Clause 8.8 of the Scheme. The Scheme Adjudicator also has discretion to award costs, including the costs of any advisers and insurance industry experts he employs, against any party.

Any function, duty, right or power conferred on the Company or its officers which could be exercised in such a way as to interfere with the performance or exercise by the Scheme Adjudicator of his powers, rights, duties and functions under the Scheme may not be exercised without his consent.

The Scheme Adjudicator is not a Scheme Creditor, shareholder or director of the Company.

26. DISPUTE RESOLUTION PROCEDURE

The Scheme Adjudicator will review all of the available information to determine what constitutes a reasonable estimate of the Scheme Creditor's Established Liability according, where appropriate, to the Estimation Guidelines and may request additional information where required from the Scheme Creditor or the Company.

The Scheme Adjudicator may accept the Company's or Scheme Creditor's figure or direct the Company to adopt different assumptions or take into account new information not previously taken into account by the Company in producing a revised figure or may produce a completely new figure himself. A final determination in respect of each disputed Established Liability will then be made in accordance with the Dispute Resolution Procedure contained in the Scheme and the Scheme Adjudicator's decision will be binding and there will be no right of appeal except insofar as the law allows.

The Scheme provides for the appointment of an alternate Scheme Adjudicator in the event of a conflict of interest.

27. FINAL IMPLEMENTATION OF THE SCHEME

The Scheme will be finally implemented upon written confirmation by the Company to the Scheme Creditors and the Scheme Adjudicator that all Scheme Liabilities have been adjudicated or otherwise determined and all Established Liabilities paid in full (or deemed to have been satisfied in full) in accordance with the terms of the Scheme.

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As soon as practicable after the final implementation of the Scheme, the Company will place notices in those publications referred to in Paragraph 16 "*Distribution of Claim Forms*" and on the Website, and give notice to the Special Deputy Receiver, that the Scheme has been finally implemented.

28. **EARLY TERMINATION**

The Company shall terminate the Scheme at any time after the Claims Notification Date, if it determines (in the judgment of the Scheme Administrators, acting reasonably and taking into account the level at which they reasonably consider Scheme Liabilities may ultimately be agreed or otherwise determined as Established Liabilities in accordance with the Scheme) that the Company will not be able to pay all Established Liabilities in full together with all other equally ranking creditors. If this happens, the Company shall give notice that the Scheme will terminate to all creditors, in particular Scheme Creditors, of whose address it is aware as well as to the Scheme Adjudicator and Special Deputy Receiver. It shall also place notices in those publications referred to in Paragraph 16 "*Distribution of Claim Forms*" and on the Website.

In such circumstances, any Scheme Liabilities which have not become Established Liabilities under the Scheme shall no longer be binding upon the Company or the Scheme Creditors concerned. However, Established Liabilities (whether or not they have yet been paid) shall continue to be binding on the Company and the Scheme Creditor, save where the Scheme Creditor elects otherwise in writing within 42 days after the Early Termination Date.

Following the early termination of the Scheme, the Administrators will need to consider, in the light of the then prevailing circumstances, the appropriate action to take in respect of the Company, whether that be an alternative scheme of arrangement, distribution to creditors in the Administration, insolvent liquidation or other procedure. Scheme Creditors will be notified of such alternative arrangements as soon as reasonably practicable thereafter.

29. **GOVERNING LAW AND JURISDICTION**

The Scheme will be governed by and construed in accordance with the laws of England and Wales, and Scheme Creditors agree that the Court shall have exclusive jurisdiction to hear and determine any Proceeding and any dispute which may arise out of any provisions of the Scheme or out of any action taken or omitted to be taken under the Scheme.

The Court will also have exclusive jurisdiction in relation to any dispute arising in the administration of the Scheme or the Scheme Document. For such purposes, the Scheme Creditors irrevocably submit to the jurisdiction of the Court.

30. **ASSISTANCE TO BE PROVIDED AND ON-GOING REPORTING REQUIREMENTS**

During the implementation of the Scheme, Scheme Creditors must meet the reasonable requirements of all or any of the Scheme Administrators, Scheme Adjudicator or the Company in connection with the implementation of the Scheme, the recovery of any

SECTION I: EXPLANATORY STATEMENT
PART B: SUMMARY OF THE SCHEME

Property or the enforcement of obligations or liabilities which are or may become owed to the Company.

31. **LIABILITY**

Scheme Creditors will not be entitled to challenge acts done or omitted to be done in good faith and with due care by the Company, Scheme Administrators or Scheme Adjudicator in performing their duties or functions under the Scheme and none of the Scheme Administrators nor the Scheme Adjudicator will be liable for any loss unless such loss is attributable to their own negligence, fraud or dishonesty.

32. **SCHEME EXPENSES**

All costs, charges, expenses and disbursements incurred by the Company, Scheme Administrator and/or Scheme Adjudicator in performing or exercising their powers, rights, duties and functions under the Scheme or in relation to the Scheme Meeting (as the case may be) shall be paid out of the Property of the Company where properly incurred by the Company, a Scheme Administrator and/or the Scheme Adjudicator in connection therewith (save, in respect of the Scheme Administrator and Scheme Adjudicator, where they have already been reimbursed or have a right of reimbursement in respect of such costs, charges, expenses and disbursements by a third party).

33. **ELECTRONIC COMMUNICATIONS**

At the option of the Scheme Creditor, communications required under the Scheme can be sent electronically in accordance with the Scheme's terms.

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APPENDIX 1

CURRICULA VITAE

DAN SCHWARZMANN

Dan Schwarzmann is a partner in the London office of PwC, where he has been involved in corporate recovery work since 1990. He is a specialist in insolvency and reorganisations within the financial services sector and leads PwC's Business Recovery Services practice.

In recent years Dan's assignments have included a number of substantial insurance companies in the London market. In particular, he has acted as an administrator, provisional liquidator or scheme administrator for a number of insurance companies, including:

- AA Mutual International Insurance Company Limited;
- BAI (Run-off) Limited;
- Black Sea and Baltic General Insurance Company Limited;
- Chester Street Insurance Holdings Limited (Formerly Iron Trades Holdings Limited);
- Folksam International Insurance Company (UK) Limited;
- Independent Insurance Company Limited;
- OIC Run-Off Limited (formerly The Orion Insurance Company plc) and The London and Overseas Insurance Company Limited; and
- Stirling Cooke Brown Insurance Brokers Limited.

In addition to handling assignments in the insurance industry, Dan has also been involved with a number of other cases in the financial sector.

Dan is a member of the Association of Business Recovery Professionals, the Institute of Chartered Accountants in England and Wales and the International Association of Insurance Receivers. He is also a licensed Insolvency Practitioner. He has a masters degree in Business Administration.

MARK C BATTEN

Mark Batten has been involved with corporate restructuring work since 1982 and has been a partner in the London office of PwC since 1990. Mark leads PwC's corporate side restructuring practice, dealing with most aspects of corporate reorganisation/wind downs predominantly in the insurance sector.

Mark he has acted as an administrator, provisional liquidator or scheme administrator for various insolvent insurance companies, including:

- BAI (Run-off) Limited;
- Chester Street Insurance Holdings Limited (formerly Iron Trades Holdings Limited);
- Dai Ichi Kyoto Reinsurance Company SA;
- Fremont Insurance Company (UK) Limited;
- ICS Reinsurance Private Limited;
- Independent Insurance Company Limited;
- Kobe Reinsurance SA;
- North Atlantic Insurance Company Limited;
- Oaklife Assurance Company Limited;
- Paramount Insurance Company Limited;
- RMCA Reinsurance Limited;
- The Charter Reinsurance Company Limited;
- The Hawk Insurance Company Limited;
- The Insurance Corporation of Singapore (UK) Limited; and
- United Standard Insurance Company Limited.

Mark is a member of the Institute of Chartered Accountants in England and Wales and a licensed Insolvency Practitioner. He is a graduate of Oxford University.

Note: a partner in PwC means a member of PricewaterhouseCoopers LLP.

THE SCHEME ADJUDICATOR

COLIN J W CZAPIEWSKI FIA MAAA FPSA FSAI

Colin Czapiewski began his career at the Prudential Assurance Company. In December 1985, he was appointed Actuary at Terra Nova Insurance Company. In July 1993, he joined Lane Clark & Peacock LLP ("**LCP**"), consulting actuaries, as Partner and Head of Insurance, where he built up the practice from scratch to become a significant player in the market. Colin spent several years on the remuneration committee of the partnership. He retired from LCP in April 2005 to work as a part time independent consultant.

Colin became a Fellow of the Institute of Actuaries in 1984. In 1990, he became a Member of the American Academy of Actuaries and in 1995 he was appointed an Honorary Member of the Polish Society of Actuaries. He was elected by members of his profession to the Council of the Institute of Actuaries in July 1995. Colin was Institute representative on the General Insurance Board, which deals with non-life aspects of the actuarial profession, where he was responsible for Lloyd's issues during the eventful years of Equitas and the introduction of Lloyd's actuarial opinions. Currently, he sits on several committees within the profession including the Environmental Research Group.

Colin has extensive actuarial experience in the specialised area of General Insurance and Risk Management. He has written and presented a large number of papers around the world on a broad range of insurance-related actuarial topics, including pricing, reserving, actuarial reporting, climate change issues, marine insurance, assessment of reinsurance security, expenses, latent claims (including asbestos and pollution), capital requirements, risk exposure, public and employers' liability, financial condition reporting and many other topics.

He has performed litigation support and arbitration for many insurance (and especially reinsurance) disputes in actuarial, underwriting and claims areas, where he is seen as an expert in the market. In the course of this, Colin has worked closely with lawyers and barristers. He is actively sought as an experienced expert witness.

Colin has filled a variety of roles in a large number of both solvent and insolvent schemes of arrangement. Such roles not only include areas of actuarial work, but also independent scheme adjudicator, independent scheme assessor and chairman of scheme creditor meetings.

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APPENDIX 2

LIST OF DOCUMENTS AVAILABLE FOR INSPECTION

- (1) The letter sent by the Company to Scheme Creditors dated 9 March 2009 pursuant to the Practice Statement issued by Andrew Morritt V-C dated 15 April 2002 in respect of schemes of arrangement;
- (2) Order of the Court dated 30 April 2009 directing the convening of the Scheme Meeting;
- (3) Letters of consent to act/to be bound from each of the Scheme Administrators, the Scheme Adjudicator and the Special Deputy Receiver;
- (4) The latest audited annual financial statements of the Company;
- (5) The Rehabilitation Order (which includes a copy of the Rehabilitation Plan);
- (6) The Approval Order; and
- (7) The Settlement Agreement.

These documents are available for inspection on the Website and, on reasonable notice by a Scheme Creditor, at the following locations during ordinary business hours on any Business Day, in both cases until the close of the Scheme Meeting:

PricewaterhouseCoopers LLP

Plumtree Court
London, EC4A 4HT
United Kingdom

Tel: +44 (0) 20 7804 5067
Contact: Dan Schwarzmans/Gary Bray
Email: highlandsukteam@uk.pwc.com

Clifford Chance LLP (London)

10 Upper Bank Street
London E14 5JJ
United Kingdom

Tel: +44 (0)20 7006 1000
Contact: Philip Hertz/Jeanette Best
Email Philip.Hertz@CliffordChance.com
Jeanette.Best@CliffordChance.com

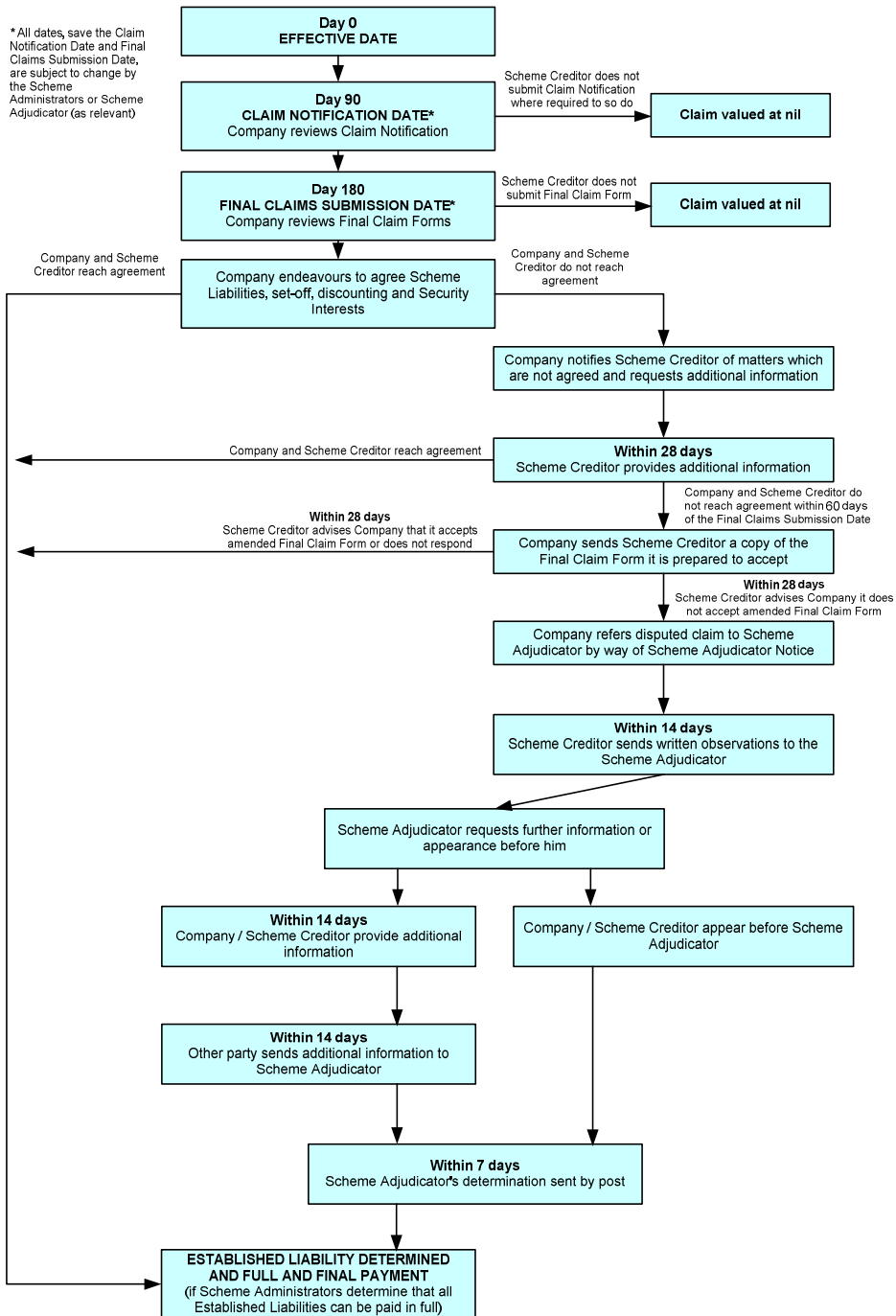
Clifford Chance LLP (New York)

31 West 52nd Street
New York, NY 10019-6131
United States of America

Tel: +1 212 878 8000
Contact: Jennifer DeMarco/Sara Tapinekis
Email: Jennifer.DeMarco@CliffordChance.com
Sara.Tapinekis@CliffordChance.com

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APPENDIX 3 : PROCEDURE FOR AGREEING ESTABLISHED LIABILITIES



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APPENDIX 4

SUMMARY OF US PERMANENT INJUNCTION ORDER

The Company will apply for permanent injunctive relief from the United States Bankruptcy Court under Chapter 15 of the US Bankruptcy Code, seeking an order that once the Court order sanctioning its Scheme has been delivered for registration to the Registrar of Companies in England and Wales:

- (a) the Scheme be given full force and effect and be binding on and enforceable against all Scheme Creditors in the United States;
- (b) all claims of Scheme Creditors shall be administered and adjudicated exclusively pursuant to the terms of the Scheme;
- (c) Section 51 Direct Policyholders/Claimants shall be required to make any and all claims in respect of their Section 51 Direct Policy and seek payment of such claims exclusively in accordance with the provisions of the Scheme and shall be precluded and enjoined from making any such claims except as specifically provided for under the Scheme;
- (d) all Scheme Creditors asserting a claim under a Section 51 Direct Policy ("**Section 51 Direct Policyholders/Claimants**") are prohibited and enjoined from asserting any and all claims in respect of their Section 51 Direct Policy or seeking payment of such claims (including asserting or effecting a set-off based on such claims) against HIC(US);
- (e) except as provided in the Scheme, all Scheme Creditors be permanently enjoined and restrained from taking any actions in contravention of, or that are inconsistent with, the terms of the Scheme or its administration, implementation or enforcement, including:
 - (i) transferring, relinquishing or disposing of any property of the Company located within the territorial jurisdiction of the United States or the proceeds of such property (the "**US Property**");
 - (ii) taking or continuing any act to obtain possession of, or exercise control over, the Company or any of its US Property located within the territorial jurisdiction of the United States;
 - (iii) commencing or continuing any action or Proceedings (including, without limitation, arbitration, mediation or any judicial, quasi-judicial, administrative or regulatory action, proceedings or process whatsoever), including by way of counterclaim (each individually, an "**Action**"), against the Company or any of its US Property;
 - (iv) enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order or arbitration award against the Company obtained in connection with any Scheme Liability;
 - (v) commencing or continuing any act or Proceeding to create, perfect or enforce any lien, attachment, set-off or other claim against the Company or any of its Property, including, without limitation, rights under the Insurance Contracts;

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- (vi) except as prohibited by § 1501(d) of the Bankruptcy Code, invoking, enforcing or relying on the benefits of any statute, rule or requirement of federal, state, or local law or regulation requiring the Company to establish or post security in the form of a bond, letter of credit or otherwise as a condition of prosecuting or defending any Proceedings arising out of a Scheme Liability (including, without limitation, arbitration, mediation or any judicial, quasi-judicial, administrative or regulatory action, proceedings or process whatsoever) and such statute, rule or requirement will be rendered null and void for Proceedings; provided, however, that nothing in the order shall in any respect affect any Security Interest in existence at the Effective Date or the replacements for such Security Interest;
 - (vii) except as prohibited by § 1501(d) of the US Bankruptcy Code, drawing down any letter of credit established by, on behalf of or at the request of the Company unless expressly authorised by the terms of any contract or agreement pursuant to which the letter of credit has been established; and
 - (viii) except as prohibited by § 1501(d) of the US Bankruptcy Code, withdrawing from, setting-off against, or otherwise applying Property that is the subject of any trust or escrow agreement or similar arrangement in which the Company has an interest in excess of amounts expressly authorised by the terms of the contract and any related trust or other agreement pursuant to which such trust, escrow or similar arrangement has been established.
- (f) except as provided in the Scheme, all Scheme Creditors that are parties to any trust, escrow agreement or similar arrangement in which the Company has an interest, are required to:
- (i) provide notice to the Company's United States counsel, Clifford Chance US LLP, 31 West 52nd Street, New York, New York 10019 (Attn: Sara Tapinekis), of any withdrawal from, set-off against, or other application of property that is the subject of any such trust or escrow agreement or similar arrangement in which the Company has an interest, together with information sufficient to permit the Company to assess the propriety of such withdrawal, set-off or other application, including, without limitation, the date and amount of such withdrawal, set-off or other application and a copy of any contract, related trust or other agreement pursuant to which any such withdrawal, set-off or other application was made, and provide such notice and other information contemporaneously; and
 - (ii) turn over and account to the Company for all funds resulting from such withdrawal, set-off or other application in excess of amounts expressly authorised by the terms of the contract, any related trust or other agreement pursuant to which such trust, escrow or similar arrangement has been established;
- (g) except as provided in the Scheme, all Scheme Creditors are required to:

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- (i) turn over and account to the Company for any Property of the Company located within the territorial jurisdiction of the United States, or proceeds thereof, that relate to any Scheme Liability, of which they have possession, custody or control;
- (ii) deliver to the Company any books, papers or records of the Company that relate to any Scheme Liability, of which they have possession, custody or control and all Scheme Creditors having any books, papers or records that the Company or Scheme Adjudicator may reasonably require in relation to their duties or related to any matter that may affect the implementation of the Scheme shall preserve them and submit them to the Company or Scheme Adjudicator, or their designees, for examination at all reasonable times; and
- (iii) to the extent they have a claim of any nature or source against the Company or any Property or are a party to any Proceeding in which the Company is or was named as a party, or as a result of which a liability of the Company may be established, notify the Company, in accordance with the terms of the Scheme, and to put the Company's United States counsel on the master service list of any such Proceeding and to take such other steps as may be necessary to ensure that they receive (A) copies of any and all documents sent by the parties to such Proceeding or issued by the court, administrator, arbitrator, regulator or similar official having jurisdiction over such Proceeding, and (B) any and all correspondence or other documents circulated to parties named in the master service list;
- (h) nothing in the order would prevent the continuance or commencement of Proceedings against any insurer other than the Company, provided however, that if any third party shall reach a settlement with, or obtain a judgment against, any person or entity other than the Company, such settlement or judgment shall not be binding on or enforceable against the Company;
- (i) the US Bankruptcy Court shall retain jurisdiction with respect to the enforcement, amendment or modification of the order or requests for any additional relief in the case filed under Chapter 15 of the United States Bankruptcy Code and all adversary proceedings in connection therewith properly commenced and within the jurisdiction of the US Bankruptcy Court;
- (j) no action taken by the Company, its successors, agents or representatives, or any of them, or its counsel, in preparing, disseminating, applying for, implementing or otherwise acting in furtherance of the Scheme, the order, the Chapter 15 case, any further order for additional relief in the Chapter 15 case, or any adversary proceedings in connection therewith, will be deemed to constitute a waiver of the immunity afforded to the Company, the Scheme Administrators, the Scheme Adjudicator or their successors, agents, attorneys or representatives pursuant to Section 1510 of the United States Bankruptcy Code;
- (k) nothing in the order shall alter or affect the terms of the Settlement Agreement between the Company and HIC(US), or the venue and jurisdiction provisions thereof; and

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- (l) the order be served:
- (i) by United States mail, first class postage prepaid, on or before the date prescribed by the US Bankruptcy Court upon the parties in interest; and
 - (ii) by publication in *Business Insurance* and the US edition of the *Wall Street Journal* on or before the date prescribed by the US Bankruptcy Court;

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

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SECTION II: THE SCHEME

PROPOSAL IN RELATION TO A SCHEME OF ARRANGEMENT

pursuant to Part 26 of the Companies Act 2006

between

HIGHLANDS INSURANCE COMPANY (U.K.) LIMITED (in Administration)

and its

SCHEME CREDITORS

(as defined in the Scheme)

Dan Schwarzmann and Mark Batten were appointed joint administrators to Highlands Insurance Company (U.K.) Limited on 1 November 2007, to manage its affairs, business and property as agents without personal liability. Dan Schwarzmann and Mark Batten are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. PRO Insurance Solutions Limited continues to act as run off manager for the Company.
The Scheme helpline number is +44 (0) 1452 413 985.

SECTION II: THE SCHEME

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SECTION II: THE SCHEME

1. PART 1: PRELIMINARY

1.1 Definitions

In the Scheme, unless inconsistent with the subject or context, the following words shall have the following meanings:

"**Administration Creditors' Committee**" means the creditors' committee appointed in the administration of the Company;

"**Administration Date**" means 1 November 2007, being the date upon which Administrators were appointed;

"**Administration Order**" means the order of the Court dated 1 November 2007 made under paragraph 12(1)(b), Schedule B1, under which the Administrators were appointed and any further order of the Court made from time to time extending the duration of that order;

"**Administrators**" means Dan Schwarzmann and Mark Batten, both partners of PricewaterhouseCoopers LLP, in their capacity as joint administrators of the Company appointed pursuant to the Administration Order and/or such other person or persons as may be appointed in such capacity in addition to, or in place of, them (or their replacements) from time to time and in accordance with the Insolvency Act;

"**Admissible Interest**" means any interest to which a Scheme Creditor is entitled by reason of contract, judgment, decree or otherwise;

"**Agent**" means any person, other than a broker, who is authorised, whether actually or ostensibly, to act on behalf of the Company or any Scheme Creditor;

"**Agreed Claim**" means a Pre-Administration Agreed Claim or a Post-Administration Agreed Claim;

"**Board**" means the board of directors of the Company;

"**Business Day**" means a day, not being a Saturday or a Sunday, on which banks in the City of London are open for business;

"**CDDA**" means the Company Directors Disqualification Act 1986 of Great Britain;

"**Chapter 15 Order**" means an order of the US Bankruptcy Court granting permanent injunctive relief under Chapter 15 of the United States Bankruptcy Code substantially on the terms set out in Section I, Part C, Appendix 4 of the Scheme Document;

"**Claim Form**" means a Claim Notification and/or a Final Claim Form, as the context shall admit;

"**Claim Notification**" means a copy of the form set out in Schedule 1 hereto or any other written notice which, in the reasonable opinion of the Scheme Administrators, contains substantially the same information as that contained in the form set out in Schedule 1 hereto;

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"Claim Notification Date" means the last time and date for the receipt of a Claim Notification by the Company, being 5pm (London time) on the first Business Day falling 90 elapsed days after (and not including) the Effective Date;

"Companies Act" means the Companies Act 2006 of Great Britain;

"Company" means Highlands Insurance Company (U.K.) Limited (in Administration) as more particularly described in Clause 1.3;

"Court" means the High Court of Justice of England and Wales;

"Court Order" means the order of the Court sanctioning the Scheme;

"Delegate" shall have the meaning given to that term in Clause 5.2.2(1);

"Discount Rate" means, in respect of a:

- (a) Scheme Liability payable in US dollars, the yield as at the Final Claims Submission Date on US Treasury bonds of an appropriate term to the overall nature of the Scheme business;
- (b) Scheme Liability payable in Pounds Sterling, the yield as at the Final Claims Submission Date on UK Government bonds of an appropriate term to the overall nature of the Scheme business; or
- (c) Scheme Liability payable in Euros, the yield as at the Final Claims Submission Date on German Government bonds of an appropriate term to the overall nature of the Scheme business.

"Dispute Resolution Procedure" means the procedure for the resolution of disputes set out in Clause 6.2;

"Early Termination Date" has the meaning given to that term in Clause 7.3.2;

"Effective Date" means the first date on which:

- (a) the office copy of the Court Order shall have been delivered for registration to the Registrar of Companies in England and Wales; and
- (b) the Chapter 15 Order has been granted by the US Bankruptcy Court;

"Electronic Equipment" means a facsimile machine or computer;

"Electronic Form" means by facsimile or by email in pdf or other electronic format;

"Employers' Liability Insurance Contract" means any contract of insurance written in accordance with section 1(1) of the Employers' Liability (Compulsory Insurance) Act 1969;

"Escrow Account" means the joint account established for the purpose of the payment of the Escrow Amount in accordance with the Settlement Agreement;

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"Escrow Amount" means the sum of US\$6,625,000 held in the Escrow Account and interest accrued thereon;

"Established Liability" means the value attributed to the Scheme Liabilities in favour of a Scheme Creditor determined in accordance with the Scheme and Estimation Guidelines, after the application of any discount in accordance with Clause 4.3.2 and the deduction of any sums recovered by a Scheme Creditor under any Security Interest and after the application of any rights of set-off, counterclaim or other deduction applied pursuant to the Scheme;

"Established Liability Date" means the date upon which the Established Liability of a Scheme Creditor is determined (or deemed determined) by the Company or the Scheme Adjudicator;

"Estimation Guidelines" means the guidelines set out in Schedule 3 hereto, as incorporated herein in accordance with Clause 4.1.3;

"Euro" means the single currency adopted by participating Member States in furtherance of economic and monetary union under Article 109 of the Treaty of European Union;

"Excepted Proceedings" means Proceedings brought against the Company or its Property by or on behalf of a Scheme Creditor:

- (a) for failure by the Company to perform any obligation to make a payment of an Established Liability to a Scheme Creditor when the same shall have become due in accordance with Clause 4.4.2, provided that, where relevant, Proceedings shall not be, or shall cease to be, Excepted Proceedings from the date on which the Scheme Administrators issue a notice that the Scheme shall terminate in accordance with Clause 7.3.2; or
- (b) with the written consent of the Scheme Administrators;

"Explanatory Statement" means the statement dated the date hereof explaining the effect of the Scheme to Scheme Creditors as required by Section 897 of the Companies Act;

"Final Claim Form" means a copy of the form set out in Schedule 2 hereto or any other form which, in the opinion of the Scheme Administrators, is in substantially the same form as the form set out in Schedule 2 hereto;

"Final Claims Submission Date" means the last time and date for the receipt of Final Claim Forms by the Company, being 5pm (London time) on the first Business Day falling 180 elapsed days after (and not including) the Effective Date;

"HIC(US)" shall have the meaning given to that term in Clause 1.3.1;

"HIGI" shall have the meaning given to that term in Clause 1.3.1;

"IBNR Claim" means a claim, as at the Administration Date, against the Company in respect of a loss which has been incurred but has not been reported to the Scheme Creditor plus the amount payable in respect of a general excess over Notified

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Outstanding Claims, to the extent that the current estimates of claims included as Notified Outstanding Claims may prove to be inadequate, but excluding any Post-Administration Agreed Claim;

"**Insolvency Act**" means the Insolvency Act 1986 of Great Britain;

"**Insurance Contract**" means any contract or policy of insurance entered into by or on behalf of the Company or in relation to which the Company has assumed liability, including but not limited to the Section 51 Direct Policies but not including any:

- (a) contract or policy of reinsurance or retrocession of any kind whatsoever;
- (b) Employers' Liability Insurance Contract;

"**Liability**" means any liability of a person, whether it is present, future, prospective or contingent, whether or not its amount is fixed or unliquidated, whether or not it involves the payment of money and whether it arises at common law, in equity or by statute, in England or in any other jurisdiction, or in any other manner whatsoever. Such expression does not include any liability which is barred by statute or is otherwise unenforceable and, for the avoidance of doubt, a person who does not have a legal liability under a contract or policy because such contract or policy is void or, being voidable, has been or is duly avoided, will not have a liability for the purposes of the Scheme;

"**Mentally Disordered**" means, in relation to an individual, where he is a patient within the meaning of Part X of the Mental Health Act 1983 or Section 125(1) of the Mental Health (Scotland) Act 1984 or an order is made by a court having jurisdiction in matters concerning mental disorder for his detention or the appointment of a receiver or other person to exercise power over his affairs;

"**Notified Outstanding Claim**" means a claim, as at the Administration Date, against the Company in respect of a loss that has been reported to the Scheme Creditor but excluding any Post-Administration Agreed Claim;

"**Payment on Account**" has the meaning given to that term in Clause 3.5.3;

"**Post**" means first class post, air mail or hand delivery (including by a generally recognised commercial courier service);

"**Post-Administration Agreed Claim**" means a claim which, as at the Administration Date, was either a Notified Outstanding Claim or an IBNR Claim but in respect of which the existence and quantum of the Liability has been agreed between the Scheme Creditor and the Company after the Administration Date but before the Effective Date, according to the Company's records or such other evidence as the Scheme Administrators may reasonably accept, but such Liability has not yet been paid by or on behalf of the Company;

"**Pounds Sterling**" means United Kingdom pounds sterling or any other lawful currency for the time being of the United Kingdom;

"**Pre-Administration Agreed Claim**" means a claim against the Company arising under or in respect of an Insurance Contract where, as at the Administration Date, the existence

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and quantum of the Liability have been agreed between the Scheme Creditor and the Company, according to the Company's records or such other evidence as the Scheme Administrators may reasonably accept, but such Liability has not yet been paid by or on behalf of the Company;

"Pre-Scheme Expenses" means all costs, charges, expenses and disbursements reasonably incurred by the Company in connection with the promotion and preparation of the Scheme including, but not limited to, the costs of holding the Scheme Meeting and the costs of obtaining the Court Order;

"Proceedings" means any step or proceeding, whether by way of demand, arrest, lien, legal proceeding, execution of judgment, arbitration proceedings or otherwise howsoever described in any jurisdiction;

"Property" means all forms of property including money, goods, things in action, land and every description of property wherever situated together with obligations and every description of interest, whether present or future or vested or contingent, arising out of, or incidental to, property;

"Receivership Court" means the 53rd Judicial Court of Travis County Texas, US;

"Rehabilitation Plan" means the Second Amended Plan of Rehabilitation for HIC(US) dated 26 May 2008, as approved by an order of the Receivership Court dated 6 June 2008;

"Schedule B1" means Schedule B1 of the Insolvency Act;

"Scheme" means the scheme of arrangement pursuant to Part 26 of the Companies Act proposed in relation to the Company as set out in this document or as the same may from time to time be modified in accordance with Clause 1.5;

"Scheme Adjudicator" means Colin Czapiewski or any other person or persons for the time being appointed as Scheme Adjudicator pursuant to Clause 6.1.7;

"Scheme Adjudicator Notice" means a dated notice in writing sent by Post by or on behalf of the Company to the Scheme Adjudicator (and copied, with enclosures, by Post to the relevant Scheme Creditor) referring a disputed matter to the Scheme Adjudicator, setting out details of the matter or matters to be resolved as well as enclosing submissions together with evidence in support of them including copies of such of the Company's records as shall appear relevant, the relevant Claim Forms and enclosures, if any, and any supporting documents provided by the Scheme Creditor;

"Scheme Administrators" means Dan Schwarzmann and Mark Batten, each of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT, or such other firm or person for the time being appointed as a Scheme Administrator in accordance with Clause 5.1.1;

"Scheme Creditor" means a person who is a creditor of the Company in respect of a Scheme Liability;

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"Scheme Document" means the document dated the date hereof incorporating, amongst other things, the Explanatory Statement and the Scheme, as posted to the Website;

"Scheme Expenses" means:

- (a) all costs, charges, expenses and disbursements incurred by the Company in the course of carrying out the Scheme and complying with the provisions of the Companies Act;
- (b) insofar as they do not fall within (a) above, all costs, charges, expenses and disbursements incurred by and the remuneration of, the Scheme Administrator and the Scheme Adjudicator (save for where the Scheme Administrator or Scheme Adjudicator is entitled to reimbursement by a third party in respect of such costs, charges, expenses, disbursements and remuneration) to the extent such costs, charges, expenses, disbursements and remuneration are referable to the implementation and carrying out of the Scheme;
- (c) insofar as it does not fall within (a) or (b) above, any sum which the Company is obliged to pay by reason of the obligations imposed on the Company by and under the Scheme; and
- (d) the costs of placing the notices as required by the Scheme.

"Scheme Liability" means any Liability to which the Company was subject at the Administration Date or may become subject after the Administration Date arising out of either:

- (a) an Insurance Contract; or
- (b) a direct right of action under an Insurance Contract or a contribution or subrogation claim based on an Insurance Contract,

including a claim for Admissible Interest;

"Scheme Meeting" means the meeting of the Scheme Creditors to consider and vote on the Scheme held pursuant to an order of the Court;

"Section 51" means Section 51 of the Insurance Companies Act 1982 of Great Britain;

"Section 51 Direct Claim" means any claim in respect of a Liability arising under or pursuant to a Section 51 Direct Policy;

"Section 51 Direct Policyholder/Claimant" means any person making a Section 51 Direct Claim;

"Section 51 Direct Policy" means an Insurance Contract which was the subject of the transfers made pursuant to Section 51 and the Transfer Documents (as further described in Clauses 1.3.3 and 1.3.4);

"Security Interest" means any valid mortgage, charge, lien, assignment by way of security, letter of credit, other security interest over the Property of the Company or bond

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given solely by the Company in respect of any Insurance Contract or in relation to Proceedings concerning such an agreement;

"Settlement Agreement" means the settlement agreement dated 9 May 2008, as amended by an amendment agreement dated 8 December 2008, and made between the Company acting by the Administrators and HIC(US) acting by the Special Deputy Receiver as approved by the Receivership Court by an order dated 13 October 2008;

"Settlement Amount" means US\$13,000,000 comprising of:

- (a) the Escrow Amount; and
- (b) US\$6,375,000 in cash;

"Special Deputy Receiver" means Prime Tempus Inc. in its capacity as special deputy receiver appointed by the Commissioner of Insurance for the State of Texas in its capacity as Receiver appointed by the Receivership Court, to oversee the management of HIC(US) (or such other person lawfully appointed in its place from time to time);

"Tax" means any form of taxation, levy, duty, charge, contribution, withholding, or impost of whatever nature (including any related fine, penalty surcharge or interest) imposed, collected or assessed by or payable to a Tax Authority;

"Tax Authority" means any government, state, municipality, or any local, state, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world (including in the United Kingdom, without limitation, H.M. Revenue & Customs);

"Termination Event" means, in respect of a company or a limited liability partnership, in the event that such company or limited liability partnership:

- (a) becomes unable to pay its debts within the meaning of section 123 of the Insolvency Act; or
- (b) takes any corporate action, legal proceedings or other procedure or step in relation to:
 - (i) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or re-organisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
 - (ii) a composition, assignment or arrangement with any creditor;
 - (iii) the appointment of a liquidator, receiver, administrator, administrative receiver, compulsory manager or other similar officer in respect of its or any of its assets;
 - (iv) the enforcement of any encumbrance (including any mortgage, pledge, lien, hypothecation, charge, assignment or deposit by way of security or any other agreement having the effect of providing or giving security or preferential ranking to any creditor) over any of its assets; or
 - (v) any analogous procedure or step in any jurisdiction;

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(c) resigns its appointment by notice in accordance with the Scheme;

or, in respect of an individual, in the event that such individual:

(a) dies;

(b) is convicted of an indictable offence;

(c) resigns his appointment by notice in accordance with the Scheme;

(d) becomes bankrupt;

(e) is disqualified from acting as a director of a company under the CDDA; or

(f) becomes Mentally Disordered;

"Transfer Documents" means:

(a) the Deed of Transfer dated 9 October 1986; and

(b) the Instrument of Transfer dated 29 December 1988,

each between the Company and HIC(US);

"Unrealised Security Interest" shall have the meaning ascribed to this term in Clause 3.4.3;

"US" means United States of America;

"US Bankruptcy Court" means the United States Bankruptcy Court for the Southern District of New York;

"US dollars" means US dollars, being the lawful currency of the US for the time being;

"Website" means the website at www.ukhighlands.co.uk.

1.2 Interpretation

In the Scheme:

1.2.1 references to Parts, Clauses and Schedules are references to the Parts, Clauses and Schedules of the Scheme and Part, Clause and Schedule headings and the table of contents are given for ease of reference only and shall not affect the interpretation of the Scheme;

1.2.2 references to a person include an individual, firm, company, corporation or unincorporated body of persons;

1.2.3 the singular includes the plural and *vice versa* and the masculine includes the feminine and the neuter and *vice versa*; and

1.2.4 references to a statute or to a statutory provision or to a statutory instrument or provision of a statutory instrument include the same as subsequently re-enacted or consolidated from time to time.

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1.3 The Company

- 1.3.1 The Company was incorporated in England and Wales on 18 November 1974. The Company is a wholly owned subsidiary of Highlands Holdings (UK) Limited, which in turn is wholly owned by Highlands Insurance Group, Inc., a corporation organised under the laws of the State of Delaware, USA ("**HIGI**"). Highlands Insurance Company ("**HIC(US)**"), an insurance company organised under the laws of the State of Texas, US, is also a subsidiary of HIGI.
- 1.3.2 The Company began writing business in 1983. Between 1983 and 1994 the Company predominantly wrote London market excess of loss business. Between 1987 and 1993, through its appointed agent H.J. Roelofs-Assuradeuren B.V., it wrote marine, fire, loss of profit, liability and accident business in the Netherlands. In 1986 and 1988, pursuant to the Transfer Documents, certain policies written by HIC(US)'s London branch were transferred to the Company pursuant to Section 51.
- 1.3.3 The policies transferred in 1986 comprised of policies written by HIC(US)'s London branch between 1978 and 1982 through Highlands Underwriting Agents Limited ("**HUAL**").
- 1.3.4 The policies transferred in 1988 comprised of:
- (a) policies written by HIC(US)'s London branch between 1972 and 1977 through Tower Underwriting Management and HUAL as part of a pool (the Tower X and HUA Pool Account business); and
 - (b) the business written between 1972 and 1975 through HUAL.
- 1.3.5 The Company ceased underwriting new and renewal business in January 1994 at which time it became primarily involved in the agreement of claims and reinsurance collections.
- 1.3.6 On 1 November 2007, the Administrators were appointed to the Company pursuant to the Administration Order.

1.4 Participation in the Scheme

- 1.4.1 The Administrators, acting in their capacity as Administrators and Scheme Administrators, have undertaken to be bound by the Scheme as it applies to them and to execute or do, or procure to be executed or done, all such documents, acts or things as may be necessary or as the Court may consider desirable to be executed or done by them or on their behalf for the purpose of giving effect to such undertaking.
- 1.4.2 The Scheme Adjudicator has given and not withdrawn his consent to act as Scheme Adjudicator from the Effective Date.
- 1.4.3 The Special Deputy Receiver has undertaken to:
- (a) be bound by the Scheme as it applies to it; and

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- (b) execute or do, or procure to be executed or done, all such documents, acts or things as may be necessary,

for the purpose of giving effect to such undertaking insofar as necessary to perform its obligations under the Settlement Agreement.

- 1.4.4 The Special Deputy Receiver may not be required to perform any act or execute any document not required under the Settlement Agreement or which is inconsistent therewith.

1.5 **Court modification of the Scheme**

The Company may consent on behalf of all those concerned to any modification of or addition to the Scheme, or any terms or conditions which the Court may think fit to approve or impose, at any hearing to sanction the Scheme, provided that there is no material prejudice to Scheme Creditors or HIC(US) or material alteration to the terms of the Settlement Agreement.

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2. **PART 2: SECTION 51 DIRECT POLICYHOLDERS/CLAIMANTS AND THE SPECIAL DEPUTY RECEIVER**

2.1 **Treatment of the Section 51 Direct Claims**

2.1.1 For the avoidance of doubt, save where the Scheme is terminated in accordance with Clause 7.3, Section 51 Direct Policyholders/Claimants shall make any and all Section 51 Direct Claims which are Scheme Liabilities and seek payment of such claims exclusively against the Company in accordance with the provisions of the Scheme.

2.1.2 Section 51 Direct Claims which are Scheme Liabilities shall be considered and, if appropriate, established and paid by the Company in accordance with Part 4 (Ascertainment And Payment Of Established Liabilities) of the Scheme. The Company shall not reject or deny any Section 51 Direct Claim which is a Scheme Liability by sole reason that it was transferred pursuant to the Transfer Documents under Section 51 although, for the avoidance of doubt, the Company hereby reserves its right to reject, defend against or deny coverage under such a policy for any other reason.

2.1.3 The Section 51 Direct Policyholders/Claimants are hereby prohibited from pursuing any Section 51 Direct Claims against HIC(US) whether under or pursuant to the Rehabilitation Plan or otherwise.

2.2 **Payment of the Settlement Amount**

2.2.1 In consideration of the administration and, if appropriate, establishment and payment of Section 51 Direct Claims in accordance with, and subject to, Part 4 (Ascertainment And Payment Of Established Liabilities) of the Scheme, HIC(US), acting by the Special Deputy Receiver, shall:

- (a) on the Final Claims Submission Date, procure that the Escrow Amount is released from the Escrow Account and paid; and
- (b) within 10 Business Days after the Final Claims Submission Date, pay the remainder of the Settlement Amount,

to the Company, in each case without deduction and/or set-off and in such manner as the Scheme Administrators shall direct.

2.2.2 To the extent that HIC(US) shall not comply with its obligations under Clause 2.2.1, the provisions of Clause 7.3.1 shall apply.

2.3 **Application of the Settlement Amount**

2.3.1 The Company shall apply the Settlement Amount received by it in payment of Pre-Scheme Expenses, Scheme Expenses, Established Liabilities and any other amounts payable under or in accordance with the Scheme.

2.3.2 In the event and to the extent that any part of the Settlement Amount remains undistributed following application in accordance with Clause 2.3.1 and the

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final implementation of the Scheme, the balance thereof shall constitute an asset of the Company, to be applied in such manner as it thinks fit.

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3. PART 3: GENERAL PROVISIONS

3.1 Application and purposes of the Scheme

3.1.1 The Scheme shall only apply to Scheme Creditors and only in relation to Scheme Liabilities. All other Liabilities of the Company shall be unaffected by the provisions of the Scheme.

3.1.2 The purposes of the Scheme are:

- (a) to determine the Company's Established Liabilities to Scheme Creditors; and
- (b) subject to Clause 7.3, to pay to each Scheme Creditor the amount of the Established Liability owing to it.

3.2 Effective Date

The Scheme shall come into effect on the Effective Date.

3.3 Enforcement of Scheme Liabilities

3.3.1 Following the Effective Date (and subject to Clause 3.11), the Company will not make payment to Scheme Creditors in respect of their Scheme Liabilities, other than their Established Liabilities.

3.3.2 Without prejudice to Part 4, no Scheme Creditor shall be entitled to commence or continue any Proceedings or other judicial, quasi-judicial or regulatory process whatsoever against the Company or its Property in any jurisdiction for the purpose of obtaining payment directly or indirectly of a Scheme Liability, except Excepted Proceedings. For the avoidance of doubt,

- (a) the prohibition contained in this Clause 3.3.2 is separate from and in addition to any prohibition on the commencement or continuation of Proceedings or other judicial, quasi-judicial or regulatory process in effect in respect of the Company, including but not limited to the prohibitions contained in paragraphs 42 (*Moratorium on insolvency proceedings*) and 43 (*Moratorium on other legal process*) of Schedule B1; and
- (b) for the purposes of paragraph 43 (*Moratorium on other legal process*) of Schedule B1, Excepted Proceedings commenced by a Scheme Creditor are hereby deemed to have been commenced with the consent of the Administrators.

3.3.3 No Scheme Creditor shall be entitled to commence or continue any Proceedings or other judicial, quasi-judicial or regulatory process whatsoever against HIC(US) in any jurisdiction for the purpose of obtaining payment directly or indirectly of a Scheme Liability, in particular any Section 51 Direct Claim. For the avoidance of doubt, the Scheme Administrators shall not consent to the commencement by a Scheme Creditor of any Proceedings as against HIC(US)

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or its Property in any jurisdiction for the purpose of obtaining payment directly or indirectly of any Scheme Liability.

- 3.3.4 Without prejudice to any other rights and remedies available to the Company, if after the Effective Date any Scheme Creditor takes any action which is prohibited by Clauses 2.1.3, 3.3.2 or 3.3.3, it shall be treated as having received an advance payment on account of its Scheme Liabilities equal to the amount or gross value of any money, Property, benefit or advantage obtained by it at the expense of the Company as a result of such action, and the extent to which it is entitled to receive any payment under the Scheme in respect of its Established Liability (if any) shall be determined accordingly.
- 3.3.5 For the purposes of Clause 3.3.4, the gross value of any money, Property, benefit or advantage obtained as aforesaid shall be determined by the Company or, in case of dispute by the relevant Scheme Creditor, by the Scheme Adjudicator and (without prejudice to the generality of the foregoing) may include such amount as may be considered to be appropriate by way of interest, costs, charges and expenses incurred by or on behalf of the Company as a consequence of the action prohibited by Clauses 2.1.3, 3.3.2 or 3.3.3.

3.4 Security Interests

- 3.4.1 Nothing in the Scheme shall preclude a Scheme Creditor from obtaining payment under a Security Interest in accordance with its terms and those of the relevant Insurance Contract to satisfy any Scheme Liability in respect of which such Security Interest was created. For the avoidance of doubt, any steps taken by a Scheme Creditor to obtain payment under a Security Interest in accordance with this Clause 3.4.1 are hereby deemed to have been taken with the consent of the Administrators for the purposes of paragraph 43 of Schedule B1 (*Moratorium on other legal process*).
- 3.4.2 If a Scheme Creditor recovers any sums under any Security Interest after the Administration Date:
- (a) those sums shall be deducted from any Scheme Liability in respect of any Insurance Contract to which the Security Interest relates in calculating its Established Liability; and
 - (b) it shall hold any such sums that exceed its Established Liability, in respect of any Insurance Contract to which the Security Interest relates, on trust for the Company and shall immediately pay such sum to the Company without set-off, deduction, retention, abatement or counterclaim. Interest will accrue on the debt represented by the excess over the Established Liability, from the date on which the value is obtained by the Scheme Creditor, at a rate of 2 per cent above the highest base rate applied by The Bank of England. The Scheme Creditor may not apply the excess to any other Liabilities of the Company unless it is entitled to do so by the contract in connection with which or under which the Security Interest has been granted.

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3.4.3 To the extent that a Scheme Creditor with the benefit of a Security Interest does not recover sums under such Security Interest (such unrealised Security Interest or portion thereof being hereinafter referred to as an "**Unrealised Security Interest**"):

- (a) (where the value of the Scheme Creditor's Scheme Liability in respect of any Insurance Contract to which the Unrealised Security Interest relates after the application of discount in accordance with Clause 4.3.2 and any rights of set-off, counterclaim or other deduction pursuant to the Scheme but prior to the deduction of the value of the Unrealised Security Interest exceeds the value of such Unrealised Security Interest), no deduction shall be made in the amount of such Unrealised Security Interest in calculating such Scheme Creditor's Established Liability and the Company will, subject to Clause 3.4.4, make a payment to such Scheme Creditor in respect of such Established Liability in accordance with Clauses 4.4 and 4.5; and
- (b) (where the value of an Unrealised Security Interest established in respect of an Insurance Contract exceeds the Scheme Creditors' Scheme Liability in respect of such Insurance Contract after the application of discount in accordance with Clause 4.3.2 and any rights of set-off, counterclaim or other deduction pursuant to the Scheme but prior to the deduction of the value of such Unrealised Security Interest), no deduction shall be made in the amount of such Unrealised Security Interest in calculating such Scheme Creditor's Established Liability and the Company will, subject to Clause 3.4.4, make a payment to the Scheme Creditor in respect of such Established Liability in accordance with Clause 4.4 and 4.5 limited to the value of such Scheme Liability (after discounting in accordance with Clause 4.3.2 and any rights of set-off, counterclaim or deduction permissible pursuant to the Scheme).

3.4.4 Prior to the Company being required to make payment pursuant to Clause 3.4.3 in respect of the Established Liability of a Scheme Creditor with the benefit of an Unrealised Security Interest, the Scheme Creditor shall be required to take such steps as the Company may, in its sole discretion, require to release the relevant Unrealised Security Interest.

3.4.5 Nothing in the Scheme shall affect the rights of the Company against any person in respect of any improper or excessive enforcement or improper drawdown of any Security Interest issued or created in respect of the Company.

3.5 **Set-off**

3.5.1 Subject to the provisions of Clauses 3.5.2, 3.5.3 and 3.5.4, where a Scheme Creditor owes a Liability to the Company, an account shall be taken by the Company of the sums due from the relevant Scheme Creditor to the Company and from the Company to that Scheme Creditor in respect of Scheme Liabilities. Sums owing from a Scheme Creditor to the Company will be set off against sums owing from the Company to that Scheme Creditor in respect of Scheme

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Liabilities. In taking the account under this Clause 3.5, the Company shall give effect only to any set-off or counterclaim available to the relevant Scheme Creditor as at the Administration Date.

- 3.5.2 Only the balance of the account, if any, referred to in Clause 3.5.1 and payable to a Scheme Creditor shall be capable of becoming an Established Liability. Any balance due to the Company shall be paid by the relevant Scheme Creditor to the Company.
- 3.5.3 Any sums received by a Scheme Creditor (whether from the Company or any other third party) in respect of a Scheme Liability between the Administration Date and the Established Liability Date (a "**Payment on Account**") shall be considered and taken into account in the determination, pursuant to the Scheme, of the Company's Established Liability to that Scheme Creditor and each Scheme Creditor shall be obliged to inform the Company upon receipt of any such sums from any third party.
- 3.5.4 Any sums received by the Company from a Scheme Creditor (or any other third party) in respect of any Liability of the Scheme Creditor to the Company between the Administration Date and the Established Liability Date shall also be considered and taken into account in the determination, pursuant to the Scheme, of the Company's Established Liability to that Scheme Creditor.
- 3.5.5 No Scheme Creditor may set-off any liability:
- (a) owed by it to HIC(US) against any liability owed by the Company to such Scheme Creditor; and
 - (b) owed by it to the Company against any liability owed by HIC(US) to such Scheme Creditor.
- 3.6 **Interest**
- 3.6.1 For the purpose of making payments under the Scheme, where a Scheme Liability includes an element of Admissible Interest, such Admissible Interest shall be payable:
- (a) once such Scheme Liability is established as an Established Liability; and
 - (b) for the period from the date provided for in the relevant Insurance Contract, judgment, decree or statute to, but excluding, the Administration Date.
- 3.6.2 No payment shall be made under the Scheme in respect of any part of a Scheme Liability which represents interest which is not Admissible Interest.
- 3.6.3 Any payment made under the Scheme in respect of any part of a Scheme Liability which represents Admissible Interest shall be made net of any deduction or withholding for, or on account of, Tax.

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3.7 **Foreign currency conversions**

In determining any set-off, counterclaim or Security Interest in relation to a Scheme Liability where the set-off, counterclaim or Security Interest is expressed in a currency other than the currency in which the relevant Scheme Liability was incurred the amount of set-off, counterclaim or Security Interest shall be converted into the currency in which the Scheme Liability will be paid (provided that it is not extinguished by the set-off, counterclaim or Security Interest) as at the Administration Date, being the date on which the set-off, counterclaim or Security Interest is determined. The rate of any currency conversion under this Clause 3.7 shall be the mid-market rate of exchange for that particular currency quoted in the *Financial Times* on the Administration Date.

3.8 **Broker funding**

Claims against the Company by brokers or Agents in respect of amounts paid by them whether voluntarily or involuntarily in satisfaction of or towards a Scheme Creditor's claims against the Company shall not be admitted as Scheme Liabilities unless either:

3.8.1 the said Scheme Creditor shall have assigned to the relevant broker or Agent in writing his claim against the Company and given written notice of that assignment to the Company. Where any such assignment takes place after the Effective Date the relevant Scheme Creditor shall give notice of it by Post to the Company; or

3.8.2 the payment was made pursuant to a pre-existing contractual, statutory or other legal obligation of the broker or Agent to or at the request of the Company.

3.9 **No release**

Nothing in the Scheme shall be construed as resulting in any release, extinguishment, modification, compromise or waiver of any Liability owed by the Company but the amount of a Scheme Creditor's entitlement to payment under the Scheme in respect of a Scheme Liability (once the relevant Established Liability in respect of that Scheme Liability has been determined) shall constitute the Company's entire Liability to the Scheme Creditor concerned in respect of the relevant Scheme Liability.

3.10 **Time limits**

3.10.1 The Company may extend any time period (except the Claim Notification Date and the Final Claims Submission Date) referred to in the Scheme (save for any time periods in Part 6 which shall be extended at the sole discretion of the Scheme Adjudicator). The power to extend time periods under this Clause 3.10.1 may be exercised for any one or more Scheme Creditors or for all Scheme Creditors and time may be extended under this Clause 3.10.1 in respect of any one or more Scheme Liabilities.

3.10.2 Unless otherwise expressly stated, time periods laid down by the Scheme shall be calculated by reference to elapsed days and not Business Days but in the event a time period expires on a day which is not a Business Day, such period

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of time shall be deemed not to expire until close of business on the Business Day next following.

3.11 **Commutations, settlements and other agreements**

3.11.1 The Company may, in its absolute discretion but subject always to the terms of the Insolvency Act and any other relevant legislation, enter into contractual arrangements with a Scheme Creditor under which all or part of a Scheme Liability is discharged in full in consideration of a cash payment made by the Company.

3.11.2 Any sums payable pursuant to such contractual arrangements shall, to the extent appropriate, be calculated on a basis consistent with the terms of the Scheme and the Estimation Guidelines.

3.12 **Ongoing reporting requirement**

Scheme Creditors shall continue to notify claims to the Company in the ordinary course in accordance with the terms of their Insurance Contracts unless the Company agrees in writing that such notifications are no longer required.

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4. PART 4: ASCERTAINMENT AND PAYMENT OF ESTABLISHED LIABILITIES

4.1 Valuation

4.1.1 The Established Liability in favour of each Scheme Creditor shall be determined with reference to the Scheme Liabilities in favour of that Scheme Creditor valued as at the Administration Date in accordance with the terms of the Scheme and the Estimation Guidelines.

4.1.2 Scheme Liabilities owed to a Scheme Creditor may consist of Pre-Administration Agreed Claims, Post-Administration Agreed Claims, Notified Outstanding Claims and IBNR Claims. In estimating the value of its:

- (a) Notified Outstanding Claims, a Scheme Creditor shall exclude any Post-Administration Agreed Claims; and
- (b) IBNR Claims, a Scheme Creditor shall:
 - (i) include any losses notified to the Scheme Creditor after the Administration Date (such notified losses to nevertheless comprise part of its IBNR Claims); but
 - (ii) exclude any Post-Administration Agreed Claims.

4.1.3 For the avoidance of doubt, the Estimation Guidelines are hereby incorporated by reference herein, as if set out in full.

4.2 Claim Forms

4.2.1 The Company shall within 7 days after the Effective Date send notices by Post to each of its Scheme Creditors of whose address it is aware enclosing a Claim Notification and a Final Claim Form and informing them of:

- (a) the Effective Date;
- (b) the Claim Notification Date; and
- (c) the Final Claims Submission Date,

and calling for all Scheme Creditors to complete and return where required to do so, (i) their Claim Notification; and (ii) their Final Claim Form. The Company shall also send a copy of such notice to the Special Deputy Receiver.

4.2.2 The Company shall within 7 days after the Effective Date:

- (a) cause to be published in the same newspapers and publications in which the Scheme Meeting was advertised an advertisement (or should this not prove reasonably possible, in such other publications as it shall deem appropriate) and post on the Website a notice informing Scheme Creditors of the Effective Date, Claim Notification Date and Final Claims Submission Date and calling for all Scheme Creditors to complete and return their Claim Notification and Final Claim Form; and

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- (b) send to each relevant broker or Agent of whose address it is aware copies of the notice enclosing the Claim Notification and Final Claim Form referred to in Clause 4.2.1.
- 4.2.3 None of the Company nor the Scheme Administrators shall have any duty or obligation whatsoever to advise or to inform a Scheme Creditor whether on a Claim Form or otherwise of reserves made or Liabilities anticipated by the Company in respect of Scheme Liabilities.
- 4.2.4 The notices enclosing the Claim Forms referred to in Clause 4.2.1 above will be sent to Scheme Creditors at such addresses as they notify in writing to the Company and, failing such notification, to such address or addresses as may be shown in the Company's records or to any other address being the last known address of the Scheme Creditor which the Company may reasonably believe is appropriate. In the event that the Company does not have, or does not believe it has, a current address for a Scheme Creditor, the notice enclosing the Claim Forms shall be sent to any and all brokers or Agents identifiable in the address records available to the Company as the Scheme Creditor's brokers or Agents.
- 4.2.5 Save as provided by Clause 4.2.7 below, each Scheme Creditor is required to submit a completed Claim Notification advising the Company that it intends to submit a claim against the Company in the Scheme. The Claim Notification shall be sent to the Company at the address indicated thereon to arrive on or before the Claim Notification Date. All Claim Notifications shall be completed by or on behalf of Scheme Creditors in accordance with the instructions thereon.
- 4.2.6 Save as provided by Clause 4.2.7 below, in the event that a Scheme Creditor fails to return a Claim Notification to the Company by the Claim Notification Date:
- (a) such Scheme Creditor shall not be permitted to submit a Final Claim Form (whether prior to the Final Claims Submission Date or otherwise); and
- (b) the Company shall attribute a nil value to any Scheme Liabilities owed to that Scheme Creditor, if any, and such Scheme Liabilities shall be deemed to have been satisfied in full under the Scheme.
- 4.2.7 Notwithstanding the provisions of Clause 4.2.5 and 4.2.6, a Scheme Creditor is not required to submit a Claim Notification:
- (a) where the Company's records indicate that such Scheme Creditor has an unpaid Agreed Claim. Those Scheme Creditors who appear in the Company's records as having an unpaid Agreed Claim will be notified in writing by the Company within 7 days after the Effective Date. For the avoidance of doubt, any Scheme Creditor who is not specifically notified in writing by the Company that it has an unpaid Agreed Claim, will be required to file a Claim Notification if it wishes to claim in the Scheme, save to the extent that sub-paragraph (b) otherwise applies;

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(b) if it submits a Final Claim Form prior to the Claim Notification Date.

4.2.8 Subject to Clause 4.2.11 below, each Scheme Creditor that:

(a) has submitted a Claim Notification by the Claim Notification Date indicating that it intends to submit a claim in the Scheme; or

(b) by virtue of Clause 4.2.7 is not required to submit a Claim Notification,

is further required to complete a Final Claim Form with details of Scheme Liabilities and other relevant supporting documentation in respect of each Insurance Contract together with details of any sums owed by that Scheme Creditor to the Company which are to be set-off under the Scheme in reduction of any Scheme Liabilities owed by the Company to the relevant Scheme Creditor. Details of any Security Interests should also be included in the Final Claim Form. Final Claim Forms must be sent to the Company at the address indicated thereon to arrive on or before the Final Claims Submission Date. All Final Claim Forms shall be completed by or on behalf of Scheme Creditors in accordance with the instructions attached and shall be accompanied by such supporting documentation as may be appropriate.

4.2.9 Each Scheme Creditor who has submitted a Final Claim Form is entitled to submit a new or revised Final Claim Form in accordance with the instructions accompanying the Final Claim Form and to provide revised or further information in respect of his Scheme Liabilities, together with any relevant supporting documentation (as contemplated by Clause 4.2.8), to the Company in each case so as to reach the Company at any time before the Final Claims Submission Date.

4.2.10 Subject to Clause 4.2.11 below, in the event that a Scheme Creditor fails to return a Final Claim Form to the Company by the Final Claims Submission Date, the Company shall attribute a nil value to the Scheme Liabilities owed to that Scheme Creditor, if any, and such Scheme Liabilities shall be deemed to have been satisfied in full under the Scheme.

4.2.11 No Final Claim Form is required to be submitted by a Scheme Creditor where it is seeking to claim against the Company in respect of unpaid Agreed Claims only. For the avoidance of doubt, a Scheme Creditor who wishes to claim for an amount greater than the unpaid Agreed Claim notified to it in writing by the Company in accordance with Clause 4.2.7 is required to submit a Final Claim Form by the Final Claims Submission Date.

4.2.12 If a Scheme Creditor notifies the Company that it has a Notified Outstanding Claim and/or an IBNR Claim but does not submit an estimate for all or part of the claim concerned, the Company will attribute a nil value to all or that part of the Notified Outstanding Claim and/or IBNR Claim for which no estimate is given.

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4.3 **Determination of Established Liabilities**

- 4.3.1 The Company shall examine each Final Claim Form returned to it on time in accordance with Clause 4.2 and in accordance with the principles set out in the Estimation Guidelines where appropriate. Such examination shall include (without limitation) consideration of whether:
- (i) details of Insurance Contracts or brokers or Agents thereon are correct and/or adequately supported by any documentation submitted with the Final Claim Form;
 - (ii) details of estimates of Scheme Liabilities arising in respect of the Insurance Contracts detailed on the Final Claim Form are accurate and/or reasonable and/or calculated in accordance with the Estimation Guidelines;
 - (iii) there is any Liability of the Scheme Creditor to the Company to which Clause 3.5 applies and, if so, what value should be placed on such Liability for the purpose of Clause 3.5; and
 - (iv) there is any Security Interest to which Clause 3.4 does or may apply.
- 4.3.2 In determining each Scheme Creditor's Established Liability, any Notified Outstanding Claims and/or IBNR Claims will be discounted at the Discount Rate. In order to discount the Scheme Liabilities, the Company will apply the Discount Rate to expected payment patterns, as at the Administration Date, that the Company considers are appropriate to the nature of the Scheme Liabilities. In exceptional circumstances, the Scheme Creditor may suggest alternative payment patterns for discounting for agreement with the Company, provided that the Scheme Creditor can supply a calculation that the Company considers is robust and which includes justifiable underlying assumptions.
- 4.3.3 In the event that the Company concurs with the information on a completed Final Claim Form including, for the avoidance of doubt, the application of any discount in accordance with Clause 4.3.2 and any right of set-off, counterclaim or deduction if applicable, it shall, as soon as reasonably practicable after the Final Claims Submission Date, notify the relevant Scheme Creditor in writing of its agreement by Post. The Company and the relevant Scheme Creditor will thereafter treat the completed Final Claim Form as valid and binding as to the matters referred to on it and no further amendments may be made to that Final Claim Form by any Scheme Creditor. This claim as agreed shall become the relevant Scheme Creditor's Established Liability.
- 4.3.4 If the Company does not agree with the information provided on a completed Final Claim Form including, for the avoidance of doubt, the application of any discount in accordance with Clause 4.3.2 and any right of set-off, counterclaim or deduction if applicable, it shall, as soon as reasonably practicable notify the relevant Scheme Creditor in writing of those matters which are not agreed, the reasons for failing to agree such matters and any such additional information

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that the Company may require. The relevant Scheme Creditor shall provide such additional information within 28 days of such request being made. The Company will then endeavour to agree the disputed matters and the relevant Established Liability within 60 days of the Final Claims Submission Date and, in the event that the Established Liability is so agreed, the Company shall notify the Scheme Creditor of its agreement by Post. For the avoidance of doubt, if the Company does not respond within 60 days of the Final Claims Submission Date, such lack of response shall in no way be construed as an agreement of the relevant Established Liability.

- 4.3.5 If the disputed matters are not resolved between the relevant Scheme Creditor and the Company within the 60 day period indicated in Clause 4.3.4 (or before the expiry of that period where the Company concludes that agreement cannot be reached), the Company will send the Scheme Creditor a copy of a Final Claim Form in relation to the relevant Scheme Creditor's claim completed in such a manner as it is prepared to accept but will inform the Scheme Creditor that, if it is not accepted, it will refer the disputed matter to the Scheme Adjudicator. The relevant Scheme Creditor must respond to the Company within 28 days of receipt of this communication confirming that the matter is to be referred to the Scheme Adjudicator. If such confirmation is received from the Scheme Creditor, the Company shall refer the disputed matter to the Scheme Adjudicator. If the Scheme Creditor does not respond to the communication from the Company this will be deemed to be determinative of the disputed matters and the claims as set out in the Final Claim Form referred to in this sub-paragraph including, for the avoidance of doubt, the application of any discount in accordance with Clause 4.3.2 and any right of set-off, counterclaim or deduction if applicable, shall become the relevant Scheme Creditor's Established Liability.
- 4.3.6 Without prejudice to the provisions of Clauses 4.3.4 and 4.3.5, the Company may refer a Final Claim Form to the Scheme Adjudicator at any time the Company believes (in its sole discretion) that it will be impossible or impracticable to reach agreement with the relevant Scheme Creditor.
- 4.3.7 The amount of any Established Liability determined or agreed under Clauses 4.3.2, 4.3.3, 4.3.4, 4.3.5 or Part 6 shall be final and binding on the relevant Scheme Creditor and the Company (in so far as the law allows).
- 4.3.8 Where following completion of the process for the determination of a Scheme Creditor's Established Liability in accordance with this Clause 4.3, the aggregate of a Scheme Creditor's claims in respect of Scheme Liabilities is exceeded by the aggregate of sums owed to the Company available to be set-off in accordance with Clause 3.5 and deductions from Scheme Liabilities effected pursuant to the Scheme, the net amount shall be a Liability of the Scheme Creditor to the Company to be paid by the Scheme Creditor to the Company immediately following the notification of such calculation to the Scheme Creditor by the Company.

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- 4.3.9 The amount in respect of which any Scheme Creditor votes at the Scheme Meeting and/or any determination by the chairman of the Scheme Meeting of or decision on discrepancies between the information provided by Scheme Creditors prior to the holding of the Scheme Meeting and the Company's records for the purposes of voting at the Scheme Meeting shall not be binding on the Company, the Administrators, the Scheme Creditors, the Scheme Administrators and/or the Scheme Adjudicator for any purposes other than voting.
- 4.3.10 The Company will not be bound by, or prepared to follow, any settlement made between the Scheme Creditor and another insurer if it believes that settlement to be unreasonable.
- 4.3.11 For the avoidance of doubt, the views of any of the Company, Scheme Administrators, Scheme Adjudicator (and/or any of their employees, Delegates, alternates, agents or advisers) as to the appropriate methodology, principles or assumptions to be applied in determining the value of any Scheme Liability owed by the Company to a Scheme Creditor, whether express or implied and whether contained in the Scheme, the Estimation Guidelines or any other document or communication, are provided only for the purpose of determining the Scheme Liability owed by the Company to the Scheme Creditor (if any) and may not be relied upon for any other purpose. Further, no such methodology, principle or assumption shall be construed as advice being given by the Company, the Administrators, the Scheme Administrators, the Scheme Adjudicator (and/or any of their employees, Delegates, alternates, agents or advisers) to the Scheme Creditor or any other person for any purpose.
- 4.4 Payment of Established Liabilities**
- 4.4.1 Subject to Clause 3.11, payment shall be made under the Scheme only in respect of Established Liabilities.
- 4.4.2 Subject to Clauses 3.3.2 to 3.3.5, 3.4.2 to 3.4.4, 3.5, 3.6 and 6.2.6, the Company shall make payment in full in accordance with this Clause 4.4 to Scheme Creditors in respect of their Established Liabilities as soon as reasonably practicable after the later of (a) the Final Claims Submission Date; and (b) the determination by the Scheme Administrators that, in their reasonable opinion, based on then currently available information, all Established Liabilities will be paid in full.
- 4.4.3 All payments pursuant to the Scheme shall be made, in the absolute discretion of the Company:
- (a) by telegraphic transfer to such bank account as the Scheme Creditor may notify to the Company on the Final Claim Form at the expense of the Scheme Creditor (which expense may be deducted from the relevant payment); or

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- (b) (upon failure by the relevant Scheme Creditor to provide to the Company bank account details for the purpose of payment by telegraphic transfer) by cheque in favour of the Scheme Creditor (or as the Scheme Creditor may direct by written notice) sent by Post at the risk of the Scheme Creditor to the last address of the Scheme Creditor known to the Company (or to such other address as the Scheme Creditor may from time to time notify in writing to the Company) or, if no address for the Scheme Creditor is known to the Company, to the last known address of the broker or Agent through which the relevant Insurance Contract was effected or entered into; or
- (c) in such other manner as the Company may reasonably determine and the Company shall be entitled to require a Scheme Creditor or other person to execute such forms of discharge, receipt or other documents as it may determine in connection with the making of any payment pursuant to the Scheme.

4.4.4 If any payment pursuant to Clause 4.4.3(b) or 4.4.3(c) is uncashed or otherwise unclaimed by the intended payee after the expiration of six months from the date of the posting of the cheque or the making of the attempted payment (as relevant), the Scheme Creditor's right to such payment shall be extinguished.

4.4.5 Payments made to:

- (a) a Scheme Creditor; or
- (b) a person actually or ostensibly authorised to act on behalf of the Scheme Creditor,

pursuant to Clause 4.4.3, Clause 4.4.4 or otherwise shall, for all purposes, constitute a valid discharge of the Scheme Creditor's entitlement to payment in respect of such Established Liability to the extent of such payment. For the purpose of this Clause 4.4, payment of any cheque by the bank on which it is drawn shall be satisfaction of the obligation to pay the amount in which it was drawn and receipt by the receiving bank of the amount of a telegraphic transfer shall be satisfaction of the obligation to pay the amount transferred.

4.5 **Currency of payment**

Any amount payable to a Scheme Creditor under the Scheme in respect of a Scheme Liability which was incurred in Pounds Sterling, US dollars, or Euros shall be paid (once the relevant Established Liability in respect of that Scheme Liability has been determined) in Pounds Sterling, US dollars, or Euros as the case may be or in any lawful currency that replaces Pounds Sterling, US dollars or Euros. Where a Scheme Liability was incurred in a currency so replaced by the Euro, it shall be converted into Euros at the fixed rate of exchange in operation for that currency as at the date it was so replaced and shall (subject to the terms of the Scheme) be paid in Euros. The amount payable to a Scheme Creditor in respect of any Scheme Liability which was incurred in any other currency shall (subject to the terms of the Scheme) be paid in US dollars, converted at

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the mid market rate of exchange for that particular currency quoted in the *Financial Times* on the Administration Date.

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5. PART 5: THE SCHEME ADMINISTRATORS

5.1 Qualification, appointment, resignation and removal

5.1.1 The Scheme Administrators shall be the Administrators appointed to the Company from time to time in accordance with the provisions of the Insolvency Act. Where an Administrator resigns, is removed or vacates office in accordance with the provisions of the Insolvency Act, such Administrator shall be deemed to have also resigned, vacated or been removed from office as a Scheme Administrator.

5.1.2 Where there is more than one Scheme Administrator, the functions, powers and duties of the Scheme Administrators under the Scheme may be performed and exercised jointly or severally and any act required to be done by the Scheme Administrators pursuant to the Scheme may be done by all or any one or more of them.

5.2 Functions, powers and duties of the Scheme Administrators

5.2.1 With immediate effect from the Effective Date, the Scheme Administrators shall be empowered to and shall supervise and ensure the carrying out of the Scheme, and for these purposes only shall:

- (a) have the power to act in the name and on behalf of the Company to, and shall, manage the affairs, business and Property of the Company; and
- (b) realise the assets of the Company and apply them for the benefit of Scheme Creditors in accordance with the Scheme.

5.2.2 Without prejudice to the generality of Clause 5.2.1, in carrying out their functions, powers and duties under the Scheme, the Scheme Administrators, for the purposes of the Scheme only, shall:

- (a) exercise all rights, powers and duties of the Company under this Scheme;
- (b) agree claims and process reinsurance recoveries as part of the Company's business;
- (c) take possession of, collect and get in all the Property and assets (of whatever nature) to which the Company is or appears to be entitled and do all such things as may be necessary for the realisation of any such Property or assets and the application of the Property and assets of the Company for the benefit of Scheme Creditors and other persons as appropriate;
- (d) have full access at all times to all books, papers and other documents of the Company and shall be entitled to receive all such information as they may require in relation to its affairs;

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- (e) do all things which may be necessary or expedient for the protection of the Company's assets or of any assets that appear to belong to the Company;
- (f) be entitled to bring or defend any action or other legal Proceedings in the name and on behalf of the Company or otherwise;
- (g) be entitled to do all acts and to execute in the name and on behalf of the Company any deed, receipt or other document and to use the Company's seal;
- (h) to the extent that the Court has jurisdiction, be entitled to apply, or to cause the Company to apply, to the Court in relation to any particular matter arising in the course of the Scheme;
- (i) be entitled to propose, where they consider it to be in the interests of Scheme Creditors as a whole, in relation to one or more classes of Scheme Creditor a further scheme of arrangement under Part 26 of the Companies Act, with a view to either amending the provisions of the Scheme or to implementing a new scheme of arrangement between the Company and the Scheme Creditors concerned;
- (j) subject to approval by the Administration Creditors' Committee, be remunerated in accordance with Clause 8.7.2 for the carrying out of such functions and powers and to be reimbursed for all expenses properly incurred by them in connection therewith;
- (k) employ and remunerate accountants, actuaries, lawyers and other professional advisers or agents whether in England and Wales or in other jurisdictions provided such employment is necessary for the purpose of performing their functions and powers under the Scheme;
- (l) delegate to any person (being a partner in the same firm as the Scheme Administrators qualified to act as an insolvency practitioner within the meaning of section 390 of the Insolvency Act) (a "**Delegate**"), all or any of the functions, powers, rights, authorities and discretions conferred upon the Scheme Administrators under the Scheme and from time to time to revoke any such delegation, provided that the Scheme Administrators shall be personally responsible for any act or omission of any such Delegate to the same extent as if they had expressly authorised it;
- (m) consult with the Special Deputy Receiver in relation to the Scheme; and
- (n) be entitled to do all other things incidental to the exercise of the functions and powers referred to in this Clause 5.2.

5.2.3 Nothing in this Clause 5.2 shall be deemed to in any way modify the rights, powers, duties or obligations of the Administrators whilst acting in their capacity as Administrators of the Company.

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6. PART 6: THE SCHEME ADJUDICATOR AND DISPUTE RESOLUTION PROCEDURE

6.1 The Scheme Adjudicator

- 6.1.1 There shall be one or more independent Scheme Adjudicators having the powers, duties, functions and rights conferred upon them by the Scheme. The Scheme Adjudicator shall have power to determine all disputed matters referred to him by the Company in accordance with Part 4 and shall resolve such disputed matters in accordance with the Dispute Resolution Procedure. For the avoidance of doubt, the Scheme Adjudicator shall have no jurisdiction or authority over HIC(US), the Special Deputy Receiver or the Settlement Agreement.
- 6.1.2 The Scheme Adjudicator shall be any independent person who is duly qualified in the reasonable opinion of the Company to discharge the function of Scheme Adjudicator under the Scheme.
- 6.1.3 A Scheme Adjudicator may carry out his duties and functions under the Scheme either jointly or severally with another Scheme Adjudicator.
- 6.1.4 A Scheme Adjudicator shall vacate office if a Termination Event occurs in relation to the Scheme Adjudicator.
- 6.1.5 A Scheme Adjudicator may resign his appointment at any time by giving no less than three months' notice in writing to the Company and Scheme Administrators or on such shorter period of notice as the Scheme Adjudicator and the Company may agree in writing.
- 6.1.6 A Scheme Adjudicator may be removed for good cause by the Company.
- 6.1.7 In the event of a vacancy in the office of the Scheme Adjudicator, the Scheme Administrators shall forthwith appoint as a replacement Scheme Adjudicator a person who is qualified to act pursuant to Clause 6.1.2 and not disqualified to act under Clause 6.1.4.
- 6.1.8 A Scheme Adjudicator shall act as an expert and not as an arbitrator with respect to all matters submitted to him in accordance with the Scheme.

6.2 Dispute Resolution Procedure

The following applies to any matter which is referred to a Scheme Adjudicator pursuant to Clauses 4.3.5 or 4.3.6:

- 6.2.1 The Company shall, as soon as practicable after a decision is taken to refer any matter to the Scheme Adjudicator under Clauses 4.3.5 or 4.3.6, refer that matter to the Scheme Adjudicator by a Scheme Adjudicator Notice.
- 6.2.2 The relevant Scheme Creditor may, within fourteen days of the date of the Scheme Adjudicator Notice, send written observations on the Scheme Adjudicator Notice by Post to the Scheme Adjudicator and shall send a copy (with any enclosures) of such written observations by Post to the Company.

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- 6.2.3 The Scheme Adjudicator shall consider the papers and documents before him in accordance with the principles set out in the Estimation Guidelines, where appropriate, and shall as soon as practicable, give notice in writing to the relevant party of whether:
- (a) he requires further documents, data or information from the Scheme Creditor and/or the Company. In such event the relevant person(s) shall as soon as possible and in any event within 14 days after receipt of such request from the Scheme Adjudicator provide the Scheme Adjudicator with the said further documents, data or information with a copy (with enclosures) to the other party to the dispute and the other party may within 14 days of receipt of the copy send any additional documents, data or information to the Scheme Adjudicator and shall send a copy (with enclosures) to the first party; and/or
 - (b) he requires the Scheme Creditor and/or the Company to appear before and address him on any matters he shall determine in which case the relevant person(s) shall be at liberty so to appear on such date and at such place as the Scheme Adjudicator shall prescribe.
- 6.2.4 In the event that the Scheme Adjudicator requires any relevant person referred to under Clause 6.2.3(b) to appear before him, he shall be entitled to prescribe and lay down such reasonable procedures or provisions as he in his absolute discretion deems appropriate for the purpose of assisting him in reaching his decision. The Scheme Adjudicator shall also be entitled, at any time, to call for such evidence, documents, data and information as he may require.
- 6.2.5 The Scheme Adjudicator shall be entitled to consult with such advisers, including but not limited to legal advisers, accountants, actuaries and insurance industry experts, as he may reasonably deem appropriate and shall (subject to Clause 6.2.6) be entitled to be remunerated and to be reimbursed his reasonable costs and expenses (including the expenses of professional advisers) in carrying out his duties under the Scheme by the Company, save for where the Scheme Adjudicator is entitled to reimbursement by a third party in respect of such costs and expenses.
- 6.2.6 The Scheme Adjudicator shall be entitled to make such order or give such directions in respect of his remuneration, and reasonable costs and expenses incurred by him (including without limitation the cost of any advisers referred to in Clause 6.2.5), the Scheme Administrators or a Scheme Creditor as he shall think just. The Scheme Adjudicator shall be entitled, without prejudice to the generality of the foregoing, to order the parties to deposit such sum as the Scheme Adjudicator shall deem appropriate in respect of costs prior to commencement of the Dispute Resolution Procedure. In the exercise of his powers, the Scheme Adjudicator shall be entitled to:
- (a) direct that any or all of his remuneration, costs and expenses, including without limitation the cost of any advisers referred to in Clause 6.2.5, shall be paid by the Company (save for where he is entitled to

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reimbursement by a third party in respect of such remuneration, costs and expenses) in which case payment shall be made in accordance with the terms of the Scheme; or

- (b) direct that any or all of his remuneration, costs and expenses, including without limitation the cost of any advisers referred to in Clause 6.2.5 or any costs incurred by the Company in consequence of the unreasonable failure by a Scheme Creditor to submit adequate information to support a Final Claim Form returned in accordance with Clause 4.2.8, shall be paid by the Scheme Creditor in respect of whose Scheme Liability the dispute has arisen, in which case such amounts shall be paid by the Scheme Creditor forthwith and in any case no later than 14 days from the date of such direction, failing which the Company shall pay such amount from its assets and it shall be deducted from any amount which may be or may become due to the Scheme Creditor by way of Established Liabilities, such Scheme Creditor being treated for these purposes as having received, on account of any such Established Liability, an advance equal to the amount which it has been directed to pay.

- 6.2.7 The Scheme Adjudicator shall, as soon as possible and in any event before the expiration of 30 days from the latest of the date on which a dispute was referred to him or 7 days after the provision of further documents, data or information pursuant to Clause 6.2.3(a) or 7 days after the conclusion of any appearance before him pursuant to Clause 6.2.3(b) (whichever shall be the later) but in any event no later than 3 calendar months from the date of the Scheme Adjudicator Notice originally referring the dispute to him, certify in writing sent by Post to the Company and the relevant Scheme Creditor his determination in relation to that disputed matter and the Scheme Creditor's Established Liability. The relevant Scheme Creditor's Established Liability shall be deemed to have been determined on the date the notification referred to in this Clause 6.2.7 is sent to the Company and such Scheme Creditor.
- 6.2.8 The decision of the Scheme Adjudicator on any dispute referred to him in accordance with the Scheme shall be final and binding on the Company and the relevant Scheme Creditor (subject to Clause 7.3) and there shall be no right to appeal from such decision except insofar as the law allows.
- 6.2.9 Subject to Clause 6.2.11, in the event that the Scheme Adjudicator shall become aware that he has a conflict of interest in relation to any matter referred to him under Clauses 4.3.5 or 4.3.6, he shall inform the Company of such conflict.
- 6.2.10 Upon being informed of a conflict of interest by the Scheme Adjudicator, or otherwise becoming aware of such conflict, the Company shall as soon as reasonably practicable, subject to Clause 6.1.2 and Clause 6.2.11, nominate an alternate Scheme Adjudicator for the sole purpose of adjudicating on the relevant matter and, immediately thereafter, give notice of such conflict and nomination to the Scheme Creditor in relation to whom the conflict arises. If the Scheme Creditor objects to the Company's nomination within 21 days of notice

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being sent to the Scheme Creditor and the Company and Scheme Creditor cannot agree on the identity of an alternate Scheme Adjudicator within a further 7 days thereafter, the incumbent Scheme Adjudicator shall at his sole discretion decide on the identity of an alternate Scheme Adjudicator and shall instruct the Company to appoint such person. If the relevant Scheme Creditor fails to object to the Company's nomination within 21 days of the notice of the nomination being sent or agreement is reached between the Company and the Scheme Creditor within that period, the Company shall have power to appoint the nominated or agreed alternate Scheme Adjudicator. The Scheme Adjudicator's appointment shall continue during the appointment of any alternate and he shall continue to adjudicate on all other matters referred to him under Clauses 4.3.5 or 4.3.6 unless a conflict shall arise in respect of any of those matters in which event the provisions of Clauses 6.2.9 and 6.2.10 shall apply.

- 6.2.11 The Scheme Adjudicator may continue to act in spite of a conflict of interest if the Scheme Creditor in relation to whom the conflict arises and the Company expressly agrees in writing to permit the Scheme Adjudicator to act and if the Scheme Adjudicator himself is willing to act notwithstanding such conflict. Any such waiver of a conflict will only be made after the Scheme Adjudicator, Scheme Creditor and the Company have provided sufficiently detailed disclosure of the circumstances and nature of the conflict to enable each of them to take an informed decision on whether the conflict may be waived without prejudicing or embarrassing any of the Scheme Adjudicator, Scheme Creditor and/or the Company.

6.3 **Change of Scheme Adjudicator**

In the event that, pursuant to Clause 6.1.4, 6.1.5 or 6.1.6 above, there is a change of Scheme Adjudicator, the Company shall ensure that a notice alerting Scheme Creditors to such a change is advertised in the same newspapers and publications in which notice referred to in Clause 4.2.2 appeared (or should this not prove reasonably possible, in such other publications as it shall deem appropriate) and posted on the Website.

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7. PART 7: DURATION OF THE SCHEME

7.1 Final implementation of the Scheme

Without prejudice to the continuing effect of the Scheme, the Scheme shall be finally implemented upon written confirmation by the Company to the Scheme Creditors and the Scheme Adjudicator that all Scheme Liabilities have been adjudicated or otherwise determined and all Established Liabilities paid in full (or deemed to have been satisfied in full) in accordance with the terms of the Scheme. This confirmation shall be given as soon as is practicable after all Established Liabilities have been paid in full (or deemed to have been satisfied in full). Following such confirmation, the Scheme Adjudicator shall be released from his obligations under the Scheme.

7.2 Notice of final implementation of the Scheme

As soon as practicable after the final implementation of the Scheme pursuant to Clause 7.1, the Company shall:

- 7.2.1 cause to be published in the newspapers and publications in which the Scheme Meeting was advertised (or should this not prove reasonably possible, in such other publications as it shall deem appropriate);
- 7.2.2 post on the Website; and
- 7.2.3 send, in writing, to the Special Deputy Receiver,

a notice stating that the Scheme has been finally implemented. Following such notice, the Scheme Administrators shall be released from their obligations under the Scheme.

7.3 Early termination or modification of the Scheme

7.3.1 If HIC(US) does not:

- (a) procure that the Escrow Amount is released from the Escrow Account and paid on the Final Claims Submission Date; and/or
- (b) pay the remainder of the Settlement Amount within 10 Business Days of the Final Claims Submission Date,

in each case to the Company in accordance with Clause 2.2, the Scheme Administrators may, in their sole reasonable discretion but subject to the provisions of Clause 7.3.2, continue with the implementation of the Scheme notwithstanding such non-payment.

7.3.2 If, at any time after the Claim Notification Date, the Scheme Administrators conclude, in their sole reasonable discretion acting in good faith, whether by reason of a non-payment of all or a part of the Settlement Amount as described in Clause 7.3.1 or otherwise, that the Company will not be able to meet all estimated Established Liabilities in full, they shall:

- (a) place a notice on the Website and in those newspapers and publications in which the Scheme Meeting was advertised (or should this not prove

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reasonably possible, in such other publications as it shall deem appropriate); and

- (b) give written notice to all creditors of the Company, in particular the Scheme Creditors, as well as the Scheme Adjudicator and the Special Deputy Receiver,

that the Scheme shall terminate. Each such notice shall specify the date upon which the Scheme shall be deemed to terminate (the "**Early Termination Date**").

7.4 **Effects of early termination**

7.4.1 If the Scheme terminates early as contemplated by Clause 7.3, Scheme Liabilities determined hereunder but which have not become Established Liabilities pursuant to Clause 4.3 shall cease to be binding on the Company and the relevant Scheme Creditor. Established Liabilities (whether or not they have yet been paid in part or in full) shall continue to be binding upon the Company and the Scheme Creditor, save where the Scheme Creditor elects otherwise, by written notice sent to the Company, in accordance with Clause 8.2, no later than 42 days after the Early Termination Date, in which case, conditional on the Scheme Creditor reimbursing to the Company any payment which it has received in respect of any Established Liability which has been paid, such determination shall likewise cease to be binding upon the Company and that Scheme Creditor.

7.4.2 Clauses 8.1 (*Pre-Scheme Expenses And Scheme Expenses*), 8.3 (*Governing Law And Jurisdiction*), 8.6 (*Responsibility*) and 8.8 (*Indemnity*) shall remain in full force and effect notwithstanding any termination of the Scheme.

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8. PART 8: OTHER PROVISIONS

8.1 Pre-Scheme Expenses and Scheme Expenses

8.1.1 As soon as practicable after the Effective Date, there shall be paid in full out of the Company's Property all Pre-Scheme Expenses, to the extent that the same have not already been paid in the Company's administration.

8.1.2 There shall be paid in full out of the Company's Property as incurred all Scheme Expenses.

8.2 Notices

8.2.1 Subject to Clauses 8.9.1 and 8.9.2, all notices required to be sent pursuant to the provisions of the Scheme shall be in writing and shall be sent by Post.

8.2.2 Notices to the Company and/or the initial Scheme Administrator(s) shall be sent c/o PricewaterhouseCoopers LLP to Plumtree Court, London EC4A 4HT, United Kingdom (facsimile number +44 (0) 20 7804 5203) marked for the attention of Dan Schwarzmann/Mark Batten. All notices to any other Scheme Administrator shall be sent to that Scheme Administrator's address at the date of the notice.

8.2.3 Any notices to Scheme Creditors may be sent to such addresses as they notify in writing to the Company and failing such notification to such address as may be shown in the Company's records or to any other address being the last known address of the Scheme Creditor which the Company may reasonably believe is appropriate.

8.2.4 Subject to Clauses 8.9.1 and 8.9.2, notices sent by Post under this Clause 8.2 shall be deemed in the absence of evidence to the contrary to have been received at 12 noon (London time) on the fifth Business Day after despatch and references to the receipt by any party of any notice sent pursuant to the provisions of the Scheme shall be construed accordingly.

8.3 Governing law and jurisdiction

8.3.1 Subject to Clause 8.3.2, the Scheme shall be governed by and construed in accordance with English law. The Scheme Creditors hereby agree that the Court shall have exclusive jurisdiction to hear and determine any suit, action or proceeding and to settle any dispute which may arise out of the Explanatory Statement or any provision of the Scheme or arising from any action taken or omitted to be taken under the Scheme or in connection with the administration of the Scheme.

8.3.2 Nothing in this Clause 8.3 shall:

- (a) affect the validity of other provisions determining governing law and jurisdiction between the Company and any Scheme Creditor whether contained in any contract or otherwise; nor

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- (b) add to, affect or alter the governing law, jurisdiction and/or venue provisions contained in the Settlement Agreement.

8.4 **No waiver or release**

Subject to the provisions of this Clause 8.4, nothing in the Scheme shall be construed as resulting in any release, extinguishment, modification, compromise or waiver of any liability owed by the Company, save that, upon determination under Part 4 of all of a Scheme Creditor's Established Liabilities, those Established Liabilities shall constitute the Company's total aggregate liability to the Scheme Creditor concerned for the purposes of making payments under Part 4 only.

8.5 **Scheme Creditors to co-operate**

Scheme Creditors shall co-operate with, and render such assistance as, the Company, the Scheme Administrator(s) and/or the Scheme Adjudicator may reasonably require in connection with the Scheme in accordance with their functions under the Scheme including, but not limited to, the provision of information and documents in connection with the operation of the Scheme and shall provide such assistance as the Company may reasonably require in connection with the recovery of any Property or the enforcement of obligations or liabilities which are or may become owed to the Company. At the Scheme Administrators' request and notwithstanding the Scheme, Scheme Creditors shall continue to notify claims to the Company in the ordinary course in accordance with the terms of their existing contracts of insurance.

8.6 **Responsibility**

8.6.1 No Scheme Creditor shall be entitled to challenge the validity of any act done or omitted to be done in good faith and with due care by any of the persons referred to in Clause 8.6.2 in accordance with or to implement the provisions of the Scheme and no such person shall be liable for any loss unless such loss is attributable to his negligence, fraud or dishonesty.

8.6.2 Clause 8.6.1 applies to the acts and liabilities of the Scheme Administrator(s) and the Scheme Adjudicator (and/or any of their employees, Delegates, alternates, agents or advisers) in connection with the implementation and administration of the Scheme in accordance with its terms.

8.7 **Powers, rights, duties and functions**

8.7.1 Any function or duty of, or right or power conferred on, the Company or its officers, whether by statute or by its memorandum or articles of association which could be exercised in such a way as to interfere with the performance or exercise by the Scheme Administrator(s) or Scheme Adjudicator of the powers, rights, duties and functions conferred upon them under the Scheme shall not be exercisable except with the consent of the Scheme Administrators (in respect of the powers, rights, duties and functions conferred upon the Scheme Administrators) or the consent of the Scheme Adjudicator (in respect of the powers, rights, duties and functions conferred upon the Scheme Adjudicator) in each case which consent may be given either generally or in relation to

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particular cases (provided however that nothing in this Clause 8.7.1 shall relieve the directors of the Company from their duty to act in accordance with law, including but not limited to the Companies Act and the Insolvency Act).

- 8.7.2 Without prejudice to the generality of the Scheme, in performing or exercising their powers, rights, duties and functions under the Scheme, the Scheme Administrator(s) and Scheme Adjudicator shall be entitled to be remunerated out of the Property of the Company for the performance and exercise of such powers, rights, duties and functions and to be indemnified for all costs, expenses and liabilities properly incurred by them in connection therewith (subject, in the case of the Scheme Adjudicator to any direction made by him in accordance with Clause 6.2.6), save for where the Scheme Administrator(s) and/or Scheme Adjudicator is entitled to reimbursement by a third party in respect of such costs, expenses and liabilities.

8.8 Indemnity

- 8.8.1 Subject to the Companies Act and to Clause 8.8.2, the Scheme Administrator(s) and the Scheme Adjudicator (in their capacities as such) (and/or any of their employees, Delegates, alternates, agents or advisers) shall be entitled to an indemnity out of the Property of the Company, against:

- (a) all actions, claims, Proceedings and demands brought or made against any or all of such persons in respect of any act done or omitted to be done by any or all of them in good faith without negligence, wilful default, wilful breach of duty or trust, fraud or dishonesty on any of their part in the course of implementing the Scheme in accordance with its terms; and
- (b) all expenses and liabilities properly incurred by any of such persons in carrying out their functions and powers in the course of implementing the Scheme in accordance with its terms.

- 8.8.2 Without prejudice to the generality of Clause 8.8.1, each such person as is expressed to be entitled to an indemnity in accordance with that Clause (in the capacity in which it is entitled to such an indemnity) shall be entitled to an indemnity out of the Property of the Company:

- (a) against any liability incurred by it in defending any Proceedings, whether civil or criminal, in respect of any negligence, wilful default, wilful breach of duty or trust, fraud or dishonesty on its part in relation to the operation of the Scheme in which judgment is given in its favour or in which it is acquitted; or
- (b) in connection with any application in any such Proceedings in which relief is granted to it by a court from liability for negligence, wilful default, wilful breach of duty or trust, fraud or dishonesty on any of their part in relation to the operation of the Scheme.

- 8.8.3 The Company may:

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- (a) purchase and maintain for any such person as is referred to in Clause 8.8.1 insurance against any liability in respect of which the Company would be obliged to indemnify that person in accordance with Clauses 8.8.1 and 8.8.2; and
- (b) pay costs incurred by any such person as is referred to in Clause 8.8.1 in defending proceedings of the nature described in Clause 8.8.2 provided that the Company obtains from such person an obligation to reimburse the Company (with interest) in respect of any sum which would not, in the event have been payable by the Company under Clause 8.8.2.

8.9 **Electronic communications**

- 8.9.1 Notwithstanding anything to the contrary in the Scheme, information concerning Scheme Liabilities (including any Claim Form or relevant accompanying information) and any other communication required to be or capable of being given or sent under the Scheme may, at the option of the Scheme Creditor concerned, be given or sent by the Company, the Scheme Administrators, Scheme Adjudicator or Scheme Creditor in Electronic Form to the address specified for that purpose by that Scheme Creditor, the Company, the Scheme Administrators or Scheme Adjudicator. References in the Scheme to "Post" and addresses shall therefore be construed accordingly.
- 8.9.2 Any notice given in Electronic Form shall be deemed to have been received at the time of receipt recorded on the Electronic Equipment of the person to whom the notice is addressed provided that the same shall have been sent to the address specified for that purpose by the Company, the relevant Scheme Creditor, the Scheme Administrators, the Scheme Adjudicator or by such other person concerned. In relation to electronic communications "address" includes, without limitation, any telephone or telefax number or email address used for the purposes of such communications.

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SCHEDULE 1 CLAIM NOTIFICATION

**Highlands Insurance Company (U.K.) Limited (in Administration)
(the "Company")**

If you wish to file a claim against the Company in the Scheme, you are required to submit this Claim Notification (or other appropriate written notice) to the Company unless the Company has notified you in writing within 7 days after the Effective Date that you have an unpaid Agreed Claim (please refer to Clause 4.2.7 of the Scheme) . If you are required to submit this Claim Notification, you must do so by no later than the Claim Notification Date.

Please insert the name of the Scheme Creditor and tick the box below if you anticipate that you will or may wish to file a claim against the Company in the Scheme.

SCHEME CREDITOR(S) NAME(S):.....

I/We confirm that I/we intend to file a claim against the Company in the Scheme

NOTES

- (1) Please submit this Claim Notification if you are in any doubt as to whether or not you are required to do so.
- (2) One Claim Notification may be submitted by a group of companies, provided that the full name of each group company to be covered by this Claim Notification is included herein. Where there is insufficient space to list all group companies, additional names may be attached by way of appendix to this Claim Notification.
- (3) In the event that you are required to submit this Claim Notification and fail to do so by the Claim Notification Date:
 - (a) you shall not be permitted to submit a Final Claim Form (whether prior to the Final Claims Submission Date or otherwise); and
 - (b) the Company shall attribute a nil value to any Scheme Liabilities owed to you, if any, and such Scheme Liabilities shall be deemed to have been satisfied in full under the Scheme.
- (4) **Please return the original Claim Notification by no later than the Claim Notification Date to:**

**Highlands Insurance Company (U.K.) Limited (in Administration)
c/o PRO Insurance Solutions Limited,
Bruton Court,
Bruton Way,
Gloucester, GL1 1DA,
United Kingdom
Attention: Áine Davies/Ian Leighton
By email: pro_hicukhelpline@pro-ltd.co.uk**

- (5) The Company helpline number is: +44 (0) 1452 413 985
- (6) A capitalised term used but not defined in this Claim Notification shall have the meaning given to it in the Scheme between the Company and its Scheme Creditors dated 1 May 2009.

SCHEDULE 2 FINAL CLAIM FORM

Highlands Insurance Company (U.K.) Limited (in Administration) (the "Company")

For each claim in relation to which you are a Scheme Creditor, please complete this Final Claim Form following the instructions on the following pages. **You should read the instructions carefully.**

This Final Claim Form, along with appropriate supporting information, must be returned to the Company by every Scheme Creditor (save those who only wish to make a claim in respect of an Agreed Claim) to be received no later than the Final Claims Submission Date. After the Final Claims Submission Date, no new or revised Final Claim Form(s) will be accepted, except in response to a request from the Company or the Scheme Adjudicator.

Please complete a separate Final Claim Form for each currency. Use photocopied pages as required.

Scheme Creditor Name		Currency	
-----------------------------	--	-----------------	--

	Contract 1	Contract 2	Contract 3
(1) Insurance Contract reference number			
(2) Contract description/Type of business			
(3) Participation percentage (%)			
(4) Inception date/Expiry date			
(5) Broker			
(6) Broker reference			
(7) Unrealised Security Interests			
(8) Pre-Administration Agreed Claims			
(9) Post-Administration Agreed Claims			
(10) Notified Outstanding Claims			
(11) IBNR Claims			
(12) Realised Security Interests or any other counterclaims			
(13) Total (8+9+10+11-12)			

(14) Total of row (13)	
------------------------	--

TO BE SIGNED AND COMPLETED BY THE SCHEME CREDITOR IN ORDER FOR THIS FINAL CLAIM FORM TO BE VALID

To the best of my knowledge and belief the information on this Final Claim Form and any supporting information provided herewith, as amended or otherwise, is correct.	
Signed:	Name:
Position/Capacity:	Email Address:
For and on behalf of (Scheme Creditor name)	Date:

<p>PLEASE INSERT DETAILS OF THE BANK ACCOUNT INTO WHICH YOU REQUIRE ANY PAYMENT DUE TO THE SCHEME CREDITOR UNDER THE SCHEME TO BE MADE:</p> <p>NAME AND ADDRESS OF BANK:</p> <p>NAME OF ACCOUNT HOLDER:</p> <p>SORT CODE/SWIFT CODE (or any other identifying code):</p> <p>ACCOUNT and/or IBAN ACCOUNT NUMBER:</p> <p>Please note that payments made by way of telegraphic transfers are made at the expense of the Scheme Creditor, which expense may be deducted from the relevant payment.</p>

RETURNING THIS FINAL CLAIM FORM

Please return the original signed Final Claim Form, together with supporting schedules, by no later than the Final Claims Submission Date to:

Highlands Insurance Company (U.K.) Limited (in Administration)
c/o PRO Insurance Solutions Limited,
Bruton Court,
Bruton Way,
Gloucester, GL1 1DA,
United Kingdom

Attention: Áine Davies/Ian Leighton

The Company helpline number is: +44 (0) 1452 413 985

By email: pro_hicukhelpline@pro-ltd.co.uk

INSTRUCTIONS FOR COMPLETION OF THE FINAL CLAIM FORM

Where not otherwise defined, the terms used within these instructions and in the Final Claim Form bear the same meanings as given to them in the Scheme. For the avoidance of doubt, in these instructions and the Final Claim Form, the term "Insurance Contract" only refers to a direct contract or policy of insurance.

The numbers below refer to the numbered rows in the Final Claim Form. If the Scheme Creditor has claims in more than one currency, please photocopy the table and use a separate table for each currency, specifying in the box provided the relevant currency. If there are insufficient columns for any one currency, please photocopy the table and complete the photocopy. Please refer to Clause 4 of the Scheme and Schedules 3 and 4 of the Scheme for further details on completing the Final Claim Form and the supporting evidence required.

1. **Insurance Contract reference number**

Please specify each Insurance Contract reference number under which each of the Scheme Creditor's claims may arise against the Company and provide a copy of the contract schedule or cover note and the schedule of insurers with particulars of each claim in supporting schedules (where applicable). The Scheme Creditor's broker will be able to assist in confirming or identifying Insurance Contracts and reference numbers. Please then insert the Insurance Contract reference numbers on the Final Claim Form using a separate line for each.

2. **Contract description/Type of business**

Specify the contract description on the face of the Insurance Contract and the type of business covered by the Insurance Contract.

3. **Participation percentage**

The participation percentage for each Insurance Contract represents the percentage line underwritten or assumed by the Company under the Insurance Contract. Insert the percentage line for each Insurance Contract (and the value of each of your claims against the Company should be apportioned accordingly when completing rows (8), (9), (10) and (11)).

4. **Inception date/Expiry date**

Specify the date when each Insurance Contract commenced and the date when each Insurance Contract expired. In the case of continuous Insurance Contracts or Insurance Contracts of more than 12 months, each annual renewal should be shown as a separate Insurance Contract.

5. **Broker**

Specify the name of the broker who placed the Insurance Contract or, if the placing broker is not known, any other broker or intermediary (if known) who acted on your behalf in relation to the Insurance Contract. Enter, in addition, either "Placing" or "Other" as applicable.

6. **Broker reference**

Specify the broker's contract reference for each Insurance Contract.

7. **Unrealised Security Interests**

Specify the amount of any Unrealised Security Interest in relation to each Insurance Contract under each claim. Provide an analysis of the amount and provide any supporting documentation.

8. **Pre-Administration Agreed Claims**

Specify the total amount payable by the Company in respect of a claim arising under or in respect of an Insurance Contract where, as at the Administration Date, the existence and quantum of the Liability have been agreed between the Scheme Creditor and the Company, according to the Company's records or such other evidence as the Scheme Administrators may reasonably accept, but such Liability has not yet been paid by or on behalf of the Company.

9. **Post-Administration Agreed Claims**

Specify the total amount payable by the Company in respect of a claim arising under or in respect of an Insurance Contract where, after the Administration Date but before the Effective Date, the existence and quantum of the Liability have been agreed between the Scheme Creditor and the Company, according to the Company's records or such other evidence as the Scheme Administrators may reasonably accept, but such Liability has not yet been paid by or on behalf of the Company.

10. **Notified Outstanding Claims**

Specify the total estimated amount, as at the Administration Date, payable by the Company in respect of a loss that has been reported to the Scheme Creditor but exclude any Post-Administration Agreed Claim.

11. **IBNR Claims**

Specify the total estimated amount, as at the Administration Date, payable by the Company, in respect of a loss which has been incurred but has not been reported to the Scheme Creditor plus the amount payable in respect of a general excess over Notified Outstanding Claims, to the extent that the current estimates of claims included as Notified Outstanding Claims may prove to be inadequate. In estimating the value of its IBNR Claims, a Scheme Creditor should:

- (a) include any losses notified to the Scheme Creditor after the Administration Date (such notified losses to nevertheless comprise part of its IBNR Claims); but
- (b) exclude any Post-Administration Agreed Claims.

12. **Realised Security Interests or any other counterclaims**

Specify in brackets the amount of any set-off or cross-claim that you believe exists in relation to each Insurance Contract under each claim and which is available in respect of such claim(s) or any other balance due from the Scheme Creditor to the Company arising other than under an Insurance Contract. Provide an analysis of the amount and provide any supporting documentation. In addition, please include the amount of any Security Interest that has been realised in relation to each Insurance Contract under each claim.

13. **Total**

Enter the net total of rows (8) to (11) inclusive but less the amount specified in row (12).

14. **Total of row (13)**

Enter the total sum of all row (13) amounts.

Please ensure that you sign the declaration on the Final Claim Form and complete the relevant contact details for the Scheme Creditor. Final Claim Forms will not be accepted by the Scheme Administrators

unless the declaration has been signed. You are also requested to provide details of the bank account into which the Company may make any payments in respect of an Established Liability.

SECTION II: THE SCHEME

SCHEDULE 3 ESTIMATION GUIDELINES

Index

- 1 Introduction
- 2 Definitions specific to the Estimation Guidelines
- 3 Non-APH claims
- 4 APH claims
- 5 Unanticipated latent claims

SECTION II: THE SCHEME
SCHEDULE 3: ESTIMATION GUIDELINES

1. INTRODUCTION

- 1.1 Each Section of the Estimation Guidelines must be read in its entirety. Reading individual parts of Sections in isolation could be misleading.
- 1.2 The Estimation Guidelines describe the approach that the Company, acting by the Scheme Administrators would expect Scheme Creditors to follow in valuing Scheme Liabilities. The Estimation Guidelines are designed to be of assistance to Scheme Creditors in developing their estimates of Scheme Liabilities by setting out estimation techniques that are generally accepted within the insurance market. Scheme Creditors are not, however, precluded from using other projection techniques where they consider these techniques to be appropriate, provided that such techniques are shown to be robust and that they use assumptions that can reasonably be justified by the Scheme Creditor. It should be noted, in this context, that the Company does not consider the valuation of "All Sums" claims on a "Pure All Sums" basis to be either appropriate or robust. The Company will only agree to settle such claims (or give weight to "All Sums" claims in a settlement) where such claims are calculated on a basis that is net of contributions to and from other insurers on the relevant coverage period.
- 1.3 The Scheme Administrators on behalf of the Company will adopt the Estimation Guidelines in valuing Scheme Liabilities. Should the Scheme Administrators consider that the circumstances of particular Scheme Liabilities are such that robust and justifiable approaches other than those set out below are more appropriate then these will be adopted in valuing Scheme Liabilities.
- 1.4 In all cases Scheme Creditors should value Scheme Liabilities as a Best Estimate, as defined in Section 2 of this Schedule. A Scheme Creditor's claim for Scheme Liabilities will consist of Agreed Claims, Notified Outstanding Claims and IBNR Claims.
- 1.5 The Company will not be bound by, or prepared to follow, any settlement made between the Scheme Creditor and another insurer if it believes that settlement to be unreasonable.
- 1.6 The supporting evidence that Scheme Creditors should provide in support of their estimates of Scheme Liabilities is set out in Schedule 4 to the Scheme. The Estimation Guidelines and the Supporting Evidence document differ according to loss type. For each loss type the methodology differs according to whether the claim is related to asbestos, environmental pollution and other health hazards (collectively labelled as "APH"), or not related to asbestos, environmental pollution and other health hazards ("Non-APH").
- 1.7 In some instances, this Schedule makes reference to certain traditionally used actuarial methodologies. For further information on the use of these methodologies and the circumstances in which they can be used, reference can be made to <http://www.casact.org/admissions/syllabus/ch5.pdf>.

2. DEFINITIONS SPECIFIC TO THE ESTIMATION GUIDELINES

Various definitions are given below that are relevant to the Estimation Guidelines. Terms not otherwise defined in this section shall have the meaning ascribed to them in the Scheme.

SECTION II: THE SCHEME
SCHEDULE 3: ESTIMATION GUIDELINES

"Agreed Claim"	means a Pre-Administration Agreed Claim or a Post-Administration Agreed Claim;
"APH"	means collectively asbestos and/or environmental pollution and/or other health hazards;
"Best Estimate"	means an estimate that is not biased either upwards or downwards and is intended to represent the mean of the distribution of possible outcomes;
"IBNR Claim"	means a claim, as at the Administration Date, against the Company, in respect of a loss which has been incurred but has not been reported to the Scheme Creditor plus the amount payable in respect of a general excess over Notified Outstanding Claims, to the extent that the current estimates of claims included as Notified Outstanding Claims may prove to be inadequate but excluding any Post-Administration Agreed Claim;
"Non-APH"	means not related to asbestos, pollution or other health hazards;
"Notified Outstanding Claim"	means a claim, as at the Administration Date, against the Company in respect of a loss that has been reported to the Scheme Creditor but excluding any Post-Administration Agreed Claim;
"Post-Administration Agreed Claim"	means a claim which, as at the Administration Date, was either a Notified Outstanding Claim or an IBNR Claim but in respect of which the existence and quantum of the Liability has been agreed between the Scheme Creditor and the Company after the Administration Date but before the Effective Date, according to the Company's records or such other evidence as the Scheme Administrators may reasonably accept, but such Liability has not yet been paid by or on behalf of the Company;
"Pre-Administration Agreed Claim"	means a claim against the Company arising under or in respect of an Insurance Contract where, as at the Administration Date, the existence and quantum of the Liability have been agreed between the Scheme Creditor and the Company, according to the Company's records or such other evidence as the Scheme Administrators may reasonably accept, but such Liability has not yet been paid by or on behalf of the Company.

SECTION II: THE SCHEME
SCHEDULE 3: ESTIMATION GUIDELINES

3. **NON-APH CLAIMS**

This section describes the Estimation Guidelines that may be useful to Scheme Creditors with Non-APH claims arising under an Insurance Contract with the Company.

3.1 **Projection techniques**

3.1.1 For each class of business and type of loss, an "average cost per claim method" should be adopted. This involves building up an estimate of the total number of claims to be received by the Scheme Creditor and applying to that an average claim cost to determine its total inwards liability. This can then be applied to the policy profile of the Scheme Creditor to derive the Company's share of that cost.

3.1.2 For each Scheme Creditor the process may involve the following steps (please refer to the website listed in Section 1.7 of these Estimation Guidelines for further information):

- Estimate the ultimate number of claims that will be filed against the Scheme Creditor for the loss type under consideration and for the period over which the Company was providing coverage;
- Select average indemnity and expense costs per claim allowing for future inflation;
- Multiply the ultimate number of claims by the selected average indemnity cost per claim to derive an estimate of the total indemnity cost, and by the selected average expense cost per claim to derive an estimate of the total expense cost;
- Where applicable, for example if the approach has been applied at a level that has made use of data from policies not covered by the Company, allocate these costs (indemnity and expense) across the coverage period relevant to the loss concerned;
- Apply the cost for each year in the coverage period to the policy profile that is relevant to the loss to derive the Company's share of those costs.

3.1.3 The Scheme Creditor may need to consider an allocation of claims costs over the period under consideration if the coverage has varied over that period or where there are gaps in the Company's coverage or both. In carrying out this allocation, the Scheme Creditor can consider features of the claims experience for individual policies or alternative features that might indicate an expected level of claims on each policy (such as the policy's premiums or other suitable exposure measures) or both. Consideration of such exposure details will tend to be more appropriate where claims experience is limited or non-existent.

SECTION II: THE SCHEME
SCHEDULE 3: ESTIMATION GUIDELINES

3.2 **Alternative approaches where historical information may not be available**

- 3.2.1 If a Scheme Creditor has evidence that it is exposed to liability from a source from which it has as yet no claims experience, it may under certain circumstances be appropriate to use information which is not based on past claims history to support its claim. A suitable methodology is likely to involve elements from epidemiological and demographic studies, industry comparisons and trend lines. Other methods, provided that the rationale and basis for the assumptions are clearly explained, might also be suitable.
- 3.2.2 The approach taken will need to draw from the information available to the Scheme Creditor. It should consider what information and supporting evidence it can gather and thus what approach should be developed which maximises its ability to provide backing information and justification for the assumptions used.
- 3.2.3 Once the ground-up loss for the Scheme Creditor has been established, the liabilities can be applied to the Company's policies in the normal manner. Consideration then needs to be given to the likelihood of the claims actually emerging to the extent indicated by the selected methodology. The final result needs to be adjusted for this probability which should be documented in full.

SECTION II: THE SCHEME
SCHEDULE 3: ESTIMATION GUIDELINES

4. **APH CLAIMS**

This section describes the Estimation Guidelines that may be useful to Scheme Creditors with APH claims arising under an Insurance Contract with the Company.

4.1 **Asbestos claims**

4.1.1 An "average cost per claim method" should be adopted. This involves building up an estimate of the total number of claims to be received by the Scheme Creditor and applying to that an average claim cost to determine its total inwards liability. This can then be allocated across the appropriate coverage period and applied to the policy profile of the Scheme Creditor to derive the Company's share of that cost.

4.1.2 If this approach is adopted, the following steps should be followed (note that further guidance for some of these points is given later):

- Estimate the ultimate number of claims to be filed against the Scheme Creditor;
- Select average indemnity and expense costs per claim allowing for future inflation;
- Multiply the ultimate number of claims by the selected average indemnity cost per claim to derive an estimate of the total indemnity cost, and by the selected average expense cost per claim to derive an estimate of the total expense cost;
- Identify the coverage period over which these costs are to be allocated by reference to the appropriate trigger;
- Allocate the costs (indemnity and expense) across this coverage period and apply the results to the policy profile of the Scheme Creditor to derive the Company's share of those costs.

4.1.3 Within the above approach separate consideration should be given to the disease type (e.g. mesothelioma, lung cancer, other cancer, asbestosis, other non-malignant) and the US State or country in which the claim originates.

4.1.4 If the claim includes an allowance for asbestos claims in policy sections or policies other than those relating to products coverage, a separate analysis should be included for these claims. This analysis should be similar to the approach outlined above and should include assumptions on the numbers and amounts of occurrences and the basis of aggregation.

Claim numbers

4.1.5 The estimates of claim numbers should take account of the historical claims development together with any available independent studies of the incidence of asbestos-related diseases and should reflect the prevailing legal environment in the relevant country and/or jurisdiction.

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SCHEDULE 3: ESTIMATION GUIDELINES

Expenses

- 4.1.6 Scheme Creditors should indicate whether expenses are included in the limits or in addition to the limits for each policy.

Trigger of coverage

- 4.1.7 The most common approach adopted by the US courts to determine the period over which the losses should be allocated is the continuous trigger, whereby all policies available over the period from the date of first exposure to asbestos up to the date when the disease became clinically evident are triggered.
- 4.1.8 The selection of the coverage period should also take the following into consideration:
- The treatment of any periods of self insurance;
 - The period during which the Scheme Creditor manufactured, installed or distributed asbestos-containing products;
 - Exclusion clauses within the Scheme Creditor's policies;
 - Settlements and other major agreements between the Scheme Creditor and its insurers;
 - Legal judgements in any coverage disputes between the Scheme Creditor and its insurers;
 - The latest approaches adopted by the US courts (or courts in other countries, if appropriate).

Allocation of costs to the coverage period

- 4.1.9 In most circumstances, we would expect the costs to be spread over the entire period covered by the triggered policies with reference to the Scheme Creditor's asbestos exposure over time. The Company will expect the Scheme Creditor to provide exposure information in support of its approach.
- 4.1.10 The Scheme Creditor is normally required to share in the allocation by bearing the loss allocated to periods of self insurance or non-insurance.
- 4.1.11 In circumstances where consideration may be given to settlement on an "All Sums" basis, the Company will assign an appropriate weight (which may be 100%) to an "All Sums" calculation, where that calculation is conducted on a basis that is net of contributions to and from other insurers on the relevant coverage period.
- 4.1.12 Where appropriate and insofar as is practicable and possible, the basis of settlement shall include an assignment to the Scheme Creditor of any and all rights that the Company may have against other insurers on the relevant coverage period now and/or in the future.

SECTION II: THE SCHEME
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- 4.1.13 The Company will consider other methods of allocating costs to the coverage period provided that they are shown to be robust and that they use assumptions that can reasonably be justified by the Scheme Creditor.
- 4.1.14 Some of the issues highlighted above for the selection of the coverage period will also be relevant here and should be considered within the allocation approach.

4.2 Environmental pollution claims

4.2.1 In order to determine the Liability in respect of polluted sites an exposure-based approach should be used. The Scheme Creditor should identify all sites to which it has exposure for which liability potential has already been notified and sites for which they believe they will be notified of Liability potential in the future. The steps below should be used for each site to convert the estimated clean-up cost of these sites into a potential Scheme Liability of the Company. Further guidance for some of these points is given below:

- Estimate the cost of cleaning up a polluted site;
- Distribute these clean-up costs between the Scheme Creditor and other potentially responsible parties ("**PRPs**");
- Estimate corresponding expenses;
- Identify the period over which these clean-up costs and expenses are to be allocated with reference to the appropriate trigger;
- Allocate the clean-up costs and expenses over this period and apply the results to the Scheme Creditor's policy profile;
- Assess the legal coverage issues involved in determining the validity of the claim.

Clean-up costs

4.2.2 For each site an undiscounted clean-up cost should be established. The Scheme Creditor should provide independent supporting evidence when claiming future clean-up costs. Past costs may be supported by internal evidence held or obtained by the Scheme Creditor. Where the information provided by the Scheme Creditor differs significantly from other sources then the Company may request additional information from the Scheme Creditor and retain the right to request independent verification of clean-up costs.

Expenses

4.2.3 Scheme Creditors should indicate whether expenses are included in the limits or are in addition to the limits for each policy. Where expenses are included in the clean-up cost amounts this should be indicated by the Scheme Creditor. Each Scheme Creditor should provide details of how their own expenses have been determined, allowing for the number of PRPs involved at the site if appropriate.

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PRP share

- 4.2.4 The total costs for each site should be allocated to PRPs using participation percentages or volumetric shares where possible. Where neither of these is available, the share of unallocated costs on a site should be estimated with reference to the most appropriate available information.

Governing Law

- 4.2.5 The ultimate loss to the Company for a site will depend, to some extent, on the assumptions adopted by the courts in any litigation in the relevant jurisdiction. These assumptions vary from state to state. The US courts are now generally using the site location as the key factor in determining the appropriate governing law although there are some exceptions to this general statement (see below). The governing law in relation to any Scheme Liability will therefore be the law of the state where the particular site is located and the Company will apply that law by reference to the principles set out below. The exceptions to this are where:

- The Scheme Creditor has agreed a settlement with the London Market;
- The Scheme Creditor can identify a court decision that means that any claim will be subject to a different governing law.

Trigger of coverage

- 4.2.6 The most common approach adopted by the US courts to determine the period over which the losses should be allocated is the continuous trigger, whereby all insurance policies on the risk are triggered commencing on the date of first exposure through to the date of manifestation. Other triggers have occasionally been selected and applied.

Allocation of costs to triggered policies

- 4.2.7 The default method of allocation should be the pro-rata allocation. Under this basis, the costs are spread evenly over the entire period covered by the triggered policies.
- 4.2.8 The Scheme Creditor is normally required to share in the allocation by bearing the loss allocated to periods of self insurance or non-insurance.
- 4.2.9 In circumstances where consideration may be given to settlement on an "All Sums" basis, the Company will assign an appropriate weight (which may be 100%) to an "All Sums" calculation, where that calculation is conducted on a basis that is net of contributions to and from other insurers on the relevant coverage period.
- 4.2.10 Where appropriate and insofar as is practicable and possible, the basis of settlement shall include an assignment to the Scheme Creditor of any and all rights that the Company may have against other insurers on the relevant coverage period now and/or in the future.

SECTION II: THE SCHEME
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- 4.2.11 The Company will consider other methods of allocating costs to the coverage period provided that they are shown to be robust and that they use assumptions that can reasonably be justified by the Scheme Creditor.

Coverage issues

- 4.2.12 Insurers may not in all cases be liable to pay the clean-up costs and expense costs. Each policy covering the Scheme Creditor has a number of clauses that insurers and reinsurers may argue preclude Liability. The key issues to consider are:
- The presence of the "absolute", "sudden and accidental" and "owned property" exclusion clauses;
 - Whether clean-up costs are considered as damages;
 - The "expected or intended" argument.
- 4.2.13 The effect of any of the above issues on individual sites will be assessed by considering recent legal precedents to determine the likelihood of various outcomes by state and policy-year. For the "owned property" exclusion a similar approach should be adopted only to sites that are owned property and, as such, these should be indicated by the Scheme Creditor.

Future sites

- 4.2.14 If the Scheme Creditor considers that it will potentially be exposed to as yet unidentified sites, then it should consider an allowance for these sites using an "average cost per claim method". The Scheme Creditor should estimate the number of such sites, with reference to the past emergence of unidentified sites, and apply an average cost per site. This average cost per site will need to have regard to the characteristics that the unidentified sites are likely to exhibit.

4.3 Other health hazards

- 4.3.1 For each health hazard, an "average cost per claim method" should be adopted. This involves building up an estimate of the total number of claims to be received by the Scheme Creditor and applying to that an average claim cost to determine its total inwards liability. This can then be allocated across the appropriate coverage period and applied to the policy profile of the Scheme Creditor to derive the Company's share of that cost.
- 4.3.2 This process involves the following steps (note that further guidance for some of these points is given below):
- Estimate the ultimate number of claims that will be filed against the Scheme Creditor for the loss type under consideration;
 - Select average indemnity and expense costs per claim allowing for future inflation;

SECTION II: THE SCHEME
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- Multiply the ultimate number of claims by the selected average indemnity cost per claim to derive an estimate of the total indemnity cost, and by the selected average expense cost per claim to derive an estimate of the total expense cost;
- Allocate the costs (indemnity and expense) across the coverage period relevant to the Scheme Creditor;
- Apply the results of the above allocation to the policy profile of the Scheme Creditor to derive the Company's share of the costs.

Claim numbers

- 4.3.3 The estimates of claim numbers should take account of the historical claims development together with any independent studies of the incidence of the loss type.

Expenses

- 4.3.4 Scheme Creditors should indicate whether expenses are included in the limits or in addition to the limits for each policy.

Trigger of coverage

- 4.3.5 The most common approach adopted by the US courts to determine the period over which the losses should be allocated is the continuous trigger, whereby all policies available over the period from the date of first exposure up to the date when the disease became clinically evident are triggered.
- 4.3.6 The selection of the coverage period should also take the following into consideration:
- Settlements and other major agreements between the Scheme Creditor and its insurers;
 - Legal judgements in any coverage disputes between the Scheme Creditor and its insurers;
 - The latest approaches adopted by the courts.

Allocation of costs to the coverage period

- 4.3.7 In most circumstances, the pro-rata allocation basis will be appropriate. Under this basis, the costs are spread evenly over the entire period covered by the triggered policies.
- 4.3.8 The Scheme Creditor is normally required to share in the allocation by bearing the loss allocated to periods of self insurance or non-insurance.
- 4.3.9 In circumstances where consideration may be given to settlement on an "All Sums" basis, the Company will assign an appropriate weight (which may be 100%) to an "All Sums" calculation, where that calculation is conducted on a

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basis that is net of contributions to and from other insurers on the relevant coverage period.

4.3.10 Where appropriate and insofar as is practicable and possible, the basis of settlement shall include an assignment to the Scheme Creditor of any and all rights that the Company may have against other insurers on the relevant coverage period now and/or in the future.

4.3.11 The Company will consider other methods of allocating costs to the coverage period provided that they are shown to be robust and that they use assumptions that can reasonably be justified by the Scheme Creditor.

4.4 **Alternative approaches where historical information may not be available**

4.4.1 If a Scheme Creditor has evidence that it is exposed to liability from a source from which it has as yet no claims experience, it may under certain circumstances be appropriate to use information which is not based on past claims history to support its claim. A suitable methodology is likely to involve elements from epidemiological and demographic studies, industry comparisons and trend lines. Other methods, provided that the rationale and basis for the assumptions are clearly explained, might also be suitable.

4.4.2 The approach taken will need to draw from the information available to the Scheme Creditor. It should consider what information and supporting evidence it can gather and thus what approach should be developed which maximises its ability to provide backing information and justification for the assumptions used.

4.4.3 Once the ground-up loss for the Scheme Creditor has been established, the liabilities can be applied to the Company's policies in the normal manner. Consideration then needs to be given to the likelihood of the claims actually emerging to the extent indicated by the selected methodology. The final result needs to be adjusted for this probability which should be documented in full.

5. **UNANTICIPATED LATENT CLAIMS**

5.1 Where a Scheme Creditor has reason to believe that it has inwards exposure to types of claim that are not yet known about, then, subject to the conditions set out later in this section, the Scheme Creditor can submit a claim for this exposure. Such exposure is expected to diminish over time until it eventually reduces to an immaterial level. The exposure is expected to vary according to several factors, including:

- Nature of claim;
- Class of business;
- Type of acceptance and other coverage aspects;
- The nature of the (underlying) insured's business;
- Territory.

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- 5.2 The Scheme Creditor will first need to supply information to demonstrate the existence of the exposure. This information will have regard to the above factors and will need to draw on company and industry data to prove a reasonable likelihood that the future experience will occur at some level.
- 5.3 Having demonstrated that the future experience is likely to occur, the Scheme Creditor needs to provide an estimate of the ultimate cost of the experience together with appropriate supporting evidence. In view of the diverse nature of the underlying claims, the Company will accept any reasonable approach, provided that it is appropriately supported and takes into account the factors listed above.

SECTION II: THE SCHEME

SCHEDULE 4 SUPPORTING EVIDENCE

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- 2 Techniques not covered in Schedule 3
- 3 Non-APH claims
- 4 APH claims
- 5 Unanticipated latent claims

SECTION II: THE SCHEME
SCHEDULE 4: SUPPORTING EVIDENCE

1. **INTRODUCTION**

This Schedule sets out the level of supporting evidence that should be supplied by a Scheme Creditor in support of the different approaches used for estimating Scheme Liabilities for different claim loss types as described in Schedule 3 to the Scheme.

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SCHEDULE 4: SUPPORTING EVIDENCE

2. **TECHNIQUES NOT COVERED IN SCHEDULE 3**

Wherever the Scheme Creditor adopts projection techniques other than those set out in Schedule 3 "*Estimation Guidelines*", full supporting evidence should be provided, including full descriptions of the techniques adopted and the assumptions made, including supporting data to justify each of the assumptions made.

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3. **NON-APH CLAIMS**

This section describes the supporting evidence that should be submitted by Scheme Creditors with Non-APH claims arising under an Insurance Contract with the Company.

3.1 **Projection techniques**

Scheme Creditors with direct insurance Non-APH claims following the approach set out in Schedule 3, Section 3 should provide supporting evidence with the Final Claim Form that should include:

- Policy details as required by the Final Claim Form;
- The underlying data used and the methodology and assumptions applied to estimate the ultimate claims cost (and hence how the value of Scheme Liabilities has been estimated);
- The methodology and assumptions used to allocate the ultimate claims cost to each policy (where applicable);
- The historical development of paid and incurred losses to the policies;
- The value of Scheme Liabilities being claimed by the Scheme Creditor from the Company;
- Justification of the probability of any new claims occurring based on the evidence of past delays in notification;
- The assumptions used in assessing the future claims amounts.

3.2 **Alternative approaches where historical information may not be available**

Scheme Creditors with direct insurance Non-APH claims following the approach set out in Schedule 3, Section 3.2 should provide supporting evidence with the Final Claim Form that should include full details of the approach taken and justification of assumptions made.

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4. **APH CLAIMS**

This section describes the supporting evidence that should be submitted by Scheme Creditors with APH claims arising under an Insurance Contract with the Company.

4.1 **Asbestos claims**

- 4.1.1 Scheme Creditors with Asbestos claims following the approach set out in Schedule 3, Section 4.1 should provide supporting evidence with the Final Claim Form that should include:

Agreements or settlements with any insurer

- 4.1.2 If there is a coverage in place agreement or settlement with any insurer, the Scheme Creditor should:
- provide a copy of the agreement;
 - indicate the policy years covered by the agreement;
 - indicate the extent to which the limits provided by the agreement have been paid to date.

Claims estimation data

- 4.1.3 The Scheme Creditor should provide details of the asbestos product(s) involved, the years that the product(s) were manufactured and distributed by the Scheme Creditor, and the source of the asbestos claims (e.g. employees, third parties, etc).
- 4.1.4 A claimant database should also be provided, to include, at a minimum, the following information for each individual claimant who has filed a claim against the Scheme Creditor:
- claimant name;
 - date when the claim was filed against the Scheme Creditor;
 - type of claim (i.e. products bodily injury, products property damage, premises, other types of non-products etc);
 - if the claim is a non-products claim, the site, and US State where that site is located, from where the claim arose;
 - claim status (i.e. whether the claim is still open, or whether it has been closed);
 - if the claim has been closed, a flag to show whether the claim was settled or dismissed, the date when settlement/dismissal took place and the total indemnity amount of the settlement;
 - for open claims, the dates and amounts of all indemnity amounts paid;
 - total defence costs paid to date in respect of each claim (both for the closed (settled and dismissed) and open claims);

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- disease type (e.g. mesothelioma, lung cancer, other cancer, asbestosis, other non-malignant);
- US State or other jurisdiction in which the claim was filed;
- law firm representing the claimant;
- doctor supporting the claim and the screening facility;
- if the claim record relates to a class action or multi-plaintiff lawsuit, the number of underlying individual claimants (although ideally, we would like full data in respect of each individual claimant underlying a particular class action);
- date of first and last exposure to asbestos for the claimant.

4.1.5 From this database, it should be possible to determine the following summary information for each claim type and disease type:

- number of claims filed, settled and dismissed by year and by state, for as many years as possible including the number of claims against the Scheme Creditor remaining open as at the Administration Date;
- indemnity and expense costs for claims closed by the Scheme Creditor, by year, by state, by disease type, for as many years as possible.

Policy data

4.1.6 The Scheme Creditor should provide policy data as follows:

- a complete coverage chart showing erosion to date, in both an electronic format and as a colour coded chart as appropriate;
- a list of the policies written by the Company where asbestos claims have been allocated including information on policy limits, aggregate limits and excess points;
- Evidence of prior settlement where blocks of coverage are excluded from allocation;
- Evidence of policies being "costs in addition" or "costs inclusive" where the Scheme Creditor is making such an assertion;
- Evidence of entitlement under the policies where the Scheme Creditor is not the named insured;
- Details of any exclusion clauses.

Basis of estimation

4.1.7 The Scheme Creditor should indicate the basis of estimation that it has used and should provide:

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- a description of the Scheme Creditor's own basis of estimation of the ultimate asbestos claims cost, including the techniques used for projecting future numbers of claims filed and for projecting average claims costs and details of any assumptions used;
- evidence of court or other rulings to substantiate the basis of estimation;
- details of the methodology and assumptions used to allocate the ultimate claims cost to the Scheme Creditor's policies with the Company;
- the value of Scheme Liabilities being claimed by the Scheme Creditor from the Company.

4.2 Environmental pollution claims

- 4.2.1 Scheme Creditors with Pollution claims following the approach set out in Schedule 3, Section 4.2 should provide supporting evidence with the Final Claim Form that should include:

Agreements or settlements with any insurer

- 4.2.2 Scheme Creditors should provide a copy of, or excerpt from, any settlement agreement with any insurer specifying the date of the settlement, the amount of the agreement, the allocation to policy years, the sites involved and the split of the settlement between indemnity and expense costs.

Numbers of sites exposed

- 4.2.3 The Scheme Creditor should provide the Environmental Protection Agency (EPA) site ID for each site where the Scheme Creditor is submitting a claim to the Company for liability arising under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). Appropriate identifiers should also be provided for third party, Resource, Conservation and Recovery Act (RCRA), Natural Resource Damage (NRD) or other sites as applicable.

Claims estimation data

- 4.2.4 For each of the sites listed above, the following information will be required:
- Site name, site state;
 - Estimated undiscounted cost of cleaning up the site including operation and maintenance costs, either:
 - for the whole site with volumetric share or participation percentage or estimated share as documented by site engineers; or
 - for the Scheme Creditors' share of the site clean-up costs only.
- 4.2.5 Evidence as to how the costs have been estimated and by who will need to be provided.

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- Start date of involvement at site;
- End date of involvement at site;
- Notification date or discovery date for involvement;
- Costs spent to date for clean-up or investigation of the site by the Scheme Creditor;
- Legal costs spent to date by the Scheme Creditor;
- Whether the site is owned property;
- Latest and pertinent previous records of decision;
- Legal assumptions made regarding the trigger and allocation to policies including, if the Scheme Creditor has calculated the settlement on an "All Sums" basis, the "All Sums" year selected.

Policy data

4.2.6 The Scheme Creditor should provide policy data as follows:

- A complete coverage chart showing erosion to date, in both an electronic format and as a colour coded chart as appropriate;
- A list of the policies written by the Company where pollution claims have been allocated including information on policy limits, aggregate limits and excess points;
- Evidence of prior settlement where blocks of coverage are excluded from allocation;
- Evidence of policies being "costs in addition" or "costs inclusive" where the Scheme Creditor is making such an assertion;
- Evidence of entitlement under the policies where the Scheme Creditor is not the Named Insured;
- Details of any exclusion clauses;
- Where the Scheme Creditor has assumed aggregate limits on lower layer policies, the Scheme Creditor should provide evidence of the existence of these lower layer aggregate limits.

Basis of estimation

4.2.7 The Scheme Creditor should indicate the basis of estimation that it has used and should provide:

- A description of the Scheme Creditor's own basis of estimation of the ultimate pollution claims cost;

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- evidence of court or other rulings to substantiate the basis of estimation;
- Details of the methodology and assumptions used to allocate the ultimate claims cost to the Scheme Creditor's policies with the Company including, if the Scheme Creditor has calculated the settlement on an "All Sums" basis, the "All Sums" year selected.;
- The value of Scheme Liabilities being claimed by the Scheme Creditor from the Company.

4.3 Other health hazards claims

4.3.1 Scheme Creditors with health hazard claims following the approach set out in Schedule 3, Section 4.3 (such as those occurring under US product liability insurances) should provide supporting evidence with the Final Claim Form that should include:

Agreements or settlements with any insurer

4.3.2 If there is a coverage in place agreement or settlement with any insurer, the Scheme Creditor should:

- Provide a copy of the agreement (the Company and their advisers will sign a confidentiality agreement if necessary);
- Indicate the policy years covered by the agreement;
- Indicate the extent to which the limits provided by the agreement have been paid to date.

Claims estimation data

4.3.3 The Scheme Creditor should provide details of:

- Any products involved, including the years the products were manufactured and distributed by the Scheme Creditor;
- All claims information should be split by type of claim (e.g. products bodily injury, products property damage, types of non-products claims etc);
- Number of claims filed against the Scheme Creditor, by year, by state, by disease type (i.e. malignant, non-malignant) for as many years as possible;
- Number of claims closed by the Scheme Creditor, by year, by state, by disease type, for as many years as possible;
- Indemnity and expense costs for claims closed by the Scheme Creditor, by year, by state, by disease type, for as many years as possible;
- Analysis of closed claims split into those settled at cost and those settled for zero cost;

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- Number and amounts of claims against the Scheme Creditor remaining open as at the Administration Date by year, by state, by disease type;
- If appropriate, a claimant database to include at a minimum, claim status, claimant name, doctor, screening facility, law firm, filing date, state, disease type, date of first exposure and date of last exposure.

Policy data

4.3.4 The Scheme Creditor should provide policy data as follows:

- A complete coverage chart showing erosion to date, in both an electronic format and as a colour coded chart as appropriate;
- A list of the policies written by the Company where other health hazards claims have been allocated including information on policy limits, aggregate limits and excess points;
- Evidence of prior settlement where blocks of coverage are excluded from allocation;
- Evidence of policies being "costs in addition" or "costs inclusive" where the Scheme Creditor is making such an assertion;
- Evidence of entitlement under the policies where the Scheme Creditor is not the Named Insured;
- Details of any exclusion clauses.

Basis of estimation

4.3.5 The Scheme Creditor should indicate the basis of estimation that it has used and should provide:

- The technique and basis used for projecting average claims costs;
- The technique and basis used for projecting future numbers of claims filed;
- Evidence of court or other rulings to substantiate the basis of estimation;
- Details of the methodology and assumptions used to allocate the ultimate claims cost to the Scheme Creditor's policies with the Company;
- The value of Scheme Liabilities being claimed by the Scheme Creditor from the Company.

4.4 Alternative approaches where historical information may not be available

Scheme Creditors with APH claims following the approach set out in Schedule 3 Section 4.4 should provide supporting evidence with the Final Claim Form that should include full details of the approach taken and justification of assumptions made.

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SCHEDULE 4: SUPPORTING EVIDENCE

5. **UNANTICIPATED LATENT CLAIMS**

Scheme Creditors submitting a claim in respect of unanticipated latent claims, following the approach set out in Schedule 3, Section 5, should provide supporting evidence with the Final Claim Form that should include:

- policy details as required by the Final Claim Form, including details of policies that inure to the benefit of the Company's policies;
- information to demonstrate the existence of the exposure, which will need to draw on company and industry data;
- the value of Scheme Liabilities being claimed by the Scheme Creditor from the Company;
- the methodology and assumptions used to estimate the total value of the Scheme Liabilities being claimed by the Scheme Creditor from the Company.

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SECTION III: NOTICE OF THE SCHEME

SECTION III: NOTICE OF THE SCHEME CREDITORS' MEETING

NOTICE OF SCHEME CREDITORS' MEETING

IN THE HIGH COURT OF JUSTICE (IN ENGLAND)
CHANCERY DIVISION
COMPANIES COURT
IN THE MATTER OF

No. 13425 of 2009

HIGHLANDS INSURANCE COMPANY (U.K.) LIMITED (IN ADMINISTRATION)

and

IN THE MATTER OF THE COMPANIES ACT 2006

NOTICE IS HEREBY GIVEN that, by an order dated 30 April 2009 made in the High Court of Justice in the matter of Highlands Insurance Company (U.K.) Limited (in Administration) (the "**Company**"), a meeting (the "**Scheme Meeting**") was ordered to be summoned of Scheme Creditors (as defined in the Scheme hereinafter mentioned) of the Company for the purpose of considering and if thought fit, agreeing to a scheme of arrangement proposed to be made between the Company and its Scheme Creditors pursuant to Part 26 of the Companies Act 2006 (the "**Scheme**").

The Scheme Meeting will be held on 18 June 2009 at 10.00 am at PricewaterhouseCoopers LLP, One Embankment Place, London WC2N 6RH.

The chairman of the Scheme Meeting will address Scheme Creditors generally on the Scheme and on issues relevant to voting on the Scheme at the commencement of the Scheme Meeting.

Only Scheme Creditors may attend and vote at the Scheme Meeting, either in person or by proxy. Scheme Creditors are requested to complete the voting form (comprising of a form of proxy and a claims table) and return it to the Company, c/o PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester, GL1 1DA, United Kingdom; email: pro_hicukhelpline@pro-ltd.co.uk; fax: +44 (0) 1452 782 582, marked for the attention of Áine Davies/Ian Leighton, by 5.00 pm on 16 June 2009, although if not so returned, it may be handed in by them at the registration desk at the Scheme Meeting prior to its commencement.

Each Scheme Creditor will be required to register its attendance at the Scheme Meeting. Registration will commence at 09.00 am.

The Scheme is proposed between the Company and its Scheme Creditors (being those persons who have, or may in the future have, a claim against the Company in respect of a liability to which the Company was subject at 1 November 2007 or to which it became subject after that date arising directly or indirectly out of any direct contract or policy of insurance of any kind whatsoever (save those entered into pursuant to Section 1(1) of the Employers' Liability (Compulsory Insurance) Act 1969)).

A letter from the Company, pursuant to Part 26 of the Companies Act 2006, is provided with this Notice. Also enclosed are voting forms for use at the Scheme Meeting.

SECTION III: NOTICE OF THE SCHEME

By the order, the High Court of Justice has appointed Dan Schwarzmann or failing him Mark Batten to act as chairman of the Scheme Meeting and has directed the chairman to report the results of the Scheme Meeting to the court.

The Scheme will be subject to the subsequent sanction of the High Court of Justice.

Dated: 1 May 2009

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

SECTION IV: SAMPLE VOTING FORM COMPRISING FORM OF PROXY AND CLAIMS TABLE

IN THE HIGH COURT OF JUSTICE
 CHANCERY DIVISION
 COMPANIES COURT

NO. 13425 OF 2009

**IN THE MATTER OF
 HIGHLANDS INSURANCE COMPANY (U.K.) LIMITED (IN ADMINISTRATION)
 VOTING FORM
 COMPRISING FORM OF PROXY AND CLAIMS TABLE FOR VOTING PURPOSES
 FORM OF PROXY**

To be used at the meeting of Scheme Creditors (as defined in the Scheme hereinafter mentioned) ("**Scheme Meeting**") of Highlands Insurance Company (U.K.) Limited (in Administration) (the "**Company**") to be held at PricewaterhouseCoopers LLP, One Embankment Place, London on 18 June 2009 at 10.00 as notified in the notice summoning the Scheme Meeting (the "**Notice**"), a copy of which is set out at Section III of the Scheme Document (as defined in the Scheme) on pages 131 to 132.

I/We⁽¹⁾.....
 (Enter the name of the Scheme Creditor including all former names)

of⁽¹⁾.....
 (Enter the address of the Scheme Creditor)

being a Scheme Creditor of the Company in the sum of⁽²⁾ Currency: Sum:

- (a) ⁽³⁾ will attend and vote in person at the Scheme Meeting; **OR**
- (b) hereby appoint:
 - (i) the chairman of the Scheme Meeting; **OR**
 - (ii)

as my/our proxy to act for me/us at the Scheme Meeting for the purpose of considering and, if thought fit, approving (with or without modification) the scheme of arrangement referred to in the Notice (the "**Scheme**"), and at such Scheme Meeting, or any adjournment thereof, to vote for me/us and in my/our name for the Scheme or against the Scheme (either with or without modification as my/our proxy may approve) as hereinafter indicated.

If you wish your proxy to vote for the Scheme, sign in the box marked "FOR". If you wish your proxy to vote against the Scheme, sign in the box marked "AGAINST". If you wish your proxy to have discretion to vote for or against the Scheme, sign in the box marked "AT DISCRETION". You may not sign in the "AT DISCRETION" box if the chairman is your appointed proxy.

FOR the Scheme Signature	AGAINST the Scheme Signature	AT DISCRETION ⁽⁴⁾ Signature
--------------------------------------	------------------------------------------	----------------------------------------------------

Person to contact in the event of a query in respect of this form of proxy:

Name: ⁽⁵⁾

Position/Capacity:.....

Telephone Number:

Email:

For completion by Highlands Insurance Company (U.K.) Limited (in Administration): Admitted to vote for US dollars

NUMBERING ABOVE RELATES TO THE INSTRUCTIONS FOR COMPLETION OF THE FORM OF PROXY OVERLEAF

RETURNING THE FORM OF PROXY

Please return the original form of proxy, together with the claims table and supporting schedules, to the address below. Original forms of proxy and claims tables must be received by the Company by 5.00 p.m. (London time) on 16 June 2009 or otherwise handed in at the registration desk at the Scheme Meeting prior to its commencement. Forms of proxy and claims tables may be initially returned by email or fax, provided that the original must also be received by the Company by the date indicated above.

Highlands Insurance Company (U.K.) Limited (in Administration)
c/o PRO Insurance Solutions Limited,
Bruton Court,
Bruton Way,
Gloucester, GL1 1DA,
United Kingdom

Attention: Áine Davies/Ian Leighton

By email: pro_hicukhelpline@pro-ltd.co.uk
By fax: +44 (0) 1452 782 582

INSTRUCTIONS FOR THE COMPLETION OF THE FORM OF PROXY

1. Enter the name and address of the Scheme Creditor in block capitals. If you are the duly authorised agent and/or attorney of a number of Scheme Creditors, complete a separate form of proxy in respect of each Scheme Creditor (photocopying the form as many times as necessary) and provide evidence (which must be satisfactory to the chairman of the Scheme Meeting) of your authority to execute the form of proxy on their behalf. Please note that where there are a number of companies within a group who are each Scheme Creditors, each company must complete a separate form of proxy, as a group submission is not permissible.
2. Enter the estimated amount of your claim against the Company for voting purposes after carefully reading these instructions and the "*Instructions for the completion of the claims table*" in Section IV of the Scheme Document.
3. Tick one box as appropriate. Tick box (a) if you will be attending, and voting at, the Scheme Meeting in person. Tick box (b)(i) if you will not be attending the Scheme Meeting in person and wish to appoint the chairman of the Scheme Meeting as your proxy. Tick box (b)(ii) if you will not be attending the Scheme Meeting in person and wish to appoint a person other than the chairman (whose name you should insert in the space provided) as your proxy. If you have appointed a person other than the chairman as your proxy, in order to represent you, that person must attend in person at the Scheme Meeting. That person need not be a Scheme Creditor.
4. If you have appointed the chairman of the Scheme Meeting as your proxy, you must sign either the box marked "FOR" or the box marked "AGAINST". If you sign in the box marked "AT DISCRETION", the chairman will abstain from voting on your behalf. If you do not sign in any of the boxes, this form of proxy will not operate as a valid appointment of your proxy and consequently no vote will be cast on your behalf.
5. If you are the duly authorised representative of a corporation or a partnership or other unincorporated body or person, or the duly authorised agent and/or attorney of a number of Scheme Creditors, enter your name, the capacity in which you have signed the form of proxy (for example, director, partner, agent and/or attorney) and contact details. Please note that, if you are the duly authorised representative of a number of companies, a separate form of proxy (photocopying the form as many times as necessary) should be completed in respect of each company. As mentioned in point 1 above, you must also provide evidence (which must be satisfactory to the chairman of the Scheme Meeting) of your authority to execute the form of proxy on behalf of the Scheme Creditor.

GENERAL NOTES

- (A) Any alteration to the form of proxy must be initialled by the person who signs it.
- (B) If you are a Scheme Creditor and wish to vote or wish to instruct your proxy to vote in respect of the Scheme, you should complete a claims table and return it with the form of proxy. If you are a duly authorised agent and/or attorney of a number of Scheme Creditors and wish to vote or wish to instruct a proxy to vote in respect of the Scheme,

you should complete a claims table for each Scheme Creditor. The instructions for completion of the claims table accompany that form.

- (C) It is important to note that if you have an Agreed Claim, which has not yet been paid by the Company, or has only been partially paid, the value of the claim to be entered in the claims table should be the amount of your claim against the Company, which has not been paid.

The value to be attributed to each Scheme Creditor's claim for voting purposes will be determined by the chairman of the Scheme Meeting on the basis of the information provided by the Scheme Creditor on the voting form and the information available from the Company's existing records. The chairman shall convert any claim submitted to him in a currency other than US dollars into US dollars, converted at the mid-market rate of exchange for that particular currency quoted in the Financial Times on the 1 November 2007. Account will be taken of any known set-off or security. The chairman of the Scheme Meeting may, for voting purposes only, reject a claim in whole or in part, if he considers that it does not constitute a fair and reasonable assessment of the sums owed to the Scheme Creditor by the Company. It is therefore important that Scheme Creditors complete and return a voting form and provide supporting information for their valuation of their claim to which the chairman of the Scheme Meeting may refer in assessing its reasonableness.

The chairman's decision as to the value for which a claim is to be admitted for voting purposes is final and binding. Where a claim is rejected in whole or in part, he will advise the Scheme Creditor of his decision, prior to the Scheme Meeting where possible or, in any event, afterwards.

The admission of a claim for voting purposes does not constitute an admission of the existence or amount of any liability of the Company and will not bind the Scheme Administrators, the Company or Scheme Creditors. Estimates of claims, whether by Scheme Creditors or by the chairman of the Scheme Meeting, will not be taken into account in calculating payments under the Scheme, but will be used for voting purposes only.

**Highlands Insurance Company (U.K.) Limited (in Administration)
(the "Company")**

CLAIMS TABLE FOR VOTING PURPOSES

Capitalised terms used in this form have the meaning given to them in the proposed scheme of arrangement between Highlands Insurance Company (U.K.) Limited (in Administration) and its Scheme Creditors as set out in Section II of the document dated 1 May 2009 (the "**Scheme Document**"). Please complete this claims table in respect of each claim you wish to make as a Scheme Creditor following the instructions on the following pages. You should read the instructions and notes carefully. Failure to follow them may result in a claim being rejected in whole or in part for voting purposes if the chairman of the Scheme Meeting has insufficient information to decide whether it is a reasonable claim or not.

SEE THE FOLLOWING PAGES FOR "INSTRUCTIONS FOR COMPLETION OF THE CLAIMS TABLE FOR VOTING PURPOSES"

No estimate of the amount of any claim against the Company specified in the claims table returned to the Company, or otherwise provided for voting purposes, shall be admissible against the Company or any other party, or shall be taken into account in calculating payments under the Scheme. Any such estimate shall only be used for voting purposes at the Scheme Meeting to consider the Scheme.

Please complete a separate claims table for each currency. Use photocopied pages as required.

Creditor Name

Currency

	Contract 1	Contract 2	Contract 3
(1) Insurance Contract reference number			
(2) Contract description/Type of business			
(3) Participation percentage (%)			
(4) Inception date/Expiry date			
(5) Broker			
(6) Broker reference			
(7) Unrealised Security Interests			
(8) Pre-Administration Agreed Claims			
(9) Post-Administration Agreed Claims			
(10) Notified Outstanding Claims			
(11) IBNR Claims			
(12) Realised Security Interests or any other counterclaims			
(13) Total (8+9+10+11-12)			

(14) Total of row (13)	
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TO BE SIGNED BY SCHEME CREDITOR:

To the best of my knowledge and belief the information on this claims table is correct.

Signed: _____

Name: _____

Position/Capacity: _____

For and on behalf of: (Scheme Creditor Name) _____

Date: _____

For completion by the Company: Admitted to vote for US dollars

RETURNING THE FORM OF PROXY AND CLAIMS TABLE

Please return the original claims table, together with the form of proxy and supporting schedules, to the address below. Original forms of proxy and claims tables must be received by the Company by 5.00 p.m. (London time) on 16 June 2009 or otherwise handed in at the registration desk at the Scheme Meeting prior to its commencement. Forms of proxy and claims tables may be initially returned by email or fax, provided that the original must also be received by the Company by the date indicated above.

Highlands Insurance Company (U.K.) Limited (in Administration)
c/o PRO Insurance Solutions Limited,
Bruton Court,
Bruton Way,
Gloucester, GL1 1DA,
United Kingdom
Attention: Áine Davies/Ian Leighton

By email: pro_hicukhelpline@pro-ltd.co.uk

By fax: +44 (0) 1452 782 582

**INSTRUCTIONS FOR COMPLETION OF THE
CLAIMS TABLE FOR VOTING PURPOSES**

Where not otherwise defined, the terms used within these instructions and in the claims table bear the same meanings as given to them in the Scheme. For the avoidance of doubt, in these instructions and the claims table, the term "Insurance Contract" only refers to a direct contract of insurance.

The numbers below refer to the numbered rows in the claims table. If you have claims in more than one currency, please photocopy the table and use a separate table for each currency, specifying in the box provided the relevant currency (for example, US dollars). If there are insufficient lines for any one currency, please photocopy the table and complete the photocopy.

1. INSURANCE CONTRACT REFERENCE NUMBER

Please specify each Insurance Contract reference number under which each of your claims may arise against the Company and provide a copy of the contract schedule or cover note and the schedule of insurers with details of each claim in supporting schedules (where applicable). Your broker will be able to assist in confirming or identifying Insurance Contracts and reference numbers. Please then insert the Insurance Contract reference numbers on the claims table using a separate line for each.

2. CONTRACT DESCRIPTION/TYPE OF BUSINESS

Please specify the contract description on the face of the Insurance Contract and the type of business covered by the Insurance Contract.

3. PARTICIPATION PERCENTAGE

The participation percentage for each Insurance Contract represents the percentage line underwritten or assumed by the Company under the Insurance Contract. Please insert the percentage line for each Insurance Contract (and the value of each of your claims against the Company should be apportioned accordingly when completing rows (8), (9), (10) and (11)).

4. INCEPTION DATE/EXPIRY DATE

Please specify the date when each Insurance Contract commenced and the date when each Insurance Contract expired. In the case of continuous Insurance Contracts or Insurance Contracts of more than 12 months, each annual renewal should be shown as a separate Insurance Contract.

5. BROKER

Please specify the name of the broker who placed the Insurance Contract or, if the placing broker is not known, any other broker or intermediary (if known) who acted on your behalf in relation to the Insurance Contract. Please specify any other details known in relation to the broker.

6. **BROKER REFERENCE**

Please specify the broker's contract reference for each Insurance Contract.

7. **UNREALISED SECURITY INTERESTS**

Please specify the amount of any Unrealised Security Interest in relation to each Insurance Contract under each claim. Please provide an analysis of the amount and provide any supporting documentation.

8. **PRE-ADMINISTRATION AGREED CLAIMS**

Specify the total amount, as at the Administration Date, payable by the Company in respect of a claim arising under or in respect of an Insurance Contract where, as at the Administration Date, the existence and quantum of the Liability have been agreed between the Scheme Creditor and the Company, according to the Company's records or such other evidence as the Scheme Administrators may reasonably accept, but such Liability has not yet been paid by or on behalf of the Company.

9. **POST-ADMINISTRATION AGREED CLAIMS**

Specify the total amount payable by the Company in respect of a claim arising under or in respect of an Insurance Contract where, after the Administration Date, the existence and quantum of the Liability have been agreed between the Scheme Creditor and the Company, according to the Company's records or such other evidence as the Scheme Administrators may reasonably accept, but such Liability has not yet been paid by or on behalf of the Company.

10. **NOTIFIED OUTSTANDING CLAIMS**

Specify the total estimated amount, as at the Administration Date, payable by the Company in respect of a loss that has been reported to the Scheme Creditor but exclude any Post-Administration Agreed Claim.

11. **IBNR CLAIMS**

Specify the total estimated amount, as at the Administration Date, payable by the Company, in respect of a loss which has been incurred but has not been reported to the Scheme Creditor plus the amount payable in respect of a general excess over Notified Outstanding Claims, to the extent that the current estimates of claims included as Notified Outstanding Claims may prove to be inadequate. In estimating the value of its IBNR Claims, a Scheme Creditor should:

- (a) include any losses notified to the Scheme Creditor after the Administration Date (such notified losses to nevertheless comprise part of its IBNR Claims); but
- (b) exclude any Post-Administration Agreed Claims.

12. **REALISED SECURITY INTERESTS OR ANY OTHER COUNTERCLAIMS**

Please specify in brackets the amount of any set-off or cross-claim that you believe exists in relation to each Insurance Contract under each claim and which is available in respect of such claim(s) or any other balance due from you to the Company arising other than under an Insurance Contract. Please provide an analysis of the amount and provide any supporting documentation. In addition, please include the amount of any Security Interest that has been realised in relation to each Insurance Contract under each claim.

13. **TOTAL**

Enter the net total of rows (8) to (11) inclusive but less the amount specified in row (12).

14. **TOTAL OF ROW (13)**

Enter the total sum of all row (13) amounts where indicated.

Please ensure that you sign the declaration on the claims table and complete the relevant contact details for the Scheme Creditor. The chairman of the Scheme Meeting will not accept the claims table unless the declaration has been signed.

If you have any queries please contact the Company on the following helpline number: +44 (0) 1452 413 985.