

HIGHLANDS Insurance Company (U.K.) Limited (in Administration)

Bruton Court
Bruton Way
Gloucester
GL1 1DA
Telephone: +44 (0)1452 413 985
Facsimile: +44 (0)1452 782 582

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

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 19 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 ("**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, 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 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.

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;
- (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?*".

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.

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");
- (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.

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 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.

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 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).

- (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 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)}
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.

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.

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
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Lee Christopher Brandon	Non-executive Director
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Philip James Grant	Non-executive Director
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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**