

**IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT**

IN THE MATTER OF

RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

AND IN THE MATTER OF THE COMPANIES ACT 1985

CHAIRMAN'S REPORT

I, ANTHONY JAMES MCMAHON of KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB, am one of the persons appointed by the Court to act as Chairman of the meeting of the Scheme Creditors (as defined for the purpose of the Scheme referred to in paragraph 3 below) convened pursuant to the order of the Court made in the above matter on 4 October 2005 (the *Order*) and summarised by notice dated 1 November 2005 (the *Notice*) and held at the offices of Freshfields Bruckhaus Deringer, 28 Tudor Street, London, EC4Y 0AY on 2 February 2006 (the *Meeting*).

I HEREBY REPORT to the Court the result of the Meeting as follows:

1. I attach at Appendix A a copy of my curriculum vitae.
2. In advance of the Meeting, representatives of the Company and its advisers ensured that all those persons who wanted to attend the Meeting were properly entitled to do so and that they had completed the relevant paperwork correctly.

3. The scheme of arrangement dated 1 November 2005, as modified (the *Scheme*), proposed to be made between Reliance National Insurance Company (Europe) Limited (the *Company*) and the Scheme Creditors (as defined in the Scheme), was considered at the Meeting.

4. At the Meeting, the Company proposed some modifications to the Scheme, as permitted by clause 1 of the Order. A memorandum (the *Memorandum*) containing the modifications was circulated immediately before the Meeting to those in attendance at the Meeting. A copy is attached at Appendix B and is also available to interested parties at <http://www.omniwhittington.com>.

5. The modifications as set out in the Memorandum were as follows:

- (a) Any contract or policy, where the period by reference to which the cover was provided would expire after the Ascertainment Date, was generically excluded from the Scheme, any unexpired policies of which the Company was aware at the time of the leave to convene hearing having already been specifically excluded.
- (b) Two unexpired policies, which the Company was unaware of at the time that the notice was circulated, were excluded from the Scheme.
- (c) A number of typographical errors in the list of excluded policies at Schedule 1(c) of the Scheme were corrected.
- (d) Two specific lineslips were added to the list of policies excluded from the Scheme, where the Company had become aware after the notice date that the period by reference to which the cover was provided would expire after the Ascertainment Date.
- (e) The Company had become aware of the possibility of significant claims under a directors' and officers' liability policy (the *D&O Policy*) which remains the

subject of litigation in Spain. The Company considered it appropriate to await the outcome of the litigation and to exclude the policy from the Scheme.

I report as follows in relation to the D&O Policy.

- (i) Prior to the creditors' meeting, the legal representatives of a plaintiff in the Spanish litigation requested and supported the exclusion of the D&O Policy. Having decided to exclude the D&O Policy, the Company provided confirmation to the plaintiff to this effect. In advance of the Meeting, the English legal representative of the plaintiff requested permission to attend the Meeting, and, having checked that there were no objections by creditors to such attendance at the outset of the Meeting, I permitted this.
- (ii) The legal representative of a Spanish statutory compensation body disagreed with the exclusion of the D&O Policy and, notwithstanding the proposed modification, submitted 139 separate voting forms against the Scheme with a total value of €3 million, the Company's maximum exposure on the D&O Policy being ESP 500 million (€3,005,060.52).
- (iii) A further eight Spanish individuals also submitted voting forms in respect of the D&O Policy. These votes were in favour of the Scheme and totalled approximately £345,000.
- (iv) As the D&O Policy was excluded from the Scheme by the Company, all votes lodged in respect of it, whether for or against the Scheme, were excluded from the calculation of votes.

6. A print of the Scheme (signed by me for the purpose of identification and a copy of which is attached hereto as Appendix C) was submitted to the Meeting and, after an explanation of the purpose of the Scheme, I invited questions from those present. Several questions on various subjects were raised by policyholders and/or their representatives and these were answered by the Chairman of the Company, the Chairman of the Meeting or the Scheme Advisers.

7. After these questions, I submitted the following resolution to the Meeting:

“That this meeting approve the Scheme of Arrangement dated 1 November 2005 as sent to known Scheme Creditors and as modified by notice provided to this meeting, a print of which has been submitted to the meeting and for the purposes of identification signed by me as Chairman.”

8. I set out in the table below the voting submissions of those present and voting by proxy at the Meeting (not including votes in respect of Excluded Business or policies which the Company did not write). No creditors voted in person:

	Total present & voting		Voted “AGAINST” the resolution		Voted “FOR” the resolution	
	No.	Value £	No.	Value £	No.	Value £
Total	293	3,207,421,915	111	3,116,387,931	182	91,033,984
% total	100%	100%	37.88%	97.16%	62.12%	2.84%

9. I indicated to the Meeting that it appeared that the requisite majority in number had been obtained, but that this was subject to further scrutiny. In addition, I stated that I was not in a position to determine immediately the values which should

be allowed for voting as further work needed to be undertaken by the Company and its advisers. The reason for this was that many large value votes had been received immediately before the deadline for their submission. I advised the Meeting that when further work had been done to enable me to determine the values which would be allowed for voting purposes, creditors who had submitted votes would be sent a copy of my report of the Meeting.

10. In the weeks following the Meeting, the Company and its advisers – particularly its actuarial advisers, Tillinghast - have undertaken substantial further work. This work is summarised in the Report of George Maher of Tillinghast, and the Second Witness Statement of Richard Whatton. I do not repeat the details of that work herein.

11. So far as my own role as chairman is concerned in the assessment of the votes which were submitted, the process I followed is summarised below.

12. First, I have spent a considerable amount of time reviewing the work referred to at paragraph 10 above and have discussed it both with the Company and its advisers on an ongoing basis. I was kept informed at regular intervals of the progress of the Company's review of the Voting Forms and contact with Scheme Creditors. I met with the Company's claims team on 8 March 2006 and I questioned the revised values of the votes by the Company until I was satisfied that the figure allocated represented a fair value and that the process employed had been fair and even-handed. I met with Mr Maher and his colleagues on several occasions to gain an understanding of the techniques used to value those IBNR votes submitted in excess of £100,000, again to ensure that the values allocated were reasonable.

13. Second, I am at liberty, in accordance with clause h(iii) of the Order, to reject a claim for voting purposes in whole or in part if I consider that it does not constitute a fair and reasonable assessment of the sum owed to the relevant Scheme Creditor by the Company and under clause h(iv) of the Order to estimate or agree the figure for which a Scheme Creditor may vote in relation to an unliquidated amount or for an amount the quantum of which has not been ascertained.

14. As part of the discussions I have had with him, Mr Maher advises me that the term “fair and reasonable assessment” does not have a technical meaning in relation to the assessment of insurance claims. I note from paragraph 9 of Mr Maher’s report that he has applied a “best estimate assessment” for the purpose of estimating the IBNR claims of Scheme Creditors for voting purposes. I am aware that this technique is used by actuaries in many contexts, such as the valuation of loss reserves and the negotiation of bilateral commutations.

15. I am satisfied that a best estimate assessment is an appropriate technique for determining a fair and reasonable assessment of Scheme Creditors’ IBNR claims for voting purposes and where a Scheme Creditors’ claim has diverged from that assessment then I have rejected that part of the vote which exceeds that assessment.

16. Third, I am satisfied that the Company and its advisers have approached all votes submitted in the same manner. In other words, all votes have been subjected to the same degree of scrutiny, regardless of whether they were cast in favour or against the Scheme.

17. Based on the work undertaken and following these discussions, and pursuant to paragraphs h(iii) and h(iv) of the Order, I have amended the votes as submitted at the Meeting. I set out the votes as I have accepted them in the table below:

	Total present & voting		Voted "AGAINST" the resolution		Voted "FOR" the resolution	
	No	Value £	No	Value £	No	Value £
Number	278	24,712,136	106	1,265,375	172	23,446,761
%	100%	100%	38.13%	5.12%	61.87%	94.88%

18. I report the following in relation to specific votes. In doing so, I do not identify individual creditors below for reasons of confidentiality. First, so far as the number of votes are concerned, I rejected fifteen purported votes entirely:

(a) Ten of these were votes in favour of the Scheme:

- (i) eight were rejected because they had no value attached to the vote by the policyholder; and
- (ii) two were rejected because they related to liabilities on a policy underwritten by the Company's US former parent.

(b) Five of these were votes against the Scheme:

- (i) four were rejected because they had no value attached to the vote by the policyholder; and
- (ii) one vote in the sum of £342,717 was rejected because it related to liabilities on a policy underwritten by the Company's US former parent.

19. Of these 172 votes in favour, 120 came from participants in two underwriting pools; while of the 106 votes against, 70 came from one group of creditors - that is, a holding or parent company and 69 of its subsidiaries or related companies.

20. So far as the quantum of the votes is concerned, I made reductions of certain voting submissions against the Scheme with which I disagreed, and these are set out in order of decreasing magnitude below (all reductions of less than £250,000 being dealt with collectively at the end of the table).

Creditor	Against	Number	Value submitted £	Value accepted £
A	Against	70	3,075,971,225	17,623
B	Against	17	22,414,985	1,137
C	Against	1	7,276,916	1
D	Against	1	5,000,000	55,552
E	Against	1	1,841,372	91,855
F	Against	1	1,137,517	202,247
G	Against	1	727,682	304,976
H	Against	1	582,320	383
I	Against	1	412,368	1
	Subtotal	94	3,115,364,385	673,775
	Others Against	12	1,023,546	591,600
	Total Against	106	3,116,387,931	1,265,375

21. I also made reductions of certain voting submissions in favour of the Scheme with which I disagreed and these are set out in order of decreasing magnitude below (all reductions of less than £250,000 being dealt with collectively at the end of the table).

Creditor	For	Number	Value submitted £	Value accepted £
J	For	1	34,839,290	3,465,976
K	For	1	13,180,690	167,867
L	For	1	10,927,402	1,904
M	For	1	6,375,557	540,477
N	For	1	2,264,624	169,847
O	For	1	1,514,452	474,619
P	For	1	1,000,000	59,941
Q	For	1	640,464	315,074
	Subtotal	8	70,742,479	5,195,705
	Others For	164	20,291,505	18,251,056
	Total For	172	91,033,984	23,446,761

22. Each of the creditors A-Q will receive individual notification of the reasons for the reduction in its vote by letter from the Company. Copies of these letters – with contact details redacted for reasons of confidentiality – are attached at Appendix D.

23. I confirm that I have reviewed drafts of each of these letters and that they accurately reflect my decision as Chairman of the meeting in relation to the relevant vote and I am satisfied that they give an appropriate explanation of the basis for the reduction in individual creditor votes.

24. In light of the above, my conclusion is that the Meeting duly passed the resolution at paragraph 7 above by the majorities prescribed by section 425 of the Companies Act 1985 and the Scheme was therefore approved.

25. Since the conclusion of the Meeting, it has been drawn to my attention that the Memorandum (referred to at paragraph 4 above) contained an error produced as a

result of clerical mistake. The background to this is set out in paragraph 18 onwards of the Second Witness Statement of Richard Whatton. I make no further comment and mention it for completeness only since it is immaterial to my conclusion above.

26. As noted above, a copy of the Scheme as approved at the Meeting and signed by me is attached as Appendix C; and it is available for inspection by interested parties at <http://www.omniwhittington.com>

Statement of Truth

I believe that the facts stated in this Chairman's Report are true.

Signed:

A handwritten signature in blue ink, appearing to read 'Anthony McMahon', written over a dotted line.

Anthony McMahon

Chairman of the Meeting

Dated 13th April 2006

APPENDIX A

CURRICULUM VITAE

I am a partner in the London office of KPMG LLP and have worked in the Corporate Recovery practice for over twenty years. My first major appointment in the insurance industry was in respect of National Employers' Mutual General Insurance Association Limited in 1990. For the last twelve years I have specialised in insolvencies and reconstructions in the insurance industry.

I head KPMG's Insurance Solutions Group and have taken numerous appointments as liquidator, provisional liquidator, scheme administrator to a number of failed London market and overseas insurance companies including: National Employers' Mutual General Insurance Association Limited, English & American Insurance Company Limited, Sovereign Marine and General Insurance Company Limited, Anglo American Insurance Company Limited, HIH Casualty & General Insurance Limited, FAI General Insurance Company Limited and other HIH Group companies, Belvedere Insurance Company Limited and Enron Re. In the course of the appointments I have worked closely with actuarial and legal advisers to accelerate the closure of companies and books of business, with liabilities in excess of \$2 billion.

I acted as scheme supervisor in two of the earliest solvent schemes in the London market, Osiris Limited and Crombie Limited and I have advised on numerous others.

I have published numerous articles and frequently present both in the UK and overseas.

I hold a degree in Economics from London University, am a fellow of the Institute of Chartered Accountants in England and Wales, a member of the Association of Business Recovery Professionals and the International Association of Insurance Receivers.

APPENDIX B

MEMORANDUM OF MODIFICATIONS

RELiance NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

MODIFICATIONS TO THE SCHEME OF ARRANGEMENT DATED 1 NOVEMBER 2005 AS PUT TO THE MEETING OF SCHEME CREDITORS HELD ON 2 FEBRUARY 2006

1) In schedule 1, a new section 2 is inserted:

“Any contract or policy of insurance, reinsurance or retrocession where the period by reference to which the cover was provided expires after the Ascertainment Date.”

Subsequent sections are renumbered accordingly.

2) In the list of unexpired policies in schedule 1 (now numbered section 3(b)), insert the following policy details at the end of the list:

Contract ref	Class of Business	Expiry Date
540868/02	Financial Lines	15/07/2005
540979/02	Financial Lines	15/07/2005

3) Delete the list of other excluded policies in schedule 1 (now numbered section 3(c)), insert the following list:

Description	Written In	Policy numbers
Financial Lines – P.I. Financial Institutions – Excess	London	F006473/97 F006475/97
Directors and Officers Liability - Commercial Institutions	London	F/540981/98
Public/Products Liability Excess of Loss	London	L/006776/98 L/500002/98
Personal Accident Association PA Scheme	London, but for cover in Norway	A/500142/99 A/500142/00
Property – Primary	Stockholm, but for cover in Norway	P/251050/98 P/251050/00
Property – Primary	Zurich	P/300017/01 P/300018/01
Directors’ and Officers’ Liability – Commercial Institutions	Madrid	F/201081/97 (formerly F/201081/96, as amended by endorsement number 1, dated 22 September 1997)
Financial Lines – P.I. – Other	London	Lineslips under F/540671/99 or F/540672/99 where the period by reference to which the cover was provided expires after the Ascertainment Date

End

APPENDIX C

PRINT OF SCHEME SIGNED BY CHAIRMAN

This is available on the Scheme website at <http://www.omniwhittington.com>

APPENDIX D
LETTERS TO CREDITORS A-Q

These are available on the Scheme website at <http://www.omniwhittington.com>