

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

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

In an endeavour to ensure that insurance brokers are in a position to advise their clients, all brokers known to have placed business with or on behalf of North Atlantic Insurance Company Limited (North Atlantic) have been sent details of how to obtain a copy of this document.

Proposals in relation to

A Scheme of Arrangement

Pursuant to Section 425 of the Companies Act 1985

between

North Atlantic Insurance Company Limited

(formerly British National Insurance Company Limited)

and its

Scheme Creditors

(as defined in the Scheme of Arrangement)

The meetings of Scheme Creditors to consider the Scheme of Arrangement will be held on 3 October 2002 at 11am at The Chartered Insurance Institute, The Insurance Hall, 20 Aldermanbury, London, EC2V 7HY. Notice of the meetings is set out in Appendix 1 on page 45.

The action required to be taken by you is set out on pages 7 and 8. Whether or not Scheme Creditors intend to be present at the meetings, they are requested to complete and return the relevant voting form(s) sent to them as soon as possible, and by no later than 3 days before the Scheme Meetings.

Further information is available at www.northatlanticinsurance.co.uk

15 August 2002

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Exclusion of liability

The Provisional Liquidators accept responsibility for the statements, opinions and information contained in this document upon the basis that, to the best of their knowledge and belief, having taken all reasonable care to ensure that such is the case, the statements, opinions and information contained in this document are correct. The statements, opinions and information contained in this document are made, held or given respectively as at the date of this document unless another time is specified and such statements, opinions and information are made, held or given solely by the Provisional Liquidators acting on behalf of North Atlantic unless expressly attributed to another party. None of the directors, officers, employees or agents of North Atlantic nor any other company in the same group as North Atlantic are responsible for any of the statements, opinions and information contained in this document. Nothing contained in this document constitutes an admission of any fact or liability on the part of North Atlantic 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 North Atlantic specified in the voting forms returned to the Provisional Liquidators, or otherwise provided for voting purposes, shall be admissible against North Atlantic 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 meetings of Scheme Creditors to consider the Scheme. The FSCS Scheme Manager is not responsible for the information contained in this document.

The summary of the principal provisions of the Scheme and related matters contained herein is qualified in its entirety by reference to the Scheme itself, the full text of which is set out in Part 3 of this document.

The Provisional Liquidators have not authorised any person to make any representation, whether oral, written, express or implied, concerning the proposed Scheme, which is inconsistent with the statements made in this document. Consequently, if such representations are made, they should not be relied upon. Creditors of North Atlantic should not construe the contents of this document as legal, tax, financial or other professional advice. Each creditor should consult his own professional advisers as to the legal, tax, financial or other matters relevant to the action he should take in connection with the Scheme.

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Main Features

This Scheme of Arrangement for North Atlantic, which is insolvent, has the following features, some of which differ from other insurance company schemes of arrangement. This summary is not a substitute for reading the Scheme and taking advice on it.

- This is an estimation scheme (sometimes called a cut-off scheme) with an Ascertainment Date of 31 December 2001. Scheme Creditors are invited to submit claims as at that date.
- The Estimation Methodology applies an estimation methodology to both direct and reinsurance business. The methodology focuses on North Atlantic's remaining exposures, which relate mainly to Asbestos, Pollution and Health Hazard (APH) risks.
- Scheme Creditors have until the Bar Date (the month-end six months after the Scheme becomes effective) to submit details of their claims. Anyone believing themselves to be a Scheme Creditor who does not notify the Scheme Administrators of their claim before the Bar Date will only participate in Scheme distributions to the extent North Atlantic's computer-based records show a liability to them. The Scheme Administrators and Scheme Actuary are not obliged to take into account notifications of new claims or claims development after the Bar Date when applying the Estimation Methodology, except in the case of claims that may be covered by the Policyholders Protection Act 1975 for the purpose of calculating the claim of the FSCS Scheme Manager in the Scheme in respect of Potentially Protected Liabilities.
- Scheme Creditors are invited to accept the Scheme Administrators' estimate of their inwards claims against North Atlantic set out in the Provisional Claim Form (PCF) to be sent to Scheme Creditors if and when the Scheme becomes effective. If accepted, the information on a PCF will fix a Scheme Creditor's claim without further work. These estimates will not include reserves for claims incurred but not reported (IBNR).
- Scheme Creditors who wish to include IBNR claims or who do not accept the Scheme Administrators' estimate of their claim must complete a Full Claims Pack (FCP) giving all the information the Scheme Actuary will require in order to apply the Estimation Methodology. Failure to supply all the information required, in the format required, may prejudice a Scheme Creditor's claim.
- The Scheme contains provisions for set-off which are substantially the same as would apply on liquidation. The transfer of claims to create set-off against debts due to North Atlantic is blocked from 6 March 1997.
- Disputes concerning the information required upon which the Estimation Methodology will be applied may be resolved through referral to the Scheme Adjudicator, whose decision is binding. The application of the Estimation Methodology to that information is not open to challenge, but is applied at the sole discretion of the Scheme Actuary in consultation with the Independent Actuary who may be called upon to report to the Creditors' Committee.
- The Financial Services Compensation Scheme (FSCS) Scheme Manager has agreed to be bound by the Scheme in order to ensure that compensation is paid to eligible Scheme Creditors whose claims are covered by the Policyholders Protection Act 1975.

Scheme Creditors may, and are encouraged to, submit their claims through North Atlantic's web-site (www.northatlanticinsurance.co.uk) which will help ensure that all required information is provided and reduce North Atlantic's administrative costs, so maximising the funds available for all Scheme Creditors.

Estimating the dividend Scheme Creditors will receive on their claims is subject to the extent to which set-off erodes North Atlantic's reinsurance assets, the ability of North Atlantic to collect that remaining reinsurance, and the total amount of inwards claims. The Provisional Liquidators expect the first dividend to be paid early 2004.

Timetable

Set out below are the key dates under the proposed Scheme and an outline of the broad conduct of the Scheme.

KEY DATES AND TIMETABLE

| Date | Definition | Description |
|----------------------|--------------------|---|
| 6 March 1997 | Petition Date | Provisional Liquidators appointed to North Atlantic. Claims must arise under contracts entered into before this date. |
| 31 May 2001 | | Date by which nominations for the members of the initial Creditors' Committee must have been received. |
| 31 December 2001 | Ascertainment Date | The date at which all claims will be valued. |
| 15 August 2002 | Scheme date | The date of this document |
| 30 September 2002 | | Voting and proxy forms must be returned to the Provisional Liquidators (three days before the time appointed for the Scheme Meetings) unless a Scheme Creditor attends the meetings. |
| 3 October 2002 | | Meetings of Scheme Creditors to approve the Scheme and elect the initial Creditors' Committee. |
| 8 October 2002 * + | | Expected date of the Court hearing to sanction the Scheme. |
| 9 October 2002 * | | Expected date for Section 304 hearing in US to apply for a permanent injunction. |
| 10 October 2002 * | Effective Date | The Scheme is effective from when the court order sanctioning the Scheme is delivered to the Registrar of Companies. |
| 30 April 2003 * | Bar Date | Date by which Scheme Creditors must submit claims using either PCFs or FCPs and after which claims development information may be disregarded. The Bar Date will be the end of the month six months after the Effective Date. |
| 31 December 2003 * ~ | | Earliest expected date for Scheme Administrator to provide Scheme Creditors with Crystallisation Statements. |
| 28 February 2003 * ~ | | Earliest expected date for the Scheme Administrator to declare the first dividend. |
| 31 March 2004 * ~ | | Earliest expected date for payment of first dividend to Scheme Creditors. |

* Estimated date

+ The date of the Court Hearing of the Petition to sanction the Scheme has not yet been set, though it is expected to take place on the date indicated. If this date changes, the Effective Date and other dates following the Effective Date set out above will be affected.

~ The Scheme provides that these dates may be extended. This may become necessary if, for example, the volume of claims received is greater than anticipated or if it proves more difficult than expected to agree Scheme Claims.

Action required

IMMEDIATE ACTION

If you are a Scheme Creditor you will be entitled to attend and vote at the meetings of Scheme Creditors to consider and, if thought fit, approve the Scheme. A notice convening the meetings of creditors is set out at Appendix 1 to this document. The meetings are scheduled to take place on 3 October 2002. Should the Scheme be approved by Scheme Creditors at the meeting, and subsequently sanctioned by the Court, Scheme Creditors will be bound by the provisions of the Scheme. You may either attend the meetings in person or you may vote by proxy. **The Provisional Liquidators and the informal Creditors' Committee recommend that you vote in favour of the Scheme.**

You have been sent:

- a nomination form for members of the initial Creditors' Committee;
- a form of proxy on which, if you will not be attending the meetings in person, you should indicate your instructions to vote for or against approval of the Scheme and to elect the members of the initial Creditors' Committee;
- a voting form on which you should enter your estimate of the aggregate value of your claims both present and future, net of amounts due to North Atlantic and any security held, and discounted to present value;
- a draft of your PCF (to assist in completing the form of proxy and voting form);
- a Creditor login ID and password to access your data on North Atlantic's web-site (www.northatlanticinsurance.co.uk);
- a short form explanatory statement which details what action you should take immediately; and
- a currency conversion table

If you intend to vote either in person or by proxy, you are requested to complete the voting form to show the amount of your claim as at 31 December 2001 ('the **Ascertainment Date**') (for voting purposes only) and return this to be received by the Provisional Liquidators at least three working days before the Scheme Meetings. This is required to allow time for the Chairman of the meetings to consider the amount of your claim to admit for voting purposes. If your estimate of your claim is more than that shown on the draft PCF sent to you, then you should attach sufficient details of the nature and amount of your claim for the Chairman to make a proper assessment of the amount to admit for voting purposes.

For the purpose of valuing votes, all claims will be converted into US Dollars at the Scheme Exchange Rate. A currency conversion table showing the rates of exchange applicable for major currencies is at Appendix 9, and an additional copy accompanies your form of proxy, for your use in completing the form. The amount of a claim admitted for voting purposes does not constitute an admission of the existence or amount of any liability of North Atlantic, and will not bind the Joint Scheme Administrators, North Atlantic, Scheme Creditors or the FSCS Scheme Manager.

ACTION REQUIRED AFTER THE SCHEME BECOMES EFFECTIVE

After the Scheme becomes effective, you will receive notice of that fact. You should consider whether you accept the estimate of your claim on the PCF and if so, you need take no further action. In due course you will receive a dividend on the amount shown on the PCF, subject to any set-off. Whilst you need take no further action, it would be helpful if you could return the PCF to confirm your agreement and your address and identity. PCFs can be submitted through the North Atlantic web-site or by signing and returning the form provided. Please note that in respect of claims which are being made against you and which may be covered by a policy issued by North Atlantic, you must continue to defend those claims and ensure they continue to be properly handled.

If you wish to claim more than the estimate on the PCF or would like your claim to include an estimate of future claims (IBNR) you must complete all the information required by the Scheme Actuary to apply the Estimation Methodology which is set out in the FCP.

FCPs populated with the information North Atlantic holds on Scheme Creditors' claims can be found on North Atlantic's web-site. This information can be downloaded to assist you in reconciling it to your records. The FCP can be completed or amended electronically and submitted to the Scheme Administrators using the web-site. Scheme Creditors requiring paper copies of FCPs can request them, but are discouraged from doing so as this is likely to be both more difficult for Scheme Creditors to complete accurately and more costly for North Atlantic to process thereby reducing the funds available for distribution to all Scheme Creditors. Scheme Creditors requiring paper copies of the Scheme document can request them from North Atlantic or the Provisional Liquidators/Scheme Administrators.

Part 1
Explanatory Statement

Proposals in relation to

A Scheme of Arrangement

Pursuant to Section 425 of the Companies Act 1985

between

North Atlantic Insurance Company Limited

(formerly British National Insurance Company Limited)

and its

Scheme Creditors

(as defined in the Scheme of Arrangement)

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1 Summary

1.1 INTRODUCTION

North Atlantic is an insurance company incorporated in England which is unable to pay its creditors in full. It ceased underwriting in 1984 and stopped paying claims on 6 March 1997 when Paul Evans and Colin Bird (partners in the UK firm of PricewaterhouseCoopers) were appointed Provisional Liquidators by the Court to manage North Atlantic for the benefit of all its creditors and to consider the best way of dealing with North Atlantic's affairs. The Scheme proposed by North Atlantic in this document is designed to enable its Scheme Creditors to be paid as much as possible as soon as possible.

Colin Bird has since resigned from PricewaterhouseCoopers. An application was therefore made to the Court on 27 July 2001 to appoint Mark Batten in Colin Bird's place. Mark Batten is licensed to act as an insolvency practitioner by the Institute of Chartered Accountants in England and Wales. The application was approved and, consequently, Mark Batten replaced Colin Bird as joint Provisional Liquidator with effect from 31 July 2001.

1.2 WHAT IS A SCHEME OF ARRANGEMENT?

A scheme of arrangement ('a **scheme**') is a compromise or arrangement between a company and some or all of its creditors governed by Section 425 of the Companies Act 1985. A scheme becomes binding on those creditors affected by it, irrespective of whether they received notice of the scheme, did not vote, or voted against the proposals, if:

- a majority in number, representing 75% in value, of the Scheme Creditors, being entitled to do so, vote in person or by proxy in favour of the scheme at a specially convened meeting; and
- the High Court of England and Wales subsequently makes an order approving the scheme; and
- an office copy of that order is delivered to the Registrar of Companies for registration.

1.3 WHY HAS THE SCHEME BEEN PROPOSED?

Most of North Atlantic's remaining liabilities arise from pollution, asbestos and health hazard risks. It has written some policies which may be protected under the Policyholders Protection Act 1975, some on an occurrence basis and some on a claims made basis. Claims under such policies account for approximately 1% of North Atlantic's liabilities.

As at 31 December 2001, North Atlantic's assets are estimated to be £129m before allowing for the effect of claims which can be set-off against reinsurance. Of this, North Atlantic holds £45m in cash or investments, the remainder being reinsurance debts both due now and in the future. Its liabilities, including future liabilities, are estimated at £574m on an undiscounted basis.

In these circumstances the Provisional Liquidators consider that the proposed Scheme provides the following advantages over liquidation (or other insolvency processes):

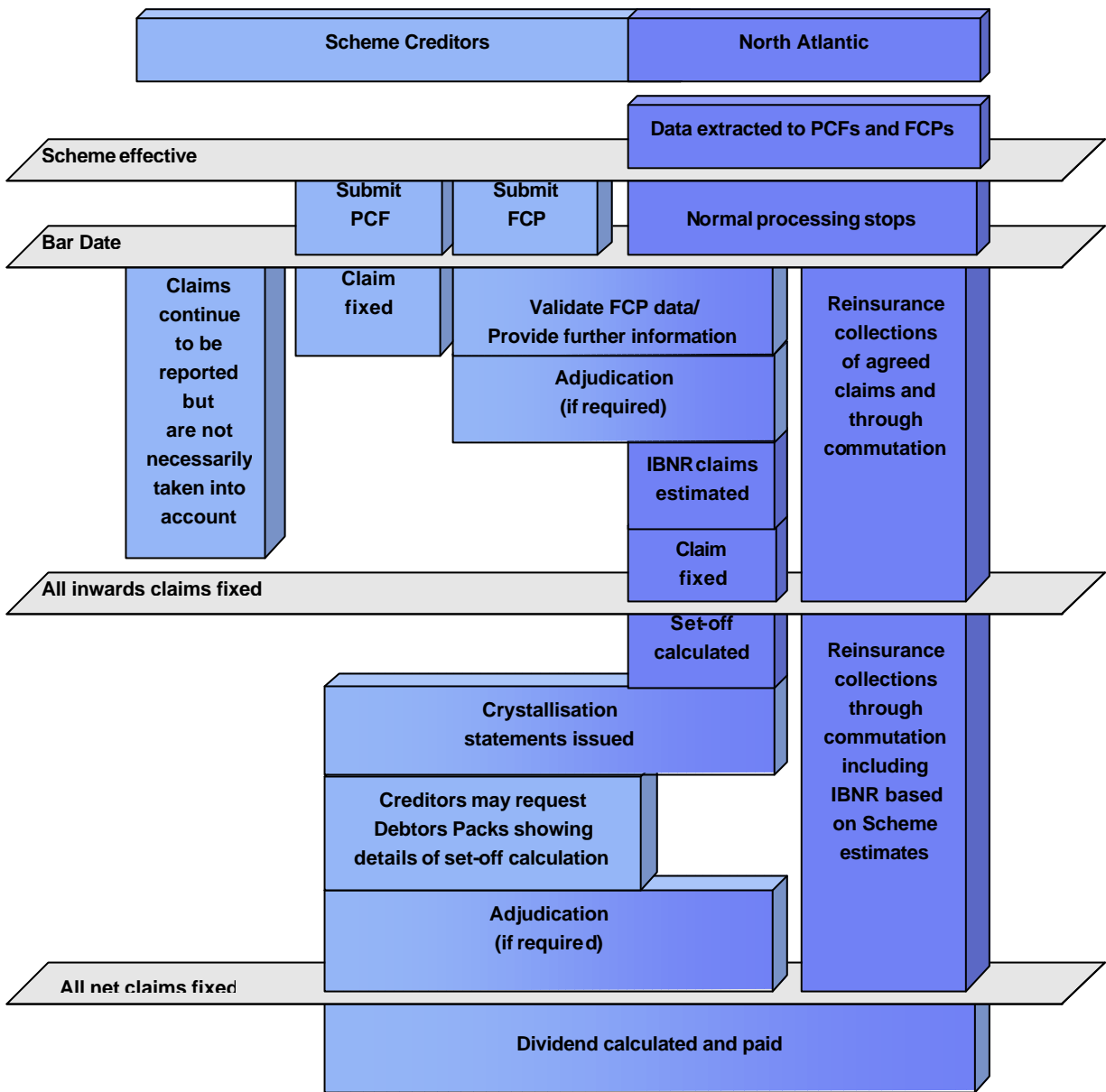
- a quicker return to creditors than waiting for dividends in a liquidation;
- the avoidance of Insolvency Services Account ('ISA') investment charges and a restricted investment range including the inability to match investment currency to claims currency (since all claims are converted to Sterling at rates ruling on commencement of liquidation);
- the payment in the currency of Scheme Creditors' claims, or any other currency of their choice;
- the ability to provide for electronic submission of claims, rather than formal proofs of debt;

With the support of the informal Creditors' Committee (see page 18) the Provisional Liquidators are proposing to implement an estimation (or cut-off) scheme rather than a reserving scheme which would provide for North Atlantic to continue its run-off to natural expiry.

The main reasons for proposing an estimation scheme are:

- the run-off has been in progress since 1984 and much of the book is mature;
- the limited assets means that the estimated dividend percentage will be low and early payments in a run-off scheme would be restricted by shortage of cash;
- limited investment income would be insufficient to cover all the costs of a run off to expiry;
- the ability to use a clear and binding Estimation Methodology, rather than an estimation methodology in a liquidation, will lead to a quicker, cheaper and fairer process.
- The Provisional Liquidators consider that with a low dividend expected, a disproportionate amount of North Atlantic’s assets could be spent dealing with challenges to a liquidator’s estimate of the fair value of claims without a scheme imposing reasonable restrictions to the appeal mechanism.

1.4 OUTLINE PROCESS



1.5 HOW WILL THE SCHEME WORK?

Scheme Administrators (the current Provisional Liquidators) will be appointed to take control of North Atlantic's assets and administer a claims agreement and estimation process. The Scheme Administrators will act under the supervision of a Creditors' Committee of between five and eight Scheme Creditor representatives plus the FSCS Scheme Manager.

Scheme Creditors' insurance claims will be determined by the Scheme Actuary using a methodology designed to balance fairly the interests of Scheme Creditors, in particular those who have predominantly:

- direct policies as against reinsurance contracts; and
- fully matured claims as against IBNR.

The Provisional Liquidators consider that the low expected dividend rate means that it is disadvantageous to Scheme Creditors as a whole for the methodology to be lengthy, complicated, or result in North Atlantic incurring significant costs. Accordingly the onus is on Scheme Creditors to supply such information that the Scheme Actuary may consider necessary to calculate an estimate for IBNR.

1.5.1 Claims submission

Set out on the facing page is a diagrammatic overview of the Scheme process.

If and when leave is received from the Court to hold the meetings of Scheme Creditors to consider the Scheme, North Atlantic will extract from its records the information as at the Ascertainment Date of 31 December 2001 for Scheme Creditors' claims which will be used to calculate PCF estimates and to populate FCPs. PCFs will be sent to Scheme Creditors together with details of how to access the FCP information through North Atlantic's web-site.

If the Scheme is approved, Scheme Creditors will be required to inform the Scheme Administrators of any claims they have before the Bar Date. Scheme Creditors may either accept the estimates set out on their PCF or complete an FCP. In either case the accepted PCF or FCP must be received by the Scheme Administrators by the Bar Date. Scheme Creditors unknown to North Atlantic who do not submit details of their claim by the Bar Date will be excluded from participating in Scheme distributions. Scheme Creditors failing to return either a PCF or an FCP by the Bar Date will have their claims fixed at the amounts shown on their PCF. For Protected Policyholders, there are separate arrangements (see paragraph 1.5.8).

The Provisional Liquidators hope that creditors with mature claims, or known claims which exceed policy limits, or claims which are small in relation to the amount of work required to satisfy the requirements of the Estimation Methodology, will find accepting the PCF estimates a quick and simple means of agreeing their claims in the Scheme.

Scheme Creditors who believe that their claims should include significant provision for IBNR or who consider that the information on the PCF is incorrect should complete an FCP.

1.5.2 Claims agreement

North Atlantic will validate information submitted through FCPs and Scheme Creditors may be required to submit further information where the Scheme Administrators are not satisfied with the validity of the information or the accuracy of the estimates given by Scheme Creditors in FCPs. Where, even after additional information is provided, the Scheme Administrators remain unsatisfied they may refer the FCP data to the Scheme Adjudicator.

The Scheme Adjudicator may call for further evidence from both parties and will reach a determination on the data to be used in the FCP submitted to the Scheme Actuary for the purpose of estimating future claims under the Estimation Methodology.

1.5.3 Claims estimation

Once sufficient claims information has been accepted by the Scheme Administrators or determined by the Scheme Adjudicator, it will be passed to the Scheme Actuary to estimate Scheme Creditors' claims using the Estimation Methodology. The Scheme Actuary will follow the approach set out in the

Estimation Methodology and will consult with the Independent Actuary where he considers this desirable. The Creditors' Committee may also call upon the Independent Actuary to report to them on the application of the Estimation Methodology.

However, the estimates calculated by the Scheme Actuary are not open to dispute or challenge either to Court or the Scheme Adjudicator (although Scheme Creditors have the right to ask the Scheme Administrators to consider apparent manifest errors in the application of the Estimation Methodology).

1.5.4 North Atlantic's ongoing operations

Whilst the process set out in the Scheme to determine inwards claims against North Atlantic is in progress, North Atlantic will continue to collect reinsurance either through commutation or in respect of paid claims. Scheme Creditors are required to continue to submit details of paid claims and estimates of claims development after the Bar Date despite the Scheme Administrators not being obliged to take this into account when submitting data to the Scheme Actuary. Where reinsurance collections may result from new claims information processed, Scheme Creditors' claims may be amended to reflect that new information and Scheme Creditors given an opportunity to agree the amendments. Similarly, where the Scheme Actuary decides that he wishes to take into account some information provided by Scheme Creditors after the Bar Date, despite not being obliged to do so, Scheme Creditors' claims may be amended to reflect that new information and Scheme Creditors given an opportunity to agree the amendments. The Scheme Administrators will either reissue a PCF or FCP to the relevant Scheme Creditor who will then have 30 days to object to the revised estimate or information.

1.5.5 Set-off

Once the Scheme Actuary has estimated substantially all inwards claims using the Estimation Methodology, estimates of outwards reinsurance debts due to North Atlantic will be calculated. For net creditors, this will result in an estimate of the amount to set-off against their inwards claims. The set-off rules adopted in the Scheme are based on those which would apply in liquidation.

Crystallisation statements will then be sent to all Scheme Creditors showing the amount of their inwards claim which has been determined (and is final subject only to manifest and arithmetic errors being discovered) and an estimate of their claim net of set-off in respect of amounts due to North Atlantic. Scheme Creditors who dispute the amount of set-off will be able to request a Debtors Pack showing details of the calculation of the debts due to North Atlantic. Under the Estimation Methodology the same approach will be taken to estimating the outwards reinsurance due to North Atlantic, which will be based on the amounts fixed in the Scheme for inwards claims against North Atlantic and an agreement with Net Debtors where applicable. The application of this methodology to calculate set-off is binding on Scheme Creditors. Information shown in the Debtors Pack may be agreed with the Scheme Administrators and will be subject to a similar adjudication process as for inwards claims where agreement cannot be reached.

1.5.6 Dividend payment

Once inwards claims have been calculated using the Estimation Methodology, North Atlantic will seek to collect its remaining reinsurance assets, including reinsurance relating to future claims. The Provisional Liquidators hope that since this will be based on the Estimation Methodology, it will provide an acceptable basis for reinsurers of North Atlantic to commute future claims, thereby obtaining finality as regards any future deterioration. Where acceptable commutations cannot be agreed, North Atlantic reserves the right to require Scheme Creditors to continue to submit claims development information to it so that the particular reinsurance programme can be run off.

When substantially all claims have been agreed (net of set-off) and sufficient reinsurance has been collected, the Scheme Administrators will declare a dividend. At this point claims in one currency which need to be set-off against debts in another currency will be converted using Scheme Exchange Rates. Dividends will be paid in US Dollars, Sterling and Euros (converted at the Scheme Exchange Rate), or in the currency of the claims if requested by a Scheme Creditor. Further dividends may be declared depending on the timing and amount of future reinsurance collections. The amount of the dividends declared will take account of provisions for any claims not yet determined under the Scheme and estimates of future costs and reinsurance recoveries.

Claims in a National Currency Unit will be paid in Euros in accordance with EMU legislation.

The timing of the first dividend payment depends on the speed with which claims data can be agreed and reinsurance collected. The Provisional Liquidators expect that the earliest date by which sufficient funds will have been accumulated to make a worthwhile dividend payment will be in early 2004.

1.5.7 Protected Policyholders

A Scheme Creditor cannot be considered as a Protected Policyholder unless he has advised the Scheme Administrators in writing that he believes that he is a Protected Policyholder. Whether a Scheme Creditor is a Protected Policyholder will in every case be determined by the FSCS Scheme Manager.

1.5.8 The Financial Services Compensation Scheme

On 1 December 2001 the FSA assumed its full powers and responsibilities under FSMA. The FSA is now the single statutory regulator responsible for regulating deposit taking, insurance and investment business. The FSA established the FSCS Scheme Manager which replaced eight existing arrangements that provided compensation if a firm collapsed owing money to investors, depositors or policyholders. The compensation scheme is a final 'safety net' for when a financial services firm goes out of business and it provides a key part of the FSA framework to provide appropriate protection for consumers.

The FSCS Scheme Manager assumed the responsibilities of the Policyholders Protection Board on 1 December 2001. The FSCS Scheme Manager has agreed to be bound by the Scheme (if approved by creditors and the Court) and to do what may be necessary or as the Court may consider desirable for the purpose of giving effect to the Scheme.

The FSCS Scheme Manager's obligations to a Protected Policyholder mirror those that would apply were North Atlantic a company in liquidation (as defined in the Policyholders Protection Act and that Act applied to that liquidation). The FSCS Scheme Manager will make payments to Protected Policyholders in respect of claims which would be eligible for protection under the Policyholders Protection Act were North Atlantic in liquidation when the claims are properly agreed during or after the Scheme whether or not Protected Policyholders make a claim against North Atlantic on or after the Bar Date.

After the Scheme has terminated, it is likely that North Atlantic will be wound up by the Court. Protected claims of the policyholders of North Atlantic which fall due for payment after the date of any such winding up order are not affected by the Scheme and may be eligible for protection under the Policyholders Protection Act. Any such claims will be considered under and subject to the Policyholders Protection Act and not under this Scheme. Further information on the FSCS Scheme Manager and the operation of the Policyholders Protection Act are set out in Appendix 15 to the Explanatory Statement.

1.6 CONCLUSION

If the Scheme is not approved, then the Provisional Liquidators are likely to conclude that North Atlantic should go into liquidation immediately. For the same reasons as the Provisional Liquidators conclude that an estimation scheme is the most advantageous for Scheme Creditors, it is likely that a liquidator would also seek to deal with claims through an estimation process rather than attempt to run off North Atlantic's business to expiry.

You should consider the Scheme proposals and if you wish to vote, you should complete the voting papers enclosed with this document and return them to the Provisional Liquidators before 30 September 2002 i.e. three days before the time appointed for the Scheme Meetings.

The Provisional Liquidators and the informal Creditors' Committee recommend that you vote in favour of the Scheme.

2 Why vote for the Scheme?

The Provisional Liquidators have a duty to act in the interests of the general body of creditors and believe that the Scheme has substantial advantages over the alternative courses of action. They estimate that Scheme Creditors as a whole will receive more (in net present value terms) if the Scheme is approved than under any other option and that there are other advantages of the Scheme. The most relevant considerations are the differences between a scheme of arrangement and other proceedings (for example, liquidation), and between the two main types of scheme: a reserving scheme and an estimation scheme.

2.1 WHAT ARE THE ALTERNATIVES?

As North Atlantic cannot meet its obligations to creditors in full, and recapitalisation and refinancing are not available, the alternatives available to North Atlantic are:

- Liquidation (compulsory or voluntary)
- Company Voluntary Arrangement ('CVA')

Whilst recapitalisation is not available, North Atlantic has benefited from an agreement entered into by the Provisional Liquidators with North Atlantic's holding company, CI Services Holdings Limited (CISHL), which permitted North Atlantic to draw on funds set aside to fund the run-off of the Group.

2.1.1 *Liquidation in the absence of a scheme of arrangement*

Disadvantages of a liquidation include:

- Cost - the cost of liquidation is likely to exceed that of the Scheme, because a liquidator would be obliged to deposit sums collected by him in the ISA. The ISA is administered by the Department of Trade and Industry ('the DTI') which levies charges on realisations deposited in the ISA on a sliding scale from 0.1% to 15.0% in a compulsory liquidation and from 1.25% to 1.75% (capped at £12,500) in a voluntary liquidation. The DTI also levies a charge of 0.625% on all investments made by a liquidator. On the assumption that cash is collected in accordance with the Provisional Liquidators' projections invested in Treasury bills 6-monthly, and paid out according to projections, then the cost to North Atlantic could total approximately £3.5m.
- Restricted investment powers - a liquidator is only permitted to use a restricted range of investment, which may not necessarily produce as great a yield as that which would be available to the Scheme Administrators in general investment markets. The estimate of £3.5m in the preceding paragraph includes an estimate for such lost interest.
- Mandatory currency conversion - in a liquidation claims and funds held in all currencies must be converted into Sterling at the rates ruling on commencement of liquidation. This means that creditors with claims in currencies other than Sterling are exposed to the risk of adverse currency movements.

2.1.2 *Company Voluntary Arrangement*

A CVA offers no material advantages to North Atlantic's creditors. The nature of a proposed CVA would be likely to be very similar to that proposed in this Scheme. However, there are a number of disadvantages to a CVA:

- Not binding - until the relevant provisions of the Insolvency Act 2000 come into force, a CVA will not bind any creditors who did not receive notice of its proposals before the creditors' meeting to vote on it. This is a grave disadvantage for insolvent insurance companies, where the identification of creditors and quantification of their claims can be very time-consuming and difficult, and where there may be creditors who are unknown except to the broker.
- Limited protection of assets - North Atlantic's assets would not be protected against attachment or execution by creditors not bound by the CVA.

- Shareholder consent - until the relevant provisions of the Insolvency Act 2000 come into force, a CVA requires not only creditor approval, but approval by the members of the company. It is not certain that this would be forthcoming in North Atlantic's case.
- Whilst the Provisional Liquidators are advised that they could apply for permanent relief under Section 304 of the US Bankruptcy Code and thereby safeguard North Atlantic's US reinsurance assets from erosion by US creditors' claims, application of the CVA process to insurance companies is new. Therefore the application of Section 304 is uncertain particularly as the CVA process is not supervised by the English High Court. It may also cost more than applying to make the existing Section 304 temporary injunction permanent as part of a scheme, where there is established precedent.
- A further issue for a CVA is that there is no provision for creditors to vote by class. The Provisional Liquidators are advised that Scheme Creditors' interests are sufficiently different that there needs to be two classes of creditors - protected and unprotected. Whilst this may appear to be an advantage in that it is more likely that a CVA would be challenged by minority interests than a scheme, the Provisional Liquidators believe that it is proper for any creditor believing his interests to be dissimilar to have the opportunity to object to the Court. The Provisional Liquidators believe that the Scheme is in the interests of all possible classes of creditor.

2.1.3 Scheme of arrangement

A scheme has the advantage of avoiding each of the disadvantages of other options listed above.

The disadvantage of a scheme is:

- Loss of liquidator's powers - scheme administrators cannot exercise the statutory remedies available to a liquidator. The most pertinent powers in question are the powers to begin proceedings in respect of transactions at an undervalue and transactions preferring one creditor or creditors over others, and the power to bring proceedings to hold directors liable for losses suffered by the creditors by wrongfully trading whilst insolvent.

The Provisional Liquidators have investigated whether any such matters are relevant to North Atlantic and the circumstances leading to North Atlantic's collapse generally. In particular, they have considered the solvency of North Atlantic following the management buy-out, taking into account the extent to which it could rely on its parent company's guarantees and the solvency of other group companies.

The Provisional Liquidators have discussed possible actions against the directors and the company's advisers with the informal Creditors' Committee. The Provisional Liquidators are satisfied that North Atlantic would not be foregoing material recoveries if it did not go into liquidation now.

2.1.4 Estimation scheme compared to a Reserving scheme

There are two principal types of scheme:

- An estimation scheme (also called a cut-off scheme) - the purpose of which is to estimate creditors' claims, using actuarial techniques where there are long-tail liabilities, so as to determine as rapidly as possible all inwards claims on which a dividend can be paid to creditors; and
- A reserving scheme (also called a run-off scheme) - the purpose of which is to run off a company's business in the normal way, but to allow the payment of early dividends on claims agreed as the scheme progresses, subject to reserving sufficient assets to ensure that future claims can be paid at least at the dividend rate declared from time to time.

The scheme proposed for North Atlantic is an estimation type scheme. The advantages of this scheme are:

- Speed of payment - the proposed Scheme has been designed to deal with Scheme Creditors' claims in an equitable but accelerated way, and should enable North Atlantic not only to make an early distribution to Scheme Creditors but also to conclude the run-off of North Atlantic's business in a relatively short time.
- Costs - the Scheme is designed to be cheaper than a reserving scheme for two reasons:
 - it involves less cost than a reserving scheme since the estimation scheme applies over a shorter period; and
 - it saves costs and professional time by the use of binding actuarial estimation of claims and summary adjudication procedures to resolve disputes.

One important factor in considering the cost and benefits of employing an estimation scheme is the effect on reinsurance collections. North Atlantic is already seeking to collect reinsurance by way of commutations and expects to continue to do so notwithstanding the Scheme. The Provisional Liquidators' experience in other cases is that reinsurers are likely to make early payment in order to obtain finality, provided that they can expect some discount to reflect the time value of early payment. In addition, the Scheme provides for Scheme Creditors to continue to submit claim notifications to North Atlantic so that, if required, North Atlantic can continue to process claims and collect reinsurance on those claims.

2.2 INDEPENDENT OPINIONS ON THE SCHEME

The Provisional Liquidators consider that the Scheme is fair to all Scheme Creditors and in their best interests. In order that Scheme Creditors may have the benefit of independent views on the Scheme terms and methodology when considering whether to vote for the Scheme, the Provisional Liquidators have commissioned an Independent Actuary to report on the Estimation Methodology and have also consulted with the informal Creditors' Committee formed to assist them.

The Independent Actuary is Nigel Gillott of Watson Wyatt LLP and his report is reproduced at Appendix 13.

The informal Creditors' Committee acting during provisional liquidation comprises:

INFORMAL CREDITORS' COMMITTEE

| Member | Of | Representing |
|-------------|------------------------------------|---|
| R Williams | Equitas Limited | Equitas Limited |
| H Stuke | Hannover Reinsurance Company | Hannover Reinsurance Company |
| M Durkin* | ACE INA Services UK Limited | Agrippina Versicherungs AG |
| A Gregory | Cavell Management Services Limited | Stronghold Insurance Company Limited |
| S Berland** | Pfizer Incorporated | The International Policyholders' Association (on behalf of their client-creditors) |
| R Frankel | Swidler & Berlin | Niagara Mowhawk Power Corporation (and others) |
| D Guberman | Illinois Deputy Receiver | American Reinsurance Company Inc |
| S Janes | Dominion Insurance Company Limited | Dominion Insurance Company Limited |

* M Durkin resigned from the informal Creditors' Committee on 7 March 2002.

** S Berland resigned from the informal Creditors' Committee on 1 August 2002.

Members of the informal Creditors' Committee have expressed their support for the Scheme as proposed by signing a letter, a sample of which is reproduced at Appendix 14.

3 History

3.1 HISTORY

Many Scheme Creditors will know North Atlantic by its former name: **British National Insurance Company Limited**. North Atlantic's full corporate history can be summarised as follows:

KEY EVENTS

| Date | Event |
|---------------|--|
| 1940 | North Atlantic was incorporated as British National Life Insurance Society Limited on 10 June 1940. |
| 1940 to 1952 | North Atlantic wrote only life business. |
| 1952 | North Atlantic wrote general business in addition to life. |
| 1962 | North Atlantic formed a subsidiary, ME Ruddy Underwriting Agency Limited (Ruddy), which wrote property and casualty business on behalf of North Atlantic as part of a pool until 1967, and thereafter exclusively for North Atlantic until 1974. |
| 1974 | Ruddy ceased writing new business on behalf of North Atlantic and North Atlantic also ceased writing general business on its own account. |
| 1979 | North Atlantic was acquired by Armco Inc. |
| 1980 to 1984 | North Atlantic wrote some non-marine insurance, marine, property, life and motor business in the London market and through agents in other countries. |
| 1979 and 1980 | Insurance business underwritten by the UK branch of Bellefonte Insurance Company of Kentucky (Bellefonte – a subsidiary of Armco) was transferred to North Atlantic. This business was written between 1971 and 1981. |
| 1980 | North Atlantic acquired a company then called North Atlantic Insurance Company Limited. This company wrote direct and reinsurance property, casualty business, and motor business in France and Europe between 1972 and 1981. |
| 1982 | British National Life Assurance Company Limited was formed and North Atlantic's life business was transferred to it. On 10 June 1982 North Atlantic changed its name to British National Insurance Company Limited and ceased writing life business. |
| 1983 | North Atlantic acquired Parcels & General Assurance Association Limited (Parcels & General) which wrote marine, cargo and transit business from the late nineteenth century until 1984. |
| 1984 | In November 1984 North Atlantic ceased underwriting new business. |
| 1985 | On 1 January 1985 North Atlantic Insurance Company Limited's business and Parcels & General's business was transferred to North Atlantic. |
| 1986 | British National Life Assurance Company Limited was sold to Citicorp Banking Corporation. |
| 1991 | On 11 September 1991 North Atlantic changed its name to North Atlantic Insurance Company Limited and was sold to CISHL. |
| 1997 | The Provisional Liquidators were appointed on 6 March 1997. |

There are therefore five main books of business for which North Atlantic retains some liability:

BOOKS UNDERWRITTEN

| Book | Period written |
|--|----------------------------|
| North Atlantic's own book* | 1952 – 1974 1980 – 1984 |
| M E Rutty | 1962 – 1974 |
| Bellefonte UK branch | 1972 – 1981 |
| Parcels & General* | 1890s – 1984 |
| North Atlantic Insurance Company Limited | 1971 – 1981 |

* Note: Since 1984 the Parcels & General business cannot be separately identified in North Atlantic's records and for actuarial purposes they are treated as one book.

3.1.1 Bellefonte UK Branch

Bellefonte started underwriting direct and reinsurance business in the United Kingdom through CE Heath Underwriting Agencies in 1972. In 1978 the management of that business was transferred to a newly established UK branch of Bellefonte.

The liabilities incurred by the Bellefonte UK branch on contracts underwritten up until 1978 and in the years 1979 and 1980 were transferred to North Atlantic under two agreements both dated 21 December 1979 and a further agreement dated 1 January 1980. Contracts covered by these agreements are referred to as the "UK Branch Business". North Atlantic administered this business from these dates until its provisional liquidation.

3.1.2 Parcels & General

Parcels & General wrote primarily marine, cargo and transit business through six UK provincial branch offices. It wrote business from the late nineteenth century to 1984. In 1985 its business was transferred to North Atlantic. Some of these policies were written through the Institute of London Underwriters (ILU) and policyholders benefit from the ILU's guarantee.

3.1.3 Rutty

Rutty wrote business for a pool of insurers including North Atlantic. North Atlantic's share of the pool was approximately 20% for the years 1962 to 1967. Between 1968 and 1974 Rutty also wrote a 100% book directly for North Atlantic. There will therefore be claims against North Atlantic both from policyholders where North Atlantic is named on the policy, and also from other pool members whom North Atlantic has reinsured.

There are no special provisions in the Scheme to treat Rutty policyholders or Rutty pool members any differently from other policyholders or reinsureds. However, as for any other Scheme Creditor with a significant amount of data to enter in the FCP, the Scheme Administrators will allow that data to be uploaded into the FCP system electronically (rather than entered through the North Atlantic web-site) provided that the data is in precisely the format required by North Atlantic's computer systems.

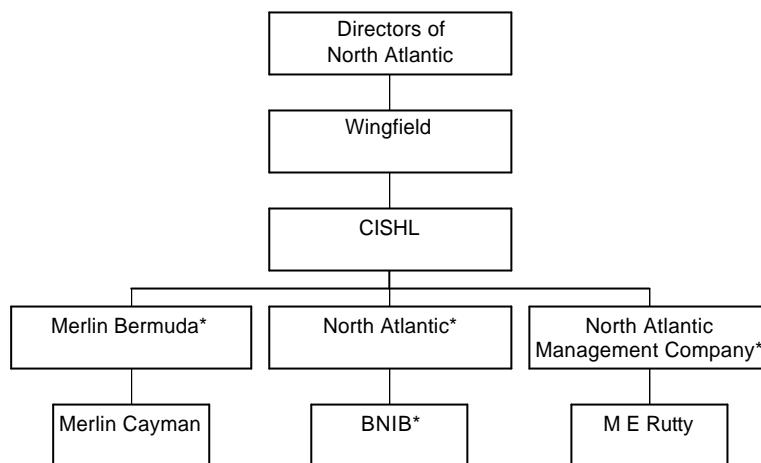
Rutty was dissolved pursuant to Section 652A of the Companies Act 1985 on 22 August 2000.

3.1.4 Sale of North Atlantic

The sale in 1991 was in effect a management buy-out: CISHL was acquired by Wingfield Limited a company controlled and owned by some of North Atlantic's then directors.

3.2 GROUP STRUCTURE

The group structure and ownership at the time the provisional liquidation order was made (6 March 1997) was:



GROUP COMPANY CURRENT POSITIONS

| Company | Incorporated | Legal position | Financial position |
|---------------------------------------|--------------|-------------------------------|--------------------|
| Merlin Bermuda | Bermuda | Liquidation | Insolvent |
| Merlin Cayman | Cayman | Dissolved | - |
| CISHL | Jersey | Holding company | Insolvent |
| North Atlantic Management Company | England | Members Voluntary Liquidation | Solvent |
| M E Rutty Underwriting Agency Limited | England | Dissolved | - |
| BNIB Insurance Company Limited | Bermuda | Liquidation | Uncertain |

* Note: Partners in PricewaterhouseCoopers are liquidators or Provisional Liquidators, as appropriate, of these companies

3.2.1 Relationships between group companies

CISHL provided guarantees to:

- North Atlantic – restricted to 50% of the cost of running off North Atlantic’s business and \$1m in respect of bad debts North Atlantic suffers; and
- Merlin Cayman – capped at a maximum of \$32.5m

BNIB Insurance Company Limited (BNIB) reinsured the whole of North Atlantic’s Rutty business and business written up to 1974. BNIB in turn reinsured the whole of its liabilities with Merlin Bermuda.

There is an unsigned agreement dated 31 December 1987 which purports to cancel all reinsurance contracts whereby Merlin Bermuda reinsured BNIB (or North Atlantic) and to cancel all reinsurance contracts whereby BNIB reinsured North Atlantic. In place of these arrangements, Merlin Bermuda apparently agreed to reinsure North Atlantic directly.

Whether such cancellations and replacement reinsurance directly between Merlin Bermuda and North Atlantic were effected would materially have affected the dividend prospects for creditors of BNIB.

In order to ensure that each set of creditors' interests are dealt with fairly, the liquidators of BNIB, represented by a partner in the Bermudian firm of PricewaterhouseCoopers, applied to the Bermudian Court for directions as to whether North Atlantic is a creditor of BNIB under this reinsurance. The Court directed that the unsigned agreement dated 31 December 1987 between BNIB, North Atlantic and Merlin Bermuda is valid and effective, with the result that those risks ceded to BNIB are no longer the responsibility of BNIB. The result of this decision is that North Atlantic is not a creditor of BNIB, but is a creditor of Merlin Bermuda instead.

In a separate transaction on 19 June 1990 Merlin Bermuda, BNIB, and North Atlantic transferred all the reinsurance contracts ceded to Merlin Bermuda to Merlin Cayman. There is no dispute about the efficacy of this transaction.

3.2.2 Directors' interests

The directors of North Atlantic at the time of the management buy-out were:

- R T Donohue
- D W Atkins
- A Stubbs
- J Curtis

Mr Stubbs and Mr Curtis resigned in 1992, Mr G Johnson was appointed in 1992, resigning in 1995, and subsequently two additional directors were appointed:

- L L Stinson
- P H Rossi

It is the Provisional Liquidators' understanding that Messrs Donohue, Atkins, Stinson and Rossi each owned a quarter of Wingfield (which wholly owns North Atlantic) although some holdings may have been as nominee for Mr Donohue. On 2 August 1995 David Atkins resigned as a director and at about the same time, he relinquished his interest in North Atlantic.

The directors at the time of the provisional liquidation had no direct interest in North Atlantic and are not policyholders or creditors of North Atlantic and, so far as the Provisional Liquidators are aware, have no claim against North Atlantic.

3.3 EVENTS LEADING TO THE PROVISIONAL LIQUIDATORS' APPOINTMENT

In 1984 North Atlantic's holding company, Armco, wished to focus on its core manufacturing business and withdraw from the financial services market. Accordingly, in November 1984 North Atlantic ceased writing new business.

In the late 1980's the London market experienced significant increases in claims arising from asbestos and environmental pollution occurrences in the 1960s and 1970s. These claims also affected North Atlantic and North Atlantic found it necessary to increase reserves against these risks.

At the time of the buy-out from Armco in 1991, CISHL was provided with \$42m by various companies in the Armco group to support the North Atlantic Group.

As claims experience continued to deteriorate and the cost of defending claims increased, North Atlantic's solvency declined and the funds held by CISHL to support the guarantees given to the Group proved insufficient. Accordingly, the directors petitioned for the winding up of North Atlantic on 6 March 1997 and the appointment of Provisional Liquidators. Paul Anthony Brereton Evans and Colin Graham Bird, partners in the UK firm of PricewaterhouseCoopers were appointed.

3.4 WHAT HAVE THE PROVISIONAL LIQUIDATORS DONE?

In order to prevent default judgements being entered against North Atlantic in proceedings in which it was no longer represented, and in order to protect United States assets of North Atlantic, such as reinsurance recoveries, the Provisional Liquidators applied for relief under Section 304 of the United States Bankruptcy code. On 19 March 1997 the United States Bankruptcy Court in the Southern District of New York made a temporary restraining order staying proceedings against North Atlantic and protecting its property.

The Provisional Liquidators sought control of the funds held by CISHL, which at the time of the provisional liquidation amounted to \$17m, the only known creditors of CISHL being North Atlantic and Merlin Cayman. On 15 April 1997 CISHL agreed to lend all its remaining funds to Landau Limited (Landau), a newly formed company owned and controlled by three nominees who are partners or employees of PricewaterhouseCoopers in Jersey: David Phillip Sutcliffe, John Lyndell Warry and Paul Hucker. Landau is non-profit making. Under the terms of the agreement with CISHL, Landau was permitted to lend funds to North Atlantic and Merlin Cayman to meet the operating costs of the Group. All funds held by Landau have now been lent to North Atlantic and spent meeting North Atlantic's operating costs. A copy of the agreement between the Provisional Liquidators, CISHL, Landau, North Atlantic and Merlin Cayman dated 17 April 1997 is available for inspection (see Appendix 16). As provided by this agreement, on 26 July 2002, the debt owed to CISHL by Landau was repaid by the assignment to CISHL of the debt owed by North Atlantic to Landau. Landau is accordingly now defunct and will be wound up. North Atlantic's liability to CISHL arising from this arrangement will be extinguished though set-off against the greater amounts owing by CISHL to North Atlantic.

The Provisional Liquidators arranged to retain the staff engaged in running off North Atlantic's business, who were all employed by North Atlantic Management Company Limited (NAMCO) which is a subsidiary of CISHL. The Provisional Liquidators procured a transfer of those staff's contracts of employment to a newly formed service company and wholly owned subsidiary of North Atlantic, called North Atlantic Run-Off Services Limited (NAROS). NAROS continues to administer the agreement of claims against North Atlantic and the collection of reinsurance protecting those claims.

On 24 September 1997 the Provisional Liquidators procured the transfer by NAMCO of its subsidiary, Ruty, to North Atlantic. This was done in order to facilitate the liquidation of NAMCO.

The Provisional Liquidators, in conjunction with NAROS, have made such operational and systems changes as are necessary to support this proposed Scheme.

The Provisional Liquidators have defended claims made by Armco and its subsidiary, Northwestern National Insurance Company (Inc) (Northwestern) (the successor to Bellefonte Insurance Company) against North Atlantic which alleged that:

- North Atlantic was party to a scheme to defraud Armco;
- the funds held by CISHL and then Landau and then paid to the Provisional Liquidators were subject to a constructive trust in favour of Armco;
- the reinsurance contracts between Northwestern and North Atlantic in respect of the Bellefonte UK Branch Business amount to novations of the business to North Atlantic;
- North Atlantic fraudulently drew funds down from trust funds held in the US to secure the liabilities written through the Bellefonte UK branch, for improper purposes;

The Provisional Liquidators also made a claim, resisted by Northwestern, that:

- North Atlantic was entitled to the income deriving from those trusts;

In order to settle these allegations in a manner beneficial to North Atlantic's creditors, the Provisional Liquidators entered into an agreement with Armco and Northwestern on 31 March 1999.

The settlement provides for North Atlantic to accept liability for claims under policies written through the Bellefonte UK branch in return for which Armco and Northwestern transfer the balance of the trust funds and reinsurance securing the Bellefonte UK branch liabilities to North Atlantic for the benefit of all its creditors. Armco and Northwestern agree to withdraw all fraud and other claims against the North Atlantic Group (thereby enabling North Atlantic to avoid protracted and expensive US litigation) in return for a contribution to the costs of Armco.

The settlement was conditional upon North Atlantic applying for and obtaining consent from the High Court and a permanent injunction under Section 304 of the United States Bankruptcy code protecting Northwestern from any claims arising from policies written through the Bellefonte UK branch.

On 25 May 1999 the Provisional Liquidators gave notice of the English hearing to policyholders, and potential policyholders, of policies written through the Bellefonte UK branch. On 16 July 1999 the High Court consented to the agreement and authorised and directed the Provisional Liquidators to apply to the US court as envisaged in the agreement. On 4 August 1999 the Provisional Liquidators gave notice to the same creditors of the US hearing.

The Provisional Liquidators also applied to the High Court for sanction to enter into commutation agreements with North Atlantic's then creditors (there being no express power in the original provisional liquidation order) but not to make payments under those commutations other than as part of a scheme or liquidation; and also to enter into commutation agreements with North Atlantic's contingent creditors being Bellefonte UK Branch policyholders, and to make payments under such commutations in advance of a scheme, where there is a clear advantage to the general body of creditors.

In March and April 2000 the Provisional Liquidators entered into commutation agreements in respect of Bellefonte UK branch business which they estimate relieved the estate of \$61m of contingent liabilities at a cost of \$11m.

On 21 April 2000 the US court granted a permanent injunction preventing any claim arising from the Bellefonte UK branch business being pursued against Northwestern and directing such claims to be made against North Atlantic.

The Provisional Liquidators have accepted an assignment dated 10 October 2000 from Merlin Cayman of its claims against CISHL. North Atlantic holds the proceeds of this assignment (if any), and a share of the funds transferred to Landau by CISHL on trust for itself and BNIB (Merlin Cayman's only creditors). This assignment enabled Merlin Cayman to be wound up sooner than otherwise might be the case and on 22 May 2002 an application to have Merlin Cayman dissolved was accepted by the Cayman courts.

As a result of this, Merlin Bermuda, which only had one asset, that being the shares it held in Merlin Cayman, is now in the process of being dissolved.

All creditors are prevented in the Scheme from taking steps to wind-up North Atlantic. It is usual practice in insurance company schemes of arrangement for the shareholders to place the shares in the scheme company in trust, with the Trustees acting only at the direction of the Scheme Administrators. In this way a voluntary liquidation is prevented from occurring during the Scheme period. In the case of North Atlantic it has not been possible to obtain the co-operation of the shareholder CISHL.

Therefore, the Provisional Liquidators propose to apply to Court to keep the Provisional Liquidation order and the current winding-up petition in place during the course of the Scheme.

Notwithstanding this, the Provisional Liquidators have been advised that the Court would be likely to determine that the terms of the Provisional Liquidation order safeguard the assets should a resolution be passed seeking to place North Atlantic into liquidation, and that the Court would not make a winding-up order if opposed by the Provisional Liquidators and the creditors. As an alternative the Provisional Liquidators may apply to the Court to replace the Provisional Liquidators by Administrators under the Insolvency Act 1986, but only following consultation and agreement with the FSCS Scheme Manager.

To permit the development of the Scheme, the winding up petition against North Atlantic was adjourned on a number of occasions, the latest adjournment being to 16 October 2002.

The receipts and payments of the Provisional Liquidators for the period from 6 March 1997 to 31 December 2001 can be summarised as follows:

PROVISIONAL LIQUIDATORS' RECEIPTS AND PAYMENTS

| | £'000 |
|---|---------------|
| Receipts | |
| US trust funds released | 31,703 |
| Cash taken over on appointment | 1,016 |
| Reinsurance collections | 20,215 |
| Funding from Landau | 11,575 |
| French Trust funds recovered | 2,917 |
| Investment income | 4,821 |
| Other income | 2,975 |
| Total receipts | 75,322 |
| Payments | |
| Settlement with Armco/Northwestern | 5,841 |
| North Atlantic Run-Off Services Limited | 4,420 |
| Provisional Liquidators' fees | 4,905 |
| Provisional Liquidators lawyers fees | 4,306 |
| Other legal and professional services costs | 4,865 |
| Commutation payments (to release trust funds above) | 7,181 |
| Property and other costs | 2,748 |
| Other Insurance Payments | 2,524 |
| Exchange differences | (2,683) |
| Total payments | 34,177 |
| Funds held | 41,145 |

4 Financial position

The most recent audited financial statements of North Atlantic prior to the provisional liquidation were as at 31 December 1995 and showed net assets of £15m (including its investment in BNIB). At the time of the winding up petition on 6 March 1997, the directors considered North Atlantic and BNIB combined to have a deficit of between US\$7m and US\$16m. The directors attributed the decline in solvency to higher settlements than provided for and an increased rate of settlement which reduced funds generating investment income.

Since their appointment, the Provisional Liquidators have procured that North Atlantic prepares financial statements for the two years to 31 December 1997 and the four years to 31 December 2001, both based on an actuarial review conducted by PricewaterhouseCoopers Actuarial Services as at 31 December 1997. The Provisional Liquidators consider that there may have been significant movements in North Atlantic's claims exposure since the actuarial review, particularly an increase in asbestos related claims, which may be partly offset by lower than anticipated pollution settlements. However, the Provisional Liquidators do not consider Scheme Creditors' interests would be served by carrying out a further actuarial review, at further expense, and that the present information should provide an adequate basis for Scheme Creditors to evaluate the merits of the Scheme.

North Atlantic's auditors, Baker Tilly, carried out audit work in 1998; however, North Atlantic's directors have declined to sign the financial statements (and there is no requirement to file financial statements whilst North Atlantic is in provisional liquidation). Without financial statements approved by the directors, the auditors are unable to issue an audit opinion on them. The unaudited financial statements are summarised below and copies of the full statements are available on request.

4.1 FINANCIAL POSITION AT 31 DECEMBER 1997 AND 31 DECEMBER 2001

North Atlantic's financial position as at 31 December 1997 and 31 December 2001 can be summarised as follows:

SUMMARY FINANCIAL POSITION

| | Summary of audited financial statements 31 December 1995 £'m | Summary of unaudited financial statements 31 December 1997 £'m | Summary of unaudited financial statements 31 December 2001 £'m |
|---|---|---|---|
| Assets | | | |
| Investment in BNIB | 19 | - | - |
| Investments | 37 | 33 | 40 |
| Reinsurers' share of claims outstanding | 96 | 61 | 72 |
| Debtors | 32 | 23 | 11 |
| Cash | 1 | 2 | 5 |
| Other | 1 | 1 | 1 |
| Total assets | 186 | 120 | 129 |
| Liabilities | | | |
| Claims outstanding | 123 | 430 | 425 |
| Less: discount | (8) | - | - |
| Provisions | 1 | - | - |
| Insurance creditors | 49 | 57 | 127 |
| Deposits from reinsurers | 5 | 2 | 3 |
| Other creditors | 1 | 10 | 19 |
| Total liabilities | 171 | 499 | 574 |
| Net assets/(liabilities) | 15 | (379) | (445) |

4.2 DEFICIENCY ACCOUNT

The deterioration in solvency between 31 December 1995 and 31 December 1997 comprises:

| DEFICIENCY ACCOUNT | | £'m |
|---|--|--------------|
| Net assets as at 31 December 1995 | | 15 |
| Write down of insolvent subsidiary | | (19) |
| Investment income and other income | | 4 |
| Write back of provision for run-off costs | | 1 |
| Increase in bad debt provisions | | (13) |
| Technical account movements | | |
| Claims incurred, net of reinsurance | | (10) |
| Increase in provision for claims outstanding | | (350) |
| Operating costs | | (7) |
| Net liabilities as at 31 December 1997 | | (379) |

The most significant movement is in the reserves for outstanding claims which are analysed below.

4.3 RESERVES

The reserves detailed below are based on a review conducted in June 1998 by PricewaterhouseCoopers Actuarial Services, instructed by the Provisional Liquidators to advise North Atlantic on its net and gross insurance reserves.

| GROSS RESERVES AS AT 31 DECEMBER 1997 | | | | |
|---------------------------------------|----------------|------------|------------|------------|
| | North Atlantic | Bellefonte | Rutty | Total |
| | £'m | £'m | £'m | £'m |
| Asbestos | 62 | 38 | 57 | 157 |
| Pollution | 55 | 70 | 57 | 182 |
| Health | 26 | 7 | 1 | 34 |
| Motor | 4 | - | - | 4 |
| Other | 34 | 12 | 7 | 53 |
| Total | 181 | 127 | 122 | 430 |

4.4 SETTLEMENT WITH NORTHWESTERN

The financial statements summarised above have been prepared on the basis that North Atlantic is liable directly to policyholders of Bellefonte UK branch business rather than it only reinsuring Northwestern in respect of the Bellefonte UK Branch Business. This assumption also reflects the outcome of the settlement reached with Armco and the effect of the channelling injunction made by the US Bankruptcy Court.

The Settlement with Northwestern considerably improved the dividend prospects for creditors of North Atlantic at the time not only because those creditors benefited from the reinsurance collections relating to the Bellefonte UK business, but also because it made available to North Atlantic creditors US trust funds totalling £26m. These trust funds are now available to all North Atlantic's creditors, but without the settlement, they would have been applied first to meet the claims of creditors of Northwestern (including claims of Bellefonte UK branch policyholders).

In addition, as part of the settlement the Provisional Liquidators commuted certain claims of Bellefonte UK Branch policyholders and these commutations in aggregate cost less than the dividend North Atlantic would have expected to pay in respect of liabilities under those policies.

The settlement also enables this Scheme to be promoted which otherwise may not have attracted sufficient support, leaving liquidation as the only realistic alternative with all the attendant disadvantages and costs.

Lastly, the settlement avoids the prospect of protracted and costly litigation continuing with Northwestern and Armco and the risk that release of the funds made available by Landau would have been jeopardised.

The effect of the settlement, compared to liquidation and continuing litigation with Armco, is estimated to improve the ratio of North Atlantic's assets to liabilities from 16% to between 19% and 22%.

The impact of the settlement with Armco and the channelling injunction are to be considered by the FSCS Scheme Manager, which will seek to confirm whether or not any Bellefonte UK branch policyholders might be protected under the Policyholders Protection Act. It should be noted that only liabilities arising under policies issued by North Atlantic, excluding any reinsurance business, are in principle eligible for protection under the Policyholders Protection Act.

4.5 ESTIMATED OUTCOME

Any estimate of future dividends is fraught with uncertainty. The particular factors which make it difficult to estimate are:

- the extent to which North Atlantic's reinsurance asset will be eroded by set-off against claims those reinsurers have against North Atlantic
- the incidence of bad debts
- the discount rate to be applied to claims
- estimates of the ultimate value of claims and reinsurances

Of all of these factors, the dividend percentage is most sensitive to the first – set-off. To illustrate the range of possible outcomes, North Atlantic's financial position as at 31 December 2001 has been adjusted below to show the effect of discounting reserves (and reinsurance assets) to present value and set-off at levels of 30% and 50% of reinsurance reserves. At this stage it is not possible to estimate the actual level of set-off which will be experienced. Before this can be done inwards reserves must be calculated and allocated to policies and those reserves then applied to North Atlantic's reinsurance programme to ascertain the identity of reinsurers benefiting from set-off. Thus, it is only when the Scheme Estimation Methodology is applied that the effect on North Atlantic's reinsurance asset can be calculated. The estimates below assume that the future costs of the Scheme equate to the investment income to be earned.

ESTIMATED DIVIDEND OUTCOMES

| | 31 December 2001 | Discounted Set-off at 30% | Discounted Set-off at 50% |
|-----------------------------------|------------------|------------------------------|------------------------------|
| | £'m | £'m | £'m |
| Assets | | | |
| Investments | 40 | 40 | 40 |
| Reinsurance on claims outstanding | 72 | 40 | 28 |
| Debtors | 11 | 6 | 5 |
| Cash | 5 | 5 | 5 |
| Other | 1 | 1 | 1 |
| Total assets | 129 | 92 | 79 |
| Liabilities | | | |
| Claims outstanding | 425 | 302 | 289 |
| Insurance creditors | 127 | 96 | 96 |
| Deposits received from reinsurers | 3 | 3 | 3 |
| Other creditors | 19 | 19 | 19 |
| Total liabilities | 574 | 420 | 407 |
| Net assets/(liabilities) | (445) | (328) | (328) |
| %age | 22% * | 22% * | 19% * |

* These percentages are not projections of the likely outcome of payments to Scheme Creditors under the Scheme.

5 Operation of the Scheme

The Scheme is set out in Part 3 of this document. The principal provisions of the Scheme and an explanation of their effect are summarised below.

One effect of the Scheme is that Scheme Creditors are prevented from taking any action against North Atlantic or its property to enforce their claims and those claims are determined and dividends paid to Scheme Creditors following the Scheme provisions. Neither are Scheme Creditors able to challenge the Estimation Methodology.

The Scheme does not affect the rights of Scheme Creditors to enforce any security they hold in respect of debts owed to them by North Atlantic. If a Scheme Creditor does take any prohibited action and benefits as a result, or realises security in excess of the debt owed to him or which cannot be reconciled as relating to a debt owed to him by North Atlantic, then he will be deemed to hold the benefit on trust for North Atlantic or to have received an advance payment of any dividend otherwise due to him under the Scheme.

5.1 WHO IS A SCHEME CREDITOR?

A Scheme Creditor is any person who has a claim against North Atlantic in existence on the Petition Date (6 March 1997) or arising out of an obligation incurred by North Atlantic before the Petition Date and which is not extinguished by any security held by a Scheme Creditor or the set-off of any debts owed to North Atlantic.

Where a person is accustomed to act on behalf of several Scheme Creditors (for instance managing general agents, the managers of underwriting pools, and the holders of line slips or binding authorities), then the Scheme Administrators may, at their discretion, treat that person as fully able to represent those Scheme Creditors and may agree claims with that person and pay dividends to that person in full settlement of each of those Scheme Creditors' claims against North Atlantic.

This can have an effect on how rights of set-off are applied. The Provisional Liquidators intend to exercise this discretion broadly as follows:

5.1.1 *Lloyd's syndicates and Equitas*

The Company both accepted reinsurance of Lloyd's syndicates and ceded business to them. In law a contract with a Lloyd's syndicate is a series of contracts with individual Lloyd's members, under which each is responsible for his own proportion. Moreover, in 1992, following implementation of the Reconstruction and Renewal Plan at Lloyd's, the proceeds from contracts of reinsurance of Lloyd's syndicates were assigned to Equitas.

In the context of set-off, application of the strict legal position would give rise to uncertainty and insurmountable practical problems. The Scheme requires the Scheme Administrators to adopt a practical alternative, which has also been used in other London market insolvencies. A Lloyd's syndicate, for all underwriting years, will be treated as a single entity.

5.1.2 *Joint policies, binding authorities, and line slips*

Where a policyholder has retained information about others who each benefit from protection under a joint policy, or where a broker has retained information about business written on behalf of North Atlantic, and that policyholder or broker has habitually administered those policies on behalf of each policyholder, then the Scheme Administrators will tend to treat that person as the Scheme Creditor for the purposes of the Scheme. North Atlantic may not know the identity of such joint policyholders (as a practical matter, such information may not be practical to retrieve) or the identity of policyholders of business written under binding authorities and line slips. It is therefore pragmatic for the policyholder to be treated in this manner. The Scheme Administrators would intend to take account of any Scheme Creditors objecting to having their claims aggregated with another principal.

5.1.3 Which classes of debts are not covered by the Scheme?

The Scheme does not affect the following claims, costs and expenses, all of which will be paid by North Atlantic in full as Priority Liabilities:

- any claim which would be preferential if North Atlantic had been wound up on 6 March 1997. The Provisional Liquidators are not aware of any preferential claims; and
- all costs and expenses incurred before and after the Scheme comes into operation which relate to the costs of preparing and implementing the Scheme and which arise in effecting the run-off of North Atlantic's business, including without limitation to the foregoing, the costs and expenses of the Provisional Liquidators or any Administrators appointed in their place.

Neither does the Scheme affect anyone with claims against North Atlantic, but who also owes North Atlantic sums under reinsurance policies ceded by North Atlantic or otherwise where the net amount owing to North Atlantic exceeds the amount North Atlantic owes that person.

5.2 ESTABLISHMENT OF LIABILITIES

5.2.1 Procedure for proving claims

There are two ways in which Scheme Creditors with insurance claims can have their claims determined in the Scheme:

- by accepting the Scheme Administrators' estimate of their claim (before set-off) as set out on the PCF sent to them, or
- by completing an FCP.

If Scheme Creditors submit neither a PCF nor an FCP by the Bar Date, then their claim will be fixed at the amount (if any) shown on the PCF sent to them by North Atlantic.

Scheme Creditors with non-insurance claims will also receive a Statement in similar form to a PCF and again, if they do not dispute the amount shown on the Statement by the Bar Date then their claim will be fixed at the amount shown.

5.2.2 Provisional Claim Forms (PCFs)

An example of a PCF is set out in Appendix 5. The estimates included on the PCFs to be sent to creditors include:

- Unsettled balances (based on information processed by North Atlantic as at the Ascertainment Date of 31 December 2001); and
- Outstanding losses, less:
 - Premium reserves (where an insurance treaty provides that an insured will withhold a part of the premium due for a period of time)
 - Loss reserves (where an insurance treaty provides that an insured will withhold part of the premium due to meet claims payments).

Outstanding losses will be the latest estimate, as reported by Creditors, of the total of all losses for claims that have been notified at the Ascertainment Date of 31 December 2001. The PCF will not provide details of the calculation of this estimate nor the claims on which the estimate is based. The estimate will be discounted to take account of:

- the time value of money (outstanding losses will be discounted to the Ascertainment Date),
- reserve redundancy relating to certain classes of business, (the actuarial review conducted as at 31 December 1997 indicated that claims for certain classes of business were being settled at less than the amounts reserved), and
- other adjustments considered prudent by the Scheme Administrators. The Scheme Administrators have reserved the right to amend the estimates where they are not satisfied with the accuracy or reliability of information held by North Atlantic about any claim.

Scheme Creditors are able to review the undiscounted data used by the Scheme Administrators in calculating the amounts they wish to be included on PCFs.

If Scheme Creditors believe that a simple and obvious correction should be made to the data North Atlantic holds and if this were made then they would prefer to have their claim fixed using a PCF rather than complete an FCP, then they may ask the Scheme Administrators to amend the data and issue a revised PCF. It is a matter for the Scheme Administrators' discretion whether they will respond to any such request.

5.2.3 Full Claims Packs (FCPs)

The information required to complete an FCP is set out in Appendix 8.

The Estimation Methodology requires particular information in order to enable estimates of IBNR claims to be made and allocated to particular Scheme Creditors. If Scheme Creditors are unable to provide (or, on request, verify) all the information set out in the FCP then the Scheme Actuary may not include any estimate for IBNR claims when determining a Scheme Creditor's claim insofar as it relates to missing, incomplete or unsubstantiated data.

Neither the FCPs nor the PCFs contain any estimate of IBNR. FCPs do not contain details of outwards business ceded by North Atlantic as this is only calculable when all inwards claims have been crystallised.

Scheme Creditors are encouraged to complete FCPs using North Atlantic's web-site (www.northatlanticinsurance.co.uk) since this enables Scheme Creditors to analyse the information electronically and thereby speed reconciliation or focus only on material claims and policies to minimise the amount of effort it is worth a Scheme Creditor devoting to the completion and submission of claims. Scheme Creditors may also download the FCP data in a form capable of being read by spreadsheet or database packages capable of importing data in Comma Separated Variable ('CSV') format.

Scheme Creditors cannot send data to North Atlantic electronically other than through the web-site application unless they do so by prior arrangement and with the agreement of the Scheme Administrators. This is because it will only be cost-effective for the Scheme Administrators to deal with uploading such data where the volumes are large and where they are satisfied that Scheme Creditors understand the exact format and specification of the data to be uploaded.

If Scheme Creditors are unable to get access to the world-wide web, then arrangements can be made to send them a paper version of the PCF, FCP (for completion manually) and the Scheme document.

The Scheme Administrators will validate the information submitted by Scheme Creditors in FCPs and may request additional information or documentation from Scheme Creditors to support their claims. The Scheme Administrators expect that this process will take six to nine months to complete. Where Scheme Creditors are unable to satisfy the Scheme Administrators as to the validity of their claims or the reasonableness of estimates provided in the FCP then the FCP data may be referred to the Scheme Adjudicator to determine. The Scheme Adjudicator should reach a determination on the data to be used by the Scheme Actuary within 90 days of the matter being referred to him.

5.2.4 Why are there two alternative mechanisms for submitting claims?

The Provisional Liquidators are concerned to ensure that the costs of processing claims are not disproportionate to the amount that may be distributed on those claims given the low projected dividend rate.

Scheme Creditors may consider it more beneficial to claim with the minimum of work and cost on their part by using the PCF mechanism (and this also minimises the amount of processing and cost which North Atlantic incurs which affects the funds available for all Scheme Creditors).

Alternatively, Scheme Creditors may consider it more beneficial to incur the costs of carrying out some research to substantiate their claims more accurately and in order to enable the Scheme Actuary to calculate an estimate for IBNR claims.

5.2.5 The Estimation Methodology

Once sufficient claims information has been accepted by the Scheme Administrators or determined by the Scheme Adjudicator, it will be passed to the Scheme Actuary to estimate Scheme Creditors' claims using the Estimation Methodology.

The approach to be taken by the Scheme Actuary is set out in the Estimation Methodology at Appendix 7.

Scheme Creditors should note that there are areas where the Scheme Actuary will apply his judgement and that the Estimation Methodology is not a mechanical calculation which follows only from the data submitted by Scheme Creditors and validated by the Scheme Administrators. Thus, whilst the data submitted by Scheme Creditors will all be used, how the Scheme Actuary uses the data submitted to him is largely a matter of professional judgement for the Scheme Actuary. Set out in Appendix 7 are details of the areas where the Scheme Actuary will exercise his judgement, but by way of example it may be helpful to consider the following situation:

- Several policyholders may have claims arising from the same environmental pollution event resulting in land contamination. Each policyholder may have provided a different estimate of the total costs to clean up the site. Although the Scheme Administrators may challenge any estimates which appear unsupported, or out of line with information they hold from other sources, they may not consider it is cost-effective to try to agree precisely the same estimate with every Scheme Creditor involved with the same event. The Scheme Actuary may decide to apply an average of the various estimates provided by Scheme Creditors for the clean up costs of a particular site rather than use a different estimate for each Scheme Creditor.

The Scheme Actuary will follow the approach set out in the Estimation Methodology and will consult with the Independent Actuary where he considers it desirable. The Creditors' Committee may also call upon the Independent Actuary to report to them on the application of the Estimation Methodology.

However, estimates of claims calculated by the Scheme Actuary are not open to dispute or challenge by Scheme Creditors either through court proceedings or by referral to the Scheme Adjudicator (although Scheme Creditors have the right to ask the Scheme Administrators to consider apparent manifest errors in the application of the Estimation Methodology).

Where information is processed and taken into account (the effect of which generally will be to increase a Scheme Creditors admitted claim), revised PCFs or FCPs will be issued to the Scheme Creditors affected and they will be given the opportunity to agree the changes made by the Scheme Administrators. If a Scheme Creditor does not challenge the revised PCFs or FCPs within 30 days of it being sent to the Scheme Creditor then they become binding on that Scheme Creditor.

It should be noted that on matters relating to eligibility and payment of compensation under the Policyholders Protection Act the FSCS Scheme Manager is not bound by the Estimation Methodology. Only liabilities under policies are eligible for protection from the FSCS Scheme Manager, subject to all other terms as to application and eligibility of the Policyholders Protection Act.

5.2.6 Set-off

Once the Scheme Actuary has estimated substantially all inwards claims using the Estimation Methodology, estimates of outwards reinsurance debts due to North Atlantic will be calculated. For net creditors, this will result in an estimate of the amount to set-off against their inwards claims. The set-off rules adopted in the Scheme broadly follow those which would apply in liquidation. Thus, set-off is applied in respect of mutual dealings between a creditor and North Atlantic (rather than at a policy level). Debts assigned to a Scheme Creditor after the Petition Date, 6 March 1997, will not be applied in extinguishing that Scheme Creditor's liability to North Atlantic.

Set-off will take place after discounting inwards and outwards claims to the Ascertainment Date.

Crystallisation statements will be sent to all Scheme Creditors showing the amount of their inwards claim which has been determined (and is final subject only to manifest errors being discovered) and an estimate of their claim net of reinsurance set-off. Scheme Creditors who dispute the amount proposed to be set-off will be able to request a Debtors Pack showing details of the calculation of the

debts due to North Atlantic. Under the Estimation Methodology the same approach will be taken to estimating the outwards reinsurance due to North Atlantic, which will be based on the amounts fixed in the Scheme for inwards claims against North Atlantic. The application of this methodology to calculate set-off is binding on Scheme Creditors.

Information shown in the Debtors Pack may be agreed with the Scheme Administrators and will be subject to a similar adjudication process as for inwards claims where agreement cannot be reached.

Where claims to be set-off are in different currencies, the amount on which the Scheme dividends will be paid will be calculated at the time the Crystallisation Statements are issued using the Scheme Exchange Rates.

5.2.7 Bar Date

Scheme Creditors have until the Bar Date (the month-end six months after the Scheme becomes effective) to submit details of their claims. Anyone believing himself to be a Scheme Creditor who does not notify the Scheme Administrators of his claim before the Bar Date will only participate in Scheme distributions to the extent North Atlantic's records show a liability to him which may be nil. The Scheme Administrators and Scheme Actuary are not obliged to take into account notifications of new claims or claims development after the Bar Date when applying the Estimation Methodology. The Scheme Administrators have no discretion to admit late claims from unknown Scheme Creditors (those Scheme Creditors who have not been sent a PCF) in the Scheme.

Scheme Creditors must submit either PCFs or FCPs to the Scheme Administrators by the Bar Date. Failure to do so will result in a known Scheme Creditor's claim being fixed at the amount shown on his PCF (which may be nil). The Scheme Administrators, at their sole discretion, may allow FCPs submitted by known Scheme Creditors (those to whom PCFs have been sent) late to be taken into account.

Scheme Creditors are required to continue to send details of new claims and claims development to North Atlantic during the Scheme. For known Scheme Creditors, the Scheme Administrators and the Scheme Actuary may at their discretion, take this information into account as described above.

It is possible that in the process of reconciling and agreeing the data on FCPs with Scheme Creditors that the Scheme Administrators will send amended versions of the FCPs to creditors. However if they do so this does not extend the Bar Date.

5.2.8 Interest on Scheme Liabilities

Scheme Creditors' Admitted Scheme Liabilities may include interest where it arises from interest on judgement debts or contractual interest to the extent that it has accrued and is payable in respect of a period or periods ending on or before the Ascertainment Date.

5.2.9 Suspense Provision

The Scheme contains a provision for the suspension of agreement of claims information where, in the opinion of the Scheme Administrators, a Scheme Creditor's claim is likely to be materially affected by the outcome of pending legal proceedings or a Market Dispute. If the Scheme Administrators decide to follow this course, they will notify the affected Scheme Creditors either by Post or Electronically.

5.3 DISPUTED CLAIMS

The Scheme Administrators will validate the data and estimates contained in FCPs with Scheme Creditors. Where necessary they will seek further information from Scheme Creditors to support their claims and estimates. If agreement is not reached within what the Scheme Administrators consider to be a reasonable time in all the circumstances, then the Scheme Administrators may invite the Scheme Creditor to refer the FCP to the Scheme Adjudicator. Scheme Creditors cannot of their own volition initiate the Scheme Adjudication process. Where the Scheme Administrators send such a notice to a Scheme Creditor they will append a copy of the FCP which they are prepared to accept. Scheme Creditors who wish the information on the FCP to be determined by the Scheme Adjudicator must

then respond to the notice within 30 days, confirming that the FCP is to be referred to the Scheme Adjudicator. If they do not confirm this, then the FCP to be used by the Scheme Actuary in applying the Scheme Methodology will be the one appended to the notice sent by the Scheme Administrators.

In the case of Potentially Protected Liabilities, copies of the notice will also be sent to the FSCS Scheme Manager, and the FSCS Scheme Manager will also decide whether to refer the matter to the Scheme Adjudicator. In the event of a difference of opinion between the Scheme Creditor and the FSCS Scheme Manager, the wishes of the FSCS Scheme Manager will prevail.

The Scheme Adjudicator may, within 30 days of the matter being referred to him, call for further information, documents, and data from the Scheme Creditor, the Scheme Administrators, North Atlantic or the Scheme Actuary who will have 30 days to provide the required information. The Scheme Creditor and the Scheme Administrators may also be summoned to appear before the Scheme Adjudicator within 30 days and give evidence.

The Scheme Adjudicator will endeavour to resolve all disputes within 90 days of the matter being referred to him. This may be extended by agreement between the Scheme Adjudicator and the Scheme Administrator.

In cases where the data in FCPs cannot be agreed between the parties, the Adjudicator will determine only the data comprising the FCP. This means principally:

- unsettled balances
- data concerning the financial history of a Scheme Creditor's policies, including premium data, claims data, and policy data
- whether North Atlantic is liable under a policy, and
- who the proper policyholder is (where there are competing claims)

The Scheme Adjudicator will not determine the amount to be reserved for claims: this will be determined by the Scheme Actuary using the Estimation Methodology and the data as determined by the Scheme Adjudicator.

If the Scheme Administrators cannot agree with Scheme Creditors who also owe North Atlantic sums due under reinsurance contracts then these outwards claims may also be referred to the Scheme Adjudicator. The process for adjudicating the extent of such set-off is similar to that outlined above for FCPs.

The Scheme Adjudicator will also determine any non-insurance claims referred to him and will have the same ability to call for evidence, attendance and set timetables in the same manner as when determining insurance claims.

5.3.1 Withdrawal of PCFs, FCPs, Crystallisation Statements and Debtor Packs

If the Scheme Administrator considers it appropriate, then he may withdraw any PCF or FCP issued to a creditor (whether or not a creditor has accepted the estimates on the PCF or has had his Ascertained Insurance Liability determined) and re-issue it with revised estimates. In such circumstances, the creditor will have a further 30 days to accept the revised PCF or submit a revised FCP.

The Provisional Liquidators expect that PCFs or FCPs will be withdrawn only in unusual circumstances and where new information comes to the attention of the Scheme Administrators during the course of the Scheme, for example a policy identified to an incorrect policyholder.

Creditors have 30 days in which to draw attention to any manifest error in a Crystallisation Statement. Scheme Administrators may send Electronically (in the case of sending a revised Crystallisation Statement only) or by Post a Notice of Withdrawal together with a revised Crystallisation Statement or Debtor Pack to any Scheme Creditor at any time until all or substantially all known Admitted Insurance

Liabilities have been determined should the Scheme Administrators in their absolute discretion believe it appropriate to do so for the purpose of determining any Scheme Creditor's Outwards Debt.

5.4 PAYMENTS TO CREDITORS

Priority liabilities will be paid as soon as practical after the Effective Date or when they become due if later.

When the Scheme Administrators consider sufficient claims have been determined and there are sufficient funds available to make a dividend payment worthwhile, then they will calculate the Available Distributable Amount. This will make provision for unascertained claims and future costs and contingencies.

The Scheme Administrators will declare a dividend rate based on the Available Distributable Amount and the current determined Admitted Scheme Liabilities.

Payment will be made to creditors based on their ascertained net claim and in US Dollars, Sterling and Euros or in the currency of the claim at the dividend rate provided, for interim dividends, that the amount payable exceeds \$150. Payment will be by cheque in the original claim currency of each claim (or if requested and the Scheme Administrators agree, by bank transfer). Scheme Creditors should use the North Atlantic web-site to provide information on their preferred payment currency and mechanism. If any currency at the payment date ceased to be legal tender, payment will be in an equivalent amount of the replacement currency. National Currency Units will be redenominated into Euros in accordance with EMU Legislation.

The Scheme Administrators will review the dividend rate from time to time and may declare an increased dividend rate and pay further dividends to creditors with ascertained claims. Such further dividends will depend on the timing and amount of asset realisations and the agreement of claims. It may be that there will be only one dividend payment.

If a Scheme Creditor has not contacted the Scheme Administrators but has a claim fixed by reference to his PCF, then payment in respect of that claim will be sent to the last known address of the Scheme Creditor or his broker. If any dividend payments are unclaimed after one year from the termination of the Scheme, then those funds will be paid to a charity or charities of the Creditors' Committee's choice, failing which the Scheme Administrators' choice. The Scheme Administrators are under no obligation to seek out creditors or to advertise for creditors who have not claimed their dividends.

In the unlikely event that claims can be paid in full out of funds available for distribution, then interest will be paid to creditors from the Ascertainment Date to the date of payment at 5% per annum or the Judgement Rate if higher.

5.5 THE FINANCIAL SERVICES COMPENSATION SCHEME

5.5.1 Summary

North Atlantic wrote some business that falls within the scope of the Policyholders Protection Act. Responsibility for administering claims under the Policyholders Protection Act passed to the FSCS Scheme Manager on 1 December 2001. Were North Atlantic to go into liquidation, Protected Policyholders would be eligible for payments from the FSCS Scheme Manager. The FSCS Scheme Manager has agreed to participate in the Scheme so that Protected Policyholders will receive payments from the FSCS Scheme Manager essentially on identical terms to those they would have received in a liquidation.

In the Scheme the FSCS Scheme Manager will make a payment to Protected Policyholders after the Effective Date of the Scheme, at the Protected Percentage, in respect of claims agreed and due and payable by North Atlantic (after set-off) as at 31 December 2001. The FSCS Scheme Manager has discretion as to the timing of such payment. As further protected claims are settled after 31 December 2001 and during the Scheme, the FSCS Scheme Manager will pay the Protected Percentage in respect of those protected claims.

It is a term of the FSCS Scheme Managers' participation in the Scheme that Protected Policyholders must ensure that claims made against them for which they seek an indemnity from North Atlantic continue to be properly handled.

Any further protected claims of policyholders falling due for payment after the Scheme (when North Atlantic will be in liquidation) will be dealt with under the terms of the Policyholders Protection Act as applicable to that liquidation and not by the Scheme.

In return for payment under the Scheme, Protected Policyholders will assign to the FSCS Scheme Manager:

- their claims agreed prior to the Ascertainment Date, together with any related rights thereto, including as to dividends under the Scheme;
- their rights to dividends payable in respect of Potentially Protected Liabilities Claims as at the Effective Date; and
- the claims agreed during and after the Scheme, together with related rights. This assignment is conditional on actual payment being made by the FSCS Scheme Manager in respect of any such claims.

5.5.2 Protected Policyholders

As far as the Scheme Administrators are aware, there are two types of North Atlantic Protected Policyholder:

- Professional accounting partnerships which qualify as 'private policyholders' as defined in the Policyholders Protection Act, which (subject to eligibility under the Policyholders Protection Act) are entitled to a payment at the rate of 90% in respect of eligible claims; and
- Employers' liability ('EL') policyholders who, in respect of claims which are the subject of compulsory employers' liability insurance, are entitled to a payment at the rate of 100% in respect of such protected claims.

Only persons eligible for protection, and claims arising under policies qualifying for protection under the Policyholders Protection Act can be Protected Liabilities.

Further information on the Policyholders Protection Act and the functions of the FSCS Scheme Manager are contained in Appendix 15 to the Explanatory Statement.

5.5.3 Agreed Balance Protected Liabilities

The obligation of the FSCS Scheme Manager to pay arises after the Effective Date. Protected Policyholders will receive payment from the FSCS Scheme Manager at the Protected Percentage in respect of the Agreed Balances Protected Liabilities. If, during the Scheme, Protected Policyholders agree further claims against them which qualify for an indemnity from North Atlantic, these should be presented to the Scheme Administrators who will review the claims prior to presenting them, if agreed, to the FSCS Scheme Manager.

5.5.4 Protected claims arising after the termination of the Scheme

After the Scheme has terminated, North Atlantic will go into liquidation. The rights of Protected Policyholders in respect of any protected claims then arising under the Policyholders Protection Act will be dealt with in the liquidation subject to the terms of the Policyholders Protection Act.

Shortly before termination of the Scheme, the Scheme will automatically assign to the FSCS Scheme Manager all rights in respect of Protected Policyholders' claims which are not due and payable by North Atlantic. This assignment is conditional upon the FSCS Scheme Manager subsequently paying

Protected Policyholders at the rate set out in the Policyholders Protection Act, in respect of such claims when they are agreed.

5.5.5 Payments in Currencies Other Than Sterling

The FSCS Scheme Manager will make payments in the original currency of claims. For payments made within the Scheme there are provisions in the Scheme that limit the FSCS Scheme Manager exposure to adverse exchange rate fluctuations that are designed to ensure that the FSCS Scheme Manager liability in Sterling is no greater than 12.5% greater than it would have been had the payment been made on the Effective Date. These provisions are described in detail in Section 6 of the Scheme.

5.5.6 Claims Handling

Protected Policyholders are subject to the same provisions as others for establishment of their Scheme claim, as described in 5.2 above, except that the Bar Date does not affect their right to make claims against North Atlantic in respect of Potentially Protected Liabilities which might mature into Protected Liabilities.

Protected Policyholders with agreed claims as at the Ascertainment Date should write to the Scheme Administrators confirming whether the amounts listed in the PCF as agreed claims are correct. The Scheme Administrators will then present these claims to the FSCS Scheme Manager who will consider whether these claims are eligible for protection.

For Potentially Protected claims that become agreed during the course of the Scheme, North Atlantic (via its Run-off Company) will continue to review and agree claims and present agreed claims to the FSCS Scheme Manager for its consideration. Where North Atlantic has solvent co-insurers, claims must be agreed with the lead solvent co-insurer prior to seeking agreement of North Atlantic.

Following termination of the Scheme, claims must first be agreed by the lead solvent co-insurer, if the policy was co-insured, and then presented to the FSCS Scheme Manager, who will review the claim.

5.5.7 Administration or Liquidation during the Scheme period

In the event that North Atlantic goes into Administration or Liquidation during the Scheme period, then the Scheme allows the FSCS Scheme Manager the option of withdrawing its participation from the Scheme.

5.6 BROKER FUNDING

Brokers who have funded premiums and claims payable by North Atlantic will be able to claim for such amounts in the Scheme. However, in order to avoid the risk of North Atlantic paying two claimants for the Scheme Debt, the broker will need to obtain a letter from the relevant Scheme Creditor confirming that the Scheme Creditor has accepted the payment from the broker in full and final settlement of its Scheme claim for that amount and acknowledging the right of the broker to claim under the Scheme in place of the Scheme Creditor for that sum.

Provided these conditions are fulfilled, amounts funded by brokers will also be taken into account for set-off purposes between the brokers and North Atlantic, if the funding took place before the Petition Date.

5.7 NORTH ATLANTIC'S ACTIVITIES DURING THE SCHEME

North Atlantic will not enter into any new or renewal insurance business whilst the Scheme is in effect. It will process existing insurance business where it is beneficial for North Atlantic to do so or as otherwise required in accordance with the terms of the Scheme and operate as an insurance company except that payments in respect of Scheme Liabilities will only be made in accordance with the terms of the Scheme. North Atlantic will continue to be supervised by the FSA under the FSMA.

5.8 ADMINISTRATION OF THE SCHEME AND MANAGEMENT OF NORTH ATLANTIC

The Scheme provides for the appointment of Scheme Administrators who will be responsible for supervising the Scheme. The day-to-day management of North Atlantic will be carried out by the Scheme Administrators who will have a duty to manage the business, realise the assets and apply them for the benefit of Scheme Creditors in accordance with the Scheme and supervise the carrying out of the Scheme.

The Scheme grants the Scheme Administrators both general powers of management and control over the affairs of North Atlantic during the Scheme and specific powers. These powers are to be exercised in the interest of Scheme Creditors. The main functions of the Scheme Administrators are to determine when and at what rate distributions are to be paid out under the Scheme to Scheme Creditors and to try to agree information and claims against North Atlantic using the Estimation Methodology.

The Scheme Administrators will report annually to creditors on the efficacy of the Scheme and will give information as required to the Creditors' Committee (within reason).

In carrying out their functions under the Scheme the Scheme Administrators must act in good faith and with due care and diligence in the interests of Scheme Creditors as a whole.

The Scheme has the effect of depriving the current directors of all power of management, which will be exercised by the Scheme Administrators. However, the implementation of the Scheme does not remove the directors from office. Directors are required under North Atlantic's articles and for the purposes of approving accounts under the Companies Act 1985.

The Scheme Administrators have the power to remove or replace the existing directors or appoint new directors for the limited purpose of approving accounts and to comply with any other relevant statutory requirement.

The Scheme requires each Scheme Administrator to be a qualified and licensed Insolvency Practitioner.

New Scheme Administrators can be appointed and an existing Scheme Administrator can be removed by Scheme Creditors in a general meeting if a majority in number representing 75% in value of the Scheme Creditors in each class voting so resolve. If there are less than two Scheme Administrators at any time, the Creditors' Committee may appoint one or more Scheme Administrators to act pending ratification at a subsequent general meeting of Scheme Creditors.

The first Scheme Administrators if the Scheme is approved will be the current joint Provisional Liquidators:

- Paul Evans, and
- Mark Batten

A summary of the proposed Scheme Administrators' qualifications and experience is set out in Appendix 10.

The Scheme Administrators' normal fees and expenses will be paid out of North Atlantic's property as expenses of the Scheme in priority to dividends to Scheme Creditors together with costs incurred by the Scheme Administrators to operate, manage and maintain North Atlantic, and the costs of any agents and advisers appointed by the Scheme Administrators.

The Creditors' Committee will consider and if thought fit approve the Scheme Administrators' fees and expenses having regard to the same factors as applied to the approval of a Provisional Liquidator's fees under Rule 4.30 of the Insolvency Rules 1986. The Scheme Administrators can apply to Court if they are dissatisfied with the fees as approved by the Creditors' Committee.

5.9 SCHEME ACTUARY

The Scheme provides for the appointment of a Scheme Actuary who is to be responsible for applying the Estimation Methodology.

The Scheme Actuary must be a member of an actuarial body that is affiliated to the International Actuarial Association and have suitable experience.

The Scheme Actuary may be replaced by another suitably qualified actuary by the Scheme Administrators if he is unable or unwilling to continue to act.

The first Scheme Actuary is Peter Clark of PricewaterhouseCoopers and a summary of his qualifications and experience is set out in Appendix 11.

The Scheme Actuary's normal fees and expenses will be paid out of North Atlantic's property as expenses of the Scheme in priority to dividends to Scheme Creditors. The Creditors' Committee's approval of the Scheme Actuary's fees and expenses is required.

5.10 SCHEME ADJUDICATOR

The Scheme provides for a Scheme Adjudicator to be appointed to resolve particular disputes which may arise between the Scheme Administrators and Scheme Creditors in agreeing claims and related information used for estimating parts of claims.

The Scheme Adjudicator must be approved by the Scheme Administrators. He must be experienced in insurance matters.

The first Scheme Adjudicator will be Keith Garwood and a summary of his qualifications and experience is set out in Appendix 12.

If the Scheme Adjudicator is unable or unwilling to continue to act, then the Scheme Administrators may replace him with a suitably qualified and experienced person.

In the event of conflicts of interest arising between the Scheme Adjudicator and North Atlantic or a Scheme Creditor, then the Creditors' Committee can appoint an alternative Scheme Adjudicator to decide matters referred for Adjudication between those parties.

5.11 THE CREDITORS' COMMITTEE

The Scheme provides for a Creditors' Committee to be appointed of between five and eight Scheme Creditors or their representatives, plus the FSCS Scheme Manager. The purpose of this committee is to oversee the implementation of the Scheme on behalf of Scheme Creditors and to assist the Scheme Administrators by providing representative views of Scheme Creditors and exercising certain powers or sanctions.

The key functions of the committee are to:

- oversee the implementation of the Scheme and provide views on any matter relating to the Scheme to assist the Scheme Administrators; and
- ensure that a Scheme Administrator is in office at all times;
- consider and if thought fit approve fees and expenses of the Scheme Administrators' and the Scheme Actuary;
- approve the Scheme Administrators' investment policy;
- call the Independent Actuary to appear before it to discuss the application of the Estimation Methodology by the Scheme Actuary.

The first committee will be elected at the same meetings of Scheme Creditors held to approve the Scheme. The procedure for the appointment of the first committee is set out in Appendix 2. The committee members elected will be between five and eight of those nominated receiving most votes, plus the FSCS Scheme Manager. Details of the nominees for the initial Creditors' Committee and their experience is set out in Appendix 3.

5.12 MEETINGS OF SCHEME CREDITORS

The Scheme provides for meetings of the Scheme Creditors to be held. It is unlikely that meetings of Scheme Creditors will be convened except in the most exceptional circumstances. Meetings will be held when convened by the Scheme Administrators or when Scheme Creditors owed liabilities of not less than 10% in value of all Scheme Liabilities or not less than 50 in number request that a meeting be held.

A resolution may only be passed at a meeting of Scheme Creditors if it is passed by a majority of not less than 75% in value of the Scheme creditors who, being entitled so to do, vote in person or by proxy at that meeting. The Scheme Creditors have the power to pass a resolution to replace the Scheme Administrators.

Meetings will require at least 28 days notice to be sent to all Scheme Creditors and a quorum of 10% in value or 50 in number.

5.13 ACTS DONE IN GOOD FAITH

The Scheme provides that acts done or omitted to be done in good faith and with reasonable care by the:

- Scheme Administrators;
- Scheme Adjudicator;
- Scheme Actuary;
- any director; or
- any member of the Creditors' Committee,

in carrying out their duties or exercising their powers under the Scheme, may not be challenged by any Scheme Creditor. Also, no such person shall be liable for any loss unless such loss is attributable to his own negligence, wilful default, breach of duty, breach of trust, fraud or dishonesty.

North Atlantic will indemnify such persons against liabilities incurred by them in defending proceedings brought against them relating to their respective responsibilities under the Scheme in which they are found not to be liable.

5.14 SCHEME EXPENSES

All costs incurred by North Atlantic in the preparation of the Scheme or during its effective period will be paid as expenses of the Scheme in priority to dividend payments to Scheme Creditors.

5.15 ASSIGNMENT OF SCHEME LIABILITIES

The Scheme Administrators will treat as the Scheme Creditor the person shown in North Atlantic's records as being owed the relevant Scheme Liability. If a person is a Scheme Creditor by virtue of buying the debt from a third party, the Scheme Administrators will only be required to deal with that person once they have received formal written notice of the assignment. If the Scheme Administrators serves any notices on or makes a payment to the Scheme Creditor before he received such notice of assignment, this shall be a valid discharge of his obligations notwithstanding any assignment.

5.16 TAXATION

The Scheme will create an arrangement between North Atlantic and its Scheme Creditors whereby payment of Scheme Liabilities is dependent on North Atlantic having the assets to do so. The Provisional Liquidators understand that Scheme Creditors for whom VAT bad debt relief is a relevant issue may wish to obtain such relief for the deferred element of any Scheme Liability due to them. The payment of the final, or any, dividend under the Scheme rules does not extinguish North Atlantic's liability to Scheme Creditors for the full amount of any claim those Scheme Creditors have against North Atlantic.

5.17 STATUTORY INFORMATION

The Companies Act 1985 requires that Scheme Creditors are given information on directors' interests and debenture holders' interests in order that they may consider whether the proposed Scheme is fair.

5.17.1 Material interests of the directors

As stated in paragraph 3.2.2 above the directors have no direct interest in North Atlantic (although they are the ultimate owners of North Atlantic through CISHL and Wingfield).

5.17.2 Debenture holders

North Atlantic has not issued any debentures.

6 Abbreviations and other addresses

The following abbreviations have been used in this Explanatory Statement.

| | |
|--|----------------------------|
| BNIB Insurance Company Limited (in liquidation) | “BNIB” |
| CI Services Holdings Limited | “CISHL” |
| North Atlantic Insurance Company Limited (in provisional liquidation) | “North Atlantic” |
| North Atlantic Run-Off Services Limited | “NAROS” |
| North Atlantic Management Company Limited | “NAMCO” |
| Merlin International Insurance Company Limited (in liquidation) | “Merlin Bermuda” |
| Merlin Insurance Company Limited (in provisional liquidation) | “Merlin Cayman” |
| M E Ruddy Underwriting Agency Limited | “Ruddy” |
| Together | “the Group” |
| The Group excluding CISHL | “the North Atlantic Group” |
| Landau Limited | “Landau” |
| Wingfield Limited (a company incorporated in Jersey) | “Wingfield” |
| Northwestern National Insurance Company Inc | “Northwestern” |
| Parcels & General Assurance Association Limited | “Parcels & General” |
| Institute of London Underwriters (now merged into the International Underwriting Association) | “ILU” |
| Claims incurred, but which have not yet been reported to North Atlantic | “IBNR” |
| The Financial Services Compensation Scheme Limited | “FSCS Scheme Manager” |
| Financial Services Authority | “FSA” |
| Armco Inc | “Armco” |
| Full Claims Pack | “FCP” |
| Provisional Claim Form | “PCF” |
| Insurance business and policies written by North Atlantic | “Inward business” |
| Insurance business ceded by North Atlantic | “Outward business” |

Addresses

The Institute of London Underwriters
22 Billiter Street
London
EC3M 2TA

The Financial Services Compensation Scheme Manager
7th floor Lloyds Chambers
Portsoken Street
London E1 8BN

Part 2

Appendices to the Explanatory Statement

Proposals in relation to

A Scheme of Arrangement

Pursuant to Section 425 of the Companies Act 1985

between

North Atlantic Insurance Company Limited

(formerly British National Insurance Company Limited)

and its

Scheme Creditors

(as defined in the Scheme of Arrangement)

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APPENDIX 1

No. 001448 of 2002

**NOTICE OF MEETINGS OF SCHEME CREDITORS
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF NORTH ATLANTIC INSURANCE COMPANY LIMITED
(Provisional Liquidators appointed)
and
IN THE MATTER OF THE COMPANIES ACT 1985**

APPENDIX 1

NOTICE IS HEREBY GIVEN that by an Order dated 2 August 2002 made in the above matter, the Court has directed that meetings ('the Scheme Meetings') of the Company's Scheme Creditors (as defined in the Scheme (as defined below)) of North Atlantic Insurance Company Limited ('the Company') be held together on 3 October 2002 at The Chartered Insurance Institute, The Insurance Hall, 20 Aldermanbury, London EC2V 7HY commencing at 11am. All Scheme Creditors are requested to attend at such place and time either in person or by proxy.

The purpose of the Scheme Meetings will be to consider and, if thought fit, to approve (with or without modification) a scheme of arrangement proposed to be made between the Company and the Scheme Creditors pursuant to s425 of the Companies Act 1985 ('the Scheme').

A downloadable file of the proposed Scheme, Explanatory Statement and Appendices are available on the North Atlantic web-site at www.northatlanticinsurance.co.uk. Should an email or a printed copy be required, please send your request to the Joint Provisional Liquidators at the address below, and one will be sent to you.

The Scheme Creditors may vote in person at the Scheme Meetings or they may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their place. Voting forms for use at the Scheme Meetings are enclosed herewith.

It is requested that voting forms be lodged with the Joint Provisional Liquidators, North Atlantic Insurance Company Limited, PO Box 137, Harlands Road, Haywards Heath, West Sussex RH16 1YG, England, fax number +44 (0)1444 450 458 not less than three working days before the time appointed for the Scheme Meetings. A faxed copy of the voting form will be accepted if legible.

By the same Order the Court has appointed Paul Anthony Brereton Evans of Plumtree Court, London EC4A 4HT or, failing him, Mark Charles Batten of Plumtree Court, London EC4A 4HT to act as Chairman of the Scheme Meetings and has directed the Chairman to report the result of the Scheme Meetings to the Court.

The Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated this 15th day of August 2002.

Richards Butler
Beaufort House
15 St Botolph Street
London EC3A 7EE
Reference: JY/JLT/97-14021
Solicitors for the Joint Provisional Liquidators of
North Atlantic Insurance Company Limited

APPENDIX 2
PROCEDURE FOR THE APPOINTMENT OF THE INITIAL
CREDITORS' COMMITTEE

- 1** Expressions used in this Appendix shall bear the meanings given to them in the Scheme and references in this Appendix to paragraph numbers shall be references to paragraphs of this Appendix unless, in either case, it is expressly stated otherwise.
- 2** Any Scheme Creditor who wishes to nominate any person (a 'Proposed Member') to be a member of the initial Creditors' Committee must submit such a nomination (a 'Nomination') to the Provisional Liquidators in accordance with paragraph 3.
- 3** Nominations were to be submitted to the Provisional Liquidators at PricewaterhouseCoopers, Plumtree Court, London EC4A 4HT by close of business on 31 May 2001 and a list of Proposed Members will be distributed with the voting forms and proxy forms for voting for the Scheme to be implemented.
- 4** Proposed Members are only eligible for nomination to the initial Creditors' Committee if:
- (a)** the Proposed Member is either (i) an individual, body corporate or partnership being a Scheme Creditor; or (ii) an authorised representative of such Scheme Creditor; and
 - (b)** a Nomination is completed by the Proposed Member or on its behalf and returned to the Provisional Liquidators in accordance with paragraph 3; and
- The FSCS Scheme Manager will automatically be a member of the initial Creditors' Committee.
- 5** Scheme Creditors shall vote at the Scheme Meeting on the composition of the initial Creditors' Committee
- 6** All Scheme Creditors shall be entitled to vote on the composition of the initial Creditors' Committee, whether they voted for or against the Scheme or abstained.
- The votes of Scheme Creditors on the composition of the initial Creditors' Committee shall be the same as the Scheme Liabilities, net of Scheme Debts if applicable, in respect of which they are permitted to vote on the Scheme.
- 7** Each Scheme Creditor may vote for up to six Proposed members, and where a Scheme Creditor votes for more than one Proposed Member, the amount of his Scheme Liabilities (net of his Scheme Debts if applicable) shall be divided equally between the persons for whom he votes.
- (a)** The Proposed Members who, in descending order, have received by value the most votes shall be the initial Creditors' Committee.
 - (b)** The Scheme Administrators may, subject to paragraph 4, appoint in addition up to two further members of the initial Creditors' Committee but so that its total membership shall in no circumstances exceed nine persons. In deciding whether or not to make and/or in making such an appointment, the Scheme Administrators will use their reasonable endeavours to ensure that the composition of the initial Creditors' Committee is such that it represents a proper balance of the interests of the Scheme Creditors as a whole.
- 8** In the event that a Scheme Creditor voting at the Scheme Meeting by proxy does not specify for which Proposed Members he wishes to vote, his proxy may vote or abstain on the composition of the initial Creditors' Committee at his discretion.
- 9** The result of the vote on the initial Creditors' Committee shall be notified to Scheme Creditors at the conclusion of the Scheme Meeting or as soon as reasonably practicable thereafter.

Qualifications and experience of nominees for the initial Creditors' Committee

ANDREW GREGORY *

Andy Gregory is a Client Manager at Cavell Management Services and for the last five years has had responsibility for the day-to-day management of Stronghold Insurance Company within Cavell. Stronghold has been in un-off for 18 years and has a substantial number of reinsurance claims against North Atlantic almost entirely emanating from US APH exposures both of a direct and reinsurance nature. Andy has 16 years experience with Stronghold in all areas of its run-off and is therefore extremely familiar with the business issues affecting North Atlantic. He also sits on the informal creditors committee of United Standard.

BETTE ORR

Bette Orr a partner at Gilbert Heinz & Randolph has been nominated to represent a number of clients, including the International Policyholders Association, who have asbestos and environmental contamination claims against North Atlantic. She represents policyholders on a number of creditors' committees for insolvent insurers in the UK and has participated in determining payment amounts and terms from these insolvent companies.

DANIEL GUBERMAN *

Daniel Guberman, Deputy General Counsel of the Illinois Office of the Special Deputy Receiver, has been nominated to represent American Mutual Reinsurance Company, In Rehabilitation (Amreco) which has [casualty] retrocessional reinsurance claims against North Atlantic. He is familiar with issues involving the administration of receivership estates, including reinsurance, reinsurance pools and claims estimation. In addition to Amreco, his work on Illinois liquidation estates has included Alpine Insurance Company, Illinois Insurance Company, Market Insurance Company, Millers National Insurance Company, Pine Top Insurance Company (IL), Reserve Insurance Company, Security Casualty Company, and United Fire Insurance Company.

DAVID J STRASSER

David Strasser of Eckert Seamans Cherin & Mellott LLC has been nominated to represent Viacom Inc (successor to CBS Corporation, formerly known as Westinghouse Electric Corporation), who have environmental pollution and toxic tort bodily injury claims against North Atlantic. He has performed a similar role in connection with the Andrew Weir Insurance Company, Orion and London and Overseas Insurance Company Schemes of Arrangement.

DIANE M MYERS

Diane Myers is currently a consultant for Transit Casualty Company in Receivership and other companies in the insurance and reinsurance markets. Previously she was Vice President at Transit, which has reinsurance claims against North Atlantic. As a member of other committees, she has contributed assistance, expertise and support in several areas including claims research and determinations, reinsurance, and detailed analyses of the actuarial methodologies employed by consulting actuaries. She has completed nearly 300 commutation settlements for Transit and shared information on various matters such as viability, contact names and locations for the benefit of both Administrators and Creditors' Committees. She has also served 8 years as a member of an actuarial reserving committee for the KWELM insolvency in reviewing loss reserves details on all types of claims including toxic tort, professional liability and assumed reinsurance. The types of claims that Transit has against NAIC include EPL, asbestos, medical malpractice, excess casualty and property.

GARY J R APPLETON

Gary Appleton is a manager with Terra Nova Insurance Company UK Limited, with responsibility for all insolvency proceedings both in the London Market and Worldwide. He is currently on the formal creditors committee for Charter Re and Mentor UK, and on the informal creditors committee for HIH UK operations. Terra Nova Insurance Company UK limited is a subsidiary of Markel International, which has insurance and reinsurance claims with North Atlantic primarily in respect of APH losses.

HILDEGARD STUKE *

Hildegard Stuke, Senior Vice President of Hannover Re, is a lawyer by training and has been with the company since 19 years. She is currently heading the Department Security Assessment and Credit Control and has extensive experience in dealing with companies in run-off and liquidation, i.e. in dealing with liquidators and claims filing, collection, offset and commutation issues.

Hannover Re and its parent company HDI had inwards and outwards business with North Atlantic and a claim resulting from facultative fire business. Hildegard Stuke is also a member of Taisei's UK creditors committee.

JOHN W LEBOLD

John Lebold is Senior Corporate Counsel for The Sherwin Williams Company. He has extensive knowledge of the relationships between North Atlantic and Bellefonte. He has dealt directly with many of the insolvent carriers in the London Market and in the United States, including the KWELM companies, Orion Insurance Company, Andrew Weir and London and Overseas among others. Sherwin-Williams has asbestos, environmental pollution and other chemical exposure claims against North Atlantic and its related companies.

MINDY KIPNESS

Mindy Kipness is currently the Director of the Corporate Receivables Department of American International Group Incorporated (AIG) where she has worked for over 6 years. Previous to this, she had 9 years of Reinsurance experience with Everest Re (formerly Prudential Reinsurance). She has been the point person at AIG who co-ordinates and works with AIG ceding companies, legal departments and actuaries as it relates to reinsurance matters and various exit strategies including, but not limited to, runoff, commutation, liquidations and schemes of arrangement. She has participated in hundreds of insolvency proceedings around the world. She has worked closely with AIG people who have served as members of creditors' committees in some of the biggest insurance liquidations, including, the liquidation of Bryanston Insurance, Municipal General Insurance and Israel Re. The exposure ceded from AIG's member and subsidiary companies primarily includes claims for casualty business written during the 1960's, 1970's and 1980's with remaining reserves primarily due to asbestos and environmental liabilities.

RHYDIAN WILLIAMS *

Rhydian Williams is Head of the Security, Insolvency & Support Department at Equitas, which manages the company's relationships with insolvent reinsurers. In this capacity he sits on a number of creditor committees including NEMGIA, OIC, Trinity, Andrew Weir, English & American and Sovereign Marine & General. He has spoken at many conferences on run-off and insolvencies. He is a qualified accountant. The broad books of business underwritten by Equitas-managed syndicates provides valuable insight to many of the issues facing NAIC.

SIMON JANES *

Simon Janes is the Managing Director of The Dominion Insurance Company Limited which has reinsurance claims against North Atlantic Dominion has been in run-off for seven years and, like North Atlantic, has substantial exposure to APH claims emanating from policies written in the London Market. He is familiar with many of the issues affecting North Atlantic, including those resulting from Pool involvement. He has overseen Dominion's involvement in many reinsurance company insolvency proceedings, both in the London Market and Worldwide. Those in the London Market include English & American, Sovereign, Bryanston and Orion.

* Members of the informal Creditors' Committee

Notes for the completion of proxy and voting forms

The proxy and voting form must be completed and returned to the Provisional Liquidators by 30 September 2002 i.e. no later than three days before the Scheme Meetings. It may be returned by Post or fax. The proxy and voting form together with calculation sheets can be downloaded from the North Atlantic web-site. Also available on the web-site is a copy of the Provisional Claim Form related to each creditor's user ID and this may be a useful guide to the amount of a Scheme Creditor's inwards claim against North Atlantic which the Chairman of the meeting is likely to accept for voting purposes. Scheme Creditors may complete the voting and proxy forms using downloaded templates and return these by email to the Provisional Liquidators, but should ensure that the Provisional Liquidators receive a signed copy by fax or post.

The conduct of the Scheme Creditors' meeting is at the discretion of the Chairman, one of the joint Provisional Liquidators.

If you propose to attend the meeting in person you should complete the proxy form calculation sheets and return them to the Provisional Liquidators by the date above to allow time for the Chairman to evaluate your claim.

Note that Corporations, if they attend, must do so by proxy or duly authorised representative. Evidence will be required at the meeting that a representative is duly authorised if he does not bring a valid proxy form.

If you do not wish to attend the meeting, you may appoint the Chairman of the meeting or some other person as your proxy. If you appoint the person other than the Chairman of the meeting as your proxy in order to represent you, that person must attend in person at the meeting.

It is particularly important that you sign the reverse page of the proxy form. If you wish to vote for the Scheme, sign in the box marked '**For**'. If you wish to vote against the Scheme, sign in the box marked '**Against**'. If you wish to give your proxyholder a discretion to vote for or against (or abstain) at the meeting you should mark the box '**Proxyholder's Discretion**'. If you appoint the Chairman as your proxy and give him discretion to vote as he thinks fit he will vote in favour of the Scheme.

If you wish your proxyholder to exercise his discretion as to who to vote for to constitute the initial Creditors' Committee then you should leave the boxes for the Creditors Committee nominations blank, to be completed by your proxyholder during the meeting.

If you give the Chairman of the meeting discretion to vote for the initial Creditors' Committee members, then the Chairman will abstain.

INSTRUCTIONS FOR THE COMPLETION OF PROXY FORMS

- Scheme Creditors must complete all sides of the proxy and voting forms;
- Insurance creditors must also complete the voting form calculation sheet (1);
- Non-insurance creditors should provide such supporting information as is appropriate to enable the Chairman to evaluate their claim

Insurance creditors should provide such supporting information as is appropriate to enable the Chairman to evaluate their claim, but it is suggested that the minimum amount of information that will be required is that which is set out on the voting form calculation sheet (2). However, the Provisional Liquidators consider that it is expedient to allow creditors to submit such supporting information in whatever format is most conveniently extracted from their books and records and therefore will accept supporting information in other formats provided that the Chairman will be able to match the contract references to those contained in North Atlantic's records.

VALUATION OF CLAIMS FOR VOTING PURPOSES

Claims are evaluated for voting purposes on the same principles that they will be admitted in the Scheme for dividend purposes. Thus claims will be evaluated after taking account of:

- set-off of amounts owed to North Atlantic;
- the value of any security held by Scheme Creditors; and
- a discount to reflect the time value of claims which would be settled at a future date

Claims in the Scheme will be admitted in their original currency. However, for voting purposes claims will be converted to US Dollars at the Scheme Exchange rate.

North Atlantic
Insurance Company Limited

Provisional Claim Form (“PCF”)

Date issued DD/MM/YYYY

Company Name **XXX**
Company Code **999**

XXXXXXXXXX
XXXXXXXXXX
XXXXXXXXXX
XXXXXXXXXX
XXXXXXXXXX
XXXXXXXXXX

Contact: xxxxxxxxx(Note 1)
Phone: 99 9 999 999 9999
Fax: 99 9 999 999 9999

Under the terms of its Scheme of Arrangement North Atlantic Insurance Company Limited (“North Atlantic”) offers to fix your inwards claim, before set-off, at the amounts shown under the heading ‘Provisional Claim’ below. Please sign and return this form if you wish to accept this offer.

I accept the above Provisional Claim as my total claim in respect of business ceded to North Atlantic for the purposes defined in the scheme of arrangement. (Note 8)

Print name

Signed

for and on behalf of:

Position

Amounts owing by North Atlantic (on policies issued to North Atlantic, business ceded to North Atlantic or non-insurance contracts) (Notes 2,3&4)
Click on a number to go to the FCP to see how it is derived

| Currency of claims | Unsettled balances | Outstanding losses (Note 5) | Premium funds held | Loss funds held | Discount (Note 6) | Provisional Claim |
|--------------------|--------------------|--------------------------------|--------------------|-----------------|----------------------|-------------------|
| Pounds Sterling | .00 | .00 | .00 | .00 | .00 | .00 |
| US Dollars | .00 | .00 | .00 | .00 | .00 | .00 |
| xxxxxxxxxxxx | .00 | .00 | .00 | .00 | .00 | .00 |

North Atlantic holds data relating to business ceded by North Atlantic to you. This means that the amount on which you will receive a dividend may not be the provisional claim above, but could be subject to set-off. The Scheme Administrators are only offering to fix claims owed by North Atlantic as your inwards claim in the Scheme (i.e. amounts shown above as positive figures). (Note 7)

Instructions

Please sign this form and return to the Scheme Administrators of North Atlantic at this address:

PO Box 137
Harlands Road
Haywards Heath
West Sussex
RH16 1YG

Telephone: +44 (0) 1444 414 177

Fax: +44 (0) 1444 450 458

Notes to the Provisional Claim Form

- 1 Please tell us if any of the contact details shown are incorrect.
- 2 Negative figures represent amounts due to North Atlantic. Positive figures represent amounts due from North Atlantic.
- 3 These are estimates of amounts due to or owed by NAIC arising from contracts entered into before the date of presentation of the winding up petition (the Petition Date) – 6 March 1997. The estimates take into account claims advised up to the date of the proposal of the Scheme.
- 4 For any claims that do not relate to insurance business the Provisional Claim amount shown includes VAT. Copies of relevant statements or invoices, which have been used to estimate such claims, are available for your information on request to the Scheme Administrators at the address detailed above. VAT bad debt relief is available for claims made by UK VAT registered companies from HM Customs & Excise.
- 5 Outstanding losses represent North Atlantic's estimate of the fair value of known case reserves (not including claims incurred but not reported (IBNR)). The estimates are not necessarily the estimates which you or your broker have advised to North Atlantic.
- 6 A discount to reflect the time value of money has been applied to any outstanding losses to calculate the proposed claim. This amount may also include adjustments to reflect reserve redundancy relating to certain classes of business, and other adjustments considered prudent by the Scheme Administrators.
- 7 If further information comes to North Atlantic's attention the Scheme Administrators may at their discretion withdraw the estimates and re-issue this PCF.
- 8 If you do not wish to accept the amounts on this PCF, or wish to include claims incurred but not reported (IBNR) then you must submit a Full Claims Pack (FCP). FCPs are available on the internet at www.northatlanticinsurance.co.uk and are best completed and submitted through this web-site. If you cannot do this and require a printed FCP, please write to the Scheme Administrators at the address above. If you believe that an easily correctable mistake has been made on this PCF then please provide details and the Scheme Administrators may decide to issue you with an amended PCF.

North Atlantic

Insurance Company Limited

Crystallisation statement

Date issued 99 xxx 9999

Company Name: XXXXXXXXXXXXXXXXXXXXXXXX
 Company Code: 99999

XXXXXXXXXXXX
 XXXXXXXXXXXX
 XXXXXXXXXXXX
 XXXXXXXXXXXX
 XXXXXXXXXXXX
 XXXXXXXXXXXX

Contact: xxxxxxxxx(Note 1)
 Phone: 99 9 999 999 9999
 Fax: 99 9 999 999 9999

Amounts owing by North Atlantic (on policies issued to North Atlantic and business ceded to North Atlantic or non-insurance contracts) (Notes 2 and 3)

| Currency of claims | Unsettled balances | Premium funds held | Loss funds held | Reserves (including IBNR) | Discount | Ascertained Liability |
|--------------------|--------------------|--------------------|-----------------|---------------------------|----------|-----------------------|
| Pounds Sterling | .00 | .00 | .00 | .00 | .00 | .00 |
| US Dollars | .00 | .00 | .00 | .00 | .00 | .00 |
| Euros | .00 | .00 | .00 | .00 | .00 | .00 |

Amounts owing to North Atlantic (on business ceded by North Atlantic) (Notes 2,3&4)

| Currency of claims | Unsettled balances | Loss funds held | Outstanding claims | IBNR | Discount | Provisional Outwards Debt |
|--------------------|--------------------|-----------------|--------------------|------|----------|---------------------------|
| Pounds Sterling | .00 | .00 | .00 | .00 | .00 | .00 |
| US Dollars | .00 | .00 | .00 | .00 | .00 | .00 |
| Euros | .00 | .00 | .00 | .00 | .00 | .00 |

Provisional Admitted Scheme Liability (Note 2&4)

| Currency of claims | Provisional Admitted Scheme Liability |
|--------------------|---------------------------------------|
| Pounds Sterling | .00 |
| US Dollars | .00 |
| Euros | .00 |

I accept the above amounts as my Admitted Scheme Liability for the purposes defined in the scheme of arrangement. (Note 6)

Print name:

for and on behalf of: XXXXXXXXXXXXXXXXXXXXXXXX

Signed

Position

Please see the notes and instructions on the reverse of this form.

Instructions

Please sign this form and return to the Scheme Administrators of North Atlantic at this address:

PO Box 137
Harlands Road
Haywards Heath
West Sussex
RH16 1YG

Telephone: +44 (0) 1444 414 177

Fax: +44 (0) 1444 450 458

Notes to the Crystallisation Statement

- 1 Please tell us if any of the contact details shown are incorrect.
- 2 Negative figures represent amounts due to North Atlantic. Positive figures represent amounts due from North Atlantic.
- 3 Ascertained Liability is the Ascertained Insurance Liability or the Admitted Non-insurance liability depending on whether this form relates to insurance liabilities or non-insurance liabilities respectively.
- 4 Provisional Admitted Scheme Liability is also the Admitted Scheme Liability if nothing is shown under the heading "Business ceded by North Atlantic" or if this form relates to Non-insurance liabilities only.
- 5 A discount to reflect the time value of money has been applied to outstanding losses and IBNR reserves.
- 6 If you do not wish to accept the amounts on this Crystallisation Statement in respect of Outwards Debts then you may request a Debtors Pack showing further details of how the Estimation Methodology has been applied. You have until two months after this Crystallisation Statement was sent (or two months after any notice of withdrawal is sent) to do this. Otherwise you will be deemed to have accepted and confirmed the information contained in this Crystallisation Statement.
- 7 Debtors packs may be made available on the internet at www.northatlanticinsurance.co.uk.
- 8 Where balances are shown both owing to and owing by North Atlantic in different currencies, set-off will be calculated using Scheme Exchange rates.
- 9 Scheme Creditors believing that there a manifest error has been made in applying the Estimation Methodology to the information they submitted in the PCF for FCP must notify the Scheme Administrators within 30 days.



PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London SE1 9SY
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*North Atlantic Insurance Company
Limited (in provisional liquidation)
Estimation Methodology for the
Scheme of Arrangement*

Date of report: 31 July 2002

This report must be read in its entirety.
Reading individual sections in isolation could be misleading.

There are restrictions on the use that may be made of this report.
These restrictions are set out in Appendix A.

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1 Introduction

1.1 PURPOSE AND SCOPE

This report describes the actuarial methodology for the estimation of ultimate losses, including IBNR, of individual creditors within the North Atlantic Scheme of Arrangement. This methodology will be used for each direct policyholder and reinsured, collectively (the creditors), who submit their claim using the Full Claims Pack (FCP). This report does not cover the methodologies used in the construction of the Provisional Claim Forms which, whilst based on claims information held by North Atlantic and subject to discounting using actuarial techniques, is essentially a commercial offer made by the Scheme Administrators.

Within this report we use the abbreviation “North Atlantic” to refer to business written through any of the following entities:

British National Life Insurance Society

British National Insurance Company Limited

North Atlantic Insurance Company Limited

North Atlantic’s participation as a member of ME Ruty Underwriting Agency Limited (Ruty)

Bellefonte Insurance Company (UK Branch)

Bellefonte Underwriters Insurance Co

Bellefonte Re Insurance Company (UK Branch).

1.2 CONTEXT

This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other. In particular, the terms and conditions in Appendix A, which set out *inter alia* the use that may be made of this report, form an integral part of this report.

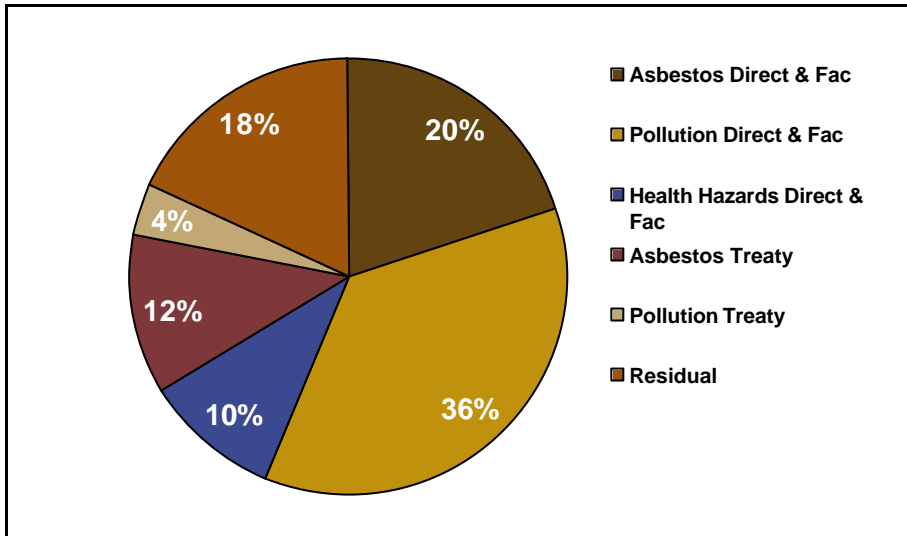
1.3 BACKGROUND

North Atlantic wrote both direct and reinsurance risks between 1952 and 1984.

The charts below show the relative proportions of the gross reserves (case estimates plus IBNR) by loss and policy type for the North Atlantic group (excluding Ruty) and by loss type for Ruty as derived in the PwC actuarial review as at 31 December 1997.

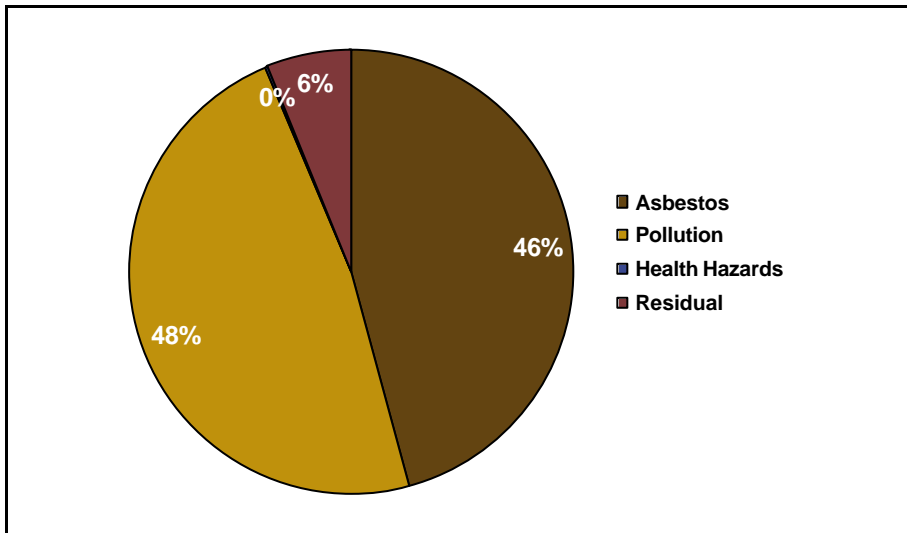
This shows that the majority of the reserves for North Atlantic excluding Ruty relate to Direct and Facultative business. Asbestos and pollution are the major loss types for both accounts.

Figure 1.1 North Atlantic excluding Rutty reserves by loss and policy type



We have excluded the business written through the Rutty pool in the above chart as the split by policy type was not available at the time of the exercise.

Figure 1.2 Rutty reserves by loss type



2 Actuarial Methodology

The purpose of the Actuarial Methodology is to determine the ultimate losses for each creditor. This is achieved by estimating the ultimate liability for each policy written by North Atlantic.

The ultimate liability for an individual policy can be considered as the sum of the ultimate liability for each of the loss types impacting that policy. For the purposes of this exercise the Scheme Actuary will consider a number of loss types individually, including Asbestos, Pollution and some large losses. The remaining losses (Residual) will be considered in aggregate, by class of business

2.1 LOSS TYPES

The creditor will be asked in the FCP to identify which of the individual loss types they wish to have considered for each policy. Only loss types of claims that have previously been reported by the creditor may be selected. If the creditor believes they may be impacted by another loss type to those currently experienced they should contact NAIC with details of why they believe they have exposure to the loss type.

The Scheme Actuary will only incorporate a specific allowance for the identified loss types within the determination of the ultimate liability for that policy. An additional allowance will then be made for residual losses.

It is therefore important that each creditor identifies the loss types for each policy within the FCP. If they do not, the Scheme Actuary will not make a specific allowance for those loss types when estimating the ultimate liability.

A full list of the loss types to be considered separately is shown in Appendix B.

2.2 ESTIMATES

Within the FCP, Scheme Creditors will be asked to submit some information that constitutes their estimate of the current position. This includes case reserves, estimated site clean-up costs for pollution claims and coverage blocks for asbestos claims where no market settlement exists.

The approach adopted by creditors in estimating these amounts or dates will vary from one creditor to another. For this reason it would not be equitable to accept these at face value. In these cases the Scheme Actuary will apply his professional judgement when using these estimates to determine the ultimate liability for each creditor.

The Estimation Methodology is not simply a mechanical calculation that follows from the data submitted by creditors and validated by the Scheme Administrators.

2.3 LIMITATIONS AND UNCERTAINTIES

The status of North Atlantic imposes certain restrictions which constrain the choice of actuarial methods in order to balance the need to make distributions which are fair to all creditors (whether they have direct policies or have ceded reinsurance business to North Atlantic, and whether their claims are long or short-tail) with the need to keep the methodology simple and cheap to administer given the low dividend rate which North Atlantic is expected to pay.

We further highlight that there still remains considerable uncertainty about the ultimate outcome of North Atlantic's liabilities due to the nature of the business written. The eventual outcome for any of the policies will almost certainly differ from the results of these methodologies. We believe, however, that they are appropriate for this exercise given North Atlantic's status.

The approach by loss and policy type is set out below:

2.4 ASBESTOS: DIRECT

The treatment of asbestos may be different depending on the data creditors supply.

The intended approach is an “average cost per claim method” for the Direct risks. The Scheme Actuary will build up an estimate of the total number of claims received by each creditor and apply the average claim cost to determine the total “market” liability. This can then be applied to policy limits to derive North Atlantic’s share of that cost.

For each creditor the process will involve the following steps:

- Estimate the ultimate number of claims that will be filed against the creditor.
- Select average indemnity and expense costs per claim allowing for future inflation.
- Multiply these two together to derive an estimate of the total asbestos cost.
- Allocate this cost across the coverage period relevant to the creditor
- Apply the cost for each year in the coverage period to the appropriate policy profile.

The estimates of claim numbers will take account of the historical claims development provided in the FCP together with independent studies of the incidence of asbestos related diseases.

When selecting the coverage period over which to allocate the total cost the Scheme Actuary will take into consideration:

- Settlements between the creditor and the solvent London Market;
- Other major agreements between the creditor and its insurers, such as the Wellington Agreement.
- The latest approaches adopted by the US courts.

The Scheme Actuary will not be bound by any settlement with another insurer if he believes it to be unreasonable.

For creditors with no or only limited asbestos claim filings to date, the Scheme Actuary will adopt an exposure based approach whereby he will estimate the percentage of each policy limit that is likely to be ultimately utilised by asbestos claims. These percentages will take into account the attachment point of the policy and the degree of involvement that the creditor has had in the production and distribution of asbestos products.

2.5 ENVIRONMENTAL POLLUTION LIABILITY: DIRECT

Within the FCP the creditor will be asked to identify all National Priority List (NPL) sites and significant non-NPL sites that they are currently exposed to or that they expect to have exposure to in the future. In order to determine the liability in respect of these sites the Scheme Actuary will use an exposure-based model. The model converts the estimated clean-up cost of these sites into a potential liability to North Atlantic.

The process involves the following steps for each site:

- Estimate the cost of cleaning up a polluted site;
- Distribute these costs between the creditor and other potentially responsible parties (PRPs);
- Identify the period over which these losses are to be allocated;
- Allocate the losses over this period and apply to the policy profile;
- Assess the legal coverage issues involved in determining the validity of the claim.

The assumptions underlying these steps are discussed in the following sections.

2.5.1 Market settlements

When determining appropriate assumptions for each creditor the Scheme Actuary will take into account any settlements agreed with the solvent London Market.

The Scheme Actuary will not be bound by these settlements if he believes them to be unreasonable.

2.5.2 Selection of jurisdiction

The ultimate loss to NAIC for a site will depend, to some extent, on the assumptions adopted by the courts in any litigation regarding that site. These assumptions vary from State to State. The Scheme Actuary will assume a jurisdiction for any litigation for a particular site and adopt the assumptions for that jurisdiction.

The US courts are now generally using the Site Location as the key factor in determining the appropriate jurisdiction - although we recognise that there are some exceptions to this. As such, he will use the site location to identify the appropriate jurisdiction except where:

- the creditor has agreed a settlement with the solvent London Market (as described in section 2.4.3); or
- The creditor can identify a court decision that any litigation will or is currently taking place under an alternative jurisdiction.

We believe that this approach recognises the current views of the US courts whilst ensuring that the Scheme Actuary takes into account the latest agreed position for each creditor.

2.5.3 Clean-up costs

For each site a clean-up cost will be established. This will take into account the information provided by the creditor in the FCP but also other independent sources.

Where the information provided by the creditor differs significantly from other sources then the Scheme Actuary may request additional information from the creditor to support their estimate. However, in general it will not be cost-effective to agree precisely the selected clean-up cost with each creditor. Hence the amount used in the Methodology may not be that provided by the Creditor within the FCP.

2.5.4 Expenses

In determining an expense amount the approach adopted will be similar to that used in the model described in "Footing the Bill for Superfund Clean-Ups" (Robst, ET al, 1995). The Scheme Actuary will assume that a large proportion of creditor expenses are incurred in litigation between PRPs over the final share of clean-up costs attributable to each of them. It is assumed that the greater the number of PRPs at a site, the more expensive the litigation costs will be for the relevant creditors.

The Scheme Actuary will use the expense data provided by the creditors in the FCP when selecting the assumptions.

2.5.5 PRP participation's

Site costs are allocated to PRPs using participation percentages or volumetric share. Where neither of these is available, the unallocated share of costs on a site will be spread over the PRPs with unknown shares or a default value for the PRPs' shares will be applied.

2.5.6 Trigger of coverage

The US Courts have generally adopted two main approaches in determining the period over which the losses should be allocated:

- a continuous trigger whereby the costs are spread over the period from the start of the creditor's involvement at the site to the time when the damage is manifested;
- A manifestation trigger whereby the loss is assumed to have occurred at one point in time, when the harm is first manifested.

The choice of trigger will depend on the jurisdiction selected (see paragraph 3.2.2).

2.5.7 Coverage issues

Insurers will not pay all the clean-up costs and expense costs. Each policy covering the creditor has a number of clauses which insurers are actively using to deny liability.

The key issues are:

- the "sudden and accidental" exclusion;
- whether clean-up costs count in an action for damages;
- the "owned property" exclusion;
- the "expected or intended" argument;

In many cases the arguments are site and case specific. It is impractical to attempt to assess these separately and so recourse will be made to published reports and recent legal precedents to determine state and policy-year dependent win factors.

It should be noted that the US legal situation still remains subject to much uncertainty but we believe this approach to be reasonable in light of available information.

In relation to expense costs, a duty to defend win factor will be used based upon the same published reports.

2.5.8 Other sites

The Scheme Actuary will estimate an allowance for other sites using an average cost per claim approach. He will estimate the number of additional sites where the creditor is likely to be involved and assign an average cost per site depending on its characteristics.

2.6 BLOOD PRODUCTS: DIRECT

The approach will be to:

- Estimate the total loss for each creditor by reviewing latest market settlement agreements together with an allowance for the number of individuals opting out from these agreements.
- Allocate these losses across the selected coverage block.
- Apply the results to the policy profiles.

2.7 SILICONE IMPLANTS: DIRECT

The approach will be to:

- Estimate the total loss for each creditor. These will be based on publicly available information such as SEC returns or from information requested directly from the creditor.
- Allocate these uniformly across the selected coverage block.
- Apply the results to the policy profiles.

2.8 OTHER LATENT CLAIMS: DIRECT

The approach for these loss types will be similar to that used for Silicone Implants and Blood Products making use of market settlement information where appropriate.

2.9 LATENT CLAIMS: REINSURANCE & RETROCESSIONAL

The treatment of these claims will depend on both the data provided by the creditor and the nature of the policy. In particular, whether information regarding the underlying insured is used to estimate the ultimate liability of a policy.

Underlying insureds

The ultimate liability for a reinsurance policy can be estimated by projecting the ultimate loss for the underlying policies and applying these losses to the reinsurance policy. The methodologies described for Direct policies may be used to estimate the ultimate loss for the underlying insured.

However, this approach requires detailed information regarding the underlying insured which is not held by North Atlantic. In addition this approach is not suitable for certain types of policy due to their complex nature. The Scheme Actuary will therefore restrict the cases where this approach will be used to:

- Facultative and Treaty policies which protect a Direct account;
- Facultative Retrocessional policies which do not directly or indirectly protect a Treaty policy;

WHERE THE CREDITOR PROVIDES SUFFICIENT INFORMATION REGARDING THE UNDERLYING INSUREDS.

The Scheme Actuary will not consider any information regarding the underlying insured for policies which directly or indirectly protect a Treaty policy.

For all other cases, the approach will be to apply appropriate industry benchmark multiples to the current incurred or outstanding claim position for each loss type. We recognise that this is a broad approach but we believe that it is reasonable in this situation given North Atlantic's insolvent status.

2.10 LARGE LOSSES AND RESIDUAL LOSSES

For all other types of claim, it is not appropriate to consider each policy separately. This is for two reasons:

Actuarial techniques depend on suitable volumes of data being available for statistical projection. It is not possible to project individual policies separately as an individual policy will not involve a sufficiently credible volume of data for statistical projection.

Even if sufficient data were available, the number of individual policies would make this approach prohibitive in terms of time and expense.

For these reasons the approach is to estimate the total reserves in respect of residual losses for each class and underwriting year using a variety of different projection approaches. These will include

- The chain-ladder method applied to paid claims.
- The chain-ladder method applied to incurred claims.
- The fitting of curves to the observed developments
- Empirical methodologies on individual underwriting years.

These are described in more detail in Appendix C. Having estimated the total Reserve for each class, the Scheme Actuary will allocate these liabilities to individual policies using a credibility model.

The model assigns a weight to each policy in a particular class and year. The weight is derived using the following policy level information, including:

- Current paid claims
- Current incurred claims
- Historical paid and incurred development
- Premium
- Rate on line

The Reserve for that class and year is then allocated across the policies in proportion to the weight, making allowance for the policy limits.

For the purposes of estimation, liabilities that fall within the scope of protection afforded by the Policyholders Protection Act will be treated as a separate class. For this business it is not necessary to allocate liability to individual policy since dividends for outstanding losses and IBNR reserves are paid to the FSCS Scheme Manager as opposed to individual policyholders.

A detailed description of the allocation model is shown in Appendix D.

3 Data

This section sets out the data the Scheme Actuary will collect for the estimation exercise and the manner in which it will be obtained.

3.1 CLAIMS AND POLICY DETAILS

The Scheme Actuary will be provided with details for each policy included within the FCP exercise. The FCPs will reproduce information held by North Atlantic, providing Scheme Creditors with the opportunity to check their records against those held by North Atlantic. This will include the latest cumulative paid claims amounts and case reserves for each policy.

A full list of the claim and policy details shown on the FCP is set out in Appendix 8 of the Explanatory Statement.

3.2 HISTORICAL CLAIMS DEVELOPMENT

The Scheme Actuary will also have available gross cumulative paid and incurred claims triangulations from North Atlantic's systems for each class of business with data grouped by underwriting year and reporting delay.

The triangular data will exclude amounts in relation to the loss types which will be reviewed separately. The data that the Scheme Actuary will request for these types of claims is described in the sections below.

The historical data held by North Atlantic varies significantly in quality depending on the source of business written. We are not, however, proposing to include this data on the FCP due to:

- The considerable work that would be required by both the creditor and North Atlantic to check and amend these records;
- The relatively low level of reserves for these classes.

3.3 ASBESTOS: DIRECT AND UNDERLYING INSUREDS

For Direct and certain Reinsurance policies, the Scheme Actuary will request details regarding the creditor's (or underlying insured for reinsurance policies) exposure to asbestos claims in the FCP.

A full listing of the Asbestos information requested in the FCP is shown in Appendix 8 of the Explanatory Note.

In addition the Scheme Actuary will have available independent studies of the incidence of Asbestos related diseases.

3.4 POLLUTION: DIRECT AND UNDERLYING INSUREDS

As with Asbestos, the Scheme Actuary will request details regarding the creditor's (or underlying insured for reinsurance policies) exposure to pollution claims for Direct and Reinsurance policies.

A full listing of the Pollution information requested in the FCP is shown in Appendix 8 of the Explanatory Statement.

In addition to the above information the Scheme Actuary will incorporate into his analysis data from a number of commercial sources that provide information on the development of environmental pollution clean-up costs.

3.5 OTHER LATENT CLAIMS: DIRECT AND FACULTATIVE REINSURANCE

Due to the limited number of creditors with exposure to other latent claims and the relative certainty of outcome at this time, the Scheme Actuary will not include a specific data request for information regarding these losses within the FCP.

The Scheme Actuary will, however, ask creditors to identify which loss types they have exposure to and to which policies.

If at the time of the estimation the Scheme Actuary requires additional information he will request this directly from the relevant creditors.

3.6 MARKET SETTLEMENTS

The Scheme Actuary will request details of any market settlements between the creditor and the solvent London Market.

4 Discounting of Reserves

The estimated reserve for each policy will be discounted from the expected date of settlement to the Ascertainment Date. Payments agreed prior to the Ascertainment Date will not be discounted. It is our intention to assume a constant discount rate per annum based on the yield from US Treasury bonds of similar term to the mean term of the liabilities of North Atlantic. This will be determined at the time of the final estimation. We believe that this approach is reasonable given the current investment conditions. However, if investment conditions and in particular the relative yields on long and short bonds change significantly before the final estimation, we may consider using a discount rate that varies by year. This will help to ensure equity between long and short tail creditors.

5 Reinsurance

North Atlantic's outward reinsurance programme will be liquidated in a manner consistent with the determination of the gross reserves. The outward balance will be determined by passing the undiscounted estimated ultimate losses from the inwards business through the outward programme in accordance with the rules of that programme. These amounts will then be discounted, giving reinsurers the benefit of the time value of money.

6 Estimation of ultimate liabilities for individual Scheme Creditors

The estimate of the discounted ultimate liability for any policy consists primarily of two distinct parts:

- Claims already paid by the creditor, notified to North Atlantic and not reimbursed due to its insolvency; and
- A contingent liability of claims unpaid at the Bar Date by the creditor.

The sum of these two values is then reduced by the amount of any premium due to North Atlantic from the creditor or vice versa which has not been settled.

All policies for a particular creditor will then be combined at the creditor level and the estimated ultimate liability will be reduced by any discounted outwards reinsurance balances recoverable by North Atlantic in the case of that creditor also being a reinsurer of North Atlantic. Hence, set-off will be applied after discounting mutual claims and will occur not at the individual policy level, but rather it will occur at the debtor/creditor level. Additional adjustments for other items such as funds withheld, letters of credit or additional security will be made in order to derive the net ultimate liability at a creditor level.

The available funds will then be distributed on a pro-rata basis according to the net ultimate liability identified for each creditor.



Peter K. Clark FIA
Actuarial & Insurance Management Solutions

APPENDIX A

Purpose and use of this report

SCOPE OF REVIEW

This report provides an overview of the proposed actuarial methodology for the estimation of ultimate losses of individual creditors within the North Atlantic Scheme of Arrangement. This methodology will be used for each creditor who takes part in the Full Claims Pack (FCP) exercise. This report does not cover the methodologies used in the construction of the Provisional Claim Forms.

PRINCIPAL, PURPOSE AND USE

This report is for the use of North Atlantic and the creditors of North Atlantic for the purposes of the proposed scheme of arrangement. No use may be made of this report by North Atlantic and its creditors for any other purpose. No use may be made of this report by any third party for any purpose.

PWC'S RESPONSIBILITIES

Our responsibilities and liabilities are limited to the Joint Provisional Liquidators of North Atlantic only in the context of their use of our report for the purpose set out above. No liability or responsibility will be accepted by us in relation to the use of our report for any other purpose. We will not accept any liability or responsibility to any other third party recipients of our reports under any circumstances.

CONTEXT

This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

APPENDIX B

Loss Types

LATENT CLAIMS

Asbestos
Environmental Pollution
Silicone Implants
Blood Products
FELA Hearing loss
RSI
Polybutelene Pipe

LARGE LOSSES

MGM Fire Las Vegas
Hurricane IWA
Hurricane Alicia
Winter Weather (Cat 24)
Rocky Mountain Arsenal
Munich Hailstorm
Syncrude Refinery Fire

APPENDIX C

Projection Techniques

Under the chain-ladder approach, the development of paid and incurred claims is considered from one period to the next by underwriting years. The cumulative paid claims at the end of development period n is divided by the corresponding figure at period $(n-1)$ in order to generate factors at each stage of development for each underwriting year in turn. On the basis of these calculated values, appropriate factors are selected for future developments of later underwriting years which are then used to project the undeveloped liabilities.

The chain-ladder technique often involves the use of tail factors in order to reflect the likelihood of future development beyond the last development period for which data is available. The basic chain-ladder techniques makes no explicit allowance for future claims inflation, the implicit assumption being that future inflation can be estimated reasonably as a weighted average of past inflation rates.

The curve fitting approach seeks to fit some type of mathematical formula to the observed data development. This curve is then used to project ultimate losses for the claim source being considered.

Empirical techniques tend to be used in cases when all of the above approaches are considered as being unsuitable. The Scheme Actuary will use empirical techniques in two specific instances as follows:

- Where the development of a particular underwriting year appears to have been out of line with the developments of all other underwriting years for a particular business class; and
- Where the particular claim type follows a pattern of development which is dependent more on financial year effects than on the duration since inception of the business concerned.

The different patterns of development exhibited by insurance losses means that no single and perfect reserving methodology exists. Actuaries apply their expertise in the selection of the appropriate methodology according to the underlying circumstances in order to derive estimates of ultimate liabilities. They have the choice between purely mechanical models or methods which place more reliance on the actuary's judgement. In our opinion, purely mechanical techniques may not necessarily be equitable or equal as regards the treatment of individual creditors.

APPENDIX D

Allocation Procedure

THE ALLOCATION PROCESS

Objectives of process

Once the estimates of total reserves have been established for each class of business by underwriting year, they need to be allocated to individual policies. The overriding objective in this process must be to treat each policy equally and to maintain equity between creditors.

The form of the final allocation should depend, to some extent, on the data gathered from the FCP exercise and any other enhancements in data that may arise. This document gives the broad outline of a proposed allocation methodology, on the basis of the data available. The allocation process may require amendment once the claims data has been analysed and the initial estimation process is finalised.

Predictor statistics

There are a number of available statistics which can be used as a basis of predicting the ultimate liability for an individual policy and which can be used to allocate the ultimate liability at an individual policy level. These are:

- premiums (being written premiums);
- paid claims (strictly "agreed claims");
- outstanding claims; and
- premium rate on line.

Premiums should give an indication of the exposure of each policy; for proportional policies in terms of the premium rating measures used, and for excess of loss policies in terms of the rate on line and the size of layer written.

For all classes of business, it is desirable to consider paid claims and the development of paid claims as second and third predictor statistics within the allocation process. Development information should be available at the policy level (the 'last four development periods' are used generally). Depending on the reliability of outstanding information, the development of incurred claims and the level of outstanding claim estimates may be used as fourth and fifth predictor statistics or as benchmarks against which to judge the allocations.

Outstanding claim estimates may also be used as a guide to differentiate between policies that already have claims and those that are not impacted by claims.

Rate on line, defined as the ratio of premiums to cover, may assist in determining the levels at which an individual policy was written compared to the attachment levels of the other policies in the same class and year. This gives an indication of how likely a layer is to be hit by an underlying claim.

Credibility model

The selected model should be based on a combination of a prior and a posterior estimate, the prior estimation relying on the premiums for each policy and the posterior estimation based on paid and incurred claim development and the level of paid and notified outstanding claims as at cut-off.

Credibility theory may be used to balance the influence of the above factors according to the observed development over time. The credibility co-efficient (which is always greater than or equal to zero and less than or equal to one) is used to weight the influence of each combination of the different predictor statistics within the allocation.

The approach must implicitly assume that the original risk assessment made by the underwriter was accurate (or consistent with the risk assessment for other policies within the same class and year) and has been reflected in the premiums available for each policy.

Basic model

The projections will establish estimates of ultimate claims for each underwriting year and class of business combination under review. In order to attribute these estimates to individual allocations of future payments at a policy level, the Scheme Actuary will need to calculate certain parameters from the overall projections and apply them to individual policy data. We will restrict our attention in the following sections to a given underwriting year and class of business (a "cell").

Let the suffix "i" refer to the i^{th} of n policies in an underwriting year. The parameters calculated are a credibility coefficient F leading to a policy weighting X_i . This weighting is modified by a speed of development factor α_i . The modified policy weightings X_i are then used to derive the initial allocation amounts Y_i^1 (and, iteratively, revised allocation amounts Y_i^n) and ultimately the allocation percentages R_i .

Credibility coefficient F

Defining UC as the ultimate claim estimate for the underwriting year and class of business in question and P_i as cumulative paid claims on the i^{th} policy, we can establish a credibility coefficient F as follows:

$$F = P/UC$$

where P represents cumulative paid claims for all policies for the underwriting year and class of business in question, that is the sum of all P_i .

Policy weighting X_i

Benktander (1976) described the initial credibility approach which we tend to adopt as a basis of allocating ultimate liability. This approach was modified by Hovinen (1978) in order to produce an initial formula for the allocation process which defines X_i (representing a weighting for all **reserves** on the i^{th} policy) as follows:

$$X_i = (1 - F) \text{ premium}_i + P_i$$

This formula has the property that, as the policy reaches maturity, the credibility coefficient F becomes closer to one, leading to smaller weights on the premiums and much larger weights on paid claims.

It should be noted that the monetary amount X_i is not an allocation amount: it is calculated for weighting purposes only. It forms the basis for the allocation only when compared to the sum of the X_i 's for all the policies within a cell.

Essential modifications

The above formula requires modification to give recognition to the speed of settlement for each policy over the period where data is available. Although policies will be grouped together for the estimation of ultimate losses, the experience of an individual policy may differ from the experience of the underwriting year and class to which it belongs. We therefore calculate a factor (α_i), as described further below, to weight the claims at the valuation date by the speed of paid claims development over the past three or four years according to the experience of the policy (compared to the experience of all policies in its underwriting year and class) and the extent of the data available.

The formula above is thus modified to be:

$$X_i = [\alpha_i / \sum (\alpha_i / n)]^k [(1 - F) \text{premium}_i + P_i]$$

We emphasise that X_i shown above represents a weighting for all **reserves** rather than the excess over current outstanding amounts and the α_i are as derived below.

Derivation of speed of development factor a_i

The factor α_i represents the weighted average of the experience of the i^{th} policy compared to the aggregate experience of the class of business and underwriting year into which it has been allocated. Let $P_{i;y}$ denote payments to year-end y on the i^{th} policy, with P_y denoting the cumulative paid claims for all policies, i.e. the sum of all $P_{i;y}$. Then $PD_{i;y}$ ($=P_{i;y}/P_{i;y-1}$) is the paid claims development factor for the i^{th} policy at year-end y and PD_y ($=P_y/P_{y-1}$) is the paid claim development factor for the underwriting year and class of business to which the i^{th} policy belongs.

Then define $\alpha_i = \sum W_y (PD_{i;y} / PD_y)$ where $y = 1$ to 4

The W_y are selected such that $\sum W_y = 1$. They are derived by using a Poisson distribution with a mean of 1.25 and by standardising the four parameters produced so that more weight is given to the most recent development years. The table shows alternative series for W_y depending on whether one, two, three or four years' worth of reliable development information are available:

| Calendar Year of Development | $W_{y(4)}$ | $W_{y(3)}$ | $W_{y(2)}$ | $W_{y(1)}$ |
|------------------------------|------------|------------|------------|------------|
| 4 | 0.5084 | 0.5304 | 0.6154 | 1.0000 |
| 3 | 0.3178 | 0.3315 | 0.3846 | 0.0000 |
| 2 | 0.1324 | 0.1381 | 0.0000 | 0.0000 |
| 1 | 0.0414 | 0.0000 | 0.0000 | 0.0000 |

The α_i therefore give more weight to policies with more **recent** movement in paid claims and will allocate more of the future payment liabilities to these policies than would otherwise have been the case.

Possible further refinement

The premium section of the formula can be further modified to incorporate the rate on line. This modification should represent the relative attachment point of other policies in the class and year

concerned. An adjustment of this nature has the advantage of incorporating additional information provided on the coverage which may not be apparent from the size of the premium itself.

The adjustment made is $ROL_i / \sum (ROL_i / n)$

Where ROL_i represents the ratio of the premium for the i^{th} policy to the cover of the i^{th} policy.

Different creditors have different standards of reporting of case estimates, and our experience is that these can be less reliable than paid claims in predicting the ultimate outcome of a policy in a class and year. However, the data for outstanding claims will be verified by creditors and we therefore consider that it is worth incorporating this data into the analysis. It may be appropriate; however, to take these into the assessment with a lower weight than paid claims. This will ensure that policies which exhibit some claims development are given more weight within the formula than those policies which do not produce any development at the effective date.

It is possible to incorporate the weighted outstanding claims of each policy and add in parameters which represent the degree of development to date of the policy measured by its ratio of incurred claims to paid claims relative to the ratio of incurred to paid claims of all the policies included in that class and year.

Restrictions on the parameters

A number of restrictions would be imposed on the parameters described above in order to produce results which vary within a narrower band than would otherwise be the case if they were left unrestricted. They might include:

- no individual development factors should be allowed to contribute more than 3.5 to the calculation of each α_j ;
- where paid claims of a policy are zero the incurred to paid claim ratio should be set at 2.5;
- where paid claims of a class and year are zero the relative ratio of paid to incurred claims should be set at 1.

These parameters are subject to change after initial runs of the allocation process.

Adjustments

For policies where the qualitative information available from North Atlantic suggests that no losses are possible on a policy, zero future liability should be identified. Similarly, for policies where the quantitative information suggests no further movement is reasonable, zero future liability may be identified.

Various types of policy, such as those with commutations, portfolio transfers and other cut-offs of liability, must be given further consideration. They may be excluded from the allocation process for those policies where it may be assumed that zero future liability attaches.

The iterative allocation

The Reserve for each cell is allocated as described below. Cells representing large loss events are allocated first; cells representing residual losses are allocated subsequently. For the purposes of the allocation process, the cover available is defined as being a single limit for a large loss event cell and the total remaining cover for a residual loss cell.

A pro-rata adjustment is first made to all policy weighting amounts in order to produce an initial allocated amount Y^1_i for each policy such that the total of all future liabilities allocated to individual policies equates to the estimated figure for the underwriting year and class of business as a whole.

$$Y^1_i = X_i * (UC - P) / \sum X_i$$

where UC and P are as defined earlier.

The allocation process may well result in some policies receiving Y^1_i amounts which imply that the ultimate liability on the policy ($P_i + Y^1_i$) exceeds the cover available. In such cases the policy is deemed to be exhausted and any amount in excess of the policy limit is made available for reallocation to other policies (producing Y^2_i amounts and so on). No further allocation of ultimate losses to the exhausted policy should take place for this cell.

The allocation described above should be performed iteratively to the non-exhausted policies using the process described above. This process continues until all the estimated future liability has been allocated at a policy level.

Full Claims Pack

Set out in this appendix is a description of the data items required to complete the Full Claims Pack (FCP) as described in the Scheme.

Scheme Creditors are encouraged to complete the information required using North Atlantic's web-site where they will find that there are extensive guidance notes (in the form of helptext) to help ensure that the information is completed accurately.

Scheme Creditors may request paper copies of FCPs to be sent to them, but these obviously lack the interactive features available through the web-site.

In either case, the FCPs will show the information held by North Atlantic relating to a Scheme Creditors known claims which creditors can amend or add to.

Some of the information described in this appendix is necessary for the Scheme Actuary to apply the Estimation Methodology; some of the information is provided to assist creditors in reconciling the information North Atlantic holds to their records. If creditors do not provide all the information required by the Scheme Actuary then this may prejudice the amount estimated for claims reserves under the Estimation Methodology.

The Scheme Actuary may require more information that is set out in the FCP, but this will be requested separately where appropriate. Scheme Creditors are able to provide additional information to support their claims, however, it is inherent in a pragmatic and cost-effective Estimation Methodology that not every available piece of information in respect of every claim will be taken into account. Scheme Creditors who believe that the Scheme Actuary needs additional information to fairly value their claims should provide details and an explanation to the Scheme Actuary who may consider taking into account further information in exceptional cases.

Full Claim Pack: Policy and Claim Data

Policy Data

| Field name | Description |
|--------------------------|---|
| Company Name | The name of the company insured or reinsured by the policy. This cannot be amended. If it is incorrect please contact North Atlantic. |
| Insured Name | The original Insured Name on Facultative or Direct Policies Blank on Reinsurance Treaties |
| Your reference | Enter your reference. This field is displayed on the Premium and Claim grids to assist identification. |
| Underwriting Year | The North Atlantic underwriting year. This cannot be amended |
| North Atlantic Reference | Our reference made up of Policy Number / Sequence Number / Underwriting year / Declaration Number This cannot be amended |
| Book | The company that originally accepted the policy provided to assist identification. This cannot be amended |
| Broker | Broker that placed the policy with North Atlantic |
| Broker reference number | Provided to assist in identification of policies. |
| Policy Type | Policy type description. |

| Field name | Description |
|---|---|
| Class | The class of business for the policy. Only the predefined class descriptions can be used. |
| Inception Date | The coverage start date for the policy. |
| Expiry Date | The coverage end date for the policy. Policies with a coverage period of more than 12 months are usually recorded by North Atlantic as separate 12 month periods. |
| Currency | Currency in which the policy limits are stated. |
| Exchange rate | The Policy exchange rate to convert the limits to Sterling |
| Limit | The claim limit for the policy. |
| Deductible | The deductible or Excess point for the Policy |
| Self Insured Retention and/or Primary | In some cases a Direct or Facultative policy will be subject to the breach of a Self-Insured Retention or Primary Coverage. A value will be assumed for this field on direct or facultative policies if it is left blank. |
| Order % | The Order percentage. |
| M E Ruddy Signed Line % | Only used on Ruddy Policies. |
| Signed Line % | North Atlantic share of order or on Ruddy Policies the share of the M E Ruddy signed line. |
| Number of reinstatements (99 = Unlimited) | The Number of Reinstatements. |
| Value of reinstatements | Percentage of the original Premium for the current reinstatement |
| Combined limits for BI and PD | Set to: Bodily Injury, Property Damage or Combined limits for Asbestos Claims. |
| Costs Inclusive | Checked indicating that defence cost is included in the limits. Blank indicating that defence cost is in addition to the stated limits. |
| Per Occurrence Basis | Occurrence indicating that the limits apply to claims on a per occurrence basis. Aggregate indicating that the limits apply only on an aggregate basis. Both indicating that the Limits are the same for both types of claim. |

Underlying Policy Data

| Field name | Description |
|-------------------|---|
| Reinsured Name | No Reinsured for Direct underlying policies. Select your Re-insured for Facultative reinsurance policies. |
| Insured Name | The original Insured Name on Facultative or Direct Policies |
| Your reference | Your reference for the underlying policy |
| Underwriting Year | The underwriting year of the North Atlantic Policy |
| Policy Type | Must be Direct or Facultative |

| Field name | Description |
|---------------------------------------|---|
| Inception Date | The coverage start date for the policy |
| Expiry Date | The coverage end date for the policy. |
| Currency | Currency in which limits are shown |
| Exchange Rate | The Policy exchange rate to convert the limits to Sterling |
| Limit | The limit in respect of the Direct Policy |
| Deductible | The Deductible or Excess point for the Direct or the Facultative Reinsurance Policy |
| Self Insured Retention and/or Primary | In some cases a Direct or Facultative policy will be subject to the breach of a Self-Insured Retention or Primary Coverage. A value will be assumed for this field on direct or facultative policies if it is left blank. |
| Signed line % | Your line that is protected by the North Atlantic policy. |
| Combined limits for BI and PD | Set to Bodily Injury, Property Damage or Combined limits for Asbestos Claims. |
| Costs Inclusive | Checked indicating that defence cost is included in the limits. Blank indicating that defence cost is in addition to the stated limits. |
| Per Occurrence Basis | Occurrence indicating that the limits apply to claims on a per occurrence basis. Aggregate indicating that the limits apply only on an aggregate basis. Both indicating that the Limits are the same for both types of claim. |

Premium Data

| Field name | Description |
|--------------------------|---|
| Company Name | The name of the company insured or reinsured by the policy. This cannot be amended. If it is incorrect please contact North Atlantic. |
| North Atlantic Reference | The North Atlantic Policy Reference |
| Your reference | Enter your reference. This field is displayed on the Premium and Claim grids to assist identification. |
| Original Currency | This is the original currency of the Premium |
| Gross Premium | This is the Gross premium reported to North Atlantic as at the Ascertainment Date. It includes all premium amounts except reinstatement premiums. |
| Reinstatement Premium | This is the gross reinstatement premium for Policies with reinstatement provision as reported to North Atlantic at the Ascertainment Date |
| Premium Funds Held | Balance of premium funds held in original currency. Normally negative. |

Claim Data

| Field name | Description |
|-----------------------------|---|
| Company Name | The name of the company insured or reinsured by the policy. |
| North Atlantic Reference | Our internal reference number for the Policy |
| Your reference | Your reference for the underlying policy |
| Original Currency | This is the original currency of the Claim |
| North Atlantic Claim Number | Our internal claim file reference number |
| Claim Description | Brief Description of the Claim. |
| Loss Type | North Atlantic loss type description. |
| Date of loss | This shows the date of loss for the Claim |
| Paid | The net paid amount for the claim reported to and recorded by North Atlantic at the Ascertainment Date. It may include amounts that have not actually been paid by North Atlantic. |
| Reserve | This shows the Outstanding Loss balance recorded by North Atlantic at the Ascertainment Date |
| Loss Funds Held | This is the value of any loss funds held on the claim This value is usually negative as it represents funds already paid by North Atlantic and held by you. This value is normally the same as the reserve value. |

Ledger Data

| Field name | Description |
|-----------------------------|--|
| Company Name | The name of the company that the transaction relates to. |
| North Atlantic Reference | Our internal reference number for the policy to which the transaction relates. (If known) |
| North Atlantic Claim Number | Our internal claim file reference number for the claim to which the transaction relates (If known) |
| Broker | This is the broker or intermediary who has processed the transaction. |
| Original Currency | This is the original currency of the transaction |
| Ledger Date | The date the transaction was recorded by North Atlantic or entered by you. |

| Field name | Description |
|---------------|---|
| Ledger Number | The internal transaction reference number. |
| Type | Shows the type of transaction which is either Insurance or Cash |
| Description | Additional description of the transaction |
| Amount | Original currency amount |

Insured Market Settlement Data

| Field name | Description |
|----------------------|---|
| Settlement Date | The date the Settlement was agreed with the London Market |
| Type of Settlement | Select a type from the list of Settlement types. If the correct type is not shown please contact North Atlantic |
| Amount of settlement | The amount paid to the Insured by the London Market in US Dollars. |

Asbestos Data

Required separately for Bodily Injury and Property Damage Claims

1 COVERAGE INFORMATION

| Field name | Description |
|---------------------------------------|---|
| Currency | The Currency of the data provided. This defaults to U S Dollars |
| Coverage Start Date | The date insurance coverage for Asbestos started. If there is a coverage agreement between the Insured and the London Market the agreed date should be entered. |
| Coverage End Date | The date insurance coverage for Asbestos ended. If there is a coverage agreement between the Insured and the London Market the agreed date should be entered. |
| Production or Distribution Start Date | The date the Insured started producing or distributing Asbestos. |
| Production or Distribution End Date | The date the Insured ended production or distribution of Asbestos. |

2 CLAIMS FILING INFORMATION

The detail information requested is in the same form as the reports provided to the London Market for Asbestos. The information is requested for each year end from 1995 to 2001. The paid and claim number values required are the total from inception not the values for the year in question. Each year should therefore be an increase on the previous year.

| Field name | Description |
|------------------------------|--|
| Year End | The year end that the data relates to. For example the 1995 year end is for the claim numbers and values as at the 31st December 1995. |
| No of Claims Filed | The Cumulative Number of Claims filed as at the end of the Year |
| No of Claims Settled At Cost | The cumulative number of claims settled for some cost as at the end of the year. |
| No of Claim Settled at Zero | The cumulative number of claims settled for Zero cost as at the end of the year. If the cumulative number of claims settled at zero is not available then enter the total number of claims settled in the ' No. of Claims Settled At Cost' column and leave this column blank. |
| Paid Indemnity | The cumulative total amount paid to asbestos claimants at the end of the set year. |
| Outstanding Indemnity | The estimated value of unsettled claims at the end of the year. |
| Paid Expenses | The cumulative total amount of expenses paid in relation to asbestos claims at the end of the year. |
| Outstanding Expenses | The estimated value of future expenses in relation to asbestos claims at the end of the year. |

Pollution Data

3 SITE SUMMARY

| Field name | Description |
|-----------------|---|
| Site Type | List of pre defined Site Types. If a new site type is required contact North Atlantic |
| Number of Sites | The number of the sites of this type that the Insured is exposed to. |

4 SITE DETAIL

| Field name | Description |
|------------------------|---|
| Insured Name | The Name of the Insured. |
| Site EPA ID | The EPA ID of the site. |
| Site Name | The name of the site. |
| Site State | The State of the site. |
| Site Type | The type of the site. |
| Jurisdiction State | Legal jurisdiction State for the site. This is usually the same as the site State. |
| Insured Discovery Date | The date pollution at the site was discovered by the Insured. If not known use the Insured End Date at Site or the Site end date (whichever is the earlier) |

| Field name | Description |
|--|---|
| Insured Start Date at Site | The date the Insured started to pollute the site. If not known use the Site start date. |
| Insured End Date at Site | The date the Insured stopped polluting the site. If not known use the Site end date |
| Site start date | The date pollution at the site started. If not known use the Insured Start Date at Site |
| Site end date | The date pollution at the site ended. If not known use the Insured End Date at Site |
| Participation share | The Insured participation share of the site as a percentage. If this is not known one or both of the Volumetric share or the Number of PRP's at site must be completed. |
| Volumetric share | The Insured volumetric share of the site as a percentage. If this is not known one or both of the Participation share or the Number of PRP's at site must be completed. |
| Number of PRP's at site | Number of Potentially Responsible Parties at the site. If this is not known one or both of the Volumetric share or the Participation share must be completed. |
| Currency | The currency of the cost values provided. (Usually U S Dollars) |
| Insured's Share of Site Cost to date | The amount of the Insured's share of the clean up cost incurred to date. |
| Estimated Insured's share of Total Site Cost | The best estimate of the Insured's amount of the total site clean up costs. |
| Estimated Total Site Cost | The best estimate of the total site clean up costs. |
| Insured's Defence Costs to Date | The amount of the Insured's share of the defence costs incurred for the site to date.. |
| Estimated Insured's Total Defence Cost | The best estimate of the Insured's total site defence costs. |

Currency conversion table

US Dollar Scheme Exchange Rates as at 31 December 2001

| Currency code | Currency name | Dollar exchange rate |
|---------------|--------------------------------|----------------------|
| AFA | Afghan Afghani | 4750.0000 |
| DZD | Algeria Dinar | 76.8624 |
| AKW | Angola Kwanza | 31.8595 |
| AXC | Antigua East Caribbean Dollar | 2.7000 |
| APE | Argentine Peso | 1.0000 |
| AUD | Australian Dollar | 1.9535 |
| ATS | Austrian Schilling | 15.4541 |
| BSD | Bahama Dollar | 1.0000 |
| BHD | Bahrein Dinar | 0.3771 |
| BDT | Bangladesh Takas | 56.9500 |
| BBD | Barbados Dollar | 1.9900 |
| BEF | Belgian Franc | 45.3054 |
| BZD | Belize Dollar | 1.9700 |
| BMD | Bermuda Dollar | 1.0000 |
| BOB | Bolivian Boliviano | 6.8205 |
| BWP | Botswana Pula | 7.0225 |
| BND | Brunei Dollar | 1.8465 |
| BGL | Bulgaria Lev | 2.1867 |
| BUK | Burma Kyat | 6.7712 |
| BIF | Burundi Franc | 863.9600 |
| KHR | Cambodia Riel | 3835.0000 |
| CAD | Canadian Dollars | 1.5963 |
| CVE | Cape Verdi Escudo | 119.8000 |
| KYD | Cayman Island Dollar | 0.8200 |
| CLP | Chilean Peso | 661.1500 |
| RCH | China Renminbi | 8.2766 |
| COP | Colombia Peso | 2277.5000 |
| CRC | Costa Rica Colon | 341.3000 |
| CUP | Cuban Peso | 21.0000 |
| CYP | Cyprus Pound | 0.6461 |
| CSK | Czech Republic Koruna | 35.5599 |
| DKK | Denmark Krone | 8.3504 |
| DEM | Deutsche Mark | 2.1966 |
| DJF | Djibouti Republic Franc | 170.0000 |
| DXC | Dominica East Caribbean Dollar | 2.7000 |
| DOP | Dominican Republic Peso | 16.4000 |
| NLG | Dutch Guilders | 2.4750 |
| EGP | Egyptian Pounds | 4.5750 |
| SVC | El Salvador Colon | 8.7470 |
| ETB | Ethiopia Birr | 8.4500 |
| EUR | Euro | 1.1238 |
| FJD | Fiji Dollar | 2.2984 |
| FIM | Finnish Markka | 6.6776 |
| XAF | CFA Franc | 736.7000 |

| Currency code | Currency name | Dollar exchange rate |
|---------------|-------------------------------|----------------------|
| XPF | CFP Franc | 134.7090 |
| FRF | French Franc | 7.3670 |
| GMD | Gambia Dalasi | 17.5350 |
| GHC | Ghana Cedi | 7400.0000 |
| GRD | Greece Drachma | 382.6930 |
| GXC | Grenada East Caribbean Dollar | 2.7000 |
| GTQ | Guatemala Quetzal | 7.9097 |
| GYP | Guyanese Dollar | 180.5000 |
| HNL | Honduras Lempira | 15.8800 |
| HKD | Hong Kong Dollar | 7.7979 |
| HUF | Hungary Forint | 274.7950 |
| ISK | Icelandic Krona | 102.8550 |
| INR | Indian Rupee | 48.2200 |
| IDR | Indonesia Rupiah | 10400.0000 |
| IRR | Iran Rial | 1750.0000 |
| IQD | Iraqi Dinar | 0.3110 |
| IEP | Irish Republic Punt | 0.8845 |
| INS | Israeli New Shekels | 4.4120 |
| ITL | Italian Lira | 2174.6100 |
| JMD | Jamaican Dollar | 47.0500 |
| JPY | Japanese Yen | 131.0600 |
| JOD | Jordanian Dinar | 0.7088 |
| KES | Kenya Schilling | 78.6000 |
| KWD | Kuwait Dinar | 0.3071 |
| LBP | Lebanese Pound | 1513.7500 |
| LIB | Liberian Dollar | 1.0000 |
| LYD | Libyan Dinar | 0.6416 |
| LUF | Luxembourg Franc | 45.3054 |
| MOP | Macao Pataca | 8.0300 |
| MAF | Madagascar Franc | 6370.0000 |
| MWK | Malawi Kwacha | 67.0100 |
| MYR | Malaysian Ringgit | 3.8000 |
| MLF | Malia Republic CFA Franc | 736.7000 |
| MTP | Maltese Lira | 0.4503 |
| MRO | Mauritanian Ouguiya | 264.0100 |
| MUR | Mauritius Rupee | 30.2500 |
| MNP | Mexican New Peso | 9.1685 |
| MAD | Moroccan Dirham | 11.5193 |
| MZM | Mozambique Metical | 22885.0000 |
| NPR | Nepalese Rupees | 76.5900 |
| ANG | Netherlands Antilles Guilder | 1.7800 |
| ARP | Argentinian Peso (New) | 1.0000 |
| NZD | New Zealand Dollar | 2.4015 |
| NIC | Nicaragua Gold Cordoba | 13.7600 |
| NGN | Nigeria Naira | 120.0000 |
| NOK | Norwegian Krone | 8.9693 |
| OMR | Oman Rial Omani | 0.3851 |
| PKR | Pakistan Rupee | 59.9000 |
| PAB | Panama Balboa | 1.0000 |
| PGK | Papua New Guinea Kina | 3.7674 |
| PYG | Paraguay Guarani | 4635.0000 |

| Currency code | Currency name | Dollar exchange rate |
|---------------|-----------------------------|----------------------|
| PIN | Peruvian New Sol | 3.4435 |
| PHP | Philippine Peso | 51.6000 |
| PLZ | Poland Zloty | 3.9522 |
| PTE | Portuguese Escudo | 225.1600 |
| GBP | United Kingdom Pound | 0.6871 |
| QAR | Qatar Riyal | 3.6395 |
| ROL | Romania Leu | 31745.0000 |
| SUR | Russian Rouble-Offi | 30.4950 |
| RWF | Rwanda Franc | 452.8500 |
| SAR | Saudi Arabian Riyal | 3.7504 |
| SCR | Seychelles Rupee | 5.6180 |
| SLL | Sierra Leone Leone | 2091.0000 |
| SGD | Singapore Dollar | 1.8465 |
| SBD | Solomon Island Dollar | 5.6402 |
| SOS | Somali Republic Shilling | 2620.0000 |
| ZAR | South African Rands | 11.9950 |
| KRW | South Korea Won | 1313.5000 |
| ESP | Spanish Peseta | 186.8670 |
| LKR | Sri Lanka Rupees | 93.1600 |
| SDR | Sudanese Dinar | 258.7000 |
| SRG | Surinam Guilder | 2178.5000 |
| SEK | Swedish Krona | 10.4897 |
| CHF | Swiss Franc | 1.6603 |
| SYP | Syria Pound | 45.9000 |
| TWD | Taiwan Dollar | 34.9900 |
| TZS | Tanzania Shilling | 917.0000 |
| THB | Thailand Bahts | 44.2300 |
| TTD | Trinidad/Tobago Dollar | 6.1150 |
| TND | Tunisia Dinar | 1.4607 |
| TRL | Turkish Lira | 1455000.0000 |
| UGS | Ugandan New Shilling | 1727.5000 |
| AED | United Arab Emirates Dirham | 3.6729 |
| UNP | Uruguay Peso Uruguayo | 14.7650 |
| USD | U.S. Dollars | 1.0000 |
| VEB | Venezuelan Bolivars | 757.5000 |
| VND | Vietnamese Dong | 15083.0000 |
| WST | Western Somoan Tala | 3.5575 |
| YER | Republic of Yemen Rial | 170.7000 |
| ZMK | Zambia Kwacha | 3810.0000 |
| ZWD | Zimbabwe Dollar | 55.4500 |
| YND | Yugoslavia New Dinar | 66.4834 |

The following table gives exchange rates between Eurozone currencies and the Euro as at 31 December 2001

| Currency code | Currency name | Exchange rate to Euros |
|----------------------|----------------------|-------------------------------|
| ATS | Austrian Schilling | 13.760300 |
| BEF | Belgium Franc | 40.339900 |
| FIM | Finnish Markka | 5.945730 |
| FRF | French Franc | 6.559570 |
| DEM | German Mark | 1.955830 |
| GRD | Greek Drachma | 340.750000 |
| IEP | Irish Republic Punt | 0.787564 |
| ITL | Italian Lira | 1936.270000 |
| LUF | Luxembourg Franc | 40.339900 |
| NLG | Netherlands Guilder | 2.203710 |
| PTE | Portuguese Escudo | 200.482000 |
| ESP | Spanish Peseta | 166.386000 |

Scheme Administrators

Qualifications and experience

PAUL ANTHONY BRERETON EVANS

Paul Evans has been involved with corporate recovery work since 1976 and is a partner in the London office of PricewaterhouseCoopers. He is a leading specialist in reorganisations and insolvencies within the insurance industry.

In recent years his assignments have included a number of substantial companies in the London insurance market, including London United Investments plc (the parent of HS Weavers and the KWELM companies) and English & American Group plc. He has been particularly concerned with the development of innovative means of dealing with insurance company failure, through the mechanism of a scheme of arrangement. He is currently scheme administrator of Trinity Insurance Company Limited, Bryanston Insurance Company Limited, Andrew Weir Insurance Company Limited, Paramount Insurance Company Limited, OIC Run-Off Limited (formerly The Orion Insurance Company plc), The London and Overseas Insurance Company Limited and BAI (Run-off) Limited, and joint provisional liquidator of Compagnie Européenne de Réassurances SA. He is also receiver of a number of Lloyd's brokers and liquidator of a number of agencies at Lloyd's.

As Scheme Administrator of Scottish & Commonwealth Insurance Company and of Mutual of Omaha UK, Paul has been involved in two of the earliest schemes for solvent companies in run-off, which have accelerated the closure of their run-offs through the estimation of future liabilities.

He is a member of the Association of Business Recovery Professionals and the International Association of Insurance Receivers and is a licensed insolvency practitioner.

MARK CHARLES BATTEN

Mark Batten has been involved in corporate insolvency and reconstruction work since 1982 and is the leader of the insurance restructuring practice in the London office of PricewaterhouseCoopers.

He is the Provisional Liquidator and/or Scheme Administrator of a number of insolvent insurance companies and entities in the UK and overseas including;

- Non life direct insurance business (commercial and personal lines) – Independent Insurance Company Limited, Chester Street Insurance Holdings Limited and The Continental Assurance Company of London plc;
- Non life reinsurance business – Charter Re Ltd, ICS Re Pte Ltd and RMCA Re Pte Ltd, Dai Tokyo Re Ltd and Kobe Re Ltd;

He is also receiver of a number of Lloyd's brokers and liquidator of a number of Lloyd's managing and members' agents.

His advisory work on life company reconstructions includes advice and assistance in relation to formulation of a Section 425 scheme for the Equitable Life Assurance Society.

He is a member of the Institute of Chartered Accountants in England and Wales and the Association of Business Recovery Professionals and is a licenced insolvency practitioner.

Scheme Actuary

Qualifications and experience

PETER K CLARK

Education:

B.S.c (Honours) London University
M.Sc. Oxford University

Qualifications:

Fellow of the Institute of Actuaries
Member of the American Academy of Actuaries

Membership Groups/Associations

Member of the Faculty and Institute of Actuaries General Insurance Board
Chairman of the Faculty and Institute of Actuaries General Insurance Accounting Issues Committee

Professional Experience

Peter is a Director in PricewaterhouseCoopers' Actuarial & Insurance Management Solutions practice. Peter joined PwC in 1995 and has over ten years' experience of non-life insurance. Before joining PricewaterhouseCoopers he was the Company Actuary and Vice President of CNA Reinsurance.

Previous assignments have included:

- Reviews of reserve adequacy for UK and foreign insurers, covering all major classes of business, London Market companies and Lloyd's syndicates.
- Actuarial certification of reserves of Lloyd's syndicates for UK and US regulatory authorities.

Peter has extensive contacts with non-life actuaries in Europe and the US. He has co-authored a number of actuarial papers on a wide range of topics, including reserving, liability insurance and reinsurance. He has also been involved with formulating professional guidance on behalf of the Institute of Actuaries

Scheme Adjudicator

Qualifications and experience

KEITH CHARLES GARWOOD

Qualifications:

Associate of the Chartered Insurance Institute
Chartered Insurer

Membership Groups/Associations

Past President of the Luton and St Albans Insurance Institute
Past Chairman of the Fire Loss Association

Professional Experience

Keith is a Chartered Insurer and Associate of the Chartered Insurance Institute who has held a number of senior positions in the Insurance Industry. His experience extends over 40 years and includes operating in the London, Multinational and Run-off Markets. Responsibilities include operational and strategic planning, management of large claims units and personal handling of large Market claims, including North American casualty.

Keith has delivered Industry papers on Fraud, Litigation Costs, Role of Forensic Expert, Electro-Magnetic Fields, Contingent Fees, Multinational Claims and Schemes of Arrangement. He also acted as Chairman on the Woolf Seminar, I.I.R Conference and Claim Managers' Forum.



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1 August 2002

Messrs M Batten & P A B Evans
Joint provisional liquidators of
North Atlantic Insurance Company Limited
PricewaterhouseCoopers
Plumtree Court London
EC4A 4HT

Report of the Independent Actuary

I have reviewed the report dated 31 July 2002 prepared by PricewaterhouseCoopers Actuarial & Insurance Management Solutions which describes amongst other things the Estimation Methodology to be applied in the Scheme ("the Report"). The Report is included as an appendix to the Scheme of Arrangement document.

In my opinion, for the purpose of enabling Scheme Creditors to form a view on whether they should vote for the proposed Scheme, the Report adequately describes:

- the data to be supplied by Scheme Creditors and reviewed by the Scheme Actuary; .
- the actuarial methodology for the estimation of ultimate losses; and
- how the estimated reserves will be allocated to individual contracts on a discounted basis.

The Report also discusses, in brief, how the Scheme Administrators will estimate reinsurance recoveries and set off the resulting debts due to North Atlantic against Scheme Creditors' claims.

The liabilities of North Atlantic are very uncertain both because of the nature of the risks to which it is exposed and because of the limitations of data available. Such uncertainty means that a number of important judgements will be required when the Estimation Methodology is implemented if each Scheme Creditor's insurance claims are to be fairly valued.

I am satisfied that, taking into account the nature of risks to which North Atlantic remains exposed and the estimated ultimate dividend each Scheme Creditor is expected to receive on his claim, the Estimation Methodology, if combined with appropriate judgements of the assumptions to be used, is sufficient to value fairly each Scheme Creditor's insurance claims. In particular, it fairly balances the interests of short-tail and long-tail policyholders and the interests of direct and reinsurance creditors.

Nigel Gillott
Partner

To the Joint Provisional Liquidators of North Atlantic Insurance Company Limited

**North Atlantic Insurance Company Limited
(In Provisional Liquidation)
Letter of support from the informal Creditors' Committee**

We, the North Atlantic Insurance Company Limited's ("North Atlantic") informal Creditors' Committee, have reviewed the proposed Scheme of Arrangement ("Scheme") and explanatory statement prepared by the Joint Provisional Liquidators.

We confirm that the Scheme has been developed in consultation with us as representatives of all creditors of North Atlantic.

In our opinion, the Scheme provides all creditors with significant benefits over liquidation and we recommend creditors vote in favour of the Scheme.

Yours faithfully

.....
H Stuke representing
Hannover Reinsurance Co

.....
A Gregory representing
Stronghold Insurance Co Ltd

.....
D Guberman representing
American Reinsurance Co Inc

.....
S Janes representing
The Dominion Insurance Company Limited

.....
R Frankel representing
Niagara Mohawk & Others

.....
R Williams representing
Equitas Limited

.....
S Berland representing
Pfizer Inc for the International Policyholders'
Association

.....
M Durkin representing
Agrippina Versicherungs AG

The FSCS Scheme Manager Memorandum

1. Preliminary

This memorandum contains a summary of certain provisions of the Policyholders Protection Act, the Transitional Order ('Statutory Instrument 2001 Number 2967') and the Financial Services Compensation Scheme. It is not an exhaustive guide to all the provisions of the Policyholders Protection Act, the Transitional Order and Financial Services Compensation Scheme which may be relevant to establishing whether, and if so, to what extent, a policyholder of the Company is eligible for protection or assistance from the FSCS Scheme Manager under the Scheme (or in a liquidation of North Atlantic). Certain expressions used herein are defined in the Scheme on pages 103 to 108.

Any creditor who is in any doubt as to his own position should take his own legal advice.

2. The Applicable Provisions

At midnight on 30 November 2001 the Policyholders Protection Act was repealed by the Financial Services and Markets Act 2000 (Consequential Amendments and Repeals) Order 2001 subject to the Transitional Order which provides that the Policyholders Protection Act continues to apply in relation to the insolvency of North Atlantic subject to certain modifications as set out in the Transitional Order. The Policyholders Protection Board's functions in relation to North Atlantic and its policyholders under the Policyholders Protection Act have thus been transferred to the FSCS Scheme Manager.

3. The FSCS Scheme Manager

The FSCS Scheme Manager is a company limited by guarantee established by the Financial Services Authority in accordance with Section 212 of FSMA. The FSCS Scheme Manager exercises the functions conferred on it by the Policyholders Protection Act which were previously carried on by the Policyholders Protection Board and also the functions conferred on it by FSMA to compensate persons in cases where 'relevant persons' (as defined in FSMA) are unable, or are likely to be unable, to satisfy claims against them. The assets and liabilities of the Policyholders Protection Board have been transferred to the FSCS Scheme Manager, which further finances its functions by means of levies on authorised persons (as defined in FSMA). The chairman and board of the FSCS Scheme Manager are appointed by the Financial Services Authority (acting, in the case of the chairman, with the approval of the Treasury).

4. Payment obligations: the Policyholders Protection Act

The FSCS Scheme Manager's obligations under the Scheme are determined principally by reference to the duties under the Policyholders Protection Act which, in the event of the liquidation of North Atlantic to which the Policyholders Protection Act applies it would owe to certain of North Atlantic's policyholders or security holders in respect of policies issued or securities given by North Atlantic. There would be two categories of liabilities of North Atlantic toward such policyholders or security holders which would qualify for protection under the Policyholders Protection Act:

- (a) those where the liability may be protected as to 100% of its amount; and
- (b) those where the liability may be protected as to 90% of its amount.

It should be noted that the duties of the FSCS Scheme Manager in a liquidation (and hence its obligations under the Scheme) are subject to a number of important qualifications.

Furthermore, the existence of any duty of the FSCS Scheme Manager in any particular case depends upon the relevant conditions of the Policyholders Protection Act being satisfied.

Some of these qualifications and conditions are summarised below.

(i) 100% protection

Subject to the relevant provisions of the Policyholders Protection Act, in a liquidation to which the Policyholders Protection Act applies it is the duty of the FSCS Scheme Manager to secure that a sum equal to the full amount of any 'liability subject to compulsory insurance' of a company in liquidation towards any policyholder (who need not be for these purposes a 'private policyholder') or security holder under the terms of any policy or security which satisfies the requirements of specified enactments is paid to the policyholder or security holder as soon as reasonably practicable after the beginning of the liquidation. For such purposes, as well as for the purposes of the 90% protection referred to below, a policy must have been a policy of insurance which was a 'United Kingdom policy' at the time when the liquidation of the company began.

A 'liability subject to compulsory insurance' is a liability required under specified enactments to be covered by insurance (or by some other provision for ensuring its discharge). The specified enactments are Section 1(4)(d) of the Riding Establishments Act 1964, Section 1 of the Employers' Liability (Compulsory Insurance) Act 1969, part VI of the Road Traffic Act 1988, and the equivalent provisions applicable to Northern Ireland. Policies evidencing contracts of insurance effected for the purpose of Section 19 of the Nuclear Installations Act 1965 are also covered. The enactments which are relevant for the purposes of the Scheme are the Employers' Liability (Compulsory Insurance) Act 1969 (effective from 1 January 1972) and the equivalent legislation in Northern Ireland (effective from 29 December 1975).

Where a claim relates to a liability under a policy of one of the types specified above which is not a liability subject to compulsory insurance it is only eligible for 90% protection. This 90% protection is discussed below.

The FSCS Scheme Manager also has a duty, in a liquidation to which the Policyholders Protection Act applies, subject to the relevant provisions of the Policyholders Protection Act, to secure that a sum equal to the full amount of any liability of a company in liquidation in respect of a sum payable to a person entitled to the benefit of a judgement under certain legislation (Section 149 of the Road Traffic Act 1972 or Section 151 of the Road Traffic Act 1988 or the equivalent provisions in force in Northern Ireland) is paid to that person as soon as reasonably practicable after the beginning of the liquidation.

(ii) 90% protection

The 90% protection is available only in respect of the liabilities of a company in liquidation towards 'private policyholders'. Subject to the relevant provisions of the Policyholders Protection Act, in a liquidation to which the Policyholders Protection Act applies, it is the duty of the FSCS Scheme Manager to secure that a sum equal to 90% of the amount of the liability of an authorised insurance company in liquidation towards a 'private policyholder' under the terms of the relevant policy is paid to the policyholder as soon as reasonably practicable after the beginning of the liquidation.

A liability will not qualify for the 90% protection unless the relevant policy is a 'general policy', or unless the policy is one of the types described in relation to the 100% protection above. A 'general policy' means any policy evidencing a contract the effecting of which constituted the carrying on of general business within the meaning of the Insurance Companies Act 1982, with the exception of reinsurance and certain specified classes of business. The categories of 'general business' which are relevant for the 90% protection are accident, sickness, land

vehicles, railway rolling stock, fire and natural forces, damage to property, motor vehicle liability, general liability, credit, suretyship, miscellaneous financial loss and legal expenses.

5. Interpretation

The Policyholders Protection Act contains, or incorporates by reference, definitions of some of the more significant words and expressions mentioned above. Three definitions particularly relevant to the Scheme are set out below.

(a) United Kingdom policy

The policy in question must have been a 'United Kingdom policy' within the meaning of Section 4(2) of the Policyholders Protection Act at the relevant time. A policy of insurance is a United Kingdom policy if, had any of the obligations under the contract evidenced by the policy been performed at the relevant time, such performance would have formed part of an insurance business which the insurer was authorised to carry on in the United Kingdom, whether or not such obligations would have been performed in the United Kingdom.

(b) Policyholder

A claimant must be a 'policyholder'. A policyholder is the person who, for the time being, is the legal holder of the policy for securing the contract with the insurance company and includes a person to whom, under a policy, a sum is due (or contingently due) or a periodic payment is payable.

(c) Private Policyholder

The 90% protection described above is only available to policyholders who are "private policyholders".

A 'private policyholder' means a policyholder who is either an individual or a partnership or other unincorporated body of persons, all of whom are individuals.

Consequently, a body corporate cannot be a private policyholder. Furthermore, it has been established by the English courts that:

- (i) a professional corporation is not an individual and cannot be a private policyholder;
- (ii) no partnership, one or more of whose partners is a professional corporation, can be a private policyholder, nor can any individual in his capacity as a partner in such partnership; and
- (iii) being in partnership with a professional corporation does not disqualify an individual from being a private policyholder if he contracts with the insurance company in a capacity other than as a partner.

6. Basis of participation

The FSCS Scheme Manager will participate in the Scheme pursuant to its discretionary powers under Section 16(4) of the Policyholders Protection Act to take such measures as it considers appropriate, for the purposes of assisting policyholders of a company in financial difficulties, to enable the company to continue to carry on insurance business. The FSCS Scheme Manager has power to make payments pursuant to Section 16(4) of the Policyholders Protection Act on such terms and on such conditions as it thinks fit.

Assignments

Any duty of the FSCS Scheme Manager to assist a policyholder of a company in liquidation by the measures described in the preceding paragraph is subject to compliance on the part of the policyholder with any conditions imposed by the FSCS Scheme Manager with respect to the total or partial assignment to the FSCS Scheme Manager of his rights under or in respect of the policy and certain other rights.

The Scheme contains a provision by which all rights which a Protected Scheme Creditor has in respect of or in connection with a Protected Liability or a Potentially Protected Liability which subsequently matures into a Protected Liability in relation to which payment has been made by the FSCS Scheme Manager (whether under the Policyholders Protection Act or FSCS) are automatically and absolutely assigned to the FSCS Scheme Manager with effect from payment being made. Alternatively, or in addition, the FSCS Scheme Manager may require a separate assignment to it of such rights in advance and as a condition of it making payment. The right to require a separate assignment will also apply in the event that the Scheme terminates and North Atlantic goes into liquidation.

7. Other relevant provisions

Section 16

To receive protection from the FSCS Scheme Manager under the Scheme, and to qualify as a "Protected Creditor" for the purposes of the Scheme, a Scheme Creditor must, in addition to satisfying the other specified eligibility criteria, meet the requirements of Section 16(9) of the Policyholders Protection Act.

Accordingly, a Scheme Creditor must be a policyholder in respect of a general policy of the Company which was a United Kingdom policy on 6 March 1997, being the date when the Winding-up Petition was presented against North Atlantic.

8. General

The obligations of the FSCS Scheme Manager to Protected Creditors under the Scheme are expressly made subject to the same conditions, limitations, qualifications and other provisions contained or referred to in, or capable of being imposed under specified sections of the Policyholders Protection Act. Some potentially significant aspects of the provisions are summarised below.

(a) Insufficiency of funds

The FSCS Scheme Manager finances its functions by means of levies imposed upon authorised persons (as defined in FSMA). The amount a company can be required to pay in respect of general insurance business is limited, in any financial year, to 0.8% of its income liable to the levy in the year ending before that financial year. Accordingly, the FSCS Scheme Manager's duties under Sections 6 to 11 of the Policyholders Protection Act, including the duties described in the paragraphs concerning its payment obligations above (and therefore its obligations under the Scheme), are qualified to the extent that they do not require the FSCS Scheme Manager to make any payment at a time when it appears to the FSCS Scheme Manager that the funds available to it fall short of what it needs to carry out its various responsibilities including any responsibilities towards policyholders of companies other than the Company.

However, in the event that funds do fall short, the obligations of the FSCS Scheme Manager to make payment under the Scheme will be postponed and not avoided. It is not possible to forecast the amounts required for the FSCS Scheme Manager to perform all its responsibilities which may arise during the operation of the Scheme. It is possible that responsibilities giving rise to substantial payments by the FSCS Scheme Manager will arise in future years.

(b) Duplication of liability

Section 9(1) of the Policyholders Protection Act provides that the FSCS Scheme Manager shall not, by virtue of any provision of Sections 6 to 8 of the Policyholders Protection Act, be required to secure any sum for a policyholder in respect of a policy of a company in liquidation which was a United Kingdom policy at the beginning of the liquidation by reference to any liability (or any part of any liability) which is duplicated by the liability of any other authorised insurance company which is not a company in liquidation.

By virtue of Section 9(2) of the Policyholders Protection Act, a liability of a company towards a policyholder is duplicated by the liability of another company for such purposes in so far as that other company is also under a liability, under the terms of any general policy which was a United Kingdom policy at the beginning of the first mentioned company's liquidation, to make any payment to or on behalf of the policyholder in respect of the matter to which the liability of the first mentioned company relates.

(c) Payments to a person other than the policyholder

Under Section 13(1) of the Policyholders Protection Act, where it appears to the FSCS Scheme Manager, in the case of any policy of a company in liquidation:

- (i) that payment in respect of any sums falling due under the policy could have been made in accordance with the policy to a person other than the policyholder; or
- (ii) that any sums paid under the policy would have been subject to any trust, charge or other agreement binding on the policyholder;

the FSCS Scheme Manager may secure the payment of any sum payable to the policyholder in accordance with any of the provisions of Sections 6 to 8 of the Policyholders Protection Act (in whole or in part) to that other person or (as the case may be) to the person appearing to the FSCS Scheme Manager to be entitled under the trust, charge or agreement in question, instead of to the policyholder.

Any payment made by virtue of the provisions of Section 13(1) of the Policyholders Protection Act to a person other than the policyholder is treated as a payment to the policyholder and may be made on such conditions (with respect to the total or partial assignment to the FSCS Scheme Manager of any rights of the recipient against the policyholder or any other person, or otherwise) as the FSCS Scheme Manager thinks fit.

(d) Payments to the policyholder by third parties

Section 14(1) of the Policyholders Protection Act provides that any payment made by any person other than the FSCS Scheme Manager (such as an insurance broker or other intermediary or a guarantee fund) to the policyholder, or to any other person, being a payment referable to any such liability of a company in liquidation as is mentioned in Sections 6, 7 or 8 of the Policyholders Protection Act, is to be treated as reducing any sum payable by the FSCS Scheme Manager to the policyholder in accordance with any provision of those sections, by reference to that liability.

Further information available

The information below is available on request from the Provisional Liquidators or Richards Butler (see the second page of this document for contact details).

-
- North Atlantic Memorandum and Articles of Association
 - Financial Statements for North Atlantic for the periods:
 - Year to 31 December 1995 (audited)
 - Two years to 31 December 1997 (unaudited)
 - Two and a half years to 30 June 2000 (unaudited)
 - Year to 31 December 2001 (unaudited)
 - Letters of consent to act in relation to the Scheme from each of:
 - Paul Evans
 - Mark Batten
 - Peter Clark
 - Nigel Gillott
 - Keith Garwood
 - S304 injunctions prohibiting proceedings being taken or continued against North Atlantic, and prohibiting claims being pursued against Northwestern in respect of the Bellefonte UK Branch business and directing that they should be made against North Atlantic.
 - Landau Agreement
 - Provisional liquidation order of 6 March 1997.

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Part 3

The Scheme

Proposals in relation to

A Scheme of Arrangement

Pursuant to Section 425 of the Companies Act 1985

between

North Atlantic Insurance Company Limited

(formerly British National Insurance Company Limited)

and its

Scheme Creditors

(as defined in the Scheme of Arrangement)

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SECTION 1: DEFINITIONS AND INTERPRETATION

1 DEFINITIONS

In the Scheme, unless the context otherwise requires or otherwise expressly provides, the following expressions shall bear the following meanings:

'Act' means the Companies Act 1985;

'Adjudication Notice' means the notice that may be sent to Scheme Creditors in accordance with clause 21.1, 27.6 or 30.6;

'Admissible Interest' means any interest which is payable and which has accrued up to and including the Ascertainment Date, which would have been admissible in proof against North Atlantic in accordance with Rule 4.93 of the Insolvency Rules were North Atlantic being wound up pursuant to the Winding-up Petition and the order that North Atlantic be wound up had been made on the Ascertainment Date;

'Admitted Insurance Liability' means a Scheme Creditor's Ascertained Insurance Liability, after taking into account any Security Interest as contemplated by clause 12 and rights of set-off under clause 13, and which has been finally determined in accordance with clause 29;

'Admitted Non-Insurance Liability' means that Scheme Liability of a Scheme Creditor established in accordance with clause 30;

'Admitted Scheme Liability' means (i) for a Scheme Creditor, his claim in the Scheme as determined in accordance with clause 31 or (ii) for the FSCS Scheme Manager, its claims as admitted under clause 31;

'Agreed Balances' means an amount agreed as due and payable by North Atlantic on the Ascertainment Date to a Scheme Creditor or agreed as payable to North Atlantic by the Scheme Creditor on the Ascertainment Date, such amounts to include amounts due in respect of claims and premiums;

'Agreed Balance Protected Liability' means an Agreed Balance to the extent that it is a Protected Liability;

'Ascertained Insurance Liability' means the aggregate value of a Scheme Creditor's Insurance Liabilities for the purposes of the Scheme, including for the avoidance of doubt IBNR, determined in accordance with clause 24.1 before taking into account any Security Interest as contemplated by clause 12 and rights of set-off under clause 13;

'Ascertainment Date' means 31 December 2001;

'Assignment Date' means the date immediately preceding the Termination Date;

'Bar Date' means the last business day of the calendar month which falls six calendar months after the Effective Date. For the avoidance of doubt, where six calendar months after the Effective Date is the last day of a calendar month, that day shall be the Bar Date;

'Blocked Funds' means the funds of North Atlantic which the Provisional Liquidators have been unable to secure because such funds have been blocked by local regulatory authorities or other parties claiming to be interested in the distribution of the funds;

'the Board' means the board of directors of North Atlantic from time to time;

'CISHL' means CI Services Holdings Limited, incorporated in Jersey, the Channel Islands with company number 49015 on 18 December 1990, whose registered office is at La Motte Chambers, La Motte Street, St Helier, Jersey JE1 1BJ;

'Co-Insurer' means any insurer, reinsurer or retrocessionaire (apart from North Atlantic) who is party to an Insurance Contract along with North Atlantic;

'Committee Member' means any member of the Creditors' Committee from time to time as contemplated by clause 63.2;

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

'Court Order' means the order of the Court sanctioning the Scheme in respect of North Atlantic pursuant to Section 425(2) of the Act, if it is approved at the Scheme Meetings;

'Creditors' Committee' means the committee established pursuant to clauses 63 and 64;

'Creditors' Resolution' means a resolution passed by a majority in number representing at least 75% in value of the Scheme Creditors' Net Scheme Liabilities in each class who, being entitled to do so, vote in person or by proxy at a meeting of Scheme Creditors;

'Crystallisation Statement' means the statement provided to each Scheme Creditor in accordance with clauses 25.1 and/or 29.1 in substantially the same form as set out in Appendix 6 to the Explanatory Statement;

'Debtor Pack' means the pack referred to in clause 25.4, containing details of the provisional estimate of a Scheme Creditor's Outwards Debt;

'Debtor Pack Reply Deadline' means the date 60 days after a Crystallisation Statement is sent in accordance with clause 25.1 or a Notice of Withdrawal is sent in accordance with clause 28.1, as is appropriate, to the relevant Scheme Creditor;

'Directors' means the directors of North Atlantic from time to time;

'Effective Date' means the date on which an office copy of the Court Order is delivered to the Registrar of Companies in England for registration in accordance with clause 7;

'Electronically' means any communication sent to or received from the North Atlantic website and any communication sent to or received from northatlanticinsurance.co.uk;

'EMU' means Economic and Monetary Union as contemplated at the Treaty of Rome 1956, as amended from time to time;

'EMU Legislation' means legislative measures of the European Council for the introduction of changeover to operation of a single European currency (known as the Euro), being in part the implementation of the third stage of the EMU;

'the Estimation Methodology' means the method of estimation described at Appendix 7 to the Explanatory Statement and applied in accordance with Section 3;

'Explanatory Statement' means the statement dated 15 August 2002 and the Appendices thereto explaining the effect of the Scheme to the Scheme Creditors in compliance with Section 426 of the Act;

'Euro' or **'€'** means the single currency of any Participating Member State of the European Union;

'Euro Unit' means the currency unit of the Euro;

'FSCS Rules' means those rules of the FSCS Scheme Manager made pursuant to Section 213 of FSMA;

'FSCS Scheme Manager' means the Financial Services Compensation Scheme Limited (company number 03943048) established pursuant to Part XV of FSMA;

'FSMA' means the Financial Services and Markets Act 2000;

'Full Claims Pack' or **'FCP'** means the pack referred to in clause 17, containing the information set out within Appendix 8 to the Explanatory Statement;

'IBNR' means a provision for claims under an Insurance Contract that may have been incurred by North Atlantic but which have not yet reported to North Atlantic by the Ascertainment Date;

'Independent Actuary' means Nigel Gillott of Watson Wyatt LLP, Actuaries and Consultants, Watson House, London Road, Reigate, Surrey, RH2 9PQ or any other individual from time to time who, in the opinion of the Scheme Administrators and the Creditors' Committee, is qualified to act as such in his place and is so engaged by North Atlantic;

'Information' means each entry on the FCP that the relevant Scheme Creditor has the option to agree or amend as he sees fit together with any information provided to the relevant Scheme Creditor by the Scheme Administrators in accordance with clause 20.3, as the context requires;

'Insolvency Act' means the Insolvency Act 1986;

'Insolvency Rules' means the Insolvency Rules 1986;

'Insurance Contract' means any contract or policy of insurance, reinsurance or retrocession of any kind whatsoever entered into by or on behalf of North Atlantic;

'Insurance Liability' means a Scheme Liability arising under an Insurance Contract including, for the avoidance of doubt, brokerage;

'Judgement Rate' means the rate of interest for the time being prescribed by Section 17 of the Judgements Act 1838;

'Liability' means any obligation or liability present, future, prospective or contingent, whether or not for a fixed or unliquidated amount, whether or not involving the payment of money, which arises at common law, in equity or by statute in England and Wales or in any other jurisdiction or in any other manner whatsoever. For the avoidance of doubt where any obligation or liability, present, future, prospective or contingent, whether or not for a fixed or unliquidated amount and whether or not involving the payment of money, is void or, being voidable, has or shall have been duly avoided, no obligation or liability shall arise in respect of such obligation or liability;

'Liquidation Event' means either an order of the Court to compulsorily wind up North Atlantic or the commencement of a creditors' voluntary liquidation in respect of North Atlantic (both in accordance with the Insolvency Act and the Insolvency Rules);

'Lloyd's syndicates' means a group of Underwriting Members of Lloyd's (the Society incorporated by Lloyd's Act 1871 of the United Kingdom) to which a number was assigned and which has received for a year or years of account an Equitas Premium Indication in connection with the Reconstruction and Renewal Plan at Lloyd's;

'Market Dispute' means a dispute in the insurance or reinsurance market relating to coverage of certain claims under a particular policy or policy wording;

'Memorandum and Articles of Association' means the memorandum and articles of association of North Atlantic from time to time;

'Mentally Disordered' means in relation to a person, where he is a patient within the meaning of Part VII 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;

'National Currency Unit' means the unit of currency (other than a Euro Unit) of a Participating Member State;

'Net Debt' means any amount due to North Atlantic from a person as determined in accordance with clause 13;

'Net Debtor' means any person who owes North Atlantic a Net Debt. For the avoidance of doubt, once it has been established to the satisfaction of the Scheme Administrators that a person is a Net Debtor, he shall cease to be a Scheme Creditor;

'Net Scheme Liability' means for the purposes of Section 10, a Scheme Creditor's Scheme Liabilities net of his Scheme Debts, any other amount that may be set off under clause 13 and Security Interests (insofar as they relate to such Scheme Liabilities) which shall be the amount of a Scheme Creditor's Admitted Scheme Liability, or where a Scheme Creditor's claim has not been determined in accordance with clause 31, shall be the amount estimated as such by the Scheme Creditor subject to a final determination (for voting purposes only) by the Chairman (as defined in clause 79) in his absolute discretion. For the avoidance of doubt, any Scheme Liabilities or the right to receive a dividend in respect thereof acquired by transfer, assignment, sale or novation or by reason of any reorganisation or reconstruction of companies after the Petition Date shall not be included in the calculation of a Net Scheme Liability;

'Non-Insurance Liabilities' means Scheme Liabilities other than Insurance Liabilities;

'North Atlantic' means North Atlantic Insurance Company Limited, incorporated on 10 June 1940 with company number 00361726 pursuant to the Companies Act 1929;

'North Atlantic web-site' means www.northatlanticinsurance.co.uk;

'Notice of Effective Date' means the notice sent to Scheme Creditors in accordance with clause 15.1;

'Notice of Withdrawal' means the notice that may be sent to Scheme Creditors in accordance with clause 23.1, 28.1 or 30.10;

'Outstanding Loss Reserves' means estimates in respect of claims of a Scheme Creditor arising under an Insurance Contract but not agreed and paid by North Atlantic. The estimate should include estimates for indemnity payments, legal expenses (where cover for this is provided by the relevant Insurance Contract under which the claim is made), survey fees and salvage charges less estimated loss recoveries including common account recoveries, salvage and subrogation;

'Outwards Debt' means an amount due to North Atlantic from a Scheme Creditor, including for the avoidance of doubt, claims of North Atlantic in respect of IBNR, as calculated in accordance with clause 27.9;

'Petition Date' means 6 March 1997, being the date of presentation of the Winding-up Petition;

'Policyholders Protection Act' means the Policyholders Protection Act 1975;

'Policyholders Protection Board' means the Policyholders Protection Board established by the Policyholders Protection Act;

'Post' means delivery by hand, pre-paid first class post or airmail;

'Potentially Protected Liability' means a claim in respect of an Outstanding Loss Reserve or a claim in respect of IBNR which in the event of that claim maturing into a present obligation or Liability of North Atlantic under an Insurance Contract for a fixed amount would also be a Protected Liability;

'Preferential Debt' means any Liability of North Atlantic which would have been preferential under Section 386 of the Insolvency Act if North Atlantic was being wound up and the relevant date under Section 387 of the Insolvency Act was the Petition Date;

'Priority Liability' means any Liability of North Atlantic if and to the extent that it is:

- (a) a Scheme Cost; or
- (b) a Preferential Debt;

'Proceeding' means any action, suit or other proceeding in any jurisdiction whatsoever including without limitation any demand, legal proceeding, arbitration, alternative dispute resolution, adjudication, mediation, seizure, distraint, forfeiture, re-entry, execution or enforcement of judgement or any step taken for the purpose of creating or enforcing a lien;

'Promissory Note' means any effective promissory note issued to or for the benefit of a Scheme Creditor in respect of one or more or all of his Scheme Liabilities;

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

‘Protected Liability’ means a present liability under a policy issued by North Atlantic less the amount of all available rights of set-off under clause 13 or Security Interests referred to in clause 12 which has been established by agreement of North Atlantic or judgement in respect of which and to the extent to which the FSCS Scheme Manager would owe a duty under Sections 6 to 8 of the Policyholders Protection Act if North Atlantic were a ‘company in liquidation’ and the Petition Date was the ‘beginning of the liquidation’ (in each case within the meaning of the Policyholders Protection Act), and references in those sections to the amount of any liability was a reference to the amount of the liability (reduced as aforesaid) concerned (and for the avoidance of doubt but without limitation, when such duty would be owed under that Act in respect of a liability towards a “private policyholder” or under the terms of a “United Kingdom Policy” as those expressions are respectively defined in that Act, or a liability of some other description such as a “liability subject to compulsory insurance” within the meaning of Section 6 (3) of that Act, only an Scheme Liability which is also such a liability shall be capable of qualifying as a Protected Liability) ;

‘Protected Percentage’ means in relation to a Protected Liability, that percentage of such Protected Liability which the FSCS Scheme Manager would have a duty to pay under Sections 6 to 8 of the Policyholders Protection Act;

‘Protected Policyholder’ means in relation to a Protected Liability, any Scheme Creditor to whom North Atlantic owes that Protected Liability and who, in addition, is eligible for protection under Section 16(9) of the Policyholders Protection Act;

‘Provisional Claim Form’ or **‘PCF’** means the form referred to in clause 16, in substantially the same form as set out at Appendix 5 to the Explanatory Statement;

‘Provisional Liquidators’ means Paul Anthony Brereton Evans and Mark Charles Batten, partners in the United Kingdom firm of PricewaterhouseCoopers, Plumtree Court, London EC4A 4HT;

‘Referred Insurance Liability’ means any Insurance Liability referred to the Scheme Adjudicator under clause 21.3;

‘Referred Non-Insurance Liability’ means any Scheme Liability referred to the Scheme Adjudicator under clause 30.7;

‘Referred Scheme Debt’ means any Scheme Debt referred to the Scheme Adjudicator under clause 27.7;

‘Review Date’ means 31 December of each calendar year commencing on 31 December 2002 or such other date as the Scheme Administrators in consultation with the Creditors’ Committee may decide but so that no Review Date shall fall more than 15 months after the previous Review Date;

‘Run-off Agreement’ means any agreement between North Atlantic and the Run-off Company under which the Run-off Company agrees to undertake the run-off operations of North Atlantic;

‘Run-off Company’ means North Atlantic Run-Off Services Limited, or any other person or persons who may be appointed to undertake all or part of the run-off operations of North Atlantic’s business in accordance with the provisions of the Scheme;

‘Scheme’ means this Scheme of Arrangement in its present form or as modified in accordance with clause 8;

‘Scheme Actuary’ means Peter Clark or such other person for the time being appointed as Scheme Actuary in accordance with clause 43;

‘Scheme Adjudicator’ means Keith Garwood or such other person for the time being appointed as Scheme Adjudicator in accordance with clause 44;

‘Scheme Administrators’ means those persons whose names are set out in clause 5.2 or such other person or persons for the time being as may be appointed in accordance with clause 55;

‘Scheme Costs’ means all such costs, charges, expenses, disbursements and remuneration as are referred to at clause 85;

'Scheme Creditor' means any person who is or claims to be a creditor of North Atlantic in respect of any Scheme Liabilities, unless and until it is established to the satisfaction of the Scheme Administrators that:

- (a) that person is not owed any Scheme Liabilities; or
- (b) that person's Scheme Liabilities have been extinguished by the realisation of any Security Interests held in respect of such Scheme Liabilities; and/or
- (c) that person is a Net Debtor;

'Scheme Debts' means all Liabilities of a person to North Atlantic in existence on the Petition Date (including any costs payable to North Atlantic in Proceedings current as at the Petition Date) to which that person is subject or to which that person may become subject after the Petition Date by reason of any obligation incurred before the Petition Date arising out of any act, omission, contract, policy, transaction or arrangement;

'Scheme Exchange Rate' means the rate of exchange for the relevant currencies as detailed in the table in Appendix 9, or if no rate is listed, the mid-market rate for the relevant currency published by the Financial Times as at the Ascertainment Date for the relevant currency. If this rate is not published on that date, then so published on the nearest preceding date or if no such rate is published, such rate as may be determined by the Scheme Administrators;

'Scheme Liability' means any Liability in existence on the Petition Date (including any costs payable by North Atlantic in Proceedings current as at the Petition Date) to which North Atlantic is subject or to which North Atlantic may become subject after the Petition Date by reason of an obligation incurred before the Petition Date arising out of any act, omission, contract, policy, transaction or arrangement (including, but not limited to Agreed Balances owing by North Atlantic) not being a Priority Liability;

'Scheme Meetings' means the meetings of Scheme Creditors convened pursuant to Section 425 of the Act by North Atlantic with leave of the Court to consider and, if thought fit, to approve the Scheme;

'Scheme Period' means the period from the Effective Date to the Termination Date;

'Security Interest' means:

- (a) any effective mortgage, charge, lien, assignment by way of security, bond or other security interest over any Property of North Atlantic;
- (b) any effective letter of credit issued to or for the benefit of a Scheme Creditor in respect of any one or more or all of his Scheme Liabilities; and/or
- (c) any trust created (whether expressly, by implication or by operation of law) in respect of North Atlantic;

'Statement' means a statement sent to a Scheme Creditor in accordance with clause 30.1;

'Sterling' or **'Pounds'** or **'£'** means Pounds Sterling or other lawful currency for the time being of the United Kingdom;

'Termination Date' means the date on which the Scheme ceases to have effect in accordance with clause 81;

'Trading Day' means a day (other than a Saturday or Sunday) on which the clearing banks in London are open for foreign currency business in relation to the relevant currency to be converted into US Dollars;

'United Kingdom' means Great Britain and Northern Ireland;

'US Dollars' or **'\$'** means United States Dollars or other lawful currency for the time being of the United States of America; and

'Winding-up Petition' means the petition to wind up North Atlantic numbered 001219 of 1997 presented to the Court on 6 March 1997.

2 INTERPRETATION

2.1 Clause and Section headings and the table of contents are for ease of reference only and shall not affect the interpretation of the Scheme.

2.2 In the Scheme, unless inconsistent with the context or expressly otherwise specified:

- (a)** references to Sections, clauses and/or Appendices are references to Sections, and/or clauses of the Scheme and Appendices of the Explanatory Statement;
- (b)** references to (or any specified provision of) the Scheme shall be construed as references to the Scheme (or that provision) as in force for the time being and as amended in accordance with its terms;
- (c)** the singular includes the plural, the masculine all genders and vice versa;
- (d)** references to a person shall be construed as including references to individuals, firms, companies, corporations, unincorporated bodies of persons or any state or any agency thereof; and
- (e)** references to any statute or statutory provision includes the same as re-enacted, consolidated or amended from time to time.

SECTION 2: THE SCHEME

3 THE APPLICATION AND PURPOSES OF THE SCHEME

3.1 The Scheme shall apply to all Scheme Creditors.

3.2 The purpose of the Scheme is to provide a procedure for the valuation and agreement of North Atlantic Liabilities as early as possible in accordance with the terms of the Scheme and in particular to enable North Atlantic:

- (a) to pay its Priority Liabilities in full; and
- (b) to pay each Scheme Creditor a percentage of his Admitted Scheme Liability in accordance with Sections 3 and 4 of this Scheme.

4 DETAILS OF NORTH ATLANTIC

4.1 North Atlantic was incorporated in England and Wales on 10 June 1940 with company number 00361726 as a private company limited by shares under the name British National Life Insurance Society Limited. Its name was changed to its current name on 11 September 1991.

4.2 The authorised nominal share capital of North Atlantic is £37,000,000 divided into 37,000,000 shares of £1 each. The issued share capital of North Atlantic is £37,000,000 of which £23,000,000 is paid up or credited as fully paid up and 14,000,000 shares are partly paid up or credited as partly paid up, in the sum of 6.07p each, being a total of £849,800. The registered holder and beneficial owner of the 37,000,000 issued shares in the capital of North Atlantic is CISHL.

5 PARTICIPATION IN THE SCHEME

5.1 The Financial Services Compensation Scheme

The FSCS Scheme Manager has agreed with North Atlantic and the Provisional Liquidators to undertake to North Atlantic and the Court to be bound by the Scheme (subject to it becoming effective) and to execute or do, or procure to be executed or done, all documents, acts or things as may be necessary or as the Court may consider desirable to be executed or done by it or on its behalf for the purpose of giving effect to the Scheme.

5.2 The Scheme Administrators

The first Scheme Administrators shall be Paul Anthony Brereton Evans and Mark Charles Batten, partners in the United Kingdom firm of PricewaterhouseCoopers, Plumtree Court, London EC4A 4HT, each of whom has given and has not withdrawn his consent to act as Scheme Administrator from the Effective Date and to be bound by the terms of the Scheme to the extent that they apply to him as Scheme Administrator.

5.3 The Scheme Actuary

The first Scheme Actuary shall be Peter Clark of PricewaterhouseCoopers, Southwark Towers, 32 London Bridge Street, London SE1 9SY, who has given and has not withdrawn his consent to act as Scheme Actuary from the Effective Date and to be bound by the terms of the Scheme to the extent that they apply to him as Scheme Actuary.

5.4 The Scheme Adjudicator

The first Scheme Adjudicator shall be Keith Garwood of 15A Jacques Lane, Clophill, Bedfordshire MK45 4BS, who has given and has not withdrawn his consent to act as Scheme Adjudicator from the Effective Date and to be bound by the terms of the Scheme to the extent that they apply to him as Scheme Adjudicator.

5.5 The Provisional Liquidators

The Provisional Liquidators, Paul Anthony Brereton Evans and Mark Charles Batten, have agreed to be bound by the terms of the Scheme to the extent that they apply to them as provisional liquidators.

5.6 The Creditors' Committee

The initial Creditors' Committee shall consist of those members elected in accordance with clause 64 plus the FSCS Scheme Manager.

6 PROPERTY OF NORTH ATLANTIC

6.1 The ownership of the Property of North Atlantic, including for the avoidance of doubt North Atlantic's rights under any Insurance Contract, shall not be affected by the provisions of the Scheme.

6.2 Without prejudice to this clause 6, North Atlantic shall forthwith upon the Effective Date place under the control of the Scheme Administrators all Property of North Atlantic to be applied in accordance with the provisions of the Scheme for the purposes set out in clause 3.

7 CONDITIONS PRECEDENT AND THE EFFECTIVE DATE

Subject to the Act, the Scheme shall become effective as soon as an office copy of the Court Order has been delivered to the Registrar of Companies for registration as required by Section 425(3) of the Act.

8 MODIFICATION OF THE SCHEME

8.1 North Atlantic may, at any hearing to sanction the Scheme, consent (i) on behalf of all those concerned to any modification of or addition to the Scheme, or (ii) to any terms or conditions which the Court may think fit to approve or impose at any hearing of the Court to sanction the Scheme in accordance with Section 425(2) of the Act, and in both cases which would not directly or indirectly have a materially adverse effect on the interest of any Scheme Creditor under the Scheme.

8.2 Any modification of or addition to the Scheme or any of its terms and conditions which, in the opinion of the FSCS Scheme Manager, would or might directly or indirectly adversely affect its interest in the Scheme, shall not take effect until approved by the FSCS Scheme Manager.

9 THE MEMORANDUM AND ARTICLES OF ASSOCIATION

During the Scheme Period, where there is a conflict between the Scheme and the Memorandum and Articles of Association, the Scheme shall take precedence.

10 PROHIBITION ON PROCEEDINGS

10.1 Subject to their rights under clauses 12 and 13, no Scheme Creditor shall be entitled to take any step, including any Proceeding, against North Atlantic or its Property in any jurisdiction whatsoever for the purpose of establishing the existence of, and/or quantum of, or for the purpose of obtaining or securing payment of, any Scheme Liability or any part thereof. Nothing in this clause 10.1 shall prevent any Scheme Creditor from taking any step, including any Proceeding, against North Atlantic to obtain a payment which North Atlantic has failed to make in accordance with its obligations under the provisions of the Scheme.

10.2 No Scheme Creditor shall, without the prior written consent of the FSCS Scheme Manager, be entitled to take any step, including any Proceeding, relating to the interpretation or application of the Policyholders Protection Act as it applies to the Scheme.

11 EFFECT OF PROHIBITED ACTS AND RECEIPT OF BENEFITS AFTER THE EFFECTIVE DATE

11.1 Subject to clause 12.1, if after the Effective Date any Scheme Creditor:

- (a) takes any action prohibited by clause 10.1; and/or
- (b) receives any money, property or other benefit or exercises any right in respect of the Property of North Atlantic (except the Blocked Funds) in any jurisdiction otherwise than *pari passu* with all Scheme Creditors,

then the Scheme Administrators shall, in their absolute discretion, determine the value of any such money, property, benefit or advantage received by the Scheme Creditor and (without limitation) may include such amount as the Scheme Administrators may consider to be appropriate by way of interest or costs, charges or expenses incurred by North Atlantic in relation thereto. Any amount received or treated as having been received by a Scheme Creditor under this clause 11.1 shall be paid to the Scheme Administrators forthwith without set-off, deduction, retention, abatement or counterclaim, and pending such payment shall be held on trust for North Atlantic for the purpose of the Scheme.

11.2 Notwithstanding clause 11.1, North Atlantic may, without prejudice to any other rights which it may have, treat the Scheme Creditor (in any such case) as having received, in respect of his Admitted Scheme Liability, an advance payment under Section 4 (to which the provisions of clause 39 shall apply) equal to the amount or value of any money, property, benefit or advantage obtained by him to the disadvantage of the Scheme Creditors as a whole as the result of such action, and the extent, if any, to which such Scheme Creditor would otherwise be entitled to any payment under the Scheme shall be reduced accordingly, provided that clause 11.1(b) shall not apply to or in relation to the FSCS Scheme Manager.

12 SECURITY INTERESTS

12.1 Nothing in the Scheme shall affect the right of any Scheme Creditor to take any appropriate action to enforce any Security Interest which could have been enforced if North Atlantic were being wound up pursuant to the Winding-up Petition and the order that North Atlantic be wound up had been made on the Petition Date, provided that any action to enforce any Security Interest is done strictly in accordance with the terms of the contract pursuant to which the Security Interest was established.

12.2 Any Scheme Creditor who shall obtain or receive payment by enforcing, drawing down or withdrawing any Security Interest in an amount which exceeds either the Scheme Liability which is due to him in respect of the contract or contracts, including any Insurance Contract, for which the Security Interest was issued or established, and/or any other Scheme Liability to which the Scheme Creditor is contractually entitled to apply it, or the amount which he is contractually entitled to receive from that Security Interest at the time when he receives or obtains payment, shall hold the amount of such excess on trust for North Atlantic to apply the same in accordance with the terms of the Scheme, and shall forthwith pay the same to the Scheme Administrators without set-off, deduction, retention, abatement or counterclaim. For the avoidance of doubt, the proceeds of any enforcement, drawdown or withdrawal under a Security Interest shall only be applied to a Scheme Liability arising under that contract, or to any other Scheme Liability to which the Scheme Creditor is contractually entitled to apply them.

12.3 Notwithstanding clause 12.2, the Scheme Administrators may, at their absolute discretion, treat any surplus referred to in clause 12.2 as an advance distribution to the Scheme Creditor in respect of his Admitted Scheme Liability. The provisions of clause 39 shall apply to any advanced distribution made under this clause 12.3.

- 12.4** Where a Scheme Creditor has enforced a Security Interest or Promissory Note before, on or after the Effective Date, and the Scheme Administrators are unable to reconcile or match all or part of the proceeds of enforcement, be they drawings under a letter of credit, payments under a Promissory Note or otherwise ('the **Unreconciled Proceeds**') with Scheme Liabilities against which such proceeds may be legitimately applied in accordance with the terms of the contract under which the Security Interest or Promissory Note was established, then without prejudice to any other rights which North Atlantic may have, including without limitation the right to demand repayment of the Unreconciled Proceeds, the Scheme Administrators may, at their absolute discretion, determine against which Insurance Contracts the Unreconciled Proceeds, plus any other advantage or benefit obtained by the Scheme Creditor, plus interest from the date of payment of the Unreconciled Proceeds and plus all costs incurred by North Atlantic in investigating the Unreconciled Proceeds, shall be applied.
- 12.5** Where all Scheme Liabilities under all contracts, including Insurance Contracts, in respect of which a Scheme Creditor is entitled to apply his Security Interests have been met, the Scheme Creditor in whose favour any such Security Interest was established shall provide such co operation and assistance as the Scheme Administrators may require in order to obtain the release of the balance remaining of any funds deposited as collateral in respect of such Security Interest to the Scheme Administrators. Each Scheme Creditor is deemed to acknowledge that, in the event that all his Scheme Liabilities are satisfied as a result of the realisation of any Security Interest, he shall continue to be obliged to provide assistance to the Scheme Administrators in accordance with this clause 12.5.
- 12.6** Nothing in the Scheme shall affect the rights of North Atlantic against any person in respect of any wrongful enforcement of any Security Interest issued or created in respect of North Atlantic. In particular, should a Scheme Creditor wrongfully enforce any Security Interest issued or created in respect of North Atlantic, this shall be deemed to constitute a step prohibited by clause 10.

13 SET-OFF

- 13.1** Where before the Ascertainment Date there have been mutual credits, mutual debts or other mutual dealings between North Atlantic and any Scheme Creditor, an account shall be taken of the Scheme Liabilities from North Atlantic to the Scheme Creditor, the values of which are determined in accordance with the terms of the Scheme, and all sums due from the Scheme Creditor to North Atlantic. In respect of the mutual credits, debts or other dealings, and the sums due from one party shall be set-off against the sums due from the other.
- 13.2** Contingent and prospective claims against North Atlantic, the amount of which has been established pursuant to the terms of the Scheme, in particular by the application of the Estimation Methodology, shall be included in the account to be taken pursuant to clause 13.1.
- 13.3** The Outwards Debt owed by a Scheme Creditor to North Atlantic, the amount of which has been calculated by reference to Ascertained Insurance Liabilities or by reference to Scheme Liabilities due to Net Debtors established on an individual basis, shall be included in the account to be taken pursuant to clause 13.1.
- 13.4** Only the balance (if any) from North Atlantic (for the avoidance of doubt, having taking account of any applicable Security Interest) shall thereafter constitute the Admitted Scheme Liability in respect of which that Scheme Creditor may receive a dividend pursuant to the Scheme. Any balance due to North Atlantic shall constitute a Net Debt.
- 13.5** For the avoidance of doubt, no Scheme Liability which has been assigned to a Scheme Creditor after the Petition Date may be applied in extinguishing or reducing any Liability of that Scheme Creditor to North Atlantic.
- 13.6** The Scheme Administrators shall treat the members of each Lloyd's Syndicate as a single Scheme Creditor so that no account shall be taken of any variation in the underwriting membership of that syndicate from one year of account to the next.

SECTION 3: DETERMINATION OF ADMITTED SCHEME LIABILITIES

A: ADMITTED INSURANCE LIABILITIES

14 BAR DATE AND ESTIMATION METHODOLOGY

14.1 All Scheme Liabilities and all Scheme Debts shall be valued as at the Ascertainment Date.

14.2 Any Scheme Creditor

(a) who does not on or before the Bar Date notify the Scheme Administrators that he may be a Scheme Creditor, and

(b) to whom notice of the Scheme Meetings or the Effective Date was not given,

shall, although bound by the terms of the Scheme, not be entitled to participate in any dividend distributions that may be paid to Scheme Creditors pursuant to Section 4, except to the extent North Atlantic's computer-based records show a liability to them.

14.3 The Scheme Administrators are not obliged, when determining a Scheme Creditor's Admitted Scheme Liability, to take into account any claim that the Scheme Creditor may have against North Atlantic or any information which may be relevant to the Scheme Creditor's Admitted Scheme Liability, which is not available to the Scheme Administrators from the records of North Atlantic and which is not notified to the Scheme Administrators on or before the Bar Date. This clause and the following clause 14.4 shall not apply to the FSCS Scheme Manager.

14.4 Each Scheme Creditor agrees to be bound by the Estimation Methodology to the extent it is applied to determine an Ascertained Insurance Liability. Furthermore, for the purposes of determining a Scheme Creditor's Outwards Debt, if applicable, that Scheme Creditor agrees to be bound by:

(a) the value of any Ascertained Insurance Liability calculated in accordance with this Section 3; and

(b) the value of any Scheme Liability determined by an agreement reached between the Scheme Administrators and any person who is not a Scheme Creditor but to whom North Atlantic owes such Scheme Liability,

insofar as such Ascertained Insurance Liability or Scheme Liability is used to calculate the relevant Scheme Creditor's Outwards Debt.

15 NOTICE OF EFFECTIVE DATE

15.1 The Scheme Administrators shall:

(a) as soon as practicable after the Effective Date in respect of (i) the FSCS Scheme Manager and (ii) each person they believe to be a Scheme Creditor with an Insurance Liability to whom notice of the Scheme Meetings was given; and

(b) as soon as practicable after becoming aware, prior to the Bar Date, of any other person they believe to be a Scheme Creditor with an Insurance Liability,

send by Post to his last known address a Notice of Effective Date stating amongst other things that the Scheme has become effective.

15.2 In addition to providing each known Scheme Creditor with the Notice of Effective Date in accordance with clause 15.1, the Scheme Administrators shall cause to be published in the same newspapers and publications in which the Scheme Meetings were advertised, an advertisement:

(a) calling for any person believing himself to be a Scheme Creditor who has not received a Notice of Effective Date to contact the Scheme Administrators;

(b) calling for Scheme Creditors to complete and return PCFs or FCPs, as is appropriate, on or before the Bar Date; and

(c) notifying Scheme Creditors of where and to whom queries may be addressed.

16 PROVISIONAL CLAIM FORMS

- 16.1** Each Scheme Creditor who is sent a Notice of Effective Date under clause 15.1 shall also be able to access Electronically, and if requested shall be sent by Post, a PCF. The PCF shall list the relevant Scheme Creditor's aggregate Agreed Balances and aggregate known Outstanding Loss Reserves and a provisional (non-binding) estimate of that Scheme Creditor's Ascertained Insurance Liability, excluding for the avoidance of doubt IBNR.
- 16.2** The Scheme Administrators shall send by Post to the FSCS Scheme Manager in accordance with clause 16.1 a copy of the PCF for each Protected Policyholder who has or might have an Agreed Balance Protected Liability whether or not the relevant Scheme Creditor makes a request pursuant to clause 16.1.

17 FULL CLAIMS PACKS

- 17.1** Each Scheme Creditor who is sent a Notice of Effective Date in accordance with clause 15.1 shall also be able to access Electronically, and if requested by mail be sent by Post, an FCP. The FCP shall contain:
- (a)** in respect of each known Agreed Balance and Outstanding Loss Reserve, for each individual contract by underwriting year of the relevant Scheme Creditor, relevant information known to the Scheme Administrators concerning such Insurance Liability; and
 - (b)** any relevant information known to the Scheme Administrators concerning sums which may be due to the Scheme Creditor from North Atlantic under any Insurance Contract.
- 17.2** Each Scheme Creditor who is or may be a Protected Policyholder hereby consents to a copy of his FCP being sent by North Atlantic to the FSCS Scheme Manager if so requested by the FSCS Scheme Manager.

18 BAR DATE

- 18.1** At any time on or before the Bar Date, a Scheme Creditor may:
- (a)** access the PCF Electronically or use the copy sent by Post, if requested as contemplated by clause 16, accept and confirm the information in the PCF and return it Electronically or by Post to the Scheme Administrators; or
 - (b)** where he disputes the information contained in the PCF or claims IBNR or both, access the FCP Electronically or request that it be sent by Post, amend such Information on the FCP as he sees fit and then return it Electronically or by Post to the Scheme Administrators.
- 18.2** In addition to the options available to a Scheme Creditor under clause 18.1, a Scheme Creditor may, at any time prior to the Bar Date, request Electronically or by Post that a revised PCF be sent to him. The relevant Scheme Creditor shall give details of why a revised PCF has been requested.
- 18.3** Should the Scheme Administrators receive a request for a revised PCF in accordance with clause 18.2, they shall review the reasons for the request and they shall, in their absolute discretion, either accept or reject such a request and shall communicate their decision Electronically or by Post to the relevant Scheme Creditor, together with the revised PCF, if appropriate, as soon as practicable after receiving the request.
- 18.4** Notwithstanding that a Scheme Creditor may have returned a PCF or an FCP pursuant to clause 18.1, such Scheme Creditor may at any time on or before the Bar Date submit a PCF (where previously they have not done so), or a revised PCF (but only in accordance with clause 18.3), or amend or re-amend the information on the FCP and submit it or re-submit it, in all cases by returning the PCF or FCP, as is appropriate, Electronically or by Post to the Scheme Administrators.

19 FINAL SUBMISSION OF PROVISIONAL CLAIM FORMS AND FULL CLAIMS PACKS

- 19.1** The information contained in the final PCF or FCP returned by a Scheme Creditor Electronically or by Post in accordance with clause 18 and received by the Scheme Administrators on or before the Bar Date shall be used by the Scheme Administrators for the purposes of determining the relevant Scheme Creditor's Ascertained Insurance Liability.
- 19.2** If the Scheme Administrators do not receive either a PCF or an FCP Electronically or by Post on or before the Bar Date (in which case the relevant Scheme Creditor shall be deemed to have accepted and confirmed the information contained in its FCP), or where a Scheme Creditor returns a PCF in accordance with clause 19.1 and accepts and confirms the information in the PCF, then, in both cases, the provisional estimate of that Scheme Creditor's Ascertained Insurance Liability as stated in the PCF shall, subject to clause 23, be that Scheme Creditor's Ascertained Insurance Liability. For the avoidance of doubt a PCF shall not include any provision for IBNR.

20 AGREEING FULL CLAIMS PACK INFORMATION

- 20.1** If a Scheme Creditor returns his FCP Electronically or by Post and it is received by the Scheme Administrators on or before the Bar Date, then the Scheme Administrators shall consider the Information in the returned FCP and endeavour to agree that Information with the relevant Scheme Creditor as soon as practicable. In this regard, the Scheme Administrators shall be entitled, in a notice sent Electronically or by Post to the relevant Scheme Creditor, to specify such further information, or require the production to them of such documentary or other evidence as they may require to assist them in agreeing the Information.
- 20.2** If the Scheme Administrators and the Scheme Creditor concerned reach agreement in accordance with clause 20.1, then the Scheme Administrators shall send a notice Electronically or by Post to the relevant Scheme Creditor stating that they have no further queries at that time. For the avoidance of doubt, this clause 20.2 is without prejudice to the Scheme Administrators' rights under clause 23.
- 20.3** If the Scheme Administrators, in their absolute discretion, believe, at any time, that in relation to any Scheme Creditor there is Information not included on the FCP which they believe is relevant in determining that Scheme Creditor's Ascertained Insurance Liability, they may provide such Information to such Scheme Creditor, and the provisions of clause 20.1 and 20.2 shall apply to such Information.

21 REFERRED INSURANCE LIABILITIES

- 21.1** Subject to clause 22.3, at any time that the Scheme Administrators in their absolute discretion believe that agreement cannot be reached between the Scheme Administrators and a Scheme Creditor in accordance with clause 20.1, then the Scheme Administrators shall send an Adjudication Notice to the relevant Scheme Creditor Electronically or by Post together with an FCP containing the Information that the Scheme Administrators are willing to accept. The relevant Scheme Creditor shall have 30 days from the date that the Adjudication Notice is sent to him by the Scheme Administrators to elect by sending notice to the Scheme Administrators Electronically or by Post to request that the matter is referred to the Scheme Adjudicator in accordance with clause 21.3. If the Scheme Creditor fails to elect to refer the matter to the Scheme Adjudicator, he shall be deemed to have accepted and confirmed the information in the FCP sent with the Adjudication Notice.
- 21.2** Insofar as any Information in respect of which agreement cannot be reached as contemplated by clause 21.1 may relate to a Potentially Protected Liability, a copy of the Adjudication Notice and the relevant FCP shall also be sent to the FSCS Scheme Manager by Post. The FSCS Scheme Manager shall have 30 days from the date of receipt of the Adjudication Notice to elect to refer the matter to the Scheme Adjudicator in accordance with clause 21.3. Should the decision of the FSCS Scheme Manager under this clause 21.2 be different to that of the relevant Scheme Creditor under clause 21.1, the decision of the FSCS Scheme Manager shall prevail.

- 21.3** If the Scheme Administrators receive notice from the relevant Scheme Creditor in accordance with clause 21.1 or the FSCS Scheme Manager in accordance with clause 21.2 stating that he or it wishes the matter to be referred to the Scheme Adjudicator, then the Scheme Administrators shall refer each Insurance Liability for which there is disputed Information to the Scheme Adjudicator as a Referred Insurance Liability to be determined in accordance with clause 45. At the same time the Scheme Administrators shall notify the relevant Scheme Creditor Electronically or by Post and the FSCS Scheme Manager (if applicable) by Post, that the matter has been referred to the Scheme Adjudicator.
- 21.4** Any determination by the Scheme Adjudicator pursuant to clause 45 shall, subject to clause 23 and clause 83, be final and binding on the relevant Scheme Creditor and the Scheme Administrators for the purposes of the Scheme, and no Scheme Creditor nor the Scheme Administrators shall have any right of appeal therefrom, or any claim against the Scheme Adjudicator in respect thereof, except so far as permitted by law. The Scheme Adjudicator shall not be entitled nor shall he make any determination on the interpretation of the Policyholders Protection Act or to the extent of the FSCS Scheme Manager's obligations thereunder or whether any Liability of North Atlantic is a Protected Liability.

22 ESTIMATION METHODOLOGY

- 22.1** The Scheme Administrators shall at such time or times in their absolute discretion that they believe appropriate, submit to the Scheme Actuary any Information that has been accepted and confirmed in accordance with either clause 20.2 or, in relation to Referred Insurance Liabilities, that has been adjudicated upon by the Scheme Adjudicator pursuant to clause 45. The Scheme Actuary will then apply the Estimation Methodology to each relevant Insurance Liability for which Information has been submitted to him.
- 22.2** Once the Scheme Actuary has applied the Estimation Methodology to such Information, the Scheme Administrators shall send Electronically or by Post to each relevant Scheme Creditor a Crystallisation Statement in accordance with clause 25.1, containing an estimate of the relevant Scheme Creditor's Ascertained Insurance Liability, which shall, subject to clauses 23 and 25.2, be that Scheme Creditor's Ascertained Insurance Liability.
- 22.3** For the avoidance of doubt, and notwithstanding anything in this Section 3, the Scheme Administrators may, in their absolute discretion, suspend seeking to agree Information with a Scheme Creditor and/or withhold submitting any Information to the Scheme Actuary, in each case as they deem appropriate, where it appears to the Scheme Administrators that the amount of an Insurance Liability may be materially affected by Proceedings or other events (including, but not limited to, where there is an Insurance Liability in relation to which there is a Market Dispute), until such Proceedings or other events have been resolved to the satisfaction of the Scheme Administrators. Should the Scheme Administrators decide to suspend seeking to agree Information as contemplated by this clause 22.3, they shall notify each relevant Scheme Creditor Electronically or by Post as soon as is reasonably practicable. Once the Proceeding or other event has been resolved, the Scheme Administrators shall, in respect of the relevant Scheme Liabilities, continue the process of valuing such Scheme Liabilities in accordance with this Section 3. For the avoidance of doubt, the Scheme Administrators and the Scheme Actuary may, but are under no obligation to do so, take into account the outcome of any Proceedings or other event (including any Market Dispute) in determining a Scheme Creditor's Ascertained Insurance Liability. Where Potentially Protected Liabilities mature into Protected Liabilities between the Ascertainment Date and the date on which the Scheme Actuary starts to apply the Estimation Methodology, the Scheme Actuary will take that information into account in applying the Estimation Methodology, except in respect of any such Protected Liabilities where the FSCS Scheme Manager has been admitted as a Scheme Creditor under clause 31.3.

23 REVISED PROVISIONAL CLAIM FORMS AND FULL CLAIMS PACKS

- 23.1** Notwithstanding any provision in this Section 3, but subject as follows, the Scheme Administrators may send Electronically or by Post a Notice of Withdrawal together with a revised PCF or FCP to any Scheme Creditor at any time before that Scheme Creditor is sent a Crystallisation Statement in accordance with clause 25.1 should the Scheme Administrators in their absolute discretion believe it appropriate do so. For the avoidance of doubt, (i) this clause 23.1 shall apply even where a Scheme Creditor has had his Ascertained Insurance Liability determined in accordance with clause 24; and (ii) no revision of a Protected Liability shall be capable of being made after the date upon which the FSCS Scheme Manager makes a payment in respect thereof to the Protected Policyholder unless the FSCS Scheme Manager agrees otherwise.
- 23.2** At any time on or before the later of the Bar Date and 30 days after the date a Notice of Withdrawal together with a revised PCF or FCP is sent to a Scheme Creditor, the relevant Scheme Creditor may:
- (a)** accept and confirm the information in the PCF or FCP and return it Electronically or by Post to the Scheme Administrators;
 - (b)** if he disputes the information contained in the PCF, access the FCP Electronically or request that it be sent by Post, amend such Information in the FCP as he sees fit and then return it Electronically or by Post to the Scheme Administrators; or
 - (c)** where he disputes the information in the FCP, amend such Information as he sees fit and then return it Electronically or by Post to the Scheme Administrators.
- 23.3** Where a Scheme Creditor who was sent a PCF in accordance with clause 23.1 either accepts the information in the PCF in accordance with clause 23.2(a) or fails to return either a PCF or FCP in accordance with either clause 23.2(a), (b) or (c), then in both cases the Ascertained Insurance Liability as stated in the PCF shall, subject to this clause 23, be that Scheme Creditor's Ascertained Insurance Liability. For the avoidance of doubt the PCF does not include IBNR.
- 23.4** Where a Scheme Creditor who was sent an FCP in accordance with clause 23.1 either accepts the Information in the FCP in accordance with clause 23.2(a) or returns the FCP in accordance with either clause 23.2(b) or (c), then the provisions of clauses 20, 21 and 22 shall apply insofar as they are relevant.

24 ASCERTAINED INSURANCE LIABILITIES

- 24.1** The determination of a Scheme Creditor's Ascertained Insurance Liability pursuant to either clause 19.2, 22.2 or 23.3 shall, subject to clauses 23 and 25.2, be final and binding on the Scheme Administrators, North Atlantic and the Scheme Creditor concerned and shall be that Scheme Creditor's Ascertained Insurance Liability for the purposes of the Scheme.
- 24.2** No Scheme Creditor shall be entitled to make any claim against the FSCS Scheme Manager under the Policyholders Protection Act or the FSCS Rules (in the event that those rules might in the future apply to any liquidation of North Atlantic) in respect of an Ascertained Insurance Liability or any revision or recalculation on the basis of the value of that Liability as determined in accordance with the terms of the Scheme and in particular under the Estimation Methodology. The Estimation Methodology shall not apply to or affect the FSCS Scheme Manager other than in so far as the Estimation Methodology is used to calculate the dividends to be paid to the FSCS Scheme Manager under clause 47, which is being paid to it as a condition of its participation in this Scheme.
- 24.3** For the avoidance of doubt the FSCS Scheme Manager shall not for the purpose of assessing eligibility under the Policyholders Protection Act or the FSCS Rules (in the event that those rules might in the future apply to any liquidation of North Atlantic) be bound by any information as to Outstanding Loss Reserves or IBNR (either as to existence, liability or quantum) and Scheme Creditors accept that claims in respect of such matters are not eligible for protection under the Policyholders Protection Act or the FSCS Rules (in the event that those rules might in the future apply to any liquidation of North Atlantic) unless and until any such claim becomes validly established as a liability under a policy within the meaning of the

Policyholders Protection Act or the FSCS Rules (in the event that those rules might in the future apply to any liquidation of North Atlantic) and subject also to all other conditions and requirements of the Policyholders Protection Act or the FSCS Rules (in the event that those rules might in the future apply to any liquidation of North Atlantic) being complied with.

25 CRYSTALLISATION STATEMENT AND DEBTOR PACK

- 25.1** At any time that the Scheme Administrators in their absolute discretion believe appropriate following the determination of a Scheme Creditor's Ascertained Insurance Liability under and in accordance with the Scheme, the Scheme Administrators shall send Electronically or by Post to such Scheme Creditor a Crystallisation Statement. The Crystallisation Statement will show the relevant Scheme Creditor's Ascertained Insurance Liability, a provisional estimate of that Scheme Creditor's Outwards Debt, if applicable, and a provisional estimate of that Scheme Creditor's Admitted Insurance Liability.
- 25.2** Each Scheme Creditor who is sent a Crystallisation Statement in accordance with clause 25.1 shall have 30 days from the date such Crystallisation Statement is sent to request that his Ascertained Insurance Liability be re-calculated should that Scheme Creditor believe that there is a manifest or arithmetic error in the calculation of his Ascertained Insurance Liability. The relevant Scheme Creditor shall when making such a request provide the Scheme Administrators with any evidence to support such belief. For the avoidance of doubt, subject to clause 24.3, each Scheme Creditor is bound by the Estimation Methodology and no challenge can be made to or in respect of it.
- 25.3** If the Scheme Administrators, in their absolute discretion, believe that a request made by a Scheme Creditor in accordance with clause 25.2 is reasonable, they shall take whatever steps they deem necessary, with such help from the relevant Scheme Creditor as they see fit, to re-calculate the final estimate of that Scheme Creditor's Ascertained Insurance Liability, and shall send Electronically or by Post to the relevant Scheme Creditor a revised Crystallisation Statement with a revised estimate of his Ascertained Insurance Liability, and as a result a revised provisional estimate of his Admitted Insurance Liability. Such revised Ascertained Insurance Liability shall be that Scheme Creditor's Ascertained Insurance Liability, subject to the provisions of clause 25.2 and, in the case of Potentially Protected Liabilities, clause 24.2. For the avoidance of doubt, even where a Scheme Creditor is sent a revised Crystallisation Statement in accordance with clause 25.3, that Scheme Creditors' Debtor Pack Reply Deadline shall be calculated by reference to the Crystallisation Statement sent in accordance with clause 25.1.
- 25.4** Each Scheme Creditor who is sent a Crystallisation Statement pursuant to clause 25.1 will be able to request to be sent by Post a Debtor Pack. A Debtor Pack will contain details of each appropriate Insurance Contract between North Atlantic and that Scheme Creditor together with the provisional estimate of that Scheme Creditor's Outwards Debt.
- 25.5** To the extent that any Protected Policyholder is also a debtor of the Company, and that Protected Policyholder requests a Debtor Pack, then a copy of the Debtor Pack shall also be sent to the FSCS Scheme Manager.

26 DEBTOR PACK REPLY DEADLINE

- 26.1** At any time on or before the Debtor Pack Reply Deadline, a Scheme Creditor may:
- (a)** accept and confirm the information in the Crystallisation Statement and return it Electronically or by Post to the Scheme Administrators; or
 - (b)** where he disputes the information in the Crystallisation Statement as regards his Outwards Debt request that a Debtor Pack be sent by Post, amend such information on the Debtor Pack as he sees fit, and then return it by Post to the Scheme Administrators. For the avoidance of doubt, the Scheme Creditor shall only be entitled to dispute his Ascertained Insurance Liability in accordance with clause 25.2.

26.2 Notwithstanding that a Scheme Creditor may have returned a Crystallisation Statement or a Debtor Pack in accordance with clause 26.1, such Scheme Creditor may at any time on or before the Debtor Pack Reply Deadline submit a Crystallisation Statement or amend or re-amend the Debtor Pack and submit it, by returning the Crystallisation Statement or Debtor Pack, as is appropriate, to the Scheme Administrators Electronically (in the case of the Crystallisation Statement only) or by Post.

27 FINAL SUBMISSION OF CRYSTALLISATION STATEMENT OR DEBTOR PACK

27.1 The final Crystallisation Statement or Debtor Pack returned by a Scheme Creditor Electronically (in the case of a Crystallisation Statement only) or by Post in accordance with clause 26 and received by the Scheme Administrators on or before the Debtor Pack Reply Deadline shall be used by the Scheme Administrators for determining the relevant Scheme Creditor's Outwards Debt, if applicable, and Admitted Insurance Liability.

27.2 If the Scheme Administrators fail to receive a Crystallisation Statement or Debtor Pack Electronically (in the case of a Crystallisation Statement only) or by Post on or before the Debtor Pack Reply Deadline, then the relevant Scheme Creditor shall be deemed to have accepted and confirmed the information contained in the Crystallisation Statement.

27.3 Where the Scheme Administrators do fail to receive a Crystallisation Statement or Debtor Pack as contemplated by clause 27.2, or where a Scheme Creditor returns a Crystallisation Statement pursuant to clause 27.1 and accepts and confirms the information in the Crystallisation Statement then, in both cases, the provisional estimate of that Scheme Creditor's Outwards Debt, if applicable, as stated in the Crystallisation Statement shall, subject to clause 28.1, be that Scheme Creditor's Outwards Debt.

27.4 If a Scheme Creditor returns his Debtor Pack by Post and it is received by the Scheme Administrators on or before the Debtor Pack Reply Deadline, then the Scheme Administrators shall endeavour to agree the information in the Debtor Pack with the relevant Scheme Creditor. In this regard, the Scheme Administrators shall be entitled, in a notice sent to the relevant Scheme Creditor by Post, to specify such further information, or require the production to them of such documentary or other evidence, as they may require to assist them in agreeing the relevant information.

27.5 If the Scheme Administrators and the Scheme Creditor concerned reach agreement in accordance with clause 27.4, then the relevant Scheme Creditor shall be deemed to have accepted and confirmed the agreed information and the agreed provisional estimate of that Scheme Creditor's Outwards Debt shall, subject to clause 28.1, be that Scheme Creditor's Outward Debt.

27.6 At any time that the Scheme Administrators in their absolute discretion believe that agreement cannot be reached between the Scheme Administrators and a Scheme Creditor in accordance with clause 27.4 then the Scheme Administrators shall send to the relevant Scheme Creditor by Post an Adjudication Notice together with a Debtor Pack containing the information that the Scheme Administrators are willing to accept and a Crystallisation Statement based on that Debtor Pack. The relevant Scheme Creditor shall have 30 days from the date that the Adjudication Notice is sent to him by the Scheme Administrators to elect Electronically or by Post to refer the matter to the Scheme Adjudicator in accordance with clause 27.7. If the Scheme Creditor fails to elect to refer the matter to the Scheme Adjudicator, he shall be deemed to have accepted and confirmed the information in the Crystallisation Statement sent with the Adjudication Notice.

27.7 If the Scheme Administrators do receive notice from the relevant Scheme Creditor in accordance with clause 27.6 stating that he wishes the matter to be referred to the Scheme Adjudicator, then the Scheme Administrators shall refer each relevant Scheme Debt to the Scheme Adjudicator as a Referred Scheme Debt to be determined in accordance with clause 45. At the same time the Scheme Administrators shall notify the relevant Scheme Creditor by Post that the matter has been referred to the Scheme Adjudicator.

27.8 For the avoidance of doubt, the Scheme Adjudicator shall accept the determination of the Scheme Liabilities provided to him by reference to which a Scheme Creditor's Outwards Debt shall be calculated. Furthermore, any determination by the Scheme Adjudicator pursuant to clause 45 shall, subject to clause 83, be final and binding and shall be the relevant Scheme Creditor's Outward Debt and no Scheme Creditor nor the Scheme Administrators shall have any right of appeal there from, except so far as permitted by law, or any claim against the Scheme Adjudicator in respect thereof.

27.9 The determination of a Scheme Creditors' Outward Debt pursuant to clause 27.3, 27.5 or 27.8 shall, subject to clause 28.1, be final and binding on the Scheme Administrators, North Atlantic and the Scheme Creditor concerned and shall be that Scheme Creditor's Outward Debt for the purposes of the Scheme.

28 REVISED CRYSTALLISATION STATEMENTS AND DEBTOR PACKS

28.1 Notwithstanding any provision in this Section 3, the Scheme Administrators may send Electronically (in the case of sending a revised Crystallisation Statement only) or by Post a Notice of Withdrawal together with a revised Crystallisation Statement or Debtor Pack to any Scheme Creditor at any time until all or substantially all known Admitted Insurance Liabilities have been determined in accordance with clause 29 should the Scheme Administrators in their absolute discretion believe it appropriate do so for the purpose of determining any Scheme Creditor's Outwards Debt. For the avoidance of doubt, this clause 28.1 shall apply even where a revised Crystallisation Statement or Debtor Pack is sent to a Scheme Creditor who has had his Admitted Insurance Liability determined in accordance with clause 29.

28.2 Where a Notice of Withdrawal is sent to a Scheme Creditor in accordance with clause 28.1, the provisions of clauses 25 to 28 shall apply insofar as they are relevant.

29 ADMITTED INSURANCE LIABILITIES

29.1 The Scheme Administrators shall as soon as practicable after determination of a Scheme Creditor's Outwards Debt in accordance with clause 27.5 or 27.8 send Electronically or by Post a revised Crystallisation Statement containing a final estimate of that Scheme Creditor's Admitted Insurance Liability.

29.2 Subject to clause 28.1, the estimate of a Scheme Creditor's Admitted Insurance Liability as set out in the Crystallisation Statement sent in accordance with clause 29.1, or, where not sent in accordance with clause 29.1, the one sent in accordance with clause 25.3, or where not sent in accordance with clause 25.3, the one sent in accordance with clause 25.1 shall be final and binding on the Scheme Administrators, North Atlantic and the Scheme Creditor concerned and shall be that Scheme Creditor's Admitted Insurance Liability for the purposes of the Scheme.

29.3 For the avoidance of doubt (without prejudice to any duties of the FSCS Scheme Manager which might arise in a liquidation of North Atlantic), no Scheme Creditor shall be entitled to make any claim or shall otherwise be eligible for any payment from the FSCS Scheme Manager or for protection under the terms of the Scheme, the Policyholders Protection Act or the FSCS Rules (in the event that those rules might in the future apply to any liquidation of North Atlantic) in respect of any Ascertained and/or Admitted Insurance Liability which is not an Agreed Balance Protected Liability, other than in accordance with clause 47.

B: ADMITTED NON-INSURANCE LIABILITIES**30 NON-INSURANCE LIABILITIES**

- 30.1** The Scheme Administrators shall as soon as practical after the Effective Date send to each Scheme Creditor whom the Scheme Administrators believe has Non-Insurance Liabilities notice that the Scheme has become effective together with a Statement (in similar form to a PCF and entitled Provisional Claim Form) setting out the amount which from North Atlantic's records it appears to the Scheme Administrators is owed by North Atlantic to the relevant Scheme Creditor in respect of his Non-Insurance Liabilities.
- 30.2** At any time on or before the Bar Date, each Scheme Creditor who is sent a Statement in accordance with clause 30.1 may:
- (a)** accept and confirm the information in the Statement and return it Electronically or by Post to the Scheme Administrators; or
 - (b)** where he disputes the information in the Statement, send a statement of the amount he considers to be due in respect of Non-insurance Liabilities Electronically or by Post to the Scheme Administrators.
- 30.3** If the Scheme Administrators fail to receive a Statement or revised Statement on or before the Bar Date in accordance with either clause 30.2(a) or 30.2(b), then the Scheme Creditor shall be deemed to have accepted and confirmed the information in the Statement sent to him under clause 30.1 and the aggregate value of the relevant Scheme Creditor's Non-Insurance Liabilities as set out in the Statement shall, subject to clause 30.10, be that Scheme Creditor's Admitted Non-Insurance Liability for the purposes of the Scheme.
- 30.4** If a Scheme Creditor provides an amended Statement in accordance with clause 30.2(b) so that it is received by the Scheme Administrators on or before the Bar Date, then the Scheme Administrators shall consider the information in the returned Statement and endeavour to agree that information with the relevant Scheme Creditor. In this regard, the Scheme Administrators shall be entitled, in a notice sent Electronically or by Post to the relevant Scheme Creditor, to specify such further information, or require the production to them of such documentary or other evidence, as they may require to assist them in agreeing the relevant information.
- 30.5** If the Scheme Creditor and the Scheme Administrators reach agreement in accordance with clause 30.4 with respect to the value to be attributed to that Scheme Creditor's Non-Insurance Liabilities, then subject to clause 30.10 the agreed aggregate value shall constitute that Scheme Creditor's Admitted Non-Insurance Liability for the purposes of the Scheme.
- 30.6** At any time that the Scheme Administrators in their absolute discretion believe that agreement cannot be reached with a Scheme Creditor in accordance with clause 30.4, the Scheme Administrators shall send an Adjudication Notice to the relevant Scheme Creditor Electronically or by Post together with a Statement containing the information that the Scheme Administrators are willing to accept. The relevant Scheme Creditor shall have 30 days from the date that the Adjudication Notice is sent to him by the Scheme Administrators to elect Electronically or by Post to refer the matter to the Scheme Adjudicator. If the Scheme Creditor fails to elect to refer the matter to the Scheme Adjudicator, he shall be deemed to have accepted and confirmed the information in the Statement sent with the Adjudication Notice.
- 30.7** If the Scheme Administrators do receive notice from the relevant Scheme Creditor in accordance with clause 30.6 stating that he wishes the matter to be referred to the Scheme Adjudicator, then the Scheme Administrators shall refer such Scheme Creditor's Non-Insurance Liabilities to the Scheme Adjudicator as Referred Non-Insurance Liabilities and shall send to the Scheme Adjudicator and the relevant Scheme Creditor a notice Electronically or by Post to the effect that the relevant Non-Insurance Liabilities have become Referred Non-Insurance Liabilities and that their value will be determined by the Scheme Adjudicator in accordance with clause 30.8.

- 30.8** Where a Scheme Creditor's Non-Insurance Liabilities have been designated Referred Non-Insurance Liabilities and the Scheme Adjudicator has been notified of that fact in accordance with clause 30.7, the Scheme Adjudicator shall, before the expiration of three months from the date on which such Non-Insurance Liabilities were referred to him by the Scheme Administrators, determine the value of the Referred Non-Insurance Liabilities, which will then in aggregate be that Scheme Creditors' Admitted Non-Insurance Liability for the purposes of the Scheme. In doing so, all the provisions of the Scheme relating to the adjudication of Referred Insurance Liabilities and Referred Scheme Debts set out in clause 45 shall apply insofar as relevant to Referred Non-Insurance Liabilities. Any determination by the Scheme Adjudicator pursuant to clause 45 shall, subject to clause 83, be final and binding on the relevant Scheme Creditor and the Scheme Administrators and there shall be no right of appeal therefrom, except so far as permitted by law, or any claim against the Scheme Adjudicator in respect thereof.
- 30.9** The determination of a Scheme Creditor's Admitted Non-Insurance Liability in accordance with clause 30.3, 30.5 or 30.8 shall be final and binding on the Scheme Administrators, North Atlantic and the relevant Scheme Creditor, and shall, subject to clause 30.10, be that Scheme Creditor's Admitted Non-Insurance Liability for the purposes of the Scheme.
- 30.10** Notwithstanding any provision in this clause 30, the Scheme Administrators may send Electronically or by Post a Notice of Withdrawal with a revised Statement to any Scheme Creditor at any time until all or substantially all Admitted Non-Insurance Liabilities have been determined in accordance with clause 30.9 should the Scheme Administrators in their absolute discretion believe it appropriate to do so. For the avoidance of doubt this clause 30.10 shall apply even where a revised Statement is sent to a Scheme Creditor who has had his Admitted Non-Insurance Liability determined in accordance with clause 30.9.
- 30.11** The provisions of clauses 30.2 to 30.9 inclusive shall apply to any Scheme Creditor sent a revised Statement in accordance with clause 30.10 except that the time limit imposed by clause 30.2 shall be anytime on or before the later of the Bar Date and 30 days after the date that the Notice of Withdrawal is sent.

C: ADMITTED SCHEME LIABILITIES

31 ADMITTED SCHEME LIABILITIES

- 31.1** A Scheme Creditor's Admitted Scheme Liability for the purposes of the Scheme shall be the aggregate of that Scheme Creditor's Admitted Insurance Liability and its Admitted Non-Insurance Liability (if any).
- 31.2** Nothing in this Scheme shall be construed as resulting in any release, extinguishment, modification, compromise or waiver of any Liability and the determination of a Scheme Creditor's Admitted Scheme Liability is being made solely for the purpose of paying dividends to such Scheme Creditor on that Admitted Scheme Liability under Section 4. Each Scheme Creditor agrees that payment of all dividends in accordance with and as contemplated by Section 4 shall be made and accepted in full and final settlement of that Scheme Creditor's right to receive dividends pursuant to the terms of the Scheme in respect of all Liabilities of North Atlantic to the relevant Scheme Creditor.
- 31.3** Where the FSCS Scheme Manager makes a payment to a Protected Policyholder in respect of:
- (a)** any Agreed Balance Protected Liability under clause 46.1 prior to any dividend being paid to such Protected Policyholder in respect of such Agreed Balance Protected Liability under Section 4; or
 - (b)** a Potentially Protected Liability under clause 47.3 which has matured into a Protected Liability prior to the Scheme Actuary having commenced the application of the Estimation Methodology to the claims of that Scheme Creditor,

then the FSCS Scheme Manager shall (without prejudice to its rights under clause 49) be admitted as a Scheme Creditor with an Admitted Scheme Liability (and be eligible as such for

dividend payments under Section 4) in an amount equal to the amount certified by the FSCS Scheme Manager as having been paid by it to the relevant Protected Policyholder (where the Protected Percentage paid by FSCS Scheme Manager is 100%) or, where the Protected Percentage paid by the FSCS Scheme Manager in respect of the Protected Liability is at the rate of 90%, the full amount of that Protected Liability.

32 EXTENSION OF TIME LIMITS

Except in relation to the Bar Date, the Scheme Administrators may, in their absolute discretion, extend any time period referred to in this Section 3 for any one or more or all Scheme Creditors as they see fit.

33 SCHEME CREDITORS TO ASSIST SCHEME ADMINISTRATORS

During the Scheme Period, and notwithstanding clause 14.3, each Scheme Creditor shall provide to the Scheme Administrators all reasonable assistance required by the Scheme Administrators in connection with the Scheme and shall provide such assistance and information that the Scheme Administrators may reasonably require in connection with the recovery of any Property or the enforcement of obligations owed to North Atlantic. In addition, each Scheme Creditor shall provide, without being requested to do so by the Scheme Administrators, all claims information of which he may become aware after the Bar Date and shall provide such assistance and information as the FSCS Scheme Manager may require in connection with any Potentially Protected Liability. This clause 33 shall not apply to the FSCS Scheme Manager in its capacity as a Scheme Creditor.

SECTION 4: PAYMENTS UNDER THE SCHEME

34 PAYMENT OF PRIORITY LIABILITIES

As soon as practicable after the Effective Date, North Atlantic shall pay in full all its Priority Liabilities, in priority to its Admitted Scheme Liabilities, but nothing in this clause shall oblige North Atlantic to pay any Priority Liability at any time before the date on which such Priority Liability would, apart from the Scheme, otherwise have become due for payment.

35 AVAILABLE DISTRIBUTABLE AMOUNT

35.1 The Scheme Administrators shall, as soon as practicable after all or substantially all known Admitted Scheme Liabilities (including the value of Scheme Liabilities in respect of which dividends will be paid to the FSCS Scheme Manager pursuant to clause 31 and clause 47) review the Property and Liabilities of North Atlantic and determine, subject to clause 35.2, the amount ('the **Available Distributable Amount**') which in the opinion of the Scheme Administrators, having consulted with the Scheme Actuary and the Creditors' Committee, is the amount prudently available at that time for payment by way of interim distribution to Scheme Creditors in respect of those Admitted Scheme Liabilities.

35.2 In determining the Available Distributable Amount the Scheme Administrators shall make proper provision for Priority Liabilities (to be paid or provided for pursuant to clause 34); sums which may be due to Scheme Creditors under the Scheme who have yet to have their claims determined in accordance with clause 31, any other Liabilities of North Atlantic, including costs to be incurred in winding up North Atlantic and any other costs which may be incurred after the termination of the Scheme, which the Scheme Administrators consider are prudent and appropriate to make.

35.3 In considering whether sufficient provision has been made in accordance with clause 35.2, the Scheme Administrators shall at their absolute discretion be entitled but shall not be bound to take into account:

- (a) all the Property of North Atlantic including, without limitation, its rights against reinsurers and retrocessionaires whether actual, prospective or contingent (and the prospects of successfully enforcing such rights); and
- (b) the prospect of future income.

35.4 Any estimate of the Liabilities provided for in accordance with clause 35.2 shall not constitute any acceptance or admission by North Atlantic or by the Scheme Administrators in respect of any such Liability, whether as to its existence, liability or quantum.

36 PAYMENT OF FIRST DISTRIBUTION

36.1 As soon as reasonably practicable following the determination of the Available Distributable Amount, the Scheme Administrators shall, subject to the provisions of clause 36.2, cause to be paid to each Scheme Creditor such percentage of his Admitted Scheme Liability in the relevant currency that represents the same percentage as the Available Distributable Amount is of the aggregate amount of all Admitted Scheme Liabilities determined at the date of payment.

36.2 In the event that any distribution which would be payable to a Scheme Creditor (apart from the FSCS Scheme Manager, to which this clause shall not apply) pursuant to clause 36.1 would be in an amount of less than US\$150, the Scheme Creditor concerned shall be notified of the fact Electronically or by Post and that distribution payment shall, unless the Scheme Creditor shall in writing sent Electronically or by Post to the Scheme Administrators request payment thereof, be retained and aggregated with the next and any subsequent distributions due to the relevant Scheme Creditor until the aggregate sum exceeds US\$150 whereupon it shall be paid to him. Failing the making of any or sufficient further distributions, such distributions shall be paid to the relevant Scheme Creditor prior to the Termination Date.

37 CALCULATION AND PAYMENT OF SECOND, FURTHER AND FINAL DISTRIBUTIONS

During the Scheme Period, the Scheme Administrators shall review the remaining Property and Liabilities of North Atlantic in accordance with the provisions of clause 35, at such time or times as they (in consultation with the Creditors' Committee) consider to be appropriate, and (in consultation with the Creditors Committee) determine the Available Distributable Amount (if any) at the date of each such review. Upon such determination of the Available Distributable Amount from time to time, the provisions of clause 36 shall apply insofar as they are relevant in relation to the distribution percentage calculation and the payment to the Scheme Creditors.

38 PROCEDURE AFTER THE PAYMENT OF THE FINAL DISTRIBUTION

At such time as the Scheme Administrators reasonably believe that the most recent payment made or to be made under clause 37 is the final distribution that shall be made, they may if in their discretion they believe it to be in the interests of Scheme Creditors to do so, or they shall if so requested by the Creditors' Committee or the FSCS Scheme Manager, in conjunction with the Scheme Actuary, cause to be prepared a final report setting out all relevant information relating to the financial status of North Atlantic and the operation of the Scheme. The Scheme Administrators shall distribute the report to all Scheme Creditors and the FSCS Scheme Manager.

39 ADVANCE PAYMENT OF DISTRIBUTIONS

39.1 If the Scheme Administrators consider that to do so would be in the best interests of Scheme Creditors (excluding the Scheme Creditor to whom it is intended to pay an advance distribution), they may, in their absolute discretion, pay to any Scheme Creditor an advance distribution provided that:

- (a) the amount of such advance distribution shall not exceed such amount as they and the Scheme Actuary estimate at the time to be the net value of all distributions which the Scheme Creditor would become entitled to receive pursuant to the Scheme;
- (b) the amount of the advance distribution shall have been agreed by the relevant Scheme Creditor (and in the case of a payment in respect of a Protected or Potentially Protected Liability, the FSCS Scheme Manager); and
- (c) the payment of any advance distribution of more than US\$50,000 (or, where the payment is in any other currency, the equivalent in that other currency at the Scheme Exchange Rate) shall have been approved by the Creditors' Committee.

39.2 Any advance distribution paid pursuant to clause 39.1 may, subject to clause 39.1, be made and shall be accepted on such terms as may be required by North Atlantic including as to full and final settlement of the right to receive distributions pursuant to the Scheme in respect of all present and future obligations of North Atlantic to pay distributions to the relevant Scheme Creditor.

40 MECHANICS OF PAYMENTS TO SCHEME CREDITORS

40.1 Subject to clauses 40.2 and 40.3, each payment by North Atlantic shall be made to each Scheme Creditor in US Dollars, Sterling or Euros (converted at the Scheme Exchange Rate) or in the currency in which his Admitted Scheme Liability was incurred if requested by the Scheme Creditor, or any currency mutually agreed by North Atlantic and the Scheme Creditor to whom that Admitted Scheme Liability was incurred.

40.2 Where an Admitted Scheme Liability comprises two or more currencies, the Scheme Administrators shall make payment in the relevant amount in each such currency, except where they deem, in their absolute discretion, that it is impractical to do so in which case the payment shall be made in the predominant currency by reference to the relevant values of each Scheme Liability.

- 40.3** If any currency has at the date of payment ceased to be legal tender, payment shall be in an equivalent amount of the replacement currency (rounded, if applicable, up or down as the Scheme Administrators deem appropriate to the nearest whole unit in the replacement currency). The conversion rate to be applied in determining the amount of any payment in a replacement currency shall be that prescribed by law for converting the relevant currency into that replacement currency or, if no such rate is prescribed by law, such conversion rate as may be determined by the Scheme Administrators in their absolute discretion. Insofar as an Admitted Scheme Liability (or part thereof) is in a National Currency Unit, it shall be redenominated into the Euro Unit in accordance with EMU Legislation.
- 40.4** If and to the extent clause 40.3 relates to any state (or currency of such state) which was not a Participating Member State on 1 January 1999, clause 40.3 shall apply and come into effect in relation to such state (and the currency of such state) on and from the date on which such state becomes a Participating Member State.
- 40.5** Where there are Liabilities from and to North Atlantic in different currencies (including without limitation a replacement currency as referred to in clause 40.3) which are subject to set-off under clause 13, each Liability shall be converted into US Dollars, or, if agreed by the Scheme Administrators and the relevant Scheme Creditor, any other currency at the Scheme Exchange Rate.
- 40.6** For the avoidance of doubt, where an exchange rate is specified in an Insurance Contract, it shall not be applied, but the Scheme Exchange Rate shall be, as contemplated by this clause 40.
- 40.7** All payments may be made, in the absolute discretion of the Scheme Administrators (or the FSCS Scheme Manager in the case of payments made by it):
- (a)** by cheque in favour of the Scheme Creditor or as he may direct and sent by Post at the risk of the Scheme Creditor to the last known address of the Scheme Creditor or to such other address as the Scheme Creditor may from time to time notify in writing to the Scheme Administrators (or, as the case may be, the FSCS Scheme Manager) provided that, if no address for the Scheme Creditor is known, such payments may be sent by Post at the risk of the Scheme Creditor to the last known address of the insurance broker through whom the relevant Insurance Contract was effected or to such other address as such broker may from time to time notify to North Atlantic in writing; or
 - (b)** at the option of North Atlantic (or, as the case may be, the FSCS Scheme Manager) (but only if requested by the Scheme Creditor) and at the expense of the Scheme Creditor (which expense may be deducted from the amount of the relevant payment) by telegraphic transfer to such bank account as the Scheme Creditor may from time to time notify to the Scheme Administrators (or, as the case may be, the FSCS Scheme Manager),
- and the Scheme Administrators (or, as the case may be, the FSCS Scheme Manager) may, in connection with the making of the payment under the Scheme, require the Scheme Creditor or broker to execute such forms of discharge or receipt or other document as they may from time to time determine.
- 40.8** Without prejudice to clause 40.7, payment by North Atlantic (or as the case may be, the FSCS Scheme Manager) in respect of an Admitted Scheme Liability or a Protected Liability:
- (a)** to a Scheme Creditor or a Protected Policyholder; or
 - (b)** where two or more persons comprise a Scheme Creditor or a Protected Policyholder, to any one such person; or
 - (c)** to any person who is authorised to act on behalf of the Scheme Creditor or a Protected Policyholder (whether actually or ostensibly); or
 - (d)** otherwise pursuant to clause 40.7,

shall, for the purposes of and to the extent of such payment, constitute a valid discharge of North Atlantic (or, as the case may be, the FSCS Scheme Manager) in respect of its payment obligations under the Scheme in respect of that particular Admitted Scheme Liability or Protected Liability. For the foregoing purposes, payment of any cheque (as contemplated by clause 40.7(a)) 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 any telegraphic transfer (as contemplated by clause 40.7(b)) shall be satisfaction of the obligation to pay the amount transferred.

41 UNCLAIMED DISTRIBUTIONS

41.1 Any cheque for a distribution dispatched to a Scheme Creditor in accordance with clause 40.7(a) which has not been presented for payment before it expires shall be dealt with in accordance with this clause 41.

41.2 The sums representing such unclaimed distributions (**Unclaimed Balance**) shall, on the Termination Date, be paid into a designated account by the Scheme Administrators where they shall remain for a period of up to one year from the Termination Date. Such Unclaimed Balance and any interest thereon (including any accumulated interest) as at the Termination Date shall be held on trust for a period of up to one year from the Termination Date for the purpose of making payments to the Scheme Creditors entitled thereto according to their respective entitlements, and thereafter, transferring any remaining Unclaimed Balance (and subject to clause 41.3, any interest thereon), after the said one year, to a charity or charities to be designated by the Creditors' Committee or failing such designation, by the trustees of the trust established pursuant to this clause 41.2.

41.3 The trust established pursuant to clause 41.2 shall be administered by the Scheme Administrators as trustees or in the event that they do not wish to continue to act as trustees, by a trustee or trustees (who may include one or more of the Scheme Administrators but who shall for the avoidance of doubt, be the Scheme Administrators in the event that no other person shall agree to accept the appointment) to be nominated by the Scheme Administrators following consultation with the Creditors' Committee. Such trustee or trustees shall be entitled to be remunerated (such remuneration to be calculated by reference to time spent at their normal rate of charge or on such other basis as may be agreed by the Scheme Administrators with the Creditors' Committee from time to time) out of the said interest (including any accumulated interest) as at the Termination Date. Where, at any time, more than one trustee is appointed, such trustees shall be entitled to act jointly or severally in performing their functions under this clause 41.

41.4 No such trustee shall be under any obligation to seek out Scheme Creditors or advertise for Scheme Creditors before transferring any Unclaimed Balance (and subject to clause 41.3, any interest thereon) to a charity or charities, again as contemplated by clause 41.2.

42 INTEREST

42.1 Where applicable, Admissible Interest shall be added to the principal amount of, and shall form part of, the relevant Admitted Scheme Liability. For the avoidance of doubt, the amount of any such Admissible Interest shall be calculated as part of the process for determining Admitted Scheme Liabilities under Section 3 of the Scheme. Except as provided in clause 42.2, North Atlantic shall not be liable in respect of any interest in relation to an Admitted Scheme Liability to the extent that such interest arises in respect of any period after the Ascertainment Date pursuant to any contract, including any Insurance Contract, policy, judgement or otherwise.

42.2 Notwithstanding clause 42.1, if all North Atlantic's Admitted Scheme Liabilities shall have been paid in full (including such interest as is referred to in clause 42.1) North Atlantic shall pay additional interest on each of its Admitted Scheme Liabilities in accordance with this clause 42.2. The amount of such interest shall be an amount equal to 5 percent per annum, or if higher the Judgement Rate, on the unpaid amount of each Admitted Scheme Liability from time to time (such interest to be calculated on a daily basis from the Ascertainment Date up to the date of payment of such additional interest), provided that the amount of such additional interest shall not exceed the remaining Property of North Atlantic after adequate provision has been made for all other Liabilities, including without limitation, the Priority Liabilities of North Atlantic (otherwise than in respect of share capital), in existence at the time of payment of such additional interest. To the extent that any such additional interest payable in respect of each Admitted Scheme Liability under this clause 42.2 exceeds the remaining Property of North Atlantic, it shall be reduced and paid rateably between each Admitted Scheme Liability.

SECTION 5: THE SCHEME ACTUARY AND THE SCHEME ADJUDICATOR

43 THE SCHEME ACTUARY

- 43.1** There shall be one Scheme Actuary having the powers, rights, duties and functions conferred upon him by the Scheme. In exercising his powers and rights and carrying out his duties and functions under the Scheme, the Scheme Actuary shall act in good faith and with due care and diligence in the interests of the Scheme Creditors as a whole, and shall exercise his powers under the Scheme for the purpose of ensuring that the Scheme is operated in accordance with its terms.
- 43.2** The Scheme Actuary shall be an individual who is a member of an actuarial body which is affiliated to the International Actuarial Association and who has at least two years' continuous experience of property and casualty actuarial work.
- 43.3** The first Scheme Actuary shall be Peter Clark of PricewaterhouseCoopers, Southwark Towers, 32 London Bridge Street London SE1 9SY.
- 43.4** The office of Scheme Actuary shall be vacated if the appointee to that office:
- (a) dies,
 - (b) becomes bankrupt,
 - (c) becomes mentally disordered under the law of any jurisdiction to which he is subject including, without prejudice to the generality of the foregoing, Mentally Disordered;
 - (d) is convicted of an indictable offence (other than offences in relation to road traffic);
 - (e) resigns his office by 70 days notice in writing sent by Post to the Scheme Administrators such notice to be effective on receipt of it by the Scheme Administrators;
 - (f) ceases to be a fellow of an actuarial body which is affiliated to the International Actuarial Association;
 - (g) becomes disqualified from acting as a director under the law of any jurisdiction to which he is subject including, without prejudice to the generality of the foregoing, The Company Directors Disqualification Act 1986; or
 - (h) is, subject to the prior approval of the Creditors' Committee, removed for good cause by the Scheme Administrators.
- 43.5** In the event of a vacancy in the office of the Scheme Actuary, the Scheme Administrators shall forthwith appoint as a replacement Scheme Actuary a person who is qualified so act to under clause 43.2 and not disqualified to act under clause 43.4.
- 43.6** The Scheme Actuary shall be responsible for applying the Estimation Methodology to Scheme Liabilities and shall also provide advice and assistance to the Scheme Administrators and the Scheme Adjudicator when so requested.
- 43.7** North Atlantic shall pay such remuneration to the Scheme Actuary for the exercise and performance of his powers, duties and functions under the Scheme as may be agreed between the Scheme Actuary and the Scheme Administrators and as approved by the Creditors' Committee. The Scheme Administrators shall seek the approval of the Creditors' Committee to the amount of the Scheme Actuary's costs, charges and expenses. The Scheme Administrators shall pay any such amounts in full out of the Property of North Atlantic as Scheme Costs.
- 43.8** For the avoidance of doubt, the Scheme Actuary shall be entitled to be paid from the Property of North Atlantic his costs, charges and expenses on a regular basis to be repaid to North Atlantic if such costs, charges and expenses are not subsequently approved by the Creditors' Committee pursuant to clause 43.7.

44 THE SCHEME ADJUDICATOR

- 44.1** There shall be a Scheme Adjudicator having the powers, rights, duties and functions conferred upon him by the Scheme. In exercising his powers and rights and carrying out his duties and functions under the Scheme, the Scheme Adjudicator shall act in good faith and with due care and diligence in the interests of the Scheme Creditors as a whole, and shall exercise his powers under the Scheme for the purpose of ensuring that the Scheme is operated in accordance with its terms.
- 44.2** The Scheme Adjudicator shall be an individual who is duly qualified in the reasonable opinion of the Scheme Administrators to discharge the function of the Scheme Adjudicator under this Scheme.
- 44.3** The first Scheme Adjudicator shall be Keith Garwood of 15A Jacques Lane, Clophill, Bedfordshire MK45 4BS.
- 44.4** The office of Scheme Adjudicator shall be vacated if the appointee to that office:
- (a)** dies;
 - (b)** becomes bankrupt;
 - (c)** becomes mentally disordered under the law of any jurisdiction to which he is subject including, without prejudice to the generality of the foregoing, Mentally Disordered;
 - (d)** is convicted of an indictable offence (other than offences in relation to road traffic);
 - (e)** resigns his office by 70 days notice in writing sent by Post to the Scheme Administrators such notice to be effective on receipt of it by the Scheme Administrators;
 - (f)** becomes disqualified from acting as a director under the law of any jurisdiction to which he is subject including, without prejudice to the generality of the foregoing, The Company Directors Disqualification Act 1986; or
 - (g)** is removed for good cause by the Scheme Administrators.
- 44.5** 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 so to act pursuant to clause 44.2 and not disqualified to act under clause 44.4.
- 44.6** The Scheme Adjudicator shall be responsible for adjudicating on disputes concerning Referred Insurance Liabilities, Referred Non-Insurance Liabilities and Referred Scheme Debts.
- 44.7** Subject to any directions which may be given by the Scheme Adjudicator in accordance with clause 45.5, North Atlantic shall pay such remuneration to the Scheme Adjudicator for the exercise and performance of his powers, duties and functions under the Scheme as may be agreed between the Scheme Adjudicator and the Scheme Administrators. The Scheme Administrators shall pay all such amounts in full out of the Property of North Atlantic as Scheme Costs.
- 44.8** The Scheme Adjudicator shall with the prior written approval of the Scheme Administrators, be entitled to delegate to any person (being a partner in the same firm as the Scheme Adjudicator or, should the Scheme Adjudicator not be a partner of such a firm, being an individual of an equivalent status and qualification) qualified to act in accordance with clause 44.2 and approved for the time being by the Creditors' Committee for the purposes of this clause, all or any of the powers, rights, duties and functions conferred upon the Scheme Adjudicator under the Scheme and from time to time revoke any such delegation provided that the Scheme Adjudicator shall be personally responsible for any act or omission of any such delegate to the same extent as if he had expressly authorised it.

44.9 Subject to clause 45.4, in the event that a dispute or conflict of interest arises during the course of the Scheme between the Scheme Adjudicator and North Atlantic or between the Scheme Adjudicator and any particular Scheme Creditor in respect of which the Scheme Adjudicator is adjudicating, the Creditors' Committee will be empowered, if they consider it necessary following consultation with the Scheme Administrators, to appoint a suitably qualified person to act to resolve any such dispute or conflict of interest (subject to any terms of appointment being agreed between the Scheme Administrators and the appointee).

45 THE ADJUDICATION PROCESS

45.1 In referring any Referred Insurance Liability or Referred Scheme Debt to the Scheme Adjudicator, the Scheme Administrators will provide to the Scheme Adjudicator a copy of the relevant FCP or Debtor Pack, as is appropriate, and a copy of any relevant notice, statement or correspondence sent or received by the Scheme Administrators under Section 3 in connection therewith. The Scheme Adjudicator shall have access to all of North Atlantic's records and information in the possession or under the control of the Scheme Administrators which the Scheme Adjudicator considers he needs to resolve the dispute concerning the Referred Insurance Liability or Referred Scheme Debt.

45.2 In relation to any matter which is referred to the Scheme Adjudicator:

- (a)** the Scheme Adjudicator shall consider the papers and documents before him and shall within 30 days of receipt of the records and information referred to in clause 45.1 send a notice to the person concerned stating whether he requires:
 - (i)** further documents, data or information from the Scheme Creditor, the Scheme Administrators, North Atlantic and/or the Scheme Actuary in which case the relevant person or persons shall within 30 days after receipt of such request provide the Scheme Adjudicator with the required documents, data or information; and/or
 - (ii)** the Scheme Administrators and the Scheme Creditor (or his duly authorised representative) to appear before and/or address him on any matters he is to determine in which case the Scheme Administrators and/or the Scheme Creditor (or his duly authorised representative) shall appear on such date and at such place as the Scheme Adjudicator shall reasonably prescribe;
- (b)** if the Scheme Adjudicator requires the parties to appear before him the Scheme Adjudicator shall be entitled to prescribe and lay down such procedures or provisions as he in his absolute discretion deems appropriate for the purposes of assisting him in reaching his decision and shall be entitled to call for such evidence, documents, data and information as he may require;
- (c)** the Scheme Adjudicator shall be entitled to consult with such advisers including legal advisers and experts as he may deem appropriate; and
- (d)** if, after 30 days of the request for further information pursuant to clause 45.2(a)(i) none has been provided or the person concerned fails to appear before the Scheme Adjudicator pursuant to clause 45.2(a)(ii), then the Scheme Adjudicator shall make such determination as he sees fit on the basis of information then available to him.

45.3 In adjudicating on any Referred Insurance Liability or Referred Scheme Debt, the Scheme Adjudicator shall act as an expert and not as an arbitrator. For the avoidance of doubt, the Scheme Adjudicator's powers under this clause 45 shall not be exercisable in connection with disputes concerning any estimate of an Insurance Liability by the Scheme Administrators or the Scheme Actuary or the basis upon which such estimate has been made including, without limiting the generality of the foregoing, the Estimation Methodology.

45.4 Upon any Referred Insurance Liability or Referred Scheme Debt being referred to the Scheme Adjudicator, the Scheme Adjudicator shall before the expiration of 90 days from the date on which such matter was referred to him by the Scheme Administrators:

- (a)** seek to agree the disputed matter with the Scheme Administrators and the relevant Scheme Creditor; or

- (b)** in the absence of agreement contemplated by clause 45.4(a), certify in writing by Post to the Scheme Administrators and to the Scheme Creditor his determination in respect of the dispute concerning the Referred Insurance Liability or Referred Scheme Debt. A certificate given by the Scheme Adjudicator in relation to any Referred Insurance Liability or Referred Scheme Debt shall, subject to clause 83, be final and binding on the relevant Scheme Creditor and the Scheme Administrators for the purposes of the Scheme and no Scheme Creditor nor the Scheme Administrators shall have any right of appeal therefrom, except as permitted by law, or any claim against the Scheme Adjudicator in respect thereof.

This 90-day period may be extended by agreement between the Scheme Adjudicator and the Scheme Administrators.

- 45.5** The remuneration of the Scheme Adjudicator shall be subject to the prior approval of the Scheme Administrators and, subject thereto, the Scheme Adjudicator shall be entitled, in respect of his remuneration and reasonable costs and expenses incurred by him, to order the parties to deposit such sum as he shall deem appropriate in respect of such remuneration, costs and expenses and, in addition, to:

- (a)** direct that any or all of his remuneration, costs, and expenses shall be paid by North Atlantic, in which case the Scheme Administrators shall cause the same to be paid forthwith from the Property of North Atlantic as a Scheme Cost; or
- (b)** direct that any or all of his remuneration, costs and expenses shall be paid by the Scheme Creditor in respect of whose Scheme Liability or Scheme Debt the dispute has arisen, in which case, the same shall be paid by the Scheme Creditor forthwith and, in any event, no later than 14 days from the date of such direction, failing which the Scheme Administrators shall cause the same to be paid from the Property of North Atlantic as a Scheme Cost.

- 45.6** In the event that the amount of the Scheme Adjudicator's remuneration, costs and expenses is paid as a Scheme Cost in accordance with clause 45.5(b), the Scheme Administrators shall, following such payment, either:

- (a)** deduct the same from any amount which may be or may become due to the Scheme Creditor by way of dividend, such Scheme Creditor being treated for these purposes as having received on account of any such dividend, an advance distribution, under the Scheme equal to the amount which he has been directed to pay; or
- (b)** where the Scheme Creditor is not entitled to receive a dividend pursuant to the Scheme, or is subsequently found to be a Net Debtor, or the amount of such remuneration, costs and expenses exceeds his entitlement, treat such amount or such excess as a debt owed by the Scheme Creditor or Net Debtor to North Atlantic.

SECTION 6: THE FINANCIAL SERVICES COMPENSATION SCHEME

46 AGREED BALANCE PROTECTED LIABILITIES

46.1 Subject to the following provisions of this Section 6, the FSCS Scheme Manager shall pay to each Protected Policyholder in respect of each Agreed Balance Protected Liability owed to him an amount equal to:

- (a) the Protected Percentage of that Agreed Balance Protected Liability, less
- (b) the aggregate of:
 - (i) the amount of any payment made to the Protected Policyholder in respect of the Agreed Balance Protected Liability pursuant to Section 4 of this Scheme; and
 - (ii) the amount of any payment previously made by the FSCS Scheme Manager or the Policyholders Protection Board pursuant to Section 15 of the Policyholders Protection Act or any other provision of the Policyholders Protection Act or any payment previously made pursuant to clause 50.8 in respect of that Agreed Balance Protected Liability.

46.2 Payment under clause 46.1 in respect of such an Agreed Balance Protected Liability shall be made as soon as reasonably practicable (but may, at the sole discretion of the FSCS Scheme Manager, be made at any time after the Effective Date) following whichever is the later of:

- (a) the date on which North Atlantic notifies the FSCS Scheme Manager that the Agreed Balance Protected Liability is an Admitted Scheme Liability which has had its value determined in accordance with Section 3 of the Scheme;
- (b) the date on which the FSCS Scheme Manager agrees or it is otherwise determined (so as to bind the FSCS Scheme Manager) that the Scheme Liability is an Agreed Balance Protected Liability;
- (c) in any case where it appears to the FSCS Scheme Manager that the funds available to it fall short of what it requires to make the payment in question and to meet its responsibilities under or pursuant to the FSMA and/or the Policyholders Protection Act or otherwise, the date on which it appears to the FSCS Scheme Manager that its funds are adequate for those purposes; and
- (d) the date that the payment of the first dividend under Section 4 is made to the relevant Scheme Creditor in respect of the Agreed Balance Protected Liability.

47 POTENTIALLY PROTECTED LIABILITIES

47.1 Notwithstanding any provision of Section 3 of the Scheme but subject to clause 29.3, the Scheme Administrators shall subject as follows calculate using the Estimation Methodology, the total aggregate value of Potentially Protected Liabilities (except those which have matured into Protected Liabilities and in respect of which the FSCS Scheme Manager has been admitted as a Scheme Creditor under clause 31.3) of North Atlantic in respect of all Scheme Creditors as a whole, as opposed to calculating the value of such Potentially Protected Liabilities of North Atlantic to each Scheme Creditor on an individual basis, and shall notify the FSCS Scheme Manager in writing of the amounts so calculated.

Subject as follows the total aggregate value of such Potentially Protected Liabilities shall be an Admitted Scheme Liability of North Atlantic to the FSCS Scheme Manager for the purpose of the Scheme. The Scheme Administrators shall provide the FSCS Scheme Manager with such supporting information as the FSCS Scheme Manager may request in relation to the calculation referred to above, insofar as the Scheme Administrators or North Atlantic (including its agents) are able to provide the requested information and shall to the FSCS Scheme Manager's satisfaction deal promptly with any queries raised by the FSCS Scheme Manager as to the basis for or application of the Estimation Methodology whether generally or to particular classes of business or claims which the FSCS Scheme Manager may raise provided that the FSCS Scheme Manager shall not be entitled to request information or raise further queries after the expiry of the period being 30 days after receipt by it of notice of the calculation made pursuant to clause 47.1.

The FSCS Scheme Manager shall have 60 days from the date upon which all its queries have been properly answered and it has received all the information requested by it and which is capable of being provided to it to require that a re-calculation is carried out to take into account any such further information which has been provided to it. If such request is made, the Scheme Administrators shall recalculate the aggregate value of all Potentially Protected Liabilities and that recalculation shall (at the option of the FSCS Scheme Manager) be the Admitted Scheme Liability of the FSCS Scheme Manager for the purpose of this clause. The Scheme Administrators shall notify the FSCS Scheme Manager of the recalculation and the FSCS Scheme Manager shall only be entitled to request that a further calculation is undertaken on the basis (for which evidence shall be provided) that there has been a manifest or arithmetic error in the recalculation.

- 47.2** The Scheme Administrators shall pay to the FSCS Scheme Manager in accordance with Section 4, dividends on the Admitted Scheme Liability calculated in accordance with clause 47.1. The relevant Scheme Creditors to whom North Atlantic is or might be liable in respect of the Potentially Protected Liabilities referred to in clause 47.1 acknowledge that any dividends which might, but for this clause 47.2, be payable to them under Section 4 of the Scheme in respect of those Potentially Protected Liabilities shall be included in the amount to be paid to the FSCS Scheme Manager in accordance with this clause 47.2. Furthermore, each relevant Scheme Creditor agrees that it shall not be entitled to any payment from North Atlantic under Section 4 in respect of any such Potentially Protected Liabilities (whether or not such Potentially Protected Liabilities mature into present obligations of North Atlantic during the Scheme Period).
- 47.3** In respect of any Potentially Protected Liability which matures into a present obligation or liability of North Atlantic after the Ascertainment Date but prior to the Termination Date and which also becomes a Protected Liability, the FSCS Scheme Manager shall pay, subject to the following provisions of this Section 6, to each Protected Policyholder in respect of each such Protected Liability, an amount equal to:
- (a)** the Protected Percentage of that Protected Liability, less
 - (b)** the aggregate of:
 - (i)** the amount of any payment made to the Protected Policyholder pursuant to Section 4 of the Scheme in respect of the Potentially Protected Liability which has matured into a Protected Liability which, notwithstanding clause 47.2, has not been taken into account in the calculation of the dividend pursuant to clause 47.2; and
 - (ii)** the amount of any payment previously made by the FSCS Scheme Manager and/or the Policyholders Protection Board pursuant to Section 15 of the Policyholders Protection Act or any other provision of the Policyholders Protection Act or any payment previously made pursuant to clause 50.8 in respect of that Protected Liability.

47.4 Payment under clause 47.3 in respect of any such Protected Liability shall be made as soon as reasonably practical (but may at the discretion of the FSCS Scheme Manager be made at any time after the Protected Liability has matured) following whichever is the later of:

- (a) the date on which the FSCS Scheme Manager agrees that the Scheme Liability is a Protected Liability and is satisfied that the Protected Liability has been properly agreed and its value has been properly determined by North Atlantic or (where North Atlantic is a co-insurer under the policy giving rise to the claim) the lead co-insurer has properly approved the claim on behalf of all co-insurers (apart from North Atlantic);
- (b) in any case where it appears to the FSCS Scheme Manager that the funds available to it fall short of what it requires to make the payment in question to meet its responsibilities and/or pursuant to FSMA and/or the Policyholders Protection Act or otherwise, the date on which it appears to the FSCS Scheme Manager that its funds are adequate for those purposes; and
- (c) the date upon which the FSCS Scheme Manager receives payment of the first dividend under Section 4 in respect of its Admitted Scheme Liability established under clause 47.1.

47.5 On the Assignment Date, the provisions of clauses 49.1 and 49.2 shall apply to each Potentially Protected Liability except those which have become Protected Liabilities during the Scheme Period and in respect of which the FSCS Scheme Manager has made payment under clause 47.3.

47.6 The assignment contemplated by clause 49.1, insofar as it applies to any Potentially Protected Liability as a result of clause 47.5, shall be conditional upon the FSCS Scheme Manager, where North Atlantic is in liquidation, making any payment to the relevant Protected Policyholder in relation to the Potentially Protected Liability which might mature into a Protected Liability after the Assignment Date under the provisions of, and in accordance with its powers and duties under the Policyholders Protection Act and is also without prejudice to the terms of the Policyholders Protection Act, including, without limitation, Sections 13 (4) and 14 of the Policyholders Protection Act.

48 LIMITATIONS ON THE FINANCIAL SERVICES COMPENSATION SCHEME'S OBLIGATIONS

48.1 Any obligation of the FSCS Scheme Manager to make a payment under this Section 6 in respect of a Protected Liability shall:

- (a) be conditional on the relevant Liability being a Scheme Liability;
- (b) unless the FSCS Scheme Manager otherwise consents in any case, be conditional on the Protected Policyholder being entitled and able to assign, or have assigned, to the FSCS Scheme Manager all the rights and claims mentioned in clause 49.1 as originally arising and free from any lien, charge, prior assignment, equity, encumbrance or other third party right; and
- (c) unless the FSCS Scheme Manager exercises its discretion to make an early payment under clauses 46.2 and 47.3, be conditional on payment by North Atlantic of all amounts payable in respect of that Protected Liability under clause 36 before the time when the payment by the FSCS Scheme Manager falls, or would but for this clause, fall to be made.

48.2 Any obligation of the FSCS Scheme Manager to a Protected Policyholder under this Section 6 in respect of a Protected Liability shall be subject to the same conditions, limitations, qualifications and other provisions (*mutatis mutandis*) contained or referred to in, or capable of being imposed under Sections 9, 13(1) to (3) and 14 of the Policyholders Protection Act (and, for the avoidance of doubt, for the purpose of Section 13(3) in its application to the Scheme, the FSCS Scheme Manager shall be entitled to have regard both to its obligations under the Scheme and to its responsibilities otherwise than under the Scheme) as the duty which the FSCS Scheme Manager would have had under Sections 6 to 8 of that Act to secure the making of a payment to any policyholder or any other person in respect of that Protected Liability if North Atlantic were a company in liquidation (as defined in the Policyholders Protection Act).

49 ASSIGNMENTS TO THE FINANCIAL SERVICES COMPENSATION SCHEME

49.1 Immediately on (i) any payment being made by the FSCS Scheme Manager to a Protected Policyholder in respect of a Protected Liability pursuant to either clause 46.1, 47.3 or clause 50.8; (ii) on the Assignment Date in respect of any and all remaining Potentially Protected Liabilities; or (iii) the Relevant Date (as defined in clause 51.4(b)) in respect of any and all remaining Agreed Balance Protected Liabilities and Potentially Protected Liabilities, there shall automatically be assigned to the FSCS Scheme Manager absolutely (subject to clause 47.6 and clause 51.4 (c)), without any further act or document all rights, whether present or future, actual or contingent:

- (a) of the Protected Policyholder in respect of that Protected Liability or Potentially Protected Liability (including in respect of the debt or claim constituted by or arising out of or relating to that Protected Liability or which might arise out of or relate to a Potentially Protected Liability) under or in respect of the Insurance Contract relating to that Protected Liability or Potentially Protected Liability and the Scheme;
- (b) which the Protected Policyholder may have in respect of payments made by him by way of premiums under the Insurance Contract relating to the Protected Liability or Potentially Protected Liability;
- (c) (unless the FSCS Scheme Manager notifies the Protected Policyholder that the Protected Policyholder should instead exercise whatever rights the Protected Policyholder might have against any other person referred to in this clause 49.1(c)) which the Protected Policyholder may have against any other person in respect of any event giving rise to that Protected Liability or Potentially Protected Liability (other than another insurer which has insured the Protected Policyholder in respect of the same event but without prejudice to the application of this clause 49.1 in relation to any other Protected Liability of North Atlantic to which the event has also given rise) or by reference to or in connection with the Insurance Contract relating to the Protected Liability or Potentially Protected Liability; and
- (d) of the Protected Policyholder in respect of that Protected Liability or Potentially Protected Liability to any payment out of, interest in, or recourse to or otherwise by virtue of, any letters of credit, trust funds, guarantees, guarantee funds and deposits as are referred to in clause 50.5(a) or in respect of any other amount falling to be taken into account under clauses 12 and 13, provided that if the Protected Policyholder has any right under a letter of credit, trust fund, guarantee, guarantee fund or deposit as is described in clause 50.5(a), or in respect of any other amount falling to be taken into account under clauses 12 and 13 then such right shall not be assigned to the FSCS Scheme Manager to the extent that its being taken into account in calculating the FSCS Scheme Manager's payment in respect of the Protected Liability under the Scheme results in a reduction in the amount which would otherwise have been payable by the FSCS Scheme Manager in respect of that Protected Liability under the Scheme (except that if and to the extent that it is determined in a Proceeding (or the effect of a determination in any Proceedings is) that this proviso causes, or would but for this exception cause, the assignment of such right or any other rights to be invalid or unenforceable, the provision shall not have effect),

whether, in any such case, those rights or claims arise under or in respect of the Insurance Contract relating to that Protected Liability or Potentially Protected Liability, under or in respect of the Scheme, by virtue of any trust or enactment (primary or subordinate) or otherwise howsoever, and whatever the nature of those rights or claims. If any question arises as to the identification of any Protected Liability or Potentially Protected Liability, and accordingly as to whether that Protected Liability or Potentially Protected Liability is or is not the subject of an assignment to the FSCS Scheme Manager under this clause 49.1, a certificate by the FSCS Scheme Manager that it has made a payment, or would, upon the Potentially Protected Liability maturing, make payment subject to the provisions of the Policyholders Protection Act, in respect of that Liability shall be binding and conclusive on all persons for all purposes. Without prejudice to the provisions of clause 49.5, the FSCS Scheme Manager shall provide to North Atlantic such information relating to the date and amount of payments it makes to Protected Policyholders in respect of Protected Liabilities, as North Atlantic may from time to time reasonably request.

49.2 Following an assignment pursuant to clause 49.1 and without prejudice to the generality of its terms but subject to clause 47.6 and clauses 51.4(c) and 51.4(e), the FSCS Scheme Manager shall have a right to payment by North Atlantic, in accordance with the terms of the Scheme, of all sums subsequently due or payable, if any, in respect of the Protected Liability or Potentially Protected Liability to which the assignment relates or in respect of any other rights and claims so assigned, whether those sums are due and payable under the Scheme or under or in respect of the Insurance Contract to which the Protected Liability or Potentially Protected Liability relates, and accordingly:

- (a) North Atlantic shall treat the FSCS Scheme Manager as the Scheme Creditor in respect of the Protected Liability or Potentially Protected Liability (being the person to whom that Liability is or may be owed) to the exclusion of any other person;
- (b) the FSCS Scheme Manager shall (subject to clause 81) be admitted as a creditor in respect of such sums in any winding-up of North Atlantic (insofar as it is outside, and not subject to the continuing provisions of, the Scheme); and
- (c) the receipt of the FSCS Scheme Manager shall constitute a valid discharge of North Atlantic in respect of such sums,

and North Atlantic shall not incur any Liability in respect of any Protected Liability or Potentially Protected Liability by reason of having paid any such sums to the FSCS Scheme Manager.

49.3 Without prejudice to clause 49.1, a Protected Policyholder to whom clause 46.1 and/or clause 47.3 applies, shall do such acts and things and execute such deeds and documents, and in particular such forms of assignment, transfer or assurance, as the FSCS Scheme Manager may from time to time request to vest in it fully and effectively all rights and claims of that Protected Policyholder against North Atlantic or other persons under or in respect of the Protected Liability to which such payment or agreement to pay relates, or to perfect or evidence the vesting in it of the same. Each Protected Policyholder hereby irrevocably and unconditionally appoints the chairman of the FSCS Scheme Manager for the time being to be his attorney and agent and on his behalf and in his name or otherwise to do such acts and things and execute such deeds and documents as may be required to give effect to this clause 49.3, if such Protected Policyholder fails to comply promptly with his obligations hereunder. Without prejudice to clause 49.1, if and to the extent that any interest in any such right or claim of a Protected Policyholder as falls to be assigned to the FSCS Scheme Manager under that clause upon any payment being made does not for any reason immediately vest fully and effectively in the FSCS, the same shall be held by the Protected Policyholder on trust absolutely for the FSCS Scheme Manager until it does so vest (whether pursuant to that clause or the preceding provisions of this clause or otherwise) and until then references in clause 49.1 to an assignment pursuant to clause 49.1 shall be construed, in relation to that Protected Liability, as reference to a trust pursuant to this clause 49.3.

49.4 Without prejudice to clause 49.1, any obligation of the FSCS Scheme Manager to make a payment to a Protected Policyholder under clauses 46.1 or 47.3 shall, if the FSCS Scheme Manager so elects, be conditional on there first being assigned to it in such form as it may request, all such rights and claims as are mentioned in clauses 49.1(a) to 49.1(c) (but as if the references there to Protected Policyholder or to Protected Liability were references to the Protected Policyholder or Protected Liability in respect of whom or which the election is made) or such of those rights and claims as the FSCS may determine. Where any obligation is so conditional, clauses 46.2 and 47.4 shall apply as if after clauses 46.2(d) and 47.4 (b) respectively there were added the words after clause 46.2 (d) 'and (e) the date when the condition imposed under clause 49.4 is satisfied'; after clause 47.4 (b) 'and (c) the date when the condition imposed under clause 49.4 is satisfied' and the word 'and' was deleted from the end of clauses 46.2(c) and 47.3 (a).

49.5 Clause 49.1 shall be deemed to constitute for all purposes express notice in writing to North Atlantic of all assignments effected pursuant to its provisions and relating to Liabilities of North Atlantic.

50 OTHER PROVISIONS APPLICABLE TO THE FINANCIAL SERVICES COMPENSATION SCHEME

50.1 The FSCS Scheme Manager shall not be liable in respect of any interest Liability of North Atlantic, in relation to a Protected Liability which does not constitute Admissible Interest and which Admissible Interest is not also payable under the relevant Insurance Contract or judgement giving rise to the Protected Liability.

50.2 References in this Section 6 to the FSCS Scheme Manager paying or making payment of any sum include references to the FSCS securing the payment of that sum, and references to the securing of payment in Sections 9, 13 and 14 of the Policyholders Protection Act, as they apply by virtue of clause 48.2 to the FSCS Scheme Manager under this Section 6, shall be construed accordingly.

50.3 A payment or agreement to make payment by the FSCS Scheme Manager under the Scheme shall not operate to reduce or discharge any Liability of North Atlantic or any part of such Liability.

50.4 The following provisions apply to any sum payable by the FSCS Scheme Manager under the Scheme in a currency other than Sterling:

- (a)** any sum payable in respect of any Protected Liability by the FSCS Scheme Manager, or any sum which the FSCS Scheme Manager has agreed to pay under clause 46.1 or 47.3 respectively in a currency other than Sterling ('the **Non-Sterling Amount**') shall not exceed its Capped Sterling Equivalent;
- (b)** for the purpose of clause 50.4(a), 'the **Capped Sterling Equivalent**' in relation to any Non-Sterling Amount means the amount in the currency in which the Non-Sterling Amount is denominated, determined by (i) converting the equivalent of the Non-Sterling Amount into Sterling at the Specified Exchange Rate; and (ii) converting the Sterling amount obtained from (i) into the currency in which the Non-Sterling Amount is denominated at the exchange rate prevailing on the Trading Day ('the **Relevant Date**') falling immediately prior to the date of actual payment under clause 46.1 or 47.3 in respect of the relevant Protected Liability;
- (c)** for the purpose of clause 50.4(b) the '**Specified exchange rate**' shall be that rate which is 12.5% below the exchange rate into Sterling for the currency in which the Non-Sterling Amount is denominated prevailing on the Ascertainment Date;
- (d)** should the Euro replace the Sterling as the lawful currency of the United Kingdom for the time being, the preceding provisions of this clause 50.4 shall thereafter have effect and references to Sterling were references to Euro and references to the Non Sterling Amount were references to the Non Euro Amount;

- (e) subject to clause 50.4(f), nothing in the Scheme shall impose any greater obligation on the FSCS Scheme Manager in respect of any Scheme Creditor or Liability of North Atlantic than the FSCS Scheme Manager would have had (and neither such Scheme Creditor nor North Atlantic shall have any different or greater relief or remedy against the FSCS Scheme Manager than it would have had) if North Atlantic had been a company in liquidation (as defined in the Policyholders Protection Act), the beginning of the liquidation (as so defined) had been the Petition Date, and the payment to be made by the FSCS Scheme Manager in respect of each Protected Liability had been reduced by the amounts referred to in clauses 46.1(b) or 47.3 (b) (as the case may be); and no right of, or condition imposed by, the FSCS Scheme Manager under the Scheme in relation to any Scheme Creditor shall be limited or restricted by virtue of any obligation of the FSCS Scheme Manager to that Scheme Creditor under the Scheme being less than the obligation which the FSCS would have had to it if North Atlantic had been a company in liquidation (as so defined); and
- (f) for the purposes of clause 50.4(e) it shall be assumed:
 - (i) that the currency of payment by the FSCS Scheme Manager in respect of any Liability (and where that currency is not Sterling its exchange rate) would be the same on a liquidation of North Atlantic as under the Scheme (including for these purposes the exchange rate limit set out in clauses 50.4(a) to 50.4(c)); and
 - (ii) that the amount of any Liability of North Atlantic in liquidation would, in the case of an Admitted Scheme Liability, be the amount of that Admitted Scheme Liability.

50.5 For the avoidance of doubt, the FSCS Scheme Manager, without prejudice to clauses 48.2, 50.4(e) and 50.4(f), shall not have:

- (a) any greater obligation under the Scheme in respect of any Scheme Creditor or Liability by virtue of any amount of any trust fund or other Security Interest being taken into account in the calculation of the value of any Protected Liability whether determined under Section 3, or otherwise during the Scheme Period, than it would have had if that amount (as well as the amounts referred to in clauses 46.1(b) and 47.4 (b) respectively) had been treated under Section 14(1) of the Policyholders Protection Act (taken together with Section 14(7), if applicable) as reducing any sum which may be payable by it in respect of the Liability concerned if North Atlantic were a company in liquidation (as defined in the Policyholders Protection Act) and the beginning of the liquidation (as so defined) had been on the Petition Date (but making the assumption in clause 50.4(f)(i));
- (b) any greater obligation under the Scheme in respect of any Scheme Creditor or Liability by virtue of any such amount (as is described in clause 50.5(a)) not being taken into account, in the calculation of the value of any Protected Liability determined under Section 3, or otherwise during the Scheme Period, than it would have had if that amount had been so taken into account; or
- (c) any obligation under the Scheme towards any person who has paid or is liable to pay such amount (as is described in clause 50.5(a)),

and any amount which the FSCS Scheme Manager would otherwise be obliged to pay under clause 46.1 or 47.4 shall be reduced accordingly, provided that the FSCS Scheme Manager may in any case falling within clause 50.5(b) elect at its discretion to pay the whole or any part of any such reduction. Any such payment by it shall be without prejudice to its rights under any other provision of this Scheme including, in particular, clauses 49.1, 50.6 and 50.9 (and for the purposes of clause 49.1 any such payment shall be treated as a payment pursuant to clause 46.1 or 47.4 as the case may be) and may be made subject to such terms and conditions as the FSCS Scheme Manager thinks fit.

50.6 Without prejudice to clauses 48.2, 50.4(e), 50.4(f), and 50.5:

- (a)** if when calculating the amount payable under the Scheme to a Scheme Creditor in respect of any Scheme Liability which is a Protected Liability, any amount of any trust fund or any other Security Interest in respect of or referable to that Liability is not taken into account; and
- (b)** North Atlantic receives or becomes entitled to receive any sum in respect of or referable to that Liability (whether or not such sum forms part of a greater amount the balance of which is not referable to that Liability) from such trust fund or such other Security Interest,

North Atlantic shall, as soon as is reasonably practicable after receipt, pay the sum to the FSCS Scheme Manager, and pending such payment shall hold that sum (or as the case may be, its entitlement to receive the same) on trust absolutely for the FSCS Scheme Manager.

50.7 Where, in relation to any Insurance Contract, the FSCS Scheme Manager is required or entitled under the Policyholders Protection Act to make a payment to any person other than, or instead of, the Protected Policyholder if North Atlantic were in liquidation, the FSCS Scheme Manager may similarly perform any obligation to make a payment under the Scheme in relation to that Insurance Contract and references to a Protected Policyholder shall be construed accordingly as including payment to such a person (as well as, for the avoidance of doubt, any person, whether or not a policyholder, to whom payment may otherwise be made by the FSCS Scheme Manager for or on behalf of the Protected Policyholder).

50.8 At any time prior to its payment obligation in relation to a Protected Policyholder under clause 46.1 or 47.3 having arisen, the FSCS Scheme Manager may elect to make a payment to or on behalf of a Protected Policyholder in respect of a Protected Liability on such terms (including terms requiring repayment and terms as to assignment of rights in respect of the Protected Liability) and on such conditions as the FSCS Scheme Manager thinks fit.

50.9 The FSCS Scheme Manager shall not have an obligation to make a payment under this Section 6:

- (a)** to any subsidiary or parent of North Atlantic or any person who was a member of North Atlantic at the date of this Scheme; or
- (b)** if it appears to the FSCS Scheme Manager that such a payment would result in a benefit being conferred on either:
 - (i)** any person who was a member of North Atlantic at the date of this Scheme; or
 - (ii)** any person who had responsibility for or who may have profited from the circumstances giving rise to the financial difficulties of North Atlantic,

provided that there shall be disregarded for the purposes of clause 50.9(b) any benefit which might accrue to such persons therein mentioned who are policyholders of North Atlantic in their capacity as such.

50.10 For the avoidance of doubt:

- (a)** references in clause 50.6 to any amount which fails to be taken into account in the calculation of the value of any Protected Liability determined under Section 3, or otherwise during the Scheme Period include references to any such amount whether paid or payable;
- (b)** nothing in the Scheme shall require the FSCS Scheme Manager to make any payment to a Protected Policyholder if he does not wish to claim it; and
- (c)** nothing in the Scheme shall require the FSCS Scheme Manager to make any payment in respect of a Liability which does not qualify for any payment under the Scheme.

50.11 Without prejudice to any other rights and remedies which the FSCS Scheme Manager may have, any person receiving a payment under clauses 46.1, 47.3 or 50.8 in respect of a Liability who has knowingly provided false, misleading or incomplete information to the FSCS Scheme Manager in support of an application for that payment shall be bound on demand to repay to the FSCS Scheme Manager all such amounts that have been paid by the FSCS Scheme Manager in respect of that Liability, together with interest at 15 per cent per annum (or, if higher, the Judgement Rate) (or such other rate as a court of competent jurisdiction may specify for the purpose of this clause 50.11) calculated on a daily basis from the date of payment to the date of repayment.

51 THE FINANCIAL SERVICES COMPENSATION SCHEME AND TERMINATION OF THE SCHEME

51.1 Subject to clause 51.2, the obligations of the FSCS Scheme Manager under the Scheme shall not be affected by a Liquidation Event.

51.2 If the Scheme is terminated in accordance with clause 81.1 and/or North Atlantic becomes subject to a Liquidation Event either before or immediately after such termination (as contemplated by clause 81.4), then:

- (a)** for the purposes of any duty which the FSCS Scheme Manager may owe under Sections 6 to 8 of the Policyholders Protection Act or the FSCS Rules (if the FSCS Rules then apply and the FSCS Scheme Manager has decided to make payment under the FSCS Rules) in respect of any Liability of North Atlantic in liquidation ('a **Statutory Liability**') towards a Protected Policyholder or other person comprising or arising out of a Scheme Liability, the amount of any Statutory Liability shall be the amount for which that person actually proves (and which is admitted) in the liquidation increased by the aggregate amount ('the **Scheme Amount**') of payments, converted into Sterling at the Exchange Rate prevailing in the winding-up, received by it in respect of the Scheme Liability under Section 4, or treated as having been so received whether under clause 11.1 or otherwise; and
- (b)** for the purposes of Section 14 of the Policyholders Protection Act or the FSCS Rules (if the FSCS Rules then apply and the FSCS Scheme Manager has decided to make payment under the FSCS Rules), such Protected Policyholder or other person shall be treated as having received by way of dividend in the liquidation an amount equal to the Scheme Amount, and such amount shall be treated for those purposes as a payment referable to the Statutory Liability towards that Policyholder or other person and as reducing any sum payable by the FSCS Scheme Manager under the Policyholders Protection Act or the FSCS Rules (if the FSCS Rules then apply and the FSCS Scheme Manager has decided to make payment under the FSCS Rules) by reference to such Statutory Liability.

51.3 If an Administration Order under the Insolvency Act is made in respect of North Atlantic or if North Atlantic is ordered to be wound up by a court, including without limitation the Court, or a voluntary winding-up of North Atlantic is commenced under, in both cases, the Insolvency Act, the FSCS Scheme Manager may elect to terminate the provision of assistance by it under the terms of the Scheme in relation to North Atlantic and its Scheme Creditors.

51.4 If the FSCS Scheme Manager so elects in accordance with clause 51.3:

- (a)** with effect from the date of an election made pursuant to clause 51.3, the obligations of the FSCS Scheme Manager under or in relation to the Scheme, including (but without limitation) Section 6 of the Scheme shall cease:
- (b)** on the date immediately preceding the date that the FSCS Scheme Manager makes an election ('the **Relevant Date**') pursuant to clause 51.3, the provisions of clauses 49.1 and 49.2 shall apply to each Agreed Balance Protected Liability and each Potentially Protected Liability (except those in respect of the FSCS Scheme Manager has made payment in accordance with clause 46.1 or 47.3, as appropriate);

- (c) the assignment contemplated by clause 49.1, insofar as it applies to any Agreed Balance Protected Liability or Potentially Protected Liability as a result of the operation of clause 51.4 (b), shall be conditional upon the FSCS Scheme Manager making any payment to the relevant Scheme Creditor in relation to the Agreed Balance Protected Liability or Potentially Protected Liability after the Relevant Date under the provisions of, in accordance with its powers and duties under the Policyholders Protection Act or the FSCS Rules, without prejudice to any Sections of that Act or to those Rules;
- (d) nothing in the Scheme shall prevent any Scheme Liability from being or becoming a Statutory Liability of North Atlantic for the purpose of any duty which the FSCS Scheme Manager may owe under Sections 6 to 8 of the Policyholders Protection Act or the FSCS Rules, provided that any amount paid or becoming payable under the Scheme (excluding for the avoidance of doubt, any amount payable to the FSCS Scheme Manager under clause 47.2) in respect of such a Statutory Liability before the FSCS Scheme Manager makes a payment in respect of it pursuant to any duty under the Policyholders Protection Act shall, for the purpose of Section 14 of the Policyholders Protection Act or Rule 11 of the FSCS Rules, be treated as a payment to the Policyholder concerned which is referable to that Statutory Liability and as reducing any sum payable by the FSCS Scheme Manager under the Policyholders Protection Act or the FSCS Rules by reference to such Statutory Liability;
- (e) notwithstanding the conditional assignment contemplated by clause 51.4(b), insofar as that assignment applies to any Agreed Balance Protected Liability, the FSCS Scheme Manager agrees that any dividends which may be payable under Section 4 to the relevant Scheme Creditors in respect of any Agreed Balance Protected Liabilities to which clause 51.4 (b) applies after the Relevant Date shall be paid by North Atlantic to the relevant Scheme Creditors and the FSCS Scheme Manager shall have no claim to such dividends provided that any dividend paid by North Atlantic to a relevant Scheme Creditor shall be taken into account when establishing the extent of any duty which the FSCS Scheme Manager might owe to that Scheme Creditor in a liquidation of North Atlantic;
- (f) for the avoidance of doubt, clause 52 shall continue to apply after any election under clause 51.3 as before, but as if references to any Protected Policyholder or Protected Liability were references to any Policyholder or Liability to whom or in respect of which the FSCS Scheme Manager owes any such duty as is referred to in clause 51.4(d); and
- (g) an election by the FSCS Scheme Manager under clause 51.3 shall be without prejudice to any rights of the FSCS Scheme Manager (including without limitation rights under clause 49) accrued under or in respect of the Scheme prior to the date of election.

52 INFORMATION TO BE PROVIDED TO THE FINANCIAL SERVICES COMPENSATION SCHEME

- 52.1** North Atlantic shall promptly provide the FSCS Scheme Manager with all such information in its possession or under its control or that of its agents (as the case may be) as the FSCS Scheme Manager may from time to time request:
- (a) in order to establish whether (or the extent to which):
 - (i) any Scheme Liability is a Protected Liability or Potentially Protected Liability; or
 - (ii) a Scheme Creditor is a Protected Policyholder; or
 - (b) otherwise for the purpose of enabling or assisting the FSCS Scheme Manager to perform its obligations or exercise its rights under the Scheme or to carry out its functions or responsibilities under the Policyholders Protection Act.
- 52.2** Without prejudice to the FSCS Scheme Manager's rights and powers under Sections 219 and 221 of FSMA, the obligation set out in clause 52.1 shall not extend to any information which North Atlantic (or any agents of North Atlantic) are under a legal duty not to disclose.

- 52.3** During the Scheme Period, North Atlantic shall not, without the prior written consent of the FSCS Scheme Manager, enter into any agreement or incur any obligation which precludes or restricts (or attempts to preclude or restrict) the disclosure to the FSCS Scheme Manager of any such information as is reasonably capable of being the subject of a request under clause 52.1 or under Sections 219 and 221 of FSMA. North Atlantic and the Scheme Administrators (as the case may be) shall, so far as they are able, authorise and instruct any third party with such information as is referred to in clause 52.1 to disclose it to the FSCS Scheme Manager.
- 52.4** Subject to receiving reasonable notice in any case, North Atlantic shall, for the purpose referred to in clause 52.1 permit (and authorise and instruct its agents (including the Run-off Company) to permit) any person authorised by the FSCS Scheme Manager to have access to, and to be provided with copies of, all or any of the books and records of North Atlantic whether in computer format or otherwise and, insofar as they relate to North Atlantic, such agents or the Run-off Company, during normal business hours. Such obligation shall not (without prejudice to Sections 219 and 221 of FSMA) extend to any such information which North Atlantic or any such agent are under a legal duty not to disclose. The FSCS Scheme Manager shall pay the reasonable photocopying and couriering costs of providing such copies.
- 52.5** Without prejudice to clauses 52.1 and 52.3, North Atlantic shall as soon as reasonably practicable after payment of any amount to a Scheme Creditor under Section 4 give notice of such payment to the FSCS Scheme Manager to the extent required by the FSCS Scheme Manager in order to fulfill its obligations under the Scheme.
- 52.6** North Atlantic shall use all reasonable endeavours to procure that any agent (including without limitation the Run-off Company) appointed by it to administer the run-off of its existing insurance business will offer to the FSCS Scheme Manager such services as it shall reasonably require but only for any period whilst still appointed by North Atlantic (and for the avoidance of doubt, nothing in this clause 52.6 shall require North Atlantic to appoint or continue to appoint any agent (including any Run-off Company) for a longer period than it deems fit) in order to enable it to perform its obligations under the Scheme or in any liquidation of North Atlantic on terms as to payment no less favourable than those obtained by North Atlantic.
- 52.7** On termination of the Scheme in accordance with either clause 81.1(a) or 81.1(b), North Atlantic shall make available to the FSCS Scheme Manager all information (including its books and records) in its possession or under its control or that of its agents or the Run-off Company (as the case may be) insofar as they relate to Protected Liabilities or Potentially Protected Liabilities as the FSCS Scheme Manager may request. North Atlantic shall permit at no cost to the FSCS save as to photocopying costs (and authorise and instruct its agents or the Run-off Company to permit) the FSCS Scheme Manager or any person authorised by it to take, at the expense of the FSCS Scheme Manager, copies of any such information it deems fit or to download or take in computer transferable format copies of any such information.

53 THE FINANCIAL SERVICE COMPENSATION SCHEME'S RIGHTS AGAINST NORTH ATLANTIC IN RESPECT OF ANY ASSIGNMENT TO THEM OF THE RIGHTS OF A PROTECTED POLICYHOLDER

For the avoidance of doubt and without prejudice to any part of this Section 6, North Atlantic agrees with the FSCS Scheme Manager that any assignment to it under the Scheme including without limitation an automatic assignment under clause 49.1, shall be valid and binding on North Atlantic and:

- (a) the FSCS Scheme Manager may take Proceedings in the name of such Protected Policyholder and exercise all his rights against North Atlantic, including without limitation his rights, prior to such assignment, against North Atlantic as principal debtor; and
- (b) North Atlantic shall take any steps reasonably requested by the FSCS Scheme Manager to ensure that any assignment under or which falls to be made under this Scheme in favour of the FSCS Scheme Manager is duly and effectively made and given full effect.

SECTION 7: THE BOARD

54 THE BOARD

Any function of or power conferred on North Atlantic, the Board, any of its Directors or any of its officers, whether by statute or by its Memorandum or Articles of Association which could be exercised in such a way so as to interfere with the exercise by the Scheme Administrators of their functions and powers in relation to North Atlantic (and the Scheme Administrators, in their absolute discretion, shall determine if such exercise shall so interfere) shall not be exercisable except with the consent of the Scheme Administrators, which may be given either generally or in relation to particular cases (provided however that nothing in this clause 54 shall relieve the Directors from their duty to act in accordance with the Act).

SECTION 8: THE SCHEME ADMINISTRATORS

55 QUALIFICATION AND APPOINTMENT OF THE SCHEME ADMINISTRATORS

- 55.1** There shall be appointed Scheme Administrators having the powers, rights, duties and functions conferred upon them by the Scheme. In exercising their powers and rights and carrying out their duties and functions under the Scheme, the Scheme Administrators shall act in good faith and with due care and diligence in the interests of the Scheme Creditors as a whole, and shall exercise their powers under the Scheme for the purpose of ensuring that the Scheme is applied and operated in accordance with its terms.
- 55.2** The Scheme Administrators shall be individuals qualified to act as insolvency practitioners within the meaning of Section 390 of the Insolvency Act. Where more than one person has been appointed as Scheme Administrator, each must be qualified to act as an insolvency practitioner.
- 55.3** The Scheme Administrators shall, with effect from the Effective Date, ensure that there is in force in relation to North Atlantic such bond as would have had to have been in force if North Atlantic had been wound up in England on such date and they had been appointed its liquidators.
- 55.4** The first Scheme Administrators shall be those individuals nominated in clause 5.2. Further Scheme Administrators may be appointed in accordance with clause 56.2(b) and 66.2.

56 RESIGNATION AND REMOVAL OF THE SCHEME ADMINISTRATORS

- 56.1** A Scheme Administrator shall vacate office only if he:
- (a) dies;
 - (b) becomes bankrupt;
 - (c) becomes mentally disordered under the law of any jurisdiction to which he is subject including, without prejudice to the generality of the foregoing, Mentally Disordered;
 - (d) resigns his office by giving not less than three month's notice in writing to the other Scheme Administrators, North Atlantic and the Creditors' Committee;
 - (e) is convicted of an indictable offence (other than offences in relation to road traffic);
 - (f) ceases to be a person qualified to act as an insolvency practitioner within the meaning of Section 390 of the Insolvency Act;
 - (g) becomes disqualified from acting as a director of a company under the law of any jurisdiction to which he is subject including, without prejudice to the generality of the foregoing, The Directors Disqualification Act 1986; or
 - (h) is removed under clause 56.2(a).
- 56.2** The Scheme Creditors shall be entitled:
- (a) to remove with good cause a Scheme Administrator by a Creditors' Resolution in accordance with clause 80.1(a); and
 - (b) upon removal of a Scheme Administrator by a Creditors' Resolution to appoint by a simple majority in his place at the same meeting any person (or persons) qualified to act as a Scheme Administrator in accordance with clause 55.2 provided that the name of the person to be so appointed is stated in the notice convening the meeting of Scheme Creditors at which such Creditors' Resolution to remove the Scheme Administrator is to be proposed and the proposed appointee shall have given and not withdrawn his consent to act as a Scheme Administrator.

- 56.3** A Scheme Administrator shall not be removed from office under clause 56.2 unless:
- (a)** at any meeting of the Scheme Creditors convened in accordance with clause 75 and held to review his appointment, the Scheme Administrator is given an opportunity to be heard; and
 - (b)** notwithstanding any representations made by or on behalf of the Scheme Administrator, whether himself or through any representative or agent including without limitation Counsel, the Scheme Creditors pass a Creditors' Resolution that such Scheme Administrator be removed from office.

57 GENERAL POWERS AND DISCRETIONS OF THE SCHEME ADMINISTRATORS

- 57.1** The Scheme Administrators shall have general powers of management and control over the business, affairs and Property of North Atlantic for the purpose of implementing and applying the Scheme unless inconsistent with any specific provision of the Scheme. The Scheme Administrators shall also have the powers specifically conferred on them by the Scheme. In exercising their powers and carrying out their duties and functions under the Scheme, the Scheme Administrators shall act as agents for and on behalf of North Atlantic.
- 57.2** Where one or more persons has been appointed as Scheme Administrator, the functions and powers of the Scheme Administrators under the Scheme may be performed and exercised jointly and severally and any act required to be done by the Scheme Administrators under the Scheme may be done by any one or more or all of them.
- 57.3** The performance of any act, the making of any determination or any other matter, including without limitation any of the provisions of clause 58, which is, whether expressly or impliedly, at the discretion or in the opinion of the Scheme Administrators, shall be at their reasonable discretion and the provisions of clause 83.1 shall apply thereto.
- 57.4** In carrying out their functions and exercising their powers under the Scheme the Scheme Administrators shall consult with, and take account of the views expressed by, the Creditors' Committee on any matter which the Scheme Administrators consider material to the Scheme.

58 SPECIFIC POWERS OF THE SCHEME ADMINISTRATORS

- 58.1** The Scheme Administrators shall be entitled, without prejudice to the generality of the foregoing:
- (a)** to attend Board meetings and to have full access at all times to all information as they shall from time to time require in relation to the business, affairs and Property of North Atlantic or the operation of the Scheme and to all books, papers, documents and other information contained or represented in any format whatsoever in the possession, custody or under the control of North Atlantic, and any such information and documents may, subject, where applicable, to appropriate undertakings of confidentiality, be disclosed by the Scheme Administrators to the Creditors' Committee;
 - (b)** to convene, at such intervals as they think fit, Board meetings for the purpose of obtaining information concerning the affairs of North Atlantic;
 - (c)** to employ and remunerate accountants, actuaries, lawyers and other professional advisers or agents in relation to the business, affairs and Property of North Atlantic and the Scheme Administrators' powers, rights, duties and functions under the Scheme;
 - (d)** to delegate to any person qualified to act as an insolvency practitioner within the meaning of Section 390 of the Insolvency Act and approved for the time being by the Creditors' Committee for the purposes of this clause, all or any of the powers, rights, duties and functions 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;

- (e) to the extent that the Court has jurisdiction, to apply or cause North Atlantic to apply to the Court for directions in relation to any particular matter arising in the course of the Scheme but no such application shall be made for directions concerning the interpretation or construction of the Policyholders Protection Act whether as such or as it applies to the obligations of the FSCS Scheme Manager under, or otherwise as incorporated into, the Scheme (and no consent shall be given by the Scheme Administrators to any such application by North Atlantic) unless the FSCS Scheme Manager in its absolute discretion consents;
- (f) to be paid and reimbursed in accordance with clause 62 for the carrying out of their duties and the exercise of their powers, rights, duties and functions under the Scheme and for all expenses properly incurred by them in connection therewith;
- (g) in relation to the run-off of North Atlantic:

 - (i) subject to the prior approval of the FSCS Scheme Manager, to appoint a Run-off Company, other than North Atlantic Run-Off Services Limited, on terms and conditions which they consider are in the best interests of the Scheme Creditors as a whole;
 - (ii) to issue instructions or directions to any Run-off Company or (subject to any agreement of the Run-off Company and the prior approval of the FSCS Scheme Manager (where by varying the terms of the Run-off Agreement, Protected Policyholders or the FSCS Scheme Manager are (in the opinion of the FSCS Scheme Manager) directly affected)) to vary the terms of the Run-off Agreement;
 - (iii) to terminate any Run-off Agreement in accordance with its terms;
 - (iv) to pay the Run-off Company in accordance with the terms on which payment had been made prior to the Effective Date or in accordance with any Run-off Agreement; and
 - (v) generally to supervise the Run-off Company in accordance with the terms of any Run-off Agreement;
- (h) either to attend themselves or appoint a delegate to attend any meeting of the Creditors' Committee, including any meeting at which information provided under clause 61.3 is submitted or considered for the purpose of giving such explanations and information as the Creditors' Committee may require;
- (i) to agree claims and collect reinsurance recoveries in accordance with the Scheme as part of the run-off of North Atlantic's business and have all the powers more fully described in clause 59;
- (j) (without prejudice to any third party rights thereto, including any subrogated rights of the FSCS Scheme Manager) to take possession of, collect and get in all the Property (of whatever nature) to which North Atlantic is or appears to be entitled and to do all such things as may be necessary for the realisation of any such Property;
- (k) to do all things which may be necessary or expedient for the protection of the Property of North Atlantic or of any other assets that appear to belong to North Atlantic;
- (l) to bring, continue, defend or intervene in any Proceedings or other judicial, quasi-judicial, administrative or regulatory process in the name of and on behalf of North Atlantic or otherwise;
- (m) to do all acts and execute in the name of and on behalf of North Atlantic any deed, receipt or other document and to use North Atlantic's seal;
- (n) to borrow (and grant security therefore over the Property of North Atlantic) and to make any payment which is necessary or incidental to the performance of their functions and to give a valid discharge in respect of amounts received by North Atlantic;
- (o) to give directions to the Board of North Atlantic in relation to the exercise by them of their rights and powers in connection with the affairs of North Atlantic;

- (p) to pay dividends in accordance with Section 4;
- (q) to exercise any other powers necessary for or incidental to the full and proper implementation of the Scheme; and
- (r) to propose, where they consider it to be in the interests of the Scheme Creditors as a whole, in relation to a defined group of Scheme Creditors, a scheme of arrangement under Section 425 of the Act with a view to valuing some or all of the Scheme Liabilities of such Scheme Creditors provided such Scheme Liabilities shall be determined under such other scheme of arrangement directly or indirectly by an estimation methodology adopting similar actuarial assumptions as the Estimation Methodology. In the event that such a scheme of arrangement is proposed, the Scheme Administrators shall, subject to the jurisdiction of the Court, only be required to convene a meeting or meetings under Section 425(2) of the Act of those Scheme Creditors whose Scheme Liabilities it is proposed to value. The Scheme Administrators may propose such a scheme of arrangement in respect of any group of Scheme Creditors and on any number of occasions.

59 CONTRACTUAL POWERS

59.1 Without prejudice to the generality of the foregoing and in connection with carrying out the functions and powers referred to in clause 58.1(i), if the Scheme Administrators consider that to do so would be in the best interests of the Scheme Creditors, North Atlantic may enter into contractual arrangements:

- (a) with any of its reinsurers for the discharge of any of those reinsurer's Liabilities to North Atlantic under reinsurance contracts in consideration of payment to North Atlantic; and
- (b) with third parties in order to assign, sell or otherwise dispose of benefits under North Atlantic's outward reinsurance contracts.

60 REPRESENTATIVES

The Scheme Administrators may, at their absolute discretion, deal with those persons acting on behalf of Scheme Creditors in the ordinary course (including, but not limited to managing general agents, the managers of underwriting pools, the holders of line slips or binding authorities or similar representative bodies) ('**Representatives**') on the basis that those Representatives are fully authorised to represent the Scheme Creditors concerned for all purposes in connection with the Scheme. Furthermore, the Scheme Administrators may at their absolute discretion treat any such Representative as if he was a single Scheme Creditor in place of his principal or principals.

61 DUTIES OF THE SCHEME ADMINISTRATORS

- 61.1 The Scheme Administrators shall, following each Review Date, prepare a report on the affairs of North Atlantic and the operation of the Scheme during the period since the previous Review Date or, in the case of the first report, the Effective Date. Such report shall contain such information and particulars concerning any payments made pursuant to Section 4, the value of Admitted Scheme Liabilities determined on or before the date of such report, the estimated value of Admitted Scheme Liabilities and other Liabilities of North Atlantic, the investments held by or on behalf of North Atlantic, the conduct of North Atlantic's business and affairs and such information as to the operation of the Scheme as the Creditors' Committee may reasonably require.
- 61.2 The Scheme Administrators shall send copies of every report prepared under clause 61.1 to each member of the Creditors' Committee. The Scheme Administrators are not under a duty to provide a copy of any such report to any other Scheme Creditor unless the Scheme Creditor has specifically requested in writing that the Scheme Administrators do so.
- 61.3 The Scheme Administrators shall give the Creditors' Committee all such information concerning the affairs of North Atlantic or the operation of the Scheme as Creditors' Committee shall from time to time reasonably request from the Scheme Administrators pursuant to clause 67.1.

61.4 In carrying out their duties and functions and exercising their powers under the Scheme, the Scheme Administrators shall consult with and take account of any views expressed by the Creditors' Committee on any matter material to the Scheme.

62 COSTS, CHARGES AND EXPENSES OF THE SCHEME ADMINISTRATORS

62.1 There shall be paid out of the Property of North Atlantic, in priority to all other Priority Liabilities, all reasonable costs, charges and expenses of the Scheme Administrators and their firm in the course of exercising or performing their functions, powers, rights, duties, authorities and discretions under the Scheme including the fees of the Scheme Administrators and their staff and the costs incurred by the Scheme Administrators in employing agents and professional advisers, including legal advisers, to assist them in implementing the Scheme.

62.2 In determining what is reasonable, there shall be taken into account:

- (a)** the time properly given by the Scheme Administrators and their staff in attending to North Atlantic's affairs;
- (b)** the complexity of the various aspects of the matter;
- (c)** any respects in which, in connection with North Atlantic's affairs, there falls on the Scheme Administrators any responsibility of an exceptional kind or degree;
- (d)** the effectiveness with which the Scheme Administrators appear to be carrying out, or to have carried out, their duties; and
- (e)** the value and nature of the Property with which they have to deal.

62.3 For the avoidance of doubt, all liabilities, costs, fees, expenses and deductions due to the Run-off Company pursuant to any Run-off Agreement or in accordance with the terms as to amount and timing of the payment thereof as applied between North Atlantic and the Run-off Company at 1 July 2002 shall be deemed to be costs for the purposes of this clause 62.

62.4 The Scheme Administrators shall seek the approval of the Creditors' Committee to the amount of their costs, charges and expenses. Should the Creditors' Committee not approve the level of costs, charges and expenses submitted by the Scheme Administrators, the Scheme Administrators shall be at liberty to apply to the Court for the approval of such costs, charges and expenses.

62.5 For the avoidance of doubt, the Scheme Administrators shall be entitled to draw down from the Property of North Atlantic their costs, charges and expenses on a regular basis to be repaid to North Atlantic if such costs, charges and expenses are not subsequently approved by the Creditors' Committee or the Court pursuant to clause 62.4.

SECTION 9: THE CREDITORS' COMMITTEE

63 CONSTITUTION OF THE CREDITORS' COMMITTEE

- 63.1** There shall be a single Creditors' Committee for the purposes set out in the Scheme.
- 63.2** The Creditors' Committee shall consist of not less than five and not more than eight persons (each a '**Committee Member**') plus the FSCS Scheme Manager unless the Scheme Administrators in consultation with the Creditors' Committee decide otherwise.
- 63.3** If the number of Committee Members is at any time, for whatever reason, less than five, the continuing Committee Members may only act for the purpose of convening a meeting of Scheme Creditors to fill the vacancy or vacancies in the number of Committee Members but for no other purpose. For the purpose of electing persons to be Committee Members in accordance with this clause 63.3, the procedure in Appendix 2 shall apply. If the number of Committee Members does fall below five, the continuing Committee Members shall act for the purposes set out in this clause 63.3 as soon as reasonably practicable.
- 63.4** Any Scheme Creditor or any authorised representative of any one or more Scheme Creditors (whether an individual, a body corporate or a partnership) shall be eligible for appointment as a Committee Member. If a partnership is appointed as a Committee Member, the appointment shall be treated as though the partnership were a body corporate and no person shall be entitled to act as a member of the Creditors' Committee on behalf of (or by reason of being a partner in) such partnership except a person appointed by such partnership to represent it in accordance with clause 70.1.

64 MEMBERSHIP OF THE CREDITORS' COMMITTEE

- 64.1** The initial Creditors' Committee shall consist of:
- (a)** those persons elected as members of the initial Creditors' Committee in accordance with the procedure set out in Appendix 2; and
 - (b)** the FSCS Scheme Manager.
- 64.2** Subject to clause 64.4 and subject to where the situation contemplated by clause 63.3 arises, the Creditors' Committee may resolve at any time, by a simple majority of the Committee Members present at a meeting of the Creditors' Committee, to appoint any person who is eligible to be so appointed to be a Committee Member, whether to fill a vacancy or as an additional Committee Member, but so that the total number of Committee Members shall not exceed the maximum number specified in clause 63.2. In appointing additional Committee Members, the Creditors' Committee shall endeavour to ensure that the composition of the Creditors' Committee is such that it represents a proper balance of the interests of the Scheme Creditors as a whole.
- 64.3** Subject to clause 63.3, the Scheme Creditors may, by Creditors' Resolution, remove any Committee Member (other than the FSCS Scheme Manager) from office and may by Creditors' Resolution appoint any person who is eligible to be appointed under clause 63.4 to be a Committee Member either to fill a vacancy or in addition to the existing Committee Members, but so that the total number of Committee Members shall not exceed the maximum number nor be less than the minimum number specified in clause 63.2.
- 64.4** Any Committee Member removed as such by the Scheme Creditors pursuant to clause 64.3 shall only be re-appointed as a Committee Member by the Scheme Creditors and not by the Creditors' Committee.
- 64.5** No person shall be appointed as a Committee Member under either clause 63.3 or 64.3 at any meeting of Scheme Creditors unless:
- (a)** he is recommended by the Creditors' Committee; or

- (b) not less than seven and not more than 28 clear days before the date appointed for the meeting, a notice executed by a Scheme Creditor qualified to vote at the meeting has been given to all Committee Members of the intention to propose that person for appointment together with a written notice signed by that person of his willingness to be appointed.

65 CEASING TO BE A COMMITTEE MEMBER

65.1 The office of a Committee Member (other than the FSCS Scheme Manager) shall be vacated if that Committee Member, being an individual:

- (a) resigns by notice in writing addressed to any one of the Scheme Administrators, such notice being effective on receipt;
- (b) is removed from office by a Creditors' Resolution, pursuant to clause 64.3;
- (c) is convicted of an indictable offence (other than offences in relation to road traffic);
- (d) ceases to be (or is found never to have been) a Scheme Creditor or an authorised representative of a Scheme Creditor;
- (e) fails to attend three consecutive meetings of the Creditors' Committee, unless the Creditors' Committee (excluding that Committee Member) resolves by a simple majority of the Committee Members present at a meeting of the Creditors' Committee that he should continue as a Committee Member;
- (f) dies;
- (g) becomes bankrupt under the law of any jurisdiction to which he is subject;
- (h) becomes mentally disordered under the law of any jurisdiction to which he is subject, including, without prejudice to the generality of the foregoing, Mentally Disordered; or
- (i) becomes disqualified from acting as a director under the law of any jurisdiction to which he is subject, including, without prejudice to the generality of the foregoing, The Company Directors Disqualification Act 1986.

65.2 The office of a Committee Member (other than the FSCS Scheme Manager) shall be vacated if that Committee Member, being a body corporate or partnership:

- (a) resigns by notice in writing addressed to any one of the Scheme Administrators, such notice being effective on receipt;
- (b) is removed from office by a Creditors' Resolution, pursuant to clause 64.3;
- (c) is convicted of an indictable offence (other than offences in relation to road traffic);
- (d) ceases to be (or is found never to have been) a Scheme Creditor or an authorised representative of a Scheme Creditor;
- (e) fails to attend three consecutive meetings of the Creditors' Committee, unless the Creditors' Committee (excluding that Committee Member) resolves by a simple majority of the Committee Members present at a meeting of the Creditors' Committee that he should continue as a Committee Member; or
- (f) is dissolved.

65.3 The FSCS Scheme Manager may resign by notice in writing to the Chairman and signed by the chairman for the time being of the FSCS Scheme Manager. Such notice shall be deemed to have been received by the Chairman on the delivery by hand at the address of North Atlantic's registered office or if sent by Post, other than by hand, addressed to the Chairman at the address of North Atlantic's registered office, 48 hours after such notice was posted.

66 FUNCTIONS OF THE CREDITORS' COMMITTEE

- 66.1** The Creditors' Committee shall be responsible for overseeing the implementation of the Scheme including, without prejudice to the generality of the foregoing, providing their views on any matter relating to the Scheme as and when requested to do so by the Scheme Administrators.
- 66.2** The Creditors' Committee shall, insofar as it is able, ensure that there is a Scheme Administrator in office at all times throughout the Scheme Period. In addition, the Creditors' Committee may at any time (with the consent of the remaining Scheme Administrators, if any) appoint as an additional Scheme Administrator any person qualified to act as such in accordance with clause 55.2.
- 66.3** The Creditors' Committee shall, acting reasonably, approve any investment policy proposed for any Property of North Atlantic by the Scheme Administrators prior to its implementation except where it is impractical to do so for whatever reason, at the sole discretion of the Scheme Administrators, in which case such investment policy shall be considered by the Creditors' Committee as soon as practicable after its implementation.
- 66.4** The Creditors' Committee shall, when it believes it appropriate to do so, call the Independent Actuary to appear before it to discuss such issues as it reasonably deems necessary in relation to the Estimation Methodology and its application by the Scheme Actuary, in accordance with the terms of any contract of engagement between North Atlantic and the Independent Actuary.
- 66.5** The Creditors' Committee shall have the other functions specifically referred to in the Scheme.

67 INFORMATION TO BE GIVEN TO THE CREDITORS' COMMITTEE

- 67.1** The Creditors' Committee may from time to time resolve what information it requires from the Scheme Administrators relating to the operation of the Scheme and other matters concerning the affairs of North Atlantic, and the Creditors' Committee may request any one Committee Member to apply in writing to, and receive from, the Scheme Administrators all such information.
- 67.2** Nothing in clause 61.3 or this clause 67 shall require the Scheme Administrators to provide to the Creditors' Committee any information the release of which they determine would be detrimental to the interests of North Atlantic and/or the Scheme Creditors as a whole, or any information which North Atlantic (or any of its agents) is under a legal duty not to disclose. If the Scheme Administrators refuse to provide information under either clause 61.3 or clause 67.1, they shall give the Creditors' Committee reasons for their decision.
- 67.3** Each member of the Creditors' Committee shall be entitled at any time to raise questions or to request a meeting with the Scheme Administrators in connection with the performance of his responsibilities as a Committee Member and, subject to their duties under the Scheme, the Scheme Administrators shall use reasonable endeavours, insofar as it is cost-effective for them to do so, to respond to such questions or to comply with any such request for a meeting.

68 DUTIES OF COMMITTEE MEMBERS

- 68.1** Each Committee Member and Nominated Representative, as defined in clause 70.4, shall, in performing his functions as such, act in good faith and with due care and diligence in the interests of the Scheme Creditors as a whole.

- 68.2** Each Committee Member shall use his best endeavours to avoid conflicts of interest in performing his duties under the Scheme. It shall be the duty of each Committee Member who is in any way, whether directly or indirectly, interested in a contract, arrangement or proposed contract or arrangement with North Atlantic to declare (or procure that his Nominated Representative declares) the nature of his interest at a meeting of the Creditors' Committee. For this purpose, a general notice given to the Creditors' Committee to the effect that the Committee Member is an associate (within the meaning Section 435 of the Insolvency Act) of a specified company or firm and is to be regarded as interested in any contract with that company or firm shall be deemed a sufficient declaration of interest in relation to any such contract or arrangement. The provisions of clause 69.8 shall apply to any Committee Member with such an interest.
- 68.3** Each Committee Member shall (and shall procure that any Nominated Representative, its officers and employees shall) preserve the confidentiality of all information received in his capacity as Committee Member or Nominated Representative concerning North Atlantic and the operation of the Scheme and shall use such information only for the purpose of performing his responsibilities and functions under the Scheme unless he shall have obtained the prior written approval of the Scheme Administrators.
- 68.4** Notwithstanding clause 68.3, each Nominated Representative, except that appointed by the FSCS Scheme Manager which is dealt with in clause 68.5 below, shall be entitled to report to the Committee Member appointing him on the proceedings of the Creditors' Committee and, so far as necessary for that purpose, to disclose confidential information of and relating to North Atlantic to those officers, employees and professional advisers of that Committee Member who need to know it in connection with the performance of his responsibilities as a member of the Creditors' Committee, provided that such information does not to his or its knowledge (after due enquiry) relate to any matter where any such appointer has a conflict of interest with North Atlantic other than a general conflict arising as the result of the status of the members of the Creditors' Committee as creditors of North Atlantic. Each member of the Creditors' Committee, other than the FSCS Scheme Manager, shall, and shall procure that his Nominated Representative and his officers, employees and professional advisers shall, preserve the confidentiality of such information and shall use such information only for the purpose of performing their responsibilities and functions in relation to the Creditors' Committee.
- 68.5** Notwithstanding clause 68.3, the Nominated Representative of the FSCS Scheme Manager shall be entitled to report to the FSCS Scheme Manager or to any regulatory or governmental body or authority on the proceedings of the Creditors' Committee and, so far as necessary for that purpose, to disclose confidential information of North Atlantic to the board of the FSCS Scheme Manager and/or any regulatory or governmental body provided that such information does not to his knowledge (after due enquiry) relate to any matter where FSCS Scheme Manager has a conflict of interest with North Atlantic (other than a general conflict arising as a result of the status of the FSCS Scheme Manager as a creditor of North Atlantic). Without prejudice to clause 52 and subject to the disclosure permissible by the FSCS Scheme Manager as provided in this clause, the FSCS Scheme Manager shall, and shall procure that its Nominated Representative and the individual board members of the FSCS Scheme Manager shall, preserve the confidentiality of such information and shall use such information only for the purposes of performing its responsibilities and functions in relation to the Creditors' Committee.

69 PROCEEDINGS OF THE CREDITORS' COMMITTEE

- 69.1** Subject to the provisions of the Scheme, the Creditors' Committee may convene, adjourn or otherwise regulate its meetings as it sees fit.
- 69.2** The Chairman at any meeting (the '**Chairman**' for this Section 9) shall be one of the Scheme Administrators or a person nominated by them so to act.
- 69.3** The Creditors' Committee shall meet at least once in each calendar year commencing in 2002 for the purpose of receiving a report from the Scheme Administrators on the progress of the Scheme. The Creditors' Committee shall hold such further meetings as it deems necessary for the purpose of performing its functions under the Scheme.

- 69.4** The Scheme Administrators may summon and three Committee Members may at any time request the Scheme Administrators to summon a meeting of the Creditors' Committee. The Scheme Administrators shall call a meeting of the Creditors' Committee as soon as practicable after receiving a request to do so under this clause 69.4.
- 69.5** When summoning a meeting of the Creditors' Committee, the Scheme Administrators shall send written notice to each Committee Member of such meeting setting out the time and place of the meeting (which shall be in London or New York or such other place as the Scheme Administrators may direct) and indicating the nature of business to be transacted.
- 69.6** Except with the consent of all Committee Members, no meeting of the Creditors' Committee may be called upon less than 14 clear days' notice and no business may be transacted at any meeting of the Creditors' Committee other than set out in the notice of that meeting.
- 69.7** The quorum necessary for the transaction of business shall be five Committee Members. If a quorum is not present within half an hour from the time appointed for a meeting, or if during a meeting such quorum ceases to be present, the meeting shall stand adjourned to such time and place as the Chairman may reasonably determine and the quorum at any such adjourned meeting shall be five Committee Members.
- 69.8** Each Committee Member shall have one vote. Except as otherwise provided in the Scheme, matters arising at any meeting shall be decided by a simple majority of votes of the Committee Members (for the avoidance of doubt, excluding the Chairman) attending at such meeting and entitled to vote and voting on such matter. In the case of equality of votes, the Chairman shall have the casting vote in respect of that particular resolution voted upon. A Committee Member, and his Nominated Representative, shall not be entitled to vote or to form part of the quorum in relation to any matter in which he is in any way, in the opinion of the Scheme Administrators, interested (other than a general interest arising by reason only of his status of a Scheme Creditor) and, if requested to do so, shall absent himself from the meeting for so long as such matter is discussed and voted upon and shall not receive any information nor be entitled to inspect any part of the minutes of a meeting of the Creditors' Committee relating thereto.
- 69.9** The Scheme Administrators shall be entitled to attend, speak and/or make written submissions at all meetings of the Creditors' Committee. However, they shall not be entitled to vote at any such meeting unless as Chairman in accordance with clause 69.8 or otherwise as agreed by the Creditors' Committee.
- 69.10** A resolution in writing, including a facsimile copy, signed in any number of counterparts by all the Committee Members for the time being shall be as valid and effective as if passed at a meeting of the Creditors' Committee duly convened and held.
- 69.11** A Committee Member and/or a Scheme Administrator may participate in a meeting of the Creditors' Committee by conference telephone or similar form of communication equipment if all persons participating in the meeting are at all material times able to hear and speak to each other. A person participating in this way shall be deemed to be present in person at the meeting and shall be counted in a quorum and entitled to vote, if appropriate. All business transacted in this way by the Creditors' Committee shall be deemed to be validly and effectively transacted at a meeting of the Creditors' Committee.
- 69.12** The Chairman shall cause proper minutes to be kept of all proceedings of the Creditors' Committee and such minutes shall at all reasonable times be open to inspection by any Committee Member and/or by the Scheme Administrators.

70 APPOINTMENT OF NOMINATED REPRESENTATIVES

- 70.1** Each Committee Member, other than the FSCS Scheme Manager, which is a body corporate or a partnership may, by notice to the Scheme Administrators, appoint a senior executive or other senior employee as its representative to represent that Committee Member at any meeting of the Creditors' Committee.
- 70.2** Any Committee Member who is an individual may, by notice in writing to the Scheme Administrators, appoint a responsible individual as his representative to attend and vote in his place at any meeting of the Creditors' Committee.

70.3 The FSCS Scheme Manager shall be entitled to appoint one person to represent it at any meeting of the Creditors' Committee.

70.4 Any representative appointed pursuant to either clause 70.1, 70.2 or 70.3 shall be a '**Nominated Representative**'. Each Nominated Representative, may, by notice in writing to the Creditors' Committee, appoint any person qualified to act as a Nominated Representative as his alternate to attend and vote at any meeting of the Creditors' Committee in his place. Any such alternative shall have the powers and shall be subject to the same limitations as the Nominated Representative who has appointed him.

71 POWERS OF NOMINATED REPRESENTATIVES

Any Nominated Representative shall have the same powers and shall be subject to the same duties and limitations as the Committee Member whom the Nominated Representative represents.

72 REVOCATION AND TERMINATION OF APPOINTMENT OF NOMINATED REPRESENTATIVES

72.1 Any person entitled to appoint a Nominated Representative may from time to time revoke any appointment that he has made (and the appointment therefore of any alternate shall automatically be revoked) and appoint another Nominated Representative by notice in writing to the Scheme Administrators.

72.2 The appointment of a Nominated Representative, and of any alternate appointed by him, shall terminate automatically if:

- (a) his appointment is revoked by his appointer;
- (b) the person whom that Nominated Representative represents ceases to be a Committee Member;
- (c) in the case of a Committee Member which is a body corporate or partnership, the Nominated Representative ceases to be a senior executive, senior employee or other senior officer of the Committee Member whom he represents;
- (d) the Nominated Representative dies, becomes mentally disordered or bankrupt under the law of any jurisdiction to which he is subject including, without prejudice to the generality of the foregoing, Mentally Disordered;
- (e) the Nominated Representative is disqualified from acting as a director under the law of any jurisdiction to which he is subject including, without prejudice to the generality of the foregoing, The Company Directors Disqualification Act 1986; or
- (f) the Nominated Representative is convicted of an indictable offence (other than offences in relation to road traffic).

73 VALIDATION

All acts done by a Committee Member or Nominated Representative at any meeting of the Creditors' Committee shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of the Committee Member or Nominated Representative, be as valid as if such person had been duly appointed and qualified.

74 EXPENSES

74.1 North Atlantic shall pay the reasonable costs incurred in summoning meetings of the Creditors' Committee (irrespective of who requests the meeting) and the reasonable out of pocket expenses incurred by the Committee Members and the Scheme Administrators in attending such meetings.

74.2 North Atlantic shall also pay, at the Scheme Administrators' sole discretion, any other costs and expenses reasonably incurred by any Committee Member in carrying out his duties and functions as Committee Member under the Scheme.

74.3 Any amounts payable under clauses 74.1 and 74.2 shall be payable out of the Property of North Atlantic as a Scheme Cost.

SECTION 10: THE SCHEME CREDITORS

75 MEETINGS OF SCHEME CREDITORS

- 75.1** The Scheme Administrators may convene a meeting of Scheme Creditors wherever and for such purposes as the Scheme Administrators shall in their absolute discretion think fit.
- 75.2** In addition, the Scheme Administrators shall convene a meeting of the Scheme Creditors upon receipt at North Atlantic's registered office of a request in writing from 50 Scheme Creditors or Scheme Creditors owed Net Scheme Liabilities of not less than 10 percent in value of all Scheme Creditors' Net Scheme Liabilities that such a meeting be held for the purpose of exercising one or more of the powers of the Scheme Creditors set out in clause 80. The FSCS Scheme Manager shall, for the purposes of convening a meeting of the Scheme Creditors, be counted as a separate Scheme Creditor in relation to each Scheme Creditor in respect of which a Scheme Liability has been assigned to it pursuant to clause 49.1 or otherwise. Any such written request must specify the purpose for which the meeting is required and it shall be the duty of the Scheme Administrators upon receipt of such written request to give such notice of the meeting as is necessary to enable such purpose to be carried out effectively in accordance with the provisions of the Scheme.
- 75.3** Following the Effective Date, classes of Scheme Creditors at meetings of the Scheme Creditors convened in accordance with this clause 75 shall be those determined at the appropriate time by the Scheme Administrators with the agreement of the Creditors' Committee to have sufficient community of interest in the subject matter of those meetings to vote in the same class in respect thereof.

76 NOTICE OF SCHEME CREDITORS' MEETINGS

- 76.1** At least 28 days' notice in writing of every meeting of Scheme Creditors, specifying the time and place of the meeting and the general nature of the business to be transacted at the meeting, and the text of the Creditors' Resolutions to be proposed at the meeting, or an adequate summary thereof, shall be given to every Scheme Creditor at his last known address (if any) or such other address as he may have given to North Atlantic at its registered office for the service of such notices upon him.
- 76.2** Every such notice shall be sent Electronically (insofar as the Scheme Administrators have communicated with the relevant Scheme Creditor in this way) or by Post and the accidental omission to send any such notice to, or the non-receipt of notice by, any Scheme Creditor entitled to receive the same, shall not invalidate the proceedings of any meeting.
- 76.3** Proof that an envelope containing a notice was properly posted or receipt by the Scheme Administrators of a delivered receipt if sent Electronically shall be conclusive evidence that notice was given.
- 76.4** The Scheme Administrators shall cause to be published in the same newspapers and publications in which the Scheme Meetings were advertised and, to the extent they consider appropriate, in such other places in such manner as they deem fit, notices of advertisements of the proposed meeting of Scheme Creditors.

77 VOTING AT SCHEME CREDITORS' MEETINGS

- 77.1** Every Scheme Creditor present in person or by proxy shall have one vote for every US Dollar of his Net Scheme Liability. For voting purposes, in the case of Scheme Liabilities and Scheme Debts denominated in currencies other than US Dollars, such Scheme Liabilities and Scheme Debts shall be converted into US Dollars at the Scheme Exchange Rate.
- 77.2** Every Scheme Creditor entitled to vote shall have the right to appoint any person as his proxy to attend and vote instead of him. The instrument appointing a proxy may be in any form which the Chairman of the meeting may approve and must be lodged at the place specified in the notice of the meeting for the lodging of proxies prior to or at the meeting or adjourned meeting forty-eight hours prior to the meeting or the adjourned meeting at which it is to be used.

77.3 The FSCS Scheme Manager shall, for voting purposes, be counted as a separate Scheme Creditor in relation to each Scheme Creditor in respect of which a Scheme Liability has been assigned to it pursuant to clause 49.1 or otherwise.

78 QUORUM REQUIRED FOR SCHEME CREDITORS' MEETINGS

78.1 No business shall be transacted at a meeting of Scheme Creditors unless a quorum is present when the meeting proceeds to business. 50 Scheme Creditors representing 10 percent of all Scheme Creditors' Net Scheme Liabilities present in person or by proxy and having the right to vote at the meeting shall constitute a quorum. If a quorum is not present within half an hour of the time appointed for the meeting or if during a meeting such a quorum ceases to be present, the meeting shall stand adjourned to such time and place as the Chairman of the meeting may determine and at any such adjourned meeting a quorum will be 50 Scheme Creditors representing 10 percent of all Scheme Creditors' Net Scheme Liabilities present in person or by proxy and having the right to vote at the meeting. All resolutions put to the vote at any meeting shall be decided on a poll.

78.2 The FSCS Scheme Manager shall, for the purpose of calculating whether a quorum is present, be counted as a separate Scheme Creditor in relation to each Scheme Creditor in respect of which a Scheme Liability which has been assigned to it pursuant to clause 49.1 or otherwise.

79 CHAIRMAN OF SCHEME CREDITORS' MEETINGS

A Scheme Administrator shall be the Chairman (the '**Chairman**' for this Section 10) of all meetings of the Scheme Creditors except if a resolution is proposed directly concerning the Scheme Administrators, in which case and for that purpose only, the meeting shall nominate a Chairman of the meeting, such Chairman to be a Committee Member (or its Nominated Representative). If there is a vacancy in the office of Chairman or if the Chairman is not present within 15 minutes after the time appointed for opening the meeting or indicates that he is unwilling to preside, the Scheme Creditors present in person or by proxy shall choose a Committee Member (or its Nominated Representative) to be Chairman of the meeting or, if no such person is present or if all such persons present decline to preside, the persons present shall choose one of themselves to be Chairman of the meeting. If no person is willing to preside as Chairman of the meeting, the meeting shall be adjourned for seven days and if no person is willing to preside as Chairman of the adjourned meeting, the meeting shall be dissolved.

80 POWERS OF THE SCHEME CREDITORS IN GENERAL MEETING

80.1 The Scheme Creditors shall have power by passing a Creditors' Resolution:

- (a)** to remove with good cause a Scheme Administrator from office in accordance with clause 56.2(a) (subject to clause 56.3), and appoint, by simple majority, another in his place in accordance with clause 56.2(b), being a person qualified to act in accordance with clause 55.2; and
- (b)** pursuant to clause 64.3, to remove any Committee Member (other than the FSCS Scheme Manager) from office.

80.2 The Scheme Creditors shall also have the power to appoint Committee Members in accordance with clause 63.3, ensuring that each such person appointed is eligible to be so appointed under clause 63.4.

SECTION 11: TERMINATION OF THE SCHEME AND LIQUIDATION EVENT

81 TERMINATION OF THE SCHEME AND LIQUIDATION EVENT

81.1 The Scheme shall terminate on the date that the Scheme Administrators give notice under clause 86 to North Atlantic and the FSCS Scheme Manager at their registered office that:

- (a) all North Atlantic's Priority Liabilities and Admitted Scheme Liabilities have been paid or discharged in full; or
- (b) there is no further Property of North Atlantic that can be cost-effectively collected and be distributed in accordance with the provisions of the Scheme; or
- (c) the Scheme Administrators, with the agreement of the Creditors' Committee, give notice in writing to the Scheme Creditors that, after making such enquiries as they deem fit, they have concluded that the Scheme is no longer in the interests of the Scheme Creditors,

but the Scheme shall not terminate, nor shall the powers of the Scheme Administrators under the Scheme be affected in any way, in the event that North Atlantic becomes subject to a Liquidation Event. No Scheme Creditor shall in any event initiate or take any steps to initiate a Liquidation Event.

81.2 If the Scheme shall terminate otherwise than under clause 81.1(a), the value of any Scheme Liability of North Atlantic agreed by the Scheme Administrators, including without limitation that of an Admitted Scheme Liability, shall not be binding on North Atlantic. Furthermore, the provisions of clauses 1 to 13, 81, 83, 85 and 87 (and for the avoidance of doubt, clauses 47.5, 47.6 and 51 and clause 49 insofar as it applies to clauses 47.5, 47.6 and 51) shall continue to apply.

81.3 In the event of a conflict or inconsistency between the provisions of the Scheme and the Insolvency Act and/or the Insolvency Rules and/or the Insurance Companies Act 1982 and/or The Insurers (Winding Up) Rules 2001 and/or the FSMA as they may apply to North Atlantic following the Liquidation Event, for the purposes of the Scheme the provisions of the Scheme shall prevail.

81.4 If the Scheme is terminated in accordance with clause 81.1 and North Atlantic becomes subject to a Liquidation Event either before or immediately after such termination, then Scheme Creditors shall be entitled to prove in the liquidation for the full amount of their Scheme Liabilities. However, entitlement to dividends in the winding up of North Atlantic of each Scheme Creditor who has received a payment or payments under the Scheme in respect of an Admitted Scheme Liability shall be determined in accordance with clause 81.5.

81.5 A Scheme Creditor shall be treated as having received by way of dividend in the winding up of North Atlantic an amount equal to the payment or payments, converted into Sterling at the rate of exchange prevailing in the winding-up received by him in respect of his Admitted Scheme Liability, or treated as having been so received under the Scheme, and shall not be entitled to any dividend in the winding up unless and until all creditors proving in the winding up have received an equivalent percentage dividend. Subject thereto, such a Scheme Creditor shall be entitled to receive dividends in the winding up of North Atlantic *pari passu* with all the Scheme Creditors of North Atlantic.

82 NOTICE OF TERMINATION OF THE SCHEME

As soon as practicable following the Termination Date, the Scheme Administrators shall cause notices stating that the Scheme has terminated to be placed in the same newspapers and publications in which the Scheme Meetings were advertised together with such other newspapers and publications or by such other means as the Scheme Administrators deem appropriate for one day a week for three consecutive weeks following the Termination Date. The cost of placing the announcements shall be payable out of the Property of North Atlantic as a Scheme Cost.

SECTION 12: MISCELLANEOUS

83 VALIDITY OF ACTIONS AND INDEMNITY

83.1 No Scheme Creditor shall be entitled to challenge:

- (a) the validity of any act done or omitted to be done in good faith and with reasonable care by the Scheme Administrators, the Board, any Director, the Scheme Adjudicator, the Scheme Actuary or by any of their employees, delegates or agents or any Committee Member (or any Nominated Representative) in accordance with and to implement the provisions of the Scheme; or
- (b) the exercise, carrying out or performance or the purported exercise, carrying out or performance by any such person in good faith and with reasonable care of any function, power, right, duty, authority or discretion conferred on him for the purpose of the Scheme, if exercised, carried out or performed or purported to be exercised, carried out or performed in accordance with and to implement the Scheme.

83.2 Subject to the Act, no person mentioned in clause 83.1 shall be liable for any loss whatsoever and howsoever arising out of any such act or omission, exercise or non-exercise of any power or discretion, in each case in accordance with and to implement the provisions of the Scheme, unless such loss is attributable to his own negligence, willful default, willful breach of duty or trust, fraud or dishonesty.

83.3 Subject to the Act and, in respect of clause 83.3(b), to any directions which may be given by the Scheme Adjudicator in accordance with clause 45.5, each person mentioned in clause 83.1 shall in relation to North Atlantic be entitled to an indemnity out of the Property of North Atlantic against:

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

83.4 Without prejudice to the generality of clause 83.3, each such person as is expressed to be entitled to an indemnity in accordance with clause 83.3 (in the capacity in which he is entitled to such an indemnity) shall be entitled to an indemnity out of the Property of North Atlantic:

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

83.5 North Atlantic may, with the approval of the Creditors' Committee (such approval not to be unreasonable withheld or delayed):

- (a) (insofar as it is practicable) purchase and maintain for any such person as is referred to in clause 83.1 insurance against any Liability in respect of which North Atlantic would be obliged to indemnify that person in accordance with clauses 83.3 and 83.4; or

- (b) pay costs incurred by any such person in respect of clauses 83.3 and 83.4 in defending Proceedings of the nature described in those clauses which relate to North Atlantic provided that North Atlantic obtains from any such person an obligation to reimburse North Atlantic (with interest) in respect of any sum which would not, in the event, have been payable by North Atlantic under those clauses.

84 ASSIGNABILITY

If a Scheme Creditor entitled to a payment in respect of an Admitted Scheme Liability gives notice to the Scheme Administrators in accordance with clause 86 that he wishes his payment to be paid to another person, or that he has assigned such entitlement to payment of an Admitted Scheme Liability to another person, the Scheme Administrators shall make such payment to that other person accordingly and any such notice must specify the name and address of the person to whom payment is to be made.

85 SCHEME COSTS

85.1 The following shall be paid or reimbursed by North Atlantic in full out of the Property of North Atlantic and in priority to any Admitted Scheme Liabilities:

- (a) all Liabilities, costs, charges, expenses and disbursements incurred by North Atlantic in connection with North Atlantic's provisional liquidation and/or with the negotiation, preparation and implementation of the Scheme including but not limited to the fees and expenses, including legal fees, of the Provisional Liquidators and the Scheme Administrators (in accordance with clause 62), all legal, financial and actuarial costs and any tax incurred by North Atlantic after the Petition Date which would have been payable as an expense of the winding-up if a winding-up order had been made against North Atlantic on the Effective Date); and
- (b) all costs and liabilities mentioned in clauses 43.7, 44.7, 45.5, 74.3, 82 and 83.

85.2 In the event that North Atlantic is in default of any of its obligations under clause 85.1, such person to whom such an obligation is owed shall expressly be permitted to bring such Proceedings as they are entitled and enforce any judgement or award or order obtained therein against North Atlantic or its Property.

86 NOTICES

Any notice or other communication to be given to North Atlantic under or in relation to this Scheme shall be given in writing in English to North Atlantic at its registered office (or such other address as the Scheme Administrators may notify to Scheme Creditors for the purpose of this clause in such newspapers or publications as the Scheme Administrators consider appropriate for one day a week for three consecutive weeks). Subject to any provision to the contrary in the Scheme, such notice or communication shall be deemed to have been received by North Atlantic on receipt if by hand, or if by Post (other than by hand) 48 hours after posting if posted by pre-paid first class post or 72 hours after posting if posted by airmail. If sent Electronically, it shall be deemed to have been given on receipt of the delivered receipt.

87 GOVERNING LAW AND JURISDICTION

The Scheme shall be governed by and construed in accordance with English law and all the parties to it hereby agree that the Court shall have exclusive jurisdiction to hear and determine any Proceeding and to settle any dispute which may arise out of the Explanatory Statement or any provision of the Scheme (including this clause 87), including its construction and interpretation, or out of any action taken or omitted to be taken under the Scheme or in connection with the administration of the Scheme and for such purposes all the parties to the Scheme irrevocably submit to the exclusive jurisdiction of the Court.

Dated this 15th day of August 2002