

Date: 24 August 2006

**PROPOSAL FOR A SOLVENT SCHEME OF ARRANGEMENT**  
**IN RELATION to the share of European Reinsurance Company of Zurich**  
**in the POOL BUSINESS of**  
**REINSURANCE GROUP MANAGERS LIMITED**

Dear Sir,

We are writing on behalf of European Reinsurance Company of Zurich (the "**Company**") to inform you that, pursuant to Section 425 of the Companies Act 1985, the Company is proposing to implement a solvent scheme of arrangement with its cedants and policyholders (the "**Scheme**") in respect of its participation within the Reinsurance Group Managers Limited Pool ("**RGM Pool**").

We are sending you this letter because we believe that you, as a relevant cedant or policyholder of the Company in connection with the RGM Pool may be affected by the Scheme ("**Scheme Creditor**") or, alternatively, you may be a broker or other agent who acted on behalf of such policyholders in placing business with the Company.

**Background**

The Company, a Swiss incorporated reinsurance company, participated as a member of the RGM Pool in transacting insurance and reinsurance of mainly US casualty exposures from August 1963 to November 1966, albeit that some of the policies were multiyear policies with the result that coverage extended until 1969 (the "**Scheme Business**").

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Other RGM Pool participants include the Mercantile and General Reinsurance Company Limited (“**M&G Re**”) and NRG Victory Reinsurance Limited (“**NRG Re**”). The M&G Re is currently concluding its participation in the RGM Pool through a scheme which became effective in September 2005 and the NRG Re is proposing to do the same through its own separate scheme.

PRO Insurance Solutions Limited (“**PRO**”) is the RGM Pool manager and is also the proposed Scheme Manager. PRO will manage and control the business and affairs of the Company in connection with the Scheme.

### **The Scheme**

The primary objective of the proposed Scheme is to terminate the run-off of the Scheme Business earlier than would be the case if claims were left to mature in the normal course of business.

Once the Scheme becomes effective, Scheme Creditors with actual, contingent and future claims (including notified outstanding and incurred but not reported (“**IBNR**”) claims) will have a period of six months to submit their claims to the Company for valuation and subsequent payment on an undiscounted basis, subject to the maximum value of discounted policy limits. Scheme Creditors who do not file their claims against the Company within this time will have a zero value attributed to such claims. Please note that the Scheme Business does not include those claims which are agreed by or on behalf of the Company but are not paid at the date on which the Scheme becomes effective. These will be paid out in the normal course of business.

The Scheme Manager will assess the claims filed by Scheme Creditors and will seek to reach agreement with each Scheme Creditor and make payment in full.

Where the Scheme Creditor and Scheme Manager fail to reach agreement there will be a procedure for the adjudication of these disputed claims by an independent adjudicator, George Maher of Tillinghast, a business of Towers Perrin.

It is expected that the Scheme will also be made effective and enforceable in the United States of America.

**The Scheme will ONLY include Scheme Business and will not cover any other business written by the Company.** All claims relating to business other than Scheme Business will continue to be paid in the normal course.

### **Classes of Scheme Creditors**

On 15 April 2002, the High Court of Justice in England and Wales issued a Practice Statement that requires any company proposing to implement a scheme of arrangement to notify those affected by it (i) that a scheme is being promoted; (ii) the purpose the scheme is designed to achieve; (iii) the meetings of creditors the company believes are required for the purposes of voting on the Scheme; and (iv) the constitution of those meetings. Points (i) and (ii) have been covered above.

For the Scheme to be implemented it must be approved by more than 50% in number representing not less than 75% in value of those creditors who vote at a creditors' meeting or at each creditors' meeting if there is more than one. Where creditors have rights which are so different as to make it impossible for them to consult together with a view to their common interest, then they must be split into separate classes and a separate meeting must be held for each class.

The Company proposes to convene two meetings for two separate classes. One for those Scheme Creditors with outstanding claims (being claims which have been notified to but not yet agreed by the Company) and another for those Scheme Creditors with IBNR claims. The Company believes that this is consistent with the recent judgment of Mr. Justice Warren in *Re Sovereign Marine & General Insurance Company Limited and others* [2006] EWHC 1335 (Ch).

The date of the Company's application to Court for leave to hold the Scheme meeting has not been set, but it is anticipated that it will take place in October 2006. The exact date of this application will be notified to you on the website indicated below. The Scheme documents in draft form will be available on the website three weeks before the Court convening hearing. The anticipated timescale and key dates for the Scheme will be issued with the Scheme document which will be dispatched to known policyholders and relevant brokers or other agents with the notice convening the meeting to vote on the Scheme.

### **Recommendation in respect of the Scheme**

The Company considers that the Scheme will offer Scheme Creditors the most effective, economical and timely method for agreeing its claims with the Company in respect of Scheme Business. All Scheme Creditors are encouraged to support the Scheme.

If you have any questions in relation to this letter, the Company would advise creditors to contact PRO at the earliest opportunity. The contact details of PRO, the website address and helpline number are provided below:

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Yours faithfully,

*PRO Insurance Solutions Ltd*

For and on behalf of  
**PRO Insurance Solutions Limited**