



To Policyholders

15 April 2024

Dear Sirs or Madams

**Reliance National Insurance Company (Europe) Limited
Proposed Scheme of Arrangement with its policyholders in respect of insurance policies
written in Italy and Spain**

This letter is important. It concerns matters which may affect your legal rights and entitlements. We are sending you this letter because we believe that you are a Policyholder (as defined below) that may be affected by the Scheme.

Introduction to the Scheme

1. Reliance National Insurance Company (Europe) Limited (the **Company**) is proposing a scheme of arrangement under Part 26 of the English Companies Act 2006 (the **Scheme**). The Company is able to propose the Scheme because it is an English registered company.
2. The Scheme will affect all policyholders (the **Policyholders**) with claims against the Company arising under or out of the Italian and Spanish insurance policies originally written by QBE Insurance (Europe) Limited (**QBE**) and transferred to the Company in 2018 (the **Insurance Policies**). All of the Insurance Policies are medical malpractice policies in respect of hospital and doctor liabilities in Italy or Spain. The Insurance Policies are either governed by Italian or Spanish law. The total number of Policyholders with open claims is understood to be 66.
3. The Scheme is being proposed to maximise the Company's assets available for payment to Policyholders, and minimising costs. This will also maximise the likelihood that all Policyholders will be paid in full for their valid claims under the Insurance Policies, as determined under the Scheme. The proposed Scheme will also ensure the fair treatment of all Policyholders by applying the same rules of assessment to each Policyholder under the Scheme.
4. The Company is significantly in breach of its regulatory capital ratios, being the Solvency Capital Requirement (**SCR**) and its Minimum Capital Requirement (**MCR**) under the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (**Solvency II**). In addition, it continues to be exposed to material uncertainty with respect to the ultimate cost of claims and does not have sufficient surplus assets to absorb any unanticipated adverse developments in its business.



5. If the Scheme is not approved, the Company considers that it would likely have no option but to enter into an insolvency process in England (as the Company is registered in England) in the form of an administration under the English Insolvency Act 1986 (an **Administration**), in short order. The Company has carried out cash flow projections which show that it will have exhausted its claims paying resources by late 2027 as the combined costs of servicing claims (including the costs of the claims handling team, medical experts and professional advisers as further described at paragraph 23(3)), paying claims and the legal costs, are projected to exceed the Company's available resources by late 2027. This would leave claims which had not been resolved by that date unpaid in full. Such costs would be minimised or avoided by the Scheme process, increasing the prospect of Policyholders being paid in full in accordance with the Scheme.
6. The Company also considers that, in the event of an Administration, the administrator of the Company would be likely to propose a scheme or other arrangement similar to the one that is being proposed by the Company, in order to determine and pay Policyholders' valid claims. The Company considers this because a scheme allows for expert determination of claims by experienced insurance assessors, whereas an insolvency distribution would require the administrator to determine the distribution process. Given the additional costs of an Administration (which is a court driven process) as well as the costs of running off the portfolio or implementing the insolvent scheme, it is highly likely that Policyholders would receive less in respect of their claims under the Insurance Policies in an Administration process compared with the presently proposed Scheme.
7. The Company's projections have been subject to an independent review by Interpath Limited completed on 28 July 2023, which supported the conclusion of the Company's directors (the **Directors**) that, absent a Scheme, the Company will likely enter an insolvency process (the **Interpath Report**). The Interpath Report was prepared based on the Company's previous projections, assuming the Scheme would become effective in 2023. However, given the complexities of the Company's business, it has taken longer than anticipated to finalise the terms of the Scheme. The Company has updated those projections based on its management accounts as at 31 December 2023, which are set out below and demonstrate further deterioration in the Company's financial position. Given the Company's clear financial position, the Directors have formed the view that it is unnecessary for the Company to incur further costs updating the Interpath Report.
8. The Company is proposing this Scheme as it believes it will result in operational and administrative cost savings which will maximise the amount that is available to pay to Policyholders. At present, the Company considers that those cost savings will enable it to pay all Policyholder claims determined under the Scheme in full and make payments at an earlier date than in the ordinary course of business. If the Scheme does not go ahead, the Company will likely have no option but to enter into an Administration in short order, resulting in a lower return for Policyholders (as explained in paragraphs 35 to 37 below).



9. We ask that you consider this letter carefully and take legal advice if you think you need to. This letter is sent in accordance with the English Practice Statement (Companies: Schemes of Arrangement under Part 26 and Part 26A of the Companies Act 2006) dated 26 June 2020 (the **Practice Direction**).
10. **IMPORTANT: If the Scheme becomes effective, as a matter of English law:**
- (a) **it will be binding on all Policyholders in respect of their claims under an Insurance Policy, including where the Policyholder votes against the Scheme or does not vote at all;**
 - (b) **Policyholders will not be allowed to commence or continue any proceedings against the Company to determine the existence or amount of their claim, or to require payment of any valid claim;**
 - (c) **Policyholders will have to make all of their claims under an Insurance Policy on the claim form provided in the Scheme (the Claim Form) within 6 months of Scheme becoming effective (the Claims Deadline). The Claims Deadline will be notified to Policyholders if the Scheme becomes effective;**
 - (d) **claims made by Policyholders by the Claims Deadline on a Claim Form will either be agreed between the Company and Policyholder or, if agreement cannot be reached, determined by an independent adjudicator; and**
 - (e) **Policyholders' rights to receive payment for their valid claims, as determined in the Scheme, will be limited to the Company's available assets (being the Scheme Assets as more fully described in paragraph 34(g) below). The Scheme Assets are the assets remaining after the Company pays or provides for its other liabilities in full.**

Background to the Company

11. The Company was incorporated on 29 August 1979 and wrote insurance up to and including 1986, when it ceased underwriting. It transferred its insurance business to St Paul Fire and Marine Insurance Company (U.K.) Limited in 1989.
12. In 1991, the Company was acquired by Reliance Group Holdings Inc., an insurance group based in the USA. The Company changed its name to Reliance National Insurance Company (UK) Limited on 1 March 1991 and then recommenced underwriting insurance business, including policies in respect of the United Kingdom Employers Liability (Compulsory Insurance) Act 1969 (the **UK Employers' Liability Policies**). The Company changed its name to Reliance National Insurance Company (Europe) Limited on 30 September 1996.
13. Following the insolvency of Reliance Group Holdings Inc in 2001, the Company again ceased underwriting. In 2003, the Company was acquired by Whittington Investments (Guernsey) Limited and in 2006 it implemented a solvent scheme of arrangement to settle the majority of its remaining claim liabilities other than under those arising under the UK Employers' Liability Policies and 16 other non-employer liability policies. The



Company remains exposed to claims arising from 4,337 UK Employers' Liability Policies. All of the non-employers' liability business has now expired.

14. The Company was purchased by ILS Property & Casualty Re Ltd (**ILS**) in 2013, a Bermuda licensed closed end fund, which is an indirect wholly owned subsidiary of a Cayman based passive investment vehicle, ILS Property and Casualty Master Fund Limited.
15. On 21 November 2018, the Company assumed the portfolio of Italian and Spanish medical malpractice insurance policies originally written by QBE pursuant to Part VII of the English Financial Services and Markets Act 2000 (**Part VII**), and by order of the English Court (the **Part VII Transfer**). The Part VII Transfer is enforceable and recognised throughout the European Union, including Italy and Spain, under Solvency II. Accordingly, QBE has transferred all of its obligations in respect of the Insurance Policies to the Company and has no further liabilities under them. Those liabilities are liabilities of the Company and will, if the Scheme becomes effective, be subject to the Scheme.
16. In 2021, as a result of material deterioration in the financial position of the Company, largely as a result of adverse litigation outcomes and the need to strengthen reserves to meet outstanding claims, the Company was no longer able to meet its SCR and MCR. As a result, the Directors examined the Company's financial position, and created a remediation plan to restore the Company to a more stable financial position. The remediation plan consisted of the Company actively seeking to accelerate the settlement and commutation of outstanding claims, as well as carrying out a review of the reserves and expenses of the Company. Unfortunately, it has not been possible to reach agreement with enough Policyholders to restore the Company to a more stable financial position.
17. In July 2023, the Company was acquired by Quest Group Holdings Limited (the **Shareholder**), an insurance and reinsurance group which specialises in managing legacy insurance portfolios. ILS disposed of the Company to enable it to close its own fund. As part of this transaction, and subject to approval of the Scheme, the Shareholder has agreed that one of its other subsidiaries will assume responsibility for any liabilities arising from the UK Employers' Liability Policies to allow the Company to resolve its other outstanding claims arising under the Insurance Policies and close down its insurance operations.
18. The Insurance Policies are "claims made" policies covering the period to 2013. As a consequence, Policyholders should be aware of all events that potentially give rise to Scheme Claims and should have made the Company aware of them. Notwithstanding that the period by which claims must have been notified has ended, medical malpractice claims are by their nature of complex and time consuming to assess, with certain claims ultimately having to be determined in the Courts, adding to the length of time and cost it is taking to resolve them. There are currently up to 297 outstanding claims that are currently before the Italian courts for determination and 11 outstanding claims before the Spanish Courts. These claims are, by way of example, claims by third parties (for



example patients) alleging negligence against the Policyholder (i.e. the hospital/doctor) in respect of treatment received from the Policyholder. In instances where the relevant claim, if proven, would be the subject of coverage under the Insurance Policy, the Company may be added as a co-defendant in the proceedings and thereafter manage the claim and the defence of the case together with, or in place of, the Policyholder.

19. The Company considers that if the run-off of the Insurance Policies were permitted to continue in the normal course of business, the Company will become unable to meet all of its liabilities and costs and, on current estimates, the Company will have exhausted its claims paying resources by late 2027. The Company's only source of income is the income from its investments and it anticipates that there will be insufficient income from these investments to meet the on-going operating costs of managing its business. Given its current financial position, the Directors consider that it will be necessary to place the Company into Administration in England in short order if the Scheme does not proceed (see further below).

Company's financial projections as at 31 December 2023

20. The Company is significantly in breach of both its MCR (in respect of which there is a deficit of €3.55 million) and its SCR (in respect of which there is a deficit of €7.95 million). In addition, the Directors consider there to be continuing material uncertainties with respect to the ultimate cost of claims and the Company has limited surplus assets to absorb any unanticipated adverse developments in its business. The Directors have determined that the proposed Scheme provides a solution to resolving the Company's uncertainties, since it will materially reduce future operating costs by bringing a close to the run-off of the Insurance Policies. The Scheme will also enable a distribution to Policyholders of the capital that would otherwise be reserved by the Company for its MCR. The proposed Scheme is therefore expected to maximise the amount that is available to pay to Policyholders and increase the likelihood that all Policyholders will receive full value for their claims (on the basis of the assessments provided by the Scheme).
21. The table below sets out the evolution of the Company's key performance indicators since 2021.

Key performance indicators (€000s)	31/12/21	30/6/23 ¹	31/12/23 (unaudited)
Gross claims paid	26,689	29,892	3,124
Gross technical reserves	52,078	21,085	18,654
Net assets	7,278	3,526	2,074
SCR coverage	16%	14%	5%
MCR coverage	59%	34%	11%

22. The table below sets out the Company's projected balance sheet in two scenarios, namely:

¹ There are no audited accounts to 31/12/22 because the Company had an 18 month accounting period from 1/1/22 to 30/6/23.



- (a) **Scenario 1:** the Company does not enter into the proposed Scheme and instead undertakes an ordinary course run-off from May 2024;
- (b) **Scenario 2:** the Company pursues the Scheme from May 2024, which becomes effective by July 2024.

€ million	Note	Scenario 1	Scenario 2
		Continued Run-off	Scheme
		Projected	Projected
Assets			
Cash at 1 January 2024	(1)	20.1	20.1
Investment income and recoveries	(1)	22.2	9.8
Liabilities			
Estimated Scheme Claims	(2)	-	(17.5)
Claims paid pre-Practice Statement Letter		-	(2.5)
Estimated insurance claims	(2)	(32.6)	-
Costs and expenses	(3)	(19.8)	(8.3)
Other liabilities	(4)	(1.6)	(1.6)
Net assets/(liabilities)		(11.7)	0.0
Projected payment to Policyholders		64%²	100%

23. Notes to the financial projections:

- (1) The Company's cash and other assets include: Cash at bank, investments and investment income, other assets including insurance debtors relating to deductibles recoverable from Policyholders on historic claims, other potential recoveries, and VAT. The Company estimates that the value of the Company's investment income and recoveries of €22.2 million in Scenario 1 (the ordinary course run-off) would be reduced by €12.4 million to €9.8 million in Scenario 2 (the Scheme). This is because, in Scenario 2, the deductibles recoverable from Policyholders under their Insurance Policies are set-off against the value of their Scheme Claim once determined in accordance with the Scheme. By contrast, in Scenario 1, claims under the Insurance Policies are paid by the Company gross of any deductible (typically because they are paid directly to the third party

² 64% is arrived at by subtracting "Costs and expenses" (€19.8 million) and "Other liabilities" (€1.6 million) from "Total assets" (€42.3 million) (leaving remaining assets at €20.9 million). Those remaining assets are then divided by the "Estimated insurance claims" of (€32.6 million). However, if the Scheme is not implemented, the Company is expected to enter into Administration proceedings rather than continue its ordinary course run-off given the expected shortfall in the Company's financial resources. See paragraph 26 below for estimated outcomes in an Administration.



claimant rather than the Policyholder), and the Company subsequently seeks to recover the deductible from the Policyholder;

- (2) The value of Scheme Claims under the proposed Scheme are estimated to be less than the value of insurance claims expected to be received in an ordinary course run-off because, under the terms of the Scheme, any liabilities of a Policyholder owed to the Company (such as any amount payable in respect of a deductible) are taken account of in the calculation of the value of a Scheme Claim. The Scheme Claims reference above are the estimated net amount owed by the Company to Policyholders.
 - (3) The Company's costs and expenses include:
 - (a) all Allocated Loss Adjustment Expenses (**ALAE**): ALAE relates to expenses incurred in Italy and Spain for legal advice, medical experts, tax and other direct claims services in relation to the Insurance Policies. ALAE costs are also expected to reduce in Scenario 2 due to the introduction of the Scheme and the early settlement of valid claims under the Insurance Policies; and
 - (b) all Unallocated Loss Adjustment Expenses (**ULAE**): ULAE (under UK GAAP) relates to management and staff costs including the claims handling team and professional adviser costs as well as Solvency II reporting costs which include entity management costs, such as audit fees, irrecoverable VAT and other indirect expenses including costs in relation to pursuing the Scheme. In Scenario 2, ULAE costs are estimated to be substantially less than in Scenario 1 due to the shortened run-off and reduction in required operating expenses under a Scheme.
 - (4) The Company's other liabilities include insurance and sundry creditors, accrued liabilities and accounts payable.
24. Including all estimated future cashflows, anticipated future investment income, the costs of implementing the Scheme and other restructuring costs required to close out the Company's insurance exposures it is estimated that the Company will have no further assets remaining at the conclusion of the Scheme, having paid the claims of Policyholders in full in accordance with the process provided for in the Scheme.
25. If the Company is unable to successfully implement the Scheme, it is expected that the Company would face exhaustion of its financial resources, and enter into Administration in short order. In that event, it is likely that an administrator appointed in the Administration would propose a scheme or other arrangement similar to the Scheme to bring an early end to the run-off of the Insurance Policies to avoid the costs associated with a natural run-off.
26. Set out below are the projected outcomes in an Administration that the Company would enter into in short order. The Company provides estimates for an Administration process with lower costs incurred, and an Administration with higher costs incurred, to set out the expected range of projected outcomes in an Administration. The projections are based on the estimated financial position of the Company as at 31 December 2023.



<i>€ million</i>	Note	Administration (Lower Cost)	Administration (Higher Cost)
		Projected	Projected
Assets			
Cash at 1 January 2024		20.1	20.1
Investment income and recoveries	(1)	7.8	7.2
Liabilities			
Estimated Insurance claims	(2)	(20)	(20)
Administrator costs	(3)	(2.5)	(3.6)
Legal fees		(0.6)	(0.6)
Costs and expenses	(4)	(7.4)	(7.4)
Other liabilities	(5)	(1.6)	(1.6)
Net assets/(liabilities)		(4.2)	(5.9)
Projected payment to Policyholders	(6)	79%	71%

27. Notes to the Administration projections:

- (1) The Company's cash and other assets include: all cash and other assets previously described in paragraph 23(1). With respect to "Investment income and recoveries", recoveries are expected to be less in an Administration, because certain recoveries will be more difficult to realise and written off if it becomes no longer viable to keep the Company running.
- (2) The Company expects that, in the event of an Administration, the administrator of the Company would be likely to propose a scheme or other arrangement similar to the one that is being proposed by the Directors, in order to determine and pay Policyholders' valid claims. The value of the estimated Insurance claims in an Administration that proposes a scheme or similar arrangement are therefore expected to be equal to the value of the total of the estimated Scheme claims and claims paid pre-Scheme in Scenario 2 (Scheme).
- (3) The costs of an Administration are uncertain at this time and are based on assumptions and estimates. The Company has therefore provided a range of projected outcomes, setting out its high and low cost estimates for an Administration. The higher costs scenario assumes greater administrator costs, having taken into account the costs stated in recent administrator reports of companies with a similar business.
- (4) The Company's other costs and expenses include all ALAE and ULAE expenses as previously described in 23(3) above. In this situation, ULAE has been



adjusted as costs such as claims handling, management and entity management costs would fall away in an Administration situation.

- (5) The Company's other liabilities include insurance and sundry creditors, accrued liabilities and other accounts payable balances not yet paid at the date of the estimated Administration.
- (6) Due to the estimated costs of the fees of the administrator and the legal fees of an Administration process, as well as the reduced recoveries and asset realisations that are expected to occur as a result of the Administration, a deficit to Policyholders of between €4.2 million and €5.9 million is expected in an Administration, which in turn would result in an estimated return to creditors of 79c in the € (in a lower costs scenario) and 71c in the € (in a higher costs scenario).

What is a Scheme of Arrangement?

- 28. A scheme of arrangement is an arrangement between a company and its creditors (or a group of creditors). A scheme of arrangement will bind the company and each of the creditors affected if:
 - a. it is approved by a majority in number (that is more than 50%), representing 75% or more in value, of the creditors who vote on the scheme of arrangement;
 - b. the Court approves the scheme of arrangement at a Court hearing. The Court will consider the scheme and only approve it if the legal requirements for doing so have been met; and
 - c. a copy of the Court order approving the scheme of arrangement is filed with the Registrar of Companies.
- 29. A scheme of arrangement becomes effective on the date on which the last of these steps occurs. When the scheme of arrangement is effective, the company and its relevant creditors are bound by it.

The objective of the Scheme

- 30. The Scheme is being proposed to:
 - (a) bring the run-off of Policyholder claims under the Insurance Policies (the **Scheme Claims**) to a close as soon as possible. This will minimise the ongoing costs of the Company, maximise the amount that is available to pay to Policyholders and increase the likelihood that all Policyholders will be paid in full for their valid Scheme Claims as determined under the Scheme; and
 - (b) provide for Policyholders to receive payment for their valid Scheme Claims in an equal and fair manner by applying the same rules of assessment to each Policyholder under the Scheme.
- 31. The Scheme will also allow the Company to make a final payment to its Policyholders at an earlier date than in the ordinary course of business.



32. The proposed Scheme will provide that all Scheme Claims that are made to the Company by the Claims Deadline are promptly assessed and, if valid, paid in accordance with the terms of the Scheme. Any claims under the Insurance Policies that are agreed or otherwise subject to a binding and non-appealable judgment before the date of this Practice Statement Letter, shall be paid in full, as normal, outside of the Scheme.
33. A quick but fair process for resolving and paying Scheme Claims ought to result in lower costs than would occur on the ordinary run-off to 2030 (and also ought to cost less than having an additional administration). Any savings made will be available to meet valid claims made under the Insurance Policies (as determined in accordance with the Scheme). The Company considers that this is the most effective and economical method of enabling Policyholders' claims against the Company to be agreed (or determined) and paid in the shortest practicable time, thereby maximising the returns to Policyholders.

What does the Scheme do?

34. The Scheme provides that:
- (a) from the date on which the Scheme becomes effective, Policyholders will not be permitted to take or continue any legal action against the Company in respect of any claim against the Company under an Insurance Policy, including action to enforce any claim or judgment, except with the agreement of the Company. However, the Company will be permitted to start or continue proceedings against a Policyholder in certain circumstances, including where the Company is appealing a judgment in relation to an insurance claim or in relation to claims in respect of any deductible or registration tax;
 - (b) Policyholders must make sure that all of their claims under an Insurance Policy are listed on a Claim Form filed with the Company by the Claims Deadline. The Company will let Policyholders know the date of the Claims Deadline as soon as possible after the exact date is fixed. If a claim is not listed on a Claim Form that is filed with the Company by the Claims Deadline, that Policyholder will not be entitled to any payment for that claim under that Insurance Policy. Scheme Creditors will not be entitled to take any action or enforce any such claims;
 - (c) Scheme Claims will be initially determined and valued by the Company using the criteria that will be described in the Scheme (the **Claims Methodology**). A copy of the Claims Methodology will be made available on the Website (see the table at paragraph 62 below). In summary, the Company will consider whether the Scheme Claim falls within the Insurance Policy terms and time limits, i.e. if the Scheme Claim is valid. If the Scheme Claim is valid it will be valued in accordance with either the Milan or Micro-permanent tables (in respect of Italian governed policies) or the Baremo Rate System 2015 (in respect of



Spanish law governed policies), taking into account any Insurance Policy deductibles or self-insured retention;

- (d) if the Policyholder agrees with the Company's assessment of its Scheme Claim, the Policyholder's claim will be paid as described below;
- (e) if an agreement is not reached between the Company and the relevant Policyholder, the disputed Scheme Claim will be assessed by an independent person appointed in the Scheme based on their relevant skills and experience (called the **Scheme Adjudicator**). The Scheme Adjudicator will then determine the existence and value of the Scheme Claim based on the Claims Methodology;
- (f) once the value of a Scheme Claim has been agreed between the Company and Policyholder or otherwise determined by the Scheme Adjudicator in accordance with the Scheme, including as reduced by any deductible or other amount that the Policyholder may owe to the Company, the net total of the Policyholder's valid Scheme Claim (if any) is the Policyholder's **Ascertained Scheme Claim**;
- (g) as soon as possible following the Claims Deadline, the Company shall determine whether all Ascertained Scheme Claims can be paid in full from the assets available in the Scheme (the **Scheme Assets**). The Scheme Assets are all assets remaining after payment or provision for the payment in full of the Excluded Liabilities, as described in paragraph 38 below;
- (h) based on current information, the Company estimates that there will be approximately €20 million of available Scheme Assets which amount will be sufficient to pay Policyholders in full for the anticipated amount of Ascertained Scheme Claims. If the Company determines that the Ascertained Scheme Claims can be paid in full, it shall make payment in full in respect of all Ascertained Scheme Claims as soon as reasonably practicable;
- (i) in the event that the Company determines that the Scheme Assets may not be sufficient to pay all Ascertained Scheme Claims, it shall determine the percentage of the Ascertained Scheme Claims that can be paid (the **Payment Percentage**), taking into account the amounts required to meet all Excluded Liabilities, and the need to ensure that the same percentage is paid for all Ascertained Scheme Claims. Once a Payment Percentage has been set, the Company shall pay the Payment Percentage in respect of each Ascertained Scheme Claim as soon as reasonably practicable to do so. The Company will review the amount of the Payment Percentage from time to time and may increase or decrease it as appropriate. All Scheme Assets will be used to pay the Payment Percentage at the highest level that is possible; and
- (j) Policyholders will be paid their Ascertained Scheme Claims in the currency as specified in the Insurance Policy.



What happens if the Scheme does not go ahead?

35. If the Scheme does not go ahead, the Company believes that it would likely have no option but to enter Administration in short order. This is because, based on the Company's projections as at 31 December 2023 and other current estimates, the additional combined costs of servicing claims (including the costs of the claims handling team, medical experts and professional advisers as further described at paragraph 23(3) above), paying claims and the legal costs, are projected to exceed the Company's available resources by late 2027. These additional projected costs, taken together with the projected claims under the Insurance Policies are greater than the Company's current net assets, and so the Company would likely become balance sheet insolvent by late 2027 if the Scheme is not implemented.
36. An Administration would significantly delay the agreement and payment of claims as the Company would immediately cease reviewing and paying claims for Policyholders. It is also likely that the administrators appointed in any Administration proceeding would also propose an accelerated agreement of claims similar to the Scheme being proposed by the Company. The costs of the insolvency and a subsequent scheme to then deal with the remainder of the Company's business are currently forecast to create a deficit of between €4.2 million and € 5.9 million resulting in an estimated return to Policyholders of between 79c in the € (in a lower cost Administration scenario) and 71c in the € (in a higher cost Administration scenario).
37. The Company's conclusion that it would likely have no option but to place the Company into an insolvency process should the Scheme not be approved, has been considered a reasonable conclusion in an independent report prepared by Interpath Limited dated 28 July 2023.

Liabilities excluded from the Scheme

38. The Scheme is proposed to bring the run-off of outstanding Policyholder claims to a close, and it will therefore not apply to any of the following claims against the Company:
 - (a) any claims in relation to an Insurance Policy where a claim has been agreed in writing between the Company and the Policyholder before the date of this Practice Statement Letter. These claims will be paid in full on the basis that, if the Scheme proceeds, the Company currently anticipates that all valid claims under the Insurance Policies (as determined under the Scheme) will be capable of being paid in full;
 - (b) any claims in relation to an Insurance Policy where a claim is the subject of a binding non-appealable court order before the date of this Practice Statement Letter. These claims will be paid in full on the basis that, if the Scheme proceeds, the Company currently anticipates that all valid claims under the Insurance Policies (as determined under the Scheme) will be capable of being paid in full;



- (c) all costs, charges, expenses, disbursements and other debts incurred or to be incurred by the Company in the course of:
 - (i) implementing and carrying out the Scheme, including, for the avoidance of doubt, exercising any right of the Company, or complying with any obligation of the Company, in the Scheme;
 - (ii) complying with:
 - (A) the provisions of the Companies Act 2006 or Insolvency Act 1986;
 - (B) its regulatory obligations;
 - (C) the Scheme, including the remuneration of the Scheme Advisers and the Scheme Adjudicators; and
- in each case as determined by the Company in consultation with the Scheme Advisers, (together the **Scheme Costs**). These claims will be paid in full in order to enable the Scheme to be implemented; and
- (d) any costs in relation to any steps taken with the Prudential Regulation Authority to de-authorise the Company,

(together the **Excluded Liabilities**).

39. The Scheme also does not apply as regards to an indemnity given by the Company to QBE to pay QBE in the event that any losses or expenses are incurred by QBE in respect of any liabilities under the Insurance Policies (which were transferred to the Company pursuant to the Part VII Transfer (the **QBE Indemnity**)). At present, QBE has not made any claim under the QBE Indemnity and any ongoing claims or costs are currently paid for by the Company. Pursuant to the Part VII Transfer, QBE has no ongoing liabilities under the Insurance Policies. In addition, ongoing claims under the Insurance Policies will be compromised in the Scheme if it becomes effective. Accordingly, the Company does not anticipate that valid claims will arise under the QBE Indemnity. If such claims do arise for any reason in the future, then in the event of the Company's insolvency, such claim would be subordinated behind the Company's insurance debts, including the claims of the Policyholders under the Insurance Policies, by reason of regulation 21 of the Insurers (Reorganisation and Winding Up) Regulations 2004 (**IRWUR 2004**) and are not expected to be paid or provided for in the Scheme.

Treatment of the UK Employers' Liability Policies

40. Claims under the UK Employers' Liability Policies are not included within the Scheme given their compulsory nature and the costs that would be incurred to compromise a limited number of claims outstanding in relation to such policies. However, bringing as much finality as possible to the Company's liabilities under the UK Employers' Liability Policies is key to the Company's ability to enter into the Scheme and pay Policyholders the largest amount possible. Without a strategy for dealing with the claims arising under UK Employers' Liability Policies, the Company would continue



to have ongoing insurance liabilities that it would need to provide for and it would eventually run out of money.

41. In order to deal with this issue, the Company shall enter into an agreement with EIFlow Insurance Limited (**EIFlow**), an insurance company within the Quest group of companies. Under the terms of that agreement, in return for a one-off payment by the Company to EIFlow of £1,000,000 (**Consideration**), EIFlow will agree to:
 - (a) carry out any claims handling required to consider the claims of the policyholders under the UK Employers' Liability Policies (the **UK Employers' Liability Policyholders**) or otherwise procure that such claims handling is undertaken;
 - (b) take primary responsibility for settling any valid indemnity claims and related costs arising from claims made by UK Employers' Liability Policyholders under the UK Employers' Liability Policies in full;
 - (c) pay the Company any amount that it pays, or is required to pay, to a UK Employers' Liability Policyholder under a UK Employers' Liability Policy;
 - (d) carry out any other regulated activity that arises in respect of dealing with the business related to the UK Employers' Liability Policies; and
 - (e) deal with, and pay any complaints and liabilities that might arise in respect of the UK Employers' Liability Policies.
42. Pursuant to these arrangements, EIFlow will enter into a deed poll in favour of the UK Employers' Liability Policyholders under which it will irrevocably agree to pay to each UK Employers' Liability Policyholder all sums due and payable to that UK Employers' Liability Policyholder pursuant to a valid indemnity claim under a UK Employers' Liability Policy, as a primary obligation.
43. The key effect of these arrangements on EIFlow is that:
 - (a) EIFlow will have a primary irrevocable and enforceable obligation to the UK Employers' Liability Policyholders to meet their valid claims arising under and in accordance with the UK Employers' Liability Policy. These obligations will be enforceable as against EIFlow by the UK Employers' Liability Policyholders;
 - (b) EIFlow will have an obligation to the Company such that, even if the Company were to pay an underlying valid indemnity claim of an UK Employers' Liability Policyholder under an UK Employers' Liability Policy, EIFlow would be obliged to indemnify the Company for any amount so paid; and
 - (c) EIFlow would be obliged to carry out the regulated activities required to carry out the business in relation to the UK Employers' Liability Policies.
44. The Consideration was market tested, in that the Company sought alternative providers to provide reinsure for the UK Employers' Liability Policyholders, but no other



proposal was received. Based on experience the Directors formed the view that in all the circumstances the £1m Consideration was a reasonable fee.

45. Pursuant to the recommencement of underwriting by the Company in 1991 as referred to in paragraph 12, the Company joined the Institute of London Underwriters (the **ILU**). The ILU, which was a trade association, provided a marketplace for insurance companies to underwrite in the ILU building in London. In order to underwrite in the ILU's premises, the Company was required to provide a guarantee to the ILU in the form of a letter of credit. The current value of the letter of credit is £319,750 and the Company carries a matching liability in its Other Liabilities. Since the only liabilities remaining in the Company from this period relate to the UK Employers' Liability Policyholders, it is possible that the ILU will require the letter of credit and matching liability to be transferred to EIFlow, the provider of the replacement insurance under the proposed arrangement described above.

Substantial effect of the Scheme in respect of Policyholders in Spain and Italy

46. At the first Court hearing in respect of the Scheme (the **Convening Hearing**), the English Court will determine, amongst other issues, whether there is any block to the Scheme becoming effective. This includes a consideration of whether there is likely to be a credible basis to conclude that there is a real prospect to the Scheme having substantial effect. The final decision will be made by the Court at the second Court hearing in respect of the Scheme (the **Sanction Hearing**).
47. The English Scheme is being proposed to attempt to benefit all creditors by a process in England that accelerates and completes the run-off for the Insurance Policies in an equitable and fair way, at the same time for all creditors, and applying the same broad methodology for all creditors. The alternative is an Administration under Schedule B1 of the English Insolvency Act 1986, pursuant to which as set out above, creditors are expected to suffer a shortfall on payment of their claims. There is no doubt that the English Court and English jurisdiction has power to approve the Scheme, or in the alternative, the Administration. This is because the Company is incorporated and registered in England as an English company.
48. In this instance, although the Insurance Policies are governed by Italian or Spanish law, substantially all available assets of the Company of €20.1m (being cash and investments) are located in England, and are subject to the jurisdictional control of the English Court. This sum of €20.1m is the main asset available for distribution to the Policyholders by way of the Scheme, representing in excess of 99% of the Company's "free" assets³ available to pay the general body of Policyholder creditors.⁴ Absent the Scheme, this sum would be distributed in an English insolvency (likely Administration)

³ The remaining €9.8 million referred to in "Scenario 2" in the table at paragraph 22 above is not cash available to all Policyholders, but is deductible against the claims by way of set-off. Therefore, it is only available by way of set-off as regards the Policyholder claimants, i.e. this deductible is not a "free" asset of the Company for general distribution to Policyholder creditors.

⁴ There is also an operating bank account of the Company held in Italy, to process and pay relevant claims. As at the date of this letter it holds less than €5,000.



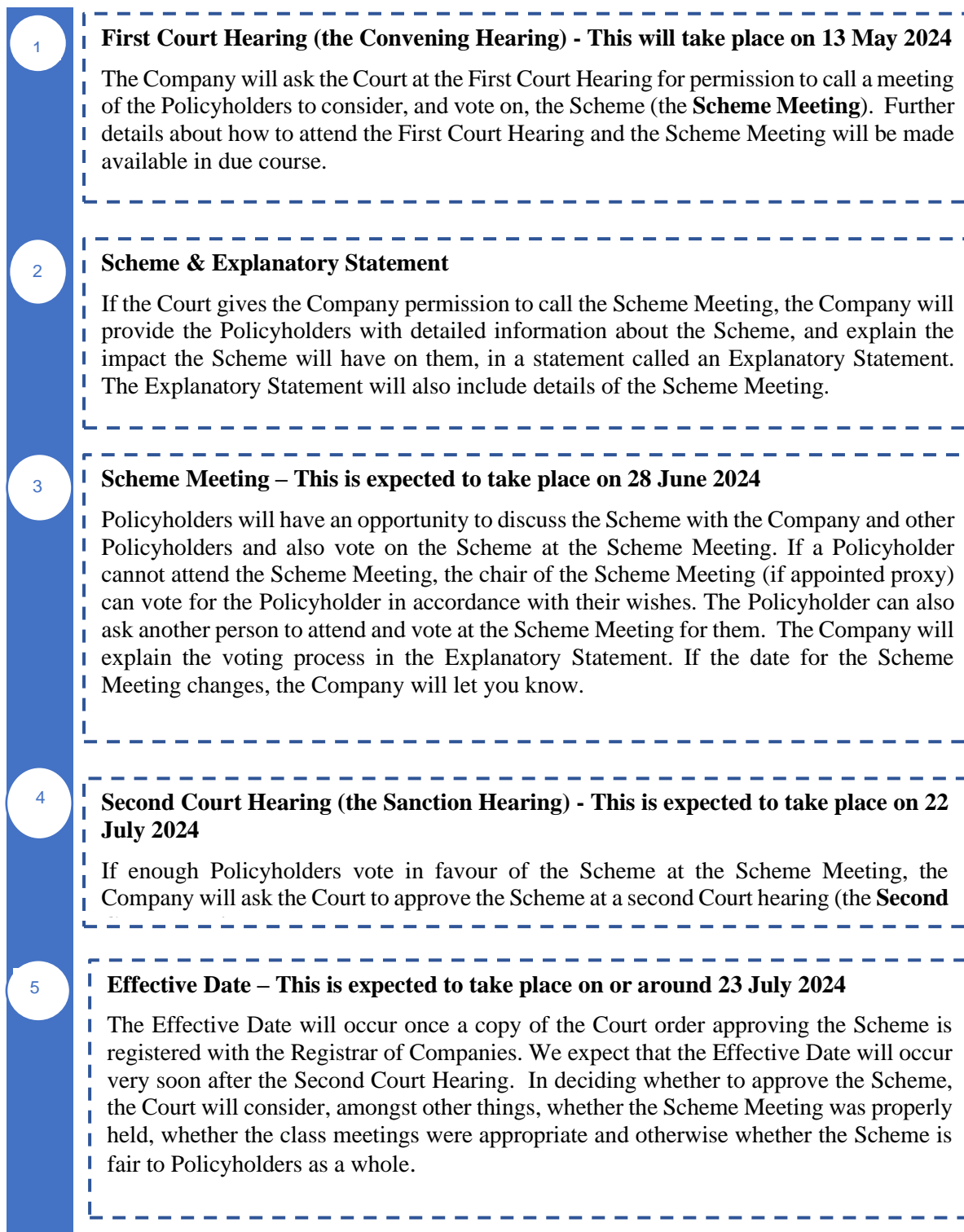
in accordance with English rules and procedure, and all creditors would be required to participate in that English process.

49. The Company has received advice as to the likely recognition and effect of the Scheme in Spain and Italy. The Company considers that there is a real prospect that the Scheme will have the required substantial effect (even before taking into account the extent of the vote in favour of the Scheme) because:
- (a) The Scheme has a reasonable prospect of being recognised and regarded as binding and effective in Spain and Italy;
 - (b) The Scheme will at least be regarded as binding and effective on Policyholders who vote in favour of the Scheme or who otherwise participate in the Scheme;
 - (c) If sanctioned, the Scheme will in any event be regarded as binding and effective in England where substantially all assets are located (see above). The Scheme concerns an English insurance company in run-off.
50. In conclusion, for the reasons given above, the Company does not believe there is any block to the Scheme, which the Company believes is in the best interests of the Policyholders as a body. The Company will submit at the first hearing that the English Court is not acting in vain, as there is a real prospect that the Scheme will be substantially effective.



The Scheme process

51. The process for implementing the Scheme is as follows:



The proposed voting classes at the Scheme Meeting

52. In order for the Scheme to be implemented, it must be approved by a majority in number (i.e., more than 50% in number), representing not less than 75% in value, of those Policyholders who vote at the Scheme Meeting.



53. Where Policyholders have rights which are so different as to make it impossible for them to consult together with a view to their common interest, the law requires them to be split into separate classes and for a separate vote to be held for each class.
54. The Company has considered the rights of the Policyholders in respect of their Scheme Claims, and the way in which those rights will be affected under the proposed Scheme. In particular the Company has considered the differences between:
- (a) Policyholders with Insurance Policies governed by the laws of Italy versus Policyholders with Insurance Policies governed by the laws of Spain;
 - (b) Policyholders who have notified the Company of claims for an amount, and have not subsequently increased this amount, versus Policyholders who have notified the Company of claims, but may increase their claims by reason of new facts emerging; and
 - (c) Policyholders with the benefit of protection from the Financial Services Compensation Scheme and Policyholders without the benefit of protection from the Financial Services Compensation Scheme.
55. Having considered the above matters, the Company has concluded that Policyholders have rights that are sufficiently similar to allow them to consult together with a view to their common interest and that, accordingly, there should be one class of Policyholders for the purpose of voting on the Scheme.
56. The Company has reached this conclusion because:
- (a) all Policyholder claims rank equally and with the same rights as between themselves both before the Scheme and after the Scheme regardless of whether those policies were governed by the laws of Italy or Spain;
 - (b) all Policyholder claims are "insurance debts" within regulation 21(2)(b) of IRWUR 2004, and thus would all have the same priority rights in any insolvency of the Company;
 - (c) given that the likely alternative to the Scheme is an Administration, since upon such insolvency all Policyholder claims would be accelerated for valuation purposes to the date of insolvency irrespective of whether such claims are actual, contingent or future. There ought to be no difference between Policyholders, as all claims will be subject to the same valuation procedure and rank equally for dividends in such a process;
 - (d) as explained above, the Insurance Policies are "claims made" policies covering the period to 2013 and all Policyholders have similar claims arising from medical malpractice and alleged negligence (irrespective of the actual details, or causes of action, of each individual claim). Further, all Policyholders should be aware of all events that potentially give rise to Scheme Claims and be able



to make the Company aware of them to the extent that they have not already done so. All Policyholder claims will then be subject to the same valuation procedure under the Scheme, as would also be the case in the comparator, an Administration;

- (e) the Company has determined that none of its Policyholders would have the benefit of protection from the Financial Services Compensation Scheme.

What to do if you object to the proposed Scheme Meeting?

57. Policyholders can object to the proposed Scheme. At the First Court Hearing, Policyholders may:
- (a) object to Company's determination that all Policyholders can vote together in a "single class", as referred to above; and/or
 - (b) raise any other matter which they consider means that the Scheme cannot, or should not, go ahead.
58. If a Policyholder wishes to make such an objection, or raise any other matter they can do so by:
- (a) giving notice to the Company and the Company will bring such matters to the Court's attention. A Policyholder can do this by emailing the Company in advance at RNICEScheme@premiare.uk by 5.00 p.m. (London time) on 3 May 2024, being 5 clear business days before the First Court Hearing;
 - (b) attending the First Court Hearing and explaining their objection(s) and/or such other matters to the Court. The First Court Hearing is booked to take place on 13 May 2024 at the Rolls Buildings, Fetter Lane, London EC4A 1NL (but the final details will be published on the Court's publicly available "Cause List" on the afternoon of 10 May 2024). The Court is likely to give any Policyholder the chance to speak during the hearing if they wish to do so. If a Policyholder wishes to attend the First Court Hearing to explain an objection to the Court directly, please let the Company know in advance by emailing RNICEScheme@premiare.uk by 5.00 p.m. (London time) on 3 May 2024, being 5 clear business days before the First Court Hearing so that the Company is aware of your objection before the hearing; and/or
 - (c) it may be possible for Policyholders to raise objections regarding the proposed class at the Second Court Hearing. However, at this stage, the Court would require Policyholders to demonstrate why the objections were not raised at an earlier stage.



Next steps

59. If the Court gives the Company permission to hold the Scheme Meeting to vote on the Scheme, known Policyholders identified by the Company will be sent a letter explaining how to access (amongst other things):
- (a) the Explanatory Statement;
 - (b) the Scheme;
 - (c) a notice confirming the date, time and place of the Scheme Meeting; and
 - (d) the Voting Form (which is the form to be used for voting, and if a Policyholder chooses, may also be their Claim Form); and
 - (e) the Claim Form (which is the form to be used for making claims).
60. If your name, address or contact details have been incorrectly or incompletely stated, or if you would like correspondence about the Scheme to be addressed to someone else in your organisation, please let the Company know by using the contact details below.

Questions and contact

61. If you have any concerns regarding the proposed constitution of classes of Policyholders, you are requested to contact the Company as soon as possible and, in any event, at least five days prior to the date of the First Court Hearing. You also have the right to attend the First Court Hearing for the purpose of making representations and, if requested, the Company will be pleased to provide you with further information on arrangements for this. Please note that if the Scheme is approved at the Scheme Meeting, it will be possible for Policyholders to raise objections regarding the classes at the Second Court Hearing. However, in this event, the Court would require Policyholders to demonstrate why the objections were not raised at an earlier stage.
62. If you have any questions in relation to this letter or on the Scheme, please contact the Company using the details below:



Contact method	Contact details
Website	reliance-national-insurance-company-europe.co.uk
Email	RNICEScheme@Premiare.uk
Phone	+44 20 4566 5673
Address	Reliance National Insurance Company (Europe) Limited c/o Premia UK Services Company Ltd 2 Minster Court Mincing Lane London, EC3R 7BB England

63. Policyholders are also encouraged to contact the Company if they require further information regarding their Insurance Policies in relation to the Company, or if they wish to discuss their claims for voting purposes prior to the Scheme Meeting.
64. This Practice Statement Letter is being emailed and sent to all known Policyholders to inform them of the proposed Scheme and the classes for voting on it. Further notices needed or desirable for the Scheme will be posted on the Website, and Policyholders are requested to keep themselves updated by reference to the Website in so far as possible.

Yours faithfully

Reliance National Insurance Company (Europe) Limited