Defendant's Exhibit Number 3

LLOYD'S
LLOYD'S OF LONDON

Reconstruction
& Renewal

Settlement Offer

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July 1996

This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you should take legal, financial or other appropriate professional advice.

The procedure for acceptance of the settlement offer is set out in the accompanying guide.

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Chairman's Letter

Chief Executive's Letter

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Definitions

Payment Form

premium income for risks allocated to the 1997 and subsequent years of account which are processed and settled on or after 1 January 1997.

H. Funding Debt Credits

The debt credits being made available to Names as part of the settlement offer are being funded from the Lloyd's contribution, the members' special Central Fund contribution, the agents' contribution and the brokers' contribution referred to above. Lloyd's and Equitas will enter into an agreement pursuant to which Lloyd's will procure that Equitas receives that part of the Equitas premium represented by the debt credits allocated to Names who accept the settlement offer. Additionally, Lloyds will be providing finance to Equitas in respect of amounts due from Names who do not accept the settlement offer while legal proceedings are taken to recover the amounts due from these Names.

Lloyd's has agreed to account to Equitas for an amount equal to the agents' and brokers' contributions received by Lloyd's pursuant to the arrangements described in Sections C and F above. Equitas has agreed to forego the payment by Lloyd's of £100 million in respect of debt credits. In return, Lloyd's has agreed to pay Equitas up to £100 million in five years' time if requested to do so by Equitas based on a formula which takes into account the extent to which interest rates fall below agreed levels and/or the extent to which the full amount of the anticipated agents' or brokers' contributions are not received. These arrangements will not affect the allocation of debt credits to Names who will receive the full benefit of the credits shown on their finality statements. Lloyd's will also set off an estimated £110 million from the amount payable to Equitas representing the aggregate formation costs of Equitas incurred by Lloyd's and charged to syndicates as part of the Equitas premium.

I. Triple Release and Conditional Closure of 1993 and Earlier Years of Account

A key element in the financing of the Reconstruction and Renewal plan is the triple release of anticipated surpluses from the 1993, 1994 and 1995 years of account. As shown in finality statements, this takes into account the members' special Central Fund contribution referred to above and is calculated net of agents' profit commission.

Lloyd's has formally prescribed requirements governing the determination of amounts which can be made available for release from syndicate years of account which are not closing with effect from 31 December 1995. These provide broadly as follows:

- a managing agent proposing to make a release is required to produce cash flow projections and profit forecasts in respect of the business of the year of account from which the release is proposed;

- subject to this, agents are permitted to release:

- in respect of 1993 run-off years of account, up to the amount of any audited surplus less the amount of previous releases and of personal expenses;
- in respect of the 1994 years of account, up to the amount of the estimated profit at the 24 month stage, subject to certain adjustments (including those referred to above in relation to 1993);
- in respect of the 1995 years of account, up to the amount of the estimated profit on earned premiums at the 12 month stage, subject to certain adjustments; and

- syndicate auditors are required to report on the managing agent's forecasts and projections.

The releases are to be made to the member's personal reserve fund within his premiums trust funds. Any releases which are not used to meet finality bills or other underwriting payments and expenses may not be paid out to the member until the relevant year of account has closed but may be used as funds at Lloyd's to support future underwriting.

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The Council has introduced special procedures relating to the closure of the 1993 year of account which, under Lloyd's three-year accounting system, would normally be closed with effect from 31 December 1995.

For those syndicates whose 1993 account includes non-life business originally allocated to 1992 and earlier years (some 149 of the 219 non-life syndicates underwriting in 1993), the normal rules have been varied so that the reinsurance of the 1992 and prior business into Equitas and the reinsurance of the 1993 pure year liabilities through a conventional reinsurance contract are together treated as a reinsurance to close the 1993 account. The conventional RITC of the 1993 pure account must take effect only on the Reinsurance Contract with Equitas becoming wholly unconditional and must be conditional on that event.

Syndicates whose 1993 year of account does not include business originating from 1992 and earlier years may close the account through a reinsurance to close contract in the traditional form. The Council has directed that RITC contracts entered into in respect of the 1993 year of account must be conditional on the Reinsurance Contract with Equitas becoming unconditional in all respects and must include specified provisions relating to the period between signature of the contract and the satisfaction of the condition. This applies whether or not the 1993 year of account includes business being reinsured into Equitas. The effect of these special provisions is, in summary, as follows:

- the premium will be payable only when the RITC contract becomes unconditional;
- the basic premium will be determined in the normal way at the time when the RITC contract is entered into;

- the managing agent will segregate, for accounting purposes, the assets representing the premium and will during the interim period pay out of those assets claims and other outgoings in respect of business allocated to the 1993 account. The investment return on those assets will be separately identified; and

- when the RITC contract becomes unconditional, the difference between the net return on the segregated assets and the claims and other outgoings paid during the interim period in respect of business allocated to the 1993 account will be added to or deducted from the basic premium to arrive at a final premium.

If the Reinsurance Contract with Equitas does not become unconditional, the RITC contract will lapse and the segregated assets will accordingly remain in the premiums trust funds of the members of the syndicate for the 1993 year of account.

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The conditional closure of the 1993 account also involves variations of Lloyd's syndicate accounting rules for syndicate accounts and associated documents prepared in 1996. In summary, accounts are required to be prepared as at the 1995 year end on the assumption that the Reinsurance Contract with Equitas and RITC contracts in respect of the 1993 pure year of account will become unconditional.

As described above, the payment to agents of accelerated profit commission in respect of amounts released involves a change in the agency agreements between members and agents. Accordingly, the Council has directed that members and agents enter into supplemental agreements in a prescribed form. These agreements will be executed on behalf of members by attorneys appointed specifically and only for that purpose by members' agents. Under these agreements, agents will be entitled to accelerated profit commission to pay towards their contributions to the settlement offer calculated on profits on conditional closure of the 1993 year of account and on amounts released under the triple release proposals (or already released in respect of the 1993 or 1994 years of account). The agreements make express provision for any necessary adjustments to, or repayments of, accelerated profit commission once 1993 run-off and 1994 and 1995 years of account have been reinsured to close. In the case of repayment by agents of accelerated profit commission (as a result of an over-estimation of profit) the supplemental agreements expressly provide that such repayment will include interest thereon from the date of the initial release at 2 per cent. above National Westminster Bank plc base lending rate from time to time.

J. High Level Stop Loss

This fund was established in 1992 to provide individual members with a degree of protection against exceptional losses measured by reference to the member's adjusted overall premium limit. Such members have contributed an amount equal to 0.33 per cent. of their aggregate member's syndicate premium limits to the High Level Stop Loss Fund in each of 1993, 1994 and 1995. Corporate members do not benefit from the protection of the fund and accordingly do not contribute to it.