

Defendant's Exhibit Number 3

Reconstruction
& Renewal

**Settlement
Offer**

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.

Chairman's letter

Chief Executive's letter

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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, Lloyd's 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:

