



MUNICIPAL MUTUAL

15th November, 1993

Dear Sirs,

Proposed scheme of arrangement between Municipal Mutual Insurance Limited ("MMI") and a class of its creditors

MMI is an insurance company which, until recently, wrote commercial lines and personal lines insurance business mainly on a direct basis. MMI ceased to write new or renewal business in September 1992 and is in the course of running off its insurance business.

MMI is proposing to enter into a scheme of arrangement (the "Scheme") with certain of its creditors which form a separate class ("Scheme Creditors"). The Scheme is being proposed because whilst, on the basis of current information and advice, the directors of MMI (the "Directors") believe at the present time that an orderly run-off with full payment of agreed claims can be achieved, a number of factors (which are described in the Scheme document referred to below) could adversely affect the solvency of MMI in the future. In these circumstances the Directors consider it prudent to put forward the proposed Scheme to ensure that creditors' interests are not disadvantaged if, at any time in the future, the Directors cannot foresee a solvent run-off.

MMI is responsible for some or all of your insurance or reinsurance cover and, from its records, believes that you are a Scheme Creditor or may in the future become a Scheme Creditor. **This letter and its enclosures are important and require your immediate attention. If you either are or may in the future become a Scheme Creditor then you should consider the contents of this letter and its enclosures carefully.** This letter will help you determine whether you are or may in the future become a Scheme Creditor and tells you what action you should take.

Schemes of arrangement

Under English law, a scheme of arrangement (such as is being proposed by MMI) is a compromise or arrangement provided for by statute which may be entered into between a company and its creditors or any class of its creditors. It becomes legally binding on the company and all the creditors, or all the class of creditors, if the requisite majority (a majority in number representing three-fourths in value of those creditors present and voting) of those creditors who attend and vote at a meeting convened by the leave of the Court (a "Court Meeting") vote in person or by proxy in favour of the scheme and the Court then sanctions it and an office copy of the Court Order is delivered to the Registrar of Companies for registration.

The Scheme document

Enclosed with this letter is a document (the "Scheme document") containing, *inter alia*, a summary of the Scheme, an Explanatory Statement, which describes the effect of the Scheme and its advantages for Scheme Creditors and summarises its principal provisions, and the Scheme itself. The Scheme document also contains a notice of the MMI Court Meeting.

MMI has sent a copy of the Scheme document and a Voting and Proxy Form to all those creditors which it knows are Scheme Creditors already or which may become Scheme Creditors in the future.

Scheme Creditors and Scheme Liabilities

Broadly speaking, a creditor of MMI is (or will be) a Scheme Creditor if:-

- (a) as at the close of business on 30th September, 1993 (the "Record Date") the records of MMI showed Scheme Liabilities (as defined in the Scheme) outstanding to it of not less than £25,000 (in the case of claims reported but not by then agreed or otherwise established, such claims being counted at the value placed on them by MMI in its records); and
- (b) the aggregate amount of Scheme Liabilities to such creditor which are or have been agreed or otherwise established, together with the aggregate amount of any Elective Defence Costs (as defined in the Scheme) paid by MMI on its behalf, exceeds £50,000.

Individuals, partnerships and unincorporated bodies of persons all of whom are individuals are excluded from the class of Scheme Creditors as are Australian and New Zealand policyholders and persons whose claims arise out of insurance contracts issued by MMI in favour of Motability Finance Limited.

Scheme Liabilities are, subject to certain exclusions, liabilities of MMI under or arising out of an insurance contract written by MMI to which MMI was subject on the Record Date or to which MMI has or may become subject after the Record Date by reason of an obligation assumed by MMI before the Record Date. **Liabilities in respect of which the Policyholders Protection Board would be under a duty to secure payment under the Policyholders Protection Act 1975 if MMI were in liquidation (as well as certain other liabilities) are excluded from the definition of Scheme Liabilities.**

Further details of who is a Scheme Creditor and what is a Scheme Liability are set out in paragraph 3 of Section A and paragraph 2 of Section C of the Explanatory Statement.

You should note that even if you are not at present a Scheme Creditor, if you consider that you might become a Scheme Creditor in the future then you are still entitled to vote at the MMI Court Meeting. You should also note that if the Scheme is approved at the Court Meeting and sanctioned by the Court, **all** Scheme Creditors will be bound by the Scheme even if they voted against the Scheme or did not vote at all.

Court Meeting of Scheme Creditors

The Scheme will only come into effect if the requisite majority of those which are entitled to attend and vote at the MMI Court Meeting vote in favour of the Scheme. The Court Meeting has been convened to be held at Central Hall, Storey's Gate, London SW1 at 2.00 p.m. on Wednesday, 5th January, 1994 for the purpose of voting on the Scheme. Notice of the Court Meeting is set out at the end of the Scheme document.

Voting and Proxy Form

Enclosed with this letter is a Voting and Proxy Form for use at the Court Meeting. The Voting and Proxy Form comprises a Form of Proxy and a Claims Table. **Even if you do not wish to appoint a proxy, if you wish to vote on the Scheme you must complete the Claims Table and return it to MMI in accordance with the instructions on the Voting and Proxy Form either prior to or at the Court Meeting.** You are strongly recommended to return the Voting and Proxy Form to MMI as soon as possible and, preferably, by 2.00 p.m. on Friday, 31st December, 1993. A pre-addressed and pre-paid envelope is provided for your use. You will also find enclosed with this letter a schedule of Scheme Liabilities outstanding to you on the Record Date which will help you complete the Claims Table. **You should note that in the case of any claim outstanding on the Record Date which has not been agreed or otherwise established, the figure in the schedule represents the value placed on that claim by MMI, which may be less than the full amount of the claim.**

Presentations

You should by now have already received an invitation to a series of presentations about the Scheme which MMI will be giving at various venues in England, Scotland and Wales. Presentations will be given in Birmingham (24th November), Cardiff (25th November), London (26th November), Dunblane (29th November) and Leeds (30th November). Please contact MMI if you have not received your invitation.

Action to be taken

You should read and consider the Scheme document (including the Explanatory Statement (and its appendices) and the Scheme) in full. **If you are uncertain as to your own position under the Scheme or in the event of a liquidation of MMI, or as to the action you should take, you should consult your own insurance broker, solicitor, accountant or other professional adviser without delay.** Reading this letter is not a substitute for reading the Scheme document in full.

If you require any further information on the action you should take or in the case of difficulty in completing the Voting and Proxy Form, you may consult the MMI helpline on 071-222 7933.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Neil Macpherson', written over a vertical line that serves as a signature line.

Chairman
for and on behalf of
Municipal Mutual Insurance Limited

Encs