



To General Scheme Creditors

16 November 2020

Dear Sirs or Madams

Proposed Scheme of Arrangement pursuant to Part 26 of the Companies Act 2006 between Stronghold Insurance Company Limited (In Administration) (the "Company") and certain of its creditors (as described below) (the "General Scheme")

This letter is important. It concerns matters which may affect your legal rights and entitlements.

Introduction to the General Scheme

1. The Company proposes to enter into a scheme of arrangement pursuant to Part 26 of the Companies Act 2006 (the "**Part 26**") with all of its creditors (collectively the "**General Scheme Creditors**") other than:
 - (a) creditors with claims arising under or pursuant to contracts of direct insurance (such claims to instead be the subject of the Direct Scheme described in paragraph 5); and
 - (b) creditors with claims arising in respect of Excluded Liabilities (as further described in paragraph 21 below).
2. We are sending you this letter because we believe that you are:
 - (a) a General Scheme Creditor with a claim to be compromised in the General Scheme. Such claims will primarily comprise claims arising under or pursuant to contracts of reinsurance issued by the Company or for which the Company is otherwise liable; or
 - (b) a broker who placed relevant business of the Company with General Scheme Creditors. Brokers are requested to forward a copy of this letter to any clients which may be affected by the General Scheme; or
 - (c) another party which may potentially be involved in the General Scheme Creditor claim process; or
 - (d) a trade creditor or ex-employee who may have pre administration outstanding sums due from the Company.

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3. This letter is sent in accordance with the Practice Statement (Companies: Schemes of Arrangement under Part 26 and Part 26A of the Companies Act 2006) issued by the Chancellor of the High Court dated 26 June 2020 (the "**Practice Direction**"). We ask that you read this letter, consider its contents carefully and take legal advice if you consider it appropriate to do so.
4. **IMPORTANT NOTE: General Scheme Creditors will be required to submit a claim form in respect of any claims they have in respect of the General Scheme by a deadline (the "General Final Claims Time"). The General Final Claims Time will be notified to General Scheme Creditors with 180 calendar days notice if the General Scheme becomes effective. No General Scheme Creditor shall be entitled to receive any payment from (or have any further rights against) the Company in respect of a claim which is the subject of the General Scheme unless such claim has been notified to the Company by the General Final Claims Time.**

The Direct Scheme

5. The Company is also proposing to enter into a separate scheme of arrangement pursuant to Part 26 with creditors with claims arising under contracts of direct insurance on or around the same time as the General Scheme. Such scheme is referred to in this letter as the "**Direct Scheme**", and the creditors to be party to it as the "**Direct Scheme Creditors**". It is a condition to the effectiveness of the General Scheme that the Direct Scheme also becomes effective. However, it is not a condition of the Direct Scheme that the General Scheme becomes effective. General Scheme Creditors should note, however, that due to:
 - (a) the Administration of the Company, General Scheme Creditors will not be permitted to pursue claims against the Company; and
 - (b) the Insurers Reorganisation and Winding up Regulations 2004 (the "**2004 Regulations**"), the claims of the Direct Scheme Creditors rank in priority to the claims of General Scheme Creditors and, accordingly the claims of General Scheme Creditors will not be paid until the claims of all Direct Scheme Creditors (and any creditors ranking in priority to Direct Scheme Creditors) have been paid or otherwise provided for in full. This statutory priority will be applicable regardless of whether the Direct Scheme and/or General Scheme become effective.
6. A separate letter prepared in accordance with the Practice Direction (the "**Direct Practice Statement Letter**") will be sent to relevant parties in respect of the Direct Scheme. If you believe that you are a Direct Scheme Creditor and you have not received the Direct Practice Statement Letter, a copy of it is available on the Websites or by contacting the Company using the details in paragraph 34 below.

Background

7. The Company was incorporated on 28 September 1962 and wrote Excess of Loss and Stop Loss business (excluding windstorm), and risks of a similar nature. Originally formed to write exclusively non-proportional insurance and reinsurance, in the 1970s the Company extended its activities into some proportional treaty business.
8. The Company ceased active underwriting in 1985 and entered solvent run-off. In terms of London market insurance coverage, the Company is one of the smallest participants.
9. Upon introduction of the European Solvency II directive in 2016, the Company was no longer able to meet the capital requirements imposed under that directive. In 2018, a solvent scheme of arrangement pursuant to Part 26 was proposed but was not implemented.
10. Following this, the Board re-examined the Company's financial position and, after careful review, concluded that the Company did not have sufficient assets to meet its liabilities and was insolvent on a balance-sheet basis. The Company ceased paying creditors' claims as of 31 May 2019.
11. On 27 June 2019, following an application to the Court by its directors, the Company was placed into administration under section 8 and Schedule B1 of the Insolvency Act 1986 (the "**Administration**") and Dan Yoram Schwarzmann and Douglas Nigel Rackham of PricewaterhouseCoopers LLP were appointed as joint administrators of the Company (together the "**Joint Administrators**").
12. The purpose of the Administration is to achieve a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in administration). The Company cannot be rescued as a going concern as it has been determined that it is balance sheet insolvent and the options available to return it to solvency are not feasible.
13. Details on the progress of the Administration have been sent to creditors and are available on the Company websites www.strongholdinsco.co.uk; and www.pwc.co.uk/services/business-restructuring/administrations/stronghold.html (the "**Websites**").

The objective of the General Scheme

14. The General Scheme (together with the Direct Scheme) is being proposed for the purpose of bringing closure to the Company's business given its insolvency. Accordingly, the General Scheme provides a mechanism for determining General Scheme Creditors' claims (the "**General Scheme Claims**") and making appropriate payments in respect of them. It should be noted, however, that due to the 2004 Regulations, in the event that it is not possible to pay the Direct Scheme Creditors in respect of their claims arising under direct insurance contracts, in full and in accordance with the terms of the Direct Scheme, as well as any claims ranking in priority to or

equally to such claims, no payments will be made to General Scheme Creditors in respect of the their General Scheme Claims under the General Scheme.

15. Since their appointment, the Joint Administrators have considered various alternative exit options, including:
 - (a) the commutation of liabilities on an ad hoc basis;
 - (b) an informal arrangement with creditors;
 - (c) a company voluntary arrangement;
 - (d) an insolvent liquidation; and
 - (e) a distribution in administration.

These alternatives, whilst capable of being utilised to tackle the problems of an insurance company in financial difficulties in appropriate circumstances, have significant disadvantages which render them inappropriate for the Company.

16. Given the difficulties in assessing contingent, unquantified and/or future claims and the fact that no deadline for submitting claims could be imposed in a liquidation proof process by a claims submission deadline, and the requirement that a liquidator could not safely make a distribution until knowing the fixed assessment of provable claims for claims in respect of contracts of direct insurance first, and only afterwards General Scheme Claims, there is likely to be significant delay if a liquidation distribution were utilised to bring the Company's business to a close. The Company has estimated that, if such claims were left to mature in the ordinary course, it would take approximately 25 years for all claims to be determined, meaning creditors would not receive their money during this period. In order to ensure that an equal and fair distribution can take place to General Scheme Creditors it is necessary that all General Scheme Claims are assessed and known. Furthermore, the claims of General Scheme Creditors are subordinated to the claims of creditors with claims arising under contracts of direct insurance, they cannot be sensibly assessed for payment until the claims of the Direct Scheme Creditors are dealt with. The proposed Direct Scheme, by utilisation of a deadline for submitting Direct Scheme Claims, would provide an alternative quicker, but fair, process for resolving Direct Scheme Claims, meaning those creditors ought to be paid sooner than in the comparator scenario of an insolvency distribution. Similarly, the General Scheme, by also utilising a deadline for submitting General Scheme Claims will allow the Company to crystallise its outstanding liabilities to those creditors and pay those creditors more quickly, in the event that there are sufficient available funds to enable it to do so.
17. The General Scheme has been proposed to offer General Scheme Creditors the most effective and economical method for having their claims against the Company agreed or otherwise determined and paid in the shortest practicable time (provided that, after paying or providing for all prior ranking claims, including those assessed as due and payable in the Direct Scheme, there are sufficient funds available to make a distribution to General Scheme Creditors otherwise than on a *de minimis* basis). In this event, the General Scheme maximises any potential returns to General Scheme Creditors, whilst at the same time achieving finality and certainty.

18. The Company has discussed the main proposals of the General Scheme with the creditors' committee established pursuant to the Company's Administration (the "**Committee**") and has taken account of the Committee's views along with those of its advisers, where possible.
19. Furthermore, near-final drafts of the Explanatory Statement (as defined below) and the General Scheme were provided to the Company's regulators, being the Prudential Regulation Authority ("**PRA**") and the Financial Conduct Authority ("**FCA**"). Neither the PRA nor the FCA have objected to the proposals contained in the Explanatory Statement and the General Scheme.

What does the General Scheme do?

20. The General Scheme provides that:
 - (a) from the date on which the General Scheme becomes effective, General Scheme Creditors will be prohibited from taking legal action against the Company to determine or otherwise secure payment in respect of the claims they have which are subject to the General Scheme (the "**General Scheme Claims**"), unless such action is taken in accordance with the terms of the General Scheme;
 - (b) General Scheme Creditors will be required to submit a claim form by a deadline (the "**General Final Claims Time**"). This time will be determined by and communicated in accordance with the General Scheme in the event that the General Scheme Administrators determine that there may be available funds to make a distribution to General Scheme Creditors otherwise than on a *de minimis* basis. Accordingly, such deadline will not be set as soon as the General Scheme becomes effective and indeed may never be set at all prior to the termination of the General Scheme. Such claim form will notify the Company of a General Scheme Creditor's General Scheme Claims and will be required to be filed by the General Final Claims Time in order for the General Scheme Creditor to receive any payment in respect of those General Scheme Claims. General Scheme Creditors will receive at least 180 calendar days' notice of the General Final Claims Time and the General Final Claims Time will only be set where the administrators in the General Scheme have determined that there will be sufficient assets available (after paying or providing for all prior ranking claims, including those assessed as due and payable in the Direct Scheme) to make a distribution to General Scheme Creditors otherwise than on a *de minimis* basis;
 - (c) a General Scheme Creditor which fails to submit a claim form in respect of any General Scheme Claim by the General Final Claims Time will not be entitled to receive any payment in respect of it;
 - (d) General Scheme Claims will be valued by the Company (as well as any amounts to be set-off against those General Scheme Claims) using the guidelines described in the General Scheme (the "**Estimation Guidelines**"). A copy of the Estimation Guidelines will be made available on the Websites once finalised;
 - (e) in the event that the General Scheme Creditor does not agree with the value placed on its General Scheme Claim by the Company it shall have the right to challenge the valuation;

- (f) if the Company and the Scheme Creditor are not able to reach agreement as to the value of the relevant General Scheme Claim, the dispute shall be referred to an independent adjudicator appointed under the General Scheme (the "**General Scheme Adjudicator**") to determine the value. The determination of the General Scheme Adjudicator will, where applicable, be based on the Estimation Guidelines and will be final and binding on both the Company and the General Scheme Creditor;
- (g) once the value of a General Scheme Claim has been agreed or determined in accordance with the General Scheme, the resulting value of the General Scheme Claim, if any, will be the amount of the General Scheme Creditor's claim (the "**General Ascertained Claim**");
- (h) as soon as possible following the deadline for submitting completed claim forms in respect of General Scheme Claims, the Company shall determine whether all General Ascertained Claims can be paid in full. If the Company determines that such claims can be paid in full, it shall make payment in full in respect of all General Ascertained Claims as soon as reasonably practicable. In the event that the Company determines that all General Ascertained Claims cannot be paid in full, it shall determine what percentage of the General Ascertained Claims (the "**General Payment Percentage**") can be paid taking into account the amounts required to meet all Excluded Liabilities (as defined below), all other liabilities of the Company ranking in priority to the General Scheme Creditors, including claims ascertained under and in accordance with the Direct Scheme, and the need to ensure that the same percentage is paid in respect of all General Ascertained Claims. Once a General Payment Percentage has been set, the Company shall pay the General Payment Percentage in respect of each General Ascertained Claim as soon as reasonably practicable to do so;
- (i) General Scheme Creditors will be paid their General Ascertained Claims in either United States Dollars ("**USD**") or British Pounds ("**GBP**"), USD and GBP each being a "**Relevant Currency**" and together, the "**Relevant Currencies**". Where a General Scheme Creditor has a General Ascertained Claim in both Relevant Currencies, their entire General Ascertained Claim will be paid in the Relevant Currency in which it has its largest General Ascertained Claim (using the rate of exchange applicable as at the 27 June 2019, being the date that the Administration commenced). Where a General Scheme Creditor has General Ascertained Claims in currencies other than a Relevant Currency, such General Ascertained Claims shall be paid in USD; and
- (j) General Scheme Creditors will retain such rights as they currently have in respect of any security, including but not limited to any deposit or reserve of funds or assets established by the Company, guarantee provided by a third party, letter of credit or any other funds held or otherwise retained by or on behalf of a General Scheme Creditor.

Liabilities excluded from the General Scheme

21. The General Scheme does not apply to claims that will be the subject of the Direct Scheme nor to any of the following liabilities (the "**Excluded Liabilities**"):
- (a) preferential claims, being, in summary, those claims against the Company that have preferential status under section 386 of the Insolvency Act 1986. These claims, which included outstanding salary and accrued holiday for ex-employees of the Company, were fully repaid prior to the date of this letter;
 - (b) pre-scheme expenses, being, in summary, the expenses reasonably incurred by the Company in connection with the promotion and preparation of each of the General Scheme and Direct Scheme (each a "**Scheme**" and together, the "**Schemes**");
 - (c) Scheme costs, being, in summary, the costs incurred by the Company in the course of implementing the Schemes and complying with the provisions of the Insolvency Act, including the remuneration and expenses of the office holders appointed in the Schemes; and
 - (d) Administration costs, being, in summary the costs incurred on behalf of the Company by the Joint Administrators as administration expenses or determined as administration expenses by the Court, including the remuneration and expenses of the Joint Administrators.

The General Scheme process

22. The Company will make an application to the Business and Property Courts of England and Wales (the "**Court**") for an order granting permission to it to convene the meeting of the General Scheme Creditors to vote upon the proposed General Scheme (the "**General Scheme Meeting**"). At the hearing to consider that application (the "**First Court Hearing**"), the Court will be invited to consider the constitution of classes of General Scheme Creditors and therefore the number of meetings of General Scheme Creditors that should be held to vote on the Scheme. The application is expected to be heard on 16 December 2020 and further details about how to attend the First Court Hearing will be made available on the Websites closer to that date. An application to the Court for an order granting permission to it to convene the meeting of the Direct Scheme Creditors to vote on the proposed Direct Scheme is expected to occur on the same day.
23. If the Court gives the Company permission to convene the General Scheme Meeting, the Company will send you information about how to access a copy of the General Scheme and the explanatory statement in respect of the General Scheme required by Part 26 (the "**Explanatory Statement**"). Scheme Creditors will be requested to complete and submit a voting and proxy form in accordance with the procedures described in the Explanatory Statement.
24. If the required majorities of the General Scheme Creditors vote in favour of the General Scheme (see paragraph 26 below) at the General Scheme Meeting (and the required majorities of the Direct Scheme Creditors vote in favour of the Direct Scheme), the Company will ask the Court to "sanction" (or approve) the General Scheme at a second

Court hearing. In deciding whether to sanction the General Scheme, the Court will consider, amongst other things, whether it is fair to General Scheme Creditors as a whole. If the required majorities of the Direct Scheme Creditors vote in favour of the Direct Scheme, the Company will ask the Court to approve the Direct Scheme on the same day. If the required majorities of the Direct Scheme Creditors do not vote in favour of the Direct Scheme, the Company will not ask the Court to approve the General Scheme as the General Scheme is conditional on the Direct Scheme also becoming effective.

25. If the General Scheme is sanctioned by the Court, the Company will file a copy of the order sanctioning the General Scheme with the English Registrar of Companies, at which time the General Scheme will become effective. The process for creditors to make claims will be explained in the greater detail in the General Scheme and Explanatory Statement.

The proposed voting classes at the General Scheme Meeting

26. In order for the General Scheme to be implemented, it must be approved by a majority in number, representing not less than 75% in value, of those creditors who vote at the meetings.
27. Where scheme creditors 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 to vote at a separate meeting for each class.
28. The Company has considered the rights of General Scheme Creditors in respect of their General Scheme Claims, and the way in which those rights will be affected under the proposed General Scheme and concluded that there should be one class for the purpose of voting on the General Scheme comprising all General Scheme Creditors.
29. The Company has reached this conclusion because, in the event that the General Scheme is not implemented, the General Scheme Creditors share the same ranking with respect to their General Scheme Claims against the Company. Furthermore, the Company does not consider it necessary to divide the General Scheme Creditors into further classes based on whether they have agreed claims, notified outstanding claims and incurred by not reported claims because, in the alternative to the General Scheme, all such claims will be subject to the same valuation and distribution mechanism procedure.

Next steps

30. If permission to convene the General Scheme Meeting is granted by the Court at the First Court Hearing, known General Scheme Creditors, known brokers and other interested parties identified by the Company will be sent a letter summarising the key General Scheme terms and explaining how to access a document containing, amongst other things:
 - (a) the Explanatory Statement;
 - (b) the terms of the General Scheme; and
 - (c) a notice confirming the date, time and place of the General Scheme Meeting.

The letter will also include a voting and proxy form (including guidance notes).

31. To disseminate information about the General Scheme and to facilitate its implementation, General Scheme Creditors may download documents relating to the General Scheme from the Websites once they become available.
32. If your name, address or contact details have been incorrectly or incompletely stated, or if you would like correspondence about the General Scheme to be addressed to someone else in your organisation, please let us know by using the contact details below.

Questions and contact

33. If you have any concerns regarding the proposed constitution of classes of General Scheme Creditors, you are requested to contact the Joint Administrators as soon as possible and in any event, at least seven 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, we will be pleased to provide you with further information on arrangements for this. Please note that if the General Scheme is approved at the General Scheme Meeting, it will be possible for General Scheme Creditors to raise objections regarding the constitution of classes at the Court hearing to sanction the General Scheme. However, in this event, the Court would require General Scheme Creditors to demonstrate why the objections were not raised at an earlier stage.
34. If you have any questions in relation to this letter or the General Scheme, please contact the Joint Administrators at:

Stronghold Insurance Company Limited (In Administration)
c/o PricewaterhouseCoopers LLP
7 More London Riverside,
London, SE1 2RT England
Contact: John Baker
Email: uk_stronghold@pwc.com
35. General Scheme Creditors are encouraged to make contact with the Company using agregory@strongholdinsco.co.uk or +44 (0)7801 968033 if they require further information regarding their insurance policies/contracts in relation to the Company, or

if they wish to discuss their claims for voting purposes prior to the General Scheme Meetings.

36. This Practice Statement Letter is being emailed and posted to all known General Scheme Creditors to inform them of the proposed classes for the General Scheme. Any further notifications required or considered desirable for the purposes of the General Scheme, its timetable or other matters arising will be posted on the Websites (see paragraph 13 above), so creditors are requested to keep themselves updated by reference to the Websites in so far as possible.

Yours faithfully



Dan Schwarzmann

Joint Administrator acting as agent for and on behalf of Stronghold Insurance Company Limited (In Administration) without personal liability

Dan Yoram Schwarzmann and Douglas Nigel Rackham have been appointed as Joint Administrators of Stronghold Insurance Company Limited to manage its affairs, business and property as agents and without personal liability. Dan Yoram Schwarzmann and Douglas Nigel Rackham are all licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

Stronghold Insurance Company Limited is authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority, reference number 202552.

The Joint Administrators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.

The Joint Administrators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators'. Further details are available in the privacy statement on the PwC.co.uk website or by contacting the Joint Administrators.

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