

MSMI Distribution of Reserves - Frequently Asked Questions

1. How much will be distributed?

An amount equal to 75% of MSMI's net asset value (NAV) as at 30 June 2011 will be distributed in accordance with a formula approved by the MSMI Board.

2. How will the NAV be determined?

The NAV will be determined in accordance with an agreed procedure whereby a set of completion accounts will be prepared and agreed in accordance with the Framework Agreement between MSMI and North, and their respective Auditors and Financial Advisors. The completion accounts will contain a completion statement which will detail the amount and method of calculation of the NAV.

3. Who will receive a distribution?

A distribution will be made to all Members (both current and former) from MSMI's open policy years, i.e. 2006/2007 to 2010/2011 (inclusive).

4. How will the distribution amounts be determined?

The distribution amounts will be determined using a formula which has been approved by the MSMI Board and which takes into account the contributions of current Members and former Members of open policy years (by Underwriting Group) for the period from the policy year commencing 1 July 1999 to the policy year ending 30 June 2011 as follows:

- (a) as to 50%, the amount of each Underwriting Group's gross contributions (being premiums paid net of returns and commission), divided by the total gross contributions of all Underwriting Groups; and
- (b) as to 50%, the amount of each Underwriting Group's net contributions (being premiums paid net of returns, commission and all incurred claims of that Underwriting Group), divided by the total net contributions of all Underwriting Groups. Net contributions will be determined by the Managers with reference to incurred claims records as at 30 September 2011 and any negative sum produced will be treated as producing a net contribution of zero.

5. When will the distribution amounts be confirmed?

The distribution amounts cannot be confirmed until the NAV has been determined and claims incurred have been confirmed by the Managers on 30 September 2011. It is hoped thereafter that the distribution amounts can be confirmed during October 2011.

6. Who will the distributions be paid to?

Distributions will be paid to each Underwriting Group (on behalf of the Members and former Members in each Underwriting Group).

7. What is the position where a current Underwriting Group has been preceded, wholly or partly, by an older Underwriting Group which is no longer used by MSMI?

In such circumstances the Managers will determine the extent to which the old Underwriting Group can properly be said to be the predecessor of the current Underwriting Group and the entered ships of the old Underwriting Group will be treated, to the extent determined by the Managers, as being entered ships of the current Underwriting Group for the purposes of calculating the distribution.

8. How will MSMI treat the distribution payments for accounting purposes?

The distribution payments will be deemed to be a refund of past premiums paid by the relevant Underwriting Group. This is purely for accounting purposes and MSMI will not seek to recover any commission paid to brokers in respect of the returned premiums.

9. In what currency will the distribution amounts be determined?

All distribution amounts will be determined in US\$ with reference to exchange rates published by the Financial Times at the close of business 30 September 2011.

10. In what currency will the distribution amounts be paid?

Distribution amounts will be paid in the currency of entry used by the relevant Underwriting Group, converted from US\$ at the rate obtained from MSMI's bankers on the date of payment.

11. Do Members have to do anything before they are entitled to receive their distribution?

Yes. Payment of a distribution will be conditional upon each Underwriting Group, completing and returning to MSMI a form of undertaking (which will be provided by MSMI) to confirm (on behalf of the Members and Former Members in each Underwriting Group) that they have no claims against MSMI (other than any claims under insurance policies) and that they are authorised to act on behalf of the Members and/or Former Members that they represent.

12. What will happen if an Underwriting Group does not provide a form of undertaking?

If a completed form of undertaking is not provided within 12 months of North becoming the sole member of MSMI, the Underwriting Group will forfeit the right to receive a distribution and the monies will revert to MSMI.

13. Will a Member have any further liabilities or obligations to MSMI following payment of a distribution?

Once a distribution has been paid, Members will continue to be subject to their obligations in respect of claims made under their insurance policies, and will continue to be bound by the form of undertaking given prior to receipt of the distribution, but will otherwise be released from their liabilities to MSMI.

14. What steps have the MSMI Board taken to ensure that the distribution formula is fair?

The Board engaged the services of an independent expert to provide them with advice upon suitable mechanisms that they could consider as to how to distribute MSMI's reserves in a fair and reasonable manner, keeping in mind the spirit of mutuality and the principles of MSMI. The expert's report was considered by the Board when determining the distribution formula.

The Board also obtained legal advice from a leading QC in relation to the legal basis of the distribution, and from Norton Rose solicitors in relation to procedural best practice when considering the distribution.

15. Who should I contact if I have any questions at this stage?

In the first instance Members or their Brokers should contact their MSMI Underwriter.