GREENWICH

Greenwich Insurance Holdings PLC
December 2001 Bulletin

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1. US Terrorist Losses Update

We first reported on the insurance losses connected with the awful events of 11th September on 21st September. A further Special Bulletin was produced in October. In the latter Bulletin we pointed out that three leading managing agents, Wellington, Hiscox and Amlin had publicly increased their forecast losses and that a Lloyd's "revision is inevitable". Accordingly, it was to no one's surprise that on 27th November, following a third questionnaire completed by managing agents, Lloyd's confirmed that the forecast net loss had risen from £1.3bn to £1.9bn, an increase of 46%.

At the time of the original announcement on 26th September the gross exposure, i.e. excluding reinsurance recoveries, was not formally announced although it was subsequently "leaked" at £5.4bn. The latest announcement confirms a gross loss at £5.7bn, an increase of 5.2%. These revised estimates are the result of a greater period for managing agents to fully analyse their syndicate exposures. It would seem that the property element of the loss has risen, resulting in higher net involvements, whilst there are reports that the Aviation loss may not be as high as previously estimated, which probably accounts for the gross loss moving outwards at a slower rate than the net loss. The actual cash outflow in claims has been slower than originally projected, which is indicative of the extreme complexity of the insurance loss and the disputes that have already arisen, such as the coverage of the World Trade Centre ("WTC") towers. It has been reported that the Swiss Re have challenged the lessee of the WTC in the New York courts as he is currently claiming that the attacks represented two losses and, therefore, he believes he is entitled to two payments of the sum insured of US$3.5bn. There is also a publicised dispute in relation to employees of Aon who were killed in the attacks and where Personal Accident claims have been made on a Company Travel policy.

Syndicate 994 has reported, in line with the revised estimates, that the net loss has moved from £9.9mn to £11.7mn, an increase of 18%, whilst the gross estimated loss has reduced from £47.5mn to £45.7mn. The main change between the two forecasts has been a reduction in the loss estimated to arise from Marine Excess Loss Account but an increase in the estimated Property and Contingency Account losses.

At the same time as announcing changes to the WTC loss estimates, Lloyd's provided revised estimates for the 1999 and 2000 Accounts inclusive of the WTC loss. No predictions have been made in regard to the 2001 Account but it seems inevitable that there will be a further overall loss to the Lloyd's Market. Nevertheless Lloyd's has reported that for the first ten months of 2001 an additional £1.2bn gross premium has been written compared to last year. They further reported that premiums for most classes of business had risen sharply since 11th September.

Year of Account	*Estimate at July 2001*	*Estimate at November 2001*
1999	(£1.38bn)	(£1.67bn)
2000	(£0.70bn)	(£1.49bn)

2. *Cash Funding*

Our October Special Bulletin contained information in relation to cash calls made by syndicates following the WTC loss. These cash calls arose from a combination of syndicate cash flow requirements and US Trust funding. Prior to the events of 11th September Lloyd's had been in negotiations with the National Association of Insurance Commissioners in regard to the gross funding requirement for US reinsurance losses. These negotiations subsequently resulted in an agreement to reduce the funding requirement from 100% of gross claims to 60% but only for a period to the end of March 2002. The WTC cash calls resulted in Lloyd's meeting a requirement to transfer over $2bn to the US on 15th November but, as indicated in our Bulletin, additional cash calls are inevitable in order to meet the March 2002 requirement. These calls will be announced in January and could result in cash calls to Names in respect of the 1999 Account. For Greenwich shareholders any cash calls relating to the 2000 & 2001 Accounts will be met by the Grenville Underwriting subsidiaries. At this stage we do not know which syndicates will require additional funds but it continues to be our belief that Greenwich has an overall exposure at a lower level than the Market average and this is consistent with the calls that were made in October.

3. *American Airlines Loss*

On 12th November a significant loss occurred in the form of the American Airlines A300 Airbus crash on Long Island. Early estimates of the loss suggested a potential overall liability of around £500m inclusive of the Hull, which is valued at between US$30m – US$40m. No cause has yet been established for the loss and the Grenville exposure is related to participation on external syndicates such as Wellington. Again this exposure is likely to be less than the Market average and lies with the 2000 Account.

4. *Interim Review*

At the AGM on 13th September a request was made by a shareholder for some form of interim report to be made available to all shareholders. It was suggested that this should take the form of an update on syndicate forecasts and their effect on Greenwich: we are now taking this opportunity to produce such a report.

1999 Account

The latest reported estimates (3rd Quarter) for the Grenville Underwriting Companies are for a midpoint estimated loss of 17.56% against an estimate at 31st December 2000 of 11.9%. Based on this change, the Companies will be required to fund £6,617,865 in excess of current provisions.

2000 Account

The latest reported estimates for the Grenville Underwriting Companies are for a midpoint estimated loss of 8.98%, inclusive of WTC losses, against an estimate at 31st December 2000 of 2.54%. Based on this change, the Companies' provisions will need to be increased by £12,486,422. Syndicate 994's 2000 Account latest estimate of a 9.2% loss is a deterioration on the previous forecast of 1.5%, as a result of WTC claims. However, to put this in some context, in the same period amongst the largest syndicates in the Market, the forecast for the Brockbank managed Syndicate 861 has moved from an estimated loss of 10.5% to a loss of 50%, whilst Ace Syndicate 2488 has moved from a projected 2.5% profit to a 12.5% loss.

5. *Capacity Auctions*

The last two capacity auctions in 2001 were delayed following the events of 11th September. This year there were three Auctions, down from six Auctions held in 2000. Activity in the Auctions was impacted by the number of syndicates who had pre-emptions both before and after the US Terrorist Attacks and the uncertainty that followed. Whilst the average price achieved at Auction 1 was 5.2p per £ of capacity, Auctions 2 & 3 produced average prices of 3.2p and 2.1p respectively. As a comparison the average price achieved in the final Auction in 2000 was 4.28p and 1999 6.38p. It may be of interest to shareholders to see the prices achieved by Greenwich in the sale of underwriting capacity in 1999 and the price of the same capacity in 2001:

Syndicate No	1999 Price (p per £1)	2001 Price (p per £1)
33	16.00	1.25
79	8.13	–
386	33.42	5.80
435	15.50	0.10
535	13.73	–
588	12.90	0.20
702	12.32	–
800	13.10	–
861	8.07	0.20
1007	16.45	3.20
1212	11.90	–
2001	6.16	0.90

With hindsight we can see the benefit to Greenwich of the decision to realise the value of some of underwriting capacity in 1998 when a total of £1.3m was raised. Sales and bilateral deals in 1999 raised an additional £6.2m and a further £2.8m was raised in the 2000 and 2001 Auctions.

6. PSL Policyholders Association

Some of you will be members of the above Association. Their aim at the moment is to try to recover further funds relating to the failure of Municipal General Insurance Ltd, which underwrote part of the personal stop loss policies issued by Carritt & Partners, Swire Fraser, Seascope and Fenchurch. The liquidators of the Municipal anticipate payments next year at about 40% of outstanding claims with a possible further payment thereafter.

Additionally the Association are trying to demonstrate that the stop loss reinsurances were personal and therefore an insurance rather than a reinsurance arrangement. It is their contention that the Policyholders Protection Board should make up the difference between what will be paid and what should be paid. The issue is extremely complex and we are not in a position to offer advice on the likelihood of success, or indeed whether or not you should join this Association. If you would like to learn more about the Association, please contact them c/o Mrs Sally Maybury, Holmhill, Chilthurst, Petersfield, Hants. GU31 5EZ.

7. Equitas

Shareholders will have received a letter of 4th December from Hugh Stevenson, Chairman of Equitas. This contains un-audited and selected financial information for the first six months of the financial year. There is a mixture of news in that claims filings have exceeded expectations although payments made by Equitas in respect of asbestos claims have remained lower than anticipated. The Chairman also reported further progress in settling overall claims and continued successful negotiation of commutation agreements. He was also able to state that operating costs had reduced from £68m in the first half of last year to £55m, which is consistent with the target of reducing operating costs by at least 15%. Finally, he pointed out that although Equitas does not have any liability directly to claims arising from the 11th September terrorist attacks, these losses will add to the financial burden of some reinsurance companies. Equitas will have to carefully monitor the financial position of these companies and, where appropriate, seek to commute reinsurance contracts.

8. Names Action for Compensation and Defence in Europe (NACDE)

Many shareholders have written or contacted us in regard to a letter issued by Christopher Stockwell, dated 29th October. This letter gave his analysis of Equitas and the recent WTC losses and described the progress of an initiative to seek compensation, via the European Court, from the UK Government in relation to "its failure to supervise Lloyd's in accordance with the European Directive 73/239". The letter included a Subscription Form to join the NACDE.

We cannot specifically comment on the case since we have insufficient information to make any judgement. Many will have experience of Christopher Stockwell from during the time of "Lloyd's R&R" and will form their own conclusions as to whether to become involved or not.

9. Capital Raising

A significant development following 11th September has been the announcement of new capital made available to the insurance industry, particularly in the reinsurance markets. Thus far the majority of the capital has been raised for operations which will be based in Bermuda. The following major fundraising has been identified, together with the sponsor:

Arch Reinsurance (Warburg Pincus) $1bn
Axis (Marsh) $1.6bn
Da Vinci Reinsurance (Renaissance Re Holdings) $500m
Endurance (Aon & Zurich) $1.2bn
White Mountains (Bank of America) $1bn

Additionally, two new operations have commenced in the Lloyd's Market. The largest US insurer, American International Group have established a new managing agency at Lloyd's called Ascot Syndicates Ltd with capital of £100m, whilst Heidi Hutter, who was associated with the formation of Equitas, has reappeared, with others, in the form of Talbot Holdings, who will also establish a new syndicate at Lloyd's having acquired the former Alleghany underwriting operation.

Fundraising, however, for existing Lloyd's entities has proved more difficult since there has been a marked reluctance to expose new capital to the un-quantified losses that exist. Accordingly, in order to raise additional capital, entities such as Wellington and Goshawk have created new underwriting operations for 2002. In the case of Goshawk, the new vehicle will be based in Bermuda whilst the proposed new Wellington underwriting operation will trade in the London company market in parallel with their Lloyd's Syndicate 2020. Hiscox have also been through a fundraising exercise and are allocating part of the additional capital to their Lloyd's underwriting operation with the balance to Hiscox Insurance Company Ltd.

On the face of it the actions of existing Lloyd's operations in raising new capital for investment elsewhere is perceived by many to be a snub to the Lloyd's Market, particularly when there is evidently an appetite to invest given the very encouraging Market conditions. Amongst reasons given by investors for not supporting Lloyd's Underwriters is the cost of trading, the annual venture and three year accounting. Whilst those who commenced underwriting for 2002 are free of the direct liabilities arising from the WTC losses, the increased premium levy at 2% per annum is as a direct result of those losses and an additional cost for those trading forward in the Lloyd's Market.

PRESS ANNOUNCEMENT – 12th December

Lloyd's have predicted that total underwriting capacity for 2002 will be in the region of £12.3bn (2001 £11bn). **Comment** – This announcement is welcome but it is clear that the 12% increase in capacity would be much higher were it not for the factors discussed in this Bulletin.

Overall, Standard & Poors have calculated that $12bn has been raised so far for employment within the insurance industry, with the potential for that to rise to over $20bn in the next few months. These developments mirror initial capital raising associated with Bermuda in 1993 when ACE and XL were created following Hurricane Andrew. Whilst this level of fundraising is clearly significant, it is considerably less than the cost of the WTC loss. ACE have calculated that the combined effect of underwriting losses, decline in the Equity Markets and the WTC loss may have taken out as much as $80bn from worldwide insurance markets. Consequently, there continues to be a belief that the next, strong, phase of the Market will endure for at least 3-4 years.

10. *Run off Syndicates*

This Report also contains an update on the position of all syndicates in run-off as supported by Names prior to their conversion into one or other of the Grenville Conversion Schemes. **If you have purchased an Exeat Policy you need not concern yourself with the following information:**

Run-Off Syndicates – Progress Reports as at 30th June 2001

55 – 1997 & 1998 – The syndicate ceased to trade in December 1999. The management states that there are no material changes to the 1997 account since their last report at 31st December 2000. However, in respect of the 1998 account, a deterioration of the forecast mid-point by 3.1% to an overall loss of 22% has been reported. This is principally due to deterioration in the Accident and Health account and additional bad debt provision.

256 – 1993 – The account continues to remain open as a result of the syndicate's ongoing involvement in the Personal Accident spiral. The syndicate is considered to be in the "middle tier" of the spiral; other syndicates in the lower tier have made significant progress in order to formulate a proposal to "collapse the spiral", which could be achieved by the year end. If this is the case, the tail of the spiral could be shortened, allowing the syndicate to seek an acceptable reinsurance to close in the early part of 2002.

271 – 1998 – The account was left open at 31st December 2000 because there was no natural successor syndicate. At that time, the management reported a 5.05% retained surplus (after expenses). They are now estimating a deterioration of approximately 7.5%, as a result of two major losses – American Airlines in June 1999 and Egyptair in October 1999 – giving an overall deficit of 2.5%. The agency continues to pursue quotations for a reinsurance to close from a major broker but, at this time, none have been received.

329 – 1998 – The account was left open due to material uncertainty in relation to one large contract. The ultimate net outcome of this contract is dependent on the syndicate's ability to make appropriate recoveries from their reinsurers. At this stage, unfortunately, the management do not believe that they will be in a position to effect an RITC at the end of this year and it may not even be possible to close the account at the end of next year.

340 – 1997 – Unfortunately, little has changed since the managing agency's statement at 31st December 2000. It was then reported that issues surrounding certain North American reinsurance contracts, which could have a material effect on the year's result, were still outstanding and, to date, it had not been possible to resolve these successfully.

529 – 1998 – The management states that there has been no material change to the year of account since their last report at 31st December 2000, when a loss of 67.25% was reported. However, a new estimate of 71.53% has now been published and a cash call of 33.51% was made in September this year. As to the eventual closure of the year, a report on actuarial opinions for the syndicate has now been prepared by the agency and has been released to third parties with a view to obtaining an acceptable reinsurance to close.

587 – 1998 – The account was left open due to the uncertainty that arose pending a resolution of a stop loss reinsurance dispute with four Australian reinsurers, who allege that they are entitled to avoid certain policies protecting the 1996 and 1997 accounts. The management are vigorously defending the arbitration proceedings that have now been triggered, but these are unlikely to be resolved until early 2002. Closure of the year at 31st December 2001 is, therefore, unlikely.

718 – 1993 & 1994 – These years were originally left open as a result of disputes with various reinsurers of the syndicate's LMX business. The syndicate has now completed its LMX negotiations on both years of account. Contracts were concluded in May this year with the Federal Group of New Jersey for the sum of US$ 7 million and the 1993 account was reinsured on similar terms to those pertaining to 1994. The "ring-fence" arrangements continue to work well with settlements being conducted on a direct basis. The only litigation that now remains is the syndicate's action against the brokers, Stirling Cooke, which is proceeding, albeit slowly. The management have been in discussion with a number of Lloyd's syndicates with a view to obtaining a valid reinsurance to close but no firm quotations have been received to date. However, more positively, they do not anticipate having to make any further cash calls during 2001 or 2002, unless an RITC is achieved.

744 – 1998 – The year was left open in light of the material uncertainty surrounding the future liabilities of the account, following the management's decision to close the syndicate in July 2000. Attempts have been made to obtain an external quotation in Lloyd's to effect a reinsurance to close on commercially acceptable terms but, to date, this has not been possible.

892 – 1998 – The syndicate ceased to trade in December 1998. Since then, significant cost reductions have been made, including the sub-contracting of the claims handling services to the Kiln Group. As a result, the syndicate has been able to wind up all its commitments efficiently and at a minimum cost to Names. In addition, the number of outstanding 1997 and 1998 account claims has fallen substantially in the last year and it is hoped that this will place the syndicate in a stronger position to negotiate a final RITC at 31st December 2001.

923 – 1996 & 1997 – These years of account remain open as result of the material uncertainty surrounding the run-off of the extended warranty account. The management states that it is their intention to close these years as quickly as possible, although realistically, with original contracts running for up to seven years, they will need to be confident that the actuarial claims projections have stabilised before doing so. However, progress during 2001 has generally been good and, although closure at 31st December 2001 is unlikely, it is hoped that a closure of these years at the end of 2002 is very achievable.

947 – 1996, 1997 & 1998 – These years are also affected by issues surrounding extended warranty business and the same comments as Syndicate 923 for their closure apply.

957 – 1997 & 1998 – The syndicate ceased to trade in September 1999. The management states that there are no material changes to the 1997 account since their last report in June this year. However, in respect of the 1998 account, a deterioration of the forecast mid-point by 2.7% to an overall loss of 25.8% has been reported. This is principally due to an increase in the net retention on the Swiss Air crash claim and increased provision for legal fees.

991 – 1998 – The syndicate ceased to trade in December 2000. The management states that there are no material changes to the year of the account and that it remains their aim to obtain external quotations to effect a reinsurance to close on commercially acceptable terms as soon as possible.

1093 – 1998 – The management states that there has been no material change to the year of account since their last report at 31st December 2000, when a loss of 50.5% was reported. In addition, there have been no significant claims settlements or new major claims advices during the period. As to the eventual closure of the year, a report on actuarial opinions for the syndicate has now been prepared by the agency and has been released to third parties with a view to obtaining an acceptable reinsurance to close.

1101 – 1997 & 1998 – The syndicate ceased to trade in December 1999. The management states that there are no material changes to either the 1997 or 1998 accounts since their last report at 31st December 2000 and that it remains their intention to close both years at the earliest opportunity.

1308 – 1998 – The syndicate ceased to trade in December 1999. The management states that there are no material changes to the 1998 account since their last report at 31st December 2000 and that it remains their intention to close the year at the earliest opportunity.

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Any comments would be welcomed.

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