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MUNICIPAL MUTUAL

9 December, 1993

Dear Member,

Scheme of Arrangement and changes to the Memorandum and Articles of Association

The purpose of this letter is:—

- (a) to update you on the progress of Municipal Mutual Insurance Limited ("MMI") since the publication on 30 September, 1993 of the Annual Report and Group Accounts for 1992;
- (b) to explain certain changes proposed to be made to MMI's Memorandum and Articles of Association; and
- (c) to outline MMI's proposal for a Scheme of Arrangement.


Progress of MMI

As announced at MMI's Annual General Meeting on 28 October, 1993, Mr. Maurice Stonefrost retired as Chairman and Managing Trustee of MMI on 30 November, 1993. The Board of Managing Trustees asked me to succeed Mr. Stonefrost at a Board meeting on 1 December, 1993. On behalf of the Board I would like to thank Mr. Stonefrost for the very valuable contribution he made to MMI over his period of chairmanship. With the exclusion of Mr. Stonefrost, the current Managing Trustees are listed on page 114 of the Scheme document enclosed with this letter.

In their Annual Report for 1992, the Managing Trustees set out an unaudited *pro forma* statement of net assets as at 31 December, 1992. The *pro forma* statement of net assets showed a surplus, after run-off adjustments, of £907,000. In the intervening two months since the publication of the Annual Report for 1992 the run-off has proceeded broadly in accordance with the assumptions made for the purpose of preparing the *pro forma* statement of net assets with one notable favourable exception.

The notes to the *pro forma* statement of net assets and Note 10 of the 1992 Group Accounts referred to the discussions which MMI was conducting with its Inspector of Taxes concerning the extent to which it was appropriate for MMI to be treated as having non-mutual status for taxation purposes. Further discussions have since taken place and agreement in principle has been reached with the Inspector of Taxes as to the basis for submission of MMI's tax computations for 1989 to 1992. This basis is estimated to increase the *pro forma* net assets of MMI as at 31 December, 1992 by some £43.7 million.

**Municipal Mutual Insurance Limited. Registered office: 22 Old Queen Street, Westminster, London SW1H 9HW
Registered number 76678 England**

Member of 

At the Board Meeting on 1 December, 1993 the Managing Trustees resolved to accept the proposed basis for submission of tax computations and the tax computations for 1989 to 1992 will now be submitted to the Inspector of Taxes on the basis agreed.

Whilst this improvement in MMI's net asset position is very welcome, it is not, in the Managing Trustees' view, of sufficient magnitude to ensure that a solvent run-off will be achieved in all conceivable future circumstances. The present anticipated *pro forma* net assets as at 31 December, 1992 of £44.6 million still only represent 4.8 per cent. of the total liabilities to be run-off of £925.3 million as at that date. The solvency of MMI could still be affected adversely by increases in liabilities and adjustments in estimated future claims payments, future fluctuations in the value of property and other investment assets and decreases in investment yields.

Proposed amendment of MMI's Memorandum and Articles of Association

In the 1992 Annual Report and Group Accounts, you were informed of the proposal for MMI to enter into a Scheme of Arrangement (the "Scheme") with certain of its creditors so as to ensure an orderly run-off. Scheme documentation was issued on 15 November, 1993 and it is planned that the Scheme should be adopted in January 1994. A copy of the Scheme document (omitting the Voting and Proxy Form) is enclosed with this circular. The Scheme document incorporates a statement explaining the Scheme and giving background information as well as the detailed provisions of the Scheme itself.

At present the Managing Trustees of MMI can foresee a solvent run-off of MMI's liabilities with full payment of agreed claims. Given the uncertainties of MMI's financial position, however, the Managing Trustees considered it prudent to propose the Scheme at this stage and consider the Scheme to be in the best interests of MMI's creditors. In broad outline, the Scheme provides that if the Managing Trustees at any time cease to be able to foresee a solvent run-off, MMI's major creditors ("Scheme Creditors") (which represent some 85% of MMI's estimated present and future insurance liabilities) will suffer a reduction in the level of claims paid to them and will pay back to MMI a percentage of claims paid to them since 30 September, 1993. To compensate Scheme Creditors for assuming the risk that their claims will ultimately not be paid in full, the Scheme provides for a commission to be paid to them (and to the Policyholders Protection Board (the "PPB") as explained below) out of any assets remaining after the payment of all of MMI's other liabilities.

Before the Scheme can become effective, it must be approved at a meeting of creditors convened with the leave of the High Court, sanctioned by the Court and filed with the Registrar of Companies. Additionally, it is necessary for certain changes to be made to MMI's Articles of Association. These changes are described in Appendix 1 to this circular and you will find on page 10 a Notice of an Extraordinary General Meeting of MMI to which a special resolution will be put, *inter alia*, to adopt these changes. The proposed Scheme will not become effective if that resolution is not passed.

At the same time, the opportunity is being taken to update MMI's Memorandum and Articles of Association to provide a more appropriate framework for the run-off of MMI's business. Details of the principal proposed amendments to MMI's Memorandum and Articles of Association, which have been designed to reflect, as far as applicable to MMI, the constitution of a modern public limited company, are set out in Appendix 2 to this circular.

The replacement of MMI's current Articles of Association by the proposed new Articles of Association is in any event conditional upon the Scheme becoming effective. If all approvals and the Court sanction are obtained, it is expected that the Scheme will become effective in the second half of January 1994.

Scheme of Arrangement

The Scheme will affect members in two main ways.

First, it is proposed that, as part of the changes to be made to the Articles of Association, the Scheme Administrator and Deputy Scheme Administrator should become members

of MMI and have certain powers, in particular in relation to the composition of the Board of Managing Trustees. These powers (and the periods during which they will be exercisable) are described in detail in Appendix 1 to this circular.

Second, as mentioned above, the Scheme provides for a commission to be payable to Scheme Creditors and also to the PPB, which has agreed to be bound by the Scheme for the purposes of reimbursing to MMI certain payments made by MMI to policyholders who would be eligible for protection under the Policyholders Protection Act 1975 in the event of a liquidation of MMI.

The commission is proposed as compensation to the Scheme Creditors and the PPB for assuming the risk under the Scheme of having to make payments to MMI (either satisfying the imposition of a levy, in the case of Scheme Creditors, or by way of reimbursement in respect of Protected Liabilities, as defined in the Scheme, in the case of the PPB) or having insurance claims payments reduced. The commission will only be payable if all other liabilities of MMI have been paid in full and MMI still has assets remaining. If the remaining assets are not sufficient to satisfy payment of the commission in full, then payments of each Scheme Creditor's and the PPB's share of commission will be reduced proportionately.

As described in the Scheme document, the maximum amount of commission payable was fixed at £70 million by the Board of Managing Trustees after receiving advice from KPMG Actuarial Services and Durtnell & Fowler Ltd., MMI's reinsurance broker. However, in light of the improvement of MMI's financial position described above, the Managing Trustees have since concluded that the maximum amount of commission payable under the Scheme should be reduced to reflect the increase in MMI's *pro forma* net assets. There is enclosed a copy (omitting the Voting and Proxy Form) of the letter sent to MMI's Scheme Creditors in which the Managing Trustees are proposing that the figure for commission be reduced by £40 million to £30 million.

The Managing Trustees will not proceed with the Scheme, except with the proposed modification as is reflected in the terms of the Special Resolution set out in the Notice on page 10.

All surplus assets remaining after full payment of the commission will be distributed, on a winding-up of MMI, among the members pursuant to Article 94 of the current Articles of Association (Article 84 of the proposed new Articles of Association). Article 94 requires that if, after discharging or making due provision for all the debts and liabilities and costs of winding up for which the funds of any department of MMI's business are declared to be liable under Article 93 (Article 83 of the proposed new Articles of Association) or are otherwise legally liable, there remains a balance of funds in that department then the balance is to be divided among the members who have been insured in that department for not less than the five successive years ended on 31 December immediately prior to the winding up and are insured in that department at the commencement of the winding up in proportion to the aggregate amount of the premiums paid up by them respectively upon the policies issued to them by that department during such period of five successive years.

MMI ceased writing business on 30 September, 1992 and the Managing Trustees have been advised that if a court concluded that the specific provisions of Article 94 are unworkable then any surplus assets will be distributed on a future winding-up of MMI to the members equally.

The existing obligation of members to contribute £10 each in the event of an insufficiency of assets on a winding-up of MMI is not varied by the Scheme.

Given the uncertainties of MMI's financial position (details of which are set out in the Scheme document) and the possibility that a solvent run-off might not be achieved in all conceivable future circumstances, the Managing Trustees consider that, after taking account of the terms of the Scheme (including the provision for the payment of a commission of up to £30 million), it is in the best interests of members of MMI that the Scheme should proceed.

As mentioned in the Chairman's statement in the 1992 Annual Report and Group Accounts, an Extraordinary General Meeting of MMI is necessary for the proposed new Articles of Association to be adopted. The proposed changes to MMI's Memorandum of Association will also be put to the meeting. A Notice convening the meeting for 10.00 a.m. on 5 January, 1994 at Central Hall, Storey's Gate, London SW1 can be found on page 10 of this circular.

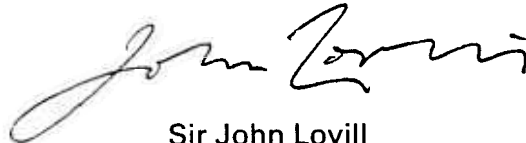
A copy of the Memorandum and Articles of Association as they are proposed to be revised will be available for inspection by members at 22 Old Queen Street, Westminster, London SW1H 9HW during normal business hours on business days (excluding Saturdays and public holidays) until the date of the Extraordinary General Meeting and at the venue for the Extraordinary General Meeting from 15 minutes prior to the meeting until its conclusion.

Any person entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy must be a member or a Trustee of MMI. A Form of Proxy is enclosed. This Form of Proxy, duly completed, and the power of attorney (if any) under which it is signed, must reach the Registered Office of MMI not later than 10.00 a.m. on 3 January, 1994.

Recommendation

For the reasons described above, your Board of Managing Trustees considers that it is in the best interests of members of MMI for the proposed changes to the Memorandum of Association to be made and for the proposed new Articles of Association to be adopted and hence allowing the proposed Scheme to become effective. Accordingly, you are recommended to vote in favour of the resolution set out in the Notice of Extraordinary General Meeting. All of the Managing Trustees (other than Illtyd Harrington who is not a member) intend to vote in favour of the resolution.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'John Lovill', written in a cursive style.

Sir John Lovill
Chairman

APPENDIX 1

Changes to the Articles of Association necessary for the Scheme

Set out below is a summary of the provisions of the proposed new Articles of Association which are necessary for the implementation of the Scheme. Defined terms used in this Appendix shall have the same meaning as given in the Scheme (which definitions may be found on pages 108 to 113 of the Scheme document enclosed with the circular to which this summary forms an Appendix). The numbers of articles given below are the numbers of those articles as they appear in the proposed new Articles of Association.

As mentioned in the Chairman's Statement contained in the 1992 Annual Report and Group Accounts, although it is planned that the Scheme will be adopted in early 1994, it will only fully come into operation if a Trigger Event occurs; that is, broadly speaking, if the Directors decide there is no reasonable prospect of MMI avoiding going into insolvent liquidation. The period after the occurrence of a Trigger Event when the Scheme is in full operation is known as the Levy Period.

Scheme Administrator

The Scheme Administrator and, by virtue of Clause 8.1.9 of the Scheme, the Deputy Scheme Administrator are entitled by Article 5(d) to become members provided that they have served MMI at its registered office with written notice that they agree to become members of MMI. The proposed new Articles of Association confer certain additional powers and rights on the Scheme Administrator. If for any period prior to termination of the Scheme there is no Scheme Administrator or the Scheme Administrator is not a member of MMI or the Scheme Administrator although a member of MMI is unable or unwilling to exercise his rights to vote at a meeting, then during such period the Deputy Scheme Administrator shall, if he is a member, be entitled to vote and cast the same number of votes on a poll as the Scheme Administrator would have been entitled to cast as a member.

Although they are entitled to become members, Article 1(E) provides that neither the Scheme Administrator nor the Deputy Scheme Administrator will be entitled to participate in any distribution of surplus assets on a winding up of MMI.

Weighted voting rights

Articles 1(A)(IV) and 1(A)(V) of the proposed new Articles of Association contain provisions which grant the Scheme Administrator weighted voting rights in certain circumstances.

Prior to the Levy Period, the Scheme Administrator will have a sufficient number of votes on a poll to block any resolution for MMI to be wound up voluntarily or by the court or for a Controller of MMI (broadly speaking a chief executive or managing director) to be appointed or removed. Article 1(A)(V) prohibits the appointment or removal of any Controller of MMI before the Levy Period without the prior written consent of the Policyholders Protection Board.

If any Controller is appointed or removed by the board of directors in contravention of the Articles, in order to ensure compliance with the prohibition on the appointment or removal of any Controller without the prior written consent of the Policyholders Protection Board, the Scheme Administrator is additionally given the power before the Levy Period to cast a sufficient number of votes on a poll to ensure the passing of any resolution for the appointment or removal of any director.

During the Levy Period, the Scheme Administrator is given a sufficient number of votes on a poll to ensure the passing of any resolution for the appointment or removal from office of any director or for MMI to be wound up voluntarily or by the court.

At any time before the termination of the Scheme, the Scheme Administrator is given a sufficient number of votes on a poll to block any resolution to alter the Articles of Association by altering or deleting or, in the opinion of any firm of solicitors nominated by the Chairperson, affecting the operation of any of the specified articles necessary for implementation of the Scheme.

Other powers and rights

In order for the Scheme Administrator to exercise the rights described above effectively, the following additional rights and powers have been conferred on him as a member:—

(a) Article 9(B)

The Scheme Administrator is given the power to requisition Extraordinary General Meetings to be convened to consider a resolution on which the Articles confer on the Scheme Administrator a sufficient number of votes on a poll to ensure that the resolution is passed (i.e. Articles 1(A)(IV)(c) and 1(A)(V)(b)).

(b) Article 11(B)

If the Scheme Administrator or the Deputy Scheme Administrator does not receive notice of any general meeting convened to consider any resolution in relation to which the Scheme Administrator has weighted voting rights, then the proceedings at that meeting will be invalidated. Similarly, the non-receipt by the Scheme Administrator or the Deputy Scheme Administrator of any instrument of proxy sent out with a notice of meeting will also invalidate the proceedings at that meeting. The Scheme Administrator or the Deputy Scheme Administrator may, however, waive these provisions by sending written notice to the Company Secretary.

(c) Article 13(B)

If a meeting has been convened to consider a resolution in relation to which the Scheme Administrator has weighted voting rights, then the meeting will not have a quorum unless the Scheme Administrator or the Deputy Scheme Administrator is present in person or by proxy. If, however, for any period before the termination of the Scheme there is no Scheme Administrator or Deputy Scheme Administrator or they are not members of MMI, then the quorum necessary for the transaction of business at any general meeting of MMI will during that period be no less than 75% of the members entitled to attend, in person or by proxy, at the meeting.

(d) Article 14(B)

If any meeting at which the Scheme Administrator is entitled to exercise weighted voting rights is adjourned then the presence, in person or by proxy, of the Scheme Administrator or the Deputy Scheme Administrator will constitute a quorum at the adjourned meeting.

(e) Articles 17(B) and 17(C)

The Chairperson of any general meeting may with the consent of the meeting adjourn it to another time or place if the meeting has a quorum. However, if the meeting has been convened to consider a resolution in relation to which the Scheme Administrator is given a sufficient number of votes on a poll to ensure that the resolution is passed, then the meeting cannot be adjourned without the prior consent of the Scheme Administrator or the Deputy Scheme Administrator.

(f) Article 19(d)

The Scheme Administrator or the Deputy Scheme Administrator have the power to demand a poll on any resolution in relation to which they are given weighted voting rights. Any such poll must be taken forthwith (Article 21).

(g) Article 38(a)

Persons will be eligible to be appointed or re-appointed as directors at any general meeting not only if they are recommended by the board but also if they are recommended by the Scheme Administrator or the Deputy Scheme Administrator.

(h) Article 41

The power of the board to appoint one or more directors to hold any employment or executive office with MMI (including that of a chief executive or managing director) is subject to the provision referred to above that, prior to the Levy Period, no Controller of MMI shall be appointed or removed without the prior written consent of the Policyholders Protection Board.

(i) Article 53

The directors are prohibited from exercising any powers conferred on them by the Articles of Association in such a way as to interfere with the exercise by the Scheme Administrator or the Deputy Scheme Administrator of their powers in relation to MMI except with the consent of the Scheme Administrator or the Deputy Scheme Administrator. Their consent may be given either generally or in relation to particular circumstances. In all events, the directors are in no way relieved from their duty to act in accordance with the Companies Acts.

APPENDIX 2

Other principal changes to the Memorandum and Articles of Association

Part A — Memorandum

Set out below is an explanation for the changes proposed to be made to the objects clause of the Memorandum of Association of MMI. The clause numbers given are the numbers of the proposed revised objects clauses.

1. Main objects (clause 3(1))

This change is proposed to reflect modern local government organisation.

2. Provisions of benefits (clause 3(17))

This change is proposed to confirm the ability of MMI to provide certain benefits to the persons described in this proposed revised objects clause.

Part B — Articles

Set out below is a summary of the principal differences, other than those described in Appendix 1, between the existing Articles of Association of MMI and the new Articles of Association of MMI proposed to be adopted at the Extraordinary General Meeting for which Notice is given in the circular to which this summary forms an Appendix. Article numbers used below are the numbers of the proposed new Articles.

General provisions

The existing Articles contained several references to the term Trustee(s). All references to this term have been deleted from the new Articles. The new Articles have replaced all references to Managing Trustee(s) with references to director(s). The new Articles have been worded to ensure that they are gender neutral.

Specific provisions

1. Number of directors (Article 1(B))

The new Articles reduce the number of directors of MMI from a maximum of twenty-one to a maximum of eleven.

2. Directors' fees (Article 1(C))

The new Articles permit the payment of fees to directors of an annual amount not exceeding the aggregate amount they were paid by Municipal Mutual Insurance Limited and its subsidiaries in the year ended 31 December, 1992. MMI may in general meeting approve the payment of higher fees by ordinary resolution.

3. Appointment, retirement and removal of directors (Articles 1(D), 31, 32, 34, 37 and 38)

The new Articles allow a director to be appointed or to remain in office after the age of 70 years without the need for special notice of resolutions by reason of his or her age. The board must give notice of the age of a director who has attained the age of 70 years or more and who it is proposed to appoint or reappoint at a general meeting.

The new Articles stipulate that, provided the other relevant provisions of the Articles are satisfied, MMI may by ordinary resolution appoint any person to be a director. As you will have noted from Appendix 1, the Scheme Administrator has certain weighted voting rights in relation to the appointment or removal of directors both before and during the Levy Period.

The new Articles increase the number of directors who retire by rotation at an annual general meeting from one-fifth to one-third.

The new Articles allow for the removal of a director from his or her office by special resolution whilst the existing Articles provide for the removal of a director by ordinary resolution.

The new Articles provide that a non-retiring director may be appointed or reappointed a director at a general meeting if that person is recommended by the Scheme Administrator or the Deputy Scheme Administrator. The new Articles also require at least 30 clear days' notice of a member's intention to propose a person as a director at a general meeting. Unlike the existing Articles the proposer and the proposed must be different people and the proposed person must execute a notice indicating his or her willingness to be appointed or reappointed.

The new Articles permit a director to be removed from office if all the other directors request his or her resignation.

4. Length of notice (Article 10)

Under the new Articles, 21 clear days' notice must be given to convene a meeting at which a resolution to elect a person as a director is proposed.

5. Omission or non-receipt of instrument of proxy (Article 11)

Under the new Articles the accidental omission to send an instrument of proxy to, or the non-receipt of such an instrument by, any person entitled to receive an instrument of proxy will not invalidate proceedings at a meeting. Special provisions apply to the omission to send an instrument of proxy to, or the non-receipt of such an instrument by, the Scheme Administrator or the Deputy Scheme Administrator in respect of any meeting convened to consider a resolution in relation to which the Scheme Administrator is given weighted voting rights. Details of the operation of these special provisions are set out in Appendix 1.

6. Quorum for members' meetings (Articles 13 and 14)

The new Articles reduce the quorum for members' meetings from 10 to 2 members present in person or by proxy and entitled to vote. The new Articles permit the adjournment of a meeting to between 10 and 28 days later at a time and place decided by the chairperson of the meeting, if within 5 minutes (or up to 1 hour if the chairperson so elects) after the time appointed for the meeting, a quorum is not present. The quorum for the adjourned meeting is 1 member present in person or by proxy. MMI must give not less than 7 clear days' notice of the adjourned meeting. The provision in the existing Articles dissolving a meeting requisitioned by a member which is not quorate has been abolished. Special provisions regulate the manner in which a quorum is determined when a meeting is convened or adjourned to consider a resolution in relation to which the Scheme Administrator is given weighted voting rights. Details of the operation of these provisions are set out in Appendix 1.

7. Directors' right to attend and speak (Article 16)

The new Articles expressly authorise directors to attend and speak at any general meeting of MMI.

8. Adjournments (Articles 17 and 18)

The new Articles allow the chairperson to adjourn a meeting without its consent if the number of persons seeking to attend cannot be conveniently accommodated, or if their conduct prevents, or is likely to prevent, the orderly continuation of business, or if an adjournment is otherwise necessary for the proper conduct of the business of the meeting. The chairperson may adjourn a meeting if directed to do so by the meeting unless the meeting has been convened to consider a resolution in relation to which the Scheme Administrator is given a sufficient number of votes on a poll to ensure that the resolution is passed. In such circumstances the meeting may only be adjourned with the prior consent of the Scheme Administrator or Deputy Scheme Administrator.

The time after which notice of an adjourned meeting must be given is extended from 10 days to 3 months.

9. Method of voting (Article 19)

The new Articles reduce from 5 to 3 the number of members, present in person or by proxy and entitled to vote, who have the right to demand a poll. The Scheme Administrator and the Deputy Scheme Administrator may demand a poll on any resolution in relation to which the Scheme Administrator is given weighted voting rights.

10. When poll taken and withdrawal of poll (Articles 21 and 22)

The new Articles provide that, save when a poll is demanded on the election of a chairperson or by the Scheme Administrator or by the Deputy Scheme Administrator or on a question of adjournment, the poll shall be taken forthwith or within 30 days of the date of the demand and unless the chairperson directs otherwise it is not necessary to give notice of the poll. A poll may be withdrawn with the chairperson's consent at any time prior to the close of a meeting or the taking of the poll, whichever is earlier. If a poll is withdrawn in this way it will not invalidate the result of a show of hands declared before a demand for a poll was made.

11. Objections to or errors in voting (Article 25)

The new Articles provide that an objection raised to the qualification of any voter or an objection or error in the counting of votes or the failure to count votes will not invalidate a decision of a meeting unless it is raised or pointed out at the meeting at which the vote objected to is given or tendered or the error occurs. The chairperson's decision as to whether an objection or error invalidates a decision is conclusive.

12. Delivery and form of proxies, cancellation of proxy's authority (Articles 27, 29 and 30)

The new Articles provide that the instrument of proxy need not necessarily be deposited at the registered office but may be deposited at the place specified in the notice and that in the case of a poll taken subsequently to the date of the meeting or adjourned meeting, a proxy may be delivered not less than 24 hours before the time appointed for taking the poll, and if not so delivered, will be invalid. The new Articles state expressly that an instrument appointing a proxy does not preclude a member from attending and voting in person at the meeting or poll concerned.

The new Articles give the board the discretion to determine the form of the instrument of proxy and provide that an instrument of proxy confers authority upon the proxy to vote as he or she thinks fit on any amendment of a resolution put to a meeting for which the authority to vote was given. The instrument of proxy is valid for any adjournment of the meeting to which it relates.

The new Articles make the last time for cancelling proxies (or the authority of a duly authorised representative of a corporation) not less than 48 hours before the meeting. Under the existing Articles, a proxy's authority may be cancelled at any time before the meeting, causing potential administrative difficulties.

13. Executive directors (Article 41)

Unlike the existing Articles, the new Articles do not allow non-directors to be appointed chief executive or managing director. The new Articles provide expressly that only directors of MMI can be appointed to executive office (including chief executive or managing director).

14. Additional remuneration and pensions (Articles 42 and 44)

The new Articles provide for the payment of additional remuneration to directors residing abroad or performing service going beyond the ordinary duties of a director.

The new Articles also provide for the payment of gratuities, pensions, insurance and like matters to directors or former directors and their relations. The provision of these benefits to a director or former director who first became a director on

or after 1 January, 1992 and who has not been employed by or held executive or other office with MMI or its current or former subsidiaries must be approved by ordinary resolution in general meeting.

15. Directors' permitted interests and voting (Articles 45, 46, 47, 48, 49 and 51)

The new Articles provide that a director may be a party to any contract or arrangement in which he or she is, to his or her knowledge, materially interested provided that the director has disclosed the nature and the extent of the interest to the other directors. Under the new Articles a director may not vote at a meeting of directors or a committee of directors on a resolution in which he or she has a material interest conflicting with that of MMI unless the interest relates to (i) the giving to that director of certain guarantees in respect of obligations incurred by him or her for the benefit of MMI or its subsidiaries; (ii) the giving by him or her of certain guarantees on matters which are for the benefit of MMI or its subsidiaries; (iii) a retirement benefits scheme approved by, or conditional upon approval by, the Board of Inland Revenue.

The new Articles provide that a director may not be counted in the quorum in relation to a resolution on which he or she is not entitled to vote and that the chairperson's decision as to a director's right to vote is conclusive. The provisions prohibiting a director from voting in respect of a particular matter may be amended by ordinary resolution.

16. General powers of the board (Article 52)

The new Articles allow the board to manage the business of MMI and to exercise all powers of MMI whether relating to the management of the business or not and consequently, the non-exhaustive list of the board's powers in the existing Articles has been deleted. This deletion includes the abolition of the Article which required the members' consent, by way of extraordinary resolution, to the mortgaging, charging, contracting for sale or sale of the undertaking of MMI.

17. Delegation to individual directors and provision for employees (Articles 55 and 56)

The new Articles provide for the board conferring any of its powers upon any individual director. The new Articles also entitle the board to provide for employees or former employees where the whole or part of MMI's undertaking has ceased or has been transferred.

18. Proceedings of the board (Articles 58, 59 and 60)

The new Articles reduce the quorum for board meetings from 3 to 2 directors unless the board otherwise provides and entitle the directors or a sole director to act for the purposes of filling vacancies or summoning general meetings if the number of directors is reduced below the minimum fixed in accordance with the new Articles.

The new Articles make detailed provision for giving notice of board meetings to directors, including where a director is absent or intending to be absent from the United Kingdom permitting him or her to request that notices during his or her absence be sent to an address specified by him or her. Under the existing Articles a director absent from the United Kingdom is not entitled to notice of meetings. A director may waive notice of any meeting prospectively or retrospectively.

19. Delegation to committees (Article 64)

The new Articles permit the board to appoint persons who are not directors of MMI as members of board committees provided that a majority of the members are directors and are present at committee meetings.

20. Participation in meetings by communication equipment (Article 65)

The new Articles enable participation in board and committee meetings by conference telephone or other communication equipment permitting all participating to hear one another.

21. Resolutions in writing (Article 66)

The new Articles permit a committee of the board to pass a resolution if it is in writing and executed by all members of the committee.

22. Use of seals (Article 69)

The new Articles entitle a committee of the board to use the company seal.

23. Annual financial statements (Article 71)

The existing Articles provide that the annual financial statements laid before the annual general meeting should be made from the time the annual financial statements were last made up to a date not more than 6 months prior to the meeting. The new Articles change this period from 6 to 9 months.

24. Service of notices (Articles 76, 77, 78, 79, 80 and 81)

The new Articles make several detailed changes about service of notices. The provisions relating to notice by advertisement have been retained. The new Articles also provide that in determining the members entitled to receive notice the register as it stands 30 days before the date of service is conclusive.

25. Indemnity of officers (Article 85)

The new Articles provide that MMI may purchase and maintain liability insurance for directors, other officers and auditors

26. Confidential information (Article 86)

The new Articles provide that, save for certain exceptions, a director who is a creditor of MMI or a director or a shareholder of, or otherwise interested in, a creditor of MMI, is not entitled to any confidential information in MMI's possession relating to any matter where the creditor has a material interest in conflict with the interests of MMI.

Municipal Mutual Insurance Limited

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Municipal Mutual Insurance Limited ("MMI") will be held at Central Hall, Storey's Gate, London SW1 on 5 January, 1994 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following special resolution:—

SPECIAL RESOLUTION

That for the purposes of, *inter alia*, implementing the Scheme of Arrangement which MMI is considering entering into with its creditors a copy of which, modified as proposed by MMI, was produced to the meeting and initialled by the Chairman (the "Scheme") and subject to and conditional upon the Scheme becoming effective in accordance with its provisions:—

- (i) That sub-clauses 3(1) and 3(16) of the Memorandum of Association be replaced with the following respective sub-clauses:—
 - (a) "(1) To enable local authorities, public commissioners, charity trustees, charitable institutions and other public bodies and authorities by co-operation, and other similar bodies now or hereafter to be established to insure against fire and other risks on the most favourable terms."
 - (b) "(17) To grant or procure the grant of donations, gratuities, pensions, annuities, allowances or other benefits, including benefits on death, to, or purchase and maintain any type of insurance for or for the benefit of, any directors, officers or employees or former directors, officers or employees of MMI or any company which at any time is or was a subsidiary or a holding company of MMI or another subsidiary of a holding company of MMI or otherwise associated with MMI or of any predecessor in business of any of them, and to the relations, connections or dependants of any such persons, and to other persons whose service or services have directly or indirectly been of benefit to MMI or whom the board of directors of MMI considers have any moral claim on MMI or to their relations, connections or dependants, and to establish or support any funds, trusts, insurances or schemes or any associations, institutions, clubs or schools, or to do any other thing likely to benefit any such persons or otherwise to advance the interests of such persons or MMI or its members, and to subscribe, guarantee or pay money for any purpose likely, directly or indirectly, to further the interests of such persons or MMI or its members or for any national, charitable, benevolent, educational, social, public, political, general or useful object."
- (ii) That sub-clause 3(3A) of the Memorandum of Association be re-numbered sub-clause 3(4) and the remainder of the sub-clauses of clause 3 of the Memorandum of Association be re-numbered as a consequence of this amendment.
- (iii) That the new Articles of Association produced to the meeting and initialled by the Chairman be and are hereby adopted in substitution for, and to the exclusion of, all existing Articles of Association of MMI.

DATED this ninth day of December, 1993

By order of the Board,
T. C. Grocock,
Secretary

Registered Office
22 Old Queen Street
Westminster, London SW1H 9HW
Registered Number: 76678 England

Notes:

1. Copies of the existing and proposed new Articles of Association will be available for inspection at the registered office of MMI from 9 December, 1993 until the date of the meeting during normal business hours, and at the place of the meeting from 15 minutes prior to, until the conclusion of, the meeting.
2. Any person entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him or her. A proxy must be a member or a Trustee of MMI. A form of proxy is enclosed. This form of proxy, duly completed, and the power of attorney (if any) under which it is signed, must reach the registered office of MMI not later than 10.00 a.m. on 3 January, 1994.