**CX RE**
**1 Royal Exchange Avenue, Suite 306**
**London EC3V 3LT**

31 August 2018

Dear Sirs

**CX Reinsurance Company Limited ("CX" or the "Company")**
***Advisory letter on current financial condition and invitation to commute***

This letter is being sent to all of CX's insurance creditors that do not have the benefit of collateral to offer and request that each of them, insurance and reinsurance policyholders alike, consider engaging with the Company to conclude a commutation in the near term.

CX went into run off in 2001 and its net loss reserves have reduced from $2.2 billion to under $50 million. However, the company's regulatory capital has also reduced over the last year such that any significant shocks to the balance sheet could reduce its surplus below the minimum capital requirement ("MCR") under Solvency II. The company's surplus is already below the solvency capital requirement ("SCR") under Solvency II. Accordingly, the Company's board has directed management to consider contingencies in the event of further deterioration to the Company's balance sheet and a reduction of capital below its MCR. The UK regulator has similarly required the Company to have in place contingency plans in the event of such deterioration.

This letter is largely factual. It outlines the Company's current and recent historical financial position for policyholders to consider. Whilst the Company's board and management are satisfied that the Company is currently solvent and a going concern, they are cognizant of potential deterioration that could suddenly change the Company's position.

If, having reviewed that position, you would like to commute with CX, we ask that you revert to us as soon as possible. To be clear, to the extent that the Company is successful in commuting its liabilities, that will further de-risk the balance sheet and increase the possibility of a "soft landing" for the run off. However, without commutations, the risk of a shock to the balance sheet remains.

The Company's board and management are cognizant of the need to treat all creditors fairly and not to advantage some creditors over others that are similarly situated. As discussed below, not all creditors are similarly situated in the event of a liquidation, which is part of the point behind this letter. However, please be aware that the current financial position of the Company constrains what can be done in commuting our liabilities.

***CX's regulatory capital position***

The official accounts of CX, as filed with Companies House, can be found at CX's website as well as at the Companies House website. For purposes of this letter we set forth below a summary of the calculation under the requirements of Solvency II of "shareholder funds", which corresponds to surplus or net assets in the Companies House accounts but calculated on a risk-adjusted basis under Solvency II principles.

Net Asset Value

| | 31-Dec 2014 $m | 31-Dec 2015 $m | 31-Dec 2016 $m | 31-Dec 2017 $m |
|---|---|---|---|---|
| Investments and Cash | 101 | 86 | 67 | 59 |
| Reinsurers share of reserves | 16 | 16 | 5 | 5 |
| Other debtors | 0 | 5 | 2 | 1 |
| | **117** | **107** | **74** | **65** |
| Claims Reserves-discounted | 79 | 73 | 55 | 50 |
| Net other technical reserves | 2 | 3 | -2 | -3 |
| Other creditors | 2 | 5 | 1 | 1 |
| Shareholders funds | 35 | 27 | 21 | 16 |
| | **118** | **108** | **75** | **64** |

The shareholders funds (*i.e.*, NAV or surplus) of CX have been adversely affected over the last three years by its lead paint exposure in Baltimore and the associated legal costs in undertaking rescission actions against various landlords. The strategy on lead paint has led to a significant reduction in exposure for CX, but there still remains one material lead paint case that if it were to go against CX would have a material impact on its NAV. In addition, there are presently two arbitration cases that CX are involved in that were CX to lose them would have a [$3.5m] impact. As a result of these developments, CX has not met its SCR for each of the last four years:

Solvency Capital Requirement (SCR)

| | 2014 $m | 2015 $m | 2016 $m | 2017 $m |
|---|---|---|---|---|
| Balance Sheet Surplus | 35,379 | 35,332 | 26,511 | 21,436 |
| ULAE | 9,693 | 7,740 | 5,797 | 4,981 |
| Statutory Surplus | 25,686 | 27,592 | 20,714 | 16,455 |
| Risk Margin | 11,030 | 7,468 | 5,980 | 5,437 |
| Solvency II Surplus | 14,656 | 20,124 | 14,734 | 11,018 |
| SCR | 31,427 | 25,165 | 16,129 | 14,206 |
| Surplus above (below) SCR | (16,771) | (5,041) | (1,395) | (3,188) |

| | | | | |
|---|---|---|---|---|
| MCR | 9,704 | 7,182 | 9,369 | 5,998 |
| Surplus above MCR | 4,953 | 12,493 | 8,365 | 5,020 |
| % MCR | 151 | 280 | 231 | 184 |

***Security position of CX Re policyholders/Analysis of liquidity***

In the event of CX's breaching its MCR and the implementation of a winding up order, CX management believes that the Company's policyholders will fall into three groups relevant to this letter:

(1) policyholders secured by some form of collateral (for instance, the Company's reinsurance trust fund, a letter of credit, the surplus lines trust fund (although that only provides partial collateral) or some form of deposit);
(2) insurance policyholders (as opposed to cedants/reinsureds) without collateral; and
(3) cedants without collateral.

Any winding up proceeding may be proceeding by a period of administration, and the effect of either administration or of a winding up proceeding is that claims payments would most likely cease for a period of time.

On winding up, policyholders with collateral would be paid *to the extent of their collateral,* followed by unsecured direct policyholders, with unsecured cedants/reinsureds being paid from any amounts remaining.

**Liquidity analysis**

| | $m Reserves | $m Trust Funds/ Collateral held | * | Coverage |
|---|---|---|---|---|
| Collateralised Reserves | 23.88 | 39.53 | | 1.66 |
| Other Reserves Top 100 | 27.23 | 17.36 | ** | 0.64 |
| | 51.11 | 56.88 | | |

* expected withdrawals in 2018 of $1m

** also includes funds for operational expenses but excludes $3.5m for debt purchase yet to crystallise

In addition to placing some creditors in a more advantageous position than others, an effect of collateral is to reduce the liquidity of the Company. The Directors believe that CX has sufficient liquidity to continue paying claims as they fall due. However, the above liquidity position shows clearly that those reserves that are collateralised have an overall excess of assets to liabilities of 1.66 as a result of the trust/LOC conditions, whilst other reserves currently have a ratio of only 0.64 which also have to take into account operational expenses. *Importantly, in pursuing commutations the Company needs to maintain sufficient liquidity to operate the Company.*

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On a final note, the Company's parent, Tawa Associates Ltd, is actively seeking buyers for CX but to date has not received any offer that places any value on the equity of CX.

You may contact out outsource agents Pro Insurance Solutions Limited in the first instance to start the process:

Alan Butler
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Yours faithfully,

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David Vaughan
Director

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Simon Byrne
Director

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Marvin Mohn
Director