



**ENGLISH & AMERICAN
INSURANCE COMPANY LIMITED**

**ANNUAL REPORT
TO CREDITORS**

16 December 2013



KPMG LLP
Restructuring

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To all Scheme Creditors of English &
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16 December 2013

Dear Sir / Madam

**English & American Insurance Company Limited ('EAIC')
The Scheme Administrators' Annual Report to Creditors**

1 Introduction

Further to our previous report to the Scheme Creditors of EAIC we are writing to update you on progress made towards the closure of the estate.

2 Summary

- At a hearing on 6 October 2010, EAIC's Closure Scheme and the schemes of 15 co-insurers in the EAU A Pools were sanctioned by the High Court of Justice in England and Wales. The Closure Scheme became effective on 12 October 2010.
- The Bar Date for EAIC's Closure Scheme passed on 11 April 2011. 1,552 claims were submitted, for a value of \$2.9 billion.
- As at the end of November 2013, all but one of the submitted claims had been agreed or become binding for a value to EAIC of \$720 million. One submitted claim is yet to be agreed.
- Following consultation with the Creditors' Committee, the Scheme Administrators have increased the Scheme Payment Percentage from 45% to 48% effective from 11 December 2013. Uplift payments are expected to be paid to creditors early 2014, but in any case within 90 days of the increase in payment percentage becoming effective.
- The principal factors affecting the timetable for substantial completion of the Closure Scheme is the finalisation of the remaining Scheme Claim, the collection of the remaining assets and distribution of payments to Scheme Creditors.
- The Scheme Administrators' estimate of the possible ultimate (ie final) Scheme Payment Percentage has been increased from the 48% stated last year's report to 49.7%. The actual final percentage may be slightly above or below this figure.
- It is anticipated that the final percentage will be set and distributed in July/August 2014.



- Once the Closure Scheme has been completed, EAIC will continue to be run-off for the benefit of creditors with Marsh Mac Protected Policies, which were excluded from the Closure Scheme. Future claims under those policies will be agreed by EAIC in the normal course under EAIC's run-off scheme, and will then be entitled to receive payment at the prevailing Scheme Payment Percentage from funds set aside for this purpose. Scheme Creditors involved will then be able to apply to the ILU for payment of the balance of their claim under the ILU guarantee arrangements for the Marsh Mac Protected Policies.

3 Scheme Payment Percentage

3.1 How is the Scheme Payment Percentage set?

The Scheme Administrators review the Scheme Payment Percentage at least annually in consultation with the Creditors' Committee. Factors taken into account include current cash held, expected future asset realisations, expected future claims agreement levels and the remaining potential volatility of the account. Although the Scheme Payment Percentage can be varied downwards to deal with adverse developments, the objective in setting the percentage is to ensure that EAIC will be capable of meeting that same percentage on all liabilities reasonably expected to be admitted in the future.

3.2 What is the history of the Scheme Payment Percentage?

The Scheme Payment Percentage is currently 48%. The dates on which the Scheme Payment Percentage was increased and its level since the commencement of the scheme are as follows:

June 1997	5%
June 1998	10%
March 1999	17%
September 2000	25%
June 2002	30%
April 2006	35%
December 2011	40%
October 2012	45%
December 2013	48%

In addition, a number of years ago, the Scheme Administrators with Creditors' Committee agreement made higher accelerated final dividend offers to creditors with low ultimate expected balances. These accelerated payments to creditors with low balances were justified on the basis of efficiency savings.

3.3 What is the estimated ultimate Scheme Payment Percentage?

The Scheme Administrators have increased their best estimate of the ultimate Payment Percentage from 48% to 49.7%.

This year, as a result of the ongoing Closure Scheme, most but not all of the future volatility has been removed. This is because the total number of claims, and their maximum value is known.

Although the value of 1,551 of the claims has now been fixed at \$720 million, the value of one submitted claim is not yet agreed.

The actual final Payment Percentage will be dependent on a number of factors including the value of the remaining claim, which includes a significant level of set-off; and levels of reinsurance recovery. It is possible that the ultimate Payment Percentage could vary above or below the 49.7% predicted. The Scheme Administrators expect it unlikely to vary by more than 0.5% above or below this figure.

Under the terms of the Closure Scheme, if any payment which is uncashed or unclaimed by the intended payee after the expiration of six months from the posting of the cheque, or from the making of the attempted payment by telegraphic transfer, the Scheme Manager shall be entitled to treat the Scheme Creditor's right to such payment as forever extinguished. It is anticipated that there will be a number of returned payments, although the total value is uncertain. By having a final distribution in July/August 2014, the Scheme Administrators will be able to consider how best to reallocate these returned payments and seek to maximise the total amount returned to Scheme Creditors.

4 Scheme Payments

4.1 Valuation Statements

Valuation Statements have been sent to Scheme Creditors within 42 days of the agreement or valuation of a Scheme Claim. Scheme Payments made by EAIC are paid within 90 days of the Valuation Statement becoming final and binding. To the end of November 2013, Scheme Claims of \$720 million have become subject to binding Valuation Statements, with approximately \$320 million paid to Scheme Creditors in respect of these Scheme Claims.

4.2 Policies issued through The Institute of London Underwriters ('ILU')

EAIC was a member of the ILU for a number of years. As a result, some Scheme Creditors of EAIC may also be entitled to receive payments from guarantee arrangements which the ILU had in place for the benefit of member policyholders. There are two relevant periods: 3 July 1980 to 6 October 1983; and 1 September 1983 to 19 March 1993.

4.2.1 3 July 1980 to 6 October 1983 ('Marsh Mac LOC Period')

Once the Closure Scheme has been completed, EAIC will continue to be run off for the benefit of creditors with Marsh Mac Protected Policies, which were excluded from the Closure Scheme. Future claims under those policies will be agreed by EAIC in the normal course under EAIC's run off scheme, and will then be entitled to receive payment at the prevailing Scheme Payment Percentage from funds set aside for this purpose. Scheme Creditors involved will then be able to apply to the ILU for payment of the balance of their claim under the ILU guarantee arrangements for the Marsh Mac Protected Policies.

Policyholders who consider they may be entitled to payments should contact the ILU at The Institute of London Underwriters, International Underwriting Association, London Underwriting Centre, 3 Minster Court, Mincing Lane, London EC3R 7DD, UK.

Please refer also to section 6.2 for the impact of the Closure Scheme on these ILU policies.

4.3.2 1 September 1983 to 19 March 1993

Policyholders who placed business with EAIC through the ILU after 1 September 1983 ('ILU Policyholder creditors') may have a guarantee claim against two related companies, English & American Group Plc ('EAG') and English & American Insurance Holdings Plc ('EAIH'). These two companies became insolvent and in 2003 schemes were approved by creditors, under which non-insurance creditors received a full and final small dividend, and the balance of funds were paid to EAIC to hold in trust for the relevant ILU Policyholder creditors.

There is a short period of approximately five weeks when the Marsh Mac LOC Period overlaps the EAG and EAIH guarantees period. The trust deed under which the Scheme Administrators are appointed trustees for the funds received from EAG and EAIH for the benefit of ILU Policyholder creditors requires all claim values to be finalised before payments under the trust can be made. As the Marsh Mac Protected Policies were excluded from the Closure Scheme it will not be possible to place a final value on eligible claims which fall within this period. In order to facilitate payment of these trust funds to the vast majority of ILU Policyholder beneficiaries who do not fall into the overlap period, the Scheme Administrators/Trustees made an application to Court to vary the trust deed to enable payment to be made. In October 2013, the Court agreed the variation to the trust deed, and a small amount of funds will be set aside for the benefit of policyholders in the five week overlap period.

As such, the next dividend paid by EAIC to the ILU Policyholder creditors will include a top-up in respect of their trust fund entitlements. The Scheme Administrators currently anticipate that the top-up for eligible creditors to be in the order of 28%. These funds will be distributed in early 2014, at the same time that the 3% uplift agreed in December 2013 is paid.

5 Financial position

5.1 Summary balance sheet as at 31 December 2012

The latest audited financial position of EAIC is summarised below.

English & American Insurance Company Limited		
Summary Balance Sheet as at 31 December 2012		
	2012	2011
	US\$m	US\$m
Assets		
Cash and investments	59.0	147.6
Reinsurers' share of:		
– agreed claims	0.7	22.0
– outstanding reserves	–	2.9
– IBNR reserves	5.9	4.0
Other assets	0.2	1.2
Total assets	<u>65.7</u>	<u>177.8</u>
Liabilities		
Due to policyholders		
– agreed claims	725.2	705.1
– less scheme payments	(317.0)	(229.9)
– outstanding reserves	24.6	82.1
– IBNR reserves	9.1	6.5
Provision for run-off costs	15.6	21.1
Other creditors	0.7	0.6
	<u>458.2</u>	<u>586.1</u>
Shareholders' deficit	<u>(392.5)</u>	<u>(408.3)</u>
Total liabilities	<u>65.7</u>	<u>177.8</u>
Notes to summary balance sheet		
1.	The above amounts have been taken from the audited financial statements for the year ended 31 December 2012.	
2.	No allowance has been made for set-off.	
<p>The summary balance sheet cannot be used to estimate the likely ultimate Scheme Payment Percentage. Set-off will have a significant effect on the value of reinsurance recoveries and the value of any IBNR claims will not become clear until all Scheme Claims are agreed and crystallised. The 2012 balance sheet does not take into account the current position of Scheme Claims agreed since 1 January 2013.</p>		

Copies of the audited accounts can be obtained from Companies House records.

5.2 Receipts and payments to 30 September 2013

A summary of the Scheme Administrators' receipts and payments from the commencement of the scheme to 30 September 2013 is set out below.

English & American Insurance Company Limited	
Receipts and payments for the period 9 February 1995 to 30 September 2013	
	US\$m
Balance brought forward at 9 February 1995	12.9
Receipts	
Reinsurance recoveries	492.7
Recoveries from bank accounts and fund managers	24.5
Tax refunds	11.0
Investment income	77.6
Other receipts	3.5
Total receipts	<u>622.2</u>
Payments	
Scheme Administrators' fees	74.1
KPMG actuarial fees	4.8
Run-off managers' fees	90.9
Legal fees	7.1
Other professional and agents' fees	10.1
VAT	17.4
Other payments	9.7
Scheme Payments to creditors <i>(including accelerated payments to creditors)</i>	<u>329.4</u>
Total payments	<u>543.5</u>
Exchange rate loss	<u>24.3</u>
Funds held at 30 September 2013	<u>54.4</u>

6 Closure

6.1 Closure Strategy

As Scheme Creditors will be aware, the existing EAIC scheme of arrangement (dated 1 June 2000) became effective in August 2000 which allowed it to continue to agree claims in the normal course and make Scheme Payments on a pro-rata basis to creditors with Established Scheme Liabilities. The Scheme Payment Percentage is discussed in section 3.

During 2009, the Scheme Administrators concluded that EAIC had reached a point with respect to its reinsurance collections and asset realisations such that it was appropriate to propose a “closing” or “cut-off” scheme of arrangement. This Closure Scheme became effective on 12 October 2010.

The Closure Scheme has incorporated an estimation methodology which has the effect of estimating and crystallising almost all of EAIC’s remaining contingent liabilities. The value of these claims is then applied to the remaining reinsurance programme. This has enabled Valuation Statements to be prepared on a net basis for policyholders who are also reinsurers.

Once these amounts are known, final dividends can then be calculated and paid to the majority of policyholders. Claims for contingent liabilities under particular ILU policies (discussed further below) have been excluded from the Closure Scheme.

6.2 Closure – ILU Policies

The Closure Scheme excludes claims for outstanding or IBNR amounts under EAIC policies signed and issued by the Institute of London Underwriters (ILU) between 3 July 1980 and 6 October 1983, detailed in section 4.2.1 above. Marsh Mac secured an irrevocable letter of credit in favour of the ILU on these policies, as a result of which policyholders may be entitled to additional payments on claims, in respect of these policies, settled in the normal course. The Scheme Administrators were unable to secure an undertaking from Marsh Mac that cover from the letter of credit would attach to any contingent claims crystallised under the Closure Scheme.

Claims under Marsh Mac Protected Policies which had not already become agreed prior to the bar date of the Closure Scheme (11 April 2011) were therefore excluded from the Closure Scheme, due to the risk that otherwise the policyholders would no longer have right of recourse under the letter of credit.

Once the Closure Scheme has been completed, EAIC will continue to be run-off for the benefit of creditors with Marsh Mac Protected Policies. Future claims under those policies will be agreed by EAIC in the normal course, and receive the then current Scheme Payment Percentage. Creditors involved will then be able to apply to the ILU for payment of the balance of their claim under the ILU guarantee arrangements for the Marsh Mac Protected Policies.

Creditors with claims under the excluded Marsh Mac Protected Policies should continue to present claims together with supporting documentation to Toby Wooldridge, PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester GL1 1DA, UK.

6.3 Closure – Protected Policyholders

EAIC's Protected Policyholders (Scheme Creditors who have claims against EAIC which are protected by virtue of the Policyholders Protection Act 1975) will, subject to eligibility, still be entitled to receive payment from the Financial Services Compensation Scheme on their claims as they are agreed in the normal course in future.

Protected policyholders should continue to present claims together with supporting documentation to Toby Wooldridge, PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester GL1 1DA, UK.

7 Responsibilities and contact details

7.1 Scheme Administrators

The Scheme Administrators of EAIC are Mike Walker and Darryl Ashbourne of KPMG in London. Darryl Ashbourne, has been appointed with effect from 11 December 2013 by resolution of the Creditors' Committee, in replacement of John Wardrop whose resignation became effective on the same date. A resolution to ratify Darryl Ashbourne's appointment by the Creditors' Committee will be put before the next meeting of creditors, expected to be held during 2014.

The Scheme Administrators control the affairs of the company in accordance with the provisions of the scheme. These include provision for consultation with the Creditors' Committee.

7.2 Creditors' Committee

The interests of creditors are currently represented by a Creditors' Committee of eight members. The Committee sanctions significant transactions, is involved in the setting of the Scheme Payment Percentage, and approves the Scheme Administrators' fees.

The Scheme Administrators report to the Committee on a quarterly basis and hold a meeting or conference call whenever it is deemed appropriate to do so. The current constitution of the Committee is as follows:

Member	Represented by
Anderson Kill & Olick PC, on behalf of various US policyholders	Mr R Mark Keenan
The Dow Chemical Company	Mr G Smith
EAUA Pool Participants	Mr M McKenzie
Equitas Limited	Mr R Williams
Fireman's Fund Insurance Company	Mr R Mehta
International Policyholders Association	Bette M Orr Esq
Financial Services Compensation Scheme	Ms Heather McMahon
Sheppard Mullin Richter and Hampton LLP, on behalf of various US policyholders	Mr M Katz

7.3 Run-off agent

The day to day management of the EAIC Closure Scheme and run-off, including maintenance of the records and handling of Scheme Creditor enquiries in relation to Scheme Claims, is the responsibility of PRO. PRO has also been responsible for the Pools run-off of the other Pool Participants since the time of EAIC's failure, thereby ensuring continued unified management of Pool claims.

7.4 Scheme Claims and Scheme Creditor enquiries

General queries about Scheme Claims should be directed to Toby Wooldridge, PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester GL1 1DA, UK (Email: Pro_eauapools@pro-ltd.co.uk; Tel: +44 (0)1452 330 514; Fax: +44 (0)1452 523 437).

All other enquiries should be directed to the Scheme Administrators at the following address: KPMG LLP, 8 Salisbury Square, London EC4Y 8BB, UK.

8 Annual meeting of creditors

Under the terms of the scheme, the Creditors' Committee has agreed that no annual meeting of creditors will be held in 2013. The next meeting of creditors is expected to be held during 2014, once final creditor values under the Closure Scheme have been determined.

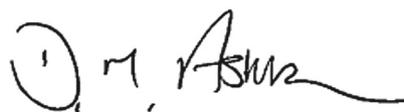
An electronic copy of this report is available at www.englishandamericanpools.com.

Yours faithfully

For English & American Insurance Company Limited



Mike Walker
Joint Scheme Administrator



Darryl Ashbourne
Joint Scheme Administrator

