



# **ENGLISH & AMERICAN INSURANCE COMPANY LIMITED**

## **ANNUAL REPORT TO CREDITORS**

**10 November 2008**





**KPMG LLP  
Restructuring**

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To all known creditors, potential creditors  
and brokers of English & American  
Insurance Company Limited

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10 November 2008

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 creditors of English & American Insurance Company Limited on 30 October 2007, we are writing to update you on progress made to date and to notify you of the forthcoming annual meeting of scheme creditors.

**2 Summary**

- Following consultation with the Creditors' Committee, the Scheme Administrators have maintained the Scheme Payment Percentage at 35%.
- EAIC's liabilities as at 31 December 2007 are estimated at US\$1,241 million (2006 – US\$1,251 million). This is based on the best estimate of the 31 December 2006 year end actuarial review.
- EAIC's total assets as at 31 December 2007 are estimated at US\$574 million (2006 – US\$608 million) before set-off.
- US\$578 million of claims had been agreed as at 31 December 2007. Of those, US\$424 million of agreed claims had become Established Scheme Liabilities. Scheme Payments totalling US\$148.7 million have been made in respect of those liabilities.



### 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 35%. 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%

In addition the Scheme Administrators with the Creditors' Committee agreement have made higher accelerated final dividend offers to creditors with low ultimate expected balances. These higher offers 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' current best estimate of the ultimate Payment Percentage is 43%. However this estimate is dependant on a wide range of factors including the volatility of claims, particularly for asbestosis; levels of set-off; and levels of reinsurance recovery. It is possible that the ultimate Payment Percentage could vary significantly either above or below the 43% predicted.

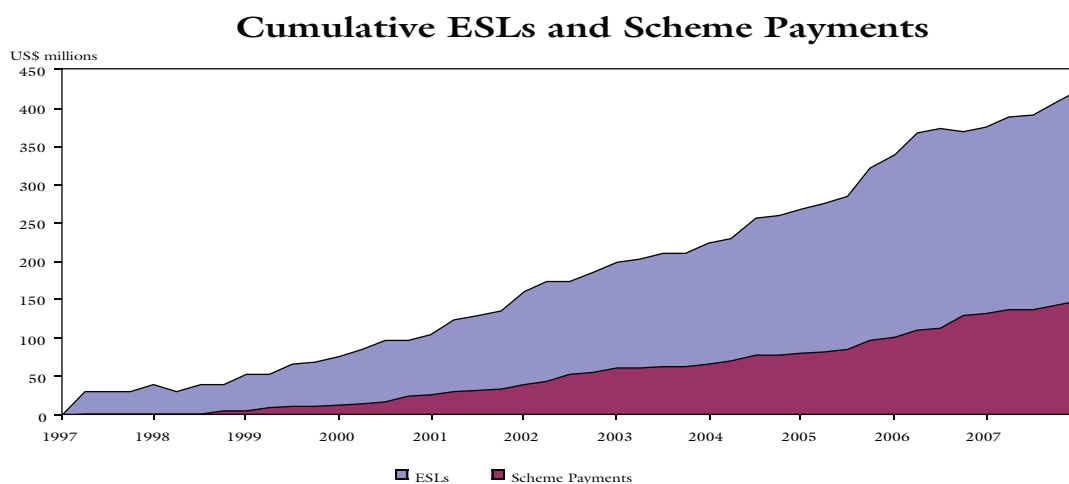
### 4 Scheme Payments

#### 4.1 Who is eligible to receive Scheme Payments?

Scheme Payments are made to creditors with Established Scheme Liabilities i.e. claims which have been agreed by the Scheme Administrators after taking account of any set-off, letter of credit recoveries or counter-claims. Claims are agreed in the normal course, or by binding commutation or other final settlement of liabilities. Payments are not made on the basis of case reserves or IBNR claims, unless through commutation or final settlement.

At any time a number of Scheme Payments may be withheld by PRO Insurance Solutions Limited ('PRO'), EAIC's run-off agents, as a result of incorrect creditor details. If you believe any Scheme Payments may not have been received by you as a result of inaccurate details please contact Ben Lambert at PRO Insurance Solutions Limited, Bruton Court, 38 Bruton Way, Gloucester GL1 1DA, UK or telephone +44 (0)1452 782 543 with up to date contact details.

4.2 *How much has been paid to Scheme Creditors since the inception of the Scheme?*



As at 31 December 2007, US\$424 million of claims had become Established Scheme Liabilities, resulting in Scheme Payments to creditors of US\$148.7 million.

In addition as at 31 December 2007 a further US\$154 million of claims had been agreed. These have not yet become Established Scheme Liabilities principally on the grounds of potential future set-off.

4.3 *Policies issued by The Institute of London Underwriters ('ILU')*

As outlined in Section 5 of the Explanatory Statement of the EAIC Scheme, the Company 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 the ILU. There are two relevant periods: 3 July 1980 to 6 October 1983; and 1 September 1983 to 19 March 1993.

4.3.1 *3 July 1980 to 6 October 1983 ('Marsh LOC Period')*

Scheme Creditors whose policies incepted during the Marsh LOC Period may be entitled to payment by the ILU for the shortfall of their Established Scheme liability once agreed with EAIC. 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.

4.3.2 1 September 1983 to 19 March 1993

ILU Policyholders who wrote business with EAIC after 1 September 1983 may have a guarantee claim against two related companies, English & American Group Plc and English & American Insurance Holdings Plc. These two companies were insolvent and had comparatively little assets (combined US\$15 million).

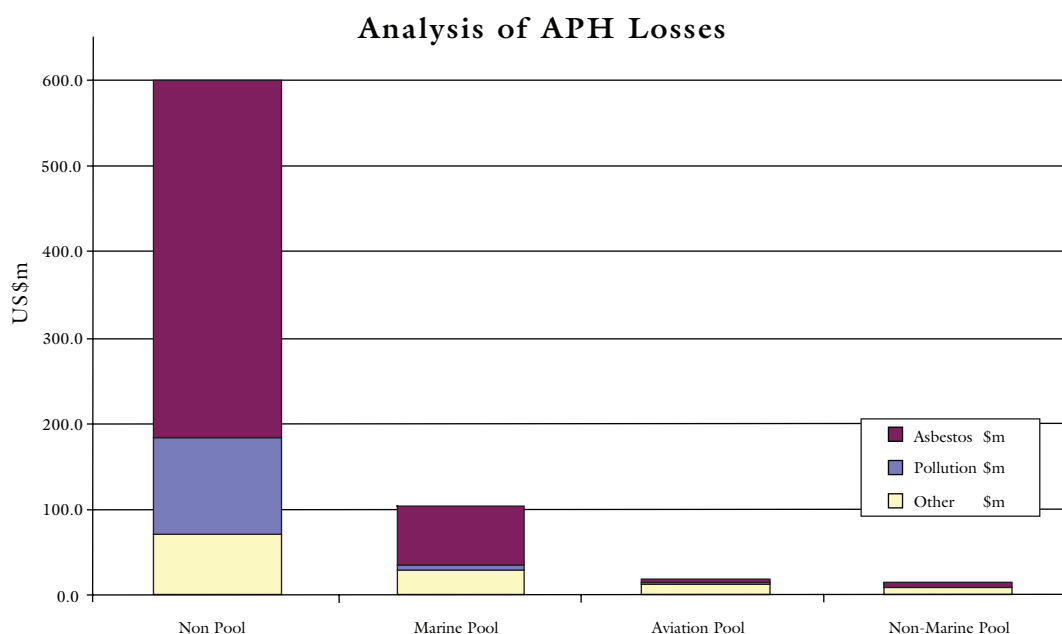
During July 2003 schemes were approved by creditors of these two companies, under which non-insurance creditors have received a full and final small dividend, and the balance of funds has been paid to EAIC to hold in trust for its ILU Policyholder creditors. ILU Policyholders were invited to vote on the schemes but otherwise do not need to take any further action. Creditors should continue to lodge their claims through PRO as usual. Final dividends paid by EAIC to these ILU Policyholders will have a very small uplift to reflect these funds.

5 Financial position

5.1 Actuarial review and reserves development

An actuarial review of both the English & American Underwriting Agency ('EAUA') Pool and Non-Pool business was conducted as at 31 December 2007. The results were broadly comparable with the last review carried out as at 31 December 2006. The account remains potentially volatile.

The graph below shows the breakdown of the unagreed liabilities (future claims reserves) across the underwriting categories.



5.2 Summary balance sheet as at 31 December 2007

The latest audited financial position of EAIC is summarised below.

<b>English &amp; American Insurance Company Limited</b>		
<b>Summary Balance Sheet as at 31 December 2007</b>		
	<b>2007</b>	<b>2006</b>
	<b>US\$m</b>	<b>US\$m</b>
<b>Assets</b>		
Cash and investments	197.8	178.8
Reinsurers' share of:		
– agreed claims	106.1	104.7
– outstanding reserves	117.8	147.4
– IBNR reserves	150.2	175.3
Other assets	2.0	2.2
Total assets	<u>573.9</u>	<u>608.4</u>
<b>Liabilities</b>		
Due to policyholders		
– agreed claims	577.5	528.8
– less scheme payments	(146.5)	(128.4)
– outstanding reserves	253.3	290.9
– IBNR reserves	498.5	505.4
Provision for run-off costs	54.5	51.5
Other creditors	4.0	3.1
	<u>1,241.3</u>	<u>1,251.3</u>
<b>Shareholders' deficit</b>	<u>(667.4)</u>	<u>(642.9)</u>
Total liabilities	<u>573.9</u>	<u>608.4</u>
<b>Notes to summary balance sheet</b>		
1. The above amounts have been taken from the audited financial statements for the year ended 31 December 2007.		
2. The actuarial best estimates of necessary IBNR reserves and corresponding reinsurance asset recoveries have been used.		
3. No allowance has been made for set-off.		
<b>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 there are still uncertainties surrounding the development of IBNR claims.</b>		

Copies of the audited accounts will be made available at the annual meeting of Scheme Creditors on 15 December 2008, or can be obtained from Companies House records.

### 5.3 Receipts and payments to 30 June 2008

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme to 30 June 2008 is set out below.

English & American Insurance Company Limited	
Receipts and payments for the period 9 February 1995 to 30 June 2008	
	US\$m
<b>Balance brought forward at 9 February 1995</b>	15.4
<b>Receipt</b>	
Reinsurance recoveries	424.9
Recoveries from bank accounts and fund managers	20.5
Tax refunds	8.6
Investment income	67.6
Other receipts	3.1
<b>Total receipts</b>	<b>540.1</b>
<b>Payments</b>	
Scheme Administrators' fees	53.8
KPMG actuarial fees	5.3
Run-off managers' fees	77.8
Legal fees	6.9
Other professional and agents' fees	8.9
VAT	13.9
Other payments	10.6
Scheme Payments to creditors	171.3
<b>Total payments</b>	<b>348.5</b>
Exchange rate gains	16.1
<b>Funds held at 30 June 2008</b>	<b>207.7</b>



## 6 Closure strategy

The Scheme Administrators with Creditors' Committee agreement have continued to focus on:

- commutation with reinsurers;
- settlement with major cedants;
- commutations with Equitas; and
- EAUA Pool commutations.

Following Scheme amendments approved by creditors in July 2000, EAIC has the potential to enter into a "cut-off" or estimation process to enable the Scheme to be concluded on a cost-efficient basis. Any early cut-off by estimation will be subject to special resolution of creditors. The cut-off estimation procedure will not be pursued until the acceleration projects above have been substantially successfully concluded. The Scheme Administrators' current expectation is that EAIC will be ready for cut-off estimation within one to two years.

## 7 Responsibilities and contact details

### 7.1 Scheme Administrators

The Scheme Administrators of EAIC are Mike Walker and Tom Riddell of KPMG LLP, London. 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 represented by a Creditors' Committee of eight members. The Committee sanctions significant transactions (such as commutations), is involved in the setting of the Scheme Payment Percentage, and approves the Scheme Administrators' fees. It is reported to on a quarterly basis and meets twice annually. The current constitution of the Committee is as follows:

Member	Represented by
Anderson Kill & Olick, 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 J Sion
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 run-off, including maintenance of the records and handling of creditor enquiries in relation to claims adjustment, is the responsibility of PRO. PRO has also been engaged by the other Participants of the three EAUA Pools.

### 7.4 *Creditor enquiries*

Scheme Creditors with claims adjustment queries should please contact PRO on the EAIC helpline on +44 (0)1452 782 543. Written claims adjustment queries should be directed in the first instance to PRO at the following address: PRO Insurance Solutions Limited, Bruton Court, 38 Bruton Way, Gloucester GL1 1DA, fax number: +44 (0)1452 782 582.

Enquiries in relation to the Scheme or Scheme Payments should be directed to the Scheme Administrators at the following address: KPMG LLP, 8 Salisbury Square, London EC4Y 8BB.

## 8 **Annual meeting of creditors**

The thirteenth annual meeting of Scheme Creditors will be held in London on Monday 15 December 2008 at 10:30 a.m. at KPMG's offices, 1-2 Dorset Rise, London EC4Y 8EN.

Scheme Creditors will have the opportunity to question the Scheme Administrators over the matters in this report and the progress of the run-off. In order that we may anticipate numbers attending, please contact Fabrizio Maffi on telephone +44 (0)20 7311 8436 or by e-mail at [fabrizio.maffi@kpmg.co.uk](mailto:fabrizio.maffi@kpmg.co.uk) if you intend to attend the meeting. Further copies of this report are available at <http://www.kpmg.co.uk/insurancesolutions>.

Yours faithfully

*For English & American Insurance Company Limited*



Mike Walker  
*Joint Scheme Administrator*



Tom Riddell  
*Joint Scheme Administrator*



