



**ENGLISH & AMERICAN
INSURANCE COMPANY LIMITED**

**ANNUAL REPORT TO
CREDITORS**

12 December 2011



**KPMG LLP
Restructuring**

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To all Scheme Creditors of English &
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12 December 2011

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 EAUA Pools were sanctioned by the High Court of Justice in England and Wales. The Schemes became effective on 12 October 2010.
- The Bar Date for EAIC's Closure Scheme passed on 11 April 2011. 1,544 claims were submitted, for a value of \$2.9 billion.
- As at the end of November 2011, 1,401 of the submitted claims had been agreed or become binding for a value to EAIC of \$605 million. The remaining 140 submitted claims are yet to be agreed. These remaining claims have a submitted value of over \$500 million, but are expected to be agreed or adjudicated for significantly less.
- Following consultation with the Creditors' Committee the Scheme Administrators have increased the Scheme Payment Percentage from 35% to 40% effective from 6 December 2011. Top-up payments are expected to be paid to creditors by the end of January 2012, but in any case within 90 days of the increase in payment percentage becoming effective.
- The principal factors affecting the timetable for substantial closure of the estate include finalising the value of the remaining 140 Scheme Claims and collection of the remaining reinsurance assets.
- The Scheme Administrators' estimate of the possible ultimate (ie final) Scheme Payment Percentage has been increased from the 43% stated in previous years to 47%. The actual final percentage may be above or below this figure, as set out more fully in section 3.3 of this report.



- 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, 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.

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 40%. 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%

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 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' have increased their best estimate of the ultimate Payment Percentage to 47%.

For the last few years, the Scheme Administrators have given an estimated ultimate Scheme Payment Percentage of 43%, with a warning that the actual final Scheme Payment Percentage could be significantly above or below this figure.

This year, as a result of the closure scheme, some but not all of the future volatility has been removed. This is because the total number of claims is now known, and their maximum value is also known.

Although the value of 1,401 of the claims has now been fixed at \$605 million, the value of the remaining 140 submitted claims is not yet agreed. The submitted value of the claims not yet agreed is over \$500 million, but the Scheme Administrators expect the actual fair value to be significantly less, in the order of \$180 million.

The actual final Payment Percentage will be dependent on a number of factors including the value of remaining claims; levels of set-off; and levels of reinsurance recovery. It is possible that the ultimate Payment Percentage could vary above or below the 47% predicted. The Scheme Administrators expect it unlikely to vary by more than 5% above or below this figure.

4 Scheme Payments

4.1 Valuation Statements

4.2 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 2011, Scheme Claims of \$605 million have become subject to binding Valuation Statements, with approximately \$210 million paid to Scheme Creditors in respect of these Scheme Claims.

4.3 Policies issued by 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 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')

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, 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.

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

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 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.

Final dividends paid by EAIC to these ILU Policyholders will have an uplift to reflect these funds. The Scheme Administrators previously expected that this uplift would be comparatively small. However it now appears, depending on the value of finally agreed claims which are eligible, that the uplift may be significant for the creditors involved. The Scheme Administrators will be able to provide an estimate of the value of the uplift once the remaining Scheme Claims have been agreed or adjudicated.

5 Financial position

5.1 Summary balance sheet as at 31 December 2010

The latest audited financial position of EAIC is summarised below.

English & American Insurance Company Limited		
Summary Balance Sheet as at 31 December 2010		
	2010	2009
	US\$m	US\$m
Assets		
Cash and investments	178.2	176.8
Reinsurers' share of:		
– agreed claims	49.1	84.4
– outstanding reserves	64.7	67.0
– IBNR reserves	74.6	92.6
Other assets	1.3	1.4
Total assets	367.9	422.2
Liabilities		
Due to policyholders		
– agreed claims	672.7	664.4
– less scheme payments	(208.8)	(199.0)
– outstanding reserves	163.1	167.3
– IBNR reserves	326.4	356.6
Provision for run-off costs	28.6	31.1
Other creditors	2.1	2.4
	984.1	1,022.8
Shareholders' deficit	(616.2)	(600.6)
Total liabilities	367.9	422.2
Notes to summary balance sheet		
1.	The above amounts have been taken from the audited financial statements for the year ended 31 December 2010.	
2.	No allowance has been made for set-off.	
	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 2010 balance sheet does not take into account the current position of Scheme Claims agreed.	

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

5.2 Receipts and payments to 30 June 2011

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme to 30 June 2011 is set out below.

English & American Insurance Company Limited	
Receipts and payments for the period 9 February 1995 to 30 June 2011	
	US\$m
Balance brought forward at 9 February 1995	12.7
Receipts	
Reinsurance recoveries	484.1
Recoveries from bank accounts and fund managers	24.0
Tax refunds	9.4
Investment income	75.3
Other receipts	3.5
Total receipts	609.0
Payments	
Scheme Administrators' fees	63.8
KPMG actuarial fees	4.6
Run-off managers' fees	84.0
Legal fees	6.8
Other professional and agents' fees	8.5
VAT	15.1
Other payments	10.7
Scheme Payments to creditors	232.3
Total payments	425.8
Exchange rate loss	25.9
Funds held at 30 June 2011	157.3

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 4.3.1 above. Marsh McLennan 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 McLennan 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.

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.

7 Responsibilities and contact details

7.1 Scheme Administrators

The Scheme Administrators of EAIC are Mike Walker and Tom Riddell of KPMG LLP, London. John Wardrop, partner of KPMG LLP has been appointed with effect from 6 December 2011 by resolution of the Creditors' Committee, in replacement of Tom Riddell, whose resignation will be effective from 31 December 2011. A resolution to ratify John Wardrop's appointment by the Creditors' Committee will be put before the next meeting of creditors, expected to be held during 2012.

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. 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 2011.

The next meeting of creditors is expected to be held during 2012, 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



Tom Riddell
Joint Scheme Administrator

