



**ENGLISH & AMERICAN
INSURANCE COMPANY LIMITED**

**ANNUAL REPORT
TO CREDITORS**

10 November 2015



KPMG LLP
Restructuring

15 Canada Square
London E14 5GL
United Kingdom

Tel: +44 (0) 20 7311 1000
Fax: +44 (0) 20 7694 3126

To all Scheme Creditors of English &
American Insurance Company Limited

Contact EAIC Scheme Helpline / email
+44 (0) 1452 330 514

pro_eauapools@proisinsurance.com

www.englishandamericanpools.com

10 November 2015

Dear Creditor

**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

- 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. All claims have now been agreed and the total value of agreed claims was \$730 million.
- Following consultation with the Creditors' Committee, the Scheme Administrators set the final Scheme Payment Percentage as 49.6% effective from 2 November 2015.
- The completion of the Closure Scheme will occur following the distribution and encashment of final payments to Closure Scheme Creditors.
- EAIC will continue to be run-off for the benefit of creditors with unagreed claims under Marsh Mac Protected Policies, which were excluded from the Closure Scheme.

3 Closure

3.1 Closure Strategy

As Scheme Creditors will be aware, the existing EAIC scheme of arrangement (dated 1 June 2000) became effective in August 2000. This allowed EAIC 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 'Run-Off Scheme'). The Scheme Payment Percentage is discussed in Section 4 below.



During 2009, the Scheme Administrators concluded that EAIC had reached a point with respect to its asset realisations such that it was appropriate to propose a “closing” or “cut-off” scheme of arrangement (the ‘Closure Scheme’). This Closure Scheme became effective on 12 October 2010. The Closure Scheme incorporated an estimation methodology which had the effect of estimating and crystallising almost all of EAIC’s remaining contingent liabilities. The value of these claims was then applied to the remaining reinsurance programme. This enabled Valuation Statements to be prepared on a net basis for policyholders who were also reinsurers.

All Valuation Statements sent to Scheme Creditors under the Closure Scheme have become final and binding. Scheme Claims of \$730 million have become subject to binding Valuation Statements, with approximately \$350 million paid to Scheme Creditors in respect of these Scheme Claims.

It is anticipated that final dividends will be agreed and distributed to Closure Scheme Creditors by early 2016. Claims for contingent liabilities under particular ILU policies (discussed further below) have been excluded from the Closure Scheme.

3.2 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 (‘Marsh Mac LOC Period’). The Marsh & McLennan Companies Inc. (‘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. Further details of ILU protected policies are set out in section 5.

These claims were excluded as 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 which were crystallised under the Closure Scheme. As a result, claims under Marsh Mac Protected Policies which had not already become agreed prior to the Closure Scheme Bar Date (11 April 2011) were excluded from the Closure Scheme, due to the risk that policyholders may lose the right of recourse under the letter of credit.

EAIC will continue to be run-off for the benefit of creditors with unagreed claims under the Marsh Mac Protected Policies. Claims agreed under those policies prior to the Bar Date were included in the Closure Scheme.

Future claims under the excluded Marsh Mac Protected Policies will be agreed by EAIC in the normal course under EAIC’s Run-Off Scheme, and creditors should continue to present claims together with supporting documentation to Toby Wooldridge, PRO Insurance Solutions Limited, Southgate House, Southgate Street, Gloucester GL1 1UB, UK. Creditors will then be entitled to receive payment at the prevailing Scheme Payment Percentage from funds set aside for this purpose.

Scheme Creditors with agreed claims will 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.

3.3 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, Southgate House, Southgate Street, Gloucester, GL1 1UB, UK.

4 Scheme Payment Percentage

4.1 How is the Scheme Payment Percentage set?

The Scheme Administrators have reviewed the Scheme Payment Percentage at least annually in consultation with the Creditors' Committee. Factors taken into account have included cash held, expected future claims agreement levels and the remaining potential volatility of the account.

4.2 What is the history of the Scheme Payment Percentage?

The final Scheme Payment Percentage is 49.6%. 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%
November 2015	49.6%

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.

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.

5 Scheme Payments

5.1 *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.

5.1.1 *3 July 1980 to 6 October 1983 ('Marsh Mac LOC Period')*

As set out in Section 3.2 above, once the Closure Scheme has been completed, EAIC will continue to be run-off for the benefit of creditors with unagreed claims under Marsh Mac Protected Policies, which were excluded from the Closure Scheme. Claims agreed under those policies prior to the Bar Date were included in the Closure Scheme.

5.2.2 *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 would not be possible to place a final value on eligible claims which fell 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.

During 2014, a top-up payment in respect of their trust fund entitlement was distributed to ILU Policyholder creditors. The top-up distributed to eligible creditors was 24.0%. Based upon legal advice received to date, the Scheme Administrators will need to seek direction of the Court regarding treatment of any uncashed Trust Fund payments as the terms of the Closure Scheme set out in Section 4.2 do not apply to the Trust Fund. It remains possible, but by no means certain, that a further distribution may be made from this Trust Fund at a later date.

6 Financial position

6.1 Summary balance sheet as at 31 December 2014

The latest audited financial position of EAIC is summarised below.

English & American Insurance Company Limited		
Summary Balance Sheet as at 31 December 2014		
	2014	2013
	US\$m	US\$m
Assets		
Cash and investments	24.8	51.1
Reinsurers' share of:		
– agreed claims	–	1.2
Other assets	–	0.2
Total assets	<u>24.8</u>	<u>52.5</u>
Liabilities		
Due to policyholders		
– agreed claims	730.4	731.9
– less scheme payments	(350.2)	(324.7)
– Outstanding and IBNR reserves	14.0	8.1
Provision for run-off costs	9.4	12.3
Other creditors	1.1	0.5
	<u>404.7</u>	<u>428.1</u>
Shareholders' deficit	(379.9)	(375.7)
Total liabilities	<u>24.8</u>	<u>52.5</u>
Notes to summary balance sheet		
<i>The above amounts have been taken from the audited financial statements for the year ended 31 December 2014.</i>		
<i>The summary balance sheet cannot be used to estimate the likely ultimate Scheme Payment Percentage.</i>		
<i>The value of any outstanding and IBNR reserves will not become clear until all claims are agreed and crystallised.</i>		
<i>The asset and liability values reflect foreign exchange fluctuations.</i>		

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

6.2 Receipts and payments to 30 June 2015

A summary of the Scheme Administrators' receipts and payments from the commencement of the scheme to 30 June 2015 is set out below.

English & American Insurance Company Limited	
Receipts and payments for the period 9 February 1995 to 30 June 2015	
	US\$m
Balance brought forward at 9 February 1995	12.6
Receipts	
Reinsurance recoveries	492.8
Recoveries from bank accounts and fund managers	26.3
Tax refunds	11.2
Investment income	76.1
Other receipts	3.5
Total receipts	<u>622.4</u>
Payments	
Scheme Administrators' fees	74.7
KPMG actuarial fees	4.7
Run-off managers' fees	89.0
Legal fees	7.0
Other professional and agents' fees	10.0
VAT	17.5
Other payments	9.7
Scheme Payments to creditors <i>(including accelerated payments)</i>	<u>358.8</u>
Total payments	<u>571.5</u>
Exchange rate loss	<u>27.2</u>
Funds held at 30 June 2015	<u>23.7</u>

7 Responsibilities and contact details

7.1 Scheme Administrators

The Scheme Administrators of EAIC are Mike Walker and Darryl Ashbourne of KPMG in 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 currently represented by a Creditors' Committee of seven 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 six monthly 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
Equitas Limited	Mr R Williams
Fireman's Fund Insurance Company	Mr R Mehta
International Policyholders Association	Bette M Orr Esq
Financial Services Compensation Scheme	Mr Martin Greetham
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 Scheme and the run-off, including maintenance of the records and handling of Scheme Creditor enquiries in relation to Scheme Claims, is the responsibility of PRO.

7.4 Scheme Claims and Scheme Creditor enquiries

General queries about Scheme Claims should be directed to Toby Wooldridge, PRO Insurance Solutions Limited, Southgate House, Southgate Street, Gloucester, GL1 1UB, UK (Email: pro_eauapools@proisinsurance.com; Tel: +44 (0)1452 330 514).

All other enquiries should be directed to the Scheme Administrators at the following address: KPMG LLP, 15 Canada Square, London E14 5GL, 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 2015.

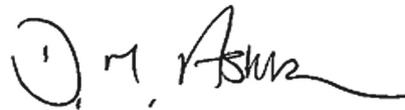
An electronic copy of this report is available at www.englishandamericanpools.com.

Yours faithfully

For English & American Insurance Company Limited



Mike Walker
Joint Scheme Administrator



Darryl Ashbourne
Joint Scheme Administrator

