



**AA Mutual International Insurance Company Limited**

**Administrators' report in accordance with  
Rule 2.47 of the Insolvency Rules 1986**

**22 February 2008**

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## Contact details for queries

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## I Summary Information

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<b>The Company</b>	AA Mutual International Insurance Company Limited (“AAMI” or “the Company”)
<b>Registered number</b>	01432586
<b>Registered office and trading address</b>	Hampden House, Great Hampden, Great Missenden, Buckinghamshire HP16 9RD
<b>Activity</b>	Insurance company in run-off since 1987
<b>Court reference</b>	High Court of Justice number 4748/04
<b>Date of the Administration Order</b>	23 July 2004
<b>Date of approval of proposals</b>	10 September 2004
<b>Purpose of the Administration Order</b>	Achieving a better result for the Company’s creditors as a whole than would be likely if the Company were wound up (without first being in Administration).
<b>Joint Administrators</b>	Nigel Rackham and Dan Schwarzmann  Any function required or authorised under any enactment to be exercised or performed by an Administrator may be done by all or any one or more of the persons for the time being holding that office.

## II Progress Report

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### Purpose of report

This report has been prepared in accordance with Rule 2.47 of the Insolvency Rules 1986. It has been prepared to provide creditors with an update on the progress of this Administration since our previous report dated 22 August 2007. Copies of our previous reports sent to creditors may be requested from Caroline Turnbull or Adam Loveday (see details on page 1) and may also be reviewed on the PwC website at [www.pwc.com/uk/aamii](http://www.pwc.com/uk/aamii).

### Creditors' Committee

As previously reported there have been a number of changes to the membership of the Committee during the course of the Administration, Aon and Ace European Group Limited having resigned from the Committee, whilst Chevanstell Limited and Afia Reinsurance Operations London have been elected to act on the Creditors' Committee. The Committee Members are also acting as the Committee in the Scheme of Arrangement ("Scheme").

We are extremely grateful to the members of the Creditors' Committee for their continued support.

### Overall strategy

The purpose of the Administration Order was to achieve a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration). This was to be achieved by the sanctioning and subsequent implementation, under section 425 of the Companies Act 1985, of a compromise or arrangement between the Company and its creditors ("Scheme").

### Summary of work done

The focus of work since my last six monthly report to creditors is summarised below.

- **Asset management**

Since our appointment, our treasury team has managed the Company's cash assets in a portfolio of high interest bearing investment accounts and interest of £118,834 has been generated.

As reported previously, a review of the outwards reinsurance programme suggested that because of the commutation activity prior to Administration, little, if any, further recoveries were anticipated. During the period covered by this report however additional reinsurance recoveries were made totalling £16,833 and US\$2,321 bringing the total recoveries to £56,040.27. This compares to the expected recovery of £29,000 in the Outcome Statement included within the Scheme. In addition, in November 2007 a sale of the remaining debts due to the Company, which it was not considered would be cost effective for the Administrators to pursue, was completed for US\$5,000.

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- **Tax**

As previously advised, following our review to identify potential tax assets it was ascertained that there were no pre-appointment tax assets to be realised. The only potential recovery available would have been in respect of the group relief of the trading losses incurred by AAMII. No recoveries have been made.

The Administrators have complied with their statutory duties of filing tax returns to 31 December 2006 and have obtained the agreement of the tax authorities that no tax is payable for that period. The Administrators are now in the process of finalising the tax position and obtaining clearance from the Inland Revenue so that both the Administration and the Scheme may be brought to an end.

### **Scheme**

As previously reported a Scheme was voted for by creditors and was subsequently sanctioned. The effective date of the Scheme was 22 June 2006 and the final claims submission date ("FCSD") was 23:59 London time on 23 October 2006.

In summary, the Scheme provided for two distinct classes of creditors reflecting the priorities in a liquidation under the provisions of The Insurers (Reorganisation and Winding Up) Regulations 2004:

- Direct Claim Creditors (excluding UK Employers' Liability ("EL"))
- Other Scheme Creditors (including reinsurance and trade creditors)

Any EL claimant would be entitled to protection from the Financial Services Compensation Scheme ("FSCS") under its rules and such claimants were therefore excluded from the Scheme. After settling the costs of the Administration and the Scheme, direct policyholders (excluding EL) were expected to be paid in full. Of the remaining funds available to creditors, a specific reserve of £50,000, representing known or anticipated EL claims, was to be paid to FSCS. In addition, a further 50% of the balance, after payment in full of the direct policyholders and the specific reserve of £50,000, was also to be paid to FSCS for possible unknown future EL claims. The remaining 50% of the balance was to be paid to other Scheme Creditors (including reinsurance and trade creditors) on a pari passu basis. The Scheme estimation methodology required creditors to submit an estimate of their claims (including incurred but not reported ("IBNR") claims), discounted for the time value of money (5% per annum in line with the winding up rules 1986).

- **Direct Claim Creditors**

In my last report I advised you that I had received one Direct Claim totalling US\$22.58. It subsequently came to light that a further claim in the sum of US\$2,602 had been incorrectly classified and should have been paid in full as a Direct Claim Creditor. I am currently in the process of making an equalising payment to the creditor concerned.

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- **Payment to FSCS**

In line with the terms of the Scheme, in addition to the lump sum payment of £50,000 that had already been made, I made two further payments of £32,126.52 and US\$589,652.69 representing 50% of the available distributable amount, after allowing for the outstanding costs of both the Administration and Scheme.

- **Other Scheme Creditors**

Claims totalling £102,313.75 and US\$1,875,200.89 were agreed and admitted for dividend purposes and a first and final distribution of 31.4% was made to creditors on 22 August 2007. I am currently dealing with a small number of queries regarding some outstanding cheques which have not yet been presented for payment. It is hoped that these will be resolved shortly. Under the terms of the Scheme any cheques which are not presented for payment within six months will be cancelled and, after consultation with the Creditors' Committee, funds equivalent to the balance will be paid to charity.

### **Administrators' remuneration**

Since my previous report we have drawn £36,233 plus VAT (a total of £42,573.78) in accordance with the resolutions passed by the Creditors' Committee in August 2007. Fees have been agreed by reference to the time properly given by the Joint Administrators and their staff in attending to matters arising in this Administration and the Scheme of Arrangement. In addition, the Administrators have also drawn £4,582.50 in respect of postage not previously recovered, again, in accordance with a resolutions passed by the Creditors' Committee in August 2007. The Administrators have also drawn £204.46 plus VAT (a total of £240.24) in accordance with a further resolution allowing the Administrators in-house treasury services be charged on a percentage basis, at a rate of 0.1% per annum calculated on a weighted average balance of funds held, payable on account quarterly in advance. The Committee has also passed a resolution to allow the Administrators to draw the balance of funds remaining, after payment of all the remaining costs of the Administration and Scheme, in respect of their final fees.

### **Scheme closure and termination of the Administration**

It is the Administrators' intention to bring both the Administration and Scheme to an end as soon as all of the outstanding matters have been finalised i.e. the clearance of the final dividend cheques and tax clearance has been obtained from the Inland Revenue. The Administrators had intended to exit the Administration via the dissolution route available under the terms of the Insolvency Act 1986, however, FSCS has advised the Administrators that in order for future EL claims to be processed by FSCS the Company must remain in existence. It is therefore proposed that an application be made to Court for the Winding Up of the Company once the Scheme has been terminated and the Administration concluded.

The Administrators anticipate that a final report will be issued to creditors by July 2008.

## Appendix A

**AA Mutual International Insurance Company Limited – In Administration**  
**Receipts and Payments Account for the period 23 July 2007 to 22 January 2008**

<b>Receipts</b>	<b>US\$</b>	<b>£</b>	<b>Can\$</b>
Brought forward from previous abstract	2,631,407.18	1,248,545.37	40,880.97
Adjustment for refunds previously shown as receipts	(20,247.73)		
Reinsurance recoveries	2,321.77	16,833.00	
Proceeds from sale of book debts	5,000.00		
Conversion of £ into \$	214,829.61		
Interest received gross	5,747.61	1,870.61	
<b>Total receipts</b>	<b>2,839,058.44</b>	<b>1,267,248.98</b>	<b>40,880.97</b>
<b>Payments</b>			
Brought forward from previous abstract	1,667,908.33	993,053.68	40,880.97
Adjustment for refunds previously shown as receipts	(20,247.73)		
First and final distribution to Direct Creditors at 100%	22.58		
First and final distribution to Scheme Creditors at 31.4%	589,587.07	32,126.52	
FSCS payments	589,652.69	32,126.52	
Joint Administrators' fees		42,573.78	
Treasury services fees		240.24	
Legal fees		7,480.66	
Run-off service provider fees (net of refund)		(8,896.87)	
Postage		4,582.50	
Conversion of £ into \$		107,692.26	
Bank charges	163.53	46.14	
<b>Total payments</b>	<b>2,827,086.47</b>	<b>1,211,025.43</b>	<b>40,880.97</b>
<b>Closing balance</b>	<b>11,971.97</b>	<b>56,223.55</b>	<b>0.00</b>

All payments are inclusive of VAT

## Appendix B

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### FSCS – brief summary

FSCS is the UK's statutory fund of last resort for customers of authorised financial services firms. It protects deposits, insurance and investments. FSCS can provide compensation if an authorised insurance Company is unable or likely to be unable to meet claims against it. The Scheme was mainly set up to assist private individuals and small businesses, although all policyholders are protected for claims under compulsory (eg. EL) insurance policies.

Reinsurance, marine, aviation, transport business and credit insurance are excluded. Also excluded are risks outside the European Economic Area.

There are maximum levels of compensation a policyholder can receive from the FSCS and compensation may not cover all of an insured's loss.

The levels of compensation which may be payable to eligible insurance creditors are as follows:

- (i) Liability subject to compulsory insurance, 100% of the claim.
- (ii) In all other cases, 100% of the first £2,000 and 90% of the remainder of the claim

For more information on the role of FSCS, insurance creditors should refer to the FSCS website ([www.fscs.org.uk](http://www.fscs.org.uk)).