



**AA Mutual International Insurance Company Limited**

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

**21 February 2005**

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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
<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 198
<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>	D N Rackham and D Y 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 the approval of our proposals at the creditors' meeting held by correspondence on 10 September 2004. Copies of our previous reports sent to creditors may be requested from Caroline Turnbull or Andreea Currie.

The following attachments accompany this report:

Appendix A – Proposals approved at the meeting on 10 September 2004

Appendix B – Receipts and payments account for the period 23 July 2004 to 22 January 2005.

### **Creditors' Committee**

At the creditors' meeting held by correspondence on 10 September 2004, a creditors' committee was established comprising four members. I have met with the creditors' committee to update them on strategic matters relating to the administration. It was agreed at the first meeting of the Committee, that the members are to be provided with an update on the progress of the administration in February 2005. A decision would then be made by the Committee as to when a further formal meeting of the Committee is to be held. We are extremely grateful to the members of the creditors' committee for their assistance.

### **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). It was anticipated that this would be achieved by the sanctioning under section 425 of the Companies Act 1985, of a compromise or arrangement between the Company and its creditors ('a scheme of arrangement' or 'Scheme').

### **Summary of work done**

The focus of work in the last six months is summarised below.

Since our appointment as Joint Administrators, our primary objective has been to investigate the feasibility of a Scheme whilst minimising the ongoing costs and pursuing any other asset recoveries.

## **II Progress Report**

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### **Preparation for a Scheme of Arrangement**

In the administrator's proposals dated 9 August 2004, we stated that the administrators believed that a Scheme would be in the best interests of the creditors as a whole. I still believe this to be the case. Preliminary work has been carried out in relation to the Scheme and it is anticipated that it will be by way of a simple crystallisation process. Under the provisions of the Insurers (Reorganisation and Winding Up) Regulations 2004, direct policyholders will be paid in priority to reinsurance creditors. This is a change to the previous legislation which allowed for payment of all claims on a pari-passu basis.

The proposal for a Scheme is, however, dependent on the resolution of one major issue, namely the extent of possible Employers' Liability ("EL") policies which have been underwritten by the company. It is not possible to crystallise such claims under the terms of a Scheme as they are policies of compulsory insurance which need, therefore, to be maintained. We are, therefore, currently in discussions with the Financial Services Compensation Scheme ("FSCS") who deal with such claims in the event of an insurer being unable to pay them, to ascertain whether it will be possible to set up a fund within the Scheme to deal with such claims. However a lack of information in respect of the potential EL liabilities has hampered this. Until this issue is resolved, we will be unable to finalise the proposals for a Scheme.

### **Asset Management**

Since my appointment, our treasury team has managed the Company's cash assets in a portfolio of high interest bearing investment accounts and interest of just over £14,000 has been generated.

A review of the outwards reinsurance programme has been carried out with a view to generating reinsurance recoveries where possible. This review suggests that little if any recoveries are readily available.

### **Claims processing**

In view of the minimal impact on the reinsurance programme and in order to keep costs to a minimum the company has ceased to process all inwards claims for all classes of business as at 30 June 2004, pending the formulation of a Scheme.

### **Other reviews**

In respect of Tax issues, from the outset, our strategy has focussed on identifying potential tax assets and minimising future tax liabilities. This work is ongoing.

A review and investigation of pre-appointment transactions has been finalised in line with our statutory obligations in this regard.

## **II Progress Report**

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### **Statutory reporting**

This report has been filed with the High Court and the Registrar of Companies as required by the Insolvency Rules 1986. The Financial Services Authority, which supervises authorised insurers in the UK, has also been advised of all developments throughout the Administration.

Returns under the Company Directors Disqualification Act 1985 have also been submitted.

### **Administrators' remuneration**

Full details of professional costs have been provided to the creditors' committee. The creditors' committee authorised the joint administrators' remuneration in the sum of £104,127.74 plus VAT for the period to 31 October 2004 and this has been drawn. In addition the committee authorised the joint administrators to draw a maximum of £10,000 per month on account of future time costs to be approved by the committee retrospectively. In the period the administrators have drawn £1,703.87 plus VAT on account of time costs, in line with the resolution. The administrators have also drawn pre administration fees of £26,784.24 plus VAT which were agreed by the Court on the making of the administration order.

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.

## Appendix A

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### Administrators' proposals as approved

The following proposals were approved by the creditors on 10 September 2004 for achieving the purposes of the administration order dated 23 July 2004.

1. That as joint administrators, we continue to manage the business, affairs and property of the Company in such manner as we consider expedient with a view to achieving the purpose for which the administration order was made.
2. That we continue to investigate the affairs of the Company with a view to, amongst other matters, determining its financial position in order to formulate and put to meetings of the creditors proposals for a Scheme of Arrangement under Section 425 of the Companies Act 1985, if thought to be in the best interests of the Company and creditors.
3. That we investigate and, if appropriate, pursue any claims that the Company may have under the Companies Act 1985 or The Insolvency Act 1986. The administrators will investigate transaction in the period leading up to the date the Company entered into administration typically preferences and transactions at undervalue.
4. That we may apply for the discharge of the administration order once meetings of the Company's creditors have been held to consider the proposals for a Scheme of Arrangement.
5. That a formal creditors' committee be established.
6. That the joint administrators' fees and disbursements be agreed by the creditors' committee or at the meeting of creditors to consider the Scheme.

## Appendix B

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Receipts and payments account for the period 23 July 2004 to 22 January 2005

**Mutual International Insurance Company Limited - In administration**  
**Receipts and Payments account for the period 23 July 2004 to 22 January 2004**

<b>Receipts</b>	<b>US\$</b>	<b>£</b>	<b>CA\$</b>
Cash in bank	2,389,337.26	237,277.05	40,543.11
Commutations		998.49	
**USD converted to GBP		260,000.00	
Investment income	14,248.00		
Interest received gross	2,326.87	575.35	49.57
<b>Total receipts</b>	<b>2,405,912.13</b>	<b>498,850.89</b>	<b>40,592.68</b>
<b>Payments</b>			
Joint administrators' fees		105,831.61	
Pre-appointment fee		26,748.24	
Legal & professional fees		31,909.25	
*Statutory costs		1,282.40	
Run-off service provider		79,900.63	
**USD converted to GBP	489,892.00		
Account fees	15.80	67.10	16.99
Interest charged	180.51	56.24	
VAT irrecoverable		28,973.28	
<b>Total payments</b>	<b>490,088.31</b>	<b>274,768.75</b>	<b>16.99</b>
<b>Closing balance</b>	<b>1,915,823.82</b>	<b>224,082.14</b>	<b>40,575.69</b>

### Notes

\*statutory costs relate to statutory advertising as required by Rules 2.34 and 2.27 of the Insolvency Act 1986

\*\* USD converted into GBP @ 1.8842:1