



**AA Mutual International Insurance Company Limited**

**Administrators' report in accordance with  
Rule 2.47 of the Insolvency Rules 1986  
22 February 2007**

## Contents

---

<b>Section</b>	<b>Contents</b>
I	Summary information
II	Progress report
<b>Appendix A</b>	Administrators' proposals as approved
<b>Appendix B</b>	Receipts and payments account for the period 23 July 2006 to 22 January 2007
<b>Appendix C</b>	Financial Services Compensation Scheme ("FSCS") – brief summary

### Contact details for queries

<b>Function</b>	<b>Contact</b>	<b>Address</b>	<b>Direct line</b>	<b>Email</b>	<b>Fax</b>
General queries	Caroline Turnbull	PricewaterhouseCoopers LLP Plumtree Court London, EC4A 4HT England	+ 44 (0) 20 7804 8203	<a href="mailto:caroline.j.turnbull@uk.pwc.com">caroline.j.turnbull@uk.pwc.com</a>	+ 44 (0) 20 7804 5203
	Adam Loveday		+ 44 (0) 20 7804 4761	<a href="mailto:adam.loveday@uk.pwc.com">adam.loveday@uk.pwc.com</a>	+ 44 (0) 20 7804 5203

## I Summary Information

---

<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

---

### 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 2006. Copies of our previous reports sent to creditors may be requested from Caroline Turnbull or Adam Loveday (see details on page 1). This report and all previous reports sent to creditors may also be reviewed on the PwC website at [www.pwc.com/uk/aamii](http://www.pwc.com/uk/aamii).

The following attachments accompany this report:

Appendix A - Administrators' proposals as approved

Appendix B - Receipts and payments account for the period 23 July 2006 to 22 January 2007

Appendix C - Financial Services Compensation Scheme ("FSCS") – brief summary

### Creditors' Committee

As was reported to you in our previous report, in March 2006 Aon tendered its resignation as member of the Creditors' Committee and this was accepted. The remaining Committee Members are acting as the Committee in the Scheme of Arrangement ("Scheme") as well as continuing to act as the Committee in the Administration.

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

### Overall strategy

The purpose of the Administration Order is 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 is 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, namely a Scheme.

## II Progress Report

---

### Summary of work done

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

### 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 provides for two distinct classes of creditors reflecting the priorities in a liquidation under the provisions of The Insurers (Reorganisation and Winding Up) Regulations 2004:

- (i) Direct insurance claimants (excluding UK Employers' Liability ("EL"))
- (ii) Other claimants (including reinsurance and trade creditors)

After settling the costs of the Administration and the Scheme, direct policyholders (excluding EL) are 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, is to be paid to the FSCS. In addition, a further 50% of the balance, after payment in full of the direct policyholders and the specific reserve of £50,000, will also be paid to the FSCS for possible, unknown future EL claims. Any EL claimant will be entitled to protection from the FSCS under its rules and such claimants are therefore excluded from the Scheme. The remaining 50% of the balance will be paid to other 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 claims), discounted for the time value of money (5% per annum in line with the winding up procedures). If a claim cannot be agreed by the Company and a creditor then an Adjudicator will determine its value. Full details are set out in the Scheme, copies of which can be obtained from the website [www.pwc.com/uk/aamij](http://www.pwc.com/uk/aamij).

### Extension of the period of the Administration

Further to my report dated 22 August 2006, I can advise that the meeting held (by correspondence) voted unanimously in favour of the proposal to extend the period of the Administration for a 6 month period to 22 July 2007.

## II Progress Report

---

### 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 just over £90,000 has been generated.

As previously advised, a review of the outwards reinsurance programme has been carried out with a view to generating reinsurance recoveries where possible. This review suggested that because of the commutation activity prior to Administration, little, if any, recoveries were readily available. Since our previous report we have made recoveries totalling £17,579 which has brought the total recoveries to £58,099.

### Claims processing

Following the expiry of the FCSD the Scheme Administrators were unable to agree all the claims submitted as insufficient information had been provided by a number of creditors. Under the terms of the Scheme those creditors were allowed a further 21 days in which to provide additional information to support their claim. A number of claimants requested an extension to this period which, under the terms of the Scheme, was due to expire on 25 December 2006. In accordance with the provisions of the Scheme, the Joint Scheme Administrators have the power to extend any of the time periods within the Scheme with the exception of the FCSD. In view of the Christmas and New Year holidays, the Scheme Administrators decided to exercise this power and to extend the 21 day period in which creditors had to lodge further information to 22 January 2007. The revised date for the claims agreement process within the Scheme is therefore as follows (by reference to the FCSD of 23 October 2006):

- (i) 5 March 2007 : Deadline for creditors to confirm whether or not unagreed amounts be referred to the Scheme Adjudicator (133 days from FCSD)

The Administrators are currently in the process of agreeing claims for the purposes of the Scheme.

## II Progress Report

---

### Tax

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 will be in respect of the group relief of the trading losses incurred by AAMII. It is not currently possible to determine whether there may be any recoveries in this regard.

The Administrators have complied with their statutory duties of filing tax returns to 31 December 2004 and have obtained the agreement of the tax authorities that no tax is payable for the post-appointment period to 31 December 2004. The Administrators are currently in the process of filing tax returns for the period to 31 December 2005.

### 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 developments throughout the Administration.

Nil returns under the Company Directors Disqualification Act 1986 have also been submitted.

### Administrators' remuneration

Full details of professional costs have been provided to the Creditors' Committee. Since my previous report we have drawn £179,600.75 plus VAT (a total of £211,030.88) in accordance with the schedule of resolutions passed by the Creditors' Committee in August 2006. 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 drawn £516.32 plus VAT (a total of £606.68) 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.

## Appendix A

---

### 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:

- (i) 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.
- (ii) 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 under Section 425 of the Companies Act 1985, if thought to be in the best interests of the Company and creditors.
- (iii) 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 transactions in the period leading up to the date the Company entered into Administration, typically preferences and transactions at undervalue.
- (iv) 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.
- (v) That a formal Creditors' Committee be established.
- (vi) 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

---

**AA Mutual International Insurance Company Limited - In administration**  
**Receipts and Payments account for the period 23 July 2006 to 22 January 2007**

<b>Receipts</b>	<b>US\$</b>	<b>£</b>	<b>CAN\$</b>
Brought forward from previous abstract	2,517,534.48	1,222,392.70	40,880.97
Reinsurance recoveries	18,671.56	8,096.39	
Interest received gross	26,762.75	9,528.18	
<b>Total receipts</b>	<b><u>2,562,968.79</u></b>	<b><u>1,240,017.27</u></b>	<b><u>40,880.97</u></b>
<b>Payments</b>			
Brought forward from previous abstract	1,667,840.91	648,480.18	40,880.97
Joint Administrators' fees		211,030.88	
Treasury services		606.68	
Legal and professional fees		21,702.55	
Run-off service provider		11,268.76	
Statutory advertising		2,809.24	
Bank charges		23.15	
<b>Total payments</b>	<b><u>1,667,840.91</u></b>	<b><u>895,921.44</u></b>	<b><u>40,880.97</u></b>
<b>Closing balance</b>	<b><u>895,127.88</u></b>	<b><u>344,095.83</u></b>	<b><u>0.00</u></b>

## Appendix C

---

### **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)).