

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to what action you should take, you should consult your insurance or reinsurance broker or other professional adviser without delay.

In an endeavour to ensure that brokers are in a position to advise their clients as to the action they should take, a copy of this document has been sent to brokers identified by AA Mutual International Insurance Company Limited as having placed business with it or on its behalf.

Further copies of this document can be obtained from PricewaterhouseCoopers LLP or Charles Russell LLP at the addresses listed on page i. Copies may also be viewed or downloaded at [www.pwc.com/uk/aamii](http://www.pwc.com/uk/aamii).

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**PROPOSAL IN RELATION TO  
A SCHEME OF ARRANGEMENT**

**pursuant to Section 425 of the Companies Act 1985**

**between**

**AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED  
(IN ADMINISTRATION)**

**and its**

**SCHEME CREDITORS**

**(as defined in the Scheme of Arrangement)**

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Meetings of Scheme Creditors to consider and, if thought fit, approve the Scheme of Arrangement will be held on 26 April 2006 commencing at 11a.m. (London time) at the offices of PricewaterhouseCoopers LLP, Plumtree Court, London, EC4A 4HT, UK. Notice of the Meetings of Scheme Creditors is set out on pages 86 and 87.

The action required to be taken by you is set out on pages iii. Whether or not Scheme Creditors intend to be present at the Meetings of Scheme Creditors, they are requested to complete and return the voting form enclosed with this document in accordance with the notes and instructions accompanying it and the guidance notes at Part IV of this document as soon as possible.

**28 February 2006**

### **IMPORTANT NOTICE TO SCHEME CREDITORS**

This document has been prepared in connection with a proposed Scheme of Arrangement (hereafter referred to as the "Scheme") pursuant to Section 425 of the Companies Act 1985 between AA Mutual International Insurance Company Limited – In Administration ("the **Company**") and its Scheme Creditors (as defined in the Scheme).

The information contained in this document has been prepared by the administrators based upon information available to them. The FSCS has no responsibility for the content of the Explanatory Statement or Scheme of Arrangement.

The statements, opinions and information contained within this document are made, held or given, respectively, as at the date of this document unless another time is specified and such statements, opinions and information are made, held or given solely by or on behalf of the Company unless expressly attributed to another party.

Nothing contained in this document constitutes an admission of any fact or liability on the part of the Company or any other person in respect of any asset to which they may be entitled or any claim against them. No estimate of the amount of any claim against the Company specified in the voting form returned to the Company, or otherwise provided for voting purposes, shall be admissible against the Company or any other party, or shall be taken into account in calculating payments under the Scheme save as set out below. Any such estimate shall only be used for voting purposes at the Meetings of Scheme Creditors to consider the Scheme, unless the Scheme Creditor indicates on the Claim Form in the prescribed manner that he wishes it to form the basis of his Scheme Claim within the Scheme.

The summary of the principal provisions of the Scheme and related matters contained herein is qualified in its entirety by reference to the Scheme of Arrangement itself, the full text of which is set out on pages 43 to 85. Scheme Creditors are advised to read in full and consider carefully the text of the Scheme.

No person has been authorised to make any representation, whether oral, written, express or implied, concerning the proposed Scheme, which is inconsistent with the statements contained within this document. Consequently, if such representations are made, they should not be relied upon.

Each Scheme Creditor should not construe the contents of this document as legal, tax, financial or other professional advice. Each Scheme Creditor should consult its own professional advisers as to the legal, tax, financial or other matters relevant to the action it should take in connection with the Scheme.

<b>Prospective Scheme Administrators</b>	<b>Legal Advisers</b>	<b>Prospective Scheme Adjudicator</b>	<b>Run-off Manager</b>
Nigel Rackham Dan Schwarzmann	Tobey Butcher	Colin Czapiewski	Hampden Insurance Management Services plc
PricewaterhouseCoopers LLP Plumtree Court London EC4A 4HT United Kingdom	Charles Russell LLP 8-10 New Fetter Lane London EC4A 1RS United Kingdom	Bayeux Benenden Kent TN17 4AS United Kingdom	Hampden House Great Hampden Buckinghamshire HP16 9RD United Kingdom

## MAIN FEATURES

This Scheme for AA Mutual International Insurance Company Limited, which entered into administration on the basis that it is, or is likely to become insolvent, has the following features, some of which differ from other insurance company schemes of arrangement. This summary is not a substitute for reading the Scheme and taking advice on it. Capitalised terms are as defined on pages 2 to 7.

- This is a crystallisation scheme (also called a cut-off or estimation scheme) with a simple claim submission process, which is designed to allow creditors' claims to be agreed in a cost effective manner. The estimation process does not involve a complex actuarial methodology.
- Scheme Claims are to be valued as at 30 June 2004, the 'Ascertainment date'.
- **It is vital that creditors submit details of their claims whether or not they consider certain claims to have been submitted previously. Failure to submit Claims by the Final Claims Submission Date will preclude any further submission and no payment will be made in relation to claims submitted late.**
- The Scheme incorporates a deadline for the submission of claims, which expires the first business day 120 days after the Scheme becomes effective.
- The Scheme contains provisions for set-off which are substantially the same as would apply on liquidation. The transfer of claims to create set-off against debts due to the Company is blocked from 23 July 2004.
- *The FSCS Scheme Manager will pay compensation in respect of UK EL claims subject to and in accordance with the terms of the FSCS (the UK statutory compensation scheme). The FSCS provides that claims in respect of certain classes of compulsory insurance, including under The Employer's Liability (Compulsory Insurance) Act 1969 (or its Northern Ireland equivalent) are protected to 100%. As a result, UK EL Claims will fall outside the Scheme. Rather than paying a dividend in relation to these liabilities, the Company will pay a sum of money to the FSCS Scheme Manager which is not dependent upon the ultimate level of UK EL Claims, thus providing certainty and allowing an early distribution to other policyholders. Accordingly, UK EL Claims cannot be used to vote or otherwise participate in the Scheme.*
- The Dividend that Scheme Creditors will receive on their claims is dependent on the total assets realised (less costs) and the amount of inwards claims. In line with recent EU rules, policyholders with Direct Claims (ie not reinsurance claims or trade creditors) will be paid in priority to all other creditors. At this stage it appears that it should be possible to pay Direct Claims in full.
- The Joint Administrators expect the first and final Dividend to be paid in early 2007.

## ACTION REQUIRED

### IMMEDIATE ACTION

If you are a Scheme Creditor you will be entitled to attend and vote at the Meetings of Scheme Creditors to consider and, if thought fit, approve the Scheme.

There will be *two* Meetings of Scheme Creditors representing two classes. One will be for Scheme Creditors with Direct Claims who, as a result of the priority afforded to them by the Regulations, will be paid by the Scheme Administrators in priority to other claims. The second will be for all other Scheme Creditors who rank below the Direct Claim Creditors for a Dividend in respect of their Ascertained Claims.

A notice convening the Meetings of Scheme Creditors is set out at Part III of this document. The meetings are scheduled to take place on 26 April 2006. Should the Scheme be approved by Scheme Creditors at the meetings, and subsequently sanctioned by the Court, all Scheme Creditors will be bound by the provisions of the Scheme. You may either attend the relevant meeting in person or you may vote by proxy.

**The Joint Administrators and members of the Creditors' Committee (save for the FSCS Scheme Manager) recommend that you vote in favour of the Scheme. The FSCS Scheme Manager, due to its particular role and function, does not feel it is appropriate for it to make any recommendation.**

You have been sent:

- A proxy and voting form on which, if you will not be attending the meetings in person, you should indicate your instructions to vote for or against the Scheme, and
- a currency conversion table.

If you intend to vote either in person or by proxy, you are requested to complete the proxy and voting form to show the amount of your claim as at the Ascertainment Date (for voting purposes only) and return it as soon as possible, and in any event so that it is received by PricewaterhouseCoopers LLP by 4.00pm London time on 25 April 2006 at the address as set out on page 13, marked for the attention of Caroline Turnbull. For the purpose of valuing votes, all claims will be converted into *US Dollars* at the Relevant Rate of Exchange. A currency conversion table showing the rates of exchange applicable for major currencies is at Appendix 6, and an additional copy accompanies your proxy and voting form, for your use in completing the form. The amount of a claim admitted for voting purposes does not constitute an admission of the existence or amount of any Liability of the Company and will not bind the Scheme Administrators, the Company, the Scheme Creditors or the FSCS Scheme Manager. However, if a Scheme Creditor wishes that the claim submitted for voting purposes be considered as his Scheme Claim within the Scheme, he should indicate this on the voting form in the prescribed manner.

### ACTION REQUIRED AFTER THE SCHEME BECOMES EFFECTIVE

Scheme Creditors should indicate their claim against the Company on the Claim Form sent by the Scheme Administrators following the notification that the Scheme has become effective. Any claim should include Unsettled Balances, Notified Outstanding Claims and an estimate of IBNR. Scheme Creditors must then return their Claim Form by the Final Claims Submission Date. Please note that in respect of claims being made against you and which may be covered by a policy issued by the Company, you must, after the Effective Date, continue to defend those claims and ensure that they continue to be properly handled.

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### Key Dates and Provisional Timetable

Ascertainment Date	30 June 2004
Voting form to be returned <sup>(1)</sup>	26 April 2006
Meetings of Scheme Creditors	26 April 2006
Court hearing to sanction the Scheme <sup>(2)</sup>	Early May 2006
Effective Date of the Scheme <sup>(2)</sup>	Early May 2006
Final Claims Submission Date <sup>(2)</sup>	Early September 2006
Projected date for payment to Scheme Creditors in relation to their Ascertained Claims <sup>(2)</sup>	Early 2007

<sup>(1)</sup> Guidance Notes and Instructions for Completion of the Voting Form are set out at pages 88 to 95.

<sup>(2)</sup> These dates are tentative only since the date of the Court hearing will only be confirmed if the Scheme is approved at the Meetings of Scheme Creditors.

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**PART I**  
**EXPLANATORY STATEMENT**

**(in compliance with Section 426 of the Companies Act 1985)**

**in relation to a**

**SCHEME OF ARRANGEMENT**

**between**

**AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED  
(IN ADMINISTRATION)**

**and its**

**SCHEME CREDITORS**

**(as defined in the Scheme of Arrangement)**

**PART I**  
**EXPLANATORY STATEMENT**  
**A:DEFINITIONS**

The Explanatory Statement is intended to explain the main provisions of the Scheme. The definitions will apply throughout the Explanatory Statement *and* the Scheme on pages 43 to 85.

"**Act**" means the Companies Act 1985;

"**Ascertained Claim**" means the Scheme Creditor's Gross Claim less any applicable set-off and discount for the time value of money pursuant to clause 3.3(g) of the Scheme and less any costs which the Scheme Creditor has been ordered to pay by the Scheme Adjudicator;

"**Ascertainment Date**" means 30 June 2004;

"**Authorised Person**" means a director, administrator, provisional liquidator, liquidator (or such equivalent in any other jurisdiction) or employee of the Scheme Creditor whose position is of sufficient seniority and whose knowledge of the Claim against the Company is sufficient to allow such person to accurately represent to the Company the amount and nature of the Scheme Creditor's Claim;

"**Available Distributable Amount**" means the amount calculated in accordance with clause 5.1(b) and 5.1(c) of the Scheme;

"**Broker**" means any broker who placed business with or on behalf of the Company or, if applicable, any successor to such a broker;

"**Business Day**" means any day other than Saturday, Sunday or any other day on which banks are not open for business in London;

"**Chairman**" means either one of the Scheme Administrators or a person nominated by them so to act, or in their absence such person as may be nominated by the Creditors' Committee;

"**Chairman of the Meetings of Scheme Creditors**" means either of the Scheme Administrators or in the absence of both of them their alternate being a partner of PricewaterhouseCoopers LLP;

"**Claim**" means any claim against the Company in respect of Liabilities of the Company under or in relation to an Insurance Contract or otherwise arising without relation to an Insurance Contract;

"**Claim Form**" means the claim form to be sent to Scheme Creditors in accordance with the Scheme and to be completed by Scheme Creditors in order to specify their Claims against the Company;

"**Claims Information**" means data relating to Paid Loss Claims, Notified Outstanding Claims, IBNR Claims and Debts;

"**Committee Member**" means a member of the committee of Scheme Creditors originally established in the Administration proceedings;

**"Company"** means AA Mutual International Insurance Company Limited, company number 01432586, incorporated under the laws of England and Wales;

**"Court"** means the High Court of Justice of England and Wales;

**"Creditors' Committee"** means the committee established pursuant to clauses 8.1 and 8.2 of the Scheme;

**"Creditors' Resolution"** means a resolution passed by the Creditors' Committee;

**"Debt or Debt due or becoming due to the Company"** means any of the following:

- (a) any debt or liability which is due to the Company at the Order Date;
- (b) any debt or liability which may become due to the Company after the Order Date by reason of any obligation incurred on the part of the Debtor before that date; and
- (c) interest accruing on the debts and / or liabilities referred to in (a) and (b) above;

**"Debtor or Debtor of the Company"** means any person who owes a Debt;

**"Direct Claim"** means a Claim arising out of an Insurance Contract entered into with the Company by a Scheme Creditor other than in the capacity of insurer, reinsurer or retrocessionaire ceding business to the Company;

**"Direct Claim Creditor"** means a Scheme Creditor whose claim is a Direct Claim;

**"Disputed Claim"** means a Claim referred to the Scheme Adjudicator;

**"Dispute Resolution Procedure"** means the procedure for adjudication of Disputed Claims by the Scheme Adjudicator;

**"Distributable Amount"** means the amount calculated in accordance with clause 5.1(b) of the Scheme;

**"Dividend"** means the amount received by a Scheme Creditor pursuant to clause 5.1 of the Scheme;

**"Dividend Declaration Date"** means the date on which Dividends are paid to Scheme Creditors;

**"Effective Date"** means the date on which the office copy of the order of the Court sanctioning the Scheme is delivered to the Registrar of Companies for registration;

**"Established Debt"** means the value attributed to the Debt of a Scheme Creditor to the Company determined in accordance with the terms of the Scheme, after the application of any rights of set-off, counterclaim or other deductions applied pursuant to the Scheme;

**"Explanatory Statement"** means the statement dated 28 February 2006 explaining the effect of the Scheme to Scheme Creditors in compliance with Section 426 of the Act;

**"Extraordinary Resolution"** means a resolution passed by a majority in number representing at least 75% in value of the Scheme Creditors' Claims in each class who, being entitled to do so, vote in person or by proxy at a meeting of such Scheme Creditors;

**"Final Claims Submission Date"** means 23:59 London time on the first Business Day after the expiry of 120 days from the Effective Date;

**"FSA"** means the Financial Services Authority;

**"FSCS"** means the Financial Services Compensation Scheme as contained in, inter alia the COMP rules made by the FSA;

**"FSCS Scheme Manager"** means the Financial Services Compensation Scheme Limited established by the Financial Services Authority in accordance with Section 212 of the FSMA;

**"FSMA"** means the Financial Services and Markets Act 2000;

**"GBP"** or **"£GBP"** means the currency of the United Kingdom;

**"Gross Claim"** means the aggregate of a Scheme Creditor's Claims as valued and agreed by the Scheme Administrators pursuant to the Scheme before the deduction of any applicable set-off by the Scheme Creditor and before the deduction of any discount in relation to the time value of money for claims other than Paid Loss Claims;

**"IBNR"** or **"Incurred But Not Reported"** means claims in respect of losses which have been incurred but have not been reported as giving rise to a Claim. For the avoidance of doubt, the Liabilities of the Company arising out of such Claims, to the extent to which they relate to claims notified to the Company before the Final Claims Submission Date, are debts of the Company at the date at which the relevant Scheme Creditor's final Claim Form is received (but for the avoidance of doubt are not Gross Claims) and any increase or release after that date will be an increase or release within the Scheme;

**"Insolvency Act"** means the Insolvency Act 1986 of Great Britain;

**"Insolvency Legislation"** means statutes, secondary legislation and case law applying in England and Wales to the insolvency of an insurance company as at 23 July 2004;

**"Insolvency Rules"** means the Insolvency Rules 1986 (as amended) applying in England and Wales as at 23 July 2004;

**"Insurance Contract"** means a contract or a policy of insurance, reinsurance or retrocession of any kind whatsoever entered into by or on behalf of the Company;

**"Joint Administrators"** means the persons appointed as such by order of the Court to supervise and manage the affairs of the Company as its agents;

**"Known Scheme Creditor"** means a Scheme Creditor whose identity is known to the Joint Administrators at the time of sending to the Scheme Creditors the notice convening the Meetings of Scheme Creditors;

**"Liability"** means any obligation or liability of a person whether it is present, future, prospective or contingent or whether its amount is fixed or unliquidated, including Notified Outstanding Claims and IBNR;

"**LIBOR**" means the annualised rate published as the British Bankers' Association Interest Settlement Rate for US Dollars for periods of one month;

"**Lloyd's**" means the society incorporated by the Lloyd's Act 1871 by the name of Lloyd's and situated at One Lime Street, London EC3M 7HA;

"**Lloyd's Syndicate**" means a group of underwriting members of Lloyd's, to which a number is assigned by the Council of Lloyd's;

"**Meetings of Scheme Creditors**" means the Meetings of Scheme Creditors to consider and, if thought fit, approve the Scheme;

"**Mentally Disordered**" in relation to a Committee Member, the Scheme Administrators, the Scheme Actuary, the Scheme Adjudicator or a Nominated Representative person means that such person is a patient within the meaning of Part VII of the Mental Health Act 1983 or Section 125(1) of the Mental Health (Scotland) Act 1984, or in respect of whom an order has been made by a court having jurisdiction in matters concerning mental disorder for his detention or the appointment of a receiver or other person to exercise power over his affairs;

"**Nominated Representative**" means any representative appointed pursuant to either clause 8.8(a), 8.8(b) or 8.8(c) of the Scheme;

"**Notified Outstanding Claims**" means claims in respect of losses which have been notified but not yet become Paid Losses giving rise to a Claim. For the avoidance of doubt, as at the Effective Date the Liabilities of the Company arising out of such Claims, to the extent to which they relate to claims notified to the Company before the Effective Date, are debts of the Company as at that date (but for the avoidance of doubt are not Gross Claims) and any increase or release after the Effective Date will be an increase or release within the Scheme;

"**Order Date**" means 23 July 2004 being the date when the Joint Administrators were appointed by the Court;

"**Paid Losses**" means claims in respect of losses which are certain in amount and have been paid or are due and payable by the Scheme Creditor and give rise to a Claim;

"**Paid Loss Claim**" means a Claim based on a Scheme Creditor's Paid Losses;

"**Post**" means delivered by hand (including by courier), pre-paid first class post, or air mail;

"**Proceedings**" means any action, step or other legal proceeding including, without limitation, any demand, arbitration, alternative dispute resolution procedure, judicial review, adjudication, execution, seizure, distraint, forfeiture, re-entry, lien, enforcement of judgment or enforcement of any Security;

"**Property**" means all forms of property and obligations and every description of interest, including all contributions to the assets of the Company not falling within the meaning of the Company's property under the Act or the Insolvency Act;

"**Protected Policyholder**" means in relation to a Liability, any creditor to whom the Company owes that Liability under a contract of insurance and who, in addition, is or would be once that Liability matures into a present obligation of the Company eligible for protection under FSCS;

**"Registrar of Companies"** means the registrar of companies within the meaning of the Act;

**"Regulations"** means The Insurers (Reorganisation and Winding Up) Regulations 2004 (SI 2004/353) which came into force on 18 February 2004;

**"Relevant Rate of Exchange"** means the closing mid-market rate of exchange applying to a particular currency against the US Dollar as quoted by Barclays Bank PLC at the close of business on the Ascertainment Date;

**"Scheme"** or **"Scheme of Arrangement"** means the Scheme of Arrangement set out on pages 43 to 85 of this document;

**"Scheme Adjudicator"** means Colin Czapiewski such other person(s) for the time being appointed as Scheme Adjudicator in accordance with clause 4.1 of the Scheme;

**"Scheme Administrators"** means the persons for the time being appointed as scheme administrators pursuant to the provisions of the Scheme;

**"Scheme Claim"** is a Claim other than a UK EL claim;

**"Scheme Costs"** means all such costs, charges, expenses and disbursements and other debts incurred by the Company in relation to the preparation, implementation and termination of the Scheme;

**"Scheme Creditor"** means a creditor of the Company in respect of a Scheme Claim;

**"Scheme Document"** means the document containing the Scheme and the Explanatory Statement and the appendices thereto;

**"Scheme Period"** means the period beginning on the Effective Date and ending on the Termination Date;

**"Secured Creditor"** means a Scheme Creditor of the Company who holds Security in respect of a Claim or any part of a Claim;

**"Security"** means any letter of credit or deposit or reserve of funds or assets established by the Company to secure payment of any Liability;

**"Tax"** means any form of taxation, levy, duty, charge, contribution, withholding, or import of whatever nature (including any related fine, penalty, surcharge or interest) imposed, collected or assessed by or payable to any Tax Authority;

**"Termination Date"** means the date upon which the Scheme terminates;

**"Trade Creditor"** means a Scheme Creditor not being (i) a Scheme Creditor whose Claim arises under a Insurance Contract or (ii) a Secured Creditor;

**"UK EL Claim"** means a Claim in respect of a Liability (excluding Notified Outstanding Claims and IBNR) insured by the Company and required to be covered under section 1 of the Employer's Liability (Compulsory Insurance) Act 1969 or Article 5 of the Employer's Liability Order (Defective Equipment and Compulsory Insurance) (Northern Ireland) Order 1972 and which is eligible for protection under FSCS to 100%;

**"Unclaimed Balances"** means amounts represented by un-cleared cheques in respect of which six months have elapsed after being drawn;

**"Unsettled Balances"** means Scheme Claims which are balances agreed as due and payable by the Company to a Scheme Creditor on the Ascertainment Date or balances agreed as payable to the Company by the Scheme Creditor on the Ascertainment Date, such balances amounts to include amounts due in respect of claims and premiums; and

**"US Dollars"** or **"US\$"** means United States dollars.

**PART I**  
**EXPLANATORY STATEMENT**  
**B: GENERAL FEATURES**

**INTRODUCTION**

The Company proposes to enter into the Scheme with its Scheme Creditors. The purpose of the Explanatory Statement, of which this section forms part, is to:

1. provide background information in relation to the Company;
2. explain the perceived advantages and disadvantages of the Scheme; and
3. explain the main provisions of the Scheme,

in order to assist Scheme Creditors to reach an informed decision on whether to vote in favour of the Scheme at the forthcoming Meetings of Scheme Creditors.

Please note that the Explanatory Statement should not be relied upon as a substitute for reading the Scheme provisions themselves.

**WHAT IS A SCHEME OF ARRANGEMENT AND HOW DOES IT BECOME BINDING?**

A scheme of arrangement, such as that proposed here, is a compromise or arrangement provided for by Section 425 of the Companies Act 1985 between a company and its creditors (or any class of them). It becomes legally binding on a company and its creditors or any class of them when:

1. a majority in number representing not less than 75 per cent in value of creditors or any class of them, present and voting in person or by proxy, vote in favour of the scheme of arrangement at a specially convened meeting held with the permission of the Court; and
2. the Court subsequently makes an order sanctioning the scheme of arrangement; and
3. an office copy of that order is delivered to the Registrar of Companies for registration.

**WHO WILL BE AFFECTED?**

The Scheme is between the Company and the Scheme Creditors. Scheme Creditors will be those persons, who have, or may in the future have, a Scheme Claim against the Company. If you have no Scheme Claim against the Company, you will not be entitled to attend or vote at the Meetings of Scheme Creditors. A creditor whose only Claim is a UK EL claim will not be a Scheme Creditor because such Claims are expressly excluded from the Scheme. It is intended that all other creditors will be included in the Scheme. It should be noted that if the requisite majorities set out above are obtained, the Scheme will bind the Company and all Scheme Creditors, irrespective of whether notified of the Scheme and/or voting for the Scheme or not.

## **WHY HAS A SCHEME BEEN PROPOSED?**

Background information in relation to the history of the Company and its financial position is set out in Section D of the Explanatory Statement.

The Company is an insurance company incorporated in England and Wales. The Company ceased underwriting in 1986 following the liquidation of its major reinsurer. Taking into account present and contingent creditors the Company is insolvent.

After seeking professional advice and discussions with the Wholesale Insurance Firms (Run-Off Insurers) Department of the Financial Services Authority ("FSA"), which is the statutory regulator, the Directors concluded the best course forward for the Company's creditors (mainly, the remaining policyholders) would be:

- for an Administration Order to be made in respect of the Company and Joint Administrators with experience of insurance insolvency to be appointed;
- for those Joint Administrators to prepare a Scheme of Arrangement which could be proposed to the Company's creditors.

On 23 July 2004 following an application to Court by the Directors of the Company, the Joint Administrators were appointed to manage the Company for the benefit of all of its creditors and to consider the best way of dealing with its affairs. The Scheme proposed in this document is designed to enable the Scheme Creditors of the Company to be paid as much as possible, as soon as possible.

The Joint Administrators believe that a Scheme of Arrangement will be the most efficient and effective method of making payment to Scheme Creditors in the shortest practicable time. The Scheme proposed will have the effect of concluding the majority of the Company's run-off earlier than would be the case if it were to continue until all claims had materialised and had been agreed and paid through a 'run-off Scheme'.

The majority of the Company's liabilities arise from general insurance and reinsurance (non-life) policies written prior to 1987. It also wrote some policies which are or may be protected under the FSCS. As set out in Section E, (paragraph 26 of the Explanatory Statement), Protected Policyholders with UK EL Claims are eligible for compensation from the FSCS Scheme Manager. The FSCS provides payment for the UK EL Claims in full. Accordingly, UK EL Claims are excluded from the Scheme itself. However, Protected Policyholders with Claims other than UK EL Claims are subject to the Scheme.

## **ADVANTAGES OF THE SCHEME**

The Joint Administrators consider that the Scheme proposed is advantageous to Scheme Creditors for various reasons. As it appears that the Company cannot meet its obligations in full, and recapitalisation and refinancing are not available, the options available to the Company are

1. Liquidation (compulsory or voluntary);
2. Company voluntary arrangement; and
3. Scheme of arrangement.

## **Liquidation in the absence of a Scheme of Arrangement**

Creditors should be aware that certain causes of action are available to a liquidator which are not available either to an administrator or under a scheme of arrangement outside liquidation. In particular, a liquidator may be able to recover monies for the benefit of the company where there has been wrongful or fraudulent trading in respect of which its past or present directors or others may be liable to contribute to its assets.

Based on the investigations made to date in relation to the returns required under the Company Directors Disqualification Act 1986 and in respect of antecedent transactions, the Joint Administrators do not consider that any recoveries of a material nature would be lost to the detriment of creditors if the Scheme were to be agreed as an alternative to the liquidation of the Company.

Creditors should also be aware that certain other causes of action, relating in particular to voidable preferences or transactions at an undervalue, are available to an administrator, and that the approval of the Scheme will not prejudice these rights in any way. The Joint Administrators will remain in office for as long as is necessary to determine whether any such transactions exist. This is one reason the Scheme may operate alongside the existing Administration process.

The chief disadvantages to creditors of a liquidation are time and cost. The procedure for agreeing claims in a liquidation can involve extensive negotiations and Court process which can be very protracted and costly compared to a scheme. Uncertainty regarding the incidence and extent of contingent UK EL Claims would necessarily affect the timing of a final distribution to creditors. It would be necessary to wait many years before such a final distribution could be made. It is unlikely that it would be economical to make provision for an interim distribution.

## **Company Voluntary Arrangement ('CVA')**

There are no material advantages in the Company's case. The nature of a proposed voluntary arrangement would be likely to be very similar to that proposed in a scheme. However, there are the following disadvantages of a company voluntary arrangement:

- **Uncertainty:** if a CVA has no material advantages for the Company, then it seems unwise to create uncertainty amongst creditors by departing from a now familiar process (a scheme) and asking creditors to consider a new process;
- **High Court sanction:** unlike a scheme, a CVA does not require the sanction of the Court to become effective. It is left to individual creditors or shareholders who may believe that the CVA is unfair to challenge it by commencing Court proceedings. Creditors may consider therefore that the CVA procedure lacks the safeguard of an independent review by the Court which is an essential component of a scheme of arrangement;
- **Classes:** the CVA procedure does not contemplate having different classes of creditors voting to approve the arrangement. If, as here, different classes of creditors are treated differently, but do not vote in separate classes, this increases the possibility that a creditor may seek to challenge the arrangement on the ground that that particular creditor is prejudiced by it. Such challenges could be a costly distraction and delay even if ultimately unmerited; and

- Unknown creditors: whilst one of the recent amendments made to the CVA procedure is intended to result in all creditors of the Company, known or unknown, being bound by a CVA, there are uncertainties which the amendment gives rise to which do not exist as part of the Scheme process.

### **Scheme of Arrangement**

There are essentially two principal types of schemes regularly used to distribute the assets in the estates of insolvent insurers:

- crystallisation schemes (also called a cut-off or estimation scheme): the purpose of which is to estimate creditors' claims (if necessary, using actuarial techniques) so as to obtain a crystallized amount for each claim. Dividends are then paid on the basis of the estimated claims so as to enable the estate to be distributed rapidly; and
- reserving schemes (also called a run-off scheme): under which the business of the insurer is run-off in the normal course, except that a percentage only of each claim is paid as it is agreed. Assets are reserved to ensure that future claims can be paid at least at the dividend rate agreed from time to time.

The Scheme proposed for the Company is a crystallisation scheme. The Joint Administrators consider that there are substantial advantages in distributing the estate through the mechanism of a crystallisation scheme not involving a detailed actuarial methodology, principally in relation to speed of distribution and to costs. The Joint Administrators recognise that the determination of a value to be attributed to Outstanding Losses and IBNR in the absence of an actuarial methodology is likely to be less accurate than otherwise. However, given the value of the Company's assets it is considered that the creditors are likely to receive a greater return using less sophisticated procedures, than if the Company's assets were further reduced by the costs of preparing and administering a full actuarial estimation methodology. Scheme Creditors will bear the risk that their Gross Claim may be different from the amount which would have fallen due to them in a full term run-off.

Under the provisions of the Regulations, in any winding up, policyholders with Direct Claims are to have priority over all other creditors. The Scheme will mirror those rules and accordingly all Scheme Creditors with Direct Claims will be paid in priority to other creditors. As described above, UK EL Claims are not included within the Scheme. Existing or, (once matured into a present obligation of the Company in the ordinary course) future UK EL Claims against the Company will be paid by the FSCS Scheme Manager as further explained in Paragraph 26 of section E of the Explanatory Statement.

### **HOW DOES THE SCHEME BECOME EFFECTIVE?**

The Scheme will become effective only if the requisite statutory majorities set out earlier are obtained and if the necessary Court order sanctioning the Scheme is subsequently obtained and delivered to the Registrar of Companies for registration. Filing of the relevant documents will be done as soon as practicable after the Court hearing.

## **WHAT HAPPENS AFTER THE SCHEME BECOMES EFFECTIVE?**

Once the Scheme becomes effective, the Scheme Administrators will, within 14 days, send by Post notice that the Scheme is effective and confirmation of the Final Claims Submission Date together with blank Claim Forms to all Known Scheme Creditors and brokers identified as having placed business with or on behalf of the Company. The notice will state that Scheme Creditors can also download a copy of the blank Claim Form from the website located at [www.pwc.com/uk/aamij](http://www.pwc.com/uk/aamij). For further details including how to complete the Claim Form supplied please see explanatory note E paragraph 13, page 22.

**The deadline for submitting completed Claim Forms is the Final Claims Submission Date (which occurs at 23:59 London time on the first Business Day after the expiry of 120 days from the Effective Date). Returned Claim Forms must reach the Company on or before this deadline. If a Scheme Creditor does not complete and return a Claim Form to the Company c/o PricewaterhouseCoopers LLP, by the Final Claims Submission Date, that Scheme Creditor's claim will be valued at \$NIL.**

On receipt of a Scheme Creditor's returned Claim Form(s), the Scheme Administrators will endeavour to agree all Claims with that Scheme Creditor. Any Claim that is not agreed between the Scheme Creditor and the Scheme Administrators within the timescales set out in the Scheme will be referred to the Scheme Adjudicator as a Disputed Claim. The Scheme Adjudicator will make a final determination in respect of each Disputed Claim referred to him in accordance with the Dispute Resolution Procedure. The Scheme Adjudicator's decision will be final and binding on the Company and the Scheme Creditor, in so far as the law allows, and there will be no right of appeal.

The payment of Claims will be in the order of priority laid down by the Regulations that provide that in distributing the assets of an insolvent insurer, preferential claims are to be paid first. Next in priority would rank the Claims of Scheme Creditors with Direct Claims, and if there is a surplus after settling in full the Claims of those Scheme Creditors with Direct Claims, the remainder will be distributed to all other Scheme Creditors. The role of the FSCS and the manner in which UK EL Claims are to be dealt with are set out at Page 28.

It is anticipated that payments to Scheme Creditors under the Scheme will be made in early 2007.

The Scheme Administrators may, in consultation with the Creditors' Committee, extend any time period in relation to the determination of Claims (Clause 3 of the Scheme) or payments to Scheme Creditors (Clause 5 of the Scheme) except for the Final Claims Submission Date. Similarly, the Scheme Adjudicator may extend any time period under the Dispute Resolution Procedure.

## WHAT ARE SCHEME CREDITORS REQUIRED TO DO?

If you are a Scheme Creditor, you will be entitled to attend and vote at the Meetings of Scheme Creditors on 26 April 2006 to consider and, if thought fit, approve the Scheme. A notice of that meeting appears at *Part III* of this document at pages 86 and 87. Scheme Creditors may attend the Meetings of Scheme Creditors in person (or, if a corporation, by a duly authorised representative) or may vote by proxy. Voting will be by way of a poll.

Enclosed with this document you will find a voting form (consisting of a form of proxy and a claims table) to be used for voting at the Meetings of Scheme Creditors. Returning the form of proxy will not prevent a Scheme Creditor from attending and voting in person should he wish to do so. However, a proxy will not be able to vote if the relevant Scheme Creditor attends and votes in person.

Whether you do or do not intend to be present in person at the Meetings of Scheme Creditors, please complete and sign the voting form in accordance with the instructions and notes printed on it and the guidance notes at *Part IV* of this document and return it as soon as possible, and in any event so that it is received by 4.00 p.m. London time on 25 April 2006, to:

Caroline Turnbull  
PricewaterhouseCoopers LLP  
Plumtree Court  
London EC4A 4HT  
Tel +44 (0) 20 7804 8203  
Fax +44 (0) 20 7804 5203  
Email: caroline.j.turnbull@uk.pwc.com

Voting forms may also be handed in at the registration desk at the Meetings of Scheme Creditors prior to its commencement.

Please note that faxed voting forms will only be accepted if they are legible. The originals should be received by PricewaterhouseCoopers LLP ("**PwC**") by 9.30 a.m. London time on 28 April 2006 or handed in at the registration desk at the Meetings of Scheme Creditors prior to their commencement.

**The Joint Administrators would wish as many votes as possible to be cast at the Meetings of Scheme Creditors (whether in person or by proxy). Each Scheme Creditor is therefore encouraged to sign and return his completed voting form as soon as possible.**

Returned voting forms will be duly considered by the Joint Administrators in order to determine the value of each Scheme Creditor's vote at the Meetings of Scheme Creditors. The value to be attributed to each Scheme Creditor's Claim for voting purposes will be determined by the Chairman of the Meetings of Scheme Creditors on the basis of the information provided by the Scheme Creditor and the information available to the Joint Administrators from the Company's existing records. The chairman has the power to reject a Claim, in whole or in part, for voting purposes only if he considers that it does not represent a reasonable assessment of the sum due from the Company. The decision of the Chairman of the Meetings of Scheme Creditors as to the value to be placed on a Claim for voting purposes is final and binding and, where possible, will be notified to the relevant Scheme Creditor before the Meetings of Scheme Creditors and, in any event, afterwards.

If any Scheme Creditor is uncertain of the amount of their claim for voting purposes, they are advised to provide an estimate ensuring that they submit sufficient and appropriate evidence to demonstrate the basis of their estimate. **Estimates of Claims will not be used for the purpose of ascertaining or settling Claims under the Scheme; they are required for voting purposes only.** The amount of a Claim admitted for voting purposes will not constitute an admission of the existence or amount of any Liability of the Company to the Scheme Creditor and will not bind the Scheme Creditor, the Company or the Scheme Adjudicator. However, if a Scheme Creditor wishes that the claim submitted for voting purposes be considered as his Scheme Claim within the Scheme, he should indicate this on the voting form in the prescribed manner.

All Claims will be converted into *US Dollars* for the purposes of voting at the Meetings of Scheme Creditors at the Relevant Rate of Exchange.

If you are unclear or have any questions concerning the action you are required to take, please contact, Caroline Turnbull at PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT.

#### **RECOMMENDATION FOR THE SCHEME**

The Joint Administrators and the members of the Creditors' Committee (save for the FSCS Scheme Manager, for the reasons noted above) consider that the Scheme is in the best interests of the Scheme Creditors. All Scheme Creditors who are entitled to vote are encouraged to vote in favour of the Scheme.

**PA RT I**  
**EXPLANATORY STATEMENT**  
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## **PART I**

### **EXPLANATORY STATEMENT**

#### **D: HISTORY AND FINANCIAL INFORMATION**

##### **1. CORPORATE HISTORY**

The Company was incorporated in England and Wales (registration number: 01432586) on 22 June 1979 in the name of Saldown Limited and changed its name to AA Mutual International Insurance Company Limited on 19 November 1979. It was a UK subsidiary of a South African group of companies, connected with the Automobile Association of South America. Its ultimate parent company was AA Mutual Insurance Holdings (PTY) Limited, a company incorporated in the Republic of South Africa.

The Company's authorised share capital is £5 million divided into 5 million ordinary shares of par value £1. The issued share capital is £4.75 million.

The Company underwrote insurance and reinsurance business between approximately November 1979 and December 1986. On 24 June 1986 the Company's major reinsurer, AA Mutual Insurance Association (PTY) Limited ("AAMA"), which was itself incorporated in the Republic of South Africa, was placed in liquidation in that country. As a result, the Company ceased to write new business after 31 December 1986 and it was placed into run-off with Hampden Insurance Management Services Plc acting as run-off agent.

With the approval of the FSA, on 1 October 2002, effective control of the Company was transferred to Hampden plc, a subsidiary of Hampden Holdings Limited and a company registered in this jurisdiction. A group reorganisation was undertaken in 2003, again with the approval of the FSA, and on 1 August 2003, the entire issued share capital of the Company was transferred to Hampden Insurance Group Limited. The Company's ultimate holding company remained Hampden Holdings Limited.

##### **2. THE NATURE OF THE COMPANY'S BUSINESS**

The Company was originally authorised under the Insurance Companies Acts by a notice of authorisation dated 21 November 1979 to underwrite non-life insurance business. The Company entered into an Underwriting Agreement dated 10 July 1980 with Winchester Fox & Co Limited, under which Winchester Fox acted as underwriting agents for the Company with authorisation to accept worldwide non-proportional reinsurance business of any description. This Agreement remained in place until 31 December 1984 when authority to accept insurance business was limited to aviation businesses only. This agency agreement was terminated with effect from 31 December 1986.

Separately from the Winchester Fox Business, the Company also underwrote general insurance and reinsurance business via brokers. Some policyholders in relation to certain insurance business may be protected by the FSCS.

The Company did not accept any new business after 1986, and on the 4 December 1987 its authority to underwrite new business was withdrawn.

Prior to the Joint Administrators being appointed, Hampden Insurance Management Services plc were the run-off agents, with certain services being sub-contracted to Axiom Consulting Limited. For a number of years the Company has pursued a policy of negotiating commutations with interested creditors (and reinsurers) in an effort to resolve outstanding liabilities.

The Company received a distribution from AAMA totaling £358,315 in 2003, and has no more claims against that company.

### **3. FINANCIAL POSITION**

The present estimated financial position of the Company using the liabilities as shown in the Company's draft balance sheet as at 30 June 2004, but taking into account the estimated costs of the Administration and proposed Scheme is shown in the Estimated Outcome Statement at Appendix 1. On that basis the Company is insolvent, with a prospective deficiency of £834,000. A receipts and payment account for the period 23 July 2004 to 28 February 2006 is set out in Appendix 2.

### **4. DIRECTORS' INTERESTS**

The Company's ultimate parent company is Hampden Holdings Limited. None of the directors have any disclosable interest in the shares of that or any other company within the Hampden group.

## **PART I**

### **EXPLANATORY STATEMENT**

#### **E: OPERATION OF THE SCHEME**

##### **1. INTRODUCTION**

The Scheme is set out fully at pages 43 to 85 of this document. Its main provisions have been summarised below to help Scheme Creditors understand the Scheme. Please note that this summary is a guide and should not be relied upon in place of reading the Scheme itself.

##### **2. PURPOSE OF THE SCHEME**

The primary objective of the Scheme is to conclude the run-off of the Company's business and pay Scheme Creditors earlier than would be the case if the current run-off were to continue until all Claims had materialised and had been agreed and paid in the normal course within either a run-off Scheme (as explained on page 11) or a liquidation. The Scheme establishes a process by which Scheme Creditors' Claims (present and future) against the Company will be valued and a Dividend paid, with the exception of UK EL Claims which are to be dealt with by the FSCS Scheme Manager.

##### **3. APPLICATION OF THE SCHEME**

The Scheme will apply to any Claim against the Company except for UK EL Claims.

##### **4. ADMINISTRATION OF THE SCHEME AND MANAGEMENT OF THE COMPANY**

The Scheme Administrators will be responsible for supervising the Scheme. The day to day management of the Company will be carried out (currently subcontracted to Hampden Management Insurances Plc) under the supervision of the Joint Scheme Administrators who will have a duty to manage the business, realise the assets and apply them for the benefit of Scheme Creditors in accordance with the Scheme.

The Scheme grants to the Scheme Administrators during the Scheme both general powers of management and control over the affairs of the Company, and specific powers. These powers are to be exercised in the interest of Scheme Creditors. An important function of the Scheme Administrators is to determine when, and at what rate, distributions are to be paid out under the Scheme to Scheme Creditors and agree information and Claims against the Company.

The Scheme Administrators will give information as reasonably required to the Creditors' Committee.

In carrying out their functions under the Scheme the Scheme Administrators must act in good faith and with due care and diligence in the interests of Scheme Creditors as a whole. The Scheme requires each Scheme Administrator to be a licensed Insolvency Practitioner.

An existing Scheme Administrator can be removed for good cause by a special resolution of Scheme Creditors. If so, the Scheme Creditors may appoint, again by special resolution, a new Scheme Administrator in his place at the same meeting of Scheme Creditors. In addition, the Creditors' Committee may appoint any qualified person to be a Scheme Administrator.

## **5. THE SCHEME ADMINISTRATORS**

It is proposed that Douglas Nigel Rackham and Dan Yoram Schwarzmann, a director and partner respectively in PricewaterhouseCoopers LLP (see note below), be appointed to act jointly and severally as the Scheme Administrators.

The Scheme Administrators may apply to Court for directions in respect of any matter relating to the Scheme.

A summary of the proposed Scheme Administrators' qualifications and experience is set out in Appendix 3.

note: a partner in PricewaterhouseCoopers LLP means a member of PricewaterhouseCoopers LLP.

## **6. PROCEEDINGS**

Scheme Creditors should note that the Scheme will prohibit the commencement or continuation of any Proceedings against the Company or its Property, although in occasional cases the Scheme Administrators at their discretion, have power to consent to Proceedings brought for the purpose of establishing the existence or amount of a Claim being commenced or continued. There is currently no litigation against the Company.

## **7. CONSEQUENCES OF PROHIBITED ACTS**

If, notwithstanding the prohibitions referred to at paragraph 6 above, a Scheme Creditor takes steps or Proceedings against the Company or its Property after the Effective Date and receives money, Property or any other benefit, he will be treated as having received an advance payment on account of his Claim equal to the amount or gross value of any money, Property, benefit or advantage obtained by him at the expense of the Company (which may include an appropriate amount by way of interest, costs, charges or expenses incurred by the Company in consequence) and his entitlement to payment under the Scheme will be reduced accordingly.

If any advance payment to a Scheme Creditor exceeds the dividend due on his Ascertained Claim, the balance shall be repaid immediately, failing which it shall be held on trust and interest shall accrue on the balance at 4% above the LIBOR rate which is in force from time to time in the period from the date upon which the Claim becomes an Ascertained Claim under the Scheme to the date of repayment of the sum due by the Scheme Creditor. This treatment is without prejudice to the Company's other rights of action howsoever arising against such a Scheme Creditor.

#### **8. INTEREST**

The Scheme provides Scheme Creditors with substantially the same rights to receive interest on Gross Claims as would be available in a liquidation. Creditors' Claims may include interest where it arises from interest on judgment debts or contractual interest to the extent that it has accrued and is payable in respect of a period or periods ending on or before the Ascertainment Date.

Any payment made under the Scheme in respect of an Ascertained Claim which represents interest shall be made net of any deduction or withholding for or on account of Tax.

#### **9. CURRENCY OF PAYMENT**

Any amount payable to a Scheme Creditor under the Scheme in respect of a Claim shall be paid in US Dollars or £GBP should the Scheme Creditor so wish and is contractually entitled to receive. The Claim of a Scheme Creditor in respect of any Claim which was incurred in a currency other than US Dollars or £GBP shall be converted into US Dollars or £GBP (at the Scheme Creditors request and contractually entitled to receive) at the Relevant Rate of Exchange as shown in Appendix 6.

#### **10. ASCERTAINMENT OF CLAIMS**

The total value of a Scheme Creditor's net claims (after taking into account any relevant set off deduction, deduction for time value of money, or ordered costs) under the Scheme is referred to as that Scheme Creditor's Ascertained Claim. The Scheme Creditor should submit details of his Gross Claim on the claim form provided together with details of any applicable set off of which he is aware and details of any deductions he intends to make for Claims in respect of the time value of money. The Scheme Administrators will review the Claims submitted and the supporting evidence and will value the Gross Claim on that basis, before any deductions. The Scheme Administrators will then deduct from the Gross Claim any relevant set off and in addition the discount for the time value of money, and will value the Ascertained Claim on that basis. However, the Scheme Creditor is not bound to accept such valuation and, in the event that he and the Scheme Administrators fail to agree the relevant value within the timescales set out in the Scheme, he may request that determination of his Ascertained Claim be referred to the Scheme Adjudicator (see paragraph 19 below).

## **11. ASCERTAINMENT DATE**

In order to determine the value of Claims, it is necessary to decide upon a suitable date, the Ascertainment Date, as at which Claims will be valued in accordance with the Scheme. The Company has decided that the Ascertainment Date should be 30 June 2004.

Subject to this, no Claim by a Scheme Creditor shall take into account matters arising, or claims reported, or events occurring after the Ascertainment Date, provided however that the Scheme Administrators, at their absolute discretion, may (but shall not be obliged to) take into account matters arising, or claims reported, or events occurring between the Ascertainment Date and the date upon which a Scheme Creditor's Claim Form is submitted to the Company and may treat such events and claims and any matter arising after the Ascertainment Date as or as giving rise to Liabilities and/or constituting a loss of the Company. For the avoidance of doubt any payments made between the Ascertainment Date and the Final Claims Submission Date (although the Administrators are not aware of any) should be deducted in arriving at this valuation.

## **12. DISTRIBUTION OF CLAIM FORMS**

The Scheme Administrators will, within 14 days of the Effective Date, send by Post, notices that the Scheme is effective and distribute blank Claim Forms to all Known Scheme Creditors and policyholders with known addresses and brokers identified as having placed business with or on behalf of the Company. In addition, the Scheme Administrators will place advertisements calling for Scheme Creditors to complete and return Claim Forms in Insurance Day, in Business Insurance and the international edition of The Financial Times.

Blank Claim Forms will also be sent to Scheme Creditors who notify the Company of Claims before the Final Claims Submission Date, within 14 days of such notification and, in any event, prior to the Final Claims Submission Date.

Brokers are asked to notify all possible Scheme Creditors of the action that they should take and to advise Scheme Creditors to submit their Claim Forms by the Final Claims Submission Date.

## **13. COMPLETING CLAIM FORMS**

Each Scheme Creditor is required to complete the Claim Form in accordance with the instructions accompanying the form and return it so as to reach the Company at any time on or before the Final Claims Submission Date. In order to specify his Claim against the Company, each Scheme Creditor is requested to:

1. Identify each Insurance Contract, together with broker details, under or in relation to which his Claims arise;
2. Specify the amount of the Claims against the Company arising under or in relation to each Insurance Contract;
3. Provide details and supporting documents in relation to amounts that are being set off against the Claim; and

4. Provide details supporting calculations which reduce any Claims apart from Paid Loss Claims in relation to the time value of money using a present value discount rate of 5% per annum compounded annually to the Ascertainment Date.

Each Scheme Creditor is requested to provide information relating to his Claims as at the Ascertainment Date (being 30 June 2004). Scheme Creditors who are insurers or reinsurers and whose Claims arise as a result of their having ceded business to the Company should include details of Paid Loss Claims, Notified Outstanding Claims and IBNR losses. In respect of:

1. Paid Loss Claims and Notified Outstanding Claims, each Scheme Creditor should provide information supporting each such Claim including, where appropriate, loss bordereaux certified by the leading underwriter and/or copies of loss reports from the Scheme Creditor's policyholders/cedants or their legal representatives; and
2. Incurred But Not Reported losses (IBNR) each Scheme Creditor should provide details of the basis for the calculation of each such amount supported by documentary evidence showing the reasonableness of each amount, such as the following:
  - (i) Cumulative data triangles of paid loss data; and/or
  - (ii) Cumulative data triangles of incurred loss data; and/or
  - (iii) Cumulative data triangles of incurred loss ratios; and/or
  - (iv) Loss bordereaux certified by the leading underwriter; and/or
  - (v) Any relevant actuarial reports; and/or
  - (vi) Any other supporting information.

Scheme Creditors who are not insurers or reinsurers and whose Claim arises out of an Insurance Contract entered into directly by them i.e. Direct Claim Creditors should provide details of their Claims including an estimate of their contingent and future Claims together with such supporting information as they may have. Such Scheme Creditors should contact the Company if they have any questions in this regard.

The Company does not have any known preferential creditors in respect of unpaid employee wages or other categories of claims as defined by the Insolvency Act and Rules 1986. Claims in respect of preferential claims or from any known trade creditors should also be made on the blank Claim Forms with documentary support.

Each Scheme Creditor will be entitled to submit a new or revised Claim Form and to provide revised or further information to the Company in respect of Claims at any time on or before the Final Claims Submission Date. Each Scheme Creditor is requested to provide sufficient and appropriate evidence in the manner set out above to support any amendments or additions to his Claim Form.

Scheme Creditors should note that the contents of the Claim Form may not be protected by privilege under English law and may be discoverable at the instance of

a third party with a claim against the Scheme Creditor in any action or Proceedings to which the Scheme Creditor may be party. Scheme Creditors should consult their own legal advisers as to the consequences of providing such particulars in the event that they are, or may become, involved in any litigation.

#### **14. FAILURE TO RETURN A CLAIM FORM**

**If a Scheme Creditor does not complete and return a Claim Form to reach the Company on or before the Final Claims Submission Date, that Scheme Creditor's Claim will not be admitted for payment under the Scheme and shall be valued at \$NIL. UK EL Claims are not Scheme Claims and therefore special provisions apply as described in paragraph 26 of Section E of the Explanatory Statement. Although Protected Policyholders with non-UK EL claims may still be entitled to limited protection from the FSCS, in the event that they are ineligible for compensation from the FSCS, they will not be entitled to any payment under the Scheme, and it is therefore recommended that Protected Policyholders take care to submit a claim in the Scheme which is expected to pay such claims in full.**

#### **15. REVIEW AND AGREEMENT OF CLAIMS**

The Scheme Administrators will consider the information concerning a Scheme Creditor's Claim detailed on a completed Claim Form including, but not limited to, whether any submissions are adequately supported with relevant documentation, whether any estimates relating to future or contingent Claims are reasonable and whether there is any applicable Security or set-off relating to that Scheme Creditor's Claim.

If the Scheme Administrators do not agree with all or part of the information provided on a Claim Form, they will provide written notification to the relevant Scheme Creditor of the reasons for the disagreement and request any additional information within 42 days of the Final Claims Submission Date.

The relevant Scheme Creditor shall provide such additional information within 21 days of such request being made and the Scheme Administrators will then endeavour to agree each Claim by no later than 84 days after the Final Claims Submission Date.

If such disagreement is not subsequently resolved between the Scheme Creditor and the Scheme Administrators within 84 days of the Final Claims Submission Date, the Scheme Administrators will send the Scheme Creditor a copy of a Claim Form in relation to the relevant Claim completed in such a manner as it is prepared to accept but will inform the Scheme Creditor that, if this is not accepted, it will refer the Claim to the Scheme Adjudicator as a Disputed Claim. If the Scheme Creditor wishes his Claim to be referred to the Scheme Adjudicator, then he must respond to the Scheme Administrators within 21 days of receipt of this communication confirming that the matter is to be referred to the Scheme Adjudicator. If such confirmation is received from the Scheme Creditor, the Scheme Administrators shall refer the relevant Claim to the Scheme Adjudicator as a Disputed Claim. If the Scheme Creditor does not respond to the communication from the Scheme Administrators within 21 days, then the Claim Form so completed by the Scheme

Administrators will be deemed to be determinative of the disputed matters and will form the basis of the Scheme Creditor's Ascertained Claim.

When referring a Claim to the Scheme Adjudicator, the Scheme Administrators will pass both Claim Forms (as completed by the Scheme Creditor and by him) and all correspondence and documents received in relation to the Claim to the Scheme Adjudicator. The Scheme Administrators may, at their discretion, refer a Claim to the Scheme Adjudicator at any time prior to 84 days after the Final Claims Submission Date if they believe that agreement will not be reached with the relevant Scheme Creditor.

#### **16. DETERMINATION OF ASCERTAINED CLAIMS**

As mentioned above, the Scheme Administrators will value a Scheme Creditor's Ascertained Claim by reviewing the Gross Claim submitted and after deducting any applicable set-off, the deductions to be made in respect of the time value of money and any costs which the Scheme Creditor has been ordered to pay by the Scheme Adjudicator (in relation to such costs see paragraph 19 below).

The Scheme Adjudicator shall determine the value of the Scheme Creditor's Ascertained Claim in accordance with the Dispute Resolution Procedure set out in paragraph 19.

The value of a Scheme Creditor's Ascertained Claim determined in accordance with the procedure described in this paragraph or the Dispute Resolution Procedure described in paragraph 19 shall, to the extent permitted by law, be final and binding on the relevant Scheme Creditor and the Company and there shall be no right of appeal in respect thereof.

#### **17. ASSIGNMENT OF SCHEME CLAIMS**

The Scheme Administrators will treat as the Scheme Creditor the person shown in the Company's records as being owed the relevant Scheme Claim. If a person is a Scheme Creditor by virtue of buying the debt from a third party, the Scheme Administrators will only be required to deal with that person once they have received formal written notice of the assignment. If the Scheme Administrators serve any notice on or make a payment to the Scheme Creditor before they have received such notice of assignment, this will be a valid discharge of the Company's obligations notwithstanding any assignment.

#### **18. THE INDEPENDENT SCHEME ADJUDICATOR**

The independent Scheme Adjudicator will be Colin Czapiewski. The Scheme Adjudicator will act as an expert and not as an arbitrator and his specific function will be to determine Disputed Claims that have been referred to him under the Scheme.

The Scheme Adjudicator is not a Scheme Creditor, shareholder or director of the Company.

## **19. DISPUTE RESOLUTION PROCEDURE**

In considering any Disputed Claim, the Scheme Adjudicator will act as an expert and not as an arbitrator. The Scheme Adjudicator will consider each Disputed Claim referred to him under the Scheme and may within 21 days of each referral request further information which he considers necessary to resolve the Disputed Claim from the Scheme Creditor and/or require the Scheme Creditor to appear and address him on any matters he deems appropriate. He will then make a final determination in respect of the relevant Disputed Claim within 70 days of having received the information required, or appearance before him.

The Scheme Adjudicator shall be entitled to consult with such advisers, including legal advisers and experts, as he may deem appropriate in considering any Claim referred to him.

If a Scheme Creditor fails to provide the required information or fails to appear before the Scheme Adjudicator, the Scheme Adjudicator will make a final determination as he sees fit in respect of the Disputed Claim on the basis of information then available to him within 70 days after expiry of the deadline for providing such documents or the date fixed for the appearance before the Scheme Adjudicator.

The Scheme Adjudicator will notify the Scheme Creditor and the Company of his determination as soon as practicably reasonable.

The Scheme Adjudicator's decision will, to the extent permitted by law, be final and binding on the Company, Scheme Administrators and the Scheme Creditor and there will be no right of appeal. Furthermore, the Scheme Adjudicator may, in his absolute discretion, require the Company or the Scheme Creditor to pay the Scheme Adjudicator's costs. In the case of a Scheme Creditor, such costs will either be deducted from the dividend payable to him or otherwise taken into account in determining his Ascertained Claim. The Scheme Adjudicator's time in dealing with a dispute will be charged at an hourly rate and a request for security of costs can be made by the Scheme Adjudicator before any action is taken.

## **20. EXTENSION OF TIME LIMITS**

The Scheme Administrators in consultation with the Creditors' Committee may, at their absolute discretion, extend any time period referred to in the Scheme in relation to the Determination of Ascertained Claims (Clause 3 of the Scheme) or payments to Scheme Creditors (Clause 5 of the Scheme) excluding the Final Claims Submission Date. Similarly, the Scheme Adjudicator may extend any time period under the Dispute Resolution Procedure as deemed necessary to ensure a fair process.

## **21. SCHEME CREDITORS TO ASSIST THE SCHEME ADMINISTRATORS**

During the Scheme Period, Scheme Creditors are under an obligation to provide all reasonable assistance required by the Scheme Administrators and/or the Scheme Adjudicator in connection with the Scheme and in so far as they may require, with the recovery of any Property or the enforcement of any obligations owed to the Company. In particular, the Scheme Administrators will be entitled to require from Scheme Creditors fully particularised details of how and when a Claim arose and/or

(where applicable) the Insurance Contract pursuant to which a Claim arose; fully particularised details of the quantum of a Claim (if reasonably calculable); and legible copies of all Insurance Contracts, other contracts, orders, judgments, decisions, awards, closings and all other relevant documents that the Scheme Administrators may require.

**22. SET-OFF**

Any Liability of a Scheme Creditor to the Company and any cross claim the Company may have against the Scheme Creditor, will be taken into account or set-off in determining or adjudicating upon the value of that Scheme Creditor's Ascertained Claim. Should this calculation result in a sum being due to the Company, the balance will be payable by the Scheme Creditor.

**23. RIGHTS IN RELATION TO SECURITY**

We are not aware of any security held by creditors of the Company, however there are provisions in the Scheme dealing with Scheme Creditors' rights to enforce any Security in the event they might hold it. Broadly Scheme Creditors' rights to enforce any Security which they hold in respect of a Claim are unaffected by the Scheme.

**24. CO-REINSURANCE ARRANGEMENTS AND LLOYD'S SYNDICATES**

There may be considerable practical problems in identifying the individual participants and hence Scheme Creditors in the case of co-reinsurance arrangements such as underwriting pools and agency business. The Company may not know the identity of individual pool participants or, even if it does, it may be faced with a substantial administrative task in breaking down balances to individual participant level. Moreover, doing so would place a considerable burden on the manager of such co-reinsurance arrangements. In these circumstances the Scheme Administrators, in their absolute discretion, are likely to adopt a practical approach and treat co-reinsurance arrangements, such as pools, as though they were single principals. Similarly, for substantially the same reasons, the Scheme Administrators will treat individual Lloyd's Syndicates as though they were single principals in respect of both Claims and any sums due to the Company as a result of its reinsurance arrangements.

**25. FUNDING**

Some Brokers may have paid claims on behalf of their client either with or without the client's knowledge. Brokers who have funded claims will not be considered Scheme Creditors in respect of such funding unless they have received an assignment or other authority to pay (in a form acceptable to the Scheme Administrators) from the beneficiaries of such funding or, alternatively, unless that funding took place as a consequence of contractual obligations to the Company or in circumstances where, as a matter of law, the Company is liable to indemnify or reimburse the Broker.

## 26. THE FINANCIAL SERVICES COMPENSATION SCHEME

The FSCS is the UK's statutory fund of last resort for customers of financial services firms authorised by the FSA under the FSMA. FSCS protects accepting deposits, insurance business, investments, mortgage advice and arranging and general insurance mediation. The FSCS Scheme Manager may pay compensation if an authorised insurance company is unable or likely to be unable to meet claims against it. Further information on the FSCS, and the functions of the FSCS Scheme Manager are contained in Appendix 5 to the Explanatory Statement. Broadly, Protected Policyholders may, subject to eligibility, be entitled to claim compensation as follows:

- Direct policyholders who are individuals or small businesses may be entitled to compensation to 100% of the first £2,000 and 90% of the remainder (unlimited);
- All policyholders with UK EL claims (and certain other compulsory insurance claims) may be entitled to compensation to 100% of the claim (unlimited).

Direct Claim Creditors will be entitled to priority payment under the Scheme whether or not such policyholders are potentially eligible for protection by the FSCS. Based on current information it is highly likely that all Direct Claim Creditors will be paid in full under the Scheme. Those Direct Claim Creditors who make a Claim under the Scheme, and receive payment, will then have no further rights against the Company or to the FSCS.

In the event that such Direct Claim Creditors are not paid in full, steps will be taken to place the Company in liquidation and terminate the Scheme, unless the Scheme Administrators and the FSCS agree otherwise. If the Company is placed in liquidation and the Scheme is terminated, Protected Policyholders may make claims for compensation to be determined under FSCS.

As, under the Scheme, all Direct Claim Creditors will be paid in full, the Scheme provides that in return for such payment, those Direct Claim Creditors who are also Protected Policyholders will not be able to claim compensation from the FSCS Scheme Manager and, under the terms of the Scheme will provide a release for claims under the FSCS. Those Direct Claim Creditors, who are also Protected Policyholders, and do not make a claim under the Scheme, and therefore do not receive payment in full, will not provide such a release to the FSCS and would therefore be free to make a claim under the FSCS in the future. However, in the event that those policyholders' claims are not in fact eligible for compensation under the FSCS, they will have forgone the opportunity for payment under the Scheme.

UK EL Claims are excluded from the Scheme. This is because such policies cannot be commuted or crystallized. Instead these policies, thought to be few in number, will be allowed to run-off in the normal course. Subject to the Scheme being approved and effective, the FSCS Scheme Manager has agreed to meet the UK EL Claims in full under FSCS as those claims mature and are agreed in the normal course. Instead of claiming against the Company in relation to such claims for a potentially indeterminate period, the FSCS Scheme Manager has agreed to receive:

- a) £50,000 from the Property available for distribution (or if the Property available for distribution amounts to less than £50,000, the whole of any such sum) after:-
- (i) payment or provision is made for Scheme Costs, and
  - (ii) payment of preferential creditors, if any, and
  - (iii) payment in full of all Direct Claim Creditors other than UK EL Claims (see paragraph 29 in the event that this is not possible)

and

- b) 50% of any remaining balance (the Distributable Amount) (the other 50% to be paid by way of a dividend to all other Scheme Creditors *pari passu*).

This compromise has been incorporated into the Scheme after consultation with the Creditors' Committee. In the absence of an acceptable solution to deal with UK EL Claims the insolvency would become protracted and the prospective costs could well exhaust the available funds.

## **27. PAYMENTS TO SCHEME CREDITORS**

The Regulations came into effect on 18 February 2004 and would govern a liquidation of the Company. The Regulations provide that the debts of an insolvent insurer, such as the Company, are to be paid in the following order of priority;

- a) preferential debts (ie as defined by the Insolvency Act, for example certain employment liabilities)
- b) insurance debts (which in this context would mean Claims of Direct Claim Creditors)
- c) all other debts (which in this context would include reinsurance creditors)

The Regulations do not directly apply to a Scheme of Arrangement but the Scheme has been designed so that creditors will be afforded the same priority which they would enjoy in a liquidation of the Company. Accordingly, the position in respect of each of the above is;

- a) preferential debts: the Company is not aware that any creditors have preferential claims
- b) insurance debts: it is proposed that Direct Claim Creditors will constitute a separate class and it is anticipated that the Ascertained Claims of Direct Creditors will be paid in full
- c) all other debts: the Ascertained Claims of all other Scheme Creditors are to be determined on the terms of the Scheme.

On the Dividend Declaration Date, the Scheme Administrators will pay a Dividend to each Scheme Creditor in respect of its Ascertained Claim where such Dividend exceeds \$50 or £25. Where the Dividend is less than \$50 or £25 it will only be paid on request as the administrative cost both to the Company and the Scheme Creditor may exceed the benefit.

Subject to below, all payments to Scheme Creditors under the Scheme will be made by way of cheque in favour of the Scheme Creditor concerned or to such other person as the Scheme Creditor may direct in writing. Cheques will be sent at the risk of the relevant Scheme Creditor. At a Scheme Creditor's request, the Company may, at the sole discretion of the Scheme Administrators and with the relevant Scheme Creditor bearing all risk, cost and expense, make payment by telegraphic transfer to such bank account as such Scheme Creditor may notify to the Scheme Administrators.

Payment under the Scheme will be deemed to have been made on the day that the relevant cheque is posted or the telegraphic transfer instruction given to the relevant bank and such deemed payment will, for the purposes of and to the extent of such deemed payment, be a good discharge of the Company in respect of its payment obligations under the Scheme in relation to the relevant Ascertained Claim. This discharge will not apply to Protected Policyholders who do not submit any claim in the Scheme.

The despatch of cheques and payments made by telegraphic transfer will constitute a full discharge of the Company's liabilities to Scheme Creditors.

## **28. UNCLAIMED DISTRIBUTIONS**

Where a Scheme Creditor to whom a cheque has been despatched has not presented it for payment within 6 months of issue, or where the Company or Scheme Administrators has not received written notification from a Scheme Creditor that payment has not been received within 6 months of issue, the Claim of the relevant Scheme Creditor will be deemed to have been satisfied in full in relation to such payment. The sums representing such unclaimed distributions will be held by the Scheme Administrators who, with the approval of the Creditors' Committee, will decide how such funds will be administered. This may involve further payments to Scheme Creditors or the Scheme Administrators may consider whether to make any such funds available for one or more charities established in the UK. Any charity or charities will be selected by the Scheme Administrators.

## **29. LIQUIDATION**

In the unlikely event that the Direct Claim Creditors cannot be paid in full from the available assets the Scheme will terminate and after payment of Scheme Costs the Joint Administrators will take steps to place the Company into liquidation.

## **30. ROLE OF THE CREDITORS' COMMITTEE**

The Scheme provides for a Creditors' Committee to be appointed. This is to consist of the FSCS Scheme Manager and between two and four Scheme Creditors or their representatives. The purpose of this committee is to oversee the implementation of the Scheme on behalf of Scheme Creditors and to assist the Scheme Administrators by providing representative views of Scheme Creditors and exercising certain powers or sanctions.

It is proposed that the Creditors' Committee serving in the Administration shall constitute the Creditors Committee for the purposes of the Scheme. The FSA will be entitled to attend all Meetings of the Creditors' Committee. On that basis the Creditors Committee would consist of:

- ACE European Group Limited
- Aon Limited
- The Bermuda Fire and Marine Insurance Limited – In Liquidation
- FSCS Scheme Manager

The key functions of the Creditors' Committee are to -

- oversee the implementation of the Scheme and provide views on any matter relating to the Scheme to assist the Scheme Administrators;
- ensure that Scheme Administrators are in office at all times;
- approve the Scheme Administrators' fees and expenses; and
- approve the Scheme Administrators' investment policy.

### **31. THE COMPANY'S ACTIVITIES DURING THE SCHEME**

The Scheme Administrators will continue to manage the business, affairs and property of the Company as its agents. The Company will continue to be supervised by the FSA under the FSMA.

The Scheme Administrators may at any time convene a meeting of Scheme Creditors for such purposes as they think fit.

Scheme Creditors with Claims totalling at least 10 per cent. by value of the total Claims outstanding may require the Scheme Administrators or the Company to call a meeting of the Scheme Creditors.

To be valid and effective, any resolution at a meeting of Scheme Creditors must be an Extraordinary Resolution. Scheme Creditors will have a right to vote on any matter at a meeting even if their Claim is disputed and their votes will be valued in the same way as for the Meetings of Scheme Creditors as set out on page 14 of this document.

### **32. SCHEME COSTS**

All costs, charges, expenses and disbursements reasonably incurred by the Company in connection with the implementation of the Scheme will be paid in full by the Company in priority to payments or Dividends to Scheme creditors.

The Scheme Administrators' fees and expenses together with costs incurred by the Scheme Administrators to operate the Scheme and to manage and maintain the Company, and the costs of any agents and advisers appointed by the Scheme Administrators will be paid out of the Company's property as expenses of the

Scheme in priority to payments or Dividends to Scheme Creditors, subject to approval by the Creditors' Committee.

The Creditors' Committee will approve the Scheme Administrators' fees and expenses having regard to the same factors as are laid down for an Administrator's fees under the Insolvency Rules. The Scheme Administrators can apply to Court if they are dissatisfied with the fees approved by the Creditors' Committee.

### **33. TERMINATION OF THE SCHEME**

The Scheme will terminate on the date that the Scheme Administrators give notice to the Company and give notice to the FSCS Scheme Manager at its registered office that:

1. all the Company's Ascertained Claims have been discharged in full; or
2. there is no further Property of the Company to be distributed in accordance with the provisions of the Scheme and no funds are held within the terms of the Scheme; or
3. the Scheme Administrators, with the agreement of the Creditors' Committee give notice in writing to the Scheme Creditors that, after making such enquiries as they deem fit, they have concluded that the Scheme is no longer in the interests of the Scheme Creditors.

The Scheme Administrators, on behalf of the Company, may seek an order to wind-up the Company and the Scheme shall in those circumstances terminate on the day following the making of the winding-up order by the Court.

Prior to the termination of the Scheme, the Scheme Administrators, shall at their absolute discretion following discussions with the FSCS Scheme Manager (and notwithstanding any opinion expressed by the FSCS) decide whether to take any steps to place the Company into liquidation.

The termination of the Scheme shall not prejudice any Distribution already made.

### **34. STATUTORY INFORMATION**

The Act requires that creditors are given information on directors' interests and debenture holders' interests in order that they may consider whether the proposed Scheme is fair.

The directors have no direct interest as shareholders or policyholders in the Company. Furthermore, the Company has issued no debentures.

### **35. GOVERNING LAW AND JURISDICTION**

The Scheme will be governed by and construed in accordance with the laws of England and Wales and Scheme Creditors agree that the English Court shall have exclusive jurisdiction to hear and determine any Proceeding and to settle any dispute which may arise out of any provision of the Scheme, or out of any action taken or omitted to be taken under the Scheme, or in connection with the administration of the Scheme or out of this Explanatory Statement. For such

purposes, the Scheme Creditors irrevocably submit to the jurisdiction of the English Court.

**36. CONDITIONS FOR THE SCHEME TO BECOME EFFECTIVE**

The Scheme will become effective as soon as a copy of the order of the Court sanctioning the Scheme is delivered for registration to the Registrar of Companies.

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**APPENDIX 1: ESTIMATED OUTCOME STATEMENT**

**AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED - IN ADMINISTRATION**

<b>Assets</b>	<b>Per statement of Affairs as at 23 July 2004</b>	<b>Revised estimate to 28 February 2006 Based on balance sheet as at 30 June 2004</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank	1,544	1,544
Interest received to date		63
Reinsurance claims outstanding	89	Nil
Reinsurance and other debtors (inc Commutations)	24	29
Insurance claims outstanding	8	Nil
Exchange gain		40
	<u>1,665</u>	<u>1,676</u>
<b>Less</b>		
Estimated costs of administration (inc VAT)		-533
Estimated costs of Scheme (inc VAT)		-415
Estimated assets available for unsecured creditors		<u>728</u>
<b>Liabilities</b>		
Direct creditors (excluding EL)	<u>143</u>	<u>-146</u>
Balance	1,522	582
Specific EL reserve (payable to FSCS)	10	-50
Balance	<u>1,512</u>	<u>532</u>
Less funds payable to FSCS @ 50%		<u>-266</u> 266
Reinsurance creditors	1,095	-1071
Other creditors	<u>205</u>	<u>-29</u>
	1,300	-1,100
Estimated Deficiency	<u>212</u>	<u>-834</u>
Estimated dividend payable to Re-insurance and Other creditors		24%

The present estimated financial position of the Company using the liabilities as shown in the Company's draft balance sheet as at 30 June 2004, but taking into account the estimated costs of the Administration and proposed Scheme.

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**APPENDIX 2: RECEIPTS AND PAYMENTS**

**AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED - IN ADMINISTRATION**  
**Receipts and Payments account for the period 23 July 2004 to 28 February 2006**

<b>Receipts</b>	<b>US\$</b>	<b>£</b>	<b>CA\$</b>
Brought forward from previous abstract	0.00	0.00	0.00
Cash in bank	2,389,337.26	237,277.05	40,543.11
Reinsurance recoveries	26,799.85	15,608.56	
Commutations		1,004.49	
Book debts		287.67	
*USD converted to GBP		260,000.00	
** USD converted to GBP		659,205.19	
***CAD\$ converted to GBP		20,156.74	
Interest received gross	71,057.13	7,609.76	261.56
<b>Total receipts</b>	<b><u>2,487,194.24</u></b>	<b><u>1,201,149.46</u></b>	<b><u>40,804.67</u></b>
<b>Payments</b>			
Brought forward from previous abstract	0.00	0.00	0.00
Joint administrators' fees		276,026.36	
Treasury services		1,008.36	
Storage		1,340.00	
Pre-appointment fee		26,748.24	
Statutory costs		1,282.40	
Legal & professional fees		31,909.25	
Run-off service provider		93,711.51	
*USD converted to GBP	489,892.00		
** USD converted to GBP	1,157,432.48		
***CAD\$ converted to GBP			40,767.00
Bank charges	223.02	21.38	37.67
VAT irrecoverable		12,523.69	
<b>Total payments</b>	<b><u>1,647,547.50</u></b>	<b><u>444,571.19</u></b>	<b><u>40,804.67</u></b>
<b>Closing balance</b>	<b><u>839,646.74</u></b>	<b><u>756,578.27</u></b>	<b><u>0.00</u></b>

**Notes**

- \* USD converted into GBP @ 1.8842
- \*\* USD converted into GBP @ 1.7558:1
- \*\*\* CAD\$ converted into GBP @ 2.0225

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##### **APPENDIX 3: CURRICULA VITAE OF THE PROSPECTIVE SCHEME ADVISERS**

###### **DOUGLAS NIGEL RACKHAM**

Nigel is a director in the London office of PwC specialising in reorganisation and insolvency within the insurance industry. His insurance experience started in the early 1980s as auditor and adviser to a number of brokers and Lloyd's syndicates and agencies. He has worked in the business recovery area since 1990 covering a range of industries and running insolvencies of various sizes and complexities. A particular expertise has been undertaking business reviews and assisting in turnaround situations.

Since 1995 Nigel has worked primarily in the insurance run-off market advising on exit routes and developing innovative solutions for stakeholders. He is currently the scheme adviser, liquidator or scheme administrator for a number of insurance companies.

Nigel is a member of the Association of Business Recovery Professionals, a fellow of the Institute of Chartered Accountants in England and Wales and a licensed Insolvency Practitioner.

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##### **APPENDIX 3: CURRICULA VITAE OF THE PROSPECTIVE SCHEME ADVISERS**

###### **DAN SCHWARZMANN**

Dan Schwarzmann is a partner in the London office of PwC, where he has been involved in corporate recovery work since 1990. He is a specialist in insolvency and reorganisations within the insurance industry and leads PwC's Insurance Restructuring Practice.

In recent years Dan's assignments have included a number of substantial insurance companies in the London market. In particular, he is a scheme administrator, scheme adviser or provisional liquidator for a number of insurance companies.

Dan is particularly concerned with innovative means of dealing with the run-offs of solvent and insolvent insurance companies, including through the mechanism of a scheme of arrangement. In addition to handling assignments in the insurance industry, Dan has also been involved with a number of other cases in the financial sector.

Dan is a member of the Association of Business Recovery Professionals, the Institute of Chartered Accountants in England and Wales and the International Association of Insurance Receivers. He is also a licensed insolvency practitioner. He has a masters degree in business administration.

note: a partner in PricewaterhouseCoopers LLP means a member of PricewaterhouseCoopers LLP.

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#### **APPENDIX 4: CURRICULUM VITAE OF THE PROSPECTIVE SCHEME ADJUDICATOR**

##### **COLIN CZAPIEWSKI**

Colin Czapiewski began his career at the Prudential Assurance Company. In December 1985, he was appointed Actuary at Terra Nova Insurance Company. In July 1993, he joined Lane Clark & Peacock ("LCP"), consulting actuaries, as Partner and Head of Insurance, where he and his team built up the practice to be a significant player in the market. He retired from LCP in April 2005 to work as an independent consultant.

Colin became a Fellow of the Institute of Actuaries in 1984. In 1990, he became a Member of the American Academy of Actuaries and in 1995 he was appointed an Honorary Member of the Polish Society of Actuaries. He was elected to the Council of the Institute of Actuaries in July 1995. He was Institute representative and Deputy Chairman of the General Insurance Board which is responsible for non-life aspects of the actuarial profession. He also sits on several other committees within the profession including the Social Policy Board and the Environment Research Group.

Colin has extensive actuarial experience in the specialised area of General Insurance and Risk Management. He has written and presented a large number of papers around the world on a broad range of insurance-related actuarial topics, including pricing, reserving, actuarial reporting, marine insurance, assessment of reinsurance security, expenses, latent claims (including asbestos and pollution), capital requirements, risk exposure, Y2K, public and employers liabilities, financial condition reporting and many other topics.

He has performed litigation support and arbitration for many insurance (and especially reinsurance) disputes in areas where he is seen as an expert in the market.

Colin is the Scheme Adjudicator for City General Insurance Company Limited, Dunedin Underwriting Pool (for policies written through the Dunedin Underwriters (HMT) Limited), Hassneh Insurance Company (UK) Limited, Trinity Insurance Company and other insurers in Schemes of Arrangement.

Colin has travelled extensively within Europe, the United States, Canada and Australia both for discussions with cedants, insurers and reinsurers, and to address seminars and conferences of actuaries and others in the insurance world.

Colin is a Liveryman of the Worshipful Company of Actuaries and has been Treasurer of the Actuaries' Club.

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#### APPENDIX 5: FSCS – A BRIEF SUMMARY

The Financial Services Compensation Scheme (“FSCS”) is the UK statutory fund of last resort for customers of financial services firms. This means FSCS can pay compensation to consumers of such firms if the firm is unable, or likely to be unable, to pay claims against it.

FSCS was set up under the Financial Services and Markets Act 2000 (FSMA). FSCS covers business conducted by firms authorised by the Financial Services Authority (FSA), the independent watchdog set up by government to regulate financial services in the UK and protect the rights of consumers. The Rules of FSCS (“COMP”) are made by the FSA, and are set out in the FSA Handbook, under Redress. These are available on the FSA’s website ([www.fsa.gov.uk](http://www.fsa.gov.uk)).

The FSCS Rules set out the types of claims which are eligible for compensation and limit how much compensation may be paid.

FSCS may only pay compensation if an authorised firm is unable, or likely to be unable, to meet claims against it (for example, because it is no longer trading); or if it is subject to certain specified insolvency events, including the appointment of administrators.

FSCS mainly assists private individuals and small businesses. Larger businesses are generally excluded, but there are some important exceptions to this, in particular for insurance business. Other exclusions may also apply.

The type of claims FSCS can cover include claims:

- for accepting deposits,
- in connection with protected investment business,
- in connection with protected mortgage business,
- in connection with general insurance mediation, or
- under protected contracts of insurance

Claims under a contract of insurance may be protected in respect of contracts issued in the UK, and in some circumstances in the EEA, Gibraltar, the Channel Islands or the Isle of Man. Certain policies issued before 1 December 2001 may also be protected for risks elsewhere in the world. Lloyd’s policies issued after 1 January 2004 may be protected.

Reinsurance is not protected. In addition, FSCS does not protect certain types of insurance business such as claims under marine, aviation or transport business policies or, from 1 December 2001, for credit insurance.

FSCS is a fund of last resort. For insurance claims, compensation may not be paid if the claim is covered by another contract of insurance with a solvent insurer or where another person may make payments or take action to secure continuity of cover. Protection by FSCS can be provided by the payment of compensation, or may be provided by seeking continuity of business, for example arranging for the transfer of insurance policies of the issue of substitute insurance policies.

Before compensation can be paid by FSCS, protected policyholders will need to sign and return a Deed of Assignment. This document gives FSCS the right to try to recover from the insolvent firm (and third parties) compensation paid by the Scheme and any uncompensated element of a claimant’s loss (which would be passed on to the claimant).

Under FSCS Rules, compensation is generally limited to 100% of the first £2,000 plus 90% of the remainder, with no upper limit. However, compensation is paid to 100% (unlimited) in respect of a liability subject to certain compulsory insurances, including under the Employer's Liability (Compulsory Insurance) Act 1969 and the Road Traffic Act 1988.

No policyholders are excluded in respect of the specified compulsory insurances. This means that larger businesses are eligible for compensation. Where a larger business is insolvent, a claimant under employer's liability insurance (with rights under the Third Parties (Rights Against Insurers) Act 1930) may be entitled to compensation, at the lower limit.

FSCS is funded by levies on authorised firms. Generally, the costs of handling claims for compensation against failed insurers and the costs of compensation paid are levied on authorised general insurers that are currently in business.

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)).

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**APPENDIX 6: CURRENCY CONVERSION TABLE**

US Dollar conversion rates as at the Ascertainment Date as quoted by Barclays Bank PLC.

<b>Currency</b>	<b>US Dollar Rate</b>
Australian Dollar	0.6985
Canadian Dollar	1.3330
Euro	1.2188
South African Rand	6.1525
Japanese Yen	108.89
Swiss Franc	1.2495
United Kingdom Pound	1.8194

Euro locking rates

<b>Currency</b>	<b>Euro Rate</b>
Austrian Schilling	13.7603
Belgium/Luxembourg Franc	40.3399
Finnish Markka	5.94573
French Franc	6.55957
German Mark	1.95583
Greek Drachma	340.75
Irish Punt	0.787564
Italian Lira	1936.27
Netherlands Guilder	2.20371
Portuguese Escudo	200.482
Spanish Peseta	166.386

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**APPENDIX 7: LIST OF DOCUMENTS AVAILABLE FOR INSPECTION**

- (a) Memorandum and articles of association of the Company;
- (b) Letter of consent to act in relation to the Scheme of Arrangement Douglas Nigel Rackham and Dan Yoram Schwarzmann, prospective Scheme Administrators;
- (c) Letter of consent to act in relation to the Scheme of Arrangement from Colin Czapiewski, prospective Scheme Adjudicator; and
- (d) Letter agreeing to support the Scheme from the shareholder.

The above documents or copy documents will be available for inspection on reasonable notice by Scheme Creditors (until the close of the Creditors' Meeting) at the following locations during ordinary business hours on Business Days:

PricewaterhouseCoopers LLP Plumtree Court London EC4A 4HT  Reference: Caroline Turnbull	Charles Russell LLP 8-10 New Fetter Lane London EC4A 1RS  Reference: Tobey Butcher
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