



AA Mutual International Insurance Company Limited

**Administrators' report in accordance with
Rule 2.110 of the Insolvency Rules 1986**

July 2008

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I Summary Information

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

II Progress Report

Purpose of report

This final report has been prepared in accordance with Rule 2.110 of the Insolvency Rules 1986.

Administrators' proposals

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

Steps taken during the Administration

- **Asset management**

Since our appointment our treasury team has managed the Company's cash assets in a portfolio of high interest bearing investment accounts and interest of £143,843.95, US\$43,777.24 and CAD\$438.13 has been generated.

As reported previously, a review of the outwards reinsurance programme suggested that because of the commutation activity prior to Administration, little, if any, recoveries were anticipated. During the period of the Administration recoveries were made totalling £57,227.56 and US\$41,542.44. In addition, in November 2007 a sale of the remaining debts due to the Company, which it was not considered would be cost effective for the Administrators to pursue, was completed for US\$5,000. Book debts totalling £287.67 and US\$33,370.05 were also collected. This compares to the expected recovery of £29,000 in the Outcome Statement included within the Scheme.

- **Tax**

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

The Administrators have complied with their statutory duties of filing tax returns to the end of the Administration and Scheme and have obtained confirmation from the tax authorities that no tax further tax is payable and that the Company may therefore be placed into liquidation.

II Progress Report

- **Extension of the period of the Administration**

On 15 September 2006, at a meeting held by correspondence, the creditors voted unanimously in favour of the proposal to extend the period of the Administration for a 6 month period to 22 July 2007. In July 2007, with the approval of the Creditors' Committee, the Administrators made an application to Court for a further 12 month extension to the Administration to 22 July 2008, which was duly granted on 19 July 2007. The extensions were sought to avoid the necessity of having to prepare annual audited accounts for the Company whilst the Scheme of Arrangement continued. The cost savings of taking this course of action were considered to be in the region of £60,000 to £70,000.

Scheme

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

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

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

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

- **Direct claim creditors**

Direct Claims totalling US\$2,624.58 were agreed for dividend purposes and paid in full.

- **Payment to FSCS**

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

II Progress Report

- **Other Scheme creditors**

Claims totalling £102,313.75 and US\$1,875,200.89 were agreed and admitted for dividend purposes and a first and final distribution of 31.4% was made to creditors on 22 August 2007.

Creditors' Committee

During the course of the Administration and the Scheme the Administrators have been assisted by the members of the Creditors' Committees. Membership of the Creditors' Committees was brought to an end on the making of the winding up order on 16 July 2008. The Administrators would, however, like to take this final opportunity to thank all of the members of the Creditors' Committee, both past and present, for their assistance in this matter.

Administrators' remuneration

During the period of the Administration and Scheme we have drawn £754,001.03 including VAT and expenses in accordance with the resolutions passed by the Creditors' Committee. Fees have been agreed by reference to the time properly given by the Joint Administrators and their staff in attending to matters arising in the Administration and the Scheme.

Scheme closure and termination of the Administration

As previously advised the Administrators had intended to exit the Administration via the dissolution route available under the terms of the Insolvency Act 1986. However, the FSCS advised the Administrators that in order for future EL claims to be processed by the FSCS the Company must remain in existence. An application was therefore made to the Court to wind up the Company on 16 July 2008. In addition an application to discharge the Administration Order was also made on the same day. The Administrators will be discharged from liability 14 days after filing this final report with and a copy of the Court Order with the Registrar of Companies. Under the terms of the Scheme, the Scheme was brought to an end on the making of the winding up order, ie 16 July 2008.

Appendix A

AA Mutual International Insurance Company Limited – In Administration
Receipts and Payments Account for the period 23 July 2004 to 16 July 2008

Receipts	US\$	£	Can\$
Brought forward from previous abstract	0.00	0.00	0.00
Cash at bank	2,384,852.42	241,776.41	40,445.05
Book debts	38,370.05	287.67	
Reinsurance recoveries	57,227.56	41,542.44	
Inter account transfers	213,044.64	944,513.47	
Interest received gross	143,843.95	43,777.24	438.13
Total Receipts	2,837,338.62	1,271,897.23	40,880.97
Payments			
Brought forward from previous abstract	0.00	0.00	0.00
Actuarial fees		11,617.23	
Bank charges	532.74	727.85	44.89
Fund manager		4,741.59	
Corporation tax		92.27	
Inter account transfers	1,655,758.57	107,403.78	40,836.08
Investment management fees		3,526.17	
Legal fees and expenses		108,517.38	
Office holders' fees and expenses		754,001.03	
Postage, printing and stationery		9,631.83	
Run-off fees		130,098.40	
Scheme Adjudicator		2,500.00	
Statutory advertising		13,396.66	
Storage costs		11,390.00	
Distribution to creditors			
Direct	2,624.58		
Other	588,770.04	32,126.52	
FSCS	589,652.69	82,126.52	
Total Payments	2,837,338.62	1,271,897.23	40,880.97
Closing Balance	0.00	0.00	0.00

All payments are inclusive of VAT

Appendix B

FSCS – brief summary

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

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

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

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

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

For more information on the role of FSCS refer to the FSCS' website (www.fscs.org.uk).