

Private & confidential

To all Scheme Creditors of English &
American Insurance Company Limited

20 January 2023

Dear Creditor

**English & American Insurance Company Limited ('EAIC' or "the Company")
The Scheme Administrators' Annual Report to Creditors****1 Introduction**

Further to our previous report to the Scheme Creditors of EAIC we are writing to update you on progress made towards the closure of the EAIC estate. Defined terms in this letter have the same meaning as defined in the relevant Scheme documents where appropriate.

2 Summary

- EAIC's Closure Scheme was completed on 15 December 2016 with the total value of agreed claims finalised at \$730 million. The final Scheme Payment Percentage was set at 49.6% effective from 2 November 2015 and final payments were distributed during late 2015 and early 2016.
- EAIC continues to be run-off for the benefit of creditors with unagreed claims under Marsh & McLennan Companies Inc Protected Policies ("Marsh Mac Protected Policies") (see para 3.2), which were excluded from the Closure Scheme.
- The Scheme Administrators, their legal advisors and key creditors have carefully assessed a number of finality options available to them to accelerate the closure of the EAIC estate. Based on this analysis, it has been resolved that the Company be closed by mid-2024 by way of a Final Closure Scheme followed by a Members' Voluntary Liquidation ("MVL") under the provisions of the Insolvency Act 1986 (see para 3.3).

- Marsh Mac was consulted on two final scheme options suggested by the Scheme Administrators but decided not to participate in either of the suggested closure plans.

3 Final closure of the EAIC estate

3.1 Closure Scheme

The Closure Scheme became effective on 12 October 2010 and Scheme Claims with a total value of \$730 million became subject to binding Valuation Statements. The final Scheme Payment Percentage was set at 49.6% and approximately \$370 million was paid to Scheme Creditors in respect of these Scheme Claims.

The Closure Scheme was declared complete on 15 December 2016.

The Closure Scheme excluded amounts in respect of outstanding or IBNR claims under EAIC policies signed and issued by the Institute of London Underwriters ("ILU") between 3 July 1980 and 6 October 1983.

These policies were excluded because Marsh Mac, which had secured an irrevocable letter of credit ("LoC") in favour of the ILU on these policies, would not provide an undertaking to EAIC that the LoC would cover and attach to any outstanding or IBNR claims which were crystallised under the Closure Scheme. Given the risk that policyholders may lose the right of recourse under the LoC, all contingent claims under these policies were excluded. Further details are available in previous annual reports at: www.englishandamericanpools.com.

3.2 Run-off provision and costs

When the Closure Scheme was finalised, the Company created and maintained a run-off expense provision to cover the costs of administering the run-off of those creditors with contingent claims under the Marsh Mac Protected Policies.

It was estimated that this run-off, managed under the original EAIC Run-Off Scheme, would extend for approximately a further 10 years. Adequate allowance was made to cover run-off administration costs so that claimants under Marsh Mac Protected Policies would receive the same dividend percentage as the EAIC creditors received under the Closure Scheme.

However, over time the run-off expense provision has naturally eroded as costs of the run-off have been met (the investment income that had been assumed to off-set some of the costs has been very low given the prolonged low interest rate environment). As a result, the Scheme Administrators believe there is now a risk that the run-off expense provision could be exhausted prior to the agreement of all claims in the normal course.

Very few claims have been agreed since the Closure Scheme was completed, and Marsh Mac has not yet made any settlements in respect of those claims. Furthermore, following a detailed claims review, there has been a significant reduction in the likely number and value of claims from Marsh Mac Protected Policyholders.

These factors prompted the Scheme Administrators to undertake a review of the options available to EAIC to finalise these potential claims and thereby accelerate the closure of the estate.

3.3 Closure Options and Scheme Administrators' recommended option

The Scheme Administrators have consulted with their legal advisors on several closure options and held discussions with key creditors. These options included liquidation, a continued "normal course" run-off and final cut-off schemes.

The Scheme Administrators invited Marsh Mac to discuss the extent to which Marsh Mac would be prepared to participate in the closure process for the benefit of all stakeholders. Marsh Mac concluded in March 2022 that it would not participate in either of the two proposed final scheme closure options as it wished to continue with the current arrangement of addressing LoC claims as they are made by EAIC policyholders.

Although Marsh Mac declined to participate in any of the closure proposals, the option of a Final Closure Scheme had several relative merits when compared to other options including the fact that all contingent liabilities of the Company would be cut-off.

Following consultation with their legal advisors, the Scheme Administrators decided the preferred approach would be to implement a Final Closure Scheme before placing the company into an MVL. Under this option, all contingent liabilities of the Company would be cut-off and any doubt surrounding whether it would be possible to successfully place the company into a solvent liquidation prior to finalising the scheme, would be eliminated.

It should be noted by potential creditors of the proposed Final Closure Scheme, that EAIC was not party to the ILU guarantee (see section 4) or the subsequent LoC arrangements (see para 3.1) and so cannot advise whether claims agreed under the proposed Final Closure Scheme will be accepted by Marsh Mac. Creditors may therefore wish to take their own advice on this aspect.

3.4 Next steps and timetable for closure

The legal advisors will assist in the drafting of the Final Closure Scheme and the explanatory statement, preparing proxy and voting forms, notices, court documents, court applications and attending court hearings.

In due course (likely in April 2023), and in accordance with best practice requirements, a Practice Statement Letter will be issued to all potential creditors. The letter will

explain to potential creditors the purpose which the Final Closure Scheme is designed to achieve and to inform them of the meeting of creditors, which is required to consider and vote on the Scheme and its composition.

All relevant documents, including the Final Closure Scheme, details of court hearings, creditors' meetings and associated proxy and voting forms will be made available on the dedicated website.

3.5 Closure – Protected Policyholders

EAIC's Protected Policyholders (Scheme Creditors who have claims against EAIC which are protected by virtue of the Policyholders Protection Act 1975) will, subject to eligibility, still be entitled to receive payment from the Financial Services Compensation Scheme on their claims as they are agreed in the normal course in future.

Protected policyholders should continue to present claims together with supporting documentation to Stephanie Wilton, PRO Insurance Solutions Limited, Southgate House, Southgate Street, Gloucester, GL1 1UB, UK (Email: pro_eauapools@proisinsurance.com).

4 ILU Protected Policies

4.1 Policies issued through the ILU

EAIC was a member of the ILU for a number of years - as a result, some Scheme Creditors of EAIC may also be entitled to receive payments from guarantee arrangements which the ILU had in place for the benefit of member policyholders. There are two relevant periods: 3 July 1980 to 6 October 1983; and 1 September 1983 to 19 March 1993.

4.2 3 July 1980 to 6 October 1983 ("Marsh Mac LOC Period")

As set out in Section 3.2 above, when the Closure Scheme was completed, EAIC continued to be run-off (and will continue to be run-off unless and until the Final Closure Scheme is sanctioned by the Court) for the benefit of creditors with contingent claims under Marsh Mac Protected Policies, as these claims were excluded from the Closure Scheme.

4.3 1 September 1983 to 19 March 1993

EAIC held funds in trust for ILU policyholder creditors who placed business after 1 September 1983 and who benefitted from a guarantee provided by two related companies, English & American Group Plc ("EAG") and English & American Insurance Holdings Plc ("EAIH") which became insolvent in 1993.

This created a period of approximately five weeks when the Marsh Mac LOC Period overlapped the EAG and EAIH guarantees period meaning, as explained in previous

annual reports, that it would not be possible to place a final value on eligible claims which fell within this period. However, in October 2013, the Court agreed a variation to the Trust Deed, and a relatively small amount of the Trust Funds were set aside for the benefit of policyholders in the five-week overlap period.

Eligible ILU Policyholder creditors received a top-up payment of 24% in respect of their Trust Fund entitlement in 2014. 691 of 794 eligible Trust Fund Creditors have received payments totalling US\$19.44M. The remaining 103 eligible Trust Fund Creditors, with a total payment value of US\$360,000, remain unpaid as they have not encashed their payments. There are a further 12 eligible creditors, due approximately US\$110,000. Contact details for nine of those could not be found and the final three are subject to international sanctions.

Prior to the closure of the EAIC estate, the Scheme Administrators will attempt to contact and distribute the top-up payment to the remaining Trust Fund Creditors one more time.

If any uncashed Trust Fund payments remain after the finalisation of the Final Closure Scheme, Counsel have advised that the Court would most likely order the Trustees to pay all the residual funds, less an amount to cover remaining costs, into Court.

In the meantime, Trust Fund creditors that failed to cash their payments may contact the Scheme Administrators and payment will be reissued.

5 Financial position

5.1 Summary balance sheet as at 31 December 2021

The latest audited financial position of EAIC is summarised below:

English & American Insurance Company Limited		
Summary Balance Sheet as at 31 December 2021		
	2021	2020
	US\$m	US\$m
Assets		
Cash	6.2	6.9
	_____	_____
Total Assets	6.2	6.9
	=====	=====
Liabilities		
Due to policyholders		
- agreed claims	2.0	2.1
- less scheme payments	(1.0)	(1.0)
- Outstanding and IBNR reserves	9.9	11.4
Provision for run-off costs	1.1	1.2
Other creditors	0.3	0.6
	_____	_____
	12.3	14.3
Shareholders' deficit		
	(6.1)	(7.4)
	_____	_____
Total Liabilities	6.2	6.9
	=====	=====
Notes to summary balance sheet		
<i>The above amounts have been taken from the audited financial statements for the year ended 31 December 2021.</i>		
<i>The summary balance sheet cannot be used to estimate the ultimate Scheme Payment Percentage.</i>		
<i>The value of any outstanding and IBNR reserves will not become clear until all claims are agreed and crystallised.</i>		
<i>The asset and liability values reflect foreign exchange fluctuations.</i>		

Copies of the audited accounts can be obtained from Companies House records.

5.2 Receipts and payments to 31 December 2022

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme to 31 December 2022 is set out below.

English & American Insurance Company Limited	
Receipts and payments for the period 9 February 1995 to 31 December 2022	
	US\$m
Balance brought forward at 9 February 1995	10.1
Receipts	
Reinsurance recoveries	485.0
Recoveries from bank accounts and fund managers	15.5
Tax refunds	9.1
Investment income	74.6
Other receipts	0.6
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Total receipts	594.9
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Payments	
Scheme Administrators' fees	61.5
KPMG actuarial fees	3.6
Run-off managers' fees	69.4
Legal fees	6.0
Other professional and agents' fees	10.5
VAT	14.4
Other payments	5.4
Scheme Payments to creditors <i>(including accelerated payments)</i>	371.3
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Total payments	542.1
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Exchange rate loss	49.2
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Funds held at 31 December 2022	3.6
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Notes to receipts and payments	
<i>The above figures include foreign exchange fluctuations.</i>	

6 Responsibilities and contact details

6.1 Scheme Administrators

The current Scheme Administrators of EAIC are Michael Tagg and Darryl Ashbourne of Interpath Ltd in London.

The Scheme Administrators control the affairs of the Company in accordance with the provisions of the Run-off Scheme. These include provisions for consultation with the Creditors' Committee (see below).

6.2 Creditors' Committee

The interests of creditors have been represented by the Creditors' Committee since EAIC's insolvency in 1993. The primary function of the Creditors' Committee is to sanction significant transactions, provide input into any proposed amendments to the Run-off Scheme and to approve the Scheme Administrators' fees.

The Scheme Administrators have reported to the Creditors' Committee on a six-monthly basis and have held a meeting or conference call whenever it was deemed appropriate to do so.

Until recently, the Creditors' Committee had three members as follows:

Member	Represented by
Anderson Kill P.C., on behalf of various policyholders	Mr R Mark Keenan
International Policyholders Association	Ms Bette M Orr
Sheppard Mullin Richter and Hampton LLP, on behalf of various policyholders	Mr M Katz

However, Mr Keenan and Mr Katz resigned from the Committee in late October 2022 as they had some concerns regarding the difficulties encountered by the Scheme Administrators in obtaining Committee Member liability insurance cover.

The Creditors' Committee is no longer quorate as it requires at least three members. To date, the Scheme Administrators' efforts to recruit sufficient new members to the Creditors' Committee have been unsuccessful but they hereby invite any creditors of EAIC to contact them should they wish to become members of the Creditors' Committee.

In accordance with clause 6.9.2 of the original Scheme of Arrangement, should insufficient numbers of new members be recruited then the powers of the Creditors' Committee are suspended and the Scheme Administrators shall act in accordance within the terms of the relevant Schemes.

6.3 Run-off agent

The day-to-day management of the Scheme and the run-off, including maintenance of the records and handling of Scheme Creditor enquiries in relation to Scheme Claims, is the responsibility of the Scheme Manager, PRO Insurance Solutions Limited.

6.4 Scheme Claims and Scheme Creditor enquiries

General queries about Scheme Claims should be directed to Stephanie Wilton, PRO Insurance Solutions Limited, Southgate House, Southgate Street, Gloucester, GL1 1UB, UK (Email: pro_eauapools@proinsurance.com).

All other enquiries should be directed to the Scheme Administrators at the following address: Interpath Ltd, 10 Fleet Place, London EC4M 7RB UK (Email: john.riley@interpathadvisory.com)

7 Annual meeting of creditors

The Scheme Administrators are confident that the EAIC estate can be closed in early 2024 and believe that the closure plan, as set out above, is in the best interest of Scheme Creditors.

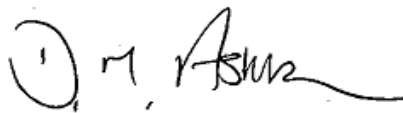
Under the terms of the scheme, the Scheme Administrators determined that no annual meeting of creditors would be held in 2022. However, if creditors have any comments or observations regarding the closure plan, or any other aspect of the EAIC administration, then they are encouraged to contact the Scheme Administrators at the contact details above.

An electronic copy of this report is available at www.englishandamericanpools.com.

Yours faithfully
For English & American Insurance Company Limited



Michael Tagg
Scheme Administrator



Darryl Ashbourne
Scheme Administrator