

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE REHABILITATION)
OF AMERICAN MUTUAL REINSURANCE)
COMPANY)

NO. 88 CH 1595

ANNUAL REPORT AND PETITION FOR
APPROVAL OF INTEREST PAYMENT AND INTEREST RATE

DOROTHY GROWN
CLERK OF THE CIRCUIT COURT
OF COOK COUNTY, ILL.

2005 DEC 15 PM 2:54

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Michael T. McRaith, Illinois Director of Insurance, in his capacity as statutory and court-affirmed Rehabilitator (the "Rehabilitator") of American Mutual Reinsurance Company ("Amreco"), submits the following as his annual report for the year ended November 30, 2005 and petition for approval of payment formula, interest and rate of interest.

Background

Amreco is a mutual reinsurance company, organized and operated under the laws of the State of Illinois, with offices in Chicago, Illinois. From its inception in 1941, Amreco operated exclusively as a reinsurance company; that is, Amreco never sold insurance directly to the public, but provided only reinsurance to other insurance companies ("Treatyholders").

Those insurance companies "ceded" or transferred to Amreco a portion of the risks they had *underwritten* or the losses they had agreed to pay through their own insurance policies. Amreco, in turn, "retroceded" or transferred a portion of the risks or losses it assumed from its reinsureds to other insurance and reinsurance companies, which often were organized into groups or "pools."

In the 1980s, Amreco experienced financial difficulties. When it was unable to resolve these, the Director on February 22, 1988 filed a verified complaint for Amreco's rehabilitation, pursuant to Section 192(3) of the Illinois Insurance Code, 215 ILCS 5/192(3). On the same day, the Court entered an order of rehabilitation *instructing the Director*, as Rehabilitator, to take immediate possession and control of the property, assets, business, and affairs of Amreco. Thereafter, the Amended Plan Of Rehabilitation was circulated to all of Amreco's debtors and creditors, and was approved by the Court on September 6, 1988.

Since that time, the Director has continually monitored the status of Amreco's assumed books of business and its assets. In approximately late 2000, the Director determined that it was in the best interest of Amreco's creditors, the company and the public to accelerate the winding up of the estate. He therefore expedited resolution of the company's liabilities by establishing a plan for final fixing of claims. Before filing a petition for approval of a second amended plan of rehabilitation, the Director notified all claimants of a 6 month voluntary commutation program to fix claims by agreement. The Director further advised claimants that companies choosing not to commute would have their claims fixed pursuant to procedures that would be presented to this Court after the voluntary commutation period. The Second Amended Plan Of Rehabilitation was filed with the Court and circulated

to all of Amreco's debtors and creditors pursuant to procedures for notice, comment and hearing recommended by the Rehabilitator and approved by the Court.

Notice of the proposed Second Amended Plan was provided to 420 Treatyholders, 120 pool participants and over 150 retrocessionaires. Pursuant to the Court's May 15, 2001 Order approving the form of notice, persons receiving notice were given 30 days in which to serve objections on the Rehabilitator (May 31, 2001 to June 30, 2001). Included with the form of notice approved by this Court was a copy of the proposed Second Amended Plan. Of the approximately 690 persons provided with notice of the Second Amended Plan, only 2 affiliated Treatyholders objected. Following the resolution of the joint objections of these affiliated entities, this Court without further objection on December 21, 2001 approved the Second Amended Plan.

The Second Amended Plan provides for quarterly reporting and payment of claims presented to Amreco. Payments are made part in cash and part in non-recourse, interest bearing instruments called surplus drafts, according to a specified formula. Pursuant to an order entered on November 23, 2004, this Court approved a payment formula of 60% cash and 40% surplus drafts for payment of Amreco's obligations from December 1, 2004 through November 30, 2005, with 0.50% noncompounded interest to accrue on the surplus drafts. All outstanding surplus drafts have been partially redeemed so that their individual principal amounts equal 40% of the approved claim amount.

Claims Paid Under The Second Amended Plan

Since the inception of the Amreco rehabilitation proceedings, the net claims paid by Amreco through November 15, 2005 (*i.e.*, after various types of offsets) is \$401,728,704.86. With respect to the net balance paid (adjusted for the 60% cash and 40% surplus draft

proration approved by this court in November of 2004), \$166,637,427.88 has been paid in surplus drafts and \$235,091,276.98 has been paid in cash.

During the period of December 1, 2004 through November 30, 2005, 18 claim payments were made. All of Amreco's assumed reinsurance liabilities have now been fixed and paid in full. The following chart illustrates the claims paid during this period:

DECEMBER 1, 2004 - NOVEMBER 30, 2005 CLAIM PAYMENTS

Company	Plan Period	Claim Amount	Pool Offset	Net	Surplus	Cash	Less	Net
				Claim Amount	Draft @40%		Amounts Due Amreco	
Gerling Global Reins Corp	38398	2049671	0	2049671	819868.4	1229802.6	0	1229802.6
Mission Inc. Co., In Liq.	38398	400000	0	400000	160000	240000	24711.63	215288.37
Affiliated FMIC	38487	3197547	0	3197547	1279018.8	1918528.2	0	1918528.2
American Re-Ins. Co	38487	425710	0	425710	170284	255426	0	255426
Appalachian IC	38487	5089344	0	5089344	2035737.6	3053606.4	0	3053606.4
Argonaut IC	38487	2800000	1639820	1160180	464072	696108	0	696108
Employers of Wausau	38487	3627781	2281904	1345877	538350.8	807526.2	0	807526.2
Federated Mutual IC	38487	44358	0	44358	17743.2	26614.8	0	26614.8
Federated Rural IC	38487	200000	0	200000	80000	120000	0	120000
Puritan IC	38487	850000	46653.08	803346.92	321338.77	482008.15	0	482008.15
Michigan MIC	38487	126584	68857.22	57726.78	23090.71	34636.07	0	34636.07
Stonewall IC	38487	43911	0	43911	17564.4	26346.6	0	26346.6
West Bend MIC	38487	4783	0	4783	1913.2	2869.8	0	2869.8
American MIC of Boston	38579	3416000	148012	3267988	1307195.2	1960792.8	0	1960792.8
American Mut. Liability IC	38579	15431688	13431688	2000000	800000	1200000	0	1200000
American Hardware MIC	38671	361324	0	361324	144529.6	216794.4	0	216794.4
Central MIC	38671	901728	0	901728	360691.2	541036.8	0	541036.8
Midland Ins. Co., In Liq.	38671	36004549	0	36004549	14401819.6	21602729.4	0	21602729.4
Total		74974978	17616934.3	57358043.7	22943217.48	34414826.22	24711.63	34390114.59

All assumed reinsurance claims having been fixed or barred under the Second Amended Plan, there will be no additional "Allowed Claims" as that term is defined in the Second Amended Plan. Accordingly, there is no longer any need for this Court to approve a payment formula (*i.e.*, a prorated payment of cash and surplus draft), as all remaining liabilities of the estate will be paid on a cash basis.

**Prepayment On Surplus Drafts
Made Under The Second Amended Plan**

In addition to the eighteen claims paid during the past twelve months, during December of 2004 Amreco made a prepayment on \$152,822,165 of the issued and outstanding surplus drafts. One hundred twenty four surplus draft holders participated in the prorated distribution of \$32,371,197.50. The prepayment excluded \$23,243,243 in subordinated surplus drafts issued to Electric Mutual Liability Insurance Company ("Emlico") pursuant to a commutation agreement entered into in 1996. The total principal amount of issued and outstanding surplus drafts was thereby reduced to \$143,694,210.50.

Interest On Surplus Drafts

Amreco pays interest on all outstanding surplus drafts. Amreco made its first interest payment on February 9, 1990. In each subsequent year, Amreco has made an interest payment on or before February 15th of the given year. During the past year, the Rehabilitator issued payment of interest on the then outstanding surplus drafts for the period of January 1, 2004 though November 30, 2004. The amount of this interest payment was \$795,557.76.

Financial Analysis

The following is an unaudited financial analysis of Amreco for the period January 1, 1987 through August 31, 2005:

Financial Analysis of Amreco

(January 1, 1987 - August 31, 2005)

Total assets as of January 1, 1987		\$40,062,340
<u>Income/Recoveries:</u>		
Net pool recoveries	\$172,702,398	
Investment Income	91,899,307	
Non-pool retrocessional recoveries	30,686,065	
Premium income/salvage & subrogation/other	19,124,409	
Total income/recoveries		\$314,412,179
Total assets as of August 31, 2005		\$354,474,519
<u>Reductions:</u>		
Cash portion of claims paid under Amended Plan	\$165,304,198	
Drawdowns by Canadian companies against escrow and trust accounts	18,471,998	
General operating expenses	27,521,059	
Partial redemption of outstanding surplus drafts	47,426,520	
Interest paid on surplus drafts	8,266,033	
Total reductions		\$266,989,808
Total assets as of August 31, 2005		\$87,484,711

Statutory Credit For Surplus Drafts

Since 1992, the Securities Valuation Office of the National Association of Insurance Commissioners ("SVO") has assigned value to the principal amount of the surplus drafts which are included in the reinsureds' annual statement filings with their state regulators. This figure represents the discounted value of the currently projected future payments by Amreco of principal and interest on the surplus drafts, and is re-evaluated on an annual basis. The SVO's valuation as of December 31, 2004 was 32.3%. For the year ending December 31, 2005 the SVO has assigned a value of 36.7%.

Interest Rate For December 1, 2005 Through November 30, 2006

The Rehabilitator proposes that the rate of interest on the surplus drafts for the period from December 1, 2005 through the earlier of November 30, 2006 or the closing of the estate, remain unchanged at one-half of one percent (0.50%), said interest to be paid without compounding. The proposed rate of interest is consistent with the rate of interest paid throughout the course of these rehabilitation proceedings. During this payment period, interest on surplus drafts will accrue at a daily rate of \$2,277.

Litigation And Arbitration

Since rehabilitation began, Amreco has become involved in few disputes that have reached adversarial proceedings. During the past year, Amreco has not been involved in any litigation or arbitration proceedings arising outside of these rehabilitation proceedings. In June of this year, one of Amreco's surplus draft holders, EMLICO served written discovery requests on Amreco seeking discovery with respect to the possible distribution of estate assets and closing of the estate without any payment of principal being made on its \$23,243,243 in subordinated surplus drafts. The Rehabilitator moved to quash the discovery

on the grounds that there was no plan of distribution presently pending before this Court and that EMLICO therefore lacked standing to seek the requested discovery. This Court subsequently granted the Rehabilitator's motion to quash.

CONCLUSION

Wherefore, the Rehabilitator requests that this Court enter an Order:

1. Approving the payment of interest in the amount of \$741,932.21 for the period of December 1, 2004 through November 30, 2005 to all holders of previously issued surplus drafts on or before February 15, 2006, said payment to be made no later than the week of February 15, 2006; and
2. Setting the interest rate on all surplus drafts issued through November 30, 2005 at 0.50% noncompounded interest.

Respectfully submitted,

MICHAEL T. McRAITH
Director of Insurance for the State of Illinois, as
Rehabilitator of American Mutual Reinsurance
Company

BY:



One of his attorneys

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IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE REHABILITATION OF
AMRECO INSURANCE COMPANY

NO. 88 CH 01595

NOTICE OF MOTION

To: See Attached Service List

On December 22, 2005, at 9:30 a.m. or as soon thereafter as counsel
may be heard, I shall appear before the Honorable Judge Mary Anne Mason or any Judge sitting in that
Judge's stead, in the courtroom usually occupied by her, located in room 2108 of the Richard J. Daley Center,
Chicago, Illinois, and present the attached petition at which time you may appear.

Name	Daniel A. Guberman, Esq.	Atty. No.	16819
Address	222 Merchandise Mart Plaza, Suite 1450	Attorney for	Rehabilitator
Telephone	312-836-9500	City/Zip	Chicago, IL 60654

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DOROTHY BROWN
CLERK OF THE CIRCUIT COURT
OF COOK COUNTY, ILL.

PROOF OF SERVICE BY DELIVERY

I, _____, the non attorney* certify that on the _____ day of _____, I served this notice by delivering a copy personally to each person to whom it is directed.
(*strike one)

Under penalties as provided by law pursuant to 735
ILCS 5/1-109 I certify that the statements set forth
herein are true and correct.

Date _____

Signature/Certification _____

PROOF OF SERVICE BY MAIL

I, Brian J. Maloney, the non attorney* certify that I served this notice by mailing
a copy to each party listed at their respective addresses (address on envelope)
and depositing the same in the U.S. Mail at 222 Merchandise Mart Plaza, Chicago, Illinois (place of mailing)
at, or before, 4:30 p.m. on the 15th day of December, 2005, with proper postage prepaid.

Under penalties as provided by law pursuant to 735 ILCS
5/1-109 I certify that the statements set forth herein are
true and correct.

Date December 15, 2005


Signature/Certification _____

NOTE: If more than one person served by mail, additional proof of service may be on the reverse side.

Copy received _____, at _____ a.m./p.m.

SERVICE LIST

AMERICAN MUTUAL REINSURANCE COMPANY

(No. 88 CH 01595)

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COURTESY COPY TO:

THE HONORABLE JUDGE MARY ANNE MASON
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