

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

ROBERTA BROWN CLERK

FILED
CLERK OF THE CIRCUIT COURT
OF COOK COUNTY, ILLINOIS
2009 JAN 15 AM 10:21

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

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 annual report for the year ended December 31, 2008 and petition for approval of payment of interest and rate of interest.

Claims Paid Under The Second Amended Plan

The net dollar value of claims paid by Amreco pursuant to the Amended and Second Amended Plans of Rehabilitation (*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.

The last of Amreco's assumed reinsurance claims was paid in November of 2005. Accordingly, Amreco has no further claims liabilities to be paid pursuant to a cash and surplus draft payment formula.

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 December 1, 2006 through November 30, 2007. The amount of this interest payment was \$833,163.44.

In an order entered on January 25, 2008, this Court approved the accrual of interest, for the period of December 1, 2007 to November 30, 2008, on outstanding surplus drafts at the rate of one-half of one percent (0.50%), without compounding. The Rehabilitator requests that the Court enter an order approving the payment of interest accrued during this period in the aggregate amount of \$833,163.44.

Statutory Credit For Surplus Drafts

Each year since 1992, the Securities Valuation Office of the National Association of Insurance Commissioners ("SVO") has assigned an asset value to the principal amount of the surplus. The SVO's valuation as of December 31, 2007 was 36.7%. For the year ending December 31, 2008 the SVO has assigned a value of 36.7%.

Financial Status of Amreco, In Rehabilitation

The following is the Rehabilitator's Statement of Cash Receipts and Cash Disbursements for the period September 1, 2007 through August 31, 2008:

Assets as of September 01, 2007		\$83,134,805
Cash Receipts:		
Net reinsurance recoveries	1,268,652	
Investment income	3,795,794	
Total Cash Receipts		5,064,446
Cash Disbursements:		
Pool participants share of retrocessional recoveries	1,290,685	
General operating expense	617,904	
Interest paid on surplus drafts	833,163	
Total Cash Disbursements		(2,741,752)
Assets as of August 31, 2008		\$85,457,499

Amreco's operating expenses, including all costs and expenses of the administration of the estate, are reported by the Rehabilitator in quarterly reports to the Court (and, where appropriate, by separate petition), and are contained in the Court Record.

The net reinsurance recoveries includes approximately \$1,268,060.60 in common account reinsurance recoverables collected for the benefit of Amreco and its pool participants. Adding in common account reinsurance recoverables received since August 31, 2008, the Rehabilitator now holds in excess of \$1,401,659.13 for the benefit of pool

participants. During the first quarter of 2009, the Rehabilitator intends to distribute the collected common account recoverables to pool participants. Approximately 43% of the common account recoverables will be retained by Amreco (Amreco's share is derived from its original pool participation level, plus its assumption of the participations of companies that have commuted or bought out their pool liabilities, as well as companies that have become insolvent), and the balance will be paid to active non-commuted pool participants based upon their respective interests in the funds recovered. The funds retained by Amreco will subsequently be applied as part of the final distribution of estate assets.

**Interest Rate For December 1, 2008
Through November 30, 2009**

The Rehabilitator proposes the rate of interest on the surplus drafts for the period from December 1, 2008 through the earlier of November 30, 2009 or the closing of the estate, remain unchanged at one-half of one percent (0.50%), said interest to be paid without compounding. This is consistent with the rate of interest paid throughout the course of these rehabilitation proceedings and (if the estate is not closed prior to November 30, 2009) will result in an aggregate payment of \$833,163.44.

Pending Litigation

Since rehabilitation began, Amreco has become involved in a few disputes that have culminated in adversarial proceedings. During 2008, the Rehabilitator was involved in one significant dispute affecting Amreco's rehabilitation.

**Rehabilitator's Petition For Approval
Of Procedures For A Final Distribution
And Closing Of The Estate – Various Objectors**

In May of 2007, the Rehabilitator filed with this Court his Motion for approval of procedures for a final distribution and closing of the estate. Those procedures included

procedures for notice, comment and hearing and in response to the notice provided by the Rehabilitator, six timely objections were received. Under these procedure, each surplus draft holder would receive a final *pro rata* distribution based upon the outstanding principal amount of their surplus drafts. Certain guaranty fund certificate holders, whose claims fall at a lower priority level, objected. They asserted that either the estate must stay open until the end of 2041 or the final distribution must be calculated on a discounted to present value basis. The objections were fully briefed and then argued on December 12, 2007. On December 18, 2007, the Court entered an order overruling the objections and granting the Rehabilitator's motion. The court set the matter for status on January 25, 2008, by which time the objectors were to file any motions for reconsideration. The objectors then filed a motion for reconsideration which was denied. The objectors then filed a timely notice of appeal. Due to difficulties compiling the 21-year record, the objectors obtained three extensions of time for the filing of the record on appeal which was finally filed on December 1, 2008. Briefing on the appeal has commenced, but at this time, it is not known when the appeal will be argued or the decision issued.

CONCLUSION

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

1. Approving the payment of interest in the amount of \$833,163.44 for the period of December 1, 2007 through November 30, 2008 to all holders of surplus drafts, said payment to be made no later than the week of February 15, 2009; and

2. Setting the interest rate on all surplus drafts at 0.50%, without compounding for the period of December 1, 2008 through November 30, 2009.

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 AMERICAN MUTUAL REINSURANCE
COMPANY

NO. 88 CH 01595

NOTICE OF MOTION

To: See Attached Service List

2009 JAN 15 AM 10:21
COURT OF THE CHANCERY DIVISION
CLERK

On January 22, 2009, at 9:30 a.m. or as soon thereafter as counsel
may be heard, I shall appear before the Honorable Mary A. Mason or any Judge sitting in that
Judge's stead, in the courtroom usually occupied by him/her, located in room 2510 of the Richard J. Daley Center,
50 W. Washington Street, Chicago, Illinois, and present
the attached petition at which time you may appear.

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

PROOF OF SERVICE BY DELIVERY

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

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, Richard C. Abron, the non attorney* certify that I served this notice by mailing
(*strike one)
a copy to each party listed at their respective addresses
(address on envelope)

and depositing the same in the U.S. Mail at Merchandise Mart Plaza, Suite 1450, Chicago, Illinois
(place of mailing)

at, or before, 4:30 p.m. on the 15th day of January, 2009, 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 January 15, 2009
Richard C. Abron
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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