

ARM ASSET BACKED SECURITIES SA - IN PROVISIONAL LIQUIDATION

The Joint Provisional Liquidators' monthly update to Bondholders and other creditors for the period 4 February 2014 to 24 March 2014

Definitions

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| AHC | the Ad-Hoc Committee of Bondholders elected at the Bondholders' Meeting |
| BDO | BDO LLP |
| Bondholders | all those who invested money in the Issuer, irrespective of the Issue in which they invested (to include other creditors for ease of reference) |
| Bondholders' Meeting | the meeting of the Bondholders that took place on 3 February 2014. |
| CIGL or Catalyst | Catalyst Investment Group Limited |
| CSSF | the Commission du Surveillance du Secteur Financier, the Luxembourg financial services regulator |
| FCA | the Financial Conduct Authority |
| FCIL | Financial Credit Investment I Limited, the counterparty to the sale of the Issuer's SLS policies in 2012 |
| FSCS | the Financial Services Compensation Scheme |
| Issuer | ARM Asset Backed Securities SA (in provisional liquidation) |
| MFSA | the Maltese Financial Services Authority |
| Period | 4 February 2014 to 24 March 2014 |
| Pending Investors | those Bondholders who invested in Issues 9 to 11 and whose investment makes up the Pending Monies (the term Bondholder here is used for ease of reference and without prejudice to the determination of the issue of whether the relevant Bonds were issued or not) |
| PLs or Provisional Liquidators | the provisional liquidators, namely Mark Shaw and Malcolm Cohen of BDO |
| Pending Monies | the monies which were frozen by the Financial Services Authority (as it then was), representing part of Issue 9 and all of Issues 10 and 11 |
| PIG | the Pending Investors' Group |
| SLS | Senior life settlement policies |

1 Introduction

- 1.1 The Provisional Liquidators of the Issuer were appointed by the English High Court of Justice on 9 October 2013, under case number 6914 of 2013.
- 1.2 The purpose of this report is to provide Bondholders with an update as to the progress made in the provisional liquidation during the Period. The PLs are not obliged by statute to report to Bondholders in this manner, but wish all the same to do so to keep all parties apprised of progress which has been made. Disclosure will not be made in respect of issues which may prejudice Bondholders' interests, for example because of legal privilege or commercial confidentiality reasons.
- 1.3 The events leading up to and progress made in the provisional liquidation to 3 February 2014 were detailed in the PLs' presentation to Bondholders dated 3 February 2014. A copy of the presentation is available on the PLs' website:
http://www.bdo.co.uk/_data/assets/pdf_file/0005/174947/Presentation-to-Bondholders.pdf
- 1.4 This report should be read in conjunction with this presentation to Bondholders, and the PLs have therefore not repeated their commentary about the background of the provisional liquidation or the progress made in the period to 3 February 2014 in this report.

2 Progress of the provisional liquidation

The Ad-Hoc Committee

- 2.1 Subsequent to the meeting of Bondholders on 3 February 2014, the PLs confirmed the details of the members of the AHC. It was originally intended for the AHC to comprise 5 Bondholders plus the FSCS. However, based on the votes cast, the PLs determined that the appropriate committee structure would be to appoint 4 individual Bondholders, plus the FSCS and the MFSA.
- 2.2 The 4 individual Bondholder candidates who were ranked 1 to 4 in the voting process (listed in alphabetical order) were:
 - Peter Mackenzie;
 - Gordon Pullan;
 - Bob Sharpe; and
 - Ian Ward.
- 2.3 The PLs noted that certain votes were cast with the purported intent to effect independent representation of Maltese Bondholders, who form a noticeable constituency within the Issuer's Bondholder community.
- 2.4 Accordingly, to ensure there is Maltese representation, the PLs have asked the MFSA if they would also participate in the committee discussions on an *ex officio* basis to represent the interests of Maltese Bondholders generally.
- 2.5 The MFSA have agreed to perform this role and are contemplated to serve in this capacity until further notice.
- 2.6 The first AHC meeting was held on Monday 17 March 2014; all members of the AHC were present either in person or via conference call.
- 2.7 All AHC members have signed a non-disclosure agreement, which was a condition of membership to the AHC. The purpose of this was to allow the PLs openly to share information that may be confidential or legally privileged with the representatives of the Bondholders to obtain their views. Without these agreements being in place, the PLs could not disclose this information.

- 2.8 The role of the AHC members is not to canvas the views of the wider Bondholder community or to disseminate information shared at the AHC meetings. Indeed, as a result of entering into these agreements, members of the AHC are legally prohibited from sharing confidential information with third parties, including other Bondholders. The AHC act as a 'sounding board' to the PLs, they have no formal powers and will not make decisions on behalf of the Bondholder community.
- 2.9 To the extent possible, the matters discussed at the AHC meetings will be communicated to the Bondholders through these monthly update reports.
- 2.10 Bondholders should be clear that the PLs were not under an obligation to create the AHC, but felt it was the right thing to do to ensure as much engagement with Bondholder representatives as possible. Bondholders should also understand that it is simply not in their interests to have the provisional liquidation conducted, in effect, in public.

The Pending Investors Group

- 2.10 The PLs are aware of there having been some disappointment amongst Bondholders that none of the potential candidates to sit on the AHC was a 'pure' Pending Investor (ie had only invested in Issues 9, 10 or 11).
- 2.11 The PLs were contacted by a 'pure' Pending Investor requesting an opportunity for a representative of the PIG to meet with the PLs separately to the AHC. Mr Robert Page has since been elected as the spokesperson of the PIG, and a meeting was held with him on Wednesday 19 March 2014.
- 2.12 Mr Page is subject to the same non-disclosure agreement as the members of the AHC and therefore is unable to provide details of the issues discussed at the meetings with the PLs. However, once again, where possible, these matters will be communicated to the Bondholders through the monthly updates. It is not anticipated that Mr Page will receive information which the AHC do not in these bilateral discussions.

Minutes of the Bondholders' Meeting and schedule of questions and answers

- 2.13 Minutes of the Bondholders' Meeting and a schedule of questions received and answers given at the meeting have now been uploaded to the PLs' website.

Bondholder identification forms

- 2.14 The deadline for Bondholders to return their identification forms to the PLs was 13 February 2014. The PLs received a large volume of responses from individual Bondholders, IFAs and SIPP trustees.
- 2.15 The information provided has been collated and compared against that held by the Issuer and used to create a schedule of Bondholders. Both that schedule and the forms provided have been made available to the FSCS, and it is anticipated that the information gathered will assist the FSCS when the claims process against CIGL opens.

The FSCS claims process

- 2.16 The PLs have continued to offer their assistance to the FSCS where requested to ensure that the claims process is opened as soon as possible. Bondholders should continue to review the FSCS's website for any further announcements:

<http://www.fscs.org.uk/news/>

- 2.17 It is understood that the FSCS are planning to issue the application forms imminently.

Engagement with FCIL

- 2.18 The PLs have continued to liaise with FCIL with regards to disclosure of certain aspects of the agreement under which the underlying SLS were sold to them.
- 2.19 FCIL has been forthcoming and helpful in its communication with the PLs, and a mutual desire to provide the Bondholders with further information has led to an RNS being released on 10 March 2014. The RNS can be found on our website as below:

http://www.bdo.co.uk/_data/assets/pdf_file/0014/176000/RNS-ARM-ABS-SA-10-March-2014.pdf

- 2.20 The PLs have continued to work with FCIL in respect of the remaining excluded policy and potential flexibility in the future performance of the contract.

Engagement with the FCA

- 2.21 The PLs are liaising with the FCA to find a way in which the Pending Monies might be moved from non-interest bearing to interest bearing accounts. The PLs remain optimistic about achieving this in the near future.

Pending Monies

- 2.22 The PLs have instructed independent legal counsel in Luxembourg to prepare an expert opinion regarding the ownership of the Pending Monies and continue to consider this issue. This will ultimately be used by the PLs to determine whether it will be necessary for the PLs to make an application to the English court to determine how the Pending Monies should be applied.

Transfer of Bonds

- 2.23 During the course of the provisional liquidation, a number of Bondholders have expressed their desire to transfer their Bonds due to particular circumstances.
- 2.24 The Bonds are, in accordance with the terms, non-transferable. The PLs have, however, been working with their legal counsel in the UK and Luxembourg to produce a protocol under which Bondholders may apply to the PLs for consent to transfer their Bonds in specified circumstances.
- 2.25 The PLs anticipate publishing the details of this protocol on their website within the next 2 weeks.

Bank accounts

- 2.26 The Issuer's cash at bank is currently held in its accounts in Luxembourg that were established prior to the appointment of the PLs. Currently, the PLs are able to make payments with the consent of the Supervisory Commissioner.

Restructuring proposals

- 2.27 The PLs have received one restructuring proposal. This is under consideration, and the PLs will respond to the parties who submitted the proposal in due course. Further proposals will be considered as and when they are received.

Luxembourg liquidation application

- 2.28 As discussed at the Bondholders' Meeting, the PLs had anticipated that this matter had been dealt with through their correspondence with the Public Prosecutor in Luxembourg and the CSSF in 2013.
- 2.29 However, it was discovered on 5 March 2014 that the Public Prosecutor had filed for the liquidation of the Issuer in Luxembourg on 3 March 2014.
- 2.30 The hearing was held in Luxembourg on 20 March 2014. The Issuer was represented by Bonn & Schmitt, the PLs' Luxembourg counsel, and Mark Shaw attended in person. The PLs opposed the Luxembourg application vigorously, consistent with the views of the AHC.
- 2.31 The Luxembourg judgment will not be handed down until 8 May 2014. It is the PLs' intention to continue to progress the provisional liquidation in the meantime.

- 2.32 The PLs have also made an application to the English court for what is known as declaratory relief. In effect, this is for the English court to declare that the Luxembourg liquidation proceedings may not be brought because of the appointment of provisional liquidators in England and hence should not proceed. The court hearing for this is 28 March 2014.

Bondholder queries

- 2.33 Please find attached at Appendix A the queries submitted by Bondholders during the Period.

3 Next report from the PLs

- 3.1 It is the intention of the PLs to provide their next progress report to Bondholders in the final week of April.

Mark Shaw

Joint Provisional Liquidator

28 March 2014

Appendix A - queries submitted by Bondholders

Q 12.1

As there seems to be a little confusion with the records of the Issuer and CIGL; is it possible for individuals to check with the PLs and the FSCS that there is a correct record of their investments held by these bodies?

BDO and the FSCS have been working together to ensure that the details collected from all the available sources are collated so that we are in possession of the most accurate schedule of Bondholders as possible. Unfortunately, we are not currently in a position to respond to individuals who wish to confirm that their details are held correctly.

We would ask all Bondholders to complete and return the ID request forms, if they have not already done so.

Q 12.2

If the PLs are able to offer a solution prior to the FSCS commencing their claims process, it could assist those who have invested greater than £50,000 in obtaining a higher return for their investment by allowing them to receive a dividend and subsequently claiming from the FSCS for the shortfall. Will this be possible?

The FSCS intends to open its claims process imminently. However, due to the complex nature of the Issuer's affairs, the provisional liquidation is likely to last for at least the remainder of this year. As previously stated, the PLs cannot distribute funds. Bondholders are not obliged to claim from the FSCS as soon as the claims process opens, so it may be possible to postpone claiming in anticipation of a distribution from the Issuer. Any Bondholder who intends to pursue this strategy should heed the limitations specified by the FSCS. The PLs are not able to advise Bondholders in this regard, and we recommend you discuss this issue with your own advisers before making any decisions.

Q 12.3

Do the Pending Monies presently held by the FCA consist of 100% of the monies from Issues 9, 10 and 11, or have advisors' and/or distributors' commission been deducted? If commission relating to these investments has not been deducted, has it been paid in other ways?

We understand that the FCA's decision to freeze the Pending Monies (the FCA do not actually hold these monies) occurred after some funds from Issue 9 had been transferred to the Issuer's accounts. However, we are not aware of any sums having been deducted from the funds since they were frozen, and are not aware of commission having been deducted in any other way.

Q 12.4

Will it be possible for the PLs to set up a central email address which can be utilised by Bondholders to submit queries to the AHC?

This is not the role of the AHC. As mentioned, the members of the AHC are subject to confidentiality obligations, and it is not their role to act as a liaison between the Bondholders and the PLs. Queries in respect of the provisional liquidation should be submitted to the usual email address, and the PLs will answer them insofar as they are able.

Q 12.5

If I am not satisfied with the outcome should I take legal action against BDO?

The PLs were appointed as to the Issuer by the court and they are officers of the Court. Their overarching responsibility is to act in the interest of all Bondholders in the round.

It is inevitable in a case like this, with so many issues and competing interests that the PLs will not be able to please all of the Bondholders at all times.

It is not for us to advise individual Bondholders, but Bondholders should be aware that the PLs are regulated professionals. Any complaint against the PLs can be directed to the Insolvency Service gateway, a link to which is set out below:

<http://www.bis.gov.uk/insolvency/contact-us/IP-Complaints-Gateway>

Q 12.6

A guarantee was given by the Issuer (as set out in their ARM Assured Income Plan) of an increase of the invested amount of 10.25% annually for 10 years. As vouchers were only paid until October 2010, where will the remaining interest be coming from?

The PLs will consider this issue and provide their views on how investor claims should be calculated at a later stage.

Bondholders who wish to claim under the FSCS claims process should ensure that they make full disclosure of all potential claims against the Issuer they may have.

Q 12.7

Is it possible all of the money will still be lost?

No, under the terms of the sale and purchase agreement, the Issuer is entitled to receive c\$68m of deferred consideration (subject to the terms of the SPA). This consideration, again subject to the terms of the SPA, will ultimately be for the benefit of the Bondholders.

Q 12.8

Will the recovered money be paid directly to the Bondholders?

Insofar as Bondholders claim against the FSCS claims process, we understand that successful compensation claims paid by the FSCS tend to be paid direct to Bondholders rather than through intermediaries.

Funds distributed from any insolvency process which is ultimately approved would be paid to the registered owner of the Bonds. Funds distributed as part of a restructuring process would be distributed in accordance with its terms.

Q 12.9

Does the simplistic valuation of the Issuer's assets of possibly up to 45% include the Pending Monies?

The range of outcomes takes into account differing treatment of the Pending Monies in each scenario.

The following questions are, we believe, already covered by current FAQs and the preceding update, as published on our website:

- When will the issue regarding pending investors be resolved? Answered Q 1.8, Q 3.8, Q 6.3.
- Will my investments be repaid in full with any dividends earned into my SIPP now with Carey Pensions UK? Answered on page 10 of the Presentation to Bondholders (3 February 2014).
- My money was invested with Rockingham Tranche 7; do I therefore have priority as a creditor? Answered on page 18 of the Presentation to Bondholders (3 February 2014).
- How long will it take to resolve this already protracted problem? Answered on page 27 of the Presentation to Bondholders (3 February 2014).

- What percentage of our investment is expected to be recovered?
- What are the odds of being repaid some or all of the money that was lost?
- I would like to get an understanding of ARM's financial position; that is, a summary of the assets by class and value, and also the liabilities? Answered on page 10 of the Presentation to Bondholders (3 February 2014).
- What are the remaining obstacles to resolving the uncertainties? Answered in the Presentation to Bondholders (3 February 2014).
- What is the approximate timing when cash will be remitted back to my SIPP? Answered on page 27 of the Presentation to Bondholders (3 February 2014).
- Please confirm that the value of my investment is underwritten by SLS policies that have been fully paid for. Answered in the RNS dated 10 March 2014 and in the Presentation to Bondholders dated 3 February 2014.
- Who currently is the Custodian of the Life Assurance policies securing my Bonds and the assets underlying them? Answered in the RNS dated 10 March 2014 and in the Presentation to Bondholders dated 3 February 2014.
- What announcements officially stating the value of the assets I have bought have been issued since the date of purchase until the present date, and what estimates of value will be given in the future? Answered in the RNS dated 6 January 2014.
- You advised in your presentation that you have resolved the issue of bond transferability. Could you please provide more detail? Does this relate to the transfer of a bond out of a SIPP? Answered at paragraphs 2.18 to 2.20.
- How much interest is being shown in the market for a possible restructuring of the Issuer? Answered at paragraph 2.23.