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ARM ASSET BACKED SECURITIES SA - PROVISIONAL LIQUIDATORS APPOINTED (THE 'ISSUER')

FREQUENTLY ASKED QUESTIONS - SUBMITTED WEEK ENDED 20 DECEMBER 2013

The Provisional Liquidators would like to apologise to Bondholders and other creditors for the delay in putting these FAQs onto our website. Given the holiday period, the next FAQs will be posted during the week commencing 6 January 2014.

Q 8.1

Have the Provisional Liquidators received the legal advice relating to the confidentiality issues surrounding the FCIL sale?

The Provisional Liquidators are still considering the position regarding the confidentiality issues surrounding the FCIL sale. Until they can be certain that there will be no detrimental effects of releasing such information, they will refrain from doing so. This position is adopted solely to protect the interests of the Issuer and consequently its Bondholders/other creditors.

Q 8.2

Has any progress been made on the provision of the statement of affairs or the accounts? Do the Provisional Liquidators have an expected date by which the accounts may be available? Has a remuneration package been discussed with the staff that will be completing the accounts?

The Provisional Liquidators are in discussions with the accounting team and have received a proposed timetable and cost for the completion of the accounts. Allowing for a contingency, it is estimated that these will take up to 3 months to complete. The agreement with the accounting team will be finalised imminently.

A statement of affairs has not been received. The Provisional Liquidators remain intent on receiving a statement of affairs.

Q 8.3

Are the directors of the Issuer co-operating with the Provisional Liquidators and have they provided the information the Provisional Liquidators have requested?

The directors of the Issuer are co-operating with the Provisional Liquidators, and have provided information where requested, save for the statement of affairs.

Q 8.4

Will the Provisional Liquidators investigate transactions which may lead to actions which could potentially recover further funds for the Issuer?

The Provisional Liquidators were provided with various powers under the Order appointing them, one of which was to investigate the affairs of the Issuer.

If, in the course of carrying out their appointment, it becomes apparent that there have been actions which have caused a loss to the Issuer and its Bondholders/other creditors, the Provisional Liquidators will investigate these issues further and consider the appropriate action, to the extent that there is a benefit to the Bondholders/other creditors in doing so.

If any Bondholder or other creditor has a specific issue they would like the Provisional Liquidators to investigate, please could they provide full details by email to arm.abs.sa@bdo.co.uk.

Q 8.5

Is it possible to transfer ARM bonds from an IFA's nominee account into the client's personal name?

This is not a straightforward issue; we are researching it and will respond when we have the answer.

Q 8.6

Have the Provisional Liquidators been able to access the Issuer's bank accounts? How are the Provisional Liquidators able to make payments?

The Provisional Liquidators are currently exploring the most efficient way to repatriate funds held in Luxembourg banks to accounts held in the name of the provisional liquidation in the UK. The Provisional Liquidators are working with the Supervisory Commissioner on this.

Q 8.7

What costs have the Provisional Liquidators incurred to date, and what do they estimate their costs will be up to when the proposed meeting of Bondholders is held?

The Provisional Liquidators' time costs to date total £150,711. The "run rate" of our fees will vary depending on the work needed in any period. The fees to date inevitably reflect an element of "set up" costs.

The Provisional Liquidators contemplate holding a meeting of Bondholders at the end of January or beginning of February 2014. As there are understood to be c4,000 Bondholders, the Provisional Liquidators wish to manage the costs of hiring a venue as much as possible.

To this end, please could Bondholders advise the Provisional Liquidators by the arm.abs.sa@bdo.co.uk email address whether they wish to attend such a meeting. Please could we ask that this confirmation be sent to us by the close of business on Monday 6 January 2014.

Bondholders and other creditors should be clear that this process is only to provide us with an idea of numbers so we may book an appropriate venue. Formal notice will be sent by RNS and through clearing nearer the time.

It is unknown what issues may arise in the provisional liquidation prior to such a meeting being held, hence the Provisional Liquidators believe it is not meaningful to estimate future time costs at this point. Bondholders and other creditors should be aware that our fees will be subject to assessment and approval by the court before they are finalised.

Q 8.8

Will the Provisional Liquidators take note of the legal opinions obtained by the Issuer with regard to the Pending Monies and refrain from taking further advice in the UK or Luxembourg? Has any progress been made on this issue, and will an application to court be required? Have the lawyers commenced work on the Pending Monies issue and when can we expect to hear the outcome of this work?

The Provisional Liquidators have now obtained copies of all the relevant legal opinions obtained by various parties prior to their appointment. These opinions offer conflicting viewpoints of the legal issues surrounding the Pending Monies, and there are many unresolved questions on which the Provisional Liquidators have sought legal advice. This is not unexpected given the complexity of the issue and the fact that more than one jurisdiction is involved.

The Provisional Liquidators' lawyers are working on this issue. As has been explained previously, the Provisional Liquidators see this as a key issue to be expedited and are in regular contact with their lawyers in this regard, though it is not possible to provide a definite timescale on when the outcome will be available.

Q 8.9

Can the Provisional Liquidators give an indication or approximation of the asset value of the Issuer at the time of the recent court case?

The Provisional Liquidators assume that "recent court case" refers to the date of the appointment of the Provisional Liquidators. We have previously disclosed that the "value of the Issuer's assets presently appears to be less than the value of its liabilities".

The Provisional Liquidators believe it is appropriate to make further disclosure to Bondholders and other creditors in connection with this statement. This is based on their current understanding of the Issuer's position. The information cannot be warranted as complete or accurate and has not been verified in any way.

- The Provisional Liquidators are not able to disclose at this time details of the makeup of the Issuer's assets or liabilities.
- They are, however, able to disclose a current and preliminary estimate of the overall ratio of the book values of the Issuer's assets to the book values of its liabilities. No account is taken of the time value of money on assets or liabilities, nor of costs.
- This ratio appears to be between 34% and 45%, depending on the assumptions applied to various legal and financial issues.
- The relevance of these assumptions will become clearer over time as the Provisional Liquidators progress with their review of the Issuer's financial and legal position in more detail and the issues are resolved.
- The Provisional Liquidators very much appreciate that what is disclosed above is a limited and perhaps simplistic analysis. However, the alternative to this limited and caveated disclosure would be no information at all at this time, which we do not feel would be in the interests of Bondholders or other creditors.
- As the issues in this case develop, the Provisional Liquidators propose to refine these estimates and periodically to communicate more detailed information to Bondholders and other creditors.

Q 8.10

Has the Issuer received any monies from FCIL for the sale of the assets?

As detailed in Q8.1, the terms of the agreement with FCIL are believed to be confidential and, until the Provisional Liquidators can be sure that releasing such information will not constitute a breach of the agreement, they cannot comment further. Bondholders and other creditors should, however, rest assured that the Provisional Liquidators are taking all appropriate steps to preserve, protect and maintain the assets of the Issuer.

Q 8.11

Has the final policy been transferred over to FCIL yet? Should Bondholders be concerned about the delay and is this being engineered by anyone for some purpose?

Please refer to Q8.10.

Q 8.12

Have the Provisional Liquidators had sight of the terms and conditions of the FCIL deal, or do the confidentiality requirements of the sale also prevent the Provisional Liquidators from obtaining this information?

The Provisional Liquidators and their lawyers have had sight of the terms and conditions of the FCIL deal.

Q 8.13

When the Luxembourg court placed the Issuer into liquidation, they stated that the Supervisory Commissioner's duties were discharged; have the Provisional Liquidators been able to consult with the Supervisory Commissioner?

The Issuer has not been placed in liquidation in Luxembourg, and the Supervisory Commissioner is still in office. The Provisional Liquidators hold regular conference calls with the Supervisory Commissioner to discuss aspects of the case which would benefit from their cooperation. The Supervisory Commissioner has assisted the Provisional Liquidators whenever requested.

Q 8.14

Have the US firms involved been notified of the Provisional Liquidation?

The US firms involved have been notified of the provisional liquidation.

Q 8.15

Have the Provisional Liquidators initiated a dialogue with FCIL to progress the sale of the Issuer's assets?

The Provisional Liquidators have contacted FCIL in this regard.

Q 8.16

Is it likely that the Bondholders will see no details of the sale of assets until the FCIL accounts are issued after April 2014?

We presume this question refers to the Issuer's accounts rather than those of FCIL. It is not possible to comment on the relative likelihood of the details of the FCIL sale being disclosed prior-to or post-April 2014. As is set out above, the Provisional Liquidators are still considering the position with their lawyers on the confidentiality of the sale agreement. The Provisional Liquidators have made such disclosure as they feel they are able to at this time at Q8.9 above.

Q 8.17

Given that the Provisional Liquidators cannot get the Issuer to produce the last 3 years' statutory accounts, how can the Provisional Liquidators promise that there will be proposals in January 2014? Are the Provisional Liquidators closer to formulating proposals for the Issuer? When will they be available? How will the proposals be circulated (a bondholders/creditors meeting, by post, by email, other) and how will this process work when bonds are legally owned by a SIPP Trustee?

We commented above at Q8.2 on the position with the accounts.

The proposed Bondholder/other creditor meeting will likely be an opportunity for the Bondholders and other creditors to meet and engage with the Provisional Liquidators and to discuss the creation of an ad-hoc committee, rather than to present or finalise a detailed plan for restructuring or other alternatives.

Cases like this inevitably take time to progress, especially where more than one jurisdiction is involved. This is all the more the case where the FSCS may offer compensation, which is the case here. By the time the Bondholder/creditor meeting is held, we expect to have a better understanding of the extent to which the FSCS may or may not offer compensation to Bondholders.

It is the Provisional Liquidators' intention to circulate proposals to Bondholders/other creditors as soon as practicable in 2014, and this will be done by various methods to ensure they come to the attention of Bondholders, including post via Clearstream. We are conscious that not all Bondholders will have access to email or the internet. In advance of such proposals being circulated to Bondholders/other creditors, we contemplate consulting with any ad hoc committee on them. Further, we contemplate that Bondholders/other creditors will vote on any proposals before they are implemented.

If the Bonds are legally owned by a SIPP Trustee, the recipient of the correspondence would be the details held by the Issuer. In many cases, this is the office of the SIPP Trustee. It would then be the responsibility of the SIPP Trustee to disseminate this information to the individual Bondholders. We will give sufficient formal notice of any Bondholder/creditor meeting to allow SIPP Trustees etc to forward notices etc in good time for the meeting. We will also have staff available to answer Bondholder questions on the papers, as we also appreciate that some Bondholders may need assistance in this regard.

Q 8.18

How can the Pending Monies ownership issue be resolved without sight of the statutory accounts, since the close scrutiny of these accounts may impact the Issuer's claim to these monies?

The Pending Monies ownership issue is a question of law and of fact. The provision of the statutory accounts is not likely to affect our approach to resolution of the Pending Monies issue, based on current understanding.

Q 8.19

Have the Provisional Liquidators determined if the Issuer had statutory UK insurance?

We are not aware of any such insurance, but continue to consider the issue.

Q 8.20

Have the Provisional Liquidators decided if an ad hoc committee should be formed and, if so, who should be the members of the committee?

This matter will be discussed and determined at the initial Bondholders'/creditors' meeting as mentioned at Q 8.17 above. The Provisional Liquidators would still very much like to see an ad hoc committee formed.

Q 8.21

Will the Provisional Liquidators please ensure that the failures of the directors of the Issuer to comply with their statutory duties are brought to the attention of the appropriate authorities?

The Provisional Liquidators will naturally comply with their statutory and best practice duties in this respect.

In addition, if Bondholders or other creditors have any specific matters they would like to bring the Provisional Liquidators' attention, please could we ask that they do so by emailing us at arm.abs.sa@bdo.co.uk.

Q 8.22

Has the legal advice on the relative ranking of the bonds been received?

We have received advice regarding the relative ranking of the Bonds as between themselves. This advice is that the documentation is inconsistent. Therefore, we would be required to make an application to Court for directions for the issue to be determined. This issue will likely need to be taken into account in the makeup of any ad hoc committee.

Q 8.23

Have the Provisional Liquidators discussed the matter of the interest earned on Pending Monies with the FCA, and what was the outcome?

We will follow this matter up with the FCA.

Q 8.24

Are the Provisional Liquidators in a position to provide a full view of the Issuer's financial position? If not, when can we expect to see this information published?

We hope that the answer to Q8.9 above assists Bondholders and other creditors in this regard. We re-iterate that we will periodically refine this information as we are able.

Q 8.25

When can we expect the proposed RNS to be released setting out a high level view of the Issuer's financial position?

We propose to cleanse the information provided at Q8.9 above as soon as practicable by an RNS.

Q 8.26

Will the Provisional Liquidators please advise how their investigations into the financial position of the Issuer are progressing?

We believe that this question is answered at various points above.

Q 8.27

Have the Provisional Liquidators formed a view as to the likely exit route from Provisional Liquidation?

At this stage, the Provisional Liquidators cannot confirm what likely exit route will be put to the Bondholders/other creditors. If the FSCS provide compensation to Bondholders, we expect that the FSCS will have a view on the exit route as they will likely become the largest single creditor of the Issuer.

Q 8.28

Have any formal restructuring proposals been received?

The Provisional Liquidators are yet to receive any formal restructuring proposals, but are aware of parties who are currently formulating proposals. If the FSCS provide compensation to Bondholders, we expect that the FSCS will have a view on the Provisional Liquidators' strategy, as they will likely become the largest single creditor of the Issuer.

Q 8.29

Are the Provisional Liquidators engaging with the FSCS on compensation for Bondholders? Are the Provisional Liquidators engaging with the FCA and other regulators?

Although compensation for the FSCS is a matter for the FSCS, we are engaging as appropriate with the FSCS and are in regular dialogue with them to assist them in their process. We are also engaging as appropriate with the FCA and other regulators.

We believe that the questions below have already been answered.

- Have the Provisional Liquidators and their legal advisers completed their review into the terms and conditions of the FCIL deal, and what was the outcome of the review?
- Have the Provisional Liquidators received confirmation of the sum for which the assets which the Bonds were backed by were sold and are they yet in a position to release the information? If not, what are the obstacles to releasing the information and when do the Provisional Liquidators anticipate such information will be released?
- Are the Provisional Liquidators in a position to release any information relating to the ownership of the Pending Monies?
- Have the Provisional Liquidators received legal advice on the confidentiality surrounding the FCIL agreement and can any information be released?
- Have the Provisional Liquidators received the Statement of Affairs? When can we expect this to be published?
- Surely there must be statutory sanctions which can be taken against the directors for failing to perform their statutory obligations (disqualification, fines, etc)?