

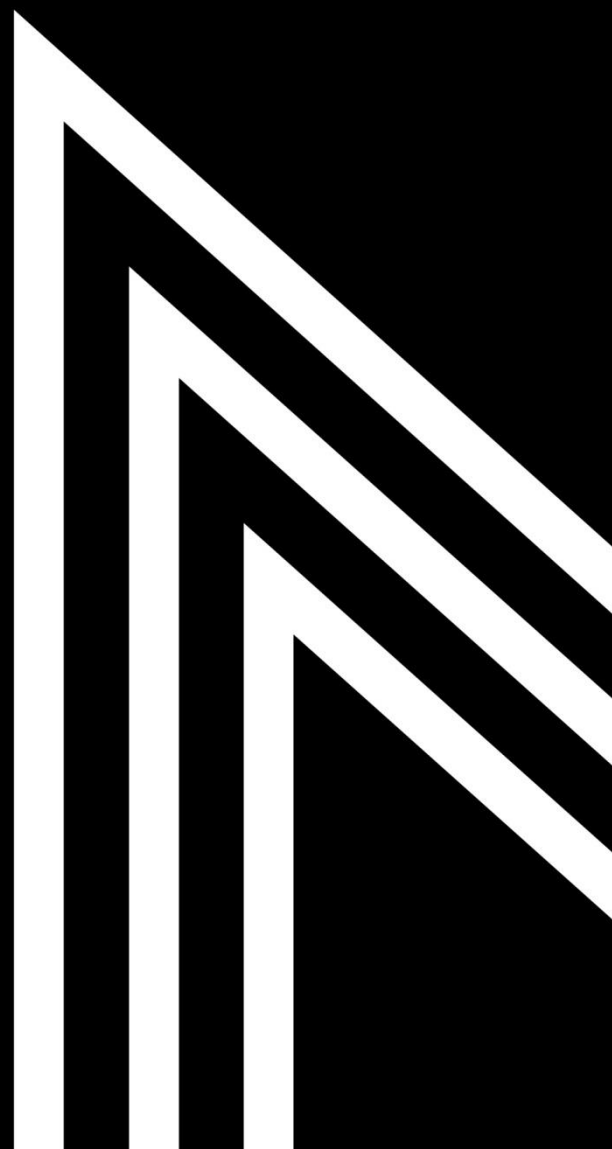
FAI General Insurance Company Limited
ACN 000 327 855
(In Liquidation and subject to a Scheme of Arrangement)

Scheme Administrators' Annual Report to Creditors

30 June 2017



McGrathNicol



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1 Introduction & Background

1.1 Introduction

This is the eleventh annual report to the Creditors of FAI General Insurance Company Limited (In Liquidation and subject to a Scheme of Arrangement) ("FAIG").

The report has been prepared in accordance with clause 43.2 of the Scheme of Arrangement, which became operative in Australia on 30 May 2006. Under the terms of the clause: "Within three months after each anniversary of the date, being either 31 December or 30 June, at the discretion of the Scheme Administrators, after The Australian Scheme becomes effective, the Scheme Administrators shall report to the Scheme Creditors on the progress of The Australian Scheme, including details of remuneration paid to the Office Holders, since the date of the last such report". Accordingly this report has been prepared for the period to 30 June 2017. It also covers any significant events between that date and completion of the report.

Following the last annual report dated 30 June 2016 and upon consultation with the FAIG English Scheme Creditors Committee, the FAIG English Scheme Administrators terminated the FAIG English Scheme with effect from 19 April 2017. The FAIG English Scheme Administrators' final report to 31 October 2016 is available on the HIH website.

1.2 Background

HIH Insurance Limited and certain of its major subsidiaries were placed into Provisional Liquidation on 15 March 2001, and subsequently into liquidation on 27 August 2001. In total, eighty-two HIH Group companies in Australia have been placed into liquidation.

Summary details of the history of the group, its failure and background information are available on the HIH website at www.hih.com.au. The HIH Royal Commission established by the Australian Federal Government has also prepared an extensive report on the failure of the group.

Schemes of Arrangement for the eight licensed insurance companies in the HIH Group in Australia, including FAIG, became effective on 30 May 2006, following approval by Creditors and the Court. Schemes of Arrangement for the UK branches of four of these companies became effective in the UK on 13 June 2006. Each of the Schemes has a Record Date (the date at which liabilities are measured) of 27 August 2001 and an estimation date of 31 May 2013 wherein all outstanding claims are valued.

The bar date for submission of Final Claim Forms by Scheme Creditors against the eight licensed insurance companies in the HIH Group was set at midnight British Summer Time on 2 September 2013. Under the terms of the Schemes, no further claims can be accepted after this date.

Four of the eight Schemes have now been finalised and terminated in accordance with clause 63.1.

The FAIG Australian Scheme remains in the "Estimation" phase. Apart from the New Shareholders Claims defined in section 2 of this report, all claims lodged have been agreed and quantified.

2 Principal Developments To Report During The Period

The principal developments to report during the period were:

- We liaised with the solicitors of the various groups of HIH Insurance Limited ("HIH Insurance") shareholders ("Plaintiffs") to seek to agree the basis for calculating and admitting the Plaintiffs' damages claims in the FAIG and HIH Casualty & General Insurance Limited ("HIH C&G") Schemes and in the HIH Insurance liquidation.

We were unable to agree an acceptable methodology for claims calculation with the Plaintiffs' solicitors and sought Court directions in order to progress the issue. At a hearing on 10 March 2017, the Court ruled on a variety of points raised by both parties. The rulings were mainly in line with our views and resulted in the Plaintiffs' claims being quantified and confirmed by Court Orders dated 28 April 2017.

Plaintiffs have now received dividends equal to those paid to the general pool of creditors.

- Whilst the legal action is now finalised, the NSW Supreme Court judgement issued in April 2016 has resulted in further groups of HIH shareholders now seeking to lodge claims against FAIG, HIH C&G and HIH Insurance ("New Shareholders Claims").

The Liquidators and Scheme Administrators are currently seeking legal advice on the New Shareholders Claims and Court directions on the further implications the April 2016 judgement may have on the makeup of the Liquidation and Scheme(s) of Arrangement creditor pools.

- Repatriation back to Australia of \$10.43 million from the English Scheme Administrators following termination of the FAIG English Scheme on 19 April 2017.
- The liquidations of ten HIH Group companies and the HIH Underwriting & Insurance (Australia) Pty Ltd's Scheme of Arrangement have been finalised in the period.

To date, the liquidations of 73 HIH Group companies have been completed leaving just nine currently in liquidation. Of the eight entities remaining below HIH Insurance, the group's ultimate holding company, four are subject to Scheme(s) of Arrangement and the other another four remain in liquidation to preserve the group structure for tax purposes. As such, no further estate completions are likely in the next 12-month period.

3 Current and Projected Scheme Payment Percentages

3.1 The Current Scheme Payment Percentages

There has been no change to the current Scheme Payment Percentages in the period. The Scheme Payment Percentages paid to date are 64.78% for creditors with insurance liabilities in Australia and 62.5% for all non-insurance Australian creditors.

3.2 Estimated ultimate Scheme Payment Percentages

The quantum and timing of further Scheme Payment(s) is wholly dependent on finalising the quantum of any New Shareholders Claims arising out of the April 2016 NSW Supreme Court judgement.

The Scheme Administrators' latest estimate of the ultimate Scheme Payment Percentages for the various FAIG creditor groups as at 30 June 2017 is shown below:

	Range as at 30 June 2016	Updated range as at 30 June 2017
Creditors with insurance liabilities in Australia	65.3% - 69.4%	68.6% - 69.5%
Creditors eligible to be paid from US Trust Funds	65.3% - 69.4%	68.6% - 69.5%
Creditors with non-insurance liabilities in Australia	63% - 67.5%	66.6% - 67.6%

The high / low variances reflect the range of potential outcomes arising from the New Shareholders Claims.

4 Financial Position

4.1 Estimated balance sheet at 30 June 2017

Included as Appendix 3 to the Australian Explanatory Statement section of the Scheme of Arrangement documentation, which was sent to creditors prior to the creditors' meeting on 29 March 2006, were balance sheets for each of the Scheme companies at 25 September 2005. An updated balance sheet for FAIG as at 30 June 2017 is included as Appendix 1 to this report.

4.2 Receipts and payments to 30 June 2017

A summary of the Scheme Administrators' receipts and payments from 1 July 2016 to 30 June 2017 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2016, \$407,665.50 has been approved by the FAIG Scheme Creditors' Committee for payment to the Scheme Administrators in their role as Office Holders covering the period from 26 March 2016 to 24 February 2017.

5 Closure

5.1 Finalisation of the Scheme

The only issue preventing the closure of the FAIG Scheme and liquidation is finalising the level of admissible New Shareholders Claims.

Once resolved, the Scheme Administrators will be in a position to make the final Scheme Payment and close the Scheme, hopefully towards the end of 2018.

6 Responsibilities

6.1 Scheme Administrators

The Australian Scheme Administrators are Tony McGrath and Jason Preston, partners of McGrathNicol based in Sydney.

6.2 Run-off Managers

All claims handling and reinsurance recovery activities of FAIG in Australia have been finalised.

6.3 Creditors' Committee

The interests of the FAIG creditors in the Australian Scheme are represented by a Creditors' Committee. The Committee sanctions significant transactions, is involved in the setting of the Scheme Payment Percentage and approves the Scheme Administrators' fees. It is currently reported to, and meets, on an ad-hoc basis. The constitution of the Committee at 30 June 2017 was as follows:

Member	Represented By
ACT Workers Compensation Supplementation Fund	Mr John Fletcher
Law Cover Pty Limited	Mr Dharmesh Patel
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Ms Angela Baum
Avant Insurance Limited	Ms Suzanne Barron
WA Workers Compensation & Rehabilitation Commission	Mr Harry Neesham
Hong Kong Solicitors Indemnity Fund	Ms Orla McCoy
Motor Traders Association of New South Wales	Mr Greg Patten
Building Insurers Guarantee Corporation NSW	Mr Steve Hunt
Motor Accidents Authority of New South Wales	Mr Andrew Nicholls

7 Contact Details

Contact details for the Australian Scheme Administrators are set out on the HIH website, www.hih.com.au.

7.1 Creditor Enquiries in Australia

Scheme Creditors with claims queries should call the HIH Help Desk on +61 (0) 2 9650 5777. Written claims queries should be directed to HIH at the following address: HIH Group, GP Box 2707, Sydney NSW 2001, Fax +61 (0) 2 8117 9000.

Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the HIH Help Desk on +6 (0) 2 9650 5777. Written scheme queries should be directed to the Scheme Administrators at the following address: McGrathNicol, GPO Box 9986, Sydney, NSW 2001 or to the HIH Help Desk at enquiries@hih.com.au.

Yours faithfully

For FAI General Insurance Company Limited (In Liquidation and subject to a Scheme of Arrangement)



Tony McGrath
Scheme Administrator



Jason Preston
Scheme Administrator

Appendix 1

Updated balance sheet at 30 June 2017

FAI General Insurance Company Limited - (In Liquidation and subject to a Scheme of Arrangement)

All values in AUD

	RATA as at 30 June 2017 \$'000	RATA as at 30 June 2016 \$'000
Assets not specifically charged		
Cash		
Cash at bank	28,254	32,806
	<u>28,254</u>	<u>32,806</u>
Receivables		
Amounts owing by related bodies corporate	4,614	1,395
	<u>4,614</u>	<u>1,395</u>
Investments		
Short term deposits	64,315	61,481
ADD back: Dividends Paid	1,051,446	1,145,467
Shares in controlled entities (FAI (NZ) General)	0	470
	<u>1,115,761</u>	<u>1,207,418</u>
Refund to Reinsurance Creditors		
	(901)	(933)
Other		
Adverse Shareholder Costs	(1,333)	(1,333)
Current Shareholder Claims	(1,335)	(3,034)
	<u>(2,668)</u>	<u>(4,367)</u>
TOTAL ASSETS	<u>1,145,060</u>	<u>1,236,318</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(40,791)	(40,791)
Goods and services tax	(331)	(330)
Sundry creditors	(489)	(489)
	<u>(41,611)</u>	<u>(41,610)</u>
ACCs - ESC at Estimation Date	(1,325,150)	(1,329,198)
Commutations - ESC Verified	(6,112)	(6,111)
Add back: Creditors with Statutory Cut Through & s.562A(4) claims	91,369	91,369
	<u>(1,239,892)</u>	<u>(1,243,940)</u>
Outstanding claims		
Other liabilities		
Other creditors and accruals (Future Shareholder Claims - potential 1321 application)	(21,000)	(25,000)
Amounts owing to related bodies corporate	(356,660)	(356,717)
	<u>(377,660)</u>	<u>(381,717)</u>
Total unsecured creditors	<u>(1,659,164)</u>	<u>(1,667,267)</u>
TOTAL LIABILITIES	<u>(1,659,164)</u>	<u>(1,667,267)</u>
NET DEFICIT	<u>(514,104)</u>	<u>(430,948)</u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 1 July 2016 to 30 June 2017

	\$	\$
Opening balance at 1 July 2016		83,342,091
Receipts		
Repatriation of surplus funds from FAIG's UK Scheme Administrators	10,430,659	
Interest on Cash and Deposits	1,094,692	
Capital Distribution from FAI NZ	541,757	
GST Refund	76,049	
Distributions from Scheme Companies	4,756	
Other Receipts	1,123	
Total Receipts		12,149,036
Payments		
Central Expense reimbursement paid to HIH C&G	(1,221,926)	
Scheme Administrators' Fees	(407,666)	
Legal and Taxation Fees	(397,981)	
GST Paid	(109,246)	
Insurance	(27,493)	
Other Payments	(9,892)	
Scheme Administrators Disbursements	(4,020)	
Scheme Payments to Creditors	(1,680)	
Total Payments		(2,179,904)
Adjustment for Unrealised Foreign Exchange Loss on Foreign Cash Accounts		(741,402)
Balance at 30 June 2017		92,569,821