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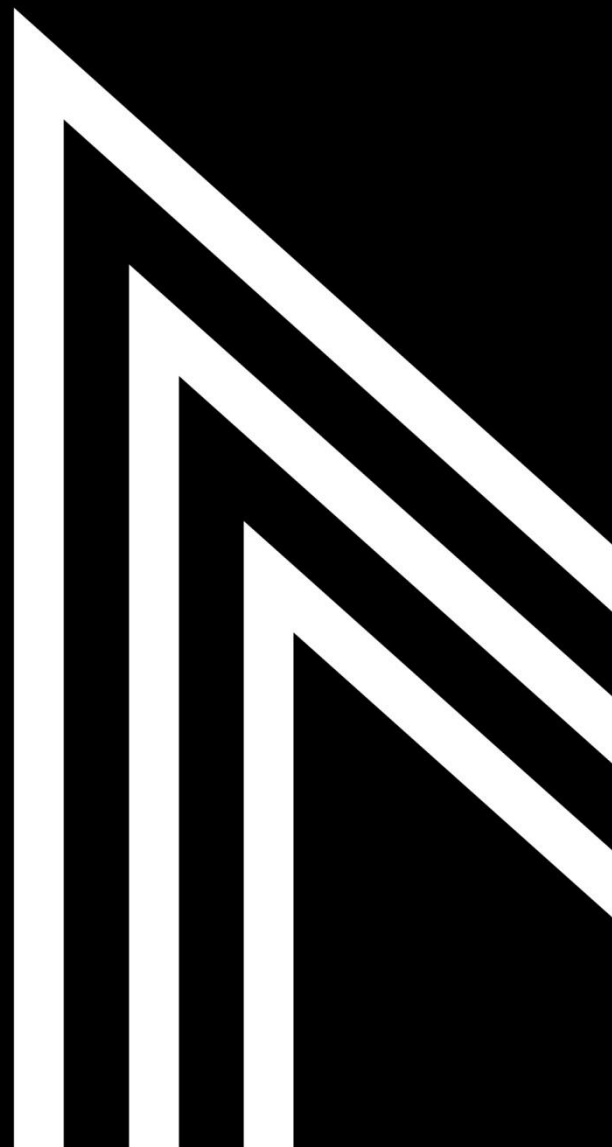
**FAI General Insurance Company Limited**  
**ACN 000 327 855**  
**(In Liquidation and subject to a Scheme of Arrangement)**

**Scheme Administrators' Annual Report to Creditors**

30 June 2018



McGrathNicol



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# 1 Introduction & Background

## 1.1 Introduction

This is the twelfth 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 2018. It also covers any significant events between that date and completion of the report.

## 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](http://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, including FAIG, became effective in the UK on 13 June 2006. The FAIG English Scheme terminated with effect from 19 April 2017.

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 (**Bar Date**). Under the terms of the Schemes, no further claims can be accepted after this date.

Five of the eight Schemes have now been finalised and terminated in accordance with clause 63.1. The three remaining Schemes of the HIH Group are in respect of FAIG, HIH Casualty and General Insurance Limited (**HIH C&G**) and CIC Insurance Limited.

The FAIG Australian Scheme remains in the "Estimation" phase. All claims lodged prior to the Bar Date have been agreed and quantified.

# 2 Principal Developments To Report During The Period

The principal developments to report during the period were:

- We prepared and attended a Court hearing in December 2017 in respect of the FAIG and HIH C&G Scheme Administrators' and HIH Insurance Ltd (**HIH Insurance**) Liquidators' application to Court seeking directions ratifying their proposed method of dealing with HIH Insurance shareholders with potential claims (**New Shareholder Creditors**).

As the Bar Date has passed, under the terms of the Schemes, no further claims can be admitted in the Schemes and the Scheme Administrators do not have a discretion to consider any further claims, unless an extension of time is granted by the Court.

The Scheme Administrators are currently awaiting the outcome of the Court application.

- As previously reported, the legal proceedings taken by the various groups of HIH Insurance shareholders (**Plaintiffs**) against FAIG, HIH C&G and HIH Insurance since the end of 2013 have been finalised and dividends paid to the successful Plaintiffs in September 2017.

Subsequent to receiving the final Court Orders on 28 April 2017 (**Final Orders**), the solicitors for the Plaintiffs asserted that shareholders whose claims were omitted from the Final Orders, should be admitted.

Following our review of the additional information provided by the solicitors, certain of these claims were admitted and dividends paid by FAIG, HIH C&G and HIH Insurance following Court approval on 29 March 2018 to vary the Final Orders.

- As previously anticipated, no further liquidations of the HIH group of companies were completed during the period. There are nine HIH Group companies remaining in liquidation.

Since the last report, the HIH Underwriting and Insurance (Australia) Pty Ltd Scheme terminated on 15 August 2018 and its liquidation will shortly close following Court approval.

Thereafter, of the seven group entities remaining below HIH Insurance, the group's ultimate holding company, three are subject to Schemes of Arrangement and four remain in liquidation to preserve the group structure for tax purposes.

No further liquidations will be completed until a definitive position on the New Shareholder Creditors' claims against the FAIG and HIH C&G Schemes is determined.

### 3 Current and Projected Scheme Payment Percentages

#### 3.1 The Current Scheme Payment Percentages

During the period, there has been no change to the current Scheme Payment Percentages. 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) remains wholly dependent on whether the New Shareholder Creditors' claims should be admitted in the Scheme. As the Scheme Administrators are awaiting the outcome of the December 2017 Court hearing, they are currently not in a position to determine the timing of the further Scheme Payments.

The Scheme Administrators' estimate of the ultimate Scheme Payment Percentages for the various FAIG creditor groups as stated in the previous report remains the same and is set out below:

	Range as at 30 June 2018
Creditors with insurance liabilities in Australia	68.6% - 69.5%
Creditors eligible to be paid from US Trust Funds	68.6% - 69.5%
Creditors with non-insurance liabilities in Australia	66.6% - 67.6%

The high / low variances reflect the range of potential outcomes arising from the New Shareholder Creditors.

### 4 Financial Position

#### 4.1 Estimated balance sheet at 30 June 2018

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 2018 is included as Appendix 1 to this report.

## 4.2 Receipts and payments to 30 June 2018

A summary of the Scheme Administrators' receipts and payments from 1 July 2017 to 30 June 2018 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2017, \$506,593.50 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 25 February 2017 to 27 April 2018.

## 5 Closure

### 5.1 Finalisation of the Scheme

The only issue preventing the closure of the FAIG Scheme and liquidation is reaching a definitive position on whether the New Shareholder Creditors' claims should be admitted in the Scheme.

Once resolved, the Scheme Administrators will be in a position to make the final Scheme Payments and close the Scheme, hopefully towards the end of 2019.

## 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 insurance claims handling and reinsurance recovery activities of FAIG 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 2018 was as follows:

Member	Represented By
ACT Workers Compensation Supplementation Fund	Mr John Fletcher
Lawcover Pty Limited	Mr Peter Candotti
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Ms Angela Baum
Avant Insurance Limited	Ms Vikki Sellars-Jones
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	Ms Mary Maini

## 7 Contact Details

Contact details for the Australian Scheme Administrators are set out on the HIH website, [www.hih.com.au](http://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 2018

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

*All values in AUD*

	RATA as at 30 June 2018 \$'000	RATA as at 30 Jun 2017 \$'000
<b>Assets not specifically charged</b>		
<b>Cash</b>		
Cash at bank	15,372	28,254
	<u>15,372</u>	<u>28,254</u>
<b>Receivables</b>		
Amounts owing by related bodies corporate	4,548	4,614
	<u>4,548</u>	<u>4,614</u>
<b>Investments</b>		
Short term deposits	76,280	64,315
ADD back: Dividends Paid	1,054,407	1,051,446
	<u>1,130,687</u>	<u>1,115,761</u>
<b>Refund to Reinsurance Creditors</b>	(938)	(901)
<b>Other</b>		
Adverse Shareholder Costs	(1,333)	(1,333)
Plaintiff shareholder claim	0	(1,335)
	<u>(1,333)</u>	<u>(2,668)</u>
<b>TOTAL ASSETS</b>	<b><u>1,148,336</u></b>	<b><u>1,145,060</u></b>
<b>Unsecured creditors</b>		
<b>Accounts payable</b>		
Trade Creditors	(40,791)	(40,791)
Goods and services tax	(194)	(331)
Sundry creditors	(489)	(489)
	<u>(41,474)</u>	<u>(41,611)</u>
<b>ACCs - ESC at Estimation Date</b>	(1,329,678)	(1,325,150)
<b>Commutations - ESC Verified</b>	(6,111)	(6,112)
<b>Add back: Creditors with Statutory Cut Through &amp; s. 562A (4) claims</b>	91,369	91,369
<b>Outstanding claims</b>	<u>(1,244,419)</u>	<u>(1,239,892)</u>
<b>Other liabilities</b>		
Other creditors and accruals (Future Shareholder Claims - potential 1321 application)	(21,000)	(21,000)
Amounts owing to related bodies corporate	(356,617)	(356,660)
	<u>(377,617)</u>	<u>(377,660)</u>
<b>TOTAL LIABILITIES</b>	<b><u>(1,663,511)</u></b>	<b><u>(1,659,164)</u></b>
<b>NET DEFICIT</b>	<b><u>(515,174)</u></b>	<b><u>(514,104)</u></b>

## Appendix 2

Summary of the Scheme Administrators' receipts and payments from 1 July 2017 to 30 June 2018

	\$	\$
<b>Opening balance at 1 July 2017</b>		92,569,821
<b>Receipts</b>		
Interest on Cash and Deposits	1,990,893	
Letter of Credit recoveries	141,310	
GST Refund	116,330	
Other Receipts	4,142	
<b>Total Receipts</b>		2,252,675
<b>Payments</b>		
Central Expense reimbursement paid to HIH C&G	(1,434,105)	
Scheme Payments to Creditors	(1,245,514)	
Professional Fees	(536,247)	
Scheme Administrators' Fees	(506,594)	
GST Paid	(107,529)	
Insurance	(32,275)	
Other Payments	(4,550)	
Scheme Administrators Disbursements	(2,569)	
Liquidators' Fees	(637)	
<b>Total Payments</b>		(3,870,019)
Adjustments for Unrealised Foreign Exchange Gain on Foreign Cash Accounts		699,468
<b>Balance at 30 June 2018</b>		<b>91,651,944</b>