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To all known creditors, potential creditors and
brokers of FAI Insurances Limited

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30 September 2014

Dear Sir/Madam

**FAI Insurances Limited (In Provisional Liquidation and subject to Scheme of Arrangement)
English Scheme Administrators' Report to Creditors**

1 Introduction

This is the seventh report to creditors of FAI Insurances Limited ("FAI") by the English Scheme Administrators ("SAs") covering the period ended 30 June 2014 ("the Report"). It will be published on the HIH website as a supplement to the Annual Report to creditors of the Australian Scheme Administrators ("Australian SAs").

Background information in relation to the failure of FAI is contained in Appendix 1. The purpose of this report is to provide creditors with information on the progress of the English Scheme ("the Scheme") to date.

2 Key developments since the last report

- The SAs have collected over £1.34 million of reinsurance debt including approximately £140,000 (US\$235,000) raised through the sale of FAI's residual reinsurance debt in the period (see Section 3).
- The Bar Date for creditors to submit Final Claim Forms for Estimation ("FCFs") against FAI passed on 2 September 2013 (see Section 4.1).
- Four FCFs received by the Bar Date have been agreed for a total value of approximately £6.3 million (see Section 4.2).
- The current Scheme Payment Percentage for creditors with insurance liabilities outside of Australia is 7% (see Section 6.2).
- The estimated ultimate Scheme Payment Percentage range for creditors with insurance liabilities outside of Australia is between 11% and 13% (see Section 6.3).

- Barry Gale replaced John Wardrop as one of the SAs, Joint Provisional Liquidators and Liquidators of a number of the HIH Group companies (see Section 8.1).

3 Residual reinsurance debt sale

In January 2014, following an open tender process, the SAs sold the remaining reinsurance debt of FAII arising from its participation in the ME Ruttly pools (“the Ruttly pools”) for a consideration of approximately £140,000 (US\$235,000) following consultation with the Creditors’ Committee (“the Committee”).

The sale agreement excluded the debts of nine entities which the SAs hope to realise by way of set-off against amounts claimed against FAII in the Scheme.

4 Claims submission

4.1 The Estimation Period

All creditors without an Established Scheme Claim (“ESC”), or who wanted to increase the value of their ESC, in respect of the English Scheme Companies were required to submit FCFs by the Bar Date.

The Scheme provided for a period of three months after the Bar Date for the SAs to determine whether any Notified Liability (as set out by the claimant in the FCF) gives rise to an ESC. After that period, each claimant that submitted an FCF was provided with a Notice of Determination (“NOD”) by the SAs which confirmed if their claim had been accepted, either in full or in part, or rejected.

Once the NOD had been issued to the claimant, the Scheme provides for a further period of three months for the SAs and the claimant to reach an agreement on the value of the claim. If no agreement has been reached within that period, the Scheme states that the claim must be referred to the Scheme Adjudicator, who will then make a final and binding decision on the disputed claim within 6 months of the claim being referred to him.

4.2 FCFs submitted in the Scheme

FAII received four FCF submissions before the Bar Date with a total value of £7.25 million.

These four claims have been agreed for a total value of approximately £6.3 million.

5 Interaction between Australian and English Schemes

All creditors worldwide were entitled to claim in both the Australian and English Schemes for FAII. The SAs and the Australian SAs co-operate fully with each other and therefore Scheme Creditors needed only to lodge their FCF in one location, as their claim submission will then be effective under both Schemes. For the avoidance of doubt, the location in which a Scheme Claim was lodged had no bearing on whether it was a liability “in Australia” or “outside of Australia”; that was a function of where the business was written.

The SAs and the Australian SAs operate a unified principal-to-principal ledger and dividend payment system. The entitlements of individual creditors under both Schemes are automatically calculated by the unified system. When a Scheme payment is made the creditor receives a statement showing how their liability has been classified and, consequently, from which classes of assets their payment has been made.

The SAs continue to report trial balances, receipts and payments and ad hoc queries to the Australian SAs for incorporation into the overall financial ledgers. A number of further discussions have been held in this area focussed on streamlining the process between the UK and Australian estates during the closure period.

The SAs continue to attend Australian Creditors' Committee meetings. The Australian SAs likewise continue to attend the UK Committee meetings.

6 Scheme Payment Percentages

6.1 How the Scheme Payment Percentages are set

The SAs continue to work closely with the Australian SAs to agree appropriate dividend uplifts on a regular basis in the lead up to the final dividend payment and the planned closure of the Schemes in 2015. Under the terms of the Schemes the Australian and English SAs review the Scheme Payment Percentage for each class of asset in consultation with the Australian Creditors' Committee and the Committee.

Both the Australian and English Schemes reflect the distribution priorities which apply to liquidations of insurance companies in Australia. This requires particular classes of assets to be distributed in a prescribed order of priority to particular classes of creditor claims.

The estimates below are dependent on a wide range of factors including the volatility of the value of the remaining claims to be agreed; levels of set-off; litigation outcomes; levels of reinsurance recovery/proposed debt sale; and the class of creditor claim.

As a general rule, creditors with insurance liabilities and those based in Australia are expected to receive higher ultimate distributions than creditors with non-insurance liabilities and/or those with liabilities outside of Australia.

6.2 Current Scheme Payment Percentages

At a meeting held on 2 April 2014 ("the Committee Meeting"), the Australian Creditors' Committee authorised the Australian SAs pay a first interim Scheme Payment Percentage of 7% to creditors with insurance liabilities outside of Australia.

The initial dividend of 7% was paid to eligible creditors of the Scheme in April 2014.

The current Scheme Payment Percentages for the various classes of assets for all of the HIIH Scheme companies, of which FAII is one, are set out on the HIIH website www.hih.com.au.

6.3 Completion timetable

The Australian SAs anticipate proposing a further uplift in the Scheme Payment Percentage for the HIH Group companies later in 2014. It is expected that the final uplifts in the Scheme Payment Percentage will not be proposed until sometime in 2015, as it is anticipated that certain issues – such as the complex intercompany relationships and the appeals process in respect of any disputed claims – will not be resolved until 2015.

7 Financial position - receipts and payments to 30 June 2014

A summary of the SAs' receipts and payments from 10 April 2001 to 30 June 2014 is set out below.

FAI Insurances Limited		
Receipts and payments for the period 10 April 2001 to 30 June 2014		
	1 July 2012 – 30 June 2014	10 April 2001 – 30 June 2014
Receipts		
Sundry refunds	-	328,810
Security deposits recovered	-	187,719
Insurance and reinsurance recoveries	406,077	1,345,775
Bank Interest and Sundry Receipts	3,949	111,141
Total receipts	410,026	1,973,445
Payments		
Officeholders' fees and expenses	120,945	505,442
Legal fees	21,129	71,499
VAT expense	32,719	62,042
Other professional and agents' fees	25,600	28,611
Exchange losses	1,862	26,219
Other	1,188	1,681
Total payments	203,443	695,494
Equivalent GBP Funds held as at 30 June 2014		1,277,951

8 Responsibilities

8.1 Change of Scheme Administrator

Further to the acceptance of John Wardrop's resignation as one of the SAs, the Committee passed a resolution to appoint Barry John Gale as Scheme Administrator of the following companies with effect from 20 August 2013 under clause 45.3 of the Scheme:

- HIH Casualty & General Insurance Limited
- FAI General Insurance Company Limited
- FAI Insurances Limited
- World Marine & General Insurances Pty Limited

In addition, an order was made by the High Court of Justice on 16 October 2013 removing Mr Wardrop and replacing him with Mr Gale in relation to the following Insolvency Act 1986 appointments:

- As Joint Provisional Liquidator of:
 - HIH Casualty & General Insurance Limited
 - FAI General Insurance Company Limited
 - FAI Insurances Limited
 - World Marine & General Insurances Pty Limited
- As Joint Liquidator of:
 - FAI Underwriting Limited
 - Cotesworth Capital Limited
 - HIH Systems International Limited

The SAs of FAII are, therefore, Michael Walker and Barry Gale, based in London.

The Australian SAs are Tony McGrath and Chris Honey, of McGrathNicol, based in Sydney.

8.2 Creditors' Committee

The interests of creditors in the Scheme are represented by the Committee. The Committee sanctions significant transactions (such as commutations), is involved in the setting of the Scheme Payment Percentage, and approves the SAs' fees. The constitution of the Committee is as follows:

Member	Represented by
FAI (NZ) General Insurance Company (In Liquidation)	Mr K Downey
HIH Casualty and General Insurance (NZ)(In Liquidation)	Mr K Downey
Markel International Insurance Company Limited	Ms S Crofts

8.3 Contact details

Contact details for the SAs, the Australian SAs and the English and Australian run-off managers are set out on the HIH website, www.hih.com.au.



Scheme Creditors with FCF related queries in relation to UK branch business should call Asta Insurance Services on +44 (0) 20 7743 0900 or write to them at the following address: 5th Floor, Camomile Court, 23 Camomile Street, EC3A 7LL.

Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the SAs on +44 (0) 20 7694 3169 or write to them at KPMG LLP, 8 Salisbury Square, London EC4Y 8BB.

Yours faithfully
For FAI Insurances Limited

Michael S Walker
English Scheme Administrator

Barry J Gale
English Scheme Administrator

Appendix 1

Background information on the insolvency

- The HIH Group failed on 15 March 2001. FAI Insurances was one of the licensed insurers in the group.
- Summary details of the history of the group; its failure; and other background information are available on the website maintained by the Australian Scheme Administrators at www.hih.com.au.
- Extensive information on the failure including the final report of the HIH Royal Commission established by the Australian Federal Government is available on the website www.hihroyalcom.gov.au
- On 30 May 2006, Schemes of Arrangement became effective for the eight licensed insurance companies in the HIH Group in Australia. Complementary Schemes of Arrangement became effective for four of those companies in England on 13 June 2006, following approval by creditors and the courts. Copies of the Scheme documents are available on the HIH website www.hih.com.au.
- For at least the first five years, the Schemes will be “reserving” Schemes, under which claims are made in the normal course of business. During this reserving period, interim Scheme distributions will be paid to creditors with Established Scheme Claims at the current applicable Scheme Payment Percentage.
- The Australian and English Scheme Administrators co-operate fully. A unified principal to principal ledger system is operated, together with a unified dividend payment system. Creditors need to lodge claims in one location only, which is then effective under both Schemes.
- The Record Date (the date at which liabilities are measured) for each of the Schemes is 27 August 2001.
- There is no bar date for the Schemes during the reserving period. The earliest bar date permissible under the terms of the Schemes was in June 2011, however, at this stage the Scheme Administrators expect the actual bar date to be 2 September 2013.
- In accordance with clause 24 of the Australian and English Schemes of Arrangement, the Estimation Date was set at 31 May 2013. Final Claim Forms for Estimation (FCFs) were required to be submitted so as to reach the Scheme Companies by midnight 2 September 2013 (British Summer Time); being three months after the Estimation Date.