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

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20 October 2016

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 ninth and final report to creditors of FAI Insurances Limited (“FAII”) by the English Scheme Administrators (“SAs”) covering the period ended 20 October 2016 (“the Report”) which is the date of termination of the English Scheme (“the Scheme”). It will be published on the HIH website as a supplement to the Report to creditors of the Australian Scheme Administrators (“Australian SAs”).

Background information in relation to the failure of FAII and the operation of the Scheme of Arrangement is contained in Appendix 1. The purpose of this report is to provide creditors with a final report on the administration of the English Scheme and plans for the termination of the Provisional Liquidation in early 2017.

2 Key developments since the last report

- A total of nine Established Scheme Claims (“ESCs”) with a value of £8.75 million were agreed in the Scheme and final dividends were paid to Scheme Creditors in October 2015.
- The effective Scheme Payment Percentage for non-Australian creditors with ESCs was 15.55% (section 3.1).
- In May 2016, in preparation for the termination of the Scheme, the SAs applied to the FCA and PRA for the cancellation of FAII’s permissions under Part 4A of FSMA to carry on regulated activities and for its removal from the Financial Services Register. The SAs are currently awaiting formal responses from the FCA and PRA in relation to this application (section 4.1).

- In accordance with Clause 56.1(a) of its terms, the English Scheme terminates automatically on 20 October 2016 (12 months after the final Scheme payments in October 2015) (section 4.2). The Australian Scheme also terminates on 20 October 2016.
- Early in 2017, it is anticipated that the English Provisional Liquidation will be brought to a close and the Joint Provisional Liquidators (the “JPLs”) will be released (section 4.3) which will be achieved by way of a High Court application. The Australian Liquidation will, however, remain open to facilitate the flow of tax losses through the HIH Group.

3 Scheme Payments

3.1 Final Scheme Payment Percentages

The different categories of creditors have received the following distributions:

- Australian insurance and reinsurance creditors – the overall Scheme Payment Percentage ascribed to this category of creditor was 72.6%. However, because these creditors are also entitled to claim for the residual value of their claim in a separate fund which relates to all other Australian Creditors and for which the Scheme Payment Percentage was 14.44%, the effective Scheme Payment Percentage for this category of creditor is 76.56%.
- Non-Australian insurance and reinsurance creditors – the Scheme Payment Percentage for this category of creditor was 15.55%. These creditors would also be entitled to claim for the residual value of their claim in a separate fund which relates to all other non-Australian Creditors. However, as the Scheme Payment Percentage this was zero, the effective Scheme Payment Percentage for this category of creditor is also 15.55%.
- All other Australian Creditors – as mentioned above, the applicable Scheme Payment Percentage was for this category of creditor was 14.44%.
- All other non-Australian creditors – as mentioned previously, the applicable Scheme Payment Percentage for this category of creditor was zero.

3.2 Dividends paid in the Scheme

Total dividends paid to Non-Australian insurance and reinsurance creditors are £1.36 million, which were settled out of the Australian estate. The majority of this sum was met by way of a transfer from the English Scheme assets, as reflected in the Receipts and Payments at Appendix 1.

4 The Closure Process

Although the administration of FAII has largely concluded and both the English and Australian Schemes are terminating in accordance with their terms on 20 October 2016, the FAII liquidation in Australia will remain open until the insolvency proceedings of certain companies in the group, including HIH C&G and FAIG, are closed to ensure that the corporate structure is maintained to allow continuing access to tax losses in the parent company.

However, the English SAs obtained advice from their legal advisers, which has also been ratified by the Australian Scheme legal advisers, that the English Provisional Liquidation can be closed once the Scheme terminates. In other words, it is not necessary to keep the English insolvency proceedings open in order to access the tax losses - the link for group tax purposes is maintained by the continuance of the Australian liquidations.

4.1 Removal from the Financial Services Register

In May 2016, in accordance with the requirements of FSMA, the SAs made an application to the FCA and PRA for the cancellation of FAII's permissions to carry on regulated activities and for it to be removed from the Financial Services Register. This is a pre-requisite for the termination of the Provisional Liquidation.

The SAs/JPLs are currently awaiting formal responses to the application from the FCA and PRA.

4.2 Termination of the FAII Scheme

Clause 56.1 of the English Scheme states that the Scheme shall terminate:

- a) 12 months after the final Payment Date;
- b) If all of the Liabilities of the Company have been discharged in full; or
- c) By resolution of the SAs after consultation with the Creditors' Committee.

In the case of FAII, Clause 56.1(a) applies. Accordingly, the Scheme will terminate under Clause 56.1(a) on 20 October 2016.

4.3 Termination of the Provisional Liquidation

Once the Scheme has terminated and FAII has had its regulatory permissions cancelled, the JPLs will make an application to the High Court to dismiss the winding-up petitions which will automatically terminate the Provisional Liquidation.

The process for doing so is set out below:

- a) the petitioning creditor (which is another UK company in the HIH Group - HIH Systems International Limited – of which Mike Walker and Barry Gale are Joint Liquidators) will contact the court to arrange a hearing date for the petition; and

- b) FAII must file witness statements giving evidence in opposition to the petition at least 5 business days before the hearing. The petitioner will write to the court giving their consent to the dismissal.

Once the petition is dismissed and the Provisional Liquidation terminated, the JPLs must give notice of the termination of the Provisional Liquidation in the appropriate publications.

It is anticipated that the High Court application to terminate the Provisional Liquidation will be made early in 2017.

5 Financial position

5.1 Receipts and payments to 20 October 2016

A summary of the SAs' receipts and payments from 10 April 2001 to 20 October 2016 is set out below.

| FAI Insurances Limited | |
|------------------------------------------------------------------------------|---------------------------------------------------------|
| Receipts and payments for the period 10 April 2001 to 20 October 2016 | |
| | 10 April 2001- 20 October 2016 £ |
| Receipts | |
| Reinsurance recoveries | 1,664,408 |
| Bank interest | 115,724 |
| Security Deposits Recovered | 196,915 |
| Sundry Refund | 327,240 |
| Tax Refund | 1,578 |
| Total receipts | <u>2,305,865</u> |
| Payments | |
| Officeholders' fees and expenses | 790,197 |
| Other professional fees | 28,611 |
| Legal fees | 87,940 |
| VAT | 122,282 |
| Exchange gain on currency transfers | 37,710 |
| Other payments | 1,810 |
| Total payments | <u>1,068,550</u> |
| Balance before Scheme Payments | 1,237,315 |
| Scheme payments | 1,135,087 |
| Equivalent GBP Funds held as at 20 October 2016 | <u>102,228</u> |

6 Final Fees and disbursements of the Scheme Administrators

The remaining balance of GBP102k will be used to cover the SAs' final fees to closure of the Scheme as approved by the English Creditors Committee which amount to GBP51,348. The remaining balance of GBP50,880 will be used to settle legal fees and disbursements in connection with the termination of the Provisional Liquidation.

7 Creditors' Committee

The interests of creditors in the Scheme have been represented by the Committee. The Committee sanctioned significant transactions (such as commutations) and approved 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 Contact details

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, 15 Canada Square, London E14 5GL.

Further information is available on the HIH website, www.hih.com.au.

Yours faithfully
For FAI Insurances Limited

Barry J Gale
English Scheme Administrator

Michael S Walker
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.
- 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.
- Four creditors, with insurance liabilities outside of Australia, have Established Scheme Claims (“ESCs”) with a total value of approximately £6.3 million.
- The current Scheme Payment Percentage for insurance creditors outside of Australia with ESCs is 10%.