

FAI Reinsurances Pty Limited
ACN 004 401 138
(In liquidation and subject to a Scheme of Arrangement)

Scheme Administrators' annual report to
creditors

30 June 2011

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1 Introduction & background

1.1 Introduction

This is the fifth annual report to the Creditors of FAI Reinsurances Pty Limited - in liquidation and subject to a Scheme of Arrangement ("FAI Re").

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 2011.

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. Extensive information on the failure of the group, including the final report of the HIH Royal Commission established by the Australian Federal Government, is available on the website www.hihroyalcom.gov.au.

Schemes of Arrangement for the eight licensed insurance companies in the HIH Group in Australia became effective on 30 May 2006, following approval by Creditors and the Court. Schemes of Arrangement for the UK branches of the 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. The earliest bar date permissible under the terms of the Schemes was 30 May 2011. However, at this stage, the Scheme Administrators expect the actual bar dates to be 30 May 2013.

2 Principal developments to report during the period

The principal developments to report during the period were:

- + The Scheme Administrators have paid in full all creditors with Established Scheme Claims in accordance with clause 12 of the Scheme of Arrangement. More detail on the Scheme Payments is included in section 3 of this report.

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

Having reviewed the level of assets recovered; the level of creditors claims agreed, the ongoing development of claims and the forecast IBNR, the Scheme Administrators have in April 2011 paid a first and final Scheme payment of 100 cents in the dollar to all creditors with Established Scheme Claims.

3.2 Payment of Established Scheme Claims

Creditors whose claims are agreed as Established Scheme Claims subsequent to the above payment date will be paid in accordance with Clause 38.6 of the Scheme, within 3 months of the last payment date.

In accordance with clause 37.6 of the Scheme, any amount payable to a Scheme creditor under the Australian Scheme in respect of an Established Scheme Claim which was incurred in Australian Dollars, US Dollars, Sterling or Euros, will be paid in that currency.

3.3 Payment of statutory interest

The Scheme Administrators expect that FAI Re will be in a position to pay statutory interest on all Established Scheme Claims. In light of the provisions of s563B(2) of the Australian Corporations Act 2001, which state that payment of statutory interest is to be postponed "*until all other debts and claims in the winding up have been satisfied....*", the Scheme Administrators will not be able to make such a payment until all outstanding claims at the Scheme Estimation Date, have been agreed in the Estimation Period thereafter. The Scheme Administrators currently expect the Estimation Date to be 30 May 2013.

3.4 Scheme Payments for reinsurance creditors

As explained in previous reports, the Scheme Administrators remain willing to consider making Scheme Payments to reinsurance creditors with Acknowledged Creditor Claims before all potential set off has been finalised, provided the creditor is willing to give an undertaking to refund any amounts which subsequently prove to have been overpaid. Payment has been made to a number of such creditors over the last year and creditors interested in this should continue to contact the Scheme Administrators.

4 Financial position

4.1 Estimated balance sheet at 30 June 2011

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 FAI Re as at 30 June 2011, is included as Appendix 1 to this report.

4.2 Receipts and payments to 30 June 2011

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2011 is set out in Appendix 2 to this report.

During this period, \$27,158 has been approved by the FAI Re Scheme Creditors, and paid to the Scheme Administrators in their role as Office Holders.

5 Closure

The scheme for FAI Re provides for an Estimation Date of seven years after the Australian Scheme became effective, which means that the Estimation Date is expected to be in June 2013. By that time the Scheme Administrators expect that the majority of the reinsurance asset will have been collected or commuted, and the remaining tail of insurance liabilities will be sufficiently small to justify closure of the insolvency on cost benefit grounds.

The Scheme provides that the Estimation Date may be moved two years either way from the expected seven years (to be as early as five years or as late as nine years after the Effective Date) by special resolution of creditors, on the recommendation of the Scheme Administrators and Creditors' Committees. Under the terms of the scheme all creditors will be given notice of the actual Estimation Date between six and three months prior to the time.

Following the Estimation Date all remaining outstanding and IBNR creditor claims will be crystallised by estimation, to allow for the closure of the insolvency.

At the date of this report, the Scheme Administrators consider that June 2013 remains the most likely Estimation Date for the Scheme.

6 Responsibilities

6.1 Scheme Administrators

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

6.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of FAI Re have previously been outsourced to Capita CMGL, who are a specialist run-off organisation based in Sydney and London.

Following an extensive review of the ongoing resources required to manage the run-off process for all business of the company, HIH terminated Capita CMGL's contract on 30 June 2011, and employed the personnel necessary to manage the run-off process in-house with effect from 1 July 2011.

6.3 Creditors' Committee

At the meeting of creditors to consider the Scheme on 29 March 2006, the creditors of FAI Re chose not to elect a creditors' committee.

7 Contact Details

Contact details for the Australian Scheme Administrators, and the Australian Run-Off Managers, are set out on the HIH website, www.hih.com.au.

7.1 Creditor Enquiries in Australia

Scheme Creditors with claims adjustment queries (excluding those in relation to branch business) should call HIH Help Desk on +61 (0) 2 9650 5777. Written claims adjustment queries should be directed to HIH Group at the following address: HIH Group, GP Box 9814, Sydney NSW 2001, Fax +61 (0) 2 9650 5710.

Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the HIH Help Desk on +61 (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 enquires@hih.com.au.

Yours faithfully

For FAI Reinsurances Pty Limited – in liquidation and subject to a Scheme of Arrangement



Tony McGrath
Scheme Administrator



Chris Honey
Scheme Administrator

Appendix 1

Updated balance sheet for FAI Re as at 30 June 2011

FAI Reinsurances Pty Limited - (In Liquidation and subject to a Scheme of Arrangement)

Balance Sheet as at 30 June 2011

All values in AUD

	RATA as at 30 June 2011 \$'000	RATA as at 30 June 2010 \$'000
Assets not specifically charged		
Cash		
Cash at bank	1,340	1,691
	<u>1,340</u>	<u>1,691</u>
Receivables		
Amounts owing by related bodies corporate	472	482
GST Recoverable	5	0
	<u>477</u>	<u>482</u>
Investments		
Short term deposits	2,239	2,080
Managed Investments	1,896	1,790
ADD back: Dividends Paid	766	0
	<u>4,901</u>	<u>3,870</u>
Total assets not specifically charged	<u>6,718</u>	<u>6,043</u>
Assets subject to specific charges		
Investments		
Short term deposits	7	9
Total assets subject to specific charges	<u>7</u>	<u>9</u>
TOTAL ASSETS	<u>6,725</u>	<u>6,052</u>
Liabilities secured by specific charge over assets		
Accounts payable		
Amounts payable in relation to letters of credit	(7)	(9)
Total liabilities secured by specific charge over assets	<u>(7)</u>	<u>(9)</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(0)	(1)
Goods and services tax	0	(1)
	<u>(0)</u>	<u>(2)</u>
ACC's	(835)	(1,045)
Claims Reserves	(54)	(63)
IBNR Claims	(268)	(324)
Outstanding claims	<u>(1,157)</u>	<u>(1,432)</u>
Other liabilities		
Amounts owing to related bodies corporate	(512)	(112)
	<u>(512)</u>	<u>(112)</u>
Total unsecured creditors	<u>(1,669)</u>	<u>(1,546)</u>
TOTAL LIABILITIES	<u>(1,676)</u>	<u>(1,554)</u>
NET ASSETS	<u>5,049</u>	<u>4,497</u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2011

**FAI Reinsurances Pty Limited (In Liquidation and subject to a Scheme of Arrangement)
Receipts and Payments Account 1 July 2010 to 30 June 2011**

	\$	\$
Balance as 1 July 2010		5,569,307.89
Receipts		
Scheme Payments Received	475,150.55	
Interest	236,309.40	
Unrealised Gain on Investments	106,011.35	
First and Final dividend from FAI Underwriting	7,946.92	
Reinsurance Recoveries	1,492.97	
GST Refund from ATO	510.88	
Other receipts	403.75	
	<hr/>	
Total receipts		827,825.82
Payments		
Scheme Payments to Creditors	(745,996.43)	
Foreign Exchange Movements	(95,558.65)	
Liquidators Fees	(34,473.53)	
Scheme Administrators' Fees	(27,158.00)	
GST	(6,674.51)	
Other Sundry Payments	(2,719.83)	
Professional Fees	(2,181.37)	
Bank Fees	(577.01)	
Actuarial Fees	(214.33)	
	<hr/>	
Total payments		(915,553.66)
Balance at 30 June 2011		<u>5,481,580.05</u>