

FAI General Insurance Company Limited
ACN 000 327 855
(In liquidation and subject to Schemes of Arrangement)

Scheme Administrators' annual report to
creditors

30 June 2015



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1 Introduction & background

1.1 Introduction

This is the ninth annual report to the Creditors of FAI General Insurance Company Limited - in liquidation and subject to Schemes 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 2015. It also covers any significant events between that date and completion of the report.

An annual report has also been prepared by the Scheme Administrators of the UK Scheme of Arrangement for FAIG. This will be published on the HIH website as a supplement to the Australian annual report for this company.

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 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 Claims Forms by the 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 will be accepted after this date.

The Schemes are currently in the “Estimation” phase where the claims received are being determined to be Acknowledged Creditor Claims, in preparation for the finalisation of the Schemes. Apart from the HIH Insurance Ltd shareholders claims, all other claims lodged against FAIG prior to the bar date have been determined.



2 Principal developments to report during the period

The principal developments to report during the period were:

- + Agreement of Scheme Payment Percentages by the Scheme Creditor Committee, which now total as follows:

Creditors with insurance liabilities in Australia	Creditors with insurance liabilities outside of Australia	Creditors with non-insurance liabilities in Australia	All other creditors worldwide
64.75%	n/a	62.5%	n/a

More detail on Scheme Payments and the estimated ultimate Scheme Payment Percentages for FAIG is included in section 3 of this report.

- + To date, the Scheme Administrators have received \$17.2 million of surplus capital from FAI (NZ) General Insurance Ltd, a solvent New Zealand subsidiary.
- + Legal action instigated by shareholders of HIH Insurance Ltd who have sought to prove as unsecured creditors of HIH Insurance Ltd, HIH Casualty & General Insurance Ltd ("HIH C&G") and FAIG, remains on foot. The shareholders withdrew their claim against CIC Insurance Ltd at start of the Court hearing in February 2015.

The Scheme Administrators are currently awaiting the outcome of the Court hearing, which is expected to be handed down by the end of September 2015.

- + Except for the HIH Insurance shareholder claims and a section 1321 Corporations Act application by a creditor seeking determination of a claim submitted after the Scheme bar date, all other claims against FAIG have been determined. The Court hearing for the section 1321 application will be held in September 2015.
- + The liquidations of a further five HIH Group subsidiary companies have been finalised since the last annual report dated 30 June 2014. The liquidation of another HIH Group subsidiary, World Marine & General Insurances Pty Ltd ("WMG"), is expected to be completed by October 2015.

During the period, FAIG received a distribution of surplus capital totalling \$6.9 million from FAI Reinsurances Pty Ltd, a solvent subsidiary which had paid its creditors in full together with Statutory Interest.

The liquidations of 59 HIH Group subsidiary companies have been completed to date. That figure will rise to 60 following the closure of WMG, expected to occur by the end of October 2015.

Thereafter, the remaining HIH Group, Australian liquidations will number 22.



3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for FAIG is 64.75% for creditors with insurance liabilities in Australia (in the case of FAIG this encompasses all insurance creditors) and 62.50% for all non-insurance creditors.

3.2 Projected further Scheme Payments

The Scheme Administrators have paid Scheme Payments percentages close to the forecast minimum levels as set out in section 3.4 of this report. The Scheme Administrators continue to review the available funds and level of claims and hope to be in a position to pay a further interim Scheme Payment to all classes of creditors with agreed claims before the end of 2015. However, timing of payment will be dependent on the progress of the HIH Insurance shareholders claims.

3.3 Scheme Payments for reinsurance creditors

As explained in previous annual reports, the Scheme Administrators are 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.

3.4 Estimated ultimate Scheme Payment Percentage

With the exception of the HIH Insurance shareholder claims and the ongoing section 1321 application, determination of Scheme Creditor claims is now complete.

The Scheme Administrators' latest estimate of the ultimate Scheme Payment Percentages for FAIG as at 30 June 2015 is shown below.

Scheme Company	Total Scheme Payment Percentage		
	Estimated at Scheme date	Updated at 30 June 2014	Updated at 30 June 2015
FAIG	25% to 35%	60% to 68%	63% to 70%

The total estimated Scheme Payment range for creditors can be further analysed as:

	Updated range as at 30 June 2014	Updated range as at 30 June 2015
Creditors with insurance liabilities in Australia	62% - 68%	65.5% - 70%
Creditors eligible to be paid from US Trust Funds	62% - 68%	65.5% - 70%
Creditors with non-insurance liabilities in Australia	60% - 66%	63% - 68%

The difference in the high / low estimates reflects provision for the HIH Insurance shareholder claims.



4 Interaction between Australian and English Schemes

4.1 Claims under the Australian and English Schemes

All creditors worldwide are entitled to claim in both the Australian and English Schemes for FAIG. The Australian and English Scheme Administrators co-operate fully. Claims lodged in one jurisdiction become effective under both Schemes.

The Australian and English Scheme Administrators, and the respective run-off managers, operate a unified principal to principal ledger system and a unified distribution payment system.

The entitlements of individual creditors under both Schemes are automatically calculated, and when a scheme payment is made, the creditor receives a statement showing how their liability has been classed, and from which classes of assets their distribution has been paid.

Both the Australian and English Schemes contain a “hotchpot” clause. The effect of the hotchpot clause is to prevent a creditor who has already been paid a distribution under one of the Schemes, from receiving further payments under the other scheme until such time as all other creditors with similarly ranked claims have received an equal proportionate distribution.

4.2 Distribution Priorities

The English Scheme is designed to complement the Australian Scheme. Following receipt of the House of Lords judgement the English Scheme has adopted all of the provisions of the Australian Scheme, including the Australian distribution priorities, which now apply to the English Assets.



5 Financial position

5.1 Estimated balance sheet at 30 June 2015

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 2015, is included as Appendix 1 to this report.

5.2 Receipts and payments to 30 June 2015

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2015 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2014, \$926,361 has been approved by the Scheme Creditors' Committee of FAIG for payment to the Scheme Administrators in their role as Office Holders.



6 Closure

6.1 Estimation Period

The FAIG Schemes are currently in the “Estimation” phase, where the claims received prior to the Schemes’ cut-off date are determined to be Acknowledged Creditor Claims.

Under the terms of the Schemes, creditors will only be entitled to have their claims determined to be Acknowledged Creditor Claims if:

- + prior to the Estimation Date of 31 May 2013, the creditors’ claims have already been determined to be an Acknowledged Creditor Claim. Creditors whose existing claims have been agreed by the Scheme Administrators would have received a notice from the Scheme Administrators in early 2013 confirming their Acknowledged Creditor Claims;
- + a final claim form for Estimation was completed and returned to the Scheme companies by 2 September 2013 (the Scheme cut-off date); or
- + prior to the Estimation Date, the creditor commenced a proceeding in relation to their claim in accordance with the terms of the Scheme which has not been determined by the Estimation Date.

Apart from the HIH Insurance shareholder claims and one section 1321 application, determination of claims lodged by Scheme Creditors is completed.

6.2 Finalisation of the Schemes

The major issue preventing the finalisation of the Schemes and liquidations of the remaining companies in the HIH Group is the ongoing HIH Insurance shareholders action against HIH Insurance, HIH C&G and FAIG.

The Scheme Administrators are currently awaiting the outcome of the Court hearing for the shareholders claims which is expected to be handed down by the end of September 2015.

Once the shareholders action has been resolved, the Scheme Administrators will be in a position to make the final Scheme Payments; finalise the liquidations of the other HIH companies; and close the Schemes. Subject to the outcome of the Court action and based on current information, the Scheme Administrators consider this may be possible during 2016.



7 Responsibilities

7.1 Scheme Administrators

The Australian Scheme Administrators are Tony McGrath and Chris Honey, partners of McGrathNicol, based in Sydney. The English Scheme Administrators of FAIG are Michael Walker and Barry Gale, partner and director respectively of KPMG LLP based in London.

7.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of FAIG in Australia are managed in-house by the HIH run-off team.

The run-off managers for all business written by the UK branch of FAIG are Asta Insurance Services Limited.

7.3 Creditors' Committee

The interests of creditors in the Australian Scheme are represented by a Creditors' Committee. The Committee sanctions significant transactions (such as commutations), is involved in the setting of the Scheme Payment Percentage, and approves the Scheme Administrators' fees. It is currently reported to, and meets three times a year. The current constitution of the Committee is 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	Mr Nicholas Creagh
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



8 Contact Details

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

8.1 Creditor Enquiries in Australia

Scheme Creditors with claims queries (excluding those in relation to branch business) 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 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 enquiries@hih.com.au.

Yours faithfully

For FAI General Insurance Company Limited – in liquidation and subject to Schemes of Arrangement

Tony McGrath
Scheme Administrator

Chris Honey
Scheme Administrator



Appendix 1

Updated balance sheet for FAIG as at 30 June 2015



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

All values in AUD

	RATA as at 30 June 2015 \$'000	RATA as at 30 June 2014 \$'000
Assets not specifically charged		
Cash		
Cash at bank	35,638	17,196
	<u>35,638</u>	<u>17,196</u>
Receivables		
Amounts owing by related bodies corporate	4,403	14,817
	<u>4,403</u>	<u>14,817</u>
Investments		
Short term deposits	51,107	197,532
ADD back: Dividends Paid	1,167,333	990,671
Shares in controlled entities (FAI (NZ) General less potential repayment)	(3,517)	0
Other - Future Recovery from Allianz Sept 2015	12,614	0
	<u>1,227,538</u>	<u>1,188,202</u>
Reinsurance recoveries receivable	0	186
Less: Refund to Reinsurance Creditors	(838)	0
	<u>(838)</u>	<u>186</u>
Other		
Adverse Litigation Outcomes - Castor Settlement (Coopers & Lybrand)	(675)	0
Other receivables	0	0
	<u>(675)</u>	<u>0</u>
TOTAL ASSETS NOT SPECIFICALLY CHARGED	<u>1,266,066</u>	<u>1,220,400</u>
Assets subject to specific charges		
Statutory Reinsurance Cut-Through	0	19
Total assets subject to specific charges	<u>0</u>	<u>19</u>
Assets potentially subject to future s. 562A (4) claims		
FAC Recovered to Date	0	1,895
Total assets potentially subject to future s. 562A (4) claims	<u>0</u>	<u>1,895</u>
Liabilities secured by specific charge over assets		
FAC Recovered to Date	0	(1,895)
Total liabilities potentially subject to future s. 562A (4) claims	<u>0</u>	<u>(1,895)</u>
TOTAL ASSETS	<u>1,266,066</u>	<u>1,220,419</u>
Liabilities secured by specific charge over assets		
Statutory Reinsurance Cut-Through	0	(19)
Total liabilities secured by specific charge over assets	<u>0</u>	<u>(19)</u>
Unsecured creditors		
Trade Creditors	(37,962)	(37,962)
Goods and services tax	(562)	(644)
Sundry creditors	(489)	(489)
	<u>(39,013)</u>	<u>(39,095)</u>
Provisions		
Other - MAA section 1321 application	(15,100)	0
	<u>(15,100)</u>	<u>0</u>
ACCs - ESC at Estimation Date	(1,316,485)	(1,297,020)
Outstanding claims (Reserves)	0	(10,250)
ACCs - Additional Notified Claims (FCF not finalised - Not Accepted)	0	(636)
Commutations - ESC Verified	(7,893)	(7,686)
Add back: Creditors with Statutory Cut Through & s. 562A (4) claims	0	1,895
Outstanding claims	<u>(1,324,377)</u>	<u>(1,313,697)</u>
Other liabilities		
Other creditors and accruals (Shareholder Claims - potential 1321 application)	(113,323)	(160,166)
Other creditors and accruals (Shareholder as per FCF Report)	(67)	(2,113)
Amounts owing to related bodies corporate	(413,798)	(423,179)
	<u>(527,188)</u>	<u>(585,458)</u>
Total unsecured creditors	<u>(1,905,678)</u>	<u>(1,938,250)</u>
TOTAL LIABILITIES	<u>(1,905,678)</u>	<u>(1,938,269)</u>
NET DEFICIT	<u>(639,613)</u>	<u>(717,850)</u>



Appendix 2

Summary of the Scheme Administrators receipts and payments from 30 May 2006 to 30 June 2015



**FAI General Insurance Company Limited (In Liquidation and subject to Schemes of Arrangement)
Receipts and Payments Account 1 July 2014 to 30 June 2015**

	\$	\$
Opening balance at 1 July 2014		203,549,289.21
Receipts		
Capital distribution from FAI NZ	13,611,986.90	
Unrealised foreign exchange gain on overseas accounts	6,931,968.20	
Surplus capital distribution from FAI Reinsurances	6,892,235.83	
Scheme Payments from HIH C&G	6,625,172.45	
Dividends from non-scheme companies	4,371,922.31	
Scheme Payments from FAI Insurance	3,472,994.69	
Interest on cash and deposits	3,143,373.61	
Scheme Payments from FAI Traders	1,548,451.46	
Dividend payment funding from UK	335,806.82	
Reinsurance recoveries	226,627.05	
GST refund from ATO	224,422.13	
Other receipts	72,096.48	
Claims recoveries	1,000.00	
	<hr/>	
Total receipts		47,458,057.93
Payments		
Scheme Payments to creditors	(170,157,152.60)	
Central Expense reimbursement paid to HIH C&G	(2,219,138.10)	
Professional fees	(1,243,414.14)	
Scheme Administrators' fees	(926,361.00)	
GST on payments	(216,915.32)	
Computer costs	(146,726.75)	
Property expenses	(100,000.00)	
Claims run-off expenses	(88,401.67)	
Insurance	(30,968.78)	
Other sundry payments	(28,793.49)	
Scheme Administrators' disbursements	(25,723.35)	
Liquidators' fees	(460.00)	
	<hr/>	
Total payments		(175,184,055.20)
Balance at 30 June 2015		<u>75,823,291.94</u>