

FAI Insurances Limited
ACN 004 304 545
(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 Insurances Limited - in liquidation and subject to Schemes of Arrangement (“FAI”).

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 FAI. 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. All claims lodged against FAI 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
69.2%	10.0%	12.0%	n/a

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

- + The Scheme Administrators are currently reviewing the available funds and hope to pay the final Scheme Payment to all creditors with an Established Scheme Claim before the end of 2015. Thereafter the requisite steps will be taken to terminate the Schemes and complete the liquidation.
- + To date, the liquidations of 59 HIH Group subsidiary companies have been completed with the liquidation of one further company, namely World Marine & General Insurances Pty Ltd (“WMG”) expected to be completed by October 2015. Thereafter, the remaining HIH Group Australian subsidiary liquidations will total 22 of which 6 companies are within the FAIL group.



3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentages for FAIL are:

Creditors with insurance liabilities in Australia	69.2%
Creditors with insurance liabilities outside of Australia	10.0%
Creditors with non-insurance liabilities in Australia	12.0%
All other creditors worldwide	n/a

3.2 Projected further Scheme Payments

The Scheme Administrators are currently reviewing the available funds, having now received final dividends owing from other HIH group companies, and hope to be in a position to pay a final Scheme Payment to all classes of creditors with agreed claims before the end of 2015.

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.

3.4 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators' current best estimates of the ultimate Scheme Payment Percentages are as follows.

Scheme Company	Total Scheme Payment Percentage at Scheme date	Total Scheme Payment Percentage at 30 June 2014	Updated Total Scheme Payment Percentage at 30 June 2015
FAIL	Less than 5%	11% - 71%	14% - 72%

The estimated Scheme Payment range can be further analysed across the various creditor groups as follows:

	Estimated Scheme Payment Percentages 30 June 2015
Creditors with insurance liabilities in Australia	72.0%
Creditors with insurance liabilities outside of Australia	15.0%
Creditors with non-insurance liabilities in Australia	14.0%

FAIL is part of a guarantee group comprising three subsidiaries within the HIH Group. Membership of the guarantee group has had the effect of pooling the assets and liabilities of the three HIH companies making up the group.

The other members of the cross guarantee group are:



- FAI Leasing Finance Pty Limited
- FAI Home Security Holdings Pty Limited.

Payment of a final Scheme Payment by FAI will also result in the payment of an equal final dividend by the above companies. Thereafter application will be made to Court for the termination of the liquidations of these companies, which do not have any external creditors.



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 FAIL. 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 will 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 FAIL as at 30 June 2015, is included as Appendix 1 to this report.

FAIL together with 2 subsidiary companies, FAI Leasing Finance and FAI Home Security Holdings are part of a guarantee group. Membership of the guarantee group has the effect of pooling the group companies' assets and liabilities. As such, work has continued to be undertaken during the period to realise the assets of the other members of the cross guarantee group.

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, \$117,943.50 has been approved by the FAIL Scheme Creditors' Committee and paid to the Scheme Administrators in their role as Office Holders.



6 Closure

6.1 Estimation Period

The FAIL 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.

Determination of claims lodged by Scheme Creditors is completed.

6.2 Finalisation of the Schemes

Under the terms of the Scheme, the Scheme shall terminate 12 months after the final payment date, or when all liabilities have been discharged in full.

Following payment of the final Scheme Payment Percentages, under the provisions of the Scheme the Scheme will automatically terminate 12 months thereafter. Based on the expected timing of the final Scheme Payments the Scheme Administrators expect that the Scheme will terminate 12 sometime in October 2016.

Pursuant to the Scheme, as soon as practicable following termination, the Scheme Administrators shall cause notices of termination to be placed in such newspapers as considered appropriate for one day a week for four consecutive weeks; and post such notice on the HIH website for a period of six months



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 FAI 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 FAI 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 FAI 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 reported to, and meets as required. The current constitution of the Committee is as follows:

Member	Represented by
HSBC	Mr John Dawson
FAI Leasing Finance Pty Ltd (In Liquidation)	Mr Harry Neesham
FAI (NZ) General Insurance Company Ltd (In Liquidation)	Mr Kerry Downey
HIH Casualty & General Insurance (NZ) Ltd (In Liquidation)	Mr Kerry Downey



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 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 Insurances Limited – in liquidation and subject to Schemes of Arrangement

Tony McGrath
Scheme Administrator

Chris Honey
Scheme Administrator



Appendix 1

Updated balance sheet for FAll as at 30 June 2015



FAI Insurances 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	7,505	12,781
	<u>7,505</u>	<u>12,781</u>
Receivables		
Amounts owing by related bodies corporate (excluding amounts owing by companies in the cross guarantee group)	1,583	7,946
GST Recoverable	6	5
	<u>1,589</u>	<u>7,951</u>
Investments		
Short term deposits	7,040	5,494
ADD back: Dividends Paid	72,681	42,035
Shares in controlled entities	10	0
	<u>79,732</u>	<u>47,529</u>
Total company assets not specifically charged	88,825	68,270
Dividends receivable from other companies in the guarantee group	17,497	29,736
Total assets not specifically charged	106,322	98,007
Assets subject to specific charges		
Statutory Reinsurance Cut-Through	0	255
Total assets subject to specific charges	0	255
TOTAL ASSETS	106,322	98,262
Liabilities secured by specific charge over assets		
Statutory Reinsurance Cut-Through	0	(255)
Total liabilities secured by specific charge over assets	0	(255)
Unsecured creditors		
Accounts payable		
Trade Creditors	(17,633)	(17,852)
	<u>(17,633)</u>	<u>(17,852)</u>
Borrowings		
Medium term note issues plus interest	(100,439)	(79,618)
	<u>(100,439)</u>	<u>(79,618)</u>
Provisions		
Other - Guarantor for CHF bonds	(17,370)	(19,078)
	<u>(17,370)</u>	<u>(19,078)</u>
ACCs - ESC at Estimation Date	(14,984)	(12,327)
Commutations - ESC Verified	(2,206)	0
Outstanding claims	<u>(17,191)</u>	<u>(12,327)</u>
Other liabilities		
Other creditors and accruals (Internal Interest and Commutations)	0	(4,475)
Other creditors and accruals	0	(276)
Amounts owing to related bodies corporate (excluding amounts owing to companies in the cross guarantee group)	(442,559)	(443,961)
	<u>(442,559)</u>	<u>(448,712)</u>
Total company unsecured creditors	(595,191)	(577,585)
Liabilities from other companies in the cross guarantee group	(139,450)	(139,453)
Total unsecured creditors	(734,641)	(717,038)
TOTAL LIABILITIES	(734,641)	(717,038)
NET DEFICIT	(628,319)	(618,777)



Appendix 2

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



**FAI Insurances 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		15,959,112.75
Receipts		
Cross Guarantee Group funding from FAI Leasing Finance	12,202,000.00	
Dividends received from non-scheme companies	7,186,492.35	
Scheme Payments received	4,776,343.21	
Foreign exchange movements on foreign currency accounts	892,754.66	
Interest on cash and deposits	214,762.43	
Statutory interest received	112,041.66	
Other receipts	32,394.47	
Reinsurance recoveries	24,598.89	
GST refund from ATO	11,484.30	
Intercompany loan settlement	3,091.52	
	<hr/>	
Total receipts		25,455,963.49
Payments		
Scheme Payments to creditors	(28,750,863.70)	
Scheme Administrators' fees	(117,943.50)	
Central expense paid to HIH C&G	(93,489.75)	
GST on payments	(12,879.40)	
Professional fees	(10,812.25)	
Other sundry payments	(5,344.47)	
Liquidators' fees	(529.00)	
Scheme Administrators' disbursements	(86.27)	
	<hr/>	
Total payments		(28,991,948.34)
Balance at 30 June 2015		<hr/> 12,423,127.90 <hr/>