

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 2012

Contents

1	Introduction & background	3
1.1	Introduction.....	3
1.2	Background	3
2	Principal developments to report during the period	4
3	Current and projected Scheme Payment Percentages	5
3.1	The current Scheme Payment Percentage.....	5
3.2	Payment of Established Scheme Claims	5
3.3	Payment of statutory interest	5
3.4	Scheme Payments for reinsurance creditors	5
4	Financial position	6
4.1	Estimated balance sheet at 30 June 2012.....	6
4.2	Receipts and payments to 30 June 2012.....	6
5	Closure	7
5.1	Estimation Date	7
5.2	Notification of Estimation Date	7
5.3	Estimation.....	7
6	Responsibilities	8
6.1	Scheme Administrators	8
6.2	Run-off Managers	8
6.3	Creditors' Committee	8
7	Contact Details	9
7.1	Creditor Enquiries in Australia.....	9
	Appendix 1	10
	Updated Balance Sheet for FAI Re as at 30 June 2012	
	Appendix 2	12
	Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2012	

1 Introduction & background

1.1 Introduction

This is the sixth 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 2012.

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 31 May 2011.

In light of the progress made to date on the "run-off" phase of the Scheme, the Scheme Administrators expect the actual bar date to be 31 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.
- + In light of the progress made to date in managing the FAI Re claims run-off, the Scheme Administrators see no reason to postpone the Scheme Estimation date, which is currently 31 May 2013.

Further information in respect of the Estimation Date and the lodgement of final claims, is included in section 5 of this report.

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

In April 2011, the Scheme Administrators 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.

In light of the progress made to date in managing the claims cut-off, the Scheme Administrators have now set the Estimation Date to be 31 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 2012

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 2012, is included as Appendix 1 to this report.

4.2 Receipts and payments to 30 June 2012

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2012 is set out in Appendix 2 to this report.

During this period no fees have been approved and paid to the Scheme Administrators in their role as Office Holders.

5 Closure

5.1 Estimation Date

The FAI Re Scheme provides for an Estimation Date of seven years after the Australian Scheme became effective: that is 31 May 2013.

The Scheme provides that the Estimation Date may be moved up to two years prior to, or two years after the original seven years by special resolution of creditors, on the recommendation of the Scheme Administrators and Creditors' Committees.

The Scheme Administrators now consider that as the majority of the reinsurance asset has been collected and the remaining tail of insurance liabilities is sufficiently small to be managed as part of the cut-off process, that 31 May 2013 should be confirmed as the Estimation Date for the Scheme.

5.2 Notification of Estimation Date

Under the terms of the Scheme, the Scheme Administrators shall, within 180 days of, but not less than 90 days prior to, the Estimation Date of 31 May 2013:

- + send to each known creditors a notice of the Estimation Date and a final claim form for Estimation; and
- + give notice by publication of the Estimation Date.

Based on the Estimation Date of 31 May 2013, the Scheme Administrators expect to provide the written notice to creditors and publication of advertisement in accordance with the terms of the Scheme, in February 2013.

5.3 Estimation

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

- + prior to the Estimation Date, the creditors' claims have already been determined to be Acknowledged Creditor Claims. Creditors whose existing claims have been agreed by the Scheme Administrators will receive a notice from the Scheme Administrators in early 2013 confirming their Acknowledged Creditor Claims;
- + a final claim form for Estimation is completed by the creditor detailing each of its claims and returned to the Scheme companies on or before 3 months after the Estimation Date: i.e. by 2 September 2013; 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.

In light of the upcoming Estimation Date, the Scheme Administrators urge all creditors to review any outstanding claims they may have and if necessary, contact the HIH claims run-off team whose details are set out in section 7.1 of this report, as soon as possible.

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 are managed in-house by the HIH run-off team.

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 enquiries@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 2012

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

Balance Sheet as at 30th June 2012

All values in AUD

	RATA as at 30 June 2012 \$'000	RATA as at 30 June 2011 \$'000
Assets not specifically charged		
Cash		
Cash at bank	1,323	1,340
	<u>1,323</u>	<u>1,340</u>
Receivables		
Amounts owing by related bodies corporate	189	472
GST Recoverable	0	5
	<u>189</u>	<u>477</u>
Investments		
Short term deposits	2,338	2,239
Managed Investments	1,983	1,896
ADD back: Dividends Paid	1,330	766
	<u>5,651</u>	<u>4,901</u>
Total assets not specifically charged	<u>7,164</u>	<u>6,718</u>
Assets subject to specific charges		
Investments		
Short term deposits	7	7
Total assets subject to specific charges	<u>7</u>	<u>7</u>
TOTAL ASSETS	<u>7,171</u>	<u>6,725</u>
Liabilities secured by specific charge over assets		
Accounts payable		
Amounts payable in relation to letters of credit***	(7)	(7)
Total liabilities secured by specific charge over assets	<u>(7)</u>	<u>(7)</u>
Unsecured creditors		
Accounts payable		
Goods and services tax	(2)	0
	<u>(2)</u>	<u>(0)</u>
ACC's	(910)	(835)
Claims Reserves	(15)	(54)
IBNR Claims	(281)	(268)
Outstanding claims	(1,206)	(1,157)
Other liabilities		
Amounts owing to related bodies corporate	(512)	(512)
	<u>(512)</u>	<u>(512)</u>
Total unsecured creditors	<u>(1,720)</u>	<u>(1,669)</u>
TOTAL LIABILITIES	<u>(1,727)</u>	<u>(1,676)</u>
NET ASSETS	<u>5,444</u>	<u>5,049</u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2012

**FAI Reinsurances Pty Limited (In Liquidation and subject to a Scheme of Arrangement)
Receipts and Payments Account 1 July 2011 to 30 June 2012**

	\$	\$
Balance as 1 July 2011		5,481,580.05
Receipts		
Scheme Payments Received	472,000.07	
Interest	143,688.10	
Unrealised Gain on Investments	86,729.28	
Foreign Exchange Movements	16,543.63	
Hannover Re Commutation	10,513.03	
GST Refund from ATO	6,351.70	
Other receipts	954.82	
	<hr/>	
Total receipts		736,780.63
Payments		
Scheme Payments to Creditors	(564,221.05)	
Bank Fees	(1,560.20)	
Professional Fees	(790.09)	
GST	(86.44)	
Actuarial Fees	(50.69)	
Other Sundry Payments	(25.54)	
	<hr/>	
Total payments		(566,734.01)
Balance at 30 June 2012		<u>5,651,626.67</u>