

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 2014



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1 Introduction & background

1.1 Introduction

This is the eighth 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 2014. It also covers any significant events between that date and completion of the report.

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. The earliest estimation date permissible under the terms of the Schemes was 31 May 2011.

In light of the progress made in the administration of the “Run-off” phase of the Schemes, the estimation date at which all outstanding claims are valued, was set at 31 May 2013. 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.



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.
- + All claims lodged against FAI Re prior to the bar date have been determined. The Scheme Administrators are currently reviewing the level of funds available and the statutory interest payable on all Established Scheme Claims.



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

Section 563B(2) of the Australian Corporations Act 2001 states that payment of statutory interest is to be postponed "*until all other debts and claims in the winding up have been satisfied....*".

All claims lodged against FAI Re prior to the bar date have been determined. The Scheme Administrators are currently reviewing the level of funds available and the statutory interest payable on the Established Scheme Claims; and hope to be in a position to pay the statutory interest by 2015.

3.4 Scheme Payments for reinsurance creditors

As explained in previous 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.



4 Financial position

4.1 Estimated balance sheet at 30 June 2014

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 2014, is included as Appendix 1 to this report.

There have been no material movements in the Scheme Administrators' estimates of forecast recoverable assets, or forecast total liabilities, since the last report.

4.2 Receipts and payments to 30 June 2014

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2014 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2013, no fees have been approved for payment to the Scheme Administrators in their role as Office Holders.



5 Closure

5.1 Estimation Period

The FAI Re Scheme is currently in the “Estimation” phase where the claims received prior to the Schemes cut-off date are being 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 complete.

5.2 Determination after Estimation Date

Under the terms of the Schemes, the Scheme Administrators shall determine whether the creditors’ claims are Established Scheme Claims within three months of 2 September 2013.

Following their assessment, the Scheme Administrators shall notify the Scheme Creditors in writing of their decision in respect of the claims received.

If, after a period of a further three months from the Scheme Administrators’ written notice of their determination, the Scheme Administrators have not reached an agreement with the Scheme Creditor as to whether any part of the claim gives rise to an Established Scheme Claim, the Scheme Administrators shall refer the creditor’s claim to a Scheme Adjudicator for determination.

5.3 Scheme Claim Adjudication

The Scheme Adjudicator appointed to the FAI Re Scheme is Mr Tim Andrews from Finity Solutions.

The role of the Scheme Adjudicator is principally to determine whether liabilities notified to the Scheme companies by a potential creditor under the estimation process, and referred to the Scheme Adjudicator by the Scheme Administrator, should be accepted as Established Scheme Claims. The Scheme Adjudicator must also determine the value of such claims.

The Scheme Administrators’ determination of claims received has been accepted by the Scheme Creditors. There were no creditors’ claims referred to the Scheme Adjudicator.



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 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 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 2014



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

All values in AUD

	RATA as at 30 June 2014 \$'000	RATA as at 30 June 2013 \$'000
Assets not specifically charged		
Cash		
Cash at bank	359	1,291
	<u>359</u>	<u>1,291</u>
Receivables		
Amounts owing by related bodies corporate	660	0
	<u>660</u>	<u>0</u>
Investments		
Short term deposits	5,900	4,466
ADD back: Dividends Paid	1,412	1,512
	<u>7,311</u>	<u>5,977</u>
Total assets not specifically charged	<u>8,331</u>	<u>7,268</u>
Assets subject to specific charges		
Investments		
Short term deposits	8	8
Total assets subject to specific charges	<u>8</u>	<u>8</u>
TOTAL ASSETS	<u>8,338</u>	<u>7,276</u>
Liabilities secured by specific charge over assets		
Accounts payable		
Amounts payable in relation to letters of credit	(8)	(8)
Total liabilities secured by specific charge over assets	<u>(8)</u>	<u>(8)</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(0)	(0)
Goods and services tax	(1)	(1)
	<u>(2)</u>	<u>(2)</u>
ACCs - ESC at Estimation Date	(939)	(986)
Outstanding claims (Reserves)	0	(5)
IBNR Claims	0	(332)
Outstanding claims	<u>(939)</u>	<u>(1,323)</u>
Other liabilities		
Other creditors and accruals (Shareholder Claims - potential 1321 application)	(276)	0
Amounts owing to related bodies corporate	(504)	(512)
	<u>(780)</u>	<u>(512)</u>
Total unsecured creditors	<u>(1,720)</u>	<u>(1,837)</u>
TOTAL LIABILITIES	<u>(1,728)</u>	<u>(1,845)</u>
NET ASSETS	<u>6,610</u>	<u>5,431</u>



Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2014



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

Receipts and Payments Account 1 July 2013 to 30 June 2014

	\$	\$
Balance as 1 July 2013		5,764,126.49
Receipts		
Scheme Payment received	368,413.45	
Interest	149,795.40	
GST Refund from ATO	<u>123.05</u>	
Total receipts		518,331.90
Payments		
Expense reimbursement to HIH C&G	(8,143.15)	
Unrealised foreign exchange movements	(4,305.42)	
Bank fees	(1,692.21)	
Professional fees	(1,174.06)	
GST	(119.06)	
Other sundry payments	<u>(23.41)</u>	
Total payments		(15,457.31)
Balance at 30 June 2014		<u>6,267,001.08</u>