

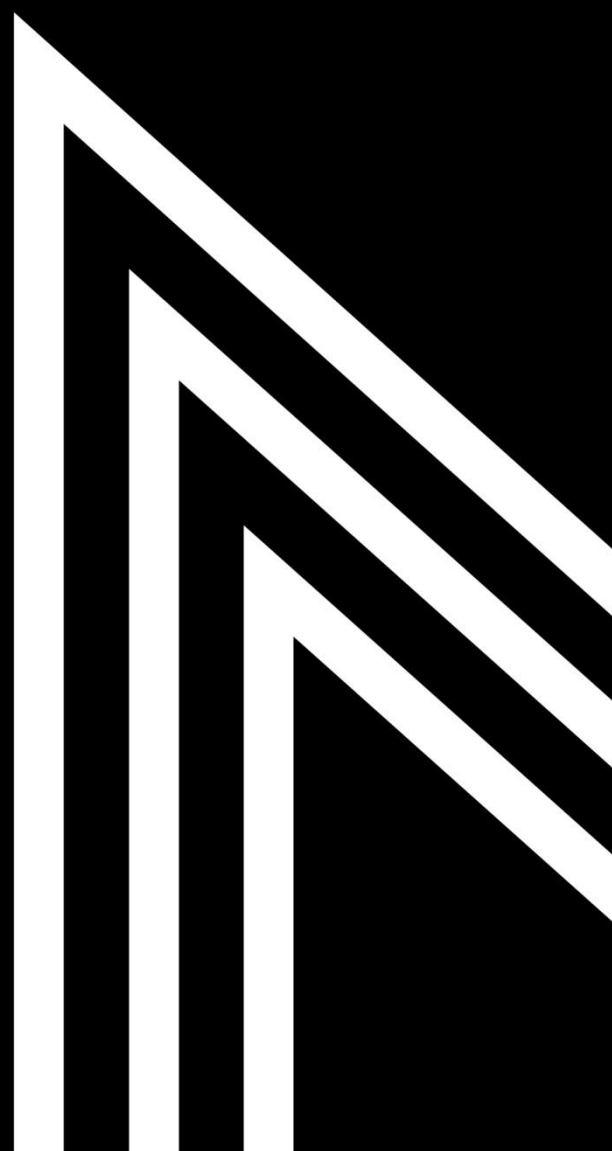
FAI General Insurance Company Limited
ACN 000 327 855
(In Liquidation and subject to a Scheme of Arrangement)

Scheme Administrators' Annual Report to Creditors

30 June 2020



McGrathNicol



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1 Introduction & Background

1.1 Introduction

This is the fourteenth annual report to the Creditors of FAI General Insurance Company Limited (In Liquidation and subject to a Scheme 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 2020. 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. The HIH Royal Commission established by the Australian Federal Government has also prepared an extensive report on the failure of the group.

Schemes of Arrangement for the eight licensed insurance companies in the HIH Group in Australia, including FAIG, 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, including FAIG, became effective in the UK on 13 June 2006. The FAIG English Scheme has terminated with effect from 19 April 2017.

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 Claim Forms by Scheme Creditors against the eight licensed insurance companies in the HIH Group was set at midnight British Summer Time on 2 September 2013 (**Bar Date**). Under the terms of the Schemes, no further claims can be accepted after this date.

Five of the eight Schemes have now been finalised and terminated in accordance with clause 63.1. The three remaining Schemes of the HIH Group are in respect of FAIG, HIH Casualty and General Insurance Limited (**HIH C&G**) and CIC Insurance Limited.

The FAIG Australian Scheme remains in the "Estimation" phase. The Scheme Administrators have agreed and quantified all claims lodged by Scheme Creditors prior to the Bar Date and all claims of HIH Insurance Limited (**HIH Insurance**) shareholders as awarded by the NSW Supreme Court in 2016.

2 Principal Developments To Report During The Period

The principal developments to report during the period were:

- the agreement of further Scheme Payment Percentages by the Scheme Creditors' Committee, bringing total Scheme Payment Percentages paid to those detailed below:

Creditors with insurance liabilities in Australia	Creditors with non-insurance liabilities in Australia
68.9%	66.9%

- as stated in the previous report, the FAIG Scheme Administrators together with the HIH C&G Scheme Administrators and HIH Insurance Liquidators have in 2019 determined and paid the claims of the HIH Insurance shareholders, except for the dividends due to certain shareholders (**Remaining Shareholder Creditors**). The Scheme Administrators and Liquidators intended to seek Court directions on the dividends due to these Remaining Shareholder Creditors as the dividends were sought by certain interested parties who claimed to have acted for these shareholders.

In light of the above, we prepared and attended at a Court hearing in December 2019 seeking directions to whom the dividends should be paid to.

At the December 2019 hearing, the NSW Supreme Court handed down its judgment and agreed that the FAIG and HIH C&G Scheme Administrators and HIH Insurance Liquidators were justified in paying the dividends directly to the Remaining Shareholder Creditors unless the interested parties could establish an obligation that the dividends should be paid to them rather than to the Remaining Shareholder Creditors.

The FAIG and HIH C&G Scheme Administrators and HIH Insurance Liquidators are currently liaising with the interested parties to finalise the dividends of these Remaining Shareholder Creditors however, as one of the interested parties has commenced legal proceedings against its clients (the shareholders) for the dividends, finalisation of the dividend payments by the Scheme Administrators will be dependent on the outcome of that legal action.

- the agreement and payment by the FAIG and HIH C&G Scheme Administrators and HIH Insurance Liquidators of the cost orders granted in favour of the various groups of shareholders in the previous legal proceedings.

3 Current and Projected Scheme Payment Percentages

3.1 The Current Scheme Payment Percentages

The Scheme Payment Percentages paid to date are 68.9% for creditors with insurance liabilities in Australia and 66.9% for all non-insurance Australian creditors.

3.2 Estimated ultimate Scheme Payment Percentages

The Scheme Administrators' latest estimate of the ultimate Scheme Payment Percentages for the various FAIG creditor groups is set out below:

	As at 30 June 2019	Updated as at 30 June 2020
Creditors with insurance liabilities in Australia	68.6%	69.0%
Creditors eligible to be paid from US Trust Funds	68.6%	69.0%
Creditors with non-insurance liabilities in Australia	66.6%	67.0%

The Scheme Administrators have paid Scheme Payment Percentages close to the ultimate levels set out above. The Scheme Administrators hope to be in a position to pay the final Scheme Payment by the second half of 2021 however, timing of payment will be dependent on the finalisation of the Remaining Shareholder Creditors dividends.

4 Financial Position

4.1 Estimated balance sheet at 30 June 2020

Included as Appendix 3 to the Australian Explanatory Statement section of the Scheme of Arrangement documentation (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 2020 is included as Appendix 1 to this report.

4.2 Receipts and payments to 30 June 2020

A summary of the Scheme Administrators' receipts and payments from 1 July 2019 to 30 June 2020 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2019, \$386,450.00 has been approved by the FAIG Scheme Creditors' Committee for payment to the Scheme Administrators in their role as Office Holders covering the period from 26 January 2019 to 27 March 2020.

5 Closure

5.1 Finalisation of the Scheme

The only issue preventing the closure of the FAIG Scheme is payment of the Remaining Shareholder Creditors' dividends.

Once resolved, the Scheme Administrators hope to be in a position to make the final Scheme Payments by the second half of 2021, and terminate the Scheme 12 months after the final Scheme Payments are made.

6 Responsibilities

6.1 Scheme Administrators

The Australian Scheme Administrators are Jason Preston and Kathy Sozou, partners of McGrathNicol based in Sydney. Kathy Sozou replaced Tony McGrath as the Australian Scheme Administrator of FAIG following Tony McGrath's resignation on 1 July 2020.

6.2 Creditors' Committee

The interests of the FAIG creditors in the Australian Scheme are represented by a Creditors' Committee. The Committee sanctions significant transactions, is involved in the setting of the Scheme Payment Percentage and approves the Scheme Administrators' fees. It is currently reported to, and meets, on an ad-hoc basis. The constitution of the Committee at 30 June 2020 was as follows:

Member	Represented By
ACT Workers Compensation Supplementation Fund	Vacant
Lawcover Pty Limited	Mr Peter Candotti
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Ms Danielle Jakubowski
Avant Insurance Limited	Ms Vikki Sellars-Jones
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 Michael Kelly
Motor Accidents Authority of New South Wales	Ms Mary Maini

7 Contact Details

Contact details for the Australian Scheme Administrators are set out on the HIH website, www.hih.com.au.

7.1 Creditor Enquiries in Australia

Please direct all enquiries to the HIH Help Desk at the following:

Email: enquiries@hih.com.au

Tel: +61 (0) 2 9650 5777

Address: GPO Box 2707, Sydney NSW 2001

Yours faithfully

For FAI General Insurance Company Limited (In Liquidation and subject to a Scheme of Arrangement)



Jason Preston
Scheme Administrator



Kathy Sozou
Scheme Administrator

Appendix 1

Updated balance sheet at 30 June 2020

<i>All values in AUD</i>	RATA as at 30 June 2020 \$'000	RATA as at 30 June 2019 \$'000
Assets not specifically charged		
Cash		
Cash at bank	13,431	16,066
	<u>13,431</u>	<u>16,066</u>
Receivables		
Amounts owing by related bodies corporate	1,352	5,393
	<u>1,352</u>	<u>5,393</u>
Investments		
Short term deposits	3,035	76,391
ADD back: Dividends Paid	1,128,970	1,058,367
	<u>1,132,004</u>	<u>1,134,758</u>
Refund to Reinsurance Creditors		
	(1,009)	(988)
Other		
Adverse Shareholder Costs	(1,083)	(1,333)
HIH Shareholders claim	(570)	(11,062)
	<u>(1,654)</u>	<u>(12,396)</u>
TOTAL ASSETS	<u>1,144,124</u>	<u>1,142,834</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(40,791)	(40,791)
Goods and services tax	(196)	(210)
Sundry creditors	(489)	(489)
	<u>(41,476)</u>	<u>(41,490)</u>
ACCs - ESC at Estimation Date	(1,338,121)	(1,335,750)
Commutations - ESC Verified	(6,107)	(6,108)
Add back: Creditors with Statutory Cut Through & s.562A(4) claims	91,369	91,369
	<u>(1,252,858)</u>	<u>(1,250,489)</u>
Outstanding claims		
Other liabilities		
Amounts owing to related bodies corporate	(356,693)	(356,675)
	<u>(356,693)</u>	<u>(356,675)</u>
TOTAL LIABILITIES	<u>(1,651,027)</u>	<u>(1,648,655)</u>
NET DEFICIT	<u>(506,903)</u>	<u>(505,820)</u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 1 July 2019 to 30 June 2020

	\$	\$
Opening balance at 1 July 2019		92,456,678
Receipts		
Scheme Dividend from HIH C&G	4,011,601	
Interest on Cash and Deposits	674,602	
GST Refund	85,170	
Total Receipts		4,771,374
Payments		
Scheme Payments to Creditors	(69,069,514)	
HIH Shareholders Dividend Payment	(9,519,952)	
Central Expense Reimbursement Paid to HIH C&G	(1,240,042)	
Legal and Taxation Fees	(558,297)	
Scheme Administrators' Fees	(386,450)	
GST Paid	(99,196)	
Cost Order for Scheme Extension	(35,000)	
Insurance	(34,796)	
Scheme Administrators' Disbursements	(15,998)	
Other Payments	(9,907)	
Liquidators' Fees	(214)	
Total Payments		(80,969,366)
Adjustments for Unrealised Foreign Exchange Gain on Foreign Cash Accounts		206,979
Balance at 30 June 2020		16,465,665