

World Marine & General Insurances Pty Limited
ACN 000 093 112
(In liquidation and subject to Schemes of Arrangement)

Scheme Administrators' annual report to
creditors

30 June 2012

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1 Introduction & background

1.1 Introduction

This is the sixth annual report to the Creditors of World Marine & General Insurances Pty Limited - in liquidation and subject to Schemes of Arrangement (“WMG”).

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.

An annual report has also been prepared by the Scheme Administrators of the UK Scheme of Arrangement for WMG. 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 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:

- + There were no further Scheme Payments approved for payment to the creditors during the year.

Scheme Payments made to date total:

	Creditors with insurance liabilities in Australia	Creditors with insurance liabilities outside of Australia	Creditors with non insurance liabilities in Australia	All other creditors worldwide
WMG	75.50%	30.00%	65.00%	nil

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

- + In light of the progress made to date in managing the WMG 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 6 of this report.

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentages for WMG are:

Creditors with insurance liabilities in Australia	75.50%
Creditors with insurance liabilities outside of Australia	30.00%
Creditors with non insurance liabilities in Australia	65.00%

To date, the Scheme Administrators have made distributions out of non-reinsurance assets in Australia, to creditors with liabilities in Australia, totalling 65%.

The Scheme Administrators have made distributions out of reinsurance assets to creditors with insurance liabilities worldwide, totalling 30%. As any distribution to creditors with insurance liabilities from assets other than reinsurance recoveries, is made after taking account of any recoveries they may have received from reinsurance assets, the effective total Scheme Payment percentage for creditors with insurance liabilities in Australia to date is therefore 75.5%.

3.2 Projected further Scheme Payments

The Scheme Administrators continually review the level of assets realised and those expected to be recovered within the coming year. Although the majority of the remaining assets to be recovered comprise intercompany debts owed by other HIH Group companies in liquidation, the major determinant of the final Scheme Payment Percentages will be the level of the final creditor claims.

As the Scheme cut-off date of 31 May 2013 is now less than 12 months away, the Scheme Administrators do not consider it prudent to make any further Scheme Payments until after the Scheme cut-off when the expected final creditor total will be better known.

3.3 Agreement of the current Scheme Payment Percentage

The Scheme Administrators review the Scheme Payment Percentages on a regular basis, as major asset recoveries are made and claims estimate are updated. This review is undertaken in consultation with the Creditors' Committees. Factors taken into account when estimating these percentages include current cash held, expected future agreed claims levels and the remaining potential volatility of the account.

3.4 Scheme Payments for reinsurance creditors

As explained in previous annual 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.

3.5 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators' current best estimate of the ultimate Scheme Payment Percentages for WMG is shown below. This estimate is dependent on a wide range of factors including the volatility of claims; levels of set-off; levels of reinsurance recovery; the class of creditor claim; and litigation outcomes. It is possible that the ultimate Scheme Payment Percentage could vary significantly from that predicted.

Scheme Company	Estimated Total Scheme Payment Percentage at Scheme date	Updated Total Scheme Payment Percentage at 30 June 12
WMG	30% to 40%	70% to 100%

The total estimated Scheme Payment range for creditors of 70% to 100% can be further analysed as:

	Range of estimated Scheme Payment percentages
Creditors with insurance liabilities in Australia	90% - 100%
Creditors with insurance liabilities outside of Australia	70% - 80%
Creditors with non insurance liabilities in Australia	90% - 100%

Further review of the split between overseas and Australian reinsurance recoveries has indicated that funds available may, based on current estimates of insurance creditor claims, be sufficient to increase the estimated Scheme Payment percentage for creditors with insurance liabilities outside of Australia to between 70% and 80%.

4 Interaction between Australian and English Schemes

4.1 Claiming under the Australian and English Schemes

All creditors worldwide are entitled to claim in both the Australian and English Schemes for WMG. The Australian and English Scheme Administrators co-operate fully. Creditors do not need to lodge separate claims in each jurisdiction. Creditors need to lodge claims in one location only, which is then 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 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 WMG as at 30 June 2012, is included as Appendix 1 to this report.

5.2 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.

Since the last annual report dated 30 June 2011, no fees have been approved for payment to the Scheme Administrators in their role as Office Holders.

6 Closure

6.1 Estimation Date

The WMG Schemes provide 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.

6.2 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.

6.3 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 an Acknowledged Creditor Claim. 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 8.1 of this report, as soon as possible.

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 WMG are John Wardrop and Michael Walker, partners of KPMG LLP based in London. Michael Walker replaced Tom Riddell as the English Scheme Administrators of WMG following Tom Riddell's resignation in January 2012.

7.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of WMG 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 WMG 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 on average, on an annual basis. The current constitution of the Committee is as follows:

Member	Represented by
HCSL – Australian Government Treasury	Mr Trevor King
CIC Insurance Limited – In liquidation	Mr Harry Neesham

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 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 World Marine & General Insurances Pty Limited – in liquidation and subject to Schemes of Arrangement



Tony McGrath
Scheme Administrator



Chris Honey
Scheme Administrator

Appendix 1

Updated balance sheet for WMG as at 30 June 2012

World Marine and General Insurance Pty Limited - (In Liquidation and subject to Schemes 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	11,812	5,523
	<u>11,812</u>	<u>5,523</u>
Receivables		
Amounts owing by related bodies corporate	5,707	6,274
	<u>5,707</u>	<u>6,274</u>
Investments		
Short term deposits	2	2
Managed Investments	2,192	8,175
ADD back: Dividends Paid	6,471	5,585
	<u>8,666</u>	<u>13,762</u>
Total assets not specifically charged	<u>26,185</u>	<u>25,626</u>
Investments		
Statutory Reinsurance Cut-Through	0	394
Total assets subject to specific charges	<u>0</u>	<u>394</u>
TOTAL ASSETS	<u>26,185</u>	<u>26,020</u>
Accounts payable		
Statutory Reinsurance Cut-Through	(0)	(394)
Total liabilities secured by specific charge over assets	<u>(0)</u>	<u>(394)</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(203)	(203)
Goods and services tax	(2)	(0)
Sundry creditors	(9)	(10)
	<u>(214)</u>	<u>(213)</u>
ACCs	(11,238)	(6,807)
Outstanding claims (Reserves)	(2,392)	(2,651)
IBNR Claims	(3,163)	(6,918)
Outstanding claims	<u>(16,793)</u>	<u>(16,376)</u>
Other liabilities		
Amounts owing to related bodies corporate	(9,904)	(9,904)
	<u>(9,904)</u>	<u>(9,904)</u>
Total unsecured creditors	<u>(26,911)</u>	<u>(26,493)</u>
TOTAL LIABILITIES	<u>(26,911)</u>	<u>(26,887)</u>
NET DEFICIT	<u>(726)</u>	<u>(867)</u>

Appendix 2

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

World Marine & General Insurances Pty Limited (In Liquidation and subject to Schemes of Arrangement)

Receipts and Payments Account 1 July 2011 to 30 June 2012

	\$	\$
Balance at 1 July 2011		9,837,750.16
Receipts		
Scheme Payment Received	945,407.00	
Interest on cash and deposits	184,895.06	
Unrealised Gain on Investment Portfolio	147,300.58	
Reinsurance Recoveries	42,840.36	
Foreign Exchange Movements	29,189.23	
Repatriation of Funds from UK Liquidators	28,989.14	
Recovery from CGU Insurance	19,286.15	
GST Refund from ATO	4,996.05	
Other receipts	724.22	
	<hr/>	
Total receipts		1,403,627.79
Payments		
Scheme Payments to Creditors	(1,050,340.93)	
Central Expense paid to HIH C&G	(55,159.31)	
Scheme Administrators' Fees	(26,616.00)	
Professional Fees	(8,219.15)	
Computer Costs	(3,684.61)	
GST	(3,640.83)	
IT Charges	(3,579.19)	
Other Sundry Payments	(2,899.00)	
Claims Run-off expenses	(2,000.00)	
Outsourced Claims Management Fees	(1,610.15)	
Liquidators' Fees	(563.00)	
	<hr/>	
Total payments		(1,158,312.17)
Balance at 30 June 2012		<hr/> 10,083,065.78 <hr/>