

---

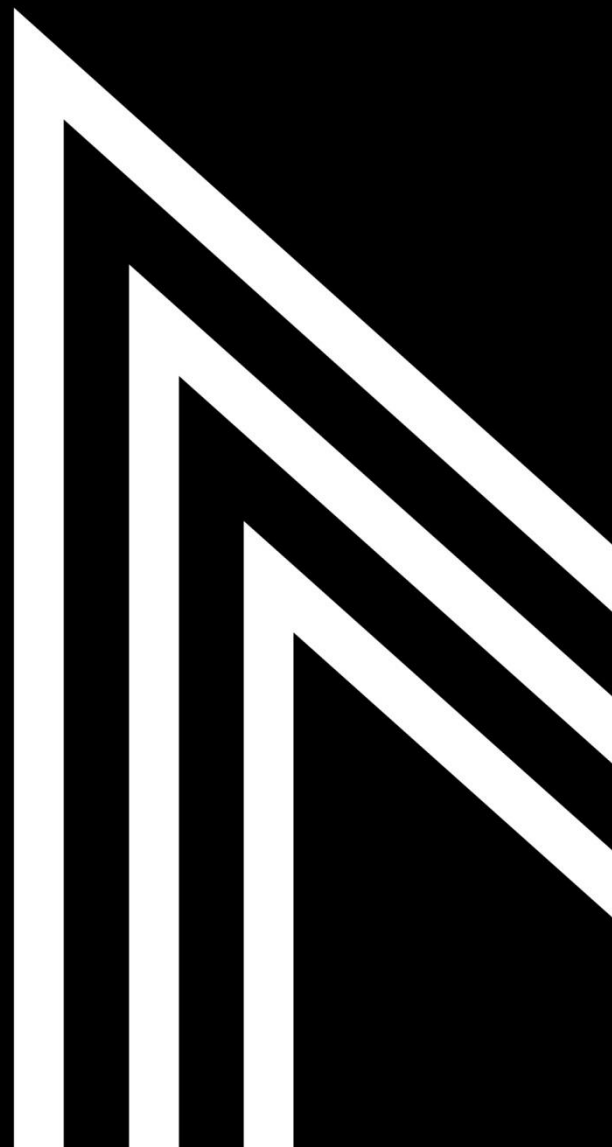
**HIH Casualty and General Insurance Limited**  
**ACN 008 482 291**  
**(In Liquidation and subject to Schemes of**  
**Arrangement)**

**Scheme Administrators' Annual Report to Creditors**

30 June 2017



McGrathNicol



## Contents

1	Introduction & Background.....	2
1.1	Introduction.....	2
1.2	Background.....	2
2	Principal Developments To Report During The Period.....	2
3	Current and Projected Scheme Payment Percentages.....	3
3.1	The Current Scheme Payment Percentages.....	3
3.2	Estimated ultimate Scheme Payment Percentages.....	3
4	Financial Position .....	4
4.1	Estimated balance sheet at 30 June 2017 .....	4
4.2	Receipts and payments to 30 June 2017.....	4
5	Closure .....	4
5.1	Finalisation of the Schemes.....	4
6	Responsibilities.....	4
6.1	Scheme Administrators .....	4
6.2	Run-off Managers.....	5
6.3	Creditors' Committee.....	5
7	Contact Details.....	5
7.1	Creditor Enquiries in Australia.....	5
	Appendix 1.....	6
	Appendix 2.....	7

# 1 Introduction & Background

## 1.1 Introduction

This is the eleventh annual report to the Creditors of HIH Casualty & General Insurance Limited (In Liquidation and subject to Schemes of Arrangement) ("HIH C&G").

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 2017. 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 HIH C&G. 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](http://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 HIH C&G, 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 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. Under the terms of the Schemes, no further claims can be accepted after this date.

Four of the eight Schemes have now been finalised and terminated in accordance with clause 63.1.

The HIH C&G Schemes remain in the "Estimation" phase. Apart from the New Shareholders Claims defined in section 2 of this report, all claims lodged have been agreed and quantified.

# 2 Principal Developments To Report During The Period

The principal developments to report during the period were:

- We liaised with the solicitors of the various groups of HIH Insurance Limited ("HIH Insurance") shareholders ("Plaintiffs") to seek to agree the basis for calculating and admitting the Plaintiffs' damages claims in the HIH C&G and FAI General Insurance Company Limited ("FAIG") Schemes and in the HIH Insurance liquidation.

We were unable to agree an acceptable methodology for claims calculation with the Plaintiffs' solicitors and sought Court directions in order to progress the issue. At a hearing on 10 March 2017, the Court ruled on a variety of points raised by both parties. The rulings were mainly in line with our views and resulted in the Plaintiffs' claims being quantified and confirmed by Court Orders dated 28 April 2017.

Plaintiffs have now received dividends equal to those paid to the general pool of creditors.

- Whilst the legal action is now finalised, the NSW Supreme Court judgement issued in April 2016 has resulted in further groups of HIH shareholders now seeking to lodge claims against HIH C&G, FAIG and HIH Insurance ("New Shareholders Claims").

The Liquidators and Scheme Administrators are currently seeking legal advice on the New Shareholders Claims and Court directions on the further implications the April 2016 judgement may have on the makeup of the Liquidation and Scheme(s) of Arrangement creditor pools.

- HIH C&G received \$6.85 million by way of final dividend on the intercompany debt due from HIH Overseas Holdings Limited.
- The liquidations of ten HIH Group companies and the HIH Underwriting & Insurance (Australia) Pty Ltd's Scheme of Arrangement have been finalised in the period.

To date, the liquidations of 73 HIH Group companies have been completed leaving just nine currently in liquidation. Of the eight entities remaining below HIH Insurance, the group's ultimate holding company, four are subject to Scheme(s) of Arrangement and the other another four remain in liquidation to preserve the group structure for tax purposes. As such, no further estate completions are likely in the next 12-month period.

### 3 Current and Projected Scheme Payment Percentages

#### 3.1 The Current Scheme Payment Percentages

There has been no change to the Scheme Payment Percentages paid to the different HIH C&G creditor groups, as set out below:

Creditors with insurance liabilities in Australia	48.61%
Creditors with insurance liabilities outside of Australia	47.82%
Creditors with non-insurance liabilities in Australia	35.50%
Creditors with non-insurance liabilities outside of Australia	34.50%

For convenience, we reproduce below the information from our previous report as follows:

The Scheme Administrators have made final distributions out of reinsurance assets in Australia, to creditors with insurance liabilities in Australia, totalling 16.05%. They have also made final distributions out of reinsurance assets outside of Australia to creditors with insurance liabilities outside of Australia of 16.05%. A further final distribution of 4.28% has been made from reinsurance assets outside of Australia to all creditors with insurance liabilities worldwide. As any distribution to creditors with insurance liabilities from assets other than reinsurance recoveries, is made after accounting for any proceeds that have been received from reinsurance assets, the effective total Scheme Payment percentage to date for creditors with Australian insurance liabilities is 48.61%. The effective total Scheme Payment percentage to date for creditors with insurance liabilities outside of Australia is 47.82%.

Scheme Payment Percentages totalling 47.82% for those US domiciled creditors eligible to be paid from the US Trust Fund assets have also been paid. All of the US Trust Fund assets have now been exhausted and US domiciled creditors eligible to be paid from those assets will continue to be paid the same Scheme percentage as all other creditors with insurance liabilities outside of Australia.

To date, the Scheme Administrators have made distributions from the realisations of non-reinsurance assets in Australia, to creditors with liabilities in Australia, totalling 35.5%. They have also made distributions totalling 34.5% to all other non-insurance creditors worldwide.

#### 3.2 Estimated ultimate Scheme Payment Percentages

The quantum and timing of further Scheme Payment(s) is wholly dependent on finalising the quantum of any New Shareholders Claims arising out of the April 2016 NSW Supreme Court judgement.

The Scheme Administrators' latest estimate of the ultimate Scheme Payment Percentages for the various HIH C&G creditors groups as at 30 June 2017 is shown below:

	<b>Range as at 30 June 2016</b>	<b>Updated range as at 30 June 2017</b>
Creditors with insurance liabilities in Australia	50.2% - 51.8%	51.3% - 51.9%
Creditors eligible to be paid from US Trust Funds	48%	48.2%
Creditors with insurance liabilities outside of Australia	48%	48.2%
Creditors with non-insurance liabilities in Australia	37.6% - 39.6%	38.9% - 39.7%
Creditors with non-insurance liabilities outside of Australia	35%	35%

The high / low variances reflect the range of potential outcomes arising from the New Shareholders Claims.

## 4 Financial Position

### 4.1 Estimated balance sheet at 30 June 2017

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 HIH C&G as at 30 June 2017 is included as Appendix 1 to this report.

### 4.2 Receipts and payments to 30 June 2017

A summary of the Scheme Administrators' receipts and payments from 1 July 2016 to 30 June 2017 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2016, \$569,327.50 has been approved by the HIH C&G Scheme Creditors' Committee for payment to the Scheme Administrators in their role as Office Holders covering the period from 26 March 2016 to 24 February 2017.

## 5 Closure

### 5.1 Finalisation of the Schemes

The only issue preventing the closure of the HIH C&G Scheme and liquidation is finalising the level of admissible New Shareholders Claims.

Once resolved, the Scheme Administrators will be in a position to make the final Scheme Payment and close the Scheme, hopefully towards the end of 2018.

## 6 Responsibilities

### 6.1 Scheme Administrators

The Australian Scheme Administrators are Tony McGrath and Jason Preston, partners of McGrathNicol based in Sydney.

The English Scheme Administrators of HIH C&G are Michael Walker and Barry Gale, partners of KPMG LLP based in London.

## 6.2 Run-off Managers

All claims handling and reinsurance recovery activities of HIH C&G in both Australia and the UK have been finalised.

## 6.3 Creditors' Committee

The interests of the HIH C&G 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 2017 was as follows:

Member	Represented By
ACT Insurance Authority	Mr John Fletcher
ACT Workers Compensation Supplementation Fund	Mr John Fletcher
Law Cover Pty Limited	Mr Dharmesh Patel
NSW Motor Accidents Authority	Mr Andrew Nicholls
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Ms Angela Baum
United Medical Protection	Ms Suzanne Barron
WA Workers Compensation & Rehabilitation Commission	Mr Harry Neesham
HIH Holdings (Asia) Limited	Mr Peter Whalley
Hong Kong Solicitors Indemnity Fund	Ms Orla McCoy
Motor Traders Association of NSW	Mr Greg Patten
Building Insurers Guarantee Corporation NSW	Mr Steve Hunt

## 7 Contact Details

Contact details for the Australian and English Scheme Administrators are set out on the HIH website, [www.hih.com.au](http://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 2707, Sydney NSW 2001, Fax +61 (0) 2 8117 9000.

Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the HIH Help Desk on +6 (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](mailto:enquiries@hih.com.au).

Yours faithfully

For HIH Casualty & General Insurance Limited (In Liquidation and subject to Schemes of Arrangement)



Tony McGrath  
Scheme Administrator



Jason Preston  
Scheme Administrator

## Appendix 1

Updated balance sheet at 30 June 2017

### *HIH Casualty & General Insurance Limited - (In Liquidation and subject to Schemes of Arrangement)*

*All values in AUD*

	RATA as at 30 Jun 2017 \$'000	RATA as at 30 June 2016 \$'000
<b>Assets not specifically charged</b>		
<b>Cash</b>		
Cash on hand	1	1
Cash at bank	35,450	31,691
	<u>35,451</u>	<u>31,692</u>
<b>Receivables</b>		
Amounts owing by related bodies corporate (Interco rec)	14,189	11,868
	<u>14,189</u>	<u>11,868</u>
<b>Investments</b>		
Short term deposits	42,227	43,015
ADD back: Dividends Paid Less FAC Paid	1,200,731	1,211,208
	<u>1,242,958</u>	<u>1,254,223</u>
<b>Refund to Reinsurance Creditors</b>		
	(829)	(860)
	<u>(829)</u>	<u>(860)</u>
<b>Other</b>		
Adverse Legal Costs	(1,333)	(1,333)
Current Shareholder Claims	(758)	(1,723)
	<u>(2,092)</u>	<u>(3,057)</u>
<b>Sub - Total assets not specifically charged</b>	<b><u>1,289,678</u></b>	<b><u>1,293,866</u></b>
<b>Provisions</b>		
Legal Fees	(1,500)	(1,500)
	<u>(1,500)</u>	<u>(1,500)</u>
<b>TOTAL ASSETS</b>	<b><u>1,288,178</u></b>	<b><u>1,292,366</u></b>
<b>Amounts payable in advance of secured creditors</b>		
Provision for redundancy, employee entitlements and employee claims	(2,588)	(2,611)
<b>Total amounts payable in advance of secured creditors</b>	<b><u>(2,588)</u></b>	<b><u>(2,611)</u></b>
<b>Unsecured creditors</b>		
<b>Accounts payable</b>		
Trade Creditors (A/P and Special Principals) - ESC at Estimation Date	(44,353)	(44,357)
Goods and services tax	(883)	(887)
Sundry creditors - ARS - ESC at Estimation Date	(19,518)	(19,451)
	<u>(64,754)</u>	<u>(64,695)</u>
ACCs - ESC at Estimation Date	(2,012,667)	(2,034,782)
Commutations - ESC Verified	(40,875)	(40,652)
Add back: Creditors with Statutory Cut Through & s.562A(4) claims	41,027	41,027
<b>Outstanding claims</b>	<u>(2,012,515)</u>	<u>(2,034,407)</u>
<b>Other liabilities</b>		
Other creditors and accruals (Eurobonds)	(122,000)	(122,000)
Other creditors and accruals (Shareholder Claims - potential 1321 application)	(21,000)	(25,000)
Amounts owing to related bodies corporate (Interco liabilities)	(452,950)	(453,071)
	<u>(595,950)</u>	<u>(600,071)</u>
<b>Total unsecured creditors</b>	<b><u>(2,673,219)</u></b>	<b><u>(2,699,174)</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>(2,675,807)</u></b>	<b><u>(2,701,785)</u></b>
<b>NET DEFICIT</b>	<b><u>(1,387,629)</u></b>	<b><u>(1,409,419)</u></b>

## Appendix 2

Summary of the Scheme Administrators' receipts and payments from 1 July 2016 to 30 June 2017

	\$	\$
<b>Opening balance at 1 July 2016</b>		<b>68,585,737</b>
<b>Receipts</b>		
Dividends Received from Non-Scheme Companies	6,848,126	
Central Expense Reimbursement from HIIH Companies	1,648,564	
Interest on Cash and Deposits	1,077,041	
GST Collected on Receipts	311,848	
Pre-Liquidation GST Refund	277,110	
Recovery of US Trust Funds	236,479	
Distributions from Scheme Companies	207,753	
GST Refund	200,007	
Other Receipts	12,880	
Capital Distribution from FAI NZ	137	
<b>Total Receipts</b>		<b>10,819,945</b>
<b>Payments</b>		
Salaries / Annual Leave / LSL	(1,362,174)	
IT Outsource Costs	(1,345,516)	
Rent and Outgoings	(884,737)	
Scheme Administrators' Fees	(569,328)	
Legal and Taxation Fees	(568,855)	
GST Paid	(417,809)	
Contractors & Temporary Staff	(372,870)	
Computer/Systems Costs	(345,213)	
Scheme Payments to Creditors	(189,424)	
Other Payments	(146,372)	
Superannuation Contributions	(111,697)	
Other Staff Costs	(96,115)	
Communication Costs	(14,333)	
Scheme Administrators Disbursements	(4,142)	
<b>Total Payments</b>		<b>(6,428,584)</b>
Adjustment for Unrealised Foreign Exchange Loss on Foreign Cash Accounts		(483,883)
<b>Balance at 30 June 2017</b>		<b>72,493,215</b>