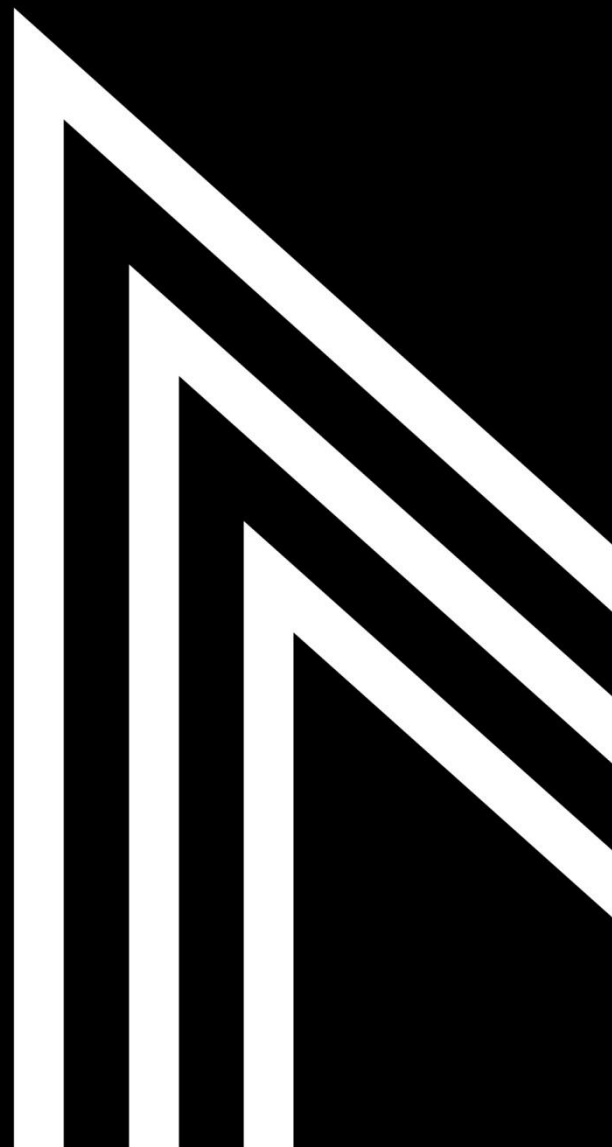

HIH Casualty and General Insurance Limited
ACN 008 482 291
(In Liquidation and subject to Schemes of
Arrangement)

Scheme Administrators' Annual Report to Creditors

30 June 2018



McGrathNicol



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1 Introduction & Background

1.1 Introduction

This is the twelfth annual report to the Creditors of HIH Casualty and 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 2018. 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. 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, including HIH C&G, 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 (**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 HIH C&G, FAI General Insurance Company Limited (**FAIG**) and CIC Insurance Limited.

The HIH C&G Schemes remain in the "Estimation" phase. All claims lodged prior to the Bar Date have been agreed and quantified.

2 Principal Developments To Report During The Period

The principal developments to report during the period were:

- We prepared and attended a Court hearing in December 2017 in respect of the HIH C&G and FAIG Scheme Administrators' and HIH Insurance Ltd (**HIH Insurance**) Liquidators' application to Court seeking directions ratifying their proposed method of dealing with HIH Insurance shareholders with potential claims (**New Shareholder Creditors**).

As the Bar Date has passed, under the terms of the Schemes, no further claims can be admitted in the Schemes and the Scheme Administrators do not have a discretion to consider any further claims, unless an extension of time is granted by the Court.

The Scheme Administrators are currently awaiting the outcome of the Court application.

- As previously reported, the legal proceedings taken by the various groups of HIH Insurance shareholders (**Plaintiffs**) against HIH C&G, FAIG and HIH Insurance since the end of 2013 have been finalised and dividends paid to the successful Plaintiffs in September 2017.

Subsequent to receiving the final Court Orders on 28 April 2017 (**Final Orders**), the solicitors for the Plaintiffs asserted that shareholders whose claims were omitted from the Final Orders, should be admitted.

Following our review of the additional information provided by the solicitors, certain of these claims were admitted and dividends paid by HIH C&G, FAIG and HIH Insurance following Court approval on 29 March 2018 to vary the Final Orders.

- As previously anticipated, no further liquidations of the HIH group of companies were completed during the period. There are nine HIH Group companies remaining in liquidation.

Since the last report, the HIH Underwriting and Insurance (Australia) Pty Ltd Scheme terminated on 15 August 2018 and its liquidation will shortly close following Court approval.

Thereafter, of the seven group entities remaining below HIH Insurance, the group's ultimate holding company, three are subject to Schemes of Arrangement and four remain in liquidation to preserve the group structure for tax purposes.

No further liquidations will be completed until a definitive position on the New Shareholder Creditors' claims against the HIH C&G and FAIG Schemes is determined.

3 Current and Projected Scheme Payment Percentages

3.1 The Current Scheme Payment Percentages

During the period, 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.

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) remains wholly dependent on whether the New Shareholder Creditors' claims should be admitted in the Schemes. As the Scheme Administrators are awaiting the outcome of the December 2017 Court hearing, they are currently not in a position to determine the timing of the further Scheme Payments.

The Scheme Administrators' estimate of the ultimate Scheme Payment Percentages for the various HIH C&G creditors groups as stated in the previous report remains the same and is set out below:

	Range as at 30 June 2018
Creditors with insurance liabilities in Australia	51.3% - 51.9%
Creditors eligible to be paid from US Trust Funds	48.2%
Creditors with insurance liabilities outside of Australia	48.2%
Creditors with non-insurance liabilities in Australia	38.9% - 39.7%
Creditors with non-insurance liabilities outside of Australia	35%

The high / low variances reflect the range of potential outcomes arising from the New Shareholder Creditors.

4 Financial Position

4.1 Estimated balance sheet at 30 June 2018

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 2018 is included as Appendix 1 to this report.

4.2 Receipts and payments to 30 June 2018

A summary of the Scheme Administrators' receipts and payments from 1 July 2017 to 30 June 2018 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2017, \$587,826.50 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 25 February 2017 to 27 April 2018.

5 Closure

5.1 Finalisation of the Schemes

The only issue preventing the closure of the HIH C&G Schemes and liquidation is reaching a definitive position on whether the New Shareholder Creditors' claims should be admitted in the Schemes.

Once resolved, the Scheme Administrators will be in a position to make the final Scheme Payments and close the Scheme, hopefully towards the end of 2019.

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 insurance 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 2018 was as follows:

Member	Represented By
ACT Insurance Authority	Mr John Fletcher
ACT Workers Compensation Supplementation Fund	Mr John Fletcher
Lawcover Pty Limited	Mr Peter Candotti
NSW Motor Accidents Authority	Ms Mary Maini
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Ms Angela Baum
United Medical Protection	Ms Vikki Sellars-Jones
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.

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.

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 2018

HIH Casualty & General Insurance Limited - (In Liquidation and subject to Schemes of Arrangement)
All values in AUD

	RATA as at 30 June 2018 \$'000	RATA as at 30 Jun 2017 \$'000
Assets not specifically charged		
Cash		
Cash on hand	1	1
Cash at bank	18,771	35,450
	<u>18,772</u>	<u>35,451</u>
Receivables		
Amounts owing by related bodies corporate (Interco rec)	12,534	14,189
	<u>12,534</u>	<u>14,189</u>
Investments		
Short term deposits	55,840	42,227
ADD back: Dividends Paid Less FAC Paid	1,211,630	1,200,731
	<u>1,267,470</u>	<u>1,242,958</u>
Refund to Reinsurance Creditors		
	(864)	(829)
	<u>(864)</u>	<u>(829)</u>
Other		
Adverse Legal Costs	(1,333)	(1,333)
Plaintiff Shareholder Claim	0	(758)
	<u>(1,333)</u>	<u>(2,092)</u>
Sub - Total assets not specifically charged		
	<u>1,296,578</u>	<u>1,289,678</u>
Provisions		
Legal Fees	0	(1,500)
	<u>0</u>	<u>(1,500)</u>
TOTAL ASSETS		
	<u>1,296,578</u>	<u>1,288,178</u>
Amounts payable in advance of secured creditors		
Provision for redundancy, employee entitlements and employee claims	(2,591)	(2,588)
Total amounts payable in advance of secured creditors	<u>(2,591)</u>	<u>(2,588)</u>
Unsecured creditors		
Accounts payable		
Trade Creditors (A/P and Special Principals) - ESC at Estimation Date	(44,356)	(44,353)
Goods and services tax	(692)	(883)
Sundry creditors - ARS - ESC at Estimation Date	(19,575)	(19,518)
	<u>(64,623)</u>	<u>(64,754)</u>
Provisions		
Other - potential section 1321 Taian Insurance USD5,117,253	(6,924)	0
	<u>(6,924)</u>	<u>0</u>
ACCs - ESC at Estimation Date	(2,034,992)	(2,012,667)
Commutations - ESC Verified	(41,477)	(40,875)
Add back: Creditors with Statutory Cut Through & s. 562A (4) claims	41,027	41,027
Outstanding claims	<u>(2,035,442)</u>	<u>(2,012,515)</u>
Other liabilities		
Other creditors and accruals (Eurobonds)	(122,000)	(122,000)
Other creditors & accruals (Shareholder Claims - potential s. 1321 application)	(21,000)	(21,000)
Amounts owing to related bodies corporate (Interco liabilities)	(450,982)	(452,950)
	<u>(593,982)</u>	<u>(595,950)</u>
Total unsecured creditors	<u>(2,700,970)</u>	<u>(2,673,219)</u>
TOTAL LIABILITIES		
	<u>(2,703,561)</u>	<u>(2,675,807)</u>
NET DEFICIT		
	<u>(1,406,983)</u>	<u>(1,387,629)</u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 1 July 2017 to 30 June 2018

	\$	\$
Opening balance at 1 July 2017		72,493,215
Receipts		
Central Expense Reimbursement from HIH Companies	1,895,316	
Interest on Cash and Deposits	1,354,788	
GST Refund	446,456	
Other Receipts	4,650	
Dividends Received from Non-Scheme Companies	565	
Total Receipts		3,701,776
Payments		
IT Outsource Costs	(1,389,458)	
Salaries / Annual Leave / LSL	(1,220,308)	
Rent and Outgoings	(832,333)	
Scheme Payments to Creditors	(707,519)	
Legal and Taxation Fees	(605,112)	
Scheme Administrators' Fees	(587,827)	
GST Paid	(411,856)	
Contractors & Temporary Staff	(352,147)	
Computer/Systems Costs	(230,904)	
Superannuation Contributions	(101,575)	
Other Staff Costs	(97,012)	
Other Payments	(39,938)	
Communication Costs	(30,682)	
Scheme Administrators' Disbursements	(2,642)	
Liquidators' Fees	(637)	
Total Payments		(6,609,948)
Adjustments for Unrealised Foreign Exchange Gain on Foreign Cash Accounts		486,986
Balance at 30 June 2018		70,072,029

Note: In addition to the cash balance held by the Australian Scheme Administrators above, the HIH C&G English Scheme Administrators held \$4,538,732 of cash at 30 June 2018.