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To all known creditors, potential creditors and
brokers of HIH Casualty & General Insurance
Limited

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1 October 2015

Dear Sir/Madam

**HIH Casualty & General Insurance Limited (In Provisional Liquidation and subject to
Scheme of Arrangement)
English Scheme Administrators' Report to Creditors**

1 Introduction

This is the eighth report to creditors of HIH Casualty & General Insurance Limited (“HIH C&G”) by the English Scheme Administrators (“SAs”) covering the period ending 30 June 2015 (“the Report”). It will be published on the HIH website as a supplement to the Report to creditors of the Australian Scheme Administrators (“Australian SAs”).

Background information in relation to the failure of HIH C&G is contained in Appendix 1. The purpose of this Report is to provide creditors with information on the progress of the English Scheme (the “Scheme”) to date.

2 Key developments since the last Report

- HIH C&G has 386 creditors with liabilities outside of Australia. The total value of these Established Scheme Claims (“ESCs”) is approximately £175 million (Sections 3.3 & 3.4).
- There have been two further uplifts in the Scheme Payment Percentage.
- The current effective Scheme Payment Percentage for creditors with insurance liabilities outside of Australia is 46.13% and for creditors with non-insurance liabilities is 33.5% (see Section 5.2).
- The SAs identified a number of matters to be resolved prior to the distribution of the remaining funds and closure of the estate. Some of these have now been resolved and significant progress has been made on the remaining issues (see Section 6).

3 Claims submission

3.1 The Estimation Period

All creditors without an Established Scheme Claim (“ESC”), or who wanted to increase the value of their ESC in respect of the English Scheme Companies, were required to submit a Final Claim Form for Estimation (“FCF”) by the Bar Date of 2 September 2013.

3.2 FCFs submitted in the Scheme

Of the 175 FCFs lodged with UK balances, 170 were dealt with by the SAs in the UK and the remaining five by the Australian SAs.

All 170 of these FCFs, with a total value of approximately £107 million, have now been agreed with the respective claimants.

The total value of ESCs agreed through the closure process is approximately £28.5 million less than the value submitted by the claimants on the FCFs relating to those ESCs.

3.3 Insurance liabilities outside of Australia

The total number of creditors with ESCs in respect of insurance liabilities outside of Australia is 363.

Claims have been made in 34 different currencies and many creditors have claims in more than one currency.

On the basis of June 2015 sterling exchange rates for creditor balances and the Record Date of 27 August 2001 for debtor balances, the total value of the 363 claims was almost £173 million.

3.4 Non-insurance liabilities outside of Australia

There are 23 creditors with ESCs with non-insurance liabilities.

Using the June 2015 sterling exchange rate (there being no debtor balances to be offset), the total value of these 23 non-insurance claims is over £1.6 million.

Therefore, the total value of all creditors with liabilities outside of Australia is almost £175 million.

4 Interaction between Australian and English Schemes

All creditors worldwide were entitled to claim in both the Australian and English Schemes for HIH C&G. The SAs and the Australian SAs co-operate fully with each other and therefore Scheme Creditors needed only to lodge their FCF in one location, as their claim submission would then be effective under both Schemes. For the avoidance of doubt, the location in which a Scheme claim was lodged had no bearing on whether it was a liability “in Australia” or “outside of Australia”; that was a function of where the business was written.

The SAs and the Australian SAs operate a unified principal-to-principal ledger and dividend payment system. The entitlements of individual creditors under both Schemes are automatically calculated by the unified system. When a Scheme payment is made the creditor receives a statement showing how their liability has been classified and, consequently, from which classes of assets their payment has been made.

5 Scheme Payment Percentages

5.1 How the Scheme Payment Percentages are set

The SAs continue to work closely with the Australian SAs to agree appropriate dividend uplifts on a regular basis in the lead up to the final dividend payment and the planned closure of the Schemes in 2017. Under the terms of the Schemes the SAs and Australian SAs review the Scheme Payment Percentage for each class of asset in consultation with the Australian Creditors' Committee and the Committee.

Both the Australian and English Schemes reflect the distribution priorities which apply to liquidations of insurance companies in Australia. This requires particular classes of assets to be distributed in a prescribed order of priority to particular classes of creditor claims.

As a general rule, creditors with insurance liabilities and those based in Australia are expected to receive higher ultimate distributions than creditors with non-insurance liabilities and/or those with liabilities outside of Australia.

5.2 Current Scheme Payment Percentages

In October 2014, the Committee authorised an increase in the Scheme Payment Percentage of up to 3% (to 16%) for creditors with insurance liabilities outside of Australia (Fund 2) and of up to 2.5% (to 30.5%) for creditors with non-insurance liabilities outside of Australia (Fund 4).

Scheme Payments reflecting those uplifts were made in November 2014 taking the effective Scheme Payment Percentages for creditors with insurance liabilities to 41.62% and to 30.5% for creditors with non-insurance liabilities.

In July 2015, the current Scheme Payment Percentage for creditors with liabilities not in Australia was increased to 19% on Fund 2 and 33.5% on Fund 4 following a meeting of the Australian Creditors' Committee in June 2015.

For insurance liabilities, the current effective Scheme Payment Percentage is 46.13% as payments out of Fund 4 are made after taking into account payments from Fund 2. Creditors with non-insurance liabilities cannot access the Fund 2 distribution so currently receive 33.5% on their entire ESC from Fund 4.

The table below uses a hypothetical ESC of £1 million to show the current effective Scheme Payment Percentages for insurance and non-insurance liabilities not in Australia respectively, as a result of the current Fund 2 & Fund 4 payment percentages.

Figures in £000s	Insurance liability	Non-insurance liability
Example ESC	1,000	1,000
Payment out of Fund 2 (19%)	(190)	-
Residual claim after payment from Fund 2	810	1,000
Payment out of Fund 4 (33.5%)	(271.3)	(335)
Total amount paid from Funds 2 & 4	461.3	335
Effective Scheme Payment Percentage	46.13%	33.5%

The current Scheme Payment Percentages for the various classes of assets for all of the HIH Scheme companies, of which HIH C&G is one, are set out on the HIH website: www.hih.com.au.

Additionally, the SAs and the Australian SAs have modelled the expected return for the differing types of claims against HIH C&G. These are shown below. It is possible that the ultimate Scheme Payment Percentage could differ from the ranges predicted.

Type of Creditor	Estimated final Scheme Payment Percentage
Creditors with insurance liabilities in Australia	48.5% - 49.5%
Creditors eligible to be paid from US Trust Funds	47%
Creditors with insurance liabilities outside of Australia	47%
Creditors with non-insurance liabilities in Australia	35.5% - 36.5%
Creditors with non-insurance liabilities outside of Australia	34%

5.3 Completion timetable

The SAs and Australian SAs expect that the final uplift in the Scheme Payment Percentage will not be proposed until sometime in 2016, as it is anticipated that certain issues – such as the complex intercompany relationships and the appeals process in respect of any disputed claims – may not be resolved until 2016.

Under Clause 56.1 (a), the Scheme will automatically terminate 12 months after the payment of the final dividend to Scheme Creditors. Therefore, subject to the approval of the final Scheme Payment, the Scheme should terminate in 2017.

In advance of the termination of the Scheme, the SAs will apply to the Financial Conduct Authority (“FCA”) and Prudential Regulatory Authority (“PRA”) for the cancellation of HIH C&G’s permissions under Part 4A Financial Services & Markets Act 2000 (“FSMA”) to carry on regulated activities and for its removal from the Financial Services Register.

6 Matters to be resolved prior to closure

6.1 Clause 38.5 claims

Under Australian law creditors may have the right to receive directly the proceeds of any facultative or fronting reinsurance that relates directly to their claim.

In compliance with clause 38.5 of the Australian Scheme, the Australian and English SAs completed a significant exercise in seeking to identify recoveries made in relation to facultative

and fronting reinsurance contracts, which could give rise to potential notification of such amounts to relevant Scheme Creditors.

Of the 139 creditors identified and notified by the SAs and Australian SAs, three advised of their possible intention to make an application to the court for the direct repayment of the relevant reinsurance. The SAs provided additional information to all three creditors with respect to their potential claims under Clause 38.5. As a result of that additional information, all three creditors subsequently withdrew their applications.

6.2 Reinsurer set-off

During the claims finalisation process, the English and Australian SAs identified a number of counterparties who were net creditors at the Record Date but who subsequently paid balances (in respect of reinsurance payments, reinstatement premium, claims refunds etc.) to HIH C&G without taking into account the overall net debtor/creditor position between the parties.

Had the counterparties been aware, they would likely have sought to offset amounts that they were owed by HIH C&G against amounts that they owed to HIH C&G.

In some cases, the counterparty remained a net debtor after offsetting the value of their ESC. In those cases the SAs reversed the ESC and refunded the offset, less any dividend distributions paid.

Repayments to those counterparties who remain net creditors will be delayed until after the payment of the final dividend.

6.3 Shareholder claims

Claims from shareholders of HIH Insurance Ltd, seeking to prove as unsecured creditors in certain of the Australian Schemes (including HIH C&G), were rejected by the Australian SAs and are subject to appeal under S1321 of the Australian Corporations Act.

The final hearing was held earlier in 2015 and the judgment was expected on 30 June 2015 but the plaintiffs applied to reopen proceedings in order to adduce further evidence. The application was dismissed with costs by the Court on 6 July 2015.

At the same hearing, the Australian SAs' counsel pressed the Judge for a date when he might give his judgment on the main matter but he gave no indication of when that may be. The plaintiffs may appeal the decision if the ruling goes in favour of the HIH companies.

7 Financial position – receipts and payments to 30 June 2015

A summary of the SAs' receipts and payments for the period 16 March 2001 to 30 June 2015 is set out below.

HIH Casualty & General Insurance Company Limited		
Receipts and payments for the period 16 March 2001 to 30 June 2015		
	1 July 2014 to 30 June 2015 £'000s	16 March 2001 to 30 June 2015 £'000s
Receipts		
Insurance and reinsurance recoveries	63	103,451
Property		10,931
Gains and interest on funds invested	115	20,180
Intergroup liquidation dividends		4,478
Tax refunds	150	5,925
LOC collateral refunded		7,750
Cash recovered		4,592
Film Finance & Genesis subrogation	26	6,910
Premium Income and Other receipts	59	2,840
Total receipts	413	167,057
Payments		
Officeholders' fees and expenses	1,571	23,032
Run-off managers' fees	881	18,448
Legal fees	90	13,538
Other professional and agents' fees	88	3,581
VAT	371	7,260
IT, market processing and other claims handling costs	183	5,055
R/I recoveries transferred to Australia and paid to State Funds		756
Court Costs Awards paid and R/I subrogation funding		5,626
Exchange losses/(gains)		(3,031)
Other payments	(1)	682
Total Payments	3,184	74,947
Balance before Scheme Payments	(2,771)	92,110
Scheme Payments to creditors	(24,330)	(84,161)
Equivalent GBP Funds held as at 30 June 2015		7,949

8 Creditors' Committee

The interests of creditors in the Scheme are represented by the Committee. The Committee sanctions significant transactions (such as commutations), is involved in the setting of the Scheme Payment Percentage, and approves the SAs' fees. It is reported to on a quarterly basis. The constitution of the Committee is as follows:

Member	Represented by
Financial Services Compensation Scheme	Mr M Greetham
Markel International Insurance Company Limited	Ms S Crofts
Riverstone Management Limited	Mr M Bannister
Syndicate 435, Faraday	Mr J Bond

8.1 Contact details

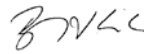
Scheme Creditors with enquiries in relation to the Scheme or Scheme Payments should call the SAs on +44 (0) 20 7694 3169 or write to them at KPMG LLP, 15 Canada Square, London E14 5GL.

Further information is available on the HIH website, www.hih.com.au.

Yours faithfully
For HIH Casualty & General Insurance Limited



Michael S Walker
English Scheme Administrator



Barry J Gale
English Scheme Administrator

Appendix 1

Background information on the insolvency:

- The HIH Group failed on 15 March 2001. HIH C&G was one of the 3 major licensed insurers in the group.
- Summary details of the history of the group; its failure; and other background information are available on the website maintained by the Australian Scheme Administrators at www.hih.com.au.
- Extensive information on the failure including the final report of the HIH Royal Commission established by the Australian Federal Government is available on the website www.hihroyalcom.gov.au
- On 30 May 2006, Schemes of Arrangement became effective for the eight licensed insurance companies in the HIH Group in Australia. Complementary Schemes of Arrangement became effective for four of those companies in England on 13 June 2006, following approval by creditors and the courts. Copies of the Scheme documents are available on the HIH website www.hih.com.au.
- For at least the first five years, the Schemes will be “reserving” Schemes, under which claims are made in the normal course of business. During this reserving period, interim Scheme distributions will be paid to creditors with Established Scheme Claims at the current applicable Scheme Payment Percentage.
- The Australian and English Scheme Administrators co-operate fully. A unified principal to principal ledger system is operated, together with a unified dividend payment system. Creditors need to lodge claims in one location only, which is then effective under both Schemes.
- The Record Date (the date at which liabilities are measured) for each of the Schemes is 27 August 2001.
- In accordance with clause 24 of the Australian and English Schemes of Arrangement, the Estimation Date was set at 31 May 2013. Final Claim Forms for Estimation (FCFs) were required to be submitted so as to reach the Scheme Companies by midnight 2 September 2013 (British Summer Time); being three months after the Estimation Date.
- 386 creditors have Established Scheme Claims with a value of almost £175 million (at 30 June 2015).
- The current Scheme Payment Percentage for creditors with insurance liabilities outside of Australia is 46.13%. Creditors with non-insurance liabilities have received a dividend of 33.5%.