

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 2012

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1 Introduction & background

1.1 Introduction

This is the sixth 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 2012.

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. 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 as the Scheme Administrators have paid interim Scheme Payments up to the minimum forecast Scheme Payment percentages.

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
HIH C&G	31.00%	26.40%	25.00%	20.00%

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

- + In light of the progress made to date in managing the HIH C&G 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.

- + HIH C&G received further dividend payments from HIH Group intercompany debtors in Australia. The most significant receipts were a Scheme payment of \$10.9 million from FAI Insurances and a dividend payment of \$2.5 million from United Body Works (QLD).

- + The liquidations of a further 16 HIH Group subsidiary companies were completed.

To date, the liquidations of 35 HIH Group subsidiary companies have been completed with those of a further 10 companies expected to be finalised by August 2012. Apart from a small creditor distribution of approximately \$291,000 received from a solvent HIH Group company, HIH C&G did not receive any significant distributions from the closure of these 10 additional companies.

Upon completion of these liquidations, the remaining HIH Group Australian subsidiary liquidations will total 37.

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentages for HIH C&G are:

Creditors with insurance liabilities in Australia	31.00%
Creditors with insurance liabilities outside of Australia	26.40%
Creditors with non insurance liabilities in Australia	25.00%
All other creditors worldwide	20.00%

To date, the Scheme Administrators have made distributions out of non-reinsurance assets in Australia, to creditors with liabilities in Australia, totalling 25%. They have also made distributions totalling 20% to all other creditors worldwide.

The Scheme Administrators have made distributions out of reinsurance assets in Australia, to creditors with insurance liabilities in Australia, totalling 8%. They have also made distributions out of reinsurance assets outside of Australia to creditors with insurance liabilities outside of Australia, totalling 8%. 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 to date for creditors with Australian insurance liabilities is therefore 31%. The effective total Scheme Payment percentage to date for creditors with insurance liabilities outside of Australia is 26.40%.

A Scheme Payment Percentage of 29.16% for those US domiciled creditors eligible to be paid from the US Trust Fund assets has also been paid.

3.2 Projected further Scheme payments

The Scheme Administrators have made Scheme Payments to date at or in excess of the minimum forecast ranges for each class of creditor. In light of this, and the fact that the Scheme cut-off date of 31 May 2013 is now less than twelve months away, the Scheme Administrators do not consider it prudent to make any further interim 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 estimates 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 HIH C&G is shown below. This estimate remains dependent on a wide range of factors including the volatility of claims; levels of set-off; levels of reinsurance recovery; and the class of creditor claim. 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
HIH C&G	15% to 25%	20% to 35%

The total estimated Scheme Payment range for creditors of 20% to 35%, can be further analysed as:

	Range of estimated Scheme Payment percentage
Creditors with insurance liabilities in Australia	30% - 35%
Creditors eligible to be paid from US Trust Funds	27% - 32%
Creditors with insurance liabilities outside of Australia	27% - 32%
Creditors with non insurance liabilities in Australia	25% - 30%
Creditors with non insurance liabilities outside of Australia	20% - 25%

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 HIH C&G. 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 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 HIH C&G 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, \$1,595,842.50 has been approved by the HIH C&G Scheme Creditors' Committee for payment to the Scheme Administrators in their role as Office Holders.

6 Closure

6.1 Estimation Date

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

7.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of HIH C&G 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 HIH C&G 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 currently reported to, and meets three times a year. The current constitution of the Committee is as follows:

Member	Represented by
ACT Insurance Authority	Mr John Fletcher
ACT Workers Compensation Supplementation Fund	Mr John Fletcher
Law Cover Pty Limited	Mr David Martin
NSW Motor Accidents Authority	Mr Andrew Nicholls
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Mr Trevor King
United Medical Protection	Mr Scott Pearson
WA Workers Compensation & Rehabilitation Commission	Mr Harry Neesham
HIH Holdings (Asia) Limited	Mr Jan Blauuw
Hong Kong Solicitors Indemnity Fund	Mr David Cowling
Motor Traders Association of NSW	Mr James McCall
Building Insurers Guarantee Corporation NSW	Mr Michael Hanna
Manly Council	Ms Mary Rawlings

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 HIH Casualty & General Insurance Limited – in liquidation and subject to Schemes of Arrangement



Tony McGrath
Scheme Administrator



Chris Honey
Scheme Administrator

Appendix 1

Updated balance sheet for HIH C&G as at 30 June 2012

HHH Casualty & General Insurance 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 on hand	1	1
Cash at bank	139,047	164,310
	<u>139,047</u>	<u>164,311</u>
Receivables		
Amounts owing by related bodies corporate (Interco rec)	30,715	64,923
GST Recoverable	854	1,022
	<u>31,569</u>	<u>65,944</u>
Investments		
Short term deposits (inc. PEE funds)	47,584	24,127
Managed Investments	350,756	333,977
ADD back: Dividends Paid	763,549	697,458
Shares in controlled entities (Surplus assets)	0	1,038
	<u>1,161,889</u>	<u>1,056,600</u>
Reinsurance recoveries receivable		
Hannover Commutation @ 75%	12,952	48,392
	<u>6,742</u>	<u>10,109</u>
	<u>19,694</u>	<u>58,501</u>
Other		
Other receivables (MAMS)	976	1,000
	<u>976</u>	<u>1,000</u>
Total assets not specifically charged	<u>1,353,176</u>	<u>1,346,356</u>
Assets subject to specific charges		
Investments		
LOC related deposits	2,802	2,674
Statutory Reinsurance Cut-Through	8,782	3,102
Total assets subject to specific charges	<u>11,584</u>	<u>5,776</u>
TOTAL ASSETS	<u>1,364,760</u>	<u>1,352,132</u>
Amounts payable in advance of secured creditors		
Provision for redundancy, employee entitlements and employee claims	(2,382)	(1,950)
Total amounts payable in advance of secured creditors	<u>(2,382)</u>	<u>(1,950)</u>
Liabilities secured by specific charge over assets		
Accounts payable		
Statutory Reinsurance Cut-Through	(8,782)	(3,102)
Amounts payable in relation to letters of credit	(2,802)	(2,674)
	<u>(11,584)</u>	<u>(5,776)</u>
Total liabilities secured by specific charge over assets	<u>(11,584)</u>	<u>(5,776)</u>
Unsecured creditors		
Accounts payable		
Trade Creditors (A/P and Special Principals)	(88,297)	(87,057)
Sundry creditors - ARS	(19,833)	(27,074)
	<u>(108,130)</u>	<u>(114,131)</u>
ACCs		
Outstanding claims (Reserves)	(1,761,285)	(1,618,051)
IBNR Claims	(268,837)	(422,223)
Outstanding claims	(347,946)	(316,429)
	<u>(2,378,068)</u>	<u>(2,356,703)</u>
Other liabilities		
Other creditors and accruals (MAIC & Eurobonds)	(575,242)	(580,785)
Amounts owing to related bodies corporate (Interco liabilities)	(441,713)	(461,140)
	<u>(1,016,955)</u>	<u>(1,041,925)</u>
Total unsecured creditors	<u>(3,503,153)</u>	<u>(3,512,759)</u>
TOTAL LIABILITIES	<u>(3,517,119)</u>	<u>(3,520,485)</u>
NET DEFICIT	<u>(2,152,359)</u>	<u>(2,168,353)</u>

Appendix 2

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

**HIH Casualty & General Insurance 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		435,336,669.84
Receipts		
Dividends Received from Scheme Companies	23,859,532.77	
Distribution from solvent Subsidiaries	14,711,667.97	
Dividends Received from Non-Scheme Companies	13,138,495.74	
Reinsurance recoveries	12,269,042.81	
Unrealised Gain on Investment Portfolio	9,069,925.86	
Hannover Re Commutation (including transfers to other HIH entities)	5,000,000.00	
Unrealised Exchange rate movements on foreign cash accounts	4,937,536.60	
Clayton UTZ Trust Account	4,875,000.00	
Dividend Payment Funding from UK	4,048,950.78	
Interest on cash and deposits	3,979,022.47	
Central expense reimbursement received from other HIH Companies	3,796,797.92	
GST Refund	2,024,934.10	
Claims recoveries (Includes reallocations to other entities)	372,123.64	
Pre Liquidation GST Refund	252,171.72	
Asset Recoveries	196,120.21	
Other receipts (amounts<\$1m)	77,864.93	
Debtors	73,657.16	
Provision of IT Services to AAA,QBE,NRMA,WGB	23,419.00	
GST collected on all receipts	2,557.89	
	<hr/>	
Total Receipts		102,708,821.57
Payments		
Scheme Payments to Creditors	(68,945,827.50)	
Salaries / Annual Leave / LSL	(4,377,932.95)	
Scheme Administrators' Fees	(2,414,601.50)	
Rent and Outgoings	(1,711,333.63)	
IT Outsource costs	(1,571,221.25)	
Professional Fees	(1,314,125.74)	
GST on payments	(846,493.55)	
Contractors & Temporary Staff	(733,419.80)	
Computer/Systems Costs	(482,557.76)	
Other Staff Costs	(299,878.32)	
Superannuation contributions	(296,757.13)	
Outsourced Claims Management Fees	(157,525.55)	
Other Sundry Payments	(119,279.06)	
Claims run-off expenses	(89,015.73)	
Communication costs	(37,860.40)	
Redundancy payments	(3,757.00)	
Liquidators' Fees	(1,276.49)	
	<hr/>	
Total payments		(83,402,863.36)
		<hr/>
Balance at 30 June 2012		454,642,628.05