

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 2013

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1 Introduction & background

1.1 Introduction

This is the seventh 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 2013. 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. 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 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 in the administration of the “Run-off” phase of the Schemes, the estimation date at which all outstanding claims should be valued, was set at 31 May 2013. At this date, the Schemes transitioned from the “Run-off” phase to the “Estimation” phase. Scheme Creditors of the eight licensed insurance companies in the HIH Group whose claims had not been acknowledged or agreed, had until midnight British Summer Time on 2 September 2013 (the bar date) to submit their final claims. No further claims will be accepted after that date.

Under the terms of the Schemes, the Scheme Administrators must determine all claims received within three months of 2 September 2013 (i.e. by 2 December 2013) and notify the relevant Scheme Creditors of their decision.

2 Principal developments to report during the period

The principal developments to report during the period were:

- + No further Scheme Payments were approved for payment to creditors as the Scheme Administrators had previously 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.

- + On 31 May 2013, the Schemes transitioned from the “Run-off” phase to an “Estimation” phase.

Further information in respect of the “Estimation” phase and determination of the Acknowledged Creditor Claims, is included in section 6 of this report.

- + The bar date for final submission of claims of midnight British Summer Time on 2 September 2013, has now passed. Under the terms of the Schemes no further claims will be accepted by the Scheme Administrators.
- + Since the last annual report dated 30 June 2012, the liquidations of another 4 HIH Group subsidiary companies have been completed.

To date, the liquidations of 49 HIH Group subsidiary companies have been finalised with those of a further 2 companies expected to be completed by October 2013. HIH C&G will not receive any distributions from the closure of these 2 additional companies as they are neither subsidiaries nor debtors of HIH C&G.

Upon completion of these liquidations, the remaining HIH Group Australian subsidiary liquidations will total 31.

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. 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.

The Scheme bar date of midnight British Summer Time 2 September 2013 has now passed and no further claims will be accepted by the Scheme Administrators. The Scheme Administrators are currently reviewing the total level of claims received and would hope to be in a position to pay a further interim Scheme Payment to all classes of creditors with agreed claims towards the end of this year.

While the quantum and timing of future interim Scheme Payments remains uncertain and wholly dependant on the timing of agreement of final claims, the Scheme Administrators currently estimate the future payments profile as follows:

Date	Quantum
December 2013	40% of the difference between the current Scheme Payment Percentage and the forecast total final Scheme Payment Percentage
June 2014	40% of the difference between the current Scheme Payment Percentage and the forecast total final Scheme Payment Percentage
December 2014	The final 20% of the difference between the current Scheme Payment Percentage and the forecast total final Scheme Payment Percentage

3.3 Scheme Payments for reinsurance creditors

As explained in previous annual reports, the Scheme Administrators are 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.

3.4 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators' best estimate of the ultimate Scheme Payment Percentages for HIH C&G as at 30 June 2013 is shown below. As virtually all of the company's forecast reinsurance and other asset recoveries have now been received, the major determinant of any movement in the forecast total Scheme Payment Percentage is the level of final agreed claims.

Whilst the bar date for receipt of final claims has now passed, it is too early at the date of preparation of this report to provide a more accurate update on the final Scheme Payment Percentage estimates. Based on an initial review of claims received, the Scheme Administrators have provided an updated range of estimated Scheme Payment Percentages as below.

Scheme Company	Estimated Total Scheme Payment Percentage at Scheme date	Updated Total Scheme Payment Percentage at 30 June 2013	Provisional Updated Total Scheme Payment Percentage at 2 September 2013
HIH C&G	15% to 25%	20% to 35%	20% to 40%

The total estimated Scheme Payment range for creditors can be further analysed as:

	Range of estimated Scheme Payment percentage 30 June 2013	Provisional Updated range as at 2 September 2013
Creditors with insurance liabilities in Australia	30% - 35%	30% - 40%
Creditors eligible to be paid from US Trust Funds	27% - 32%	27% - 35%
Creditors with insurance liabilities outside of Australia	27% - 32%	27% - 35%
Creditors with non insurance liabilities in Australia	25% - 30%	25% - 30%
Creditors with non insurance liabilities outside of Australia	20% - 25%	20% - 25%

It should be noted that the updated percentage at the bar date is only a provisional figure and may be subject to change once further work has been undertaken on all final claims submitted before the bar date.

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 2013

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 2013, is included as Appendix 1 to this report.

5.2 Receipts and payments to 30 June 2013

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2013 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2012, \$2,665,282 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 Estimation Date for the HIH C&G Schemes was set as 31 May 2013, at which date the Schemes transitioned from the “Run-off” phase to the “Estimation” phase.

Any creditors’ claims which had not been agreed by the Estimation Date needed to be determined within the Estimation period.

Scheme Creditors of the eight licensed insurance companies in the HIH Group whose claims had not been acknowledged or agreed had until midnight British Summer Time on 2 September 2013 to submit their final claims for estimation. No further claims will be accepted after this date.

6.2 Estimation Period

The Estimation Period commenced on 31 May 2013.

The purpose of the Estimation Period is to enable the Scheme Administrators and Scheme Creditors to agree a final value for any open claims and any IBNR (claims that have been incurred but not reported) in order to determine the final financial position between the Scheme Creditors and the relevant Scheme companies.

Under the terms of the Schemes, 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 would have received 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 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.

6.3 Determination after Estimation Date

Under the terms of the Schemes, the Scheme Administrators shall determine whether the creditors’ claims are Established Scheme Claims within three months of 2 September 2013.

Following their assessment, the Scheme Administrators shall notify the Scheme Creditors in writing of their decision in respect of the claims received.

If, after a period of a further three months from the Scheme Administrators’ written notice of their determination, the Scheme Administrators have not reached an agreement with the Scheme Creditor as to whether any part of the claim gives rise to an Established Scheme Claim, the Scheme Administrators shall refer the creditor’s claim to a Scheme Adjudicator for determination.

6.4 Scheme Claim Adjudication

Under the terms of the Schemes, the Scheme Administrators shall, with approval of the Creditors’ Committee, appoint one or more Scheme Adjudicators.

The role of the Scheme Adjudicator is principally to determine whether liabilities notified to the Scheme companies by a potential creditor under the estimation process, and referred to the Scheme Adjudicator by the Scheme Administrator, should be accepted as Established Scheme Claims. The Scheme Adjudicator must also determine the value of such claims.

The Scheme Adjudicators appointed to the HIH C&G Schemes are as follows:

Scheme Adjudicator	Representing
Mr Tim Andrews (Finity Solutions)	Australian Scheme Administrators
Mr Gary Wells (Milliman)	English Scheme Administrators

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 Michael Walker and Barry Gale, partner and director respectively of KPMG LLP based in London. Barry Gale replaced John Wardrop as the English Scheme Administrators of HIH C&G following John Wardrop's resignation on 21 August 2013.

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	Dr Linda Satchwell
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 Steve Hunt
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 2013

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

Balance Sheet as at 30th June 2013

All values in AUD

Assets not specifically charged

Cash

	RATA as at 30 June 2013 \$'000	RATA as at 30 June 2012 \$'000
Cash on hand	1	1
Cash at bank	90,572	139,047
	<u>90,573</u>	<u>139,047</u>

Receivables

Amounts owing by related bodies corporate (Interco rec)	28,976	30,715
GST Recoverable	0	854
	<u>28,976</u>	<u>31,569</u>

Investments

Short term deposits (inc. PEE funds)	400,052	47,584
Managed Investments	(0)	350,756
ADD back: Dividends Paid	858,886	763,549
	<u>1,258,938</u>	<u>1,161,889</u>

Reinsurance recoveries receivable

Hannover Commutation @ 75%	2,221	12,952
	<u>0</u>	<u>6,742</u>
	<u>2,221</u>	<u>19,694</u>

Other

Other receivables (MAMS)	-	976
	<u>-</u>	<u>976</u>

TOTAL ASSETS NOT SPECIFICALLY CHARGED

	<u>1,380,708</u>	<u>1,353,176</u>
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Assets subject to specific charges

Investments

LOC related deposits	280	2,802
Statutory Reinsurance Cut-Through	1,104	8,782
Total assets subject to specific charges	<u>1,384</u>	<u>11,584</u>

Assets potentially subject to future s. 562A (4) claims

FAC Recovered to Date	53,659	58,685
Total assets potentially subject to future s. 562A (4) claims	<u>53,659</u>	<u>58,685</u>

Liabilities secured by specific charge over assets

Accounts Payable

FAC Recovered to Date	(53,659)	(58,685)
Total liabilities potentially subject to future s. 562A (4) claims	<u>(53,659)</u>	<u>(58,685)</u>

TOTAL ASSETS

	<u>1,382,092</u>	<u>1,364,760</u>
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Amounts payable in advance of secured creditors

Provision for redundancy, employee entitlements and employee claims	(2,401)	(2,382)
Total amounts payable in advance of secured creditors	<u>(2,401)</u>	<u>(2,382)</u>

Liabilities secured by specific charge over assets

Accounts payable

Statutory Reinsurance Cut-Through	(1,104)	(8,782)
Amounts payable in relation to letters of credit	(280)	(2,802)
	<u>(1,384)</u>	<u>(11,584)</u>

Total liabilities secured by specific charge over assets

	<u>(1,384)</u>	<u>(11,584)</u>
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Unsecured creditors

Accounts payable

Trade Creditors (A/P and Special Principals)	(40,057)	(88,297)
Goods and services tax	(1,083)	0
Sundry creditors - ARS	(19,564)	(19,833)
	<u>(60,704)</u>	<u>(108,130)</u>

ACCs

	(1,878,735)	(1,761,285)
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Outstanding claims (Reserves)

	(155,664)	(268,837)
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IBNR Claims

	(410,065)	(347,946)
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Add back: Creditors with Statutory Cut Through & s. 562A (4) claims

	53,659	
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Outstanding claims	<u>(2,390,805)</u>	<u>(2,378,068)</u>
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Other liabilities

Other creditors and accruals (MAIC, Eurobonds & Bondholders)	(575,242)	(575,242)
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Amounts owing to related bodies corporate (Interco liabilities)	(524,488)	(441,713)
	<u>(1,099,731)</u>	<u>(1,016,955)</u>

Total unsecured creditors

	<u>(3,551,239)</u>	<u>(3,503,153)</u>
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TOTAL LIABILITIES

	<u>(3,555,024)</u>	<u>(3,517,119)</u>
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NET DEFICIT

	<u>(2,172,933)</u>	<u>(2,152,359)</u>
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Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006
to 30 June 2013

**HIH Casualty & General Insurance Limited (In Liquidation and subject to Schemes of Arrangement)
Receipts and Payments Account 1 July 2012 to 30 June 2013**

	\$	\$
Balance at 1 July 2012		454,642,628.05
Receipts		
Reinsurance recoveries	18,913,095.07	
Unrealised exchange rate movements on foreign cash accounts	11,650,062.88	
Interest on cash and deposits	8,442,468.31	
Central expense reimbursement received from other HIH companies	3,943,884.85	
Realised gain on investment portfolio	3,452,306.12	
Dividend payment funding from UK	3,210,683.31	
Distributions from Scheme Companies	1,742,446.83	
Income tax refund	959,445.01	
GST refund	804,161.64	
Dividends received from Non Scheme companies	691,853.21	
Other receipts (amounts<\$1m)	123,615.38	
Pre Liquidation GST Refund	106,887.00	
Claims recoveries (Includes reallocations to other entities)	30,489.17	
Provision of IT services to AAA,QBE,NRMA,WGB	14,903.00	
GST collected on all receipts	2,559.62	
	<hr/>	
Total Receipts		54,088,861.40
Payments		
Scheme Payments to creditors	(81,950,709.31)	
Salaries / Annual Leave / LSL	(4,217,871.19)	
Scheme Administrators' fees	(2,665,282.00)	
IT Outsource costs	(1,645,615.00)	
Professional fees	(1,423,554.67)	
Rent and outgoings	(1,220,514.30)	
GST on payments	(858,196.86)	
Contractors & temporary staff	(664,459.79)	
Computer/Systems costs	(398,330.21)	
Other staff costs	(343,701.89)	
Superannuation contributions	(336,165.66)	
Other sundry payments	(315,153.70)	
Claims run-off expenses	(260,763.26)	
Communication costs	(49,337.94)	
Liquidators' fees	(658.02)	
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Total Payments		(96,350,313.80)
Balance at 30 June 2013		<u>412,381,175.65</u>