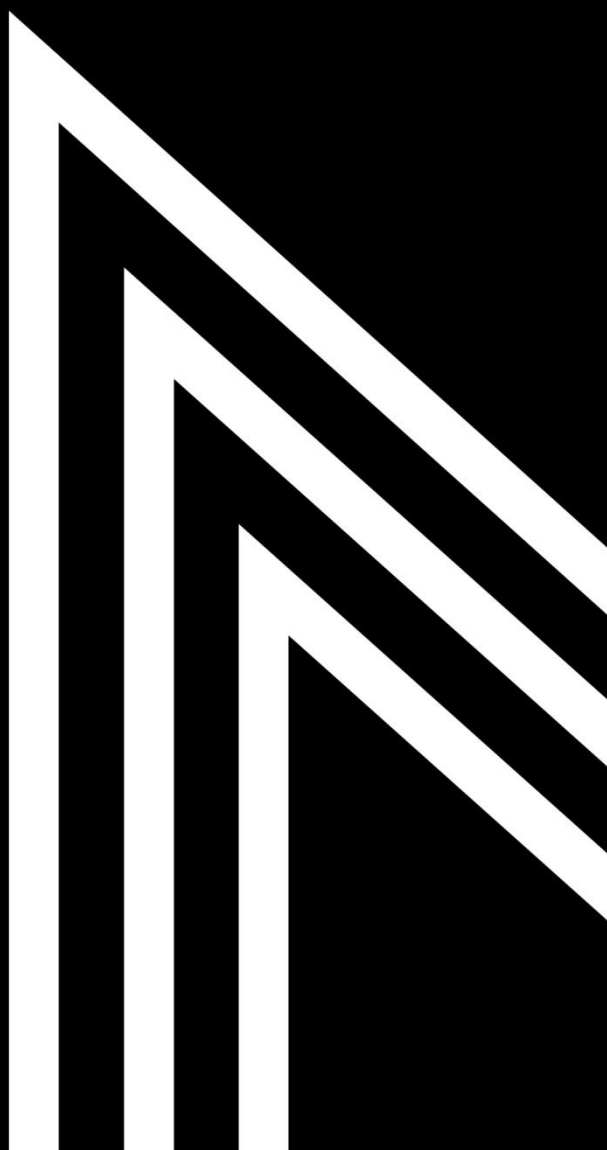
HIH Casualty and General Insurance Limited ACN 008 482 291 (In Liquidation and subject to Schemes of Arrangement)

Scheme Administrators' Annual Report to Creditors

30 June 2016



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1 Introduction & Background

1.1 Introduction

This is the tenth 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 2016. 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 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 Claims Forms by the 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 will be accepted after this date.

The Schemes are currently in the "Estimation" phase where the claims received are being determined to be Acknowledged Creditor Claims, in preparation for the finalisation of the Schemes. Apart from the HIH Insurance Ltd shareholders claims, all other claims lodged against HIH C&G prior to the bar date have been determined.

2 Principal Developments To Report During The Period

The principal developments to report during the period were:

- Agreement of Scheme Payment Percentages by the Scheme Creditor Committee, which now total as follows:

Creditors with insurance liabilities in Australia	Creditors with insurance liabilities outside of Australia	Creditors with non-insurance liabilities in Australia	All other creditors worldwide
48.61%	47.82%	35.50%	34.50%

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

- On 20 April 2016, the NSW Supreme Court handed down its judgement on the legal proceedings taken by certain shareholders ("Plaintiffs") of HIH Insurance Ltd who have sought to prove as unsecured creditors of HIH Insurance Ltd ("HIH Insurance"), HIH C&G and FAI General Insurance Company Limited ("FAIG"). The judgement found that the Plaintiffs' claims against HIH Insurance, HIH C&G and FAIG are to be admitted in the Liquidation and the two Schemes subject to certain parameters.

  The Scheme Administrators are liaising with their solicitors and the Plaintiffs' solicitors to confirm the basis for calculating and admitting the Plaintiffs damages claims, which they hope to complete by the first half of 2017.

- Except for the Plaintiffs' claims, all other claims lodged against HIH C&G prior to the bar date have been determined.

- The liquidations of a further four HIH Group subsidiary companies have been finalised since the last annual report dated 30 June 2015. Of these, HIH C&G received $0.8 million as a final dividend from FAI Financial Services Ltd.

  To date, the liquidations of 64 HIH subsidiary companies have been completed leaving 18 Australian HIH entities remaining in liquidation of which six are subject to Schemes of Arrangement.

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	48.61%
Creditors with insurance liabilities outside of Australia	47.82%
Creditors with non-insurance liabilities in Australia	35.50%
All other creditors worldwide	34.50%

To date, the Scheme Administrators have made distributions out 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.

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.

3.2 Projected further Scheme Payments

The Scheme Administrators have paid Scheme Payments percentages close to the forecast minimum levels as set out in section 3.3 of this report. The Scheme Administrators continue to review the available funds and level of claims and final costs to the date of dissolution of the company and hope to be in a position to pay the final Scheme Payment to all classes of creditors with agreed claims by the second half of 2017. However, timing of payment will be dependent on the finalisation of the HIH Insurance shareholders claims.

3.3 Estimated ultimate Scheme Payment Percentage

With the exception of the HIH Insurance shareholder claims, determination of the Scheme Creditors' claims is now complete.

The Scheme Administrators' latest estimate of the ultimate Scheme Payment Percentages for HIH C&G as at 30 June 2016 is shown below:

Total Scheme Payment Percentage			
Scheme Company	**Estimated at Scheme date**	**Updated at 30 June 2015**	**Updated at 30 June 2016**
HIH C&G	15% to 25%	34% to 49.5%	35% to 51.8%

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

	Updated range as at 30 June 2015	**Updated range as at 30 June 2016**
Creditors with insurance liabilities in Australia	48.5% - 49.5%	50.2% - 51.8%
Creditors eligible to be paid from US Trust Funds	47%	48%
Creditors with insurance liabilities outside of Australia	47%	48%
Creditors with non-insurance liabilities in Australia	35.5% - 36.5%	37.6% - 39.6%
Creditors with non-insurance liabilities outside of Australia	34%	35%

The difference in the high / low estimates reflects provision for the HIH Insurance shareholder claims.

4 Interaction Between Australian and English Schemes

4.1 Claims 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. Claims lodged in one jurisdiction become effective under both Schemes.

The Australian and English Scheme Administrators maintain 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 2016

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 2016 is included as Appendix 1 to this report.

5.2 Receipts and payments to 30 June 2016

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2016 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2015, $1,073,315 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 Period

The HIH C&G Schemes are currently in the "Estimation" phase where the claims received prior to the Schemes cut-off date are being determined to be Acknowledged Creditor Claims.

Apart from the HIH Insurance shareholder claims, determination of claims lodged by Scheme Creditors is completed.

6.2 Finalisation of the Schemes

The major issues preventing the finalisation of the Schemes and liquidations of the remaining companies in the HIH Group are the ongoing HIH Insurance shareholders claims against HIH Insurance, HIH C&G and FAIG, and the adjudication of claims from shareholders of HIH Insurance who may now have a damages claim as a result of the judgement handed down in the HIH Insurance shareholders Court action.

The Liquidators and/or Scheme Administrators are currently working with their solicitors and the Plaintiffs' solicitors to confirm the basis for calculating and admitting the Plaintiffs damages claims, which they currently hope to complete by the first half of 2017.

Once the shareholders claims have been resolved, the Scheme Administrators will be in a position to make the final Scheme Payments; finalise the liquidations of the other HIH companies; and close the Schemes. Subject to the finalisation of the shareholders claims and based on current information, the Scheme Administrators consider this may be possible during 2017.

7 Responsibilities

7.1 Scheme Administrators

The Australian Scheme Administrators are Tony McGrath and Jason Preston, partners of McGrathNicol based in Sydney. Jason Preston replaced Chris Honey as the Australian Scheme Administrator of HIH C&G following Chris Honey's resignation on 1 December 2015.

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

7.2 Run-off Managers

Any remaining 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 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
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 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 for HIH C&G as at 30 June 2016

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

All values in AUD	RATA as at 30 June 2016 $'000	RATA as at 30 June 2015 $'000
Assets not specifically charged		
Cash		
Cash on hand	1	1
Cash at bank	31,691	80,695
	31,692	80,695
Receivables		
Amounts owing by related bodies corporate (Interco rec)	11,868	15,607
	11,868	15,607
Investments		
Short term deposits (inc. PEE funds)	43,015	56,781
ADD back: Dividends Paid Less FAC Paid	1,211,208	1,144,998
Shares in controlled entities (Surplus assets from WMG & FAI NZ)	-	13,001
	1,254,223	1,214,780
Refund to Reinsurance Creditors	(860)	(147)
	(860)	(147)
Other		
Adverse Legal Costs	(1,333)	-
Current Shareholder Claims ($5m split between FAI G, HIH C&G and HIH Ins)	(1,723)	-
Other receivables (Allianz)	-	76
	(3,057)	76
Sub Total assets not specifically charged	**1,293,866**	**1,311,012**
Provisions		
Legal Fees	(1,500)	(192)
TOTAL ASSETS NOT SPECIFICALLY CHARGED	**1,292,366**	**1,310,820**
Assets potentially subject to future s. 562A (4) claims		
FAC Recovered to Date	-	1,500
Total assets potentially subject to future s. 562A (4) claims	**-**	**1,500**
Liabilities secured by specific charge over assets		
Accounts Payable		
FAC Recovered to Date	-	(1,500)
Total liabilities potentially subject to future s. 562A (4) claims	**-**	**(1,500)**
TOTAL ASSETS	**1,292,366**	**1,310,820**
Amounts payable in advance of secured creditors		
Provision for redundancy, employee entitlements and employee claims	(2,611)	(2,654)
Total amounts payable in advance of secured creditors	**(2,611)**	**(2,654)**
Unsecured creditors		
Accounts payable		
Trade Creditors (A/P and Special Principals) - ESC at Estimation Date	(44,357)	(44,391)
Goods and services tax	(887)	(824)
Sundry creditors - ARS - ESC at Estimation Date	(19,451)	(19,465)
	(64,695)	(64,680)
ACCs - ESC at Estimation Date	(2,034,782)	(2,031,618)
Commutations - ESC Verified	(40,652)	(41,018)
Add back: Creditors with Statutory Cut Through & s. 562A (4) claims	41,027	1,500
Outstanding claims	(2,034,407)	(2,071,136)
Other liabilities		
Other creditors and accruals (Eurobonds)	(122,000)	(122,000)
Other creditors and accruals (Shareholder Claims - potential 1321 application)	(25,000)	(113,323)
Other creditors and accruals (Shareholder as per FCF Report)	-	(67)
Amounts owing to related bodies corporate (Interco liabilities)	(453,071)	(456,897)
	(600,071)	(692,287)
Total unsecured creditors	**(2,699,174)**	**(2,828,104)**
TOTAL LIABILITIES	**(2,701,785)**	**(2,830,758)**
NET DEFICIT	**(1,409,419)**	**(1,519,938)**

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2016

	$	$
Opening balance at 1 July 2015		**122,919,626**
Receipts		
Surplus funds received from WMG	16,831,574	
Dividend Payment Funding from UK	7,481,757	
Distributions from Scheme Companies	5,895,931	
Pre Liquidation GST Refund	2,975,878	
Settlement proceeds including reallocations to group companies	2,617,999	
Dividends Received from Non Scheme Companies	2,248,368	
Central expense reimbursement received from other HIH companies	1,917,833	
Interest on cash and deposits	1,667,102	
MAIC Guarantee payment received from FAIG	1,382,979	
Outsourced Claims Management Fees	1,107,000	
Unrealised Exchange rate movements on foreign cash accounts	669,885	
GST Refund	590,724	
Reinsurance recoveries	181,239	
Allianz Finance recovery	95,000	
Other receipts (amounts<$1m)	51,935	
Reallocation of Recoveries from FAIG	30,000	
Claims recoveries (Includes reallocations to other entities)	1,430	
FAI NZ Capital Distribution	1,039	
Total Receipts		**45,747,673**
Payments		
Scheme Payments to Creditors	(92,918,734)	
Salaries / Annual Leave / LSL	(1,618,381)	
IT Outsource costs	(1,616,003)	
Scheme Administrators Fees	(1,073,315)	
Rent and Outgoings	(647,589)	
Professional Fees	(526,414)	
GST on payments	(486,107)	
Contractors & Temporary Staff	(418,149)	
Computer/Systems Costs	(318,013)	
Other Sundry Payments	(156,097)	
Superannuation contributions	(133,271)	
Other Staff Costs	(117,257)	
Communication costs	(43,999)	
Scheme Administrators Disbursements	(7,681)	
Liquidators Fees	(552)	
Total payments		**(100,081,562)**
Balance at 30 June 2016		**68,585,737**