

HIH Underwriting and Insurance (Australia) Pty Ltd
ACN 004 906 110
(In liquidation and subject to a Scheme 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 Underwriting & Insurance (Australia) Pty Limited - in liquidation and subject to a Scheme of Arrangement (“HIH U&I”).

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.

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 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:

- + There was no further Scheme Payments approved for payment to creditors as the Scheme Administrators do not consider it prudent to make any further interim Scheme Payments until after the Scheme cut-off when the final creditor total will be better known.

More detail on Scheme Payments and the estimated ultimate Scheme Payment Percentage for HIH U&I 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 5 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.

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for HIH U&I is 10% for all creditors. This distribution has been made from non-reinsurance assets.

It should be noted that all creditors of HIH U&I are considered to be creditors with liabilities in Australia.

3.2 Projected further Scheme Payments

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 have adjudicated on all classes of creditors' claims towards the end of this year.

The company is also part of a cross guarantee group whose major asset recoveries are also dependent upon the receipt of intercompany dividends from other HIH Group companies in liquidation. Timing of payment of these funds will be impacted by the completion of other Scheme Company liquidations.

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.

3.4 Estimated ultimate Scheme Payment Percentage

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

While 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.

Scheme Company	Estimated Total Scheme Payment Percentage at Scheme date	Updated Total Scheme Payment Percentage at 30 June 2013
HIH U&I	Less than 5%	15% - 20%

This range can be further analysed between the various creditor groups as follows:

	Range of Estimated Scheme Payment Percentages
Creditors with insurance liabilities in Australia	15% - 20%
Creditors with non insurance liabilities in Australia	15% - 20%

4 Financial position

4.1 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 U&I as at 30 June 2013, is included as Appendix 1 to this report.

HIH U&I is part of a large, complex guarantee group comprising the following 10 HIH Group companies:

- HIH Underwriting and Agency Services Limited
- HIH Underwriting Holdings Pty Limited
- FAI (CTP) Pty Limited
- MW Payne (Assessors) Pty Ltd
- HIH Legal Services Pty Limited
- HIH Travel (Australia) Pty Ltd
- Ready Plan Group Limited
- Ready Plan Asia Pacific Pty Ltd
- Industrial Rehabilitation Services Pty Limited
- HIH Investment Holdings Limited

As previously explained, membership of the guarantee group has had the effect of pooling the assets and liabilities of the eleven HIH companies making up the group.

As such, work has continued to be undertaken during the period to realise the assets and agree the claims of the other members of the cross guarantee group.

The liquidation of MW Payne (Assessors) Pty Limited, a company within the cross guarantee group, has been completed as it had no assets and liabilities.

4.2 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, \$90,931 has been approved by the HIH U&I Scheme Creditors' Committee, and paid to the Scheme Administrators in their role as Office Holders.

5 Closure

5.1 Estimation Date

The Estimation Date for the HIH U&I Scheme was set as 31 May 2013, at which date the Scheme 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.

5.2 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.

5.3 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.

5.4 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 Adjudicator appointed to the HIH U&U Scheme is Mr Tim Andrews from Finity Solutions.

6 Responsibilities

6.1 Scheme Administrators

The Australian Scheme Administrators are Tony McGrath and Chris Honey, partners of McGrathNicol, based in Sydney.

6.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of HIH U&I are managed in-house by the HIH run-off team.

6.3 Creditors' Committee

The interests of creditors of HIH U&I 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 reported to, and meets on an adhoc basis. The current constitution of the Committee is as follows:

Member	Represented by
South Australia Workcover Authority	Mr Harry Neesham
Victorian Workcover Authority	Mr Harry Neesham
Amaca Pty Limited	Ms Narreda Grimley

7 Contact Details

Contact details for the Australian Scheme Administrators, and the Australian Run-Off Managers, are set out on the HIH website, www.hih.com.au.

7.1 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 Underwriting and Insurance (Australia) Pty Limited – in liquidation and subject to a Scheme of Arrangement



Tony McGrath
Scheme Administrator



Chris Honey
Scheme Administrator

Appendix 1

Updated balance sheet for HIH U&I as at 30 June 2013

HH Underwriting and Insurance (Australia) Pty Limited - (In Liquidation and subject to Scheme of Arrangement)

Balance Sheet as at 30th June 2013

All values in AUD

	RATA as at 30 June 2013 \$'000	RATA as at 30 June 2012 \$'000
Assets not specifically charged		
Cash		
Cash at bank	463	9,459
	<u>463</u>	<u>9,459</u>
Receivables		
Amounts owing by related bodies corporate	0	26
	<u>0</u>	<u>26</u>
Investments		
Short term deposits	12,616	2
Managed Investments	0	3,496
ADD back: Dividends Paid exc FAC already paid	2,564	2,263
	<u>15,180</u>	<u>5,761</u>
Total company assets	15,644	15,246
Less: Assets potentially subject to future s. 562A (4) claims - FAC recovered to date	(10,000)	(9,702)
Total company assets not specifically charged	<u>5,644</u>	<u>5,543</u>
Dividends receivable from other companies in the guarantee group	174,853	144,471
TOTAL ASSETS NOT SPECIFICALLY CHARGED	<u>180,497</u>	<u>150,014</u>
Assets potentially subject to future s. 562A (4) claims		
FAC Recovered to date	10,000	9,702
Future FAC Recoveries	4,019	4,027
Total assets potentially subject to future s. 562A (4) claims	<u>14,019</u>	<u>13,730</u>
Liabilities secured by specific charge over assets		
Accounts payable		
Future FAC Recoveries	(4,019)	(4,027)
FAC Recovered to date	(10,000)	(9,702)
Total liabilities potentially subject to future s.562A(4) claims	<u>(14,019)</u>	<u>(13,730)</u>
Total Assets Available for Unsecured Creditors	<u>180,497</u>	<u>150,014</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(1)	(1)
Goods and services tax	(5)	0
	<u>(6)</u>	<u>(1)</u>
ACCs	(30,986)	(27,389)
Outstanding claims (Reserves)	(34,307)	(34,728)
IBNR Claims	(83,080)	(86,207)
ADD back: Creditors with statutory cut through & s.562A(4) claims	14,019	
Outstanding claims	<u>(134,355)</u>	<u>(148,324)</u>
Other liabilities		
Amounts owing to related bodies corporate (excl amounts owing to companies in the cross guarantee group)	(1,035)	(1,035)
	<u>(1,035)</u>	<u>(1,035)</u>
Total company unsecured creditors	<u>(135,396)</u>	<u>(149,360)</u>
Liabilities from other companies in the cross guarantee group	(482,011)	(484,406)
Total unsecured creditors	<u>(617,407)</u>	<u>(633,766)</u>
TOTAL LIABILITIES	<u>(617,407)</u>	<u>(633,766)</u>
NET DEFICIT	<u>(436,910)</u>	<u>(487,779)</u>

Appendix 2

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

HIH Underwriting & Insurance (Australia) Pty Limited (In Liquidation and subject to a Scheme of Arrangement)

Receipts and Payments Account 1 July 2012 to 30 June 2013

	\$	\$
Balance at 1 July 2012		12,956,252.65
Receipts		
Interest	370,769.30	
Special claim settlement - James Hardie	247,894.90	
Reinsurance recoveries	50,000.00	
Realised gain on investments	46,905.26	
GST refund from ATO	13,148.63	
	<hr/>	
Total Receipts		728,718.09
Payments		
Scheme Payments	(314,745.08)	
Central expense paid to HIH C&G	(95,493.67)	
Scheme Administrators' fees	(70,480.00)	
Professional fees	(67,401.92)	
GST	(12,353.79)	
Other sundry payments	(4,156.73)	
Stat Cut through payments	(1,065.00)	
Liquidators' fees	(736.00)	
	<hr/>	
Total Payments		(566,432.19)
Balance at 30 June 2013		<u>13,118,538.55</u>