

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 2014



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1 Introduction & background

1.1 Introduction

This is the eighth 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 2014. 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 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 estimation 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 are valued, was set at 31 May 2013. 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.



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 18% for all creditors. It should be noted that all creditors of HIH U&I are considered to be creditors with liabilities in Australia.

More detail on Scheme Payments and the estimated ultimate Scheme Payment Percentage for HIH U&I is included in section 3 of this report.

- + During the year, the Asbestos Injuries Compensation Fund (“AICF”) which manages the James Hardie asbestos claims, was successful in its latest section 562A(4) application against HIH U&I for priority payment of the proceeds of facultative reinsurance recoveries under policies written specifically for its benefit. \$11.7 million was paid to AICF.

To date, AICF has made five successful applications pursuant to the provisions of section 562A(4) of the Act seeking priority to the reinsurance recoveries, and has recovered approximately \$19.1 million pursuant to the orders.

- + All claims lodged against HIH U&I prior to the bar date have been determined.



3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for HIH U&I is 18% 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

HIH U&I is part of a cross guarantee group major asset recoveries are dependent upon the receipt of intercompany dividends from other HIH Group companies in liquidation. As such, timing of payment of these funds will be impacted by the dividend payable by the HIH Group companies and also completion of their liquidations.

The main outstanding intercompany balance owing to the cross guarantee group is that owing by HIH Holdings (NZ) Ltd ("HIH NZ") to HIH Underwriting & Agency Services Ltd. The Scheme Administrators are in ongoing discussions with the New Zealand liquidators on the progress of their liquidation, estimated range of final dividend expected to be paid and timing of payment.

The Scheme Administrators are currently reviewing the available funds of the cross guarantee group and hope to be in a position to pay a further interim Scheme Payment to all creditors with agreed claims before the end of 2014.

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

All claims lodged against HIH U&I prior to the bar date have been determined.

Based on further review of the current position of the New Zealand liquidations and the New Zealand Liquidators' estimate of the range of final dividend to be paid, the Scheme Administrators' latest estimate of the ultimate Scheme Payment Percentage for HIH U&I as at 30 June 2014 is shown below.

Scheme Company	Total Scheme Payment Percentage		
	Estimated at Scheme date	Estimated at 30 June 2013	Updated at 30 June 2014
HIH U&I	Less than 5%	15% - 20%	29% - 35%

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	29% - 35%
Creditors with non insurance liabilities in Australia	29% - 35%



4 Financial position

4.1 Estimated balance sheet at 30 June 2014

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 2014, 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 2014

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2014 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2013, \$226,795.50 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 Period

The HIH U&I Scheme is currently in the “Estimation” phase where the claims received prior to the Schemes cut-off date are being determined to be Acknowledged Creditor Claims.

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 of 31 May 2013, 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 was completed and returned to the Scheme companies by 2 September 2013 (the Scheme cut-off date); 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.

Determination of claims lodged by Scheme Creditors is complete.

5.2 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.

5.3 Scheme Claim Adjudication

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

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 Administrators’ determination of claims received has been accepted by the Scheme Creditors. There were no creditors’ claims referred to the Scheme Adjudicator.



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 ad-hoc 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 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 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 2014



HHH Underwriting and Insurance (Australia) Pty Limited - (In Liquidation and subject to Scheme of Arrangement)
All values in AUD

	RATA as at 30 June 2014 \$'000	RATA as at 30 June 2013 \$'000
Assets not specifically charged		
Cash		
Cash at bank	428	463
	<u>428</u>	<u>463</u>
Receivables		
Amounts owing by related bodies corporate	69	0
GST Recoverable	26	0
	<u>95</u>	<u>0</u>
Investments		
Short term deposits	5,134	12,616
ADD back: Dividends Paid excl FAC & Stat Cut Through already paid	12,845	2,564
	<u>17,979</u>	<u>15,180</u>
Reinsurance recoveries receivable	0	0
Total company assets	18,503	15,644
Less: Assets potentially subject to future s. 562A (4) claims - FAC recovered to date	(231)	(10,000)
Total company assets not specifically charged	18,272	5,644
Dividends receivable from other companies in the guarantee group	185,588	174,853
TOTAL ASSETS NOT SPECIFICALLY CHARGED	203,860	180,497
Assets potentially subject to future s. 562A (4) claims		
FAC Reinsurance Recovered to date	231	10,000
Future FAC Reinsurance Recoveries	662	4,019
Total assets potentially subject to future s. 562A (4) claims	894	14,019
Liabilities secured by specific charge over assets		
Provision for Future FAC Reinsurance payable	(662)	(4,019)
FAC Reinsurance Recovered to date	(231)	(10,000)
Total liabilities potentially subject to future s.562A(4) claims	(894)	(14,019)
Total Assets Available for Unsecured Creditors	203,860	180,497
Unsecured creditors		
Accounts payable		
Trade Creditors (A/P and Special Principals) - ESC at Estimation Date	(4,932)	(1)
Goods and services tax	0	(5)
	<u>(4,932)</u>	<u>(6)</u>
ACCs - ESC at Estimation Date	(103,234)	(30,986)
Outstanding claims (Reserves)	0	(34,307)
IBNR Claims	0	(83,080)
ADD back: Creditors with statutory cut through & s.562A(4) claims	894	14,019
Outstanding claims	(102,340)	(134,355)
Other liabilities		
Other creditors and accruals - Shareholder Claims (Potential 1321 application)	(276)	0
Amounts owing to related bodies corporate (excl amounts owing to companies in the cross guarantee group)	(1,019)	(1,035)
	<u>(1,295)</u>	<u>(1,035)</u>
Total company unsecured creditors	(108,567)	(135,396)
Liabilities from other companies in the cross guarantee group	(469,290)	(482,011)
Total unsecured creditors	(577,857)	(617,407)
TOTAL LIABILITIES	(577,857)	(617,407)
NET DEFICIT	(373,997)	(436,910)



Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2014



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

Receipts and Payments Account 1 July 2013 to 30 June 2014

	\$	\$
Balance at 1 July 2013		13,118,538.55
Receipts		
Cross guarantee funding received	15,600,000.00	
Reinsurance recoveries	1,083,654.40	
Interest	479,886.73	
Special claim settlement - James Hardie	244,877.94	
Scheme Payment received	10,342.65	
GST refund from ATO	8,052.85	
	<hr/>	
Total receipts		17,426,814.57
Payments		
Sec 562A(4) payments	(12,506,857.28)	
Scheme Payments	(11,932,062.58)	
Scheme Administrators' fees	(226,795.50)	
Professional fees	(219,269.40)	
Central expense paid to HIH C&G	(56,096.05)	
GST	(39,152.67)	
Other sundry payments	(1,975.86)	
Liquidators' fees	(440.00)	
	<hr/>	
Total payments		(24,982,649.34)
Balance at 30 June 2014		<hr/> 5,562,703.78 <hr/>