

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 2012

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1 Introduction & background

1.1 Introduction

This is the sixth 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 2012.

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:

- + The members of the HIH U&I Creditors' Committee approved a first interim Scheme Payment of 10 cents in the dollar, payable to 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.
- + Prior to the Liquidation of HIH U&I, HIH U&I together with 10 other HIH Group companies entered into a Deed of Cross Guarantee whereby each group company within the cross guarantee group guaranteed the debts of each of the other companies within the group. In light of HIH U&I's obligations under the deed, extensive review was carried out to validate the liabilities of the cross guarantee group prior to the payment of the first interim Scheme Payment.
- + During the year, the major reinsurance asset recovered by the Scheme Administrators was a \$6.95 million settlement agreed with Globale Re (formerly Gerling Konzern). This settlement was approved by the HIH U&I Creditors' Committee. The settlement proceeds were subject to a successful claim under section 562A(4) of the Corporations Act by the Asbestos Injuries Compensation Fund. As stated in the previous annual report, the Scheme Administrators expect that most of the company's reinsurance recoveries are likely to be subject to successful section 562A(4) applications by the Asbestos Injuries Compensation Fund.
- + In view of the progress made to date in managing the HIH U&I 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 5 of this report.

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.

3.2 Projected further Scheme Payments

As the Scheme cut-off date of 31 May 2013 is now less than 12 months away, the Scheme Administrators do not consider it prudent to make any further Scheme Payments until after the Scheme cut-off when the expected final creditor total will be better known.

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 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' Committee, if one has been elected. 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, in individual cases 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. Creditors interested in this should 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 U&I 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; the class of creditor claim; and litigation outcomes. 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 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%

It should be noted that the Scheme Administrators are not aware of any creditors with liabilities outside of Australia under the terms of the Scheme.

4 Financial position

4.1 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 U&I as at 30 June 2012, 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.

Since the last annual report dated 30 June 2011, 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 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, \$47,672 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 HIH U&I Scheme provides 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.

5.2 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.

5.3 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 Acknowledged Creditor Claims. 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 7.1 of this report, as soon as possible.

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 2012

HH Underwriting and Insurance (Australia) Pty Limited - (In Liquidation and subject to Scheme 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 at bank	9,459	2,268
	<u>9,459</u>	<u>2,268</u>
Receivables		
Amounts owing by related bodies corporate	26	64
GST Recoverable	0	54
	<u>26</u>	<u>118</u>
Investments		
Short term deposits	2	179
Managed Investments	3,496	3,369
ADD back: Dividends Paid	7,113	3,768
	<u>10,610</u>	<u>7,316</u>
Reinsurance recoveries receivable	0	14,762
Total company assets not specifically charged	24,123	25,775
Dividends receivable from other companies in the guarantee group	125,891	126,914
Total assets not specifically charged	150,014	152,690
Assets subject to specific charges		
Investments		
Statutory Reinsurance Cut-Through	4,027	1,311
Total assets subject to specific charges	4,027	1,311
TOTAL ASSETS	150,014	152,690
Liabilities secured by specific charge over assets		
Accounts payable		
Statutory Reinsurance Cut-Through	(4,027)	(1,311)
Total liabilities secured by specific charge over assets	(4,027)	(1,311)
Unsecured creditors		
Accounts payable		
Trade Creditors	(1)	(1)
	<u>(1)</u>	<u>(1)</u>
ACCs	(27,389)	(11,943)
Outstanding claims (Reserves)	(34,728)	(52,638)
IBNR Claims	(86,207)	(83,718)
Outstanding claims	(148,324)	(148,299)
Other liabilities		
Amounts owing to related bodies corporate (exc. amounts owing to companies in cross guarantee group)	(1,035)	(1,035)
	<u>(1,035)</u>	<u>(1,035)</u>
Total company unsecured creditors	(149,360)	(149,335)
Liabilities from other companies in the cross guarantee group	(484,406)	(429,849)
Total unsecured creditors	(633,766)	(579,184)
TOTAL LIABILITIES	(637,793)	(580,495)
NET DEFICIT	(487,779)	(427,805)

Appendix 2

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

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

Receipts and Payments Account 1 July 2011 to 30 June 2012

	\$	\$
Balance at 1 July 2011		5,816,133.96
Receipts		
Reinsurance Recoveries	8,384,331.97	
Transfer from ACN 005 312 345 (Formerly Ready Plan Asia Pacific)	2,039,500.00	
Interest	207,925.43	
Unrealised Gain on Investments	126,601.37	
GST Refund from ATO	73,387.14	
Scheme Payments Received	55,146.65	
Other Receipts	2,117.59	
	<hr/>	
Total receipts		10,889,010.15
Payments		
Scheme Payments	(2,353,838.84)	
Stat Cut Through Payments	(1,087,613.26)	
Professional Fees	(139,448.88)	
Central Expense paid to HIH C&G	(91,932.16)	
Scheme Administrators' Fees	(47,672.00)	
GST	(19,345.06)	
Other Sundry Payments	(5,808.69)	
Outsourced Claims Management Fees	(2,683.57)	
Claims Run Off Expenses	(300.00)	
Liquidators' Fees	(249.00)	
	<hr/>	
Total payments		(3,748,891.46)
Balance at 30 June 2012		<u>12,956,252.65</u>