

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 2011

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1 Introduction & background

1.1 Introduction

This is the fifth 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 2011.

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 30 May 2011. However, at this stage, the Scheme Administrators expect the actual bar dates to be 30 May 2013.

2 Principal developments to report during the period

The principal developments to report during the period were:

- + To date, no interim Scheme Payments have been made to creditors of HIH U&I. More detail on Scheme Payments and the estimated ultimate Scheme Payment Percentage for HIH U&I is included in section 3 of this report.
- + At the meeting of creditors of HIH U&I to consider the Scheme on 25 May 2011, a creditors' committee was appointed to assist the Scheme Administrators on behalf of all creditors.
- + During the year a successful claim was made by an insurance creditor, Amaca, under section 562A(4) of the Corporations Act 2001. Under the claim, Amaca sought priority to certain reinsurance recoveries under facultative or fronting contracts. In light of this successful claim, the Scheme Administrators have paid \$3.7 million to Amaca, representing the majority of reinsurance recoveries to date. They also expect that most future reinsurance recoveries will also be subject to this successful priority claim.

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

To date no interim Scheme Payment has been made to the creditors of HIH U&I.

HIH U&I is part of a large, complex guarantee group comprising a number of other HIH Group companies. In light of further work undertaken to finalise the intercompany creditor position of the Group, and confirmation from the Liquidators' legal advisors that the assets and liabilities of the individual group companies could be pooled for dividend payment purposes, the Liquidators of the other guarantee group companies have now called for proofs of debt and declared a first interim dividend of 10 cents in the dollar.

The Scheme Administrators hope to pay an interim Scheme Payment percentage of 10 cents in the dollar to the creditors with agreed creditor claims in October 2011.

3.2 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.

3.3 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.

3.4 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators' current best estimates of the ultimate Payment Percentage 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 Payment Percentage could vary significantly either above or below that predicted.

Scheme Company	Estimated Total Scheme Payment Percentage at Scheme date	Updated Total Scheme Payment Percentage at 30 June 11
HIH U&I	Less than 5%	15% - 20%

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

	Range of Estimated 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 2011

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 2011, is included as Appendix 1 to this report.

Work has continued to realise assets and agree the claims of the other members of the cross guarantee group which comprises the following other 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.

Following an extensive review of the financial position of the companies within the cross guarantee group, the review has confirmed that MW Payne (Assessors) Pty Limited, a company within the cross guarantee group, has no assets and liabilities. The Liquidators of MW Payne (Assessors) intend making an application to Court for approval for the release of the Liquidators and the completion of its liquidation.

4.2 Receipts and payments to 30 June 2011

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2011 is set out in Appendix 2 to this report.

During this period, \$283,377 has been approved by the HIH U&I Scheme Creditors, and paid to the Scheme Administrators in their role as Office Holders.

5 Closure

The Scheme for HIH U&I provides for an Estimation Date of seven years after the Australian Scheme became effective, which means that the Estimation Date is expected to be in June 2013. By that time the Scheme Administrators expect that the majority of the reinsurance asset will have been collected or commuted, and the remaining tail of insurance liabilities will be sufficiently small to justify closure of the insolvency on cost benefit grounds.

The Scheme provides that the Estimation Date may be moved two years either way from the expected seven years (to be as early as five years or as late as nine years after the Effective Date) by special resolution of creditors, on the recommendation of the Scheme Administrators and Creditors' Committees. Under the terms of the Scheme all creditors will be given notice of the actual Estimation Date between six and three months prior to the time.

Following the Estimation Date all remaining outstanding and IBNR creditor claims will be crystallised by estimation, to allow for the closure of the insolvency.

At the date of this report, the Scheme Administrators consider that June 2013 remains the most likely Estimation Date for the Scheme.

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 have previously been outsourced to specialist run-off organisation Capita CMGL, based in Sydney and London.

Following an extensive review of the ongoing resources required to manage the run-off process for all business of the company, HIH terminated Capita CMGL's contract on 30 June 2011, and employed the personnel necessary to manage the run-off process in-house with effect from 1 July 2011.

6.3 Creditors' Committee

At the meeting of creditors to consider the Scheme on 25 May 2011, the creditors of HIH U&I elected a Scheme 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 enquires@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 2011

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

Balance Sheet as at 30 June 2011

All values in AUD

	RATA as at 30 June 2011 \$'000	RATA as at 30 June 2010 \$'000
Assets not specifically charged		
Cash		
Cash at bank	2,268	4,637
Receivables		
Amounts owing by related bodies corporate	64	123
GST Recoverable	54	2
	<u>118</u>	<u>125</u>
Investments		
Short term deposits	179	5,172
Managed Investments	3,369	3,162
ADD back: Dividends Paid	3,768	1
	<u>7,316</u>	<u>8,335</u>
Reinsurance recoveries receivable	<u>14,762</u>	<u>12,552</u>
Total company assets not specifically charged	<u>25,775</u>	<u>26,906</u>
Dividends receivable from other companies in the guarantee group	126,914	111,245
Total assets not specifically charged	<u>152,690</u>	<u>138,151</u>
Assets subject to specific charges		
Investments		
Statutory Reinsurance Cut-Through	1,311	1,258
Total assets subject to specific charges	<u>1,311</u>	<u>1,258</u>
TOTAL ASSETS	<u>152,690</u>	<u>138,151</u>
Liabilities secured by specific charge over assets		
Accounts payable		
Statutory Reinsurance Cut-Through	(1,311)	(1,258)
Total liabilities secured by specific charge over assets	<u>(1,311)</u>	<u>(1,258)</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(1)	(1)
	<u>(1)</u>	<u>(1)</u>
ACCs	(11,943)	(11,993)
Outstanding claims (Reserves)	(52,638)	(52,639)
IBNR Claims	(83,718)	(83,791)
Outstanding claims	<u>(148,299)</u>	<u>(148,423)</u>
Other liabilities		
Amounts owing to related bodies corporate (exc. 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>(149,335)</u>	<u>(149,459)</u>
Liabilities from other companies in the cross guarantee group	(429,849)	(446,079)
Total unsecured creditors	<u>(579,184)</u>	<u>(595,538)</u>
TOTAL LIABILITIES	<u>(580,495)</u>	<u>(596,796)</u>
NET DEFICIT	<u>(427,805)</u>	<u>(458,644)</u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2011

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

Receipts and Payments Account 1 July 2010 to 30 June 2011

	\$	\$
Balance at 1 July 2010		12,970,570.16
Receipts		
Reinsurance Recoveries	2,796,108.92	
Unrealised Gain on Investments	207,340.97	
Claims Recoveries	173,282.89	
Scheme Payments Received	130,978.60	
Interest	85,148.41	
GST Refund from ATO	20,091.58	
Dividend Repatriation from UK	286.00	
	<hr/>	
Total receipts		3,413,237.37
Payments		
Gen Re Commutation (Transferred to FAIG)	(6,032,613.00)	
Section 562A(4) Priority Payment	(3,673,101.19)	
Scheme Administrators' Fees	(283,377.00)	
Professional Fees	(273,427.00)	
Outsourced Claims Management Fees	(88,038.87)	
Liquidators	(73,209.50)	
GST	(71,956.83)	
Central Expense paid to HIH C&G	(70,228.84)	
Other Sundry Payments	(1,277.73)	
Claims Run Off Expenses	(443.61)	
	<hr/>	
Total payments		(10,567,673.57)
Balance at 30 June 2011		<u><u>5,816,133.96</u></u>