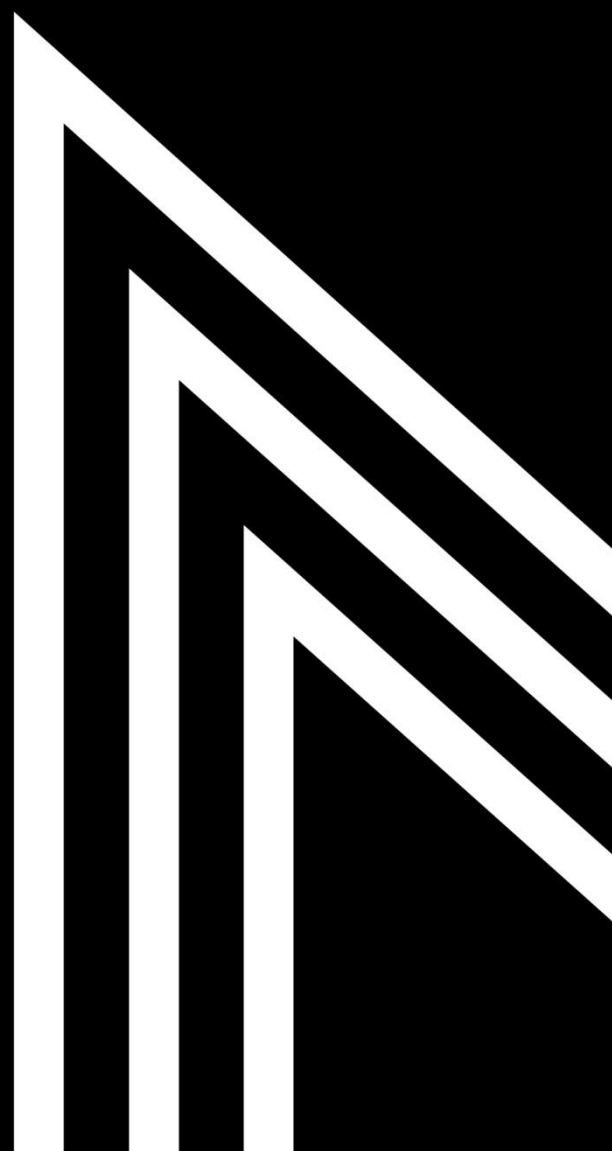

**HIH Underwriting and Insurance (Australia)
Pty Limited
ACN 004 906 110
(In Liquidation and subject to a Scheme of
Arrangement)**

Scheme Administrators' Annual Report to Creditors

30 June 2016



McGrathNicol



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1 Introduction & Background

1.1 Introduction

This is the tenth 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 2016. 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. 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. All claims lodged against HIH U&I 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
39.96%	n/a	38.0%	n/a

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 Percentages is included in section 3 of this report.

- All claims lodged against HIH U&I prior to the bar date have been determined.
- HIH U&I was previously believed to be a member of a cross guarantee group wherein all assets and liabilities of the cross guarantee group members, excluding intercompany debtor and creditor balances with other cross guarantee members, are pooled for purposes of calculating and paying dividends to creditors.

Investigation into the composition of the cross guarantee group established that HIH U&I was not a member rather its connection to the cross guarantee group was by way of a separate guarantee provided by HIH Underwriting and Agency Services Ltd ("HIH UAS"), a member of the cross guarantee group, on 23 September 1994 ("the UAS Guarantee"). The UAS Guarantee secured all of HIH U&I's obligations as at 31 December 1994, by which time HIH U&I had ceased writing new insurance business.

As a result, liabilities arising from insurance policies issued by HIH U&I prior to 31 December 1994, to the extent that HIH U&I cannot meet those liabilities, are covered by the UAS Guarantee. HIH U&I can claim those liabilities against HIH UAS and hence are entitled to dividend payments from the cross guarantee group. However, liabilities of HIH U&I that relates to non-insurance services provided after 31 December 1994 are not secured by the UAS Guarantee.

HIH U&I's assets, previously included in the cross guarantee group pool, are now exclusively for the benefit of the HIH U&I creditors.

3 Current and Projected Scheme Payment Percentages

3.1 The Current Scheme Payment Percentage

The current Scheme Payment Percentages for HIH U&I is 39.96% for creditors with insurance liabilities in Australia and 38.0% for all non-insurance creditors.

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 main assets of HIH U&I remaining to be recovered are intercompany debts owed by other HIH Group companies in liquidation. As the legal action taken by the HIH Insurance Ltd shareholders against HIH Insurance, HIH Casualty & General Insurance Ltd ("HIH C&G") and FAI General Insurance Company Ltd ("FAIG") remain on foot, receipt of final dividends on the intercompany debts owing, will be dependent on the finalisation of the shareholders claims.

The Scheme Administrators continue to review the available funds 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.

3.3 Estimated ultimate Scheme Payment Percentage

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

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

Scheme Company	Total Scheme Payment Percentage	
	Estimated at Scheme date	Updated at 30 June 2016
HIH U&I	Less than 5%	3% - 47.5%

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	46.5% - 47.5%
Creditors with non-insurance liabilities in Australia	3%

The estimated ultimate return to creditors with non-insurance liabilities has reduced from 39-41% to approximately 3% as these creditors' claims are not guaranteed under the UAS Guarantee and they no longer have access to the cross guarantee group's asset pool. Creditors with non-insurance liabilities are only entitled to claim against HIH U&I's non reinsurance asset recoveries.

The seven external non-insurance creditors of HIH U&I have previously received distributions from the cross guarantee group totalling 38% representing approximately \$23,000. As a result of the recent finding, they are only entitled to receive 3% representing approximately \$2,000 from the HIH U&I non-reinsurance asset pool.

The Scheme Administrators' consider it inappropriate and uncommercial to seek to recover the overpayment from the seven non-insurance creditors of HIH U&I. They propose to apply a commensurate reduction in HIH UAS Liquidators' remuneration to ensure the HIH UAS estate cash balance is made good.

4 Financial Position

4.1 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 U&I as at 30 June 2016 is included as Appendix 1 to this report.

4.2 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, \$142,955.50 has been approved by the HIH U&I Scheme Creditors' Committee for payment 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.

Determination of claims lodged by Scheme Creditors is completed.

5.2 Finalisation of the Schemes

The major issue preventing the finalisation of the HIH U&I Scheme and liquidations of the remaining companies in the HIH Group is the ongoing HIH Insurance shareholders claims against HIH Insurance, HIH C&G and FAIG.

The Liquidators and/or Scheme Administrators of these three HIH companies are currently working with their solicitors and Plaintiffs' solicitors, to confirm the basis for calculating and admitting damages payable to the Plaintiffs, which they currently hope to complete by early 2017.

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

6 Responsibilities

6.1 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 Administrators of HIH U&I following Chris Honey's resignation on 1 December 2015.

6.2 Run-off Managers

Any remaining 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 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 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 Victorian Workcover Authority Amaca Pty Limited	Mr Harry Neesham Mr Harry Neesham 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 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 Underwriting & Insurance (Australia) Pty Limited – in liquidation and subject to a Scheme of Arrangement



Tony McGrath
Scheme Administrator



Jason Preston
Scheme Administrator

Appendix 1

Updated balance sheet for HIH U&I as at 30 June 2016

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

	RATA as at 30 June 2016 \$'000	RATA as at 30 June 2015 \$'000
Assets not specifically charged		
Cash		
Cash at bank	423	38
	<u>423</u>	<u>38</u>
Receivables		
Amounts owing by related bodies corporate	2,732	32
	<u>2,732</u>	<u>32</u>
Investments		
Short term deposits	5,400	5,644
ADD back: Dividends Paid exc FAC & Stat Cut Through already paid	35,640	26,651
	<u>41,040</u>	<u>32,295</u>
Other		
Repayment of funding	(37,219)	0
	<u>(37,219)</u>	<u>0</u>
Total company assets	6,976	32,365
Less: Assets potentially subject to future s. 562A (4) claims - FAC recovered to date	0	(357)
Total company assets not specifically charged	6,976	32,008
Dividends receivable from other companies in the guarantee group	0	191,358
TOTAL ASSETS NOT SPECIFICALLY CHARGED	6,976	223,366
Assets potentially subject to future s. 562A (4) claims		
FAC Recovered to date	0	357
Total assets potentially subject to future s. 562A (4) claims	0	357
Liabilities secured by specific charge over assets		
FAC Recovered to date	0	(357)
Total liabilities potentially subject to future s.562A(4) claims	0	(357)
Total Assets Available for Unsecured Creditors	6,976	223,366
Unsecured creditors		
Accounts payable		
Trade Creditors (A/P and Special Principals) - ESC Verified	(4,932)	(4,932)
Goods and services tax	(3)	(2)
	<u>(4,935)</u>	<u>(4,934)</u>
ACCs - ESC Verified	(103,695)	(103,623)
ADD back: Creditors with statutory cut through & s.562A(4) claims	19,650	357
Outstanding claims	<u>(84,045)</u>	<u>(103,266)</u>
Other liabilities		
Amounts owing to related bodies corporate (excl amounts owing to companies in the cross guarantee group)	(1,493)	0
	<u>(1,493)</u>	<u>0</u>
Total company unsecured creditors	(90,473)	(108,200)
Liabilities from other companies in the cross guarantee group		(468,491)
TOTAL LIABILITIES	(90,473)	(576,691)
NET DEFICIT	(83,497)	(353,325)

Appendix 2

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

	\$	\$
Opening balance at 1 July 2015		5,681,623
Receipts		
Cross Guarantee Funding received	9,385,000	
Interest	115,210	
GST Refund from ATO	26,463	
	<hr/>	
Total receipts		9,526,673
Payments		
Scheme Payments to creditors	(9,067,702)	
Scheme Administrators' fees	(142,956)	
Professional fees	(101,654)	
Central Expense paid to HIH C&G	(47,486)	
GST	(23,759)	
Other sundry payments	(1,110)	
Liquidators' fees	(322)	
	<hr/>	
Total payments		(9,384,988)
Balance at 30 June 2016		<hr/> 5,823,309 <hr/>