

CIC Insurance Limited
ACN 004 078 880
(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 CIC Insurance Limited - in liquidation and subject to a Scheme of Arrangement ("CIC").

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:

- + No further Scheme Payments were approved for payment to creditors as the Scheme Administrators had previously paid interim Scheme Payments up to the minimum forecast Scheme Payment Percentages. It should be noted that all creditors of CIC are considered to be creditors with liabilities in Australia.

Scheme Payments made to date total:

	Creditors with insurance liabilities in Australia	Creditors with insurance liabilities outside of Australia	Creditors with non insurance liabilities in Australia	All other creditors worldwide
CIC	60.00%	n/a	60.00%	n/a

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

- + Considerable work was undertaken to substantiate the total debt owing by HIH Casualty & General Insurance Ltd (“HIH C&G”) of \$153 million. As a result of validation of this balance, HIH C&G made a distribution to CIC during the year of 25 cents in the dollar totalling \$38.3 million.
- + 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.
- + Since the last annual report dated 30 June 2012, the liquidations of another 4 HIH Group subsidiary companies have been completed.

To date, the liquidations of 49 HIH Group subsidiary companies have been finalised with those of a further 2 companies expected to be completed by October 2013. CIC will not receive any distributions from the closure of these 2 additional companies as they are neither subsidiaries nor debtors of CIC.

Upon completion of these liquidations, the remaining HIH Group Australian subsidiary liquidations will total 31.

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for CIC is 60%. This represents the lower end of the Scheme Administrators' estimated range for final Scheme Payment percentages as at 30 June 2013.

To date the Scheme Administrators have only made distributions out of non-reinsurance assets in Australia, to creditors with liabilities in Australia. Based on the information available to the Scheme Administrators, they are not aware of any creditors of CIC who do not fall within the definition of "creditors with liabilities in Australia" under the terms of the Scheme.

3.2 Projected further Scheme Payments

The Scheme Administrators have made Scheme Payments up to the minimum forecast Scheme Payment Percentage for the creditors. 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 be in a position to pay a further interim Scheme Payment to the creditors with agreed claims towards the end of this year.

While the quantum and timing of future interim Scheme Payments remains uncertain and wholly dependant on the timing of agreement of final claims, the Scheme Administrators currently estimate the future payments profile as follows:

Date	Quantum
December 2013	40% of the difference between the current Scheme Payment Percentage and the forecast total final Scheme Payment Percentage
June 2014	40% of the difference between the current Scheme Payment Percentage and the forecast total final Scheme Payment Percentage
December 2014	The final 20% of the difference between the current Scheme Payment Percentage and the forecast total final Scheme Payment Percentage

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. Payment has been made to a number of such creditors over the last year.

3.4 Estimated ultimate Scheme Payment Percentage

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

Whilst 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. Based on an initial review of claims received, the Scheme Administrators have provided an updated range of estimated Scheme Payment Percentages as below.

Scheme Company	Estimated Total Scheme Payment Percentage at Scheme date	Updated Total Scheme Payment Percentage at 30 June 2013	Provisional Updated Total Scheme Payment Percentage at 2 September 2013
CIC	30% to 40%	60% to 75%	60% to 80%

It should be noted that the updated percentage at the bar date is only a provisional figure and may be subject to change once further work has been undertaken on all final claims submitted before the bar date.

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 CIC as at 30 June 2013, is included as Appendix 1 to this report.

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, \$681,649.50 has been approved by the Scheme Creditors' Committee for payment to the Scheme Administrators in their role as Office Holders.

5 Closure

5.1 Estimation Date

The Estimation Date for the CIC 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 CIC 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 CIC are managed in-house by the HIH run-off team.

6.3 Creditors' Committee

The interests of creditors of CIC 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 currently reported to, and meets three times a year. The current constitution of the Committee is as follows:

Member	Represented by
ACT Workers Compensation Supplementation Fund	Mr John Fletcher
Motor Accidents Authority of New South Wales	Mr Andrew Nicholls
Law Cover Pty Limited	Mr David Martin
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Mr Trevor King
Avant Insurance Limited	Dr Linda Satchwell
WA Workers Compensation & Rehabilitation Commission	Mr Harry Neesham
Motor Traders Association of NSW	Mr James McCall

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 CIC Insurance Limited – in liquidation and subject to a Scheme of Arrangement



Tony McGrath
Scheme Administrator



Chris Honey
Scheme Administrator

Appendix 1

Updated balance sheet for CIC as at 30 June 2013

CIC Insurance 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	8,162	22,121
	<u>8,162</u>	<u>22,121</u>
Receivables		
Amounts owing by related bodies corporate	2,051	42,190
	<u>2,051</u>	<u>42,190</u>
Investments		
Short term deposits	128,161	47,656
Managed Investments	(0)	28,714
ADD back: Dividends Paid	280,999	272,075
	<u>409,160</u>	<u>348,445</u>
Reinsurance recoveries receivable	261	617
TOTAL ASSETS NOT SPECIFICALLY CHARGED	<u>419,634</u>	<u>413,374</u>
Assets subject to specific charges		
Investments		
Statutory Reinsurance Cut-Through	529	3,175
Total assets subject to specific charges	<u>529</u>	<u>3,175</u>
Assets potentially subject to future s. 562A (4) claims		
FAC Recovered to Date	1,058	981
Total assets potentially subject to future s. 562A (4) claims	<u>1,058</u>	<u>981</u>
Liabilities secured by specific charge over assets		
Accounts Payable		
FAC Recovered to Date	(1,058)	(981)
Total liabilities potentially subject to future s. 562A (4) claims	<u>(1,058)</u>	<u>(981)</u>
TOTAL ASSETS	<u>420,162</u>	<u>416,549</u>
Liabilities secured by specific charge over assets		
Accounts payable		
Statutory Reinsurance Cut-Through	(529)	(3,175)
Total liabilities secured by specific charge over assets	<u>(529)</u>	<u>(3,175)</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(19,838)	(19,731)
Goods and services tax	(203)	(7)
Sundry creditors	(152)	(151)
	<u>(20,192)</u>	<u>(19,889)</u>
ACCs	(409,203)	(396,305)
Claims Reserves	(9,318)	(25,008)
IBNR Claims	(75,110)	(70,339)
Add back: Creditors with Statutory Cut Through & s. 562A (4) claims paid	1,058	-
Outstanding claims	<u>(492,573)</u>	<u>(491,652)</u>
Other liabilities		
Amounts owing to related bodies corporate	(16,737)	(15,886)
	<u>(16,737)</u>	<u>(15,886)</u>
Total unsecured creditors	<u>(529,502)</u>	<u>(527,427)</u>
TOTAL LIABILITIES	<u>(530,030)</u>	<u>(530,602)</u>
NET DEFICIT	<u>(109,868)</u>	<u>(114,053)</u>

Appendix 2

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

**CIC Insurance 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		98,549,632.09
Receipts		
Scheme Payment received	38,307,051.01	
Interest on cash and deposits	3,122,588.22	
Reinsurance recoveries	2,410,241.61	
Dividend received from Non Scheme companies	2,290,800.72	
Unrealised foreign exchange movement on overseas accounts	1,091,393.98	
Realised gain on investments	227,290.43	
GST refund from ATO transferred from HIH C&G	68,442.33	
Claims recoveries	11,410.87	
	<hr/>	
Total Receipts		47,529,219.17
Payments		
Scheme Payments to creditors	(7,774,762.33)	
Central expense reimbursement paid to HIH C&G	(868,992.46)	
Scheme Administrators' fees	(681,649.50)	
Professional fees	(198,423.37)	
GST on payments	(90,553.73)	
Other sundry payments	(28,497.16)	
Computer costs	(19,076.74)	
Insurance	(10,958.62)	
Claims run-off expenses	(4,502.38)	
Liquidators' fees	(496.00)	
	<hr/>	
Total Payments		(9,677,912.29)
Balance at 30 June 2013		<u>136,400,938.97</u>