

CIC Insurance Limited
ACN 004 078 880
(In liquidation and subject to a Scheme of Arrangement)

Scheme Administrators' annual report to
creditors

30 June 2015



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1 Introduction & background

1.1 Introduction

This is the ninth 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 2015. 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; 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 determined to be Acknowledged Creditor Claims, in preparation for the finalisation of the Schemes. All claims lodged against CIC 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
90.5%	n/a	90.0%	n/a

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

- + The legal action filed by certain HIH Insurance Ltd shareholders seeking to prove as unsecured creditors of CIC was withdrawn at the start of the Court hearing in February 2015.

Similar legal action against HIH Insurance Ltd (“HIH”), HIH Casualty & General Insurance Ltd (“HIH C&G”) and FAI General Insurance Company Ltd (“FAIG”), remains on foot. The Liquidators and Scheme Administrators of these companies are currently awaiting the outcome of the Court hearing, which is expected to be handed down by the end of September 2015.

- + With the exception of one application under section 1321 of the Corporations Act brought by a creditor seeking adjudication of a claim submitted after the Scheme bar date, all other claims against CIC have been determined.
- + To date, the liquidations of 59 HIH Group subsidiary companies have been finalised with the liquidation of one further company expected to be completed by October 2015. Thereafter, the remaining HIH Group Australian subsidiary liquidations will total 22.



3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for CIC is 90.5% for creditors with insurance liabilities in Australia (in the case of CIC Insurance, this encompasses all insurance creditors) and 90.0% for all non-insurance creditors.

The Scheme Administrators 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 paid Scheme Payment percentages close to the forecast total final percentages set out in section 3.4 of this report.

The main assets of CIC remaining to be recovered are intercompany debts owed by other HIH Group companies in liquidation. As the legal action taken by the HIH Insurance shareholders against HIHI, HIH C&G and FAIG remains on foot, receipt of final dividends on the intercompany debts owing, will be dependent on the outcome of the shareholder claims.

The Scheme Administrators continue to review the available funds and level of claims and hope to be in a position to pay a further interim Scheme Payment to all creditors with agreed claims before the end of 2015.

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

The Scheme Administrators’ latest estimate of the ultimate Scheme Payment Percentages for CIC as at 30 June 2015 is shown below.

Scheme Company	Total Scheme Payment Percentage		
	Estimated at Scheme date	Updated at 30 June 2014	Updated at 30 June 2015
CIC	30% to 40%	65% to 91%	93.0% to 93.5%

The total estimated Scheme Payment range for creditors can be further analysed as:

	Range as at 30 June 2014	Estimated Scheme Payment percentage 30 June 2015
Creditors with insurance liabilities in Australia	67% - 91%	93.5%
Creditors with non-insurance liabilities in Australia	65% - 90%	90.0%



4 Financial position

4.1 Estimated balance sheet at 30 June 2015

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 2015, is included as Appendix 1 to this report.

4.2 Receipts and payments to 30 June 2015

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2015 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2014, \$471,918.50 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 Period

The CIC 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.

Apart from one outstanding section 1321 Corporation Act application, determination of claims lodged by Scheme Creditors is completed.

5.2 Finalisation of the Schemes

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

The Liquidators and/or Scheme Administrators of these three HIH companies are currently awaiting the outcome of the Court hearing for the shareholders claims which is expected to be handed down by the end of September 2015.

Once the shareholders action has been resolved, the Scheme Administrators will be in a position to make the final Scheme Payments; finalise the liquidations of the other HIH companies; and close the CIC Scheme. Subject to the outcome of the Court action and based on current information, the Scheme Administrators consider this may be possible during 2016.



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 Dharmesh Patel
Queensland Motor Accident Insurance Commission	Ms Lina Lee
HCSL – Australian Government Treasury	Mr Nicholas Creagh
Avant Insurance Limited	Ms Suzanne Barron
WA Workers Compensation & Rehabilitation Commission	Mr Harry Neesham
Motor Traders Association of NSW	Mr Greg Patten



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 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 2015



CIC Insurance Limited - (In Liquidation and subject to a Scheme of Arrangement)
All values in AUD

	RATA as at 30 June 2015 \$'000	RATA as at 30 June 2014 \$'000
Assets not specifically charged		
Cash		
Cash at bank	3,240	3,012
	<u>3,240</u>	<u>3,012</u>
Receivables		
Amounts owing by related bodies corporate	2,731	13,911
	<u>2,731</u>	<u>13,911</u>
Investments		
Short term deposits	5,753	122,113
ADD back: Dividends Paid	433,847	296,323
	<u>439,600</u>	<u>418,436</u>
Reinsurance recoveries receivable	0	222
Other		
Other receivables - Allianz recovery	7,310	0
	<u>7,310</u>	<u>0</u>
TOTAL ASSETS NOT SPECIFICALLY CHARGED	<u>452,881</u>	<u>435,582</u>
Assets subject to specific charges		
Statutory Reinsurance Cut-Through	0	261
Total assets subject to specific charges	<u>0</u>	<u>261</u>
Assets potentially subject to future s. 562A (4) claims		
FAC Recovered to Date	0	1,464
Total assets potentially subject to future s. 562A (4) claims	<u>0</u>	<u>1,464</u>
Liabilities secured by specific charge over assets		
FAC Recovered to Date	0	(1,464)
Total liabilities potentially subject to future s. 562A (4) claims	<u>0</u>	<u>(1,464)</u>
TOTAL ASSETS	<u>452,881</u>	<u>435,842</u>
Liabilities secured by specific charge over assets		
Statutory Reinsurance Cut-Through	0	(261)
Total liabilities secured by specific charge over assets	<u>0</u>	<u>(261)</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(21,507)	(21,507)
Goods and services tax	(112)	(194)
Sundry creditors - ARS	(152)	(151)
	<u>(21,771)</u>	<u>(21,853)</u>
Provisions		
Other - MAA section 1321 application	(4,600)	0
	<u>(4,600)</u>	<u>0</u>
ACCs - ESC at Estimation Date	(444,932)	(440,732)
Commutations - ESC Verified	(710)	(710)
Add back: Creditors with Statutory Cut Through & s. 562A (4) claims paid	0	1,464
Outstanding claims	<u>(445,642)</u>	<u>(439,979)</u>
Other liabilities		
Other creditors and accruals (Shareholder Claims - potential 1321 application)	0	(160,166)
Other creditors and accruals (Shareholder as per FCF Report)	0	(2,113)
Amounts owing to related bodies corporate	(9,797)	(9,797)
	<u>(9,797)</u>	<u>(172,076)</u>
Total unsecured creditors	<u>(481,811)</u>	<u>(633,908)</u>
TOTAL LIABILITIES	<u>(481,811)</u>	<u>(634,169)</u>
NET DEFICIT	<u>(28,929)</u>	<u>(198,327)</u>



Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2015



**CIC Insurance Limited (In Liquidation and subject to a Scheme of Arrangement)
Receipts and Payments Account 1 July 2014 to 30 June 2015**

	\$	\$
Opening balance at 1 July 2014		125,131,803.17
Receipts		
Scheme Payments received from scheme companies	13,463,412.90	
Interest on cash and deposits	2,896,210.95	
Reinsurance recoveries	1,669,774.33	
Dividend received from non scheme companies	1,567,723.82	
Unrealised foreign exchange movement	738,038.94	
GST refund from ATO	124,609.76	
Claims recoveries	1,545.00	
Other receipts	1,238.36	
	<hr/>	
Total receipts		20,462,554.06
Payments		
Scheme Payments to creditors	(134,071,680.04)	
Professional fees	(880,233.64)	
Central expense reimbursement paid to HIH C&G	(703,629.16)	
Scheme Administrators' fees	(471,918.50)	
GST on payments	(136,399.68)	
Computer costs	(23,015.97)	
Other sundry payments	(20,849.27)	
Insurance	(9,805.17)	
Scheme Administrators' disbursements	(6,001.94)	
Liquidators' fees	(460.00)	
	<hr/>	
Total payments		(136,323,993.37)
Balance at 30 June 2015		<hr/> 9,270,363.86 <hr/>