

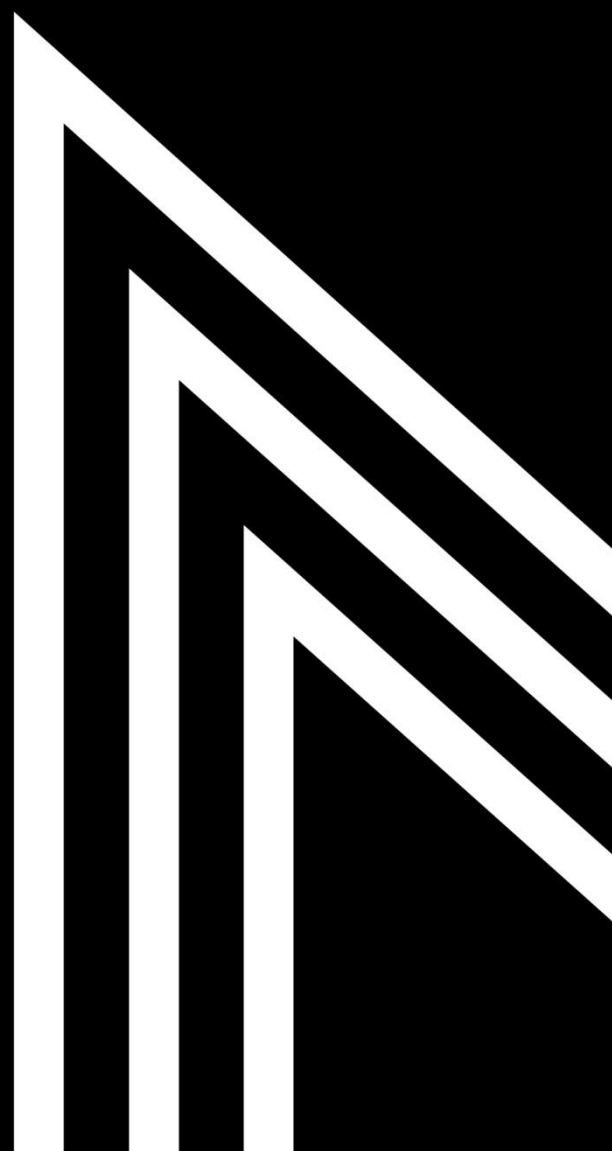
CIC Insurance Limited
ACN 004 078 880
(In Liquidation and subject to a Scheme of Arrangement)

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 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 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 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:

- The Scheme Payment Percentages paid to date 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
90.52%	n/a	90.0%	n/a

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

- All claims lodged against CIC prior to the bar date have been determined.
- The liquidations of a further four HIH Group subsidiary companies have been finalised since the last annual report dated 30 June 2015. Of these, CIC received \$0.7 million as a final dividend from HIH Company Limited.

To date, the liquidations of 64 HIH subsidiary companies have been completed leaving 18 Australian HIH entities remaining in liquidation of which six are subject to Schemes of Arrangement.

3 Current and Projected Scheme Payment Percentages

3.1 The Current Scheme Payment Percentage

The current Scheme Payment Percentages for CIC is 90.52% for creditors with insurance liabilities in Australia (in the case of CIC, 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 Payments percentages close to the forecast ultimate levels as set out in section 3.3 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 actions taken by the HIH Insurance Ltd shareholders against HIH Insurance Ltd, HIH Casualty & General Insurance Ltd ("HIH C&G") and FAI General Insurance Company Ltd ("FAIG") are still 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. However, timing of payment will be dependent on the finalisation of the HIH Insurance shareholders claims.

3.3 Estimated ultimate Scheme Payment Percentage

Determination of the Scheme Creditors' claims is now complete.

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

Total Scheme Payment Percentage			
Scheme Company	Estimated at Scheme date	Updated at 30 June 2015	Updated at 30 June 2016
CIC	30% to 40%	93.0% to 93.5%	93.0% to 93.3%

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

	Estimated Scheme Payment Percentage	
	30 June 2015	30 June 2016
Creditors with insurance liabilities in Australia	93.5%	93.3%
Creditors with non-insurance liabilities in Australia	93.0%	93.0%

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 CIC 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, \$426,342.50 has been approved by the CIC 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.

Determination of claims lodged by Scheme Creditors is completed.

5.2 Finalisation of the Schemes

The major issues preventing the finalisation of the CIC Scheme and liquidations of the remaining companies in the HIH Group are the ongoing HIH Insurance shareholders claims against HIH Insurance, HIH C&G and FAIG, and the adjudication of claims from shareholders of HIH Insurance who may now have a damages claim as a result of the judgement handed down in the HIH Insurance shareholders ("Plaintiffs") Court action in April 2016.

The Liquidators and/or Scheme Administrators of HIH Insurance, HIH C&G and FAIG are currently working with their solicitors and the Plaintiffs' solicitors to confirm the basis for calculating and admitting the Plaintiffs' damages claims, which they currently hope to complete by the first half of 2017.

Once the shareholders claims have 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 Schemes. 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 Administrator of CIC 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 CIC in Australia 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	Ms Angela Baum
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 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 CIC Insurance Limited – in liquidation and subject to a Scheme of Arrangement



Tony McGrath
Scheme Administrator



Jason Preston
Scheme Administrator

Appendix 1

Updated balance sheet for CIC as at 30 June 2016

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

	RATA as at 30 June 2016 \$'000	RATA as at 30 June 2015 \$'000
<i>Assets not specifically charged</i>		
Cash		
Cash at bank	4,544	3,240
	<u>4,544</u>	<u>3,240</u>
Receivables		
Amounts owing by related bodies corporate	2,498	2,731
	<u>2,498</u>	<u>2,731</u>
Investments		
Short term deposits	10,177	5,753
ADD back: Dividends Paid	434,558	433,847
	<u>444,735</u>	<u>439,600</u>
Other		
Other receivables - Allianz recovery	0	7,310
	<u>0</u>	<u>7,310</u>
TOTAL ASSETS	<u>451,778</u>	<u>452,881</u>
<i>Unsecured creditors</i>		
Accounts payable		
Trade Creditors	(24,039)	(21,507)
Goods and services tax	(129)	(112)
Sundry creditors - ARS	(152)	(152)
	<u>(24,320)</u>	<u>(21,771)</u>
Provisions		
Other - MAA section 1321 application	0	(4,600)
	<u>0</u>	<u>(4,600)</u>
ACCs - ESC at Estimation Date	(443,021)	(444,932)
Commutations - ESC Verified	(710)	(710)
Outstanding claims	<u>(443,731)</u>	<u>(445,642)</u>
Other liabilities		
Amounts owing to related bodies corporate	(9,466)	(9,797)
	<u>(9,466)</u>	<u>(9,797)</u>
TOTAL LIABILITIES	<u>(477,517)</u>	<u>(481,811)</u>
NET DEFICIT	<u>(25,739)</u>	<u>(28,929)</u>

Appendix 2

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

	\$	\$
Opening balance at 1 July 2015		9,270,364
Receipts		
CIC share of Allianz distribution	9,137,500	
Scheme Payment Received	1,536,437	
Dividend received from Non Scheme Companies	749,397	
Interest on cash and deposits	177,854	
GST Refund from ATO	93,668	
Other Receipts	29,887	
Reinsurance recoveries	13,787	
Claims recoveries	2,300	
	<hr/>	
Total receipts		11,740,831
Payments		
Scheme Payments to Creditors	(4,728,868)	
Central expense reimbursement paid to HIH C&G	(437,972)	
Scheme Administrators Fees	(426,343)	
Outsourced Claims Management Fees	(234,000)	
Professional Fees	(184,468)	
Unrealised Foreign Exchange Movement on Overseas Accounts	(182,459)	
GST on payments	(61,400)	
Other Sundry Payments	(13,286)	
Insurance	(9,935)	
Computer Costs	(6,270)	
Scheme Administrators Disbursements	(3,813)	
Liquidators Fees	(437)	
	<hr/>	
Total payments		(6,289,250)
Balance at 30 June 2016		<u>14,721,945</u>