

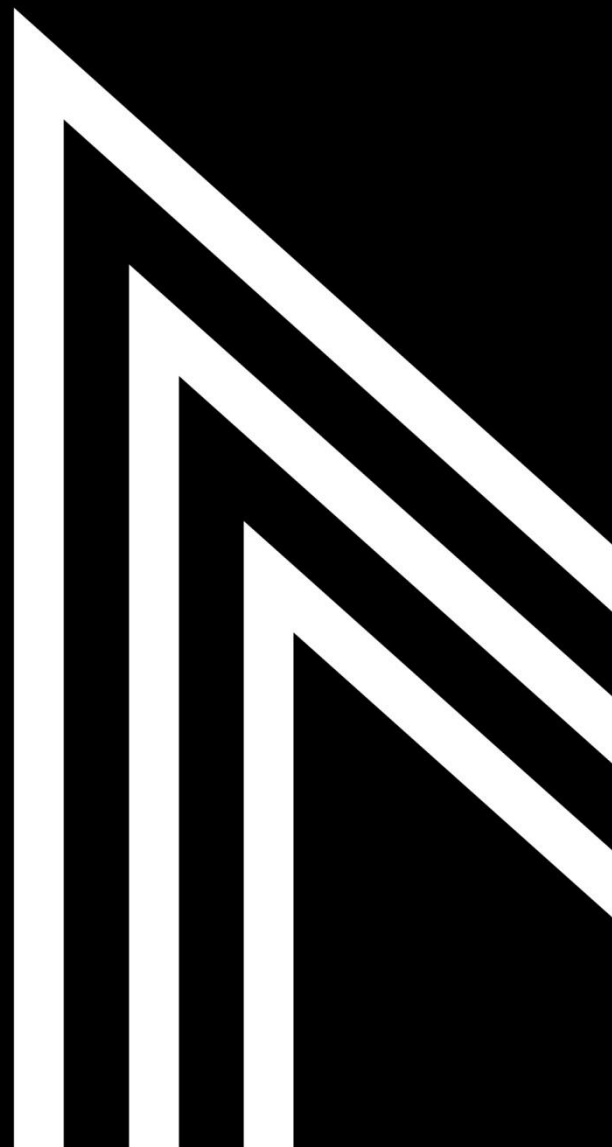
CIC Insurance Limited
ACN 004 078 880
(In Liquidation and subject to a Scheme of Arrangement)

Scheme Administrators' Annual Report to Creditors

30 June 2017



McGrathNicol



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1 Introduction & Background

1.1 Introduction

This is the eleventh 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 2017. 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, including CIC, 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 Claim Forms by 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 can be accepted after this date.

Four of the eight Schemes have now been finalised and terminated in accordance with clause 63.1.

The CIC Scheme remains in the "Estimation" phase. All claims lodged prior to the bar date have been agreed and quantified.

2 Principal Developments To Report During The Period

The principal developments to report during the period were:

- Agreement of a further Scheme Payment Percentage of 2.5 cents in the dollar by the Scheme Creditors' Committee, bringing total Scheme Payment Percentages to those detailed below:

Creditors with insurance liabilities in Australia	Creditors with non-insurance liabilities in Australia
92.89%	92.50%

Further detail on Scheme Payments to date and estimated future Scheme Payment Percentages is included in section 3 of this report.

- CIC received \$0.2 million in August 2017 by way of final dividend on the intercompany debt due from the HIH Underwriting and Agency Services Limited cross guarantee group of companies.

- The liquidations of ten HIH Group companies and the HIH Underwriting & Insurance (Australia) Pty Ltd's Scheme of Arrangement have been finalised in the period.

To date, the liquidations of 73 HIH Group companies have been completed leaving just nine currently in liquidation. Of the eight entities remaining below HIH Insurance Limited ("HIH Insurance"), the group's ultimate holding company, four are subject to Scheme(s) of Arrangement and the other four will remain in liquidation to preserve the group structure for tax purposes. As such, no further estate completions are likely in the next 12-month period.

3 Current and Projected Scheme Payment Percentages

3.1 The Current Scheme Payment Percentages

The current Scheme Payment Percentages for CIC is 92.89% for creditors with insurance liabilities in Australia and 92.5% for all non-insurance Australian creditors.

3.2 Estimated ultimate Scheme Payment Percentages

The quantum and timing of further Scheme Payment(s) is wholly dependent on the realisation values of CIC's only remaining assets, being intercompany debts due from HIH Casualty & General Insurance Ltd ("HIH C&G") and FAI General Insurance Company Limited ("FAIG").

As stated in the previous report, HIH C&G, FAIG and HIH Insurance were subject to legal action taken by various groups of HIH Insurance shareholders seeking to have claims accepted in the HIH liquidation and the HIH C&G and FAIG Schemes. Whilst this specific action has been determined, the NSW Supreme Court judgement issued in April 2016 has resulted in further groups of HIH shareholders now seeking to lodge claims against HIH C&G, FAIG and HIH Insurance. The Liquidators and Scheme Administrators are currently seeking legal advice on the new claims and Court directions on the further implications the April 2016 judgement may have on the makeup of the Liquidation and Scheme(s) of Arrangement creditor pools.

In light of the above, quantification and timing of final dividends on the intercompany debts owing, cannot yet be determined.

The Scheme Administrators' latest estimate of the ultimate Scheme Payment Percentages for the various CIC creditor groups as at 30 June 2017 is shown below:

	Range as at 30 June 2017
Creditors with insurance liabilities in Australia	94.78% - 95.26%
Creditors with non-insurance liabilities in Australia	94.5% - 95.0%

The high / low variances reflect the range of potential outcomes arising from the realisation of the intercompany debts due from HIH C&G and FAIG which are subject to new HIH Insurance shareholders claims.

4 Financial Position

4.1 Estimated balance sheet at 30 June 2017

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 2017 is included as Appendix 1 to this report.

4.2 Receipts and payments to 30 June 2017

A summary of the Scheme Administrators' receipts and payments from 1 July 2016 to 30 June 2017 is set out in Appendix 2 to this report.

Since the last annual report dated 30 June 2016, \$82,838.00 has been approved by the CIC Scheme Creditors' Committee for payment to the Scheme Administrators in their role as Office Holders covering the period from 26 March 2016 to 24 February 2017.

5 Closure

5.1 Finalisation of the Scheme

The only issue preventing the finalisation of the CIC Scheme is realising the remaining intercompany debts owing by HIH entities that remain subject to potential claims from HIH Insurance shareholders as a result of the judicial decision from April 2016.

Once the shareholders claims have all been resolved, the Scheme Administrators will be in a position to make the final Scheme Payment and close the Scheme, hopefully towards the end of 2018.

6 Responsibilities

6.1 Scheme Administrators

The Australian Scheme Administrators are Tony McGrath and Jason Preston, partners of McGrathNicol based in Sydney.

6.2 Run-off Managers

All claims handling and reinsurance recovery activities of CIC in Australia have been finalised.

6.3 Creditors' Committee

The interests of the CIC creditors are represented by a Creditors' Committee. The Committee sanctions significant transactions, is involved in the setting of the Scheme Payment Percentage and approves the Scheme Administrators' fees. It is currently reported to, and meets, on an ad-hoc basis. The constitution of the Committee at 30 June 2017 was 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 are set out on the HIH website, www.hih.com.au.

7.1 Creditor Enquiries in Australia

Scheme Creditors with claims queries 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 at 30 June 2017

CIC Insurance Limited (In Liquidation and subject to a Scheme of Arrangement)

All values in AUD

	RATA as at 30 June 2017 \$'000	RATA as at 30 June 2016 \$'000
Assets not specifically charged		
Cash		
Cash at bank	1,191	4,544
	<u>1,191</u>	<u>4,544</u>
Receivables		
Amounts owing by related bodies corporate	7,539	2,498
	<u>7,539</u>	<u>2,498</u>
Investments		
Short term deposits	2,600	10,177
ADD back: Dividends Paid	413,245	404,332
	<u>415,844</u>	<u>414,509</u>
TOTAL ASSETS	<u>424,574</u>	<u>421,552</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(24,039)	(24,039)
Goods and services tax	(144)	(129)
Sundry creditors - ARS	(152)	(152)
	<u>(24,335)</u>	<u>(24,320)</u>
ACCs - ESC at Estimation Date	(441,168)	(443,021)
Commutations - ESC Verified	(710)	(710)
Add back: Creditors with Statutory Cut Through & s. 562A (4) claims paid	30,226	30,226
Outstanding claims	<u>(411,652)</u>	<u>(413,504)</u>
Other liabilities		
Amounts owing to related bodies corporate	(9,466)	(9,466)
	<u>(9,466)</u>	<u>(9,466)</u>
TOTAL LIABILITIES	<u>(445,453)</u>	<u>(447,291)</u>
NET DEFICIT	<u>(20,879)</u>	<u>(25,739)</u>

Note: The "Total Assets" and "Total Liabilities" figures as at 30 June 2016 above differ from those in our previous report due to the reclassification of \$30.226 million in "statutory cut through and s.562A(4) claims paid". This amount has been extracted from "Dividends Paid" in Assets and separately included within "Outstanding claims". This reclassification more accurately reflects the level of creditors who were and are entitled to receive Scheme Payments and has no effect on the calculation of the ultimate Scheme Payment Percentages due to the various CIC creditor groups.

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 1 July 2016 to 30 June 2017

	\$	\$
Opening balance at 1 July 2016		14,721,945
Receipts		
Interest on Cash and Deposits	248,090	
GST Refund	27,253	
Claims Recoveries	660	
Other Receipts	121	
Total Receipts		276,124
Payments		
Scheme Payments to Creditors	(10,591,734)	
Central Expense Reimbursement paid to HIH C&G	(385,217)	
Scheme Administrators' Fees	(82,838)	
Legal and Taxation Fees	(25,718)	
GST Paid	(11,938)	
Insurance	(9,164)	
Other Payments	(7,602)	
Scheme Administrators' Disbursements	(4,020)	
Total Payments		(11,118,233)
Adjustment for Unrealised Foreign Exchange Loss on Foreign Cash Accounts		(89,090)
Balance at 30 June 2017		3,790,746