

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

Scheme Administrators' annual report to
creditors

30 June 2008

Contents

1	Introduction & background	3
1.1	Introduction.....	3
1.2	Background	3
2	Principal developments to report during the period	4
3	Current and projected Scheme Payment Percentages	5
3.1	The current Scheme Payment Percentage	5
3.2	Agreement of the current Scheme Payment Percentage	5
3.3	Scheme Payments for reinsurance creditors	5
3.4	Estimated ultimate Scheme Payment Percentage.....	6
4	Major Litigation	7
4.1	Background	7
4.2	The Trading Loss & Dividend claim	7
4.3	FAI Takeover claim	7
5	Financial position	8
5.1	Estimated balance sheet at 30 June 2007	8
5.2	Receipts and payments to 30 June 2007.....	8
6	Closure	9
7	Responsibilities	10
7.1	Scheme Administrators	10
7.2	Run-off Managers	10
7.3	Creditors' Committee	10
8	Contact Details	11
8.1	Creditor Enquiries in Australia.....	11
	Appendix 1	12
	Updated balance sheet for CIC as at 30 June 2008	
	Appendix 2	14
	Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2008	

1 Introduction & background

1.1 Introduction

This is the second annual report to the Creditors of CIC Insurance Company 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 2008.

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. To date, 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, detailed in section 3 of this report, 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 is 30 May 2011. At this stage the Scheme Administrators expect the actual bar dates to be 30 May 2013.

2 Principal developments to report during the period

The principal developments to report during the period were:

- + Agreement of Scheme Payment Percentages by the members of the requisite Scheme Creditor Committees, which now total as follows:

	Creditors with insurance liabilities in Australia	All other creditors worldwide
HIH C&G	12.64%	9.00%
FAIG	30.00%	30.00%
CIC	30.00%	30.00%
WMG	5.00%	5.00%

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

- + Following settlement with some of the defendants to the Liquidators' major litigation actions last year, discussions have continued with the defendants to the FAI Takeover claim. Further details of this, and other major litigation matters, are included in section 4 of this report..

3 Current and projected Scheme Payment Percentages

3.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for CIC is 30%

To date the Australian 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.

Based on our current review of available assets, it is hoped that a fourth interim Scheme Payment of 5 cents in the dollar for CIC will be made later in the year. This will bring the total Scheme Payment Percentage for CIC to 35%. This will be paid from non-reinsurance assets in Australia and will mean that all CIC creditors with agreed claims will have received 35 cents in the dollar.

3.2 Agreement of the current Scheme Payment Percentage

The Scheme Administrators review the Scheme Payment percentages on a regular basis, as major asset recoveries are made and claims estimates are updated. This review is undertaken in consultation with the Creditors’ Committees. Factors taken into account when estimating these percentages include current cash held, expected future agreed claims levels and the remaining potential volatility of the account.

The Australian Scheme reflects the distribution priorities which apply to liquidators of insurance companies in Australia. This requires certain classes of assets, such as reinsurance recoveries to be distributed in priority to certain classes of creditor claims.

3.3 Scheme Payments for reinsurance creditors

In the last annual report to creditors it was explained that agreed claims (described as “Acknowledged Creditor Claims” under the Scheme) of HIH C&G’s reinsurance creditors had generally not yet been accepted as Established Scheme Claims by the Scheme Administrators, and so reinsurance creditors would not generally have yet been paid any Scheme distributions.

The reason for this is the difficulty in identifying all potential future set-off. The HIH companies wrote both inwards reinsurance business and outwards reinsurance business, in more than one location, and significant set-off is expected. In common with many solvent insurers, prior to insolvency the HIH Group did not maintain their insurance records on a principal to principal basis, which means that the Scheme Administrators are not able to readily identify all transactions with a particular principal.

The Scheme Administrators have been 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 and creditors interested in this should continue to contact the Scheme Administrators.

3.4 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators' current best estimates of the ultimate Payment Percentage for CIC is shown below. This estimate is dependent on a wide range of factors including the volatility of claims; levels of set-off; levels of reinsurance recoveries; the class of creditor claim; and litigation outcomes. It is possible that the ultimate Payment Percentage may vary significantly either above or below that predicted.

Scheme Company	Estimated Total Scheme Payment Percentage at Scheme date	Updated Total Scheme Payment Percentage at 30 June 08
CIC	30% to 40%	50% to 60%

The improvement in the estimated total Scheme Payment Percentage is due to factors set out in section 5.1 of this report.

4 Major Litigation

4.1 Background

Following the collapse of the HIH Group in 2001, the Australian Government established the HIH Royal Commission to inquire into the reasons for the failure of the Group. The Hon Justice Neville Owen was appointed as Royal Commissioner and began his enquiry in September 2001. He presented his findings on the outcome of the enquiry in April 2003.

Considerable work was undertaken by the Commissioner and his team in investigating the circumstances behind the HIH collapse. This provided an extremely useful background against which the Liquidators could assess which of those HIH Directors, auditors and former advisors may be liable under any successful recovery action.

Having reviewed the potential courses of action open to them, the Liquidators decided to focus on two major recovery actions:

- + The Trading Loss & Dividend claim; and
- + The FAI Takeover claim

4.2 The Trading Loss & Dividend claim

The Trading Loss and Dividend claims were brought by the Liquidators against a number of defendants including HIH and FAI directors, the Groups' auditors, the Groups' actuaries, reinsurers and a broker.

In June 2007, after filing but before serving the claims, the Liquidators settled with certain of the defendants. One of the consequences of those settlements is that the Liquidators have discontinued all of the Trading Loss and Dividend claims.

4.3 FAI Takeover claim

This claim arises from the takeover by the HIH Group of the FAI Group in 1998/99. The defendants to the claim include General Cologne Re, Guy Carpenter, Arthur Andersen and Goldman Sachs, who the Liquidators allege should compensate HIH for losses suffered through the takeover of the FAI Group.

CIC Insurance is not a party to this claim.

5 Financial position

5.1 Estimated balance sheet at 30 June 2008

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. Included as Appendix 1 to this report is an updated balance sheet for CIC, as at 30 June 2008.

The Scheme Administrators have not commissioned a further full actuarial review of the insurance liabilities of the eight Scheme companies since the last annual report. It is their intention, however, to commission a further such review in the coming months, in order that there is an updated estimate of the final total insurance liabilities for the next annual report.

Other factors that have led to adjustment to the CIC balance sheet are:

- + Court approval confirming the proposed allocation of the proceeds of a large reinsurance commutation with Swiss Re between the relevant HIH Group companies;
- + Further work to validate large intercompany balances; and
- + Removal of the provision for claims lodged on behalf of the shareholders of HIH Insurance Limited, which were rejected by the Scheme Administrators. This decision has been endorsed by both the Supreme Court and the Court of Appeal.

5.2 Receipts and payments to 30 June 2008

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2008 is set out in Appendix 2 to this report.

During this period \$816,133.50 has been approved by the Scheme Creditors' Committee, and paid to the Scheme Administrators in their role as Office Holders.

6 Closure

The Scheme for CIC provides for an Estimation Date of seven years after the Australian Scheme became effective, which means that the Estimation Date is expected to be in June 2013. By that time the Scheme Administrators expect that the majority of the reinsurance asset will have been collected or commuted, and the remaining tail of insurance liabilities will be sufficiently small to justify closure of the insolvency on cost benefit grounds.

The Scheme provides that the Estimation Date may be moved two years either way from the expected seven years (to be as early as five years or as late as nine years after the Effective Date) by special resolution of creditors, on the recommendation of the Scheme Administrators and Creditors' Committees. Under the terms of the Scheme all creditors will be given notice of the actual Estimation Date between six and three months prior to the time.

Following the Estimation Date all remaining outstanding and IBNR creditor claims will be crystallised by estimation, to allow for the closure of the insolvency.

At the date of this report, the Scheme Administrators consider that June 2013 remains the most likely Estimation Date for the Scheme.

7 Responsibilities

7.1 Scheme Administrators

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

7.2 Run-off Managers

The day to day claims handling and reinsurance recovery activities of CIC have been outsourced to specialist run-off organisation in Sydney and London, who work in close co-operation. The run-off managers for all business of the company are Capita CMGL.

7.3 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 a quarterly basis. The current constitution of the Committee is as follows:

Member	Represented by
ACT Workers Compensation Supplementation Fund	Mr Peter Mathews
Motor Accidents Authority of New South Wales	Mr David Bowen
Law Cover Pty Limited	Mr David Martin
Queensland Motor Accident Insurance Commission	Mr Ashur Merza
HCSL – Australian Government Treasury	Mr Trevor King
WA Workers Compensation & Rehabilitation Commission	Mr Adrian Warner
Motor Traders Association of NSW	Mr James McCall

8 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.

8.1 Creditor Enquiries in Australia

Scheme Creditors with claims adjustment queries (excluding those in relation to branch business) should call Capita CMGL on +61 (0) 2 9650 5777. Written claims adjustment queries should be directed in the first instance to Capita CMGL at the following address: Capita CMGL Level 2, 117 Clarence Street, Sydney, NSW, 2000, 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 enquires@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 2008

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

Balance Sheet

as at 30th June 2008

All values in AUD

	RATA as at 30 June 2008	RATA as at 30 June 2007
	\$'000	\$'000
Assets not specifically charged		
Cash		
Cash at bank	28,094	21,805
	<u>28,094</u>	<u>21,805</u>
Receivables		
Amounts owing by related bodies corporate	63,208	58,431
GST Recoverable	44	43
	<u>63,252</u>	<u>58,474</u>
Investments		
Short term deposits	53,054	43,423
Managed Investments	59,782	106,161
ADD back: Dividends Paid	137,042	93,508
Shares in controlled entities (surplus assets)	11,500	9,300
	<u>261,379</u>	<u>252,392</u>
Reinsurance recoveries receivable	26,505	19,881
Other		
Other receivables - Allianz recovery	0	22,500
	<u>0</u>	<u>22,500</u>
Total assets not specifically charged	<u><u>379,230</u></u>	<u><u>375,052</u></u>
Assets subject to specific charges		
Investments		
Statutory Reinsurance Cut-Through	18,586	21,555
Total assets subject to specific charges	<u><u>18,586</u></u>	<u><u>21,555</u></u>
TOTAL ASSETS	<u><u>397,816</u></u>	<u><u>396,607</u></u>
Liabilities secured by specific charge over assets		
Accounts payable		
Statutory Reinsurance Cut-Through	(18,586)	
Amounts payable in relation to letters of credit	0	0
	<u>(18,586)</u>	<u>0</u>
Total liabilities secured by specific charge over assets	<u><u>(18,586)</u></u>	<u><u>0</u></u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(17,476)	(16,412)
Sundry creditors	(123)	(123)
AIG surety bond	0	0
	<u>(17,599)</u>	<u>(16,536)</u>
Borrowings		
Subordinated borrowings	0	0
	<u>0</u>	<u>0</u>
Provisions		
Other - Shareholder class action	0	(100,000)
	<u>0</u>	<u>(100,000)</u>
ACCs	(393,146)	(376,828)
Claims Reserves	(31,841)	(25,485)
IBNR Claims	(124,185)	(151,776)
Outstanding claims	<u>(549,172)</u>	<u>(554,089)</u>
Unearned premiums	0	0
Other liabilities		
Other creditors and accruals	0	0
Amounts owing to related bodies corporate	(22,048)	(22,048)
	<u>(22,048)</u>	<u>(22,048)</u>
Total unsecured creditors	<u><u>(588,820)</u></u>	<u><u>(692,673)</u></u>
TOTAL LIABILITIES	<u><u>(607,406)</u></u>	<u><u>(599,165)</u></u>
NET DEFICIT	<u><u>(209,590)</u></u>	<u><u>(202,558)</u></u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2008

**CIC Insurance Limited (In Liquidation and subject to a Scheme of Arrangement)
Receipts and Payments Account 1 July 2007 to 30 June 2008**

	\$
Balance brought forward at 1 July 2007	171,484,699.10
Receipts	
Unrealised Gain on Investment Portfolio	4,253,453.90
Scheme Payment Received	3,339,019.55
Reinsurance recoveries	7,372,992.22
Interest on cash and deposits	1,212,449.42
Settlement proceeds reallocated from HIH C&G	3,828,695.00
Claims recoveries	2,400.00
GST Refund from ATO transferred from HIH C&G	254,019.13
Other receipts	36,630.92
	<hr/>
Total receipts	20,299,660.14
Payments	
Unrealised Foreign Exchange Movement	(3,110,777.73)
Outsourced Claims Management Fees	(1,082,356.65)
Central expense reimbursement paid to HIH C&G	(903,406.61)
Professional Fees	(993,552.89)
Liquidators Fees	(3,319.00)
Scheme Administrator Fees	(816,133.50)
GST on payments	(240,412.36)
Claims run-off expenses	(12,305.54)
Insurance	(10,339.88)
Computer Costs	(27,889.84)
Other Sundry Payments (amounts<\$20,000)	(77,328.70)
	<hr/>
Sub Total payments	(7,277,822.70)
Scheme Payments to Creditors	(41,933,813.44)
	<hr/>
Total payments	(49,211,636.14)
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Balance at 30 June 2008	142,572,723.10

*It should be noted that any unrealised exchange rate gains or losses on foreign currency holdings are fully offset by corresponding movements in the Australian dollar liability of foreign currency denominated creditors.