

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

Scheme Administrators' annual report to
creditors

30 June 2007

Contents

1	Introduction & background	3
1.1	Introduction.....	3
1.2	Background	3
2	Principal developments to report during the period	4
3	Development and implementation of Schemes	5
4	Current and projected Scheme Payment Percentages	6
4.1	The current Scheme Payment Percentage.....	6
4.2	Agreement of the current Scheme Payment Percentage	6
4.3	Scheme Payments for reinsurance creditors	6
4.4	Estimated ultimate Scheme Payment Percentage.....	7
5	Major Litigation	8
5.1	Background	8
5.2	The Trading Loss & Dividend claim	8
5.3	FAI Takeover claim	8
6	Financial position	9
6.1	Estimated balance sheet at 30 June 2007	9
6.2	Receipts and payments to 30 June 2007.....	9
7	Closure	10
8	Responsibilities	11
8.1	Scheme Administrators	11
8.2	Run-off Managers	11
8.3	Creditors' Committee	11
9	Contact Details	12
9.1	Creditor Enquiries in Australia.....	12

Appendix 1

Updated balance sheet for CIC as at 30 June 2007

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2007

1 Introduction & background

1.1 Introduction

This is the first 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 2007.

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-one 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, as follows:

HIH C&G	5%
FAIG	20%
CIC	25%
WMG	5%

More detail on Scheme Payments and the estimated ultimate Scheme Payment Percentage for CIC is included in section 4 of this report.

- + Settlement has been reached with some of the defendants to the Liquidators' major litigation actions. Further details of this, and other major litigation matters, are included in section 5 of this report.

3 Development and implementation of Schemes

During 2005 and 2006, the Australian Liquidators and UK Provisional Liquidators formulated schemes of arrangement for the following companies in the HIH group;

HIH Casualty and General Insurance Limited (UK & Australia)
FAI General Insurance Company Limited (UK & Australia)
CIC Insurance Limited (Australia)
World Marine & General Insurances Pty Limited (UK & Australia)
FAI Traders Insurance Company Pty Limited (Australia)
FAI Reinsurances Pty Limited (Australia)
FAI Insurances Limited (UK & Australia)
HIH Underwriting and Insurance (Australia) Pty Limited (Australia)

The Schemes were approved by creditors at meetings held on 29 March 2006. They were subsequently ratified by the Courts in Australia and the UK, and became effective in Australia upon lodgement with ASIC on 30 May 2006, and in the UK upon lodgement with Companies House on 13 June 2006.

The Schemes are now effective and provide a means of agreeing Scheme Creditor Claims, as well as for payments to be made on those claims.

The effect of the Australian Schemes is to introduce a structure to operate in conjunction with, and complementary to, the English Schemes and liquidations of the companies to which the Australian Scheme will apply, covering amongst other things:

- a) the filing and agreement of claims;
- b) priorities to apply to assets, other than those in England, (to enable their release for distribution);
- c) payment of interim distributions to Scheme Creditors;
- d) management of the run-off; and
- e) final closure of the remaining insurance business by an estimation procedure.

The Scheme Administrators consider that the Schemes, in conjunction with the English Schemes, allow more efficient agreement of Scheme Creditor claims, earlier distribution of funds to Scheme Creditors, and earlier final closure of each insolvency.

The Schemes will run for between five and nine years, with any amendment to the current final bar date of May 2013 to be agreed in conjunction with the relevant Creditors' Committees, and subject to a special resolution of creditors. At present, the Scheme Administrators do not consider that there is any reason to amend the cut-off date of May 2013, and Scheme Creditors should continue to lodge their claims in the ordinary way.

4 Current and projected Scheme Payment Percentages

4.1 The current Scheme Payment Percentage

The current Scheme Payment Percentage for CIC is 25%

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 third 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 30%. This will apply to Non-Reinsurance Assets in Australia and will mean that all CIC creditors with agreed claims, will have received 30 cents in the dollar.

4.2 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.

4.3 Scheme Payments for reinsurance creditors

Agreed claims (described as “Acknowledged Creditor Claims” under the Scheme) of CIC’s reinsurance creditors have generally not yet been accepted as Established Scheme Claims by the Scheme Administrators, and so reinsurance creditors have generally not 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, 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.

However in individual cases the Scheme Administrators are now 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. Creditors interested in this should contact the Scheme Administrators.

4.4 Estimated ultimate Scheme Payment Percentage

The Scheme Administrators' current best estimates of the ultimate Payment Percentage for CIC is shown below. This estimate is dependant 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 07
CIC	30% to 40%	40% to 50%

The improvement in the estimated total Scheme Payment Percentage is due to factors set out in section 6.1 of this report.

5 Major Litigation

5.1 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

5.2 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.

5.3 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 and Goldman Sachs, who the Liquidators allege should compensate HIH for losses suffered through the takeover of the FAI Group. The quantum of the claim, plus accrued interest thereon, is in excess of \$500 million.

Proceedings have been commenced and are being pursued against the defendants in the Supreme Court of New South Wales.

6 Financial position

6.1 Estimated balance sheet at 30 June 2007

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 2007.

Since the Schemes were implemented, the Scheme Administrators have commissioned a full actuarial review of the insurance liabilities of the eight Scheme companies. This reflects the fact that the insurance liabilities of each company, and the reinsurance recoveries which flow from them, are the largest liabilities and assets respectively of these companies. Any movement in the estimates of these balances is most likely to impact the estimated ultimate Scheme Payment Percentage paid to creditors. In the case of CIC this has led to a reduction in the level of estimated claims reserves.

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

- + Further work on the validity of large inter company balances; and
- + Provision for claims lodged on behalf of the shareholders of HIH Insurance Limited, which have been rejected by the Scheme Administrators and are subject to a Court appeal against this decision;

This improvement in the estimated financial position has been offset to some extent by the inclusion of a provision for shareholder claims arising from claims by shareholders of HIH Insurance Limited – In liquidation to prove as creditors of its major insurance subsidiaries. The Liquidators and Scheme Administrators do not consider such claims to be valid and have rejected them; however, as the rejection is currently subject to appeal in the Supreme Court, it is felt prudent to include a suitable provision at this stage

6.2 Receipts and payments to 30 June 2007

A summary of the Scheme Administrators' receipts and payments from the commencement of the Scheme on 30 May 2006 to 30 June 2007 is set out in Appendix 2 to this report.

During this period \$458,816.00 has been approved by the Scheme Creditors' Committee, and paid to the Scheme Administrators in their role as Office Holders.

7 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.

8 Responsibilities

8.1 Scheme Administrators

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

8.2 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.

8.3 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
Willis Insurance Brokers	Mr Frank Earl
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 Chris Legg
WA Workers Compensation & Rehabilitation Commission	Mr Chris White
Motor Traders Association of NSW	Mr James McCall

9 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.

9.1 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 41, 50 Bridge 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 2007

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

Balance Sheet

as at 30th June 2007

All values in AUD

	RATA as at 30 June 2007	RATA as at 30 September 2005
	S'000	S'000
Assets not specifically charged		
Cash		
Cash at bank	21,805	10,559
	<u>21,805</u>	<u>10,559</u>
Receivables		
Amounts owing by related bodies corporate	58,431	36,936
GST Recoverable	43	547
Other debtors	0	0
	<u>58,474</u>	<u>37,482</u>
Investments		
Short term deposits	43,423	75,288
Managed Investments	106,161	147,551
ADD back: Scheme Payments made	93,508	
Shares in controlled entities (surplus assets)	9,300	7,079
	<u>252,392</u>	<u>229,918</u>
Reinsurance recoveries receivable	19,881	26,111
Renewal rights	0	0
Other		
Other receivables	22,500	22,500
	<u>22,500</u>	<u>22,500</u>
Total assets not specifically charged	<u>375,052</u>	<u>326,569</u>
Assets subject to specific charges		
Investments		
LOC related deposits	0	0
Statutory Reinsurance Cut-Through	21,555	0
Total assets subject to specific charges	<u>21,555</u>	<u>0</u>
TOTAL ASSETS	<u>396,607</u>	<u>326,569</u>
Liabilities secured by specific charge over assets		
Statutory Reinsurance Cut-Through	(21,555)	0
Total liabilities secured by specific charge over assets	<u>(21,555)</u>	<u>0</u>
Unsecured creditors		
Accounts payable		
Trade Creditors	(16,412)	(12,844)
Amounts payable to or on behalf of reinsurers, other insurers and statutory bodies	0	0
Goods and services tax	0	0
Sundry creditors	(123)	(69)
AIG surety bond	0	0
	<u>(16,536)</u>	<u>(12,913)</u>
Borrowings		
Debentures issued	0	0
	<u>0</u>	<u>0</u>
ACCs	(355,273)	(304,552)
Claims Reserves	(25,485)	(147,643)
IBNR Claims	(151,776)	(162,285)
Outstanding claims	<u>(532,534)</u>	<u>(614,480)</u>
Unearned premiums	0	0
Other liabilities		
Other creditors, accruals and provisions	(100,000)	0
Amounts owing to related bodies corporate	(22,048)	(23,311)
	<u>(122,048)</u>	<u>(23,311)</u>
Total unsecured creditors	<u>(671,118)</u>	<u>(650,704)</u>
TOTAL LIABILITIES	<u>(692,673)</u>	<u>(650,704)</u>
NET DEFICIT	<u>(296,066)</u>	<u>(324,134)</u>

Appendix 2

Summary of the Scheme Administrators' receipts and payments from 30 May 2006 to 30 June 2007

**CIC Insurance Limited (In Liquidation and subject to a Scheme of Arrangement)
Receipts and Payments Account 30 May 2006 to 30 June 2007**

Balance transferred from Liquidation at 30 May 2006		243,823,065.70
Receipts	Movement	
Unrealised Gain on UBS & MLC Investment Portfolio	7,885,674.55	
Interest on cash and deposits	6,945,916.77	
Scheme Payment Received	6,478,301.91	
Reinsurance recoveries	2,065,973.29	
Received from C&G re Profit Share on Business Sale	689,000.00	
Claims recoveries	636,259.41	
INS Brokerlink sale proceeds	393,372.00	
GST Refund from ATO transferred from HIH C&G	290,417.20	
CIC share of Allianz distribution	92,038.18	
Other receipts	65,501.47	
Total receipts		25,542,454.78
Payments		
Scheme Payments to Creditors	(93,285,710.68)	
Outsourced Claims Management Fees	(1,067,088.34)	
Central expense reimbursement paid to HIH C&G	(1,008,750.92)	
Foreign Exchange Movement	(555,762.82)	
Scheme Administrator Fees	(459,816.00)	
Professional Fees	(475,059.85)	
GST on payments	(253,922.73)	
Liquidators Fees	(219,196.54)	
Claims run-off expenses	(90,813.08)	
Insurance	(80,533.11)	
Contractors & Temporary Staff	(56,587.44)	
Computer Costs	(37,979.36)	
Other Sundry Payments (amounts<\$20,000)	(289,600.51)	
Total payments		(97,880,821.38)
Balance at 30 June 2007		171,484,699.10