



TO MEMBERS AND ALL KNOWN CREDITORS

16 June 2016

Our ref: ML2S2.34/CG/HUK

Dear Sir or Madam

Highlands Insurance Company (U.K.) Limited – in Liquidation

Please find attached the Joint Liquidators' annual progress report to members and all known creditors in the above liquidation.

If you have any queries in connection with the report, please contact Gary Bray.

You may request a hard copy of the documents:

- In writing to Gary Bray at the address below or
- By telephoning Gary Bray on +44 (0) 20 7213 8900 or
- By e-mailing gary.bray@uk.pwc.com

A copy will be sent free of charge within five business days of receipt of request.

Yours faithfully

For and on behalf of

Highlands Insurance Company (U.K.) Limited (in Liquidation)

A handwritten signature in black ink, appearing to read 'DY Schwarzmann', with a long horizontal flourish extending to the right.

DY Schwarzmann
Joint Liquidator

Dan Schwarzmann and Mark Batten were appointed as Joint Liquidators of Highlands UK. Both are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. The Joint Liquidators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.

The Joint Liquidators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the Liquidation.

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***Highlands Insurance
Company (U.K.) Limited –
In Liquidation***

Joint Liquidators' progress report to
members and creditors for the year
ended 16 April 2016

16 June 2016

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Section 1 **Summary information**

The Company	Highlands Insurance Company (U.K.) Limited (in Liquidation) (the "Company" or "Highlands UK")
Registered number	01190948
Registered office and trading address	c/o PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
Activity	Insurance and reinsurance run-off
Liquidators' names and address	Dan Schwarzmann and Mark Batten (the "Joint Liquidators") of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
Date of appointment of Liquidators	17 April 2012

Contact details for queries

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Section 2 *Joint Liquidators' progress report*

Introduction

On 1 November 2007 Dan Schwarzmann and Mark Batten of PricewaterhouseCoopers LLP ("PwC") were appointed Joint Administrators of the Company.

As previously reported, the Administration concluded on 17 April 2012, being the date the Company went into Creditors' Voluntary Liquidation. In their capacity as Joint Scheme Administrators, the Joint Liquidators continue to implement the scheme of arrangement pursuant to Part 26 of the Companies Act 2006 in relation to creditors with claims arising from contracts or policies of reinsurance or retrocession and non-insurance creditors (the "Cedant Scheme"). Further details are provided below.

This is the Joint Liquidators' fourth annual progress report to members and all known creditors. Previous progress reports can be found at <http://www.pwc.co.uk/business-recovery/issues/highlands-insurance>

Liquidation Committee

The Joint Liquidators consult with the Liquidation Committee in relation to significant issues and provide periodic updates on outstanding matters. The last meeting of the Liquidation Committee was held on 21 January 2014. At that meeting it was decided that, given the status of the Liquidation, future Liquidation Committee meetings would only be held when the Joint Liquidators considered it appropriate or when requested by the Liquidation Committee.

Summary of the Liquidators' actions to date

Cedant Scheme

As previously reported, in February 2014 an initial payment percentage of 15% was set in accordance with the terms of the Cedant Scheme and a distribution to Cedant Scheme Creditors was made shortly thereafter.

It is still anticipated that further payments under the Cedant Scheme may be made in due course, but the timing and amounts remain dependent on additional reinsurance recoveries. It is currently anticipated that an additional dividend of approximately 2% will be paid in late 2017 or early 2018.

Cash management

The receipts and payments account in Section 3 details expenses met from funds in the Liquidation to 16 April 2016. Funds are held in interest bearing accounts in various currencies as, under the terms of the Cedant Scheme, dividends may be payable to Scheme Creditors in US Dollars and Euros as well as Pounds Sterling.

Statutory reporting

The Joint Liquidators continue to advise the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") of any material developments in relation to the Liquidation.

Other matters

During the period covered by this report the Joint Liquidators filed a corporation tax return for the year ended 16 April 2015. This showed a liability of £360, which has been settled.

Professional advisers

For ongoing matters the Joint Liquidators have retained the professional advisers that were engaged in the preceding Administration as shown below:

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal advice	Clifford Chance LLP	Specialist insolvency and industry knowledge	Time costs, subject to pre agreed budget
Actuarial	PwC	Specialist industry knowledge	Time costs, subject to pre agreed budget and Liquidation Committee approval
Insurance run-off management	Pro Insurance Services Limited	Pre insolvency and specialist industry knowledge	Time costs, subject to pre agreed budget

The Joint Liquidators' choice was based on an evaluation of the advisers' experience and ability to perform this type of work, their knowledge of the complexity and nature of the assignment and the basis of the fee arrangement with them. The Joint Liquidators continue to review the fees charged and are satisfied that they are reasonable in the circumstances of the case.

Joint Liquidators' remuneration and expenses

As previously reported, during the Administration, the Joint Administrators' fees were fixed by reference to time properly given by the Joint Administrators and their staff in attending to matters arising. The Liquidation Committee resolved that the remuneration basis agreed in the Administration would continue in the Liquidation. The Liquidation Committee passed a resolution approving the Joint Liquidators' costs for the period 17 April 2015 to 16 April 2016 and fees will be drawn pursuant to that resolution.

In accordance with the revised Statement of Insolvency Practice 9 ("SIP9"), which took effect on 1 December 2015, the Joint Liquidators have provided the following information in Section 4:

- i) An analysis of the Joint Liquidators' time costs for the year ending 16 April 2016, including the cumulative total time costs from the date of the Joint Liquidators' appointment;
- ii) A summary of the Joint Liquidators' time costs for the period under review, including the key categories of work, details of the work undertaken, a description of why the work was necessary and whether or not the work was of financial benefit to the creditors or if it was required by statute; and
- iii) Details of estimated future work.

Statement of creditors' rights

If a creditor believes that the Joint Liquidator's remuneration is too high, the basis is inappropriate, or the expenses incurred by the Joint Liquidators are in all the circumstances excessive he may, provided certain conditions are met, apply to the Court. An application may be made to the Court by any secured or unsecured creditor provided that at least 10% in value of unsecured creditors (including himself) agree, or he has the permission of the Court. Any such application must be made within eight weeks of receiving this report.

An explanatory note providing creditors with a statement of their rights in relation to the Joint Liquidators' remuneration and expenses, and their rights to request further information, can be found online at:

<http://www.icaew.com/~media/Files/Technical/Insolvency/creditors-guides/creditors-guide-liquidators-fees-final.pdf>. A copy may also be obtained free of charge on request to the Joint Liquidators.

Next report and enquiries

The Joint Liquidators will circulate their next report in 12 months' time. If any creditor has any queries in the meantime, please contact Gary Bray on +44 (0)20 7213 8900.

Signed:



D Y Schwarzmann
Joint Liquidator
Highlands Insurance Company (U.K.) Limited

Dan Schwarzmann and Mark Batten were appointed as Joint Liquidators of Highlands UK. Both are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. The Joint Liquidators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.

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Section 3 Receipts and payments accounts

Sterling Receipts and Payments Account

		Total to 16 April 2015	Transactions 17 April 2015 to 16 April 2016	Total to 16 April 2016
Receipts		£000's	£000's	£000's
Funds transferred from the Administration		2,073		2,073
Interest received		7	1	8
Reinsurance collections		65		65
VAT recoveries	(i)	182	2	184
Transfers from US dollar account	(ii)	3,417		3,417
Total Receipts		5,744	3	5,747
Payments				
Administrators' remuneration		78		78
Liquidators' remuneration	(iii)	1,099	27	1,126
Liquidators' disbursements	(iii)	2		2
Run-off fees		1,539	1	1,540
Other professional costs	(iv)	1,444	30	1,474
Legal fees		286		286
Legal settlements	(v)	54		54
Dividend payment to Cedant Scheme Creditors	(vi)	107		107
Statutory costs	(vii)	37		37
Net VAT recoverable	(viii)	157	3	160
Net VAT irrecoverable	(viii)	430	8	438
Total Payments		5,233	69	5,302
Closing balance / movement		511	(66)	445

Notes

- (i) Includes £25k recovery relating to the Administration period.
- (ii) Represents transactions undertaken to manage foreign exchange exposures.
- (iii) Relates to the Joint Liquidators and their staff at their standard charge out rates for assignments of this nature.
- (iv) Includes actuarial and tax services provided by PwC, amounting to £4,876 and £25,000 respectively.
- (v) Settlement with the FSCS in order to conclude the Company's potential exposure to Employers' Liability policies.
- (vi) Initial dividend paid to Cedant Scheme Creditors in February 2014.
- (vii) Includes costs relating to advertising, printing, postage and directors and officers insurance.
- (viii) Highlands UK is VAT registered and entitled to reclaim 26.8% of input VAT. Therefore 73.2% of VAT is irrecoverable.
- (ix) The Joint Liquidators have not provided details of the estimated to realise values from the directors' statement of affairs in the preceding Administration as it would not facilitate a meaningful comparison. However, as stated in the report, the Joint Liquidators currently anticipate that the Joint Scheme Administrators will declare a second dividend in the Cedant Scheme of approximately 2% in late 2017 or early 2018.

US Dollar Receipts and Payments Account

	<i>Total to 16 April 2015</i>	<i>Transactions 17 April 2015 to 16 April 2016</i>	<i>Total to 16 April 2016</i>
Receipts	US\$000's	US\$000's	US\$000's
Funds transferred from the Administration	13,308		13,308
Interest received	11	1	12
NAIC Trust fund (i)	2,491		2,491
Reinsurance collections	609	96	705
Total Receipts	16,419	97	16,516
Payments			
Other professional costs	3		3
Letter of Credit drawdown (i)	2,500		2,500
Bank charges	10		10
Transfer to sterling account (iii)	5,450		5,450
Transfer to Euro account (iii)	202		202
Dividend payment to Cedant Scheme Creditors (iii)	8,089		8,089
Total Payments	16,254		16,254
Closing balance	165	97	262

Notes

- (i) The National Association of Insurance Commissioners trust fund of \$2.5m was drawn down by the Conservator, in accordance with the Conservation Agreement and returned to the Joint Liquidator, less expenses, in July 2013.
- (ii) Represents transactions undertaken to manage foreign exchange exposures and funding for Cedant Scheme dividend.
- (iii) Initial dividend paid to Cedant Scheme Creditors in February 2014.

Euro Receipts and Payments Account

		<i>Total to 16 April 2015</i>	<i>Transactions 17 April 2015 to 16 April 2016</i>	<i>Total to 16 April 2016</i>
		€000's	€000's	€000's
Receipts				
Transfer from US dollar account	(i)	145	-	145
Total Receipts		<u>145</u>	<u>-</u>	<u>145</u>
Payments				
Dividend payment to Cedant Scheme Creditors	(ii)	145	-	145
Total Payments		<u>145</u>	<u>-</u>	<u>145</u>
Closing balance		<u>-</u>	<u>-</u>	<u>-</u>

Notes

- (i) Represents transaction undertaken to manage foreign exchange exposure.
- (ii) Initial dividend paid to Cedant Scheme Creditors in February 2014.

Section 4 Remuneration update

The time charged to the Liquidation is by reference to the time properly given by the Joint Liquidators and their staff in attending to matters arising.

It is the Joint Liquidators' policy to delegate tasks in the Liquidation to appropriate members of staff considering their level of experience and any requisite specialist knowledge, supervised accordingly, so as to maximise the cost effectiveness of the work performed. Matters of particular complexity or significance requiring more exceptional responsibility are dealt with by senior staff or the Joint Liquidators' themselves.

Hourly rates

Set out below are the relevant maximum charge-out rates per hour for the grades of the Joint Liquidators' staff actually or likely to be involved on this assignment, for the period of this report. Time is charged by reference to actual work carried out on the assignment in six minute units. The minimum time chargeable is three minutes (i.e. 0.05 units). In common with all professional firms, the scale rates used by the Joint Liquidators may periodically rise (for example to cover annual inflationary cost increases) over the period of the Liquidation.

Grade	£
Partner	627
Director	565
Senior Manager	437
Manager	370
Senior Associate	315
Associate	202

Specialist departments within the Joint Liquidators' firm, such as Tax and VAT and Actuarial work, are also being used where the Liquidators require their expert advice. Such specialists' rates do vary but the figures below provide an indication of the maximum rate per hour for the period.

Grade	£
Partner	1,190
Director	1,095
Senior Manager	1,110
Manager	665
Senior Associate	490
Associate	240

Joint Liquidators' disbursements

The Joint Liquidators' firm's expenses policy allows for all properly incurred expenses to be recharged to the case. The Joint Liquidators' have not incurred any disbursements in the period covered by this report.

Other matters

The Joint Liquidators have not made any payments to associates in the period covered by this report, nor has any work been subcontracted out.

The Joint Liquidators have no business or personal relationships with the parties who approve their fees or who provide services to the Liquidation where the relationship could give rise to a conflict of interest.

Analysis of the Joint Liquidators' time costs for the period 17 April 2015 to 16 April 2016

Classification of work type	Hours							Costs (£'s)		Average hourly rate (£'s)
	Partner	Director	Senior Manager	Manager	Senior Associate	Associate	Total	Period	Cumulative	
Total costs incurred to 16 April 2015									1,126,088	
Administration and compliance			7.70		5.00		12.70	4,940		389
Collections					5.50		5.50	1,733		315
Creditor and statutory reporting			14.30		32.65	15.80	62.75	19,632		313
Finance		0.10	3.30	3.00		9.20	15.60	4,312		276
Project Management			4.00		3.00		7.00	2,693		385
Total in the period		0.10	29.30	3.00	46.15	25.00	103.55	33,310	33,310	322
Total costs incurred to 16 April 2016									1,159,398	

**Analysis of time costs of specialist department within the Joint Liquidators' firm for the period
17 April 2015 to 16 April 2016**

Specialist Department	Hours						Costs (£'s)		Average hourly rate (£'s)	
	Partner	Director	Senior Manager	Manager	Senior Associate	Associate	Total	Period		Cumulative
Tax and VAT										
Total costs incurred to 16 April 2015									122,409	
Total in the Period			2.20	2.30	5.15	4.85	14.50	7,115	7,115	491
Total costs incurred to 16 April 2016									129,524	
Actuarial										
Total costs incurred to 16 April 2015									1,289,348	
Total in the period				3.75			3.75	1,737	1,737	463
Total costs incurred to 16 April 2016									1,291,085	

Details of work done in the period

Area of work	Work undertaken	Why the work was necessary	What, if any, financial benefit the work provided to creditors OR whether it was required by statute
Administration and compliance	<ul style="list-style-type: none"> • Collation, review and recording of estate costs. • Maintaining and updating case records and internal case management systems. • Complying with internal compliance requirements. 	<ul style="list-style-type: none"> • Ongoing maintenance of the Liquidation. 	<ul style="list-style-type: none"> • Statutory duty to keep proper books and records.
Collections	<ul style="list-style-type: none"> • Negotiating and agreeing the recovery of reinsurance assets. 	<ul style="list-style-type: none"> • To realise the assets of Highlands. 	<ul style="list-style-type: none"> • Overriding duty to realise the assets to the best advantage and distribute the proceeds, net of costs, to Scheme Creditors.
Creditors and statutory reporting	<ul style="list-style-type: none"> • Preparing and circulating statutory annual report to creditors. • Generation, review and submission of six monthly statutory receipts and payments accounts to Companies House. • Dealing with ad hoc creditor queries. • Liaising with the Committee. 	<ul style="list-style-type: none"> • To comply with regulatory requirements or statute. 	<ul style="list-style-type: none"> • Required by statute.
Finance	<ul style="list-style-type: none"> • Preparing, reviewing and processing transactions. • Reconciling bank accounts to internal systems. • Preparing and reviewing the receipts and payments reports, authorising all payments and reviewing and managing cashflow. 	<ul style="list-style-type: none"> • In order to pay Liquidation expenses. • Ongoing maintenance of the Liquidation. 	<ul style="list-style-type: none"> • Statutory duty to keep proper books and records.
Project management	<ul style="list-style-type: none"> • Internal meetings to oversee day-to-day operations. • Internal meetings to review and update ongoing strategy. 	<ul style="list-style-type: none"> • Ongoing maintenance of the Liquidation. 	<ul style="list-style-type: none"> • Statutory duty to keep proper books and records.

Details of work performed by the specialist departments within the Joint Liquidators' firm for the period 17 April 2015 to 16 April 2016:

Area of work	Work undertaken	Why the work was necessary	What, if any, financial benefit the work provided to creditors OR whether it was required by statute
Tax	<ul style="list-style-type: none"> • Preparing and submitting the corporation tax return for the year ended 16 April 2015. • Preparing and submitting quarterly VAT returns. • Liaising with HMRC in respect of VAT de-registration. 	<ul style="list-style-type: none"> • In compliance with duties as proper officers for tax. 	<ul style="list-style-type: none"> • Required by statute.
Actuarial Services	<ul style="list-style-type: none"> • Providing actuarial support. 	<ul style="list-style-type: none"> • To enable valuation of potential reinsurance recoveries. 	<ul style="list-style-type: none"> • Overriding duty to realise the assets to the best advantage and distribute the proceeds, net of costs, to Scheme Creditors.

Future work

The table below shows the current estimate of the Joint Liquidators' costs for the period 17 April 2016 to 16 April 2018. Given the uncertainty around the amount and timing of future reinsurance recoveries, future costs are projected on a year by year basis in consultation with the Liquidation Committee.

Area of work	Work to be undertaken	Estimated cost £'000	Whether or not the work will provide a financial benefit to creditors
Administration and compliance	<ul style="list-style-type: none"> Budget setting, updating and monitoring. Collation, review and recording of estate costs. Maintaining and updating case records and internal case management systems. Complying with internal compliance requirements. 	10	<ul style="list-style-type: none"> Statutory duty to keep proper books and records.
Collections	<ul style="list-style-type: none"> Monitoring recovery of remaining reinsurance assets. 	10	<ul style="list-style-type: none"> Overriding duty to realise the assets to the best advantage and distribute the proceeds, net of costs, to Scheme Creditors
Creditors and statutory reporting	<ul style="list-style-type: none"> Preparing and distributing annual progress report to creditors. Preparing and filing of six monthly statutory receipts and payments accounts to Companies House. Dealing with ad hoc creditor queries. Complying with other statutory requirements. Liaising with the Committee. 	25	<ul style="list-style-type: none"> Required to comply with regulatory requirements or statute
Finance	<ul style="list-style-type: none"> Preparing, reviewing and processing transactions. Reconciling bank accounts to internal systems. Preparing and reviewing the receipts and payments reports, authorising all payments and reviewing and managing cashflow. Preparing, processing and distributing dividends to Scheme Creditors 	20	<ul style="list-style-type: none"> Statutory duty to manage the affairs, business and property of Highlands and keep proper books and records.
Project management	<ul style="list-style-type: none"> Internal meetings to oversee day-to-day operations. Internal meetings to review and update ongoing strategy. Consulting with legal advisors as required. 	10	<ul style="list-style-type: none"> Statutory duty to keep proper books and records.
Total		75	

Specialist Department	Work to be undertaken	Estimated cost £'000	Whether or not the work will provide a financial benefit to creditors
Tax	<ul style="list-style-type: none"> Tax compliance including preparing and submitting corporation tax and VAT returns. 	5	<ul style="list-style-type: none"> In compliance with duties as proper officers for tax.
Actuarial Services	<ul style="list-style-type: none"> Actuarial support in relation to potential reinsurance recoveries. 	15	<ul style="list-style-type: none"> Overriding duty to realise the assets to the best advantage and distribute the proceeds, net of costs, to Scheme Creditors.
Total		20	

Section 5 Expenses incurred in the period

The following table provides details of the Joint Liquidators' expenses. Expenses are defined as amounts payable by the Joint Liquidators from the estate, they include the Joint Liquidators' fees but exclude distributions to creditors. The table also excludes any potential tax liabilities that may be payable as a Liquidation expense, as amounts becoming due will depend on the position at the end of the tax accounting period.

The table should be read in conjunction with the receipts and payments account in Section 3 of this report, which shows expenses actually paid during the period and the total paid to date.

In estimating future expenses, assumptions have been made relevant to the annual run rate and length of the forecast duration of the Liquidation.

	Brought forward from preceding period £k	Paid in the period £k	Cumulative £k	Incurred and not paid £k	Estimated future £k	Anticipated total £
Administrators' remuneration	78	-	78	-	-	78
Liquidators' remuneration	1,099	27	1,126	33	75	1,234
Liquidators' disbursements	2	-	2	0	-	2
Run-off fees	1,539	1	1,540	-	-	1,540
Other professional costs	1,444	30	1,474	9	20	1,503
Legal fees	286	-	286	-	-	286
Legal settlements	54	-	54	-	-	54
Statutory costs	37	-	37	-	10	47
Irrecoverable VAT	430	8	438	8	21	467
Total	4,969	66	5,035	50	126	5,211

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