



TO MEMBERS AND ALL KNOWN CREDITORS

12 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 are 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 2017

12 June 2017

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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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2. Joint Liquidators' progress report

2.1. 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' fifth 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>

2.2. 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.

2.3. 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 2018.

Cash management

The receipts and payments account in Section 3 details expenses met from funds in the Liquidation to 16 April 2017. 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 2016. This showed a liability of £342, which was settled shortly after the reporting period.

2.4. 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.

2.5. 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 2016 to 16 April 2017 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 2017, 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.

2.6. 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:

https://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/2015/guide_to_liquidators_fees_oct_2015.ashx?la=en

A copy may also be obtained free of charge on request to the Joint Liquidators.

2.7. 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 Schwarzmans
Joint Liquidator
Highlands Insurance Company (U.K.) Limited

Dan Schwarzmans and Mark Batten are 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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3. Receipts and payments accounts

3.1. Sterling Receipts and Payments Account

		<i>Total to 16 April 2016</i>	<i>Transactions 17 April 2016 to 16 April 2017</i>	<i>Total to 16 April 2017</i>
Receipts		£000's	£000's	£000's
Funds transferred from the Administration		2,073		2,073
Interest received		8	1	9
Reinsurance collections		65		65
VAT recoveries	(i)	184		184
Transfers from US dollar account	(ii)	3,417		3,417
Total Receipts		5,747	1	5,748
Payments				
Administrators' remuneration		78		78
Liquidators' remuneration	(iii)	1,126	33	1,159
Liquidators' disbursements	(iii)	2		2
Run-off fees		1,540		1,540
Other professional costs	(iv)	1,474	25	1,499
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)	160		160
Net VAT irrecoverable	(viii)	438	11	449
Total Payments		5,302	70	5,372
Closing balance / movement		445	(69)	376

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 £1,737 and £23,000 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 was previously VAT registered and entitled to reclaim 26.8% of input VAT but was de-registered for VAT purposes during the period.
- (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 2018.

3.2. US dollar Receipts and Payments Account

	<i>Total to 16 April 2016</i>	<i>Transactions 17 April 2016 to 16 April 2017</i>	<i>Total to 16 April 2017</i>
Receipts	US\$000's	US\$000's	US\$000's
Funds transferred from the Administration	13,308		13,308
Interest received	12	1	13
NAIC Trust fund (i)	2,491		2,491
Reinsurance collections	705	23	728
Total Receipts	16,516	24	16,540
Payments			
Other professional costs	3		3
Letter of Credit drawdown (i)	2,500		2,500
Bank charges	10		10
Transfer to sterling account (ii)	5,450		5,450
Transfer to Euro account (ii)	202		202
Dividend payment to Cedant Scheme Creditors (iii)	8,089	3	8,092
Total Payments	16,254	3	16,257
Closing balance	262	21	283

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, the payment of US\$3k relates to a reissue of a previously un-cleared dividend payment.

3.3. Euro Receipts and Payments Account

		<i>Total to 16 April 2016</i>	<i>Transactions 17 April 2016 to 16 April 2017</i>	<i>Total to 16 April 2017</i>
Receipts		€000's	€000's	€000's
Transfer from US dollar account	(i)	145	-	145
Total Receipts		145	-	145
Payments				
Dividend payment to Cedant Scheme Creditors	(ii)	145		145
Total Payments		145	-	145
Closing balance		-	-	-

Notes

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

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.

4.1. 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	1,250
Director	1,095
Senior Manager	1,110
Manager	700
Senior Associate	490
Associate	240

4.2. 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.

4.3. 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.

4.4. Analysis of the Joint Liquidators' time costs for the period 17 April 2016 to 16 April 2017

Classification of work type	Hours						Total	Costs (£'s)		Average hourly rate (£'s)
	Partner	Director	Senior Manager	Manager	Senior Associate	Associate		Period	Cumulative	
Total costs incurred to 16 April 2016									1,159,398	
Administration and compliance	0.50		6.20	4.25	1.00	2.15	14.10	5,343		379
Collections			3.90	2.00			5.90	2,444		414
Creditor and statutory reporting	1.00		15.15	1.65	38.10	14.30	70.20	22,672		323
Finance			2.60	0.80		8.65	12.05	3,180		264
Project Management			4.20	2.20	2.50		8.90	3,432		386
Total in the period	1.50	-	32.05	10.90	41.60	25.10	111.15	37,070		334
Total costs incurred to 16 April 2017									1,196,468	

4.5. Analysis of time costs of specialist departments within the Joint Liquidators' firm for the period 17 April 2016 to 16 April 2017

Specialist Department	Hours						Total	Costs (£'s)		Average hourly rate (£'s)				
	Partner	Director	Senior Manager	Manager	Senior Associate	Associate		Period	Cumulative					
Tax and VAT														
Total costs incurred to 16 April 2016								129,524						
Total in the Period								0.5	1.1	6.9	5.4	13.9	4,500	324
Total costs incurred to 16 April 2017								134,024						
Actuarial														
Total costs incurred to 16 April 2016								1,291,085						
Total in the period								1	12.5		13.5	8,176	606	
Total costs incurred to 16 April 2017								1,299,261						

4.6. 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. • Liaising with specialist tax team in relation to potential changes to corporation tax loss relief rules. • Undertaking initial steps in the process to replace Mark Batten as Joint Liquidator and Scheme Administrator, as a result of his planned retirement. 	<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 cash flow. 	<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.

4.7. Details of work performed by the specialist departments within the Joint Liquidators' firm for the period 17 April 2016 to 16 April 2017

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 2016. • Reviewing draft legislation in relation to the Finance Act 2016 and proposed changes to the loss relief rules 	<ul style="list-style-type: none"> • In compliance with duties as proper officers for tax. • To determine the possible impact of any changes to the loss relief rules. 	<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.

4.8. Future work

The table below shows the current estimate of the Joint Liquidators' costs for the period 17 April 2017 to 16 April 2019. 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. Preparing for and overseeing appointment of a replacement Joint Liquidator and Scheme Administrator, including holding a Meeting of Scheme Creditors. 	15	<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. Dealing with ad hoc creditor queries. Complying with other statutory requirements. Liaising with the Committee. 	20	<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 cash flow. Preparing, processing and distributing dividends to Scheme Creditors. 	40	<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		95	

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.
Forensics Services	<ul style="list-style-type: none"> Undertaking Scheme Creditor sanctions screening including Ultimate Beneficial Owner identification and searches. 	30	<ul style="list-style-type: none"> Required by statute
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		50	

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 £k
Administrators' remuneration	78	-	78	-	-	78
Liquidators' remuneration	1,126	33	1,159	37	95	1,291
Liquidators' disbursements	2	-	2	-	-	2
Run-off fees	1,540	-	1,540	-	-	1,540
Other professional costs	1,474	25	1,499	13	50	1,562
Legal fees	286	-	286	-	5	291
Legal settlements	54	-	54	-	-	54
Statutory costs	37	-	37	-	10	47
Irrecoverable VAT	438	11	449	10	33	492
Total	5,035	70	5,105	60	193	5,357

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