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

Joint Liquidators' progress report to
members and creditors for the year
ended 16 April 2015

5 June 2015

Contents

Section 1	Summary information	2
Section 2	Joint Liquidators' progress report	3
Section 3	Receipts and payments accounts	6
Section 4	Information in support of the Joint Liquidators' time costs from 17 April 2014 to 16 April 2015	9
Section 5	Expenses incurred in the period	12

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
Court reference	High Court of Justice, Chancery Division, Companies Court. Case No. 7896 of 2007
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. The Joint Liquidators (also the Joint Scheme Administrators) 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' third annual progress report to members and all known creditors. The Joint Liquidators' previous reports are available on request.

Liquidation Committee

The Joint Liquidators consult with the Liquidation Committee in relation to all significant issues. The most recent 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 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 distributions to Cedant Scheme Creditors were made shortly thereafter.

It is 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 which are still subject to significant uncertainties.

Further information can be obtained at <http://www.pwc.co.uk/business-recovery/issues/highlands-insurance.jhtml>

Cash management

The receipts and payments account in Section 3 details expenses met from funds in the Liquidation to 16 April 2015. Funds are held in various currencies as, under the terms of the Cedant Scheme, dividends may be payable to Scheme Creditors in USD and Euro as well as Sterling.

Statutory reporting

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

Other matters

The Joint Liquidators filed a corporation tax return for the year ended 16 April 2014. The liability was nil.

Professional advisers

For ongoing matters the Joint Liquidators have retained the professional advisers that were engaged in the 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	PricewaterhouseCoopers LLP	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.

Liquidators' remuneration and expenses

As previously reported, during the Administration, the Joint Administrators' fees were fixed under Rule 2.106 IR86 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.

In accordance with Rule 4.127 IR86, the Liquidation Committee passed a resolution approving the Joint Liquidators' costs for the period 1 March 2014 to 16 April 2015 and fees have been drawn pursuant to that resolution.

A summary of the Joint Liquidators remuneration and disbursements for the period is as follows:

	Remuneration £	Actuarial £	Tax £	Total £
Approved by the Liquidation Committee:	12,773	4,876*	25,000*	42,649
Liquidation Committee approval to be sought:	27,407	-	15,885	43,292
Total	40,181	4,876	40,885	85,942

* drawn after 16 April 2015

In accordance with the requirements of SIP9, an analysis of the Joint Liquidators' time costs incurred for the period 17 April 2014 to 16 April 2015 is provided in Section 4.

Statement of creditors' rights

An explanatory note providing creditors with a statement of their rights in relation to the 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 to manage its affairs, business and property as agents without personal liability. 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 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.

Section 3 Receipts and payments accounts

Sterling Receipts and Payments Account

		<i>Total to 16 April 2014 (see note i)</i>	<i>Transactions 17 April 2014 to 16 April 2015</i>	<i>Total to 16 April 2015</i>
Receipts		£000's	£000's	£000's
Funds transferred from the Administration		2,074		2,073
Interest received	(ii)	5	2	7
Reinsurance collections		65		65
VAT recoveries	(iii)	96	86	182
Transfers from US dollar account	(iv)	3,417		3,417
Total Receipts		5,657	88	5,744
Payments				
Administrators' remuneration		78		78
Liquidators' remuneration	(v)	1,074	25	1,099
Liquidators' disbursements	(v)	2		2
Run-off fees		1,499	40	1,539
Other professional costs		1,444		1,444
Legal fees		286		286
Legal settlements	(vi)	54		54
Dividend payment to Cedant Scheme Creditors	(vii)	107		107
Statutory costs	(viii)	37		37
Net VAT recoverable	(ix)	155	2	157
Net VAT irrecoverable	(ix)	424	6	430
Total Payments		5,160	74	5,233
Closing balance / movement		497	14	511

Notes

- (i) Includes some adjustments following a review of nominal ledgers.
- (ii) Includes interest from the current account.
- (iii) Includes £25k recovery relating to the Administration period.
- (iv) Represents transactions undertaken to manage foreign exchange exposures.
- (v) Relates to the Joint Liquidators and their staff at their charge out rates. These rates are applicable to staff who are employees of PricewaterhouseCoopers Services Ltd and, where appropriate, parties who are otherwise contracted with PwC.
- (vi) Settlement with the FSCS in order to conclude the Company's potential exposure to Employers' Liability policies.
- (vii) Initial dividend paid to Cedant Scheme Creditors in February 2014.
- (viii) Includes costs relating to advertising, printing, postage and directors and officers insurance.
- (ix) Highlands UK is VAT registered and entitled to reclaim 26.8% of input VAT. Therefore 73.2% of VAT is irrecoverable.

USD Receipts and Payments Account

	<i>Total to 16 April 2014 (see note i)</i>	<i>Transactions 17 April 2014 to 16 April 2015</i>	<i>Total to 16 April 2015</i>
Receipts	US\$000's	US\$000's	US\$000's
Funds transferred from the Administration	13,308		13,308
Interest received (ii)	11		11
NAIC Trust fund (iii)	2,491		2,491
Reinsurance collections	609		609
Total Receipts	16,419	-	16,419
Payments			
Other professional costs	3		3
Letter of Credit drawdown (iii)	2,500		2,500
Bank charges	10		10
Transfer to sterling account (iv)	5,450		5,450
Transfer to Euro account (iv)	202		202
Dividend payment to Cedant Scheme Creditors (v)	8,089		8,089
Total Payments	16,254	-	16,254
Closing balance	165	-	165

Notes

- (i) Includes some adjustments following a review of nominal ledgers.
- (ii) Includes interest from the bank account.
- (iii) 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.
- (iv) Represents transactions undertaken to manage foreign exchange exposures and funding for Cedant Scheme dividend.
- (v) 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 2014 to 16 April 2015</i>	<i>Total to 16 April 2015</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 Information in support of the Joint Liquidators' time costs from 17 April 2014 to 16 April 2015

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.

Set out below are the relevant maximum charge-out rates per hour worked for the grades of the Joint Liquidators' staff actually or likely to be involved on this assignment. Time is charged by reference to actual work carried out on the assignment. There has been no allocation of any general costs or overhead costs.

Grade	£
Partner	627
Director	565
Senior Manager	437
Manager	370
Senior Associate	313
Associate	202

Specialist departments within the Joint Liquidators' firm such as Tax and VAT and Actuarial may charge a small number of hours if and when the Joint Liquidators require their expert advice. Such specialists' rates do vary but the figures below provide an indication of the maximum rate per hour.

Grade	£
Partner	1,075
Director	1,040
Senior Manager	915
Manager	545
Senior Associate	410
Associate	210

All staff who work on this assignment (including cashiers, support and secretarial staff) charge time directly to the assignment and are included within any analysis of time charged. Each grade of staff is allocated an hourly charge out rate which is reviewed from time to time. Work undertaken by cashiers, support and secretarial staff is charged for separately and is not included in the hourly rates charged by partners or other members of staff. 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 of an hour).

In common with many professional firms, the scale rates used by the Joint Liquidators may increase to cover annual inflationary cost increases.

There is no statutory requirement for the Joint Liquidators to seek approval to draw expenses or disbursements. However, professional guidance issued to insolvency practitioners requires that, where the Joint Liquidators propose to recover costs which, whilst being in the nature of expenses or disbursements, may include an element of shared or allocated costs (such as room hire, document storage or communication facilities provided by the Joint Liquidators' own firm), they must be disclosed and be authorised by those responsible for approving their remuneration. Such expenses are known as "Category 2" disbursements and they must be directly incurred on the case and subject to a reasonable method of calculation and allocation.

The Joint Liquidators' expenses policy allows for all properly incurred expenses to be recharged to the case. Category 2 disbursements are approved by the Liquidation Committee.

In the period 17 April 2014 to 16 April 2015 there were no Category 2 disbursements.

Other matters

No work has been carried out by subcontractors that could otherwise have been undertaken by the Joint Liquidators or their staff.

The Joint Liquidators have no business or professional relationships with parties responsible for approving the basis of their remuneration or who provide services to the Liquidation where the relationship could give rise to a conflict of interest.

Summary of the Joint Liquidators' time costs and disbursements from 17 April 2014 to 16 April 2015

Aspect of assignment	Hours							Cost £000's	Average hourly rate £/hr
	Partner	Director	Senior Manager	Manager	Senior Associate	Associate	Total		
Strategy and planning	2.00		6.70		11.15		19.85	7,672	386
Collections / commutations			3.80		3.85		7.65	2,866	375
Creditor claims			1.20		2.20		3.40	1,213	357
Run-off management			1.40		2.00		3.40	1,238	364
Accounting and treasury		0.40	0.80	0.40	2.60	19.90	24.10	5,557	231
Statutory and compliance			7.40		46.25	15.00	68.65	20,746	302
Tax and VAT	0.45	0.25	13.00		41.70	71.45	126.85	41,774	329
Actuarial			7.25	0.50		0.25	8.00	4,876	610

Total	2.45	0.65	41.55	0.90	109.75	106.60	261.90	85,942	328
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Narrative explanation of the Joint Liquidators' work

Strategy and planning

- Considered and developed the closure strategy, including consultation with the Liquidation Committee
- Conducted internal progress and project management meetings
- Consulted periodically with second partner in relation to key issues and progress
- Maintained case information and files

Collections / commutations

- Liaised with reinsurers in relation to potential additional recoveries

Creditor claims

- Dealt with ad-hoc Cedant Scheme Creditor queries in relation to the initial dividend payment

Run-off management

- Liaised with Pro in relation to various outstanding matters

Accounting and treasury

- Reviewed and processed incoming invoices and recorded receipts
- Reviewed and monitored budgets for professional service providers
- Undertook quarterly bank reconciliations

Statutory and compliance

- Prepared and circulated the second Liquidators' annual progress report
- Prepared and filed two Statutory returns for the six month periods ending 16 April 2014 and 16 October 2014
- Updated the PRA and FCA, UK Court and Companies House regarding estate progress and other general compliance requirements
- Met with the PRA and FCA to update them on case progress
- Carried out ad-hoc company secretarial responsibilities

Tax and VAT

- Completed corporation tax compliance and submitted returns for the year ended 16 April 2014
- Prepared and submitted VAT quarterly returns, liaised with HMRC and secured recovery of VAT
- Analysed and confirmed Highlands UK's status in relation to the Foreign Account Tax Compliance Act

Actuarial

- Provided actuarial support in relation to potential reinsurance recoveries

Section 5 ***Expenses incurred in the period***

In addition to the Joint Liquidator's costs, including in relation to actuarial and tax services, the following expenses were incurred in the period:

	Incurred	Paid
Run-off fees (£000's) (Excluding VAT)	24	23



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