MOORE STEPHENS

Supplementary Report of the Independent Expert on the proposed transfer of policies pursuant to The Financial Services and Markets Act 2000

From : Atlantic Mutual International Limited

To : Bothnia International Insurance Company Limited

AND

From : Atlantic Mutual Insurance Company (UK Branch) of Atlantic Mutual Insurance Company (in liquidation)

To : Bothnia International Insurance Company Limited

Prepared by

Dewi James
Fellow of the Institute and Faculty of Actuaries

Date of report: **30 April 2018**

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Appendices

1. OVERVIEW

1.1 I, Dewi James, prepared a report ("the Report") to the Court dated 16 October 2017 on the proposed transfer of rights and liabilities under policies underwritten or assumed by Atlantic Mutual International Limited ("AMIL") and Atlantic Mutual Insurance Company - UK Branch ("AMIC-UK"), to Bothnia International Insurance Company Limited ("Bothnia"), together the "Parties". Where terms are not otherwise defined within the body of this document, I adopt the definitions set out in Appendix 1.

1.2 The conclusions of the Report were based on financial information available up to 31 December 2016 together with other information available to me when I prepared the Report. I noted in the Report that prior to the final hearing to sanction the proposed transfers, I would prepare a supplementary report in order to update the Court on the effect of financial developments in the intervening period on my conclusions.

1.3 This report (the "Supplementary Report") provides a summary of my review of the Additional Information and explains how, if at all, I have changed my conclusions from those set out in the Report as a result of my review of the Additional Information. As such, the Supplementary Report should be considered supplementary to the Report and does not supersede it. Unless stated otherwise in the Supplementary Report, all analyses and conclusions as set out in the Report remain valid.

1.4 I have sought, and been provided with further information to enable me to update the conclusions in the Report; details of the material elements of the Additional Information are set out in Appendix 2.

1.5 Reliance has been placed upon, but is not limited to, the Additional Information as well as upon the information set out in Appendix 3 of the Report. My opinions depend on the accuracy and completeness of this data, information and the underlying calculations. I have discussed the Additional Information with CHL (on behalf of Bothnia), and Willkie Farr & Gallagher (UK) LLP and NYLB (on behalf of AMIC-UK and AMIL) and have considered how it has changed from similar information provided in support of the Report. I have not re-reviewed the methodology and assumptions used by Bothnia, AMIC-UK or AMIL in their assessments of the liabilities and solvency capital of their respective firms, and, except where stated otherwise, I have not attempted to review in detail the calculations performed. I am unaware of any issue that might cause me to doubt the material accuracy of the Additional Information, but I give no warranty as to its accuracy. I accept no responsibility for errors or omissions arising in the preparation of the Supplementary Report due to inaccuracies in the preparation of the Additional Information, provided that this shall not absolve my liability arising from an opinion expressed recklessly or in bad faith.

1.6 In all cases I have requested the most recent information available. Both CHL (on behalf of Bothnia) and Willkie Farr & Gallagher (UK) LLP and the NYLB (on behalf of AMIC-UK, AMIL and AMIC-ILQ) have informed me that there have been no developments since the date of the Report, other than as provided in the Additional Information, which might be relevant to the Transfers.

1.7 I have considered administrative and regulatory aspects of the proposed Transfers and the comparative financial strength of the balance sheets of the affected parties both pre- and post- Transfers. Since both AMIL and AMIC-UK have no notified claims and no booked policyholder liabilities, and both are wholly reinsured by Bothnia, my primary concern relates to the financial strength of Bothnia. In evaluating the financial strength of the balance sheets I have considered in particular the level of available own funds relative to the Solvency Capital Requirement (the "SCR"), which I referred to as the Capital Ratio. In the Report, I characterised the strength of the balance (paragraph 4.19 of the Report) as :

Table 1 : Description of Capital Ratio levels

Capital Ratio	Description
100% - 119%	Sufficiently Capitalised
120% - 149%	More than Sufficiently Capitalised
150% - 199%	Well Capitalised
Greater than 200%	Very Well Capitalised

1.8 In forming my opinion I have considered the following key aspects:

- Bothnia's balance sheet and the level of surplus funds in relation to its insurance liabilities and the required level of regulatory surplus capital (paragraph 3.21)
- The reserving standards and procedures relating to the estimation of insurance liabilities in Bothnia (paragraphs 3.8 to 3.12)

1.9 I am required to comply with relevant professional standards and guidance which are issued by the Financial Reporting Council ("FRC") and adopted by the Institute and Faculty of Actuaries. The Supplementary Report conforms with Technical Actuarial Standards ("TAS") :

- TAS 100: Principles for Technical Actuarial Work
- TAS 200: Insurance

1.10 The Supplementary Report further conforms with Actuarial Professional Standards ("APS"), APS X2: Review of Actuarial Work and APS X3: The Actuary as an Expert in Legal Proceedings. Peer review of this report has been carried out by a senior member of the actuarial department at Moore Stephens LLP who was suitably independent of the work being carried out.

1.11 I have complied with such standards, subject to the principles of proportionality and I have relied upon the work and information provided to me by the professional staff of the Parties and their advisors to be consistent and accurate

1.12 Moore Stephens LLP's and my responsibilities and liabilities are limited to AMIL, AMIC-UK, AMIC-ILQ, Bothnia, affected parties and the Court and exist only in the context of the use of my report for the purpose set out above. Neither Moore Stephens LLP, nor I, will accept any liability or responsibility in relation to the use of this report for any other purpose.

1.13 The remainder of the Supplementary Report is set out under the following section headings :

- Executive Summary
- Changes in the portfolios
- Considerations of a wider non-financial nature

1.14 My overall conclusion and confirmatory statement are in section 5.

2. EXECUTIVE SUMMARY

Impact on the classes of policyholder

2.1 Impact upon the Transferring Policyholders

- The Transferors, AMIL and AMIC-UK, are a subsidiary and a branch operation of an insolvent parent, AMIC -ILQ. Neither has experienced claim activity for a number of years and the remaining policyholder liabilities are recorded as nil in the December 2017 financial statements.
- The Transfers are advantageous to AMIL and AMIC-UK since the Transferring Policyholders will benefit from the extensive operational resources of Bothnia and CHL should a claim arise in the future, capabilities which AMIL and AMIC-UK no longer retain in-house.

2.2 Impact upon the policyholders remaining in the Transferor entities

- Subject to the Court's approval, there will be no remaining policyholders in AMIL or AMIC-UK following the Transfers.

2.3 Impact upon the existing policyholders of Bothnia

- The Transfers have no impact on the existing policyholders of Bothnia since Bothnia is already a 100% whole account reinsurer of AMIL and AMIC-UK and the risks associated with the Transferors are already included within Bothnia's risk profile and balance sheet.

2.4 Impact upon AMIC-ILQ

- The Transfers will enable NYLB to take further steps towards completing the liquidation of AMIC-ILQ, therefore the Transfers are advantageous to the existing policyholders of AMIC-ILQ.

Communication

2.5 I have confirmed with the relevant officers at CHL that the policyholder communication strategy which I explained in paragraph 8.12 of the Report was carried out. A correspondence log has been maintained, which I have reviewed, and I have confirmed that, to date, no objections have been raised to the proposed Transfers.

Conclusion

2.6 Based on the financial developments that I have observed since I prepared the Report, and upon my review of the other information provided for the purposes of the Supplementary Report, I am satisfied that the security of the transferring AMIL and AMIC-UK policyholders, and of the existing policyholders of Bothnia, will not be adversely affected by the Transfers and that the Transfers will not adversely affect the service levels provided to any of those groups of policyholders.

2.7 I remain satisfied that there is no material adverse effect on the policyholders and creditors of AMIC-ILQ nor on the reinsurers of the Transferors.

2.8 The conclusion of the Supplementary report is the same as that expressed in the Report.

3. CHANGES IN THE PORTFOLIOS

Changes to the Transferors

3.1 I have reviewed the unaudited statutory financial statements of AMIL and AMIC-UK. There have been relatively small movements in their financial condition since the review I carried out for the Report. I have noted the following :

With respect to AMIL

- In the Report, I noted that AMIL had held a contingent IBNR provision of £250k for a number of years, this was wholly reinsured to Bothnia under the whole account reinsurance; the provision has now been reduced to nil. I commented upon the business composition, recent claim activity and short period of underwriting operation of AMIL in paragraphs 5.9 to 5.12 of the Report. Based on the risk profile and business mix of AMIL, coupled with the continued absence of any claim activity a nil provision at this stage is, in my view a reasonable stance.
- The balance sheet surplus has reduced since December 2016, reflecting the impact of the expenses of maintaining the operations.
- Overall the change in the balance sheet is not significant.

With respect to AMIC-UK

- There is no material change from the values observed in the Report.

The financial statements for the Transferors are based on unaudited, 31 December 2017 data. Based on the consistency of values in these financial statements with prior financial statements and the historical consistency between the unaudited and final audited values, I am satisfied that it is reasonable to form my view based on the unaudited financial statements provided. I have also confirmed with NYLB that no material change is anticipated to the unaudited financial statements.

Changes to AMIC-ILQ

3.2 I have not reviewed interim financial statements for AMIC-ILQ, however I have communicated with NYLB which has confirmed that the status of AMIC-ILQ is not materially different to its condition as at 31 December 2016. Given the degree of its insolvency as indicated in paragraph 5.52 of the Report, I do not consider it necessary for the purposes of the Supplementary Report to further review the financial condition of AMIC-ILQ.

Changes to Bothnia

3.3 I noted in the Report (paragraph 7.43) that Bothnia's business activity is the acquisition and consolidation of portfolios in run-off with a view to managing the residual liabilities at a profit.

3.4 I noted in the Report (at paragraph 1.11), transactions which were in various stages of completion, namely:

- The assimilation of the policyholder liabilities of members of RFP, and their Part VII Transfer to Bothnia;
- The assimilation of certain policyholder liabilities of the Gibbon pool; and
- Bothnia entered into a whole account reinsurance, the Bothnia ADC, which was intended to manage the portfolio down-side risk and optimise its regulatory capital requirement.

3.5 With respect to the above transactions,

- I have confirmed with the senior function holders of CHL that the transactions intended for both RFP and Gibbon have been concluded as anticipated. For completeness, I have reviewed the report of the Independent Expert on the Part VII Transfer of the RFP business of QBE Insurance Europe and Moorgate Insurance Company Limited and the supplementary report which was prepared shortly prior to the final sanction hearing.
- Bothnia has cancelled the Bothnia ADC. This was due to uncertainty regarding its treatment for regulatory capital purposes under the Standard Formula. I noted in paragraph 7.42 of the Report that there were some technical complexities in precisely quantifying the benefit of the Bothnia ADC and I therefore did not rely on it in forming my opinion. The cancellation of the Bothnia ADC is therefore not material to my current opinion.

3.6 Since I prepared the Report, Bothnia has acquired additional portfolios. These consist of segments of legacy business in respect of Assicurazioni Generali SpA ("Generali") and of Project Glen. These transactions were effected on 16 December 2017 and 11 December 2017 respectively. When the majority of the work underlying the Report was prepared, these transactions were not considered sufficiently likely to be successfully completed to be included in the formation of my opinion at the time.

- Generali

  This relates to business of Generali in its US and UK branch operations.

  The US branch business is reinsured by Bothnia and it is not intended that this business will be legally transferred to a CHL risk carrier at present.

The legacy business of the UK branch of Generali is reinsured by Bothnia under a separate reinsurance contract. This business, being the branch business of an Italian company, will be transferred to Bothnia through the legal transfer mechanism of IVASS, the Italian regulatory authority. This transfer will involve consultation with other European regulators, including FIN-FSA and policyholders will also be notified of the transfer for their consideration.

Each of the branches is protected under a separate reinsurance arrangement with Bothnia and under the terms of the reinsurances, Bothnia has established separate collateral funds exclusively for the benefit of each of the Generali UK and US branch liabilities, at a level agreed with Generali. The funds are not available to meet Bothnia's other liabilities and are designed as Ring-Fenced Funds for the purposes of Bothnia's regulatory capital calculations. The Ring-Fenced Fund restrictions applicable to the Generali UK branch liabilities will be removed when the legal transfer of Generali's UK branch liabilities to Bothnia is complete. I have been advised by CHL's Group Actuarial Director that the legal transfer of Generali's UK branch liabilities to Bothnia is expected to be completed by 30th June 2018.

- Project Glen

This is a reinsurance of certain portfolios of a major European reinsurance company, with Bothnia. The identity of the entity involved is commercially sensitive to Bothnia and to the counterparty and I am not at liberty to disclose the identity of Bothnia's counterparty.

Under the terms of the reinsurance, Bothnia has established a separate collateral fund exclusively for the benefit of the Glen liabilities, at a level agreed with Glen. The fund is designated as a Ring Fenced Fund for the purposes of Bothnia's regulatory capital calculations. The Ring-Fenced Fund restriction will be removed when the legal transfer of Glen's liabilities to Bothnia is complete. The legal transfer of Glen's liabilities is expected to be completed by 31st December 2018.

The transfer will require consultation with FIN-FSA as well as other applicable European regulators as part of the legal transfer process. The policyholders of the transferring business will be notified of the transfer in line with the applicable regulatory approval process.

3.7 As a result of the Generali and Project Glen reinsurances, the scale of Bothnia's insurance liabilities has increased significantly since I prepared the Report as illustrated below :

- On a GAAP basis, the claims provisions (including the anticipated claims handling expenses) increase from £49m at 31 December 2016 to £168m at 31 December 2017; and

- on a Solvency II basis, the technical provisions (including the Solvency II risk margin) increase from £42m to £157m

3.8 In order to satisfy myself that the basis of establishing claims provisions and the determination of the regulatory capital requirement is consistent with that underlying the Report, I have reviewed a number of key documents in detail. I have also confirmed with CHL's Group Actuarial Director and Director of Operations that the governance surrounding the evaluation of the new portfolios, Bothnia's risk appetite and the technical basis of the quantification of the claims provisions is consistent with the practice and standards underpinning the opinion expressed in the Report. The key documents that I have reviewed for these purposes are :

- CHL's claims and operations team due-diligence review of Generali
- CHL's claims and operations team due-diligence review of Project Glen
- CHL's internal actuarial review of the technical provisions for statutory (GAAP) accounting purposes
- CHL's internal actuarial review of the technical provisions for Solvency II accounting purposes
- Bothnia's most recent ORSA document, which was issued in December 2017.

3.9 I am satisfied that the due-diligence reports on Generali and Project Glen are complete in their scope, identifying both financial and operational aspects of the entities being reinsured and eventually to be transferred into Bothnia. The due-diligence evaluations identify specific claim events and the background to each of the portfolios and each includes an evaluation of the risks associated with the individual portfolios.

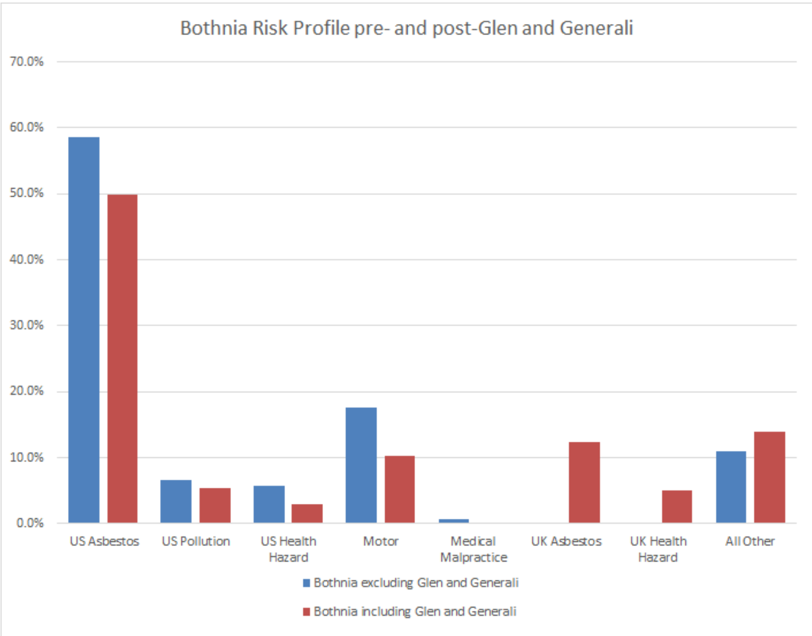
3.10 I have reviewed CHL's internal actuarial reports on IBNR estimation as at 31 December 2017. I note that the methodologies and philosophies adopted are consistent with those adopted when I prepared the Report and I have confirmed with the Group Actuarial Director that the underlying philosophies and methods adopted are consistent with the position adopted at 31 December 2016 and across the various legacy portfolios. Where I found differences between the initial due-diligence reports and the actuarial reports I have raised these matters with CHL's Group Actuarial Director who provided detailed explanations of any differences.

3.11 I have also compared CHL's internal actuarial review which was carried out at 31 December 2016 with the 31 December 2017 actuarial review. I applied basic ratio tests of the level of IBNR claims to notified case reserves for those segments of the portfolio which were largely similar in nature at each point. This ratio approach is a broad measure of the consistency of the reserving levels at different points in time. I have noted some changes in the level of this IBNR ratio and discussed the changes with the Group Actuarial Director. I was advised that the primary drivers of change were :

- The Gibbon portfolio liabilities were subjected to further review in the third quarter of 2017, and I have reviewed the internal actuarial report which identified the changes to the portfolio and the rationale for the modification in reserve levels.
- Changes in certain IBNR levels for asbestos claims result from a better than expected claim development and higher levels of actuarial confidence in the projection methodologies. The rationale for this view is outlined in the internal actuarial reserve review as at 31 December 2017.

3.12 Having carried out a high-level comparative analysis and obtained satisfactory explanations with respect to the movements since the Report was produced, I am satisfied as to the consistency of the actuarial reserving approach. I also note that there is a high degree of commonality of the loss phenomena and classes of business in Generali and Project Glen with the existing Bothnia portfolio and this gives me further comfort that CHL and Bothnia have the experience and expertise to reasonably quantify the associated risks and to effectively administer the claims.

3.13 The risk profile of Bothnia has changed marginally since I issued the Report and it remains dominated by US asbestos liabilities. The chart below shows the proportionate composition of Bothnia's claims provisions before and after Generali and Project Glen.



3.14 The most notable changes are the introduction of UK asbestos and Health hazard exposures These changes do not in my opinion expose the transferring AMIL and AMIC-UK to a materially different set of risks to the position set out in the Report.

3.15 In addition to the overall composition within the major classifications of claim types set out above, I have been advised by the CHL Group Actuarial Director that prior to the Generali and Glen transactions the largest 10 underlying insured exposures represented 28% of the reserves and that following the Generali and Glen transactions the largest 10 underlying insured exposures represent 14% of reserves and that the constituent members of the top-10 insureds has changed. Also, whilst there has been a slight movement in the mix of direct and reinsurance liabilities, which, in the event of an insolvency of Bothnia would affect the priority ranking of transferring policyholders of AMIL and AMIC-UK as creditors, I consider the effect to be too remote to be material to my overall opinion.

3.16 My conclusion from paragraphs 3.13, 3.14, and 3.15 is that the set of risks to which the transferring AMIL and AMIC-UK policyholders become exposed has not been materially affected by the Generali and Glen transactions and that these transactions have not led to a concentration of risk in a smaller number of underlying insureds.

3.17 I have reviewed Bothnia's Solvency II balance sheet as at 31 December 2017. The production of the balance sheet and of the level of regulatory capital, the SCR, falls under the overall responsibility of CHL's Group Actuarial Director. I have not re-produced the detailed calculations but I have confirmed that the calculations have been performed using a consistent method to that adopted at 31 December 2016, taking account of any modifications to the Standard Formula in the intervening period. I described in paragraph 4.18 of the Report a feature of the SCR calculation that requires a separation of the regulatory capital calculation for segments of any portfolio of business which have specifically ear-marked funds within the overall balance sheet (Ring fenced Funds – "RFF"). Both the Generali and Project Glen transactions are currently subject to ear-marking of collateral as part of the security measures afforded the policyholders of these portfolios pending their final transfer into Bothnia and this is reflected in the regulatory capital calculations. The effect of the RFF adjustment in the short term is to reduce the Capital Ratio compared with the situation following the completion of the European transfers

3.18 In paragraphs 4.15 to 4.17 of the Report I outlined the manner in which the Solvency II Standard Formula is applied in order to determine the level of regulatory capital. I further discussed the appropriateness of the Standard Formula as a measure of the inherent risk of a mature portfolio in paragraph 7.37 of the Report. I noted that with respect to Bothnia, as a result of settlement agreements and other arrangements which lead to a capping of liabilities, the Standard Formula will tend to become less appropriate as the portfolio further matures - this is because its calibration is based on market-wide statistics rather than the niche market in which Bothnia operates. As may be noted in the chart at paragraph 3.13, the general make-up of the portfolio after the acquisition of Generali and Glen is similar to its composition prior to their acquisitions. UK Asbestos has a slightly different character to the US exposures in that it is made up of direct claims by individuals suffering from occupational diseases (particularly mesothelioma[1]) who are claiming under employers' liability contracts. It is not possible for Bothnia to negotiate the settlement of these UK asbestos claims on the same commercial terms as are possible for the US exposures. This means that the reduction in the uncertainty achieved through capping and negotiation with respect to the US asbestos exposures will be less significant as these US exposures now make up a smaller percentage of the portfolio as a whole. The Standard Formula when applied to UK asbestos in isolation is unlikely to appropriately represent the risk profile of this category of claim. However having considered the risk profile from an overall portfolio perspective I do not consider the Standard Formula to be inappropriate at the moment and the changes in the business since I issued the Report do not, in my opinion, materially affect the appropriateness of the Standard Formula. Bothnia have considered the appropriateness of the standard formula as part of the ORSA process, and an examination was set out in Appendix 4 of the ORSA document produced in December 2017. The conclusion of Bothnia's evaluation was that the Standard Formula tended to give a more prudent view of the Solvency II portfolio capital requirement prior to Generali and Glen and that following these acquisitions the Standard Formula is considered not inappropriate. I have confirmed with the Group Actuarial Director that the continuing appropriateness of the Standard Formula is a focus of the CHL risk management process and that, should the risk profile exhibit characteristics which are materially out of line with the Standard Formula, then consideration will be given to determining regulatory capital on a more accurate basis.

3.19 To support Bothnia's business expansion, additional capital has been introduced since December 2016. The additional capital was introduced in December 2017 made up of the following :

- Euro 17m of new Tier 1 capital. This was injected into Bothnia by CHL
- Additional Tier 2 capital of Euro 24m in the form of subordinated debt issued to Cohen & Company

3.20 I have reviewed the overall terms of the subordinated debt based on information provided to me by CHL's Chief Financial Officer. Based on my wider experience of such financial instruments, I have not identified any unusual features that affect my overall opinion.

3.21 Bothnia's Capital Ratio on a Solvency II basis following the injection of additional capital and allowing for the effect of the ear-marking of funds is summarised below.

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[1] Mesothelioma is a type of cancer that develops from the layer of tissue that covers many of the internal organs. The most common area affected is the lining of the lungs (pleural mesothelioma). Mesothelioma is generally associated with asbestos exposure and is invariably terminal within a few years of diagnosis.

Table 2 : Comparative Capital Ratios

GBP 000's	31 December 2016	31 December 2017 Year end Assets	31 December 2017 Invested Assets
SCR	19,312	59,296	54,213
Available assets (Solvency II basis)	28,735	74,209	74,209
Capital Ratio	**149%**	**125%**	**137%**

3.22 In Table 2 I have shown the solvency II SCR and available assets as at 31 December 2017 on two bases. The "Year end Assets" basis is calculated based on the Solvency II balance sheet position as at 31 December 2017 but is not representative of the actual risk profile of the business due to the timing in the receipt of the premium by Bothnia in respect of the Generali and Glen reinsurances. The premiums were received as cash on 15 December 2017 for Glen and 28 December 2017 for Generali and Bothnia had insufficient time to invest the funds in line with its investment policy by year end. The cash was fully invested in line with the investment policy in February 2018. The "Invested asset" basis reflects the solvency position which is consistent with Bothnia's investment policy, and I consider this view to be a more correct representation of Bothnia's true solvency position going forwards; I have used this position as a reference point for forming my opinion on the financial strength of Bothnia and for the purpose of setting out stress tests in paragraph 3.24 below. However, on either basis Bothnia remains more than sufficiently capitalised as at 31 December 2017 and my overall opinion is not affected by the differences in the solvency ratio calculations which arose due to the timing of the investment of the Generali and Glen reinsurance premiums.

3.23 The Capital Ratio at 31 December 2017 is lower than that shown in the Report and reflects the impact of the additional regulatory capital demands of Generali and Project Glen. CHL's Group Actuarial Director has carried out additional calculations of the Capital ratio as at 31 December 2017 on the assumption that the proposed transfers of AMIL, AMIC-UK, Glen and Generali were all completed, and on this basis, the Capital Ratio increases from 137% to 148%.

3.24 In the Report I examined the sensitivity of the regulatory capital requirement to a variety of stress scenarios in order to test the resilience of the balance sheet. For the Supplementary Report I have specified a further series of stresses which were performed by the actuarial department of CHL. The tests are in line with those of the Report, with slight variations. The stress tests are:

- Stress test 1 = A 20% increase in technical provisions

- Stress test 2 = A 10% decrease in bond values
- Stress test 3 = A one-step downgrade of all reinsurance counterparties

Table 3 : Summary of Stress test impact on Solvency II capital

GBP 000's	Base Case	Stress test 1	Stress test 2	Stress test 3
Solvency II SCR	54,213	66,049	53,654	55,267
Solvency II MCR	17,672	21,206	17,672	17,672
Own Funds	74,209	45,176	53,380	74,115
Capital ratio	137%	68%	99%	134%

Notes :

- Stress test 1
  - This leads to a breach of the SCR. This reflects the fact that the dominant risk is the reserving risk. This result is consistent with the similar test of the Report.
- Stress test 2
  - There is a minor breach of the SCR. This reflects the fact that bonds are a significant component of the investment portfolio.
- Stress test 3
  - The portfolio is relatively insensitive to reinsurance counterparty risk. This reflects the fact that Bothnia has a relatively low level of third party reinsurance and the majority is highly rated.

3.25 In addition to the above scenarios which reflect the impact on both the regulatory capital requirement and the own funds, CHL have carried out two reverse-stress tests which illustrate the extent of an adverse variation sufficient to exhaust the current SCR. The conclusion of the reverse-stress tests are :

- Technical provisions would have to deteriorate by 41% to exhaust the SCR
- A decline in the bond portfolio of 26% would similarly exhaust the SCR

3.26 The results of the stress tests and reverse stress tests are consistent with the composition of the portfolio and in my view do not represent a material commercial risk to the Transferring Policyholders. Stress test 1 reflects a scenario in which the technical provisions are under-stated by 20% across the board and in this case the consequence is a material breach in the SCR, with the capital ratio falling to 68% whereas in the Report this stress resulted in a capital ratio of 99%, a marginal breach. The difference in these results reflects the fact that following the acquisition of Generali and Glen, the technical provisions are higher in relation to the available assets than before, and the base capital ratio is now lower than the position in the Report. I applied the 20% stress in order to have a common reference point with the

Report, but with a larger and more diverse set of risks (as illustrated in paragraph 3.15), the statistical likelihood of an across the board under-provisioning at the same level is now reduced, meaning that the 20% stress in the current portfolio is more extreme than was the case shown in the Report. In paragraph 7.39 of the Report I noted that I considered a 20% under-provisioning to be highly unlikely, my opinion has not changed because of the greater spread of risks that now exist and the processes which Bothnia and CHL apply in evaluating the portfolio. In the event of a breach in the SCR the ORSA contemplates the possibility of requiring additional capital and states that in such circumstances contingency plans to raise funds and mitigate further risk would be implemented.

3.27 I have examined Bothnia's ORSA report which was issued in December 2017, but which was substantially based on data at the end of June 2017. The ORSA sets the broader framework for risk management, the requirement for capital under varying business scenarios and Bothnia's capital planning and provisioning strategy. I have reviewed the risk appetite statements set out in both the 2016 and 2017 ORSA documents and note that there are no material changes in the risk appetites associated with the key risks, including acquisition risk and investment risk. The ORSA included forecast values for both Generali and Project Glen with a 3-year forward view of Bothnia's portfolio. The scope and content of the ORSA report is, in my opinion of a high quality and the forecast Capital Ratios in the ORSA are in-line with the 31 December 2017 Solvency II capital items shown in Table 2 . FIN-FSA has acknowledged receipt of the ORSA documents and has not provided additional feedback to Bothnia. In paragraph 8.2 of the Report, I noted that Bothnia was expecting further feedback from FIN-FSA on its 2016 ORSA, I have confirmed with the Managing Director of Bothnia that no further feedback has been received.

3.28 Bothnia is subject to Finnish insurance regulations. These regulations require Finnish insurance companies to maintain an Equalisation Provision, this is an additional financial safety measure and restricts the ability of insurance companies to distribute surplus funds as dividends. I referred to this in the Report at paragraph 7.32 and in Appendix 5. I have been informed by Bothnia's Finnish appointed actuary that there have been certain technical changes to the basis of calculation of the Equalisation Provision. I have reviewed, at a high level, the changes relative to the position as at the date of the Report and based on my evaluation, I am satisfied that these changes are not material to my opinion and have no impact on the Capital Ratios of Table 2.

3.29 Based on the above review, I am satisfied that Bothnia is more than sufficiently capitalised and that the opinion expressed in the Report remains valid.

4. CONSIDERATIONS OF A WIDER NON-FINANCIAL NATURE

Change of Regulator, policyholder safety nets and tax considerations

4.1 In section 8 of the Report I identified a number of considerations other than purely quantitative aspects of balance sheet security. These matters included amongst other things the implications of a change in regulator (i.e. for AMIL and AMIC-UK policies moving from the PRA and FCA to FIN-FSA), the financial safety nets available under the FSCS and policyholder rights under FOS and taxation considerations. With respect to these matters I am satisfied that there are no changes to the circumstances prevailing when the Report was issued.

Solvency II compliance

4.2 I noted in paragraph 8.2 of the Report that Bothnia was compliant with the requirements of Solvency II, whereas both AMIL and AMIC-UK have taken minimal action towards compliance. I have confirmed with Willkie Farr & Gallagher (UK) LLP that since the date of the Report, no further material action has been taken by AMIC-UK and AMIL with respect to Solvency II compliance.

4.3 In forming my opinion on the merits of the Transfers, I viewed the position pragmatically since neither AMIL nor AMIC-UK has any notified policyholder liabilities. If the Transfers are effected, then for both AMIL and AMIC-UK policyholders, any current Solvency II related regulatory breach is inconsequential, since the burden of compliance will fall to Bothnia.

4.4 If the Transfers are not effected, then any Solvency II regulatory burden will remain with AMIC-UK and AMIL, potentially leading to extensive additional costs which are unlikely to be met due to the impaired financial condition of AMIC-ILQ.

4.5 On the matter of Solvency II compliance, the opinion expressed in paragraph 8.2 of the report is unchanged, namely that the Transfers have no impact on the existing Bothnia policyholders and have a positive outcome on any policyholder obligations that may arise in respect of AMIL and AMIC-UK in the future.

Policyholder communications

4.6 I have confirmed with CHL's Director of Operations that the policyholder communication strategy set out in paragraph 8.12 of the Report was implemented. I have been provided with the communication log in relation to the Transfers. The log appears to be complete and fully maintained, but it is clear that a substantial proportion of policyholders have been liquidated or otherwise ceased trading.

4.7 I have been told that, to date, no objections to the Scheme have been received and I am satisfied that the communication has been carried out as completely and diligently as possible.

Resources and standards of service

4.8 I have attended CHL's London offices and noted that the staff resources have been expanded.

4.9 I discussed the additional staffing resource requirements of the enlarged Bothnia portfolio with the Director of Operations, who confirmed that staffing resources are tailored to meet Bothnia's requirements in response to changes in the scale and complexity of the business. The Director of Operations confirmed that resource levels are being maintained at a level consistent with the requirements of the enlarged business and that between October 2017 and March 2018 CHL's staff level has grown by 15%, primarily in the claims and actuarial Departments.

4.10 I have concluded that there is no material change to the expected standards of policyholder service.

General Data Protection Regulation ("GDPR")

4.11 GDPR is a regulation by which the European Parliament, the Council of the European Union and the European Commission intend to strengthen and unify data protection for all individuals within the EU. All businesses are required to comply with the regulation by 25 May 2018.

4.12 I have confirmed with the Director of Operations that Bothnia and CHL are fully aware of the requirements of GDPR and I have been provided with CHL's strategy for complying with GDPR and details of the senior management forming CHL's internal working group on this matter.

4.13 CHL have further confirmed to me that the guidelines issued by the Information Commissioner's Office on the key stages of meeting the requirements are being followed.

Brexit

4.14 I provided some background to Brexit in paragraph 8.13 of the Report and noted that the eventual impact of Brexit is highly uncertain. However the Transferee will remain in the EU and this means that following the Transfers the policyholders of both AMIL and AMIC-UK will experience continuity with respect to the regulatory capital requirement regime to which they are currently subject and as such are immunised from any changes which Brexit may produce.

4.15 There have been no developments since I wrote the Report that have caused me to alter my opinion that Brexit will not materially alter the expected effects (if any) of the proposed Transfers on the security of the benefits or the standards of policy servicing experienced by the Transferring Policyholders.

5. CONCLUSIONS

Confirmation of Opinion

5.1 I have further considered the effect of the proposed Transfers on the policyholders of AMIC-UK, AMIL, AMIC-ILQ and Bothnia in the light of the Additional Information made available to me since the date of the Report. I confirm that my overall opinion and conclusions as set out in Section 9 of the Report are unchanged.

Duty to the Court

5.2 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court and have complied with that duty and that I am aware of and have complied with the requirements of Part 35 of the Civil Procedure Rules, of Practice Direction 35 which supplements Part 35 of the of the Civil Procedure Rules, and of the Guidance for the Instruction of Experts in Civil Claims 2014.

Statement of truth

5.3 I confirm that, insofar as the facts stated in this Supplementary Report are within my own knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

Dewi James FIA
Moore Stephens LLP

30 April 2018

Appendix 1 – Definitions

Additional Information	Financial and other information provided by and in respect of the Parties since the drafting of the Report.
AMIC-ILQ	Atlantic Mutual Insurance Company – in liquidation. The parent company of AMIL and AMIC-UK. Originally established in 1842, formal liquidation commenced on 27 April 2011 in New York.
AMIC-UK	The UK branch of Atlantic Mutual Insurance Company.
AMIL	Atlantic Mutual International Limited.
APH	Asbestos, pollution and health hazard.
Bothnia	Bothnia International Insurance Company Limited, a subsidiary of CHL.
Brexit	"Brexit" is an abbreviation of "British Exit" which refers to the impending exit of the UK from the European Union, following the referendum on continuing membership held in the UK in June 2016.
Capital Ratio	The ratio of Available Capital to Requirement Capital. This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the company.
CHL	Compre Holdings Limited.
Compre Group	A collective term for CHL and its direct and indirect subsidiaries.
Effective Date	The date on which the Transfers shall become operative.
FCA	The Financial Conduct Authority ("FCA") is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
FIN-FSA	The Financial Supervisory Authority of Finland ("FIN-FSA") is the authority for supervision of Finland's financial and insurance sectors. The entities supervised by the authority include banks, insurance and pension companies as well as other companies operating in the insurance sector, investment firms, fund management companies and the Helsinki Stock Exchange. It operates administratively in connection with the Bank of Finland, but is independent in its decision-making.
FOS	FOS provides private individuals and micro enterprises with a free independent service for resolving disputes with financial services companies, including insurers. In the context of insurance, the policy in connection with which the dispute arises must be or have been administered from within the UK, although the claimant does not have to be based in the UK.
FSCS	The FSCS, established under FSMA is described as a "statutory fund of last resort" and is intended to provide compensation to customers of authorised financial services firms in the event of their insolvency.
FSMA	Financial Services and Markets Act 2000, as amended, the legislation under which transfers of UK (re)insurance business between (re)insurance undertakings is governed.
FSMA Report	A report on the terms of a transfer under Part VII of FSMA, to be prepared by an independent person. The FSMA Report is required in order that the Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question.
GAAP	Generally accepted accounting principles ("GAAP") form the standard framework of guidelines for financial accounting used in any given jurisdiction.
IBNR reserves	These are reserves in respect of claims which relate to claim events that have occurred before the valuation date but which were still to be reported to the insurer as at that date. For the purposes of this Report they also include reserves in respect of any perceived shortfall between the projected ultimate costs and the case estimates for claims already notified.
Independent Expert	The Independent Expert prepares the FSMA Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Transfers, I have been appointed as the Independent Expert.
Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves.
IVASS	Istituto per la vigilanza sulle assicurazioni, translated as Italian Institute for the Supervision of Insurance. This is the Italian insurance supervisory authority, an independent authority responsible for supervising and regulating all insurance business in Italy

NYLB	New York Liquidation Bureau, a body formed under New York legislature to carry out the responsibilities of the Superintendent of Financial Services as Receiver.
ORSA	The Own Risk Solvency Assessment ("ORSA") is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
Own Funds	In Solvency II terminology, the amount of capital or excess assets of an insurance company. Own funds are divided into basic own funds and ancillary own funds (e.g. unpaid share capital), which require regulatory approval.
PRA	The Prudential Regulation Authority ("PRA") is part of the Bank of England and carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Reinsurance	An arrangement with another insurer whereby risks are shared (or passed on). If reinsurance is termed as being "inwards" then the reinsurer in question has accepted risk; if reinsurance is termed as being "outwards" then the (re)insurer has itself transferred risk to a reinsurer.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (for example the SCR).
RFP	Ridgewell, Fox & Partners (Underwriting Management) Limited, on behalf of which RFP underwrote reinsurance business.
SCR	The Solvency Capital Requirement under Solvency II is the amount of capital required to ensure continued solvency over a one-year trading time frame with a likelihood of 99.5%.
Solvency II	The system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.
Standard Formula	The name used to describe the basis and methodology for determining the SCR for most insurance companies subject to Solvency II. It consists of a series of risk-loadings and correlative factors which are applied to different financial elements of the financial statements.
Supplementary Report	References to "the Supplementary Report" refer to this report.
Technical Provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
The Court	The High Court of Justice of England and Wales.
The Report	The report entitled "Scheme report for the transfer of policies pursuant to The Financial Services and Markets Act 2000 from Atlantic Mutual International Limited to Bothnia International Insurance Company Limited, and from Atlantic Mutual Insurance Company (UK Branch) of Atlantic Mutual Insurance Company (in liquidation) to Bothnia International Insurance Company Limited". The Report was dated 16 October 2017.
Transferee	The insurer to which business is being transferred – in the case of the Transfers this is Bothnia.
Transferors	The insurers from which business is being transferred – in the case of the Transfers these are AMIC-UK and AMIL.
Transferring Assets	The assets to be transferred to Bothnia under the Transfers
Transferring Business	The business being transferred under the Transfers
Transferring Policyholders	The policyholders of the Transferring Business.
Transfers	I refer to these proposed insurance business transfers as "the Transfers" or "the Transfer"

MOORE STEPHENS

Appendix 2 - Schedule of key information provided

In preparing the Supplementary Report I have relied upon the accuracy of certain documents provided by AMIL, AMIC-UK, NYLB and CHL. The primary information consisted of the following

Financial statements	
	Bothnia financial statements as at 31 December 2017 (audited)
	AMIL financial statement as at 31 December 2017 (unaudited)
	AMIC-UK financial statement as at 31 December 2017 (unaudited)
Other items	
	Bothnia Solvency II Standard Formula regulatory capital requirement calculation as at 31 December 2017 Comparative analysis of Bothnia's Solvency II balance sheets as at 31 December 2016 and 31 December 2017
	Description of the terms of the Tier 2 subordinated debt
	Bothnia ORSA review as at December 2017
	Stakeholder correspondence log in respect of the proposed Transfers
	CHL internal due-diligence evaluation report on Assicurazioni Generali SpA's ("Generali") UK and US Branch
	CHL internal due-diligence evaluation report on Project Glen legacy reinsurance portfolio.
	CHL internal actuarial reserve review of Bothnia for fourth quarter 2017 for statutory (GAAP) accounting purposes
	CHL internal actuarial reserve review of Bothnia for fourth quarter 2017 for regulatory (Solvency II) purposes
	Quota share reinsurance agreement between Bothnia and Glen
	Reinsurance agreement between Bothnia and Generali UK Branch
	Reinsurance agreement between Bothnia and Generali US Branch
	CHL's strategy paper for complying with GDPR
	Updated draft witness statements of : Ms C Hobbs - CHL senior claims adjuster with responsibility for communication Mr K Mäki – Director of Bothnia Mr T Coopersmith – Director of AMIL and Comptroller of NYLB
	Report and supplementary report of the Independent Expert on the Part VII Transfer of the RFP business of QBE Insurance Europe and Moorgate Insurance Company Limited to Bothnia