

Explanatory Circular

The purpose of this document is to summarise the principal terms and effects of the proposed insurance and reinsurance business transfer scheme (the “**Scheme**”) by which Atlantic Mutual International Limited (“**AMIL**”) and the UK branch of Atlantic Mutual Insurance Company (“**AMIC-UK**”) (AMIL and AMIC-UK together the “**Transferors**”) will formally transfer to Bothnia International Insurance Company Limited (“**Bothnia**”) the entire portfolios of non-life insurance and reinsurance policies written directly or indirectly by the Transferors (the portfolios being the “**Transferring Policies**”) and some of the outwards reinsurance protection relating to the Transferring Policies.

Part A of this document summarises the terms of the Scheme and Part B is a summary of a report on the Scheme (the “**Report**”) made by Mr Dewi James, the Independent Expert appointed to review the Scheme. Mr James’ appointment as the Independent Expert has been approved by the UK prudential regulator, the Prudential Regulation Authority (“the **PRA**”) in consultation with the Financial Conduct Authority (the “**FCA**”). Persons wishing to obtain further information concerning the proposed Scheme can inspect and obtain copies of the full Scheme and Report by contacting Caroline Hobbs at Compre Services (UK) Limited, 4th Floor, St Clare House, 30-33 Minories, London EC3N 1DD who may be reached by telephone on +44 20 3551 6524 or at the email address caroline.hobbs@compre-group.com. This information can also be obtained by visiting the webpage <http://compre-group.com/AMIL-AMIC-UK-Bothnia-part-vii-information>.

PART A – THE SCHEME

1. Introduction

Atlantic Mutual International Limited is a company incorporated in England and Wales that was authorised by the Financial Services Authority to effect and carry out contracts of insurance. AMIL is currently authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. It commenced underwriting late in 2002 though the majority of its business was conducted in 2003. In the summer of 2003 its ultimate parent company, Atlantic Mutual Insurance Company, suffered a ratings downgrade which had the effect amongst other things of making the business commercially untenable. As a result it ceased underwriting from that time. It had only underwritten a very small number of policies. Its business comprised property and general liability policies principally for small commercial enterprises. As a result, it ceased underwriting from that time and it has been in run-off for approximately fourteen years.

Atlantic Mutual Insurance Company is a mutual company established in the state of New York. It established a branch in the UK which is currently authorised by the PRA and regulated by the FCA and PRA. Atlantic Mutual Insurance Company is currently in liquidation and is being managed by the New York Liquidation Bureau on behalf of the liquidator, the Superintendent of Financial Services of the State of New York. The major part of the business that AMIC-UK carried on in the United Kingdom was as a participant in the Willis Faber Underwriting Management Pool (“**WFUM Pool**”). The business underwritten through the WFUM Pool was commuted via schemes of arrangement that were proposed by all members of the WFUM Pool. The AMIC-UK scheme of arrangement has been concluded.

Employers' Liability business, which cannot usually be included in a scheme of arrangement for statutory reasons, was excluded from the WFUM Pool scheme of arrangement. As such, AMIC-UK continues to be liable for the Employers' Liability business it co-insured through the WFUM Pool. Therefore, the insurance business remaining in AMIC-UK is the business that was excluded from the WFUM Pool scheme of arrangement, plus a small amount of business the branch underwrote outside the WFUM Pool.

Bothnia International Insurance Company Limited was founded and registered to operate under Finnish insurance regulation in September 1993. It is owned by Finnex Holdings Limited, a UK registered company, which is a wholly-owned subsidiary of Compre Holdings Limited. Bothnia is authorised and regulated by the Finnish Financial Supervisory Authority ("FIN-FSA") to underwrite and accept new insurance business; its role within the Compre group of companies (the "**Compre Group**") is to provide a platform to consolidate other insurance portfolios in run-off which are existing subsidiaries of the Compre Group, and to accept run-off portfolios of third parties. Its business objective is to manage the run-off portfolios at a profit by applying the specialist knowledge and skills of the Compre Group and to achieve economies of scale and capital efficiencies as a result of consolidation to a single entity.

The formal transfer of the Transferring Policies from the Transferors to Bothnia will be effected by way of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the "**Act**"), which requires the sanction of the High Court of Justice in England (the "**Court**").

Subject to certain conditions being met and only if the Court gives it approval, the transfers are planned to take effect on 7 May 2018 or such later date as the Transferors and Bothnia may agree and the Court may allow (the "**Transfer Date**"), at which point the Transferring Policies will formally transfer to Bothnia. From the Transfer Date, Bothnia will become the insurer under the Transferring Policies in the place of the Transferors. This means that from that date, all the rights and obligations arising from the insurance business of the Transferors in relation to AMIL and AMIC-UK will automatically be transferred to Bothnia and will no longer rest with the Transferors. In particular, Bothnia will be responsible for paying all claims and meeting all other obligations which were previously those of the Transferors.

2. **The Transferring Policies**

The policies that are to be transferred to Bothnia as a result of the Scheme comprise the entire portfolios of non-life insurance and reinsurance contracts, directly or indirectly underwritten by the Transferors (the "**Business**").

All of AMIL's outwards retrocession contracts which provide reinsurance solely to AMIL in respect of the Transferring Policies, and certain other agreements entered into by the Transferors in respect of the Transferring Policies (which are set out in the Scheme), will also be transferred from the Transferors to Bothnia as at the Transfer Date (the "**Transferring Assets**").

At the Transfer Date and subject to the provisions of the Scheme, Bothnia will succeed and become entitled to all rights, discretions, authorities, benefits, powers and

liabilities of the Transferors under the Transferring Policies and Transferring Assets in place of the Transferors.

Every holder of a Transferring Policy (the “**Transferring Policyholders**”) and every other party to the Transferring Asset will continue to have the same rights under or in respect of the Transferring Policy or Transferring Asset (whichever is applicable) against Bothnia as that policyholder or party may have had against the Transferors, under or in respect of the Transferring Policy or Transferring Asset (whichever is applicable) as at the Transfer Date.

3. **Retained Policies**

Any contract of insurance or reinsurance in relation to the Business (other than a Relevant Retrocession, as defined below) in respect of which:

- (a) it is agreed in writing by a Transferor and Bothnia, or proved by the policyholder, whether before or after the Transfer Date, that further steps additional to the Court Order are required to secure the transfer; or
- (b) a Transferor and Bothnia agree in writing prior to the Transfer Date that its transfer is to be delayed,

shall be a “**Retained Policy**”. Neither the Transferors nor Bothnia intend there to be any Retained Policies.

If there are any Retained Policies, then there may also be Transferring Assets which are outwards reinsurance contracts reinsuring both Transferring Policies and Retained Policies (such contracts being “**Relevant Retrocessions**”). As long as any Retained Policies remain vested in a Transferor then the Relevant Retrocessions shall be interpreted as reinsuring the relevant Transferor in respect of the Retained Policies, and Bothnia in respect of the Transferring Policies. For the avoidance of doubt, all claims by the Transferors and Bothnia under the Relevant Retrocessions shall be aggregated for the purposes of calculating the aggregate limits of liabilities, deductibles and levels of excess under the Relevant Retrocessions.

4. **Continuity of proceedings of the Financial Ombudsman Service**

From the Transfer Date, any existing or potential future legal proceedings in any country by or against either Transferor in respect of the Transferring Policies or Transferring Assets will be continued by or against Bothnia, to the exclusion of the relevant Transferor. Bothnia will be entitled to all defences, claims and counterclaims that would have been available to the relevant Transferor in relation to such proceedings and/or in relation to the Transferring Policies or Transferring Assets.

From the Transfer Date, Bothnia will be subject to compulsory jurisdiction of the Financial Ombudsman Service (the “**FOS**”) in respect of any acts or omissions of the Transferors that were subject to FOS compulsory jurisdiction prior to the Scheme. Bothnia, would not be automatically covered under the FOS’s compulsory jurisdiction in respect of its own acts and omissions in respect of the Transferring Policies. FOS has an optional voluntary jurisdiction for those insurers which do not automatically fall under its scope; Bothnia has been admitted to the voluntary jurisdiction scheme.

By submitting itself to FOS's voluntary jurisdiction, Transferring Policyholders who have eligible complaints, will be able to take any complaints they may have about Bothnia's conduct after the implementation of the Scheme to the FOS in the UK.

FOS's voluntary jurisdiction is a contractual agreement between FOS and the subscribing insurer. This means that there is scope for Bothnia to terminate the contract, subject to the terms of the contract. Sanctions issued by FOS to insurers under voluntary jurisdiction are enforced under contract law, through the courts if the insurer seeks to avoid FOS's sanctions. In the event that Bothnia should terminate the contract with FOS, Transferring Policyholders who have eligible complaints, would be entitled to take complaints about Bothnia's conduct after the implementation of the Scheme to the Finnish Financial Ombudsman Bureau ("**FINE**").

5. **Continuity of proceedings under the Financial Services Compensation Scheme**

Under PRA rules, policyholders are ensured protection under the Financial Services Compensation Scheme ("**FSCS**") when such policyholders have a claim against an insurer (including, where applicable, an insurer which assumes responsibility for the insurance policies of a predecessor insurer (a "**Successor Firm**") where the policy covers a risk located in the UK and was issued through any country within the European Economic Area. In order to qualify as a Successor Firm and to achieve complete continuity of coverage for Transferring Policyholders under the FSCS, on 16 November 2015 Bothnia completed the requirements necessary to provide insurance services on a cross-border basis from Finland to the UK, under the EU Freedom of Services regime (a process referred to as "passporting services"). The Independent Expert has also opined on the uncertainty introduced to the continuity of the FSCS as a result of the UK referendum to leave the EU, while this introduces uncertainty regarding the continuity of the FSCS coverage the Independent Expert has concluded that this does not represent a material risk to Transferring Policyholders.

6. **Mandates and other instructions**

Any mandate or other instruction in force at the Transfer Date providing for the payment by a banker or other intermediary or premiums payable under or in respect of any Transferring Policy or Transferring Asset to either Transferor shall, with effect from the Transfer Date, take effect as if it had provided for and authorised such payment to Bothnia.

7. **Indemnities in favour of the Transferors**

From the Transfer Date, Bothnia shall discharge on behalf of the Transferors, or failing that indemnify the Transferors against, all liabilities in respect of the Transferring Policies and the Transferring Assets.

8. **Records**

From the Transfer Date, the Transferors shall transfer to Bothnia their records relating to the Transferring Policies and the Transferring Assets.

9. **Costs of the Scheme**

All the costs of implementing the Transfer will be borne by the Transferors and Bothnia, as agreed in writing between the parties. No such costs will be borne by policyholders.

PART B – SUMMARY OF THE INDEPENDENT EXPERT’S REPORT (THE “REPORT”)

The Act requires that, in transfers such as that proposed by the Scheme (the “**Transfers**”), an Independent Expert provides a report so that the Court may properly assess the potential impact of the Scheme on all affected policyholders, including the security of their policies and the levels of service that policyholders could expect to receive after the transfer. This Part B of the document provides a summary of the Report prepared by Mr Dewi James to meet the above requirements.

In carrying out his review and producing his Report, Mr James has relied without independent verification upon the accuracy and completeness of the data and information provided to him, in both written and oral form, by the Transferors and Bothnia. Where possible, Mr James has reviewed some of the information for reasonableness and consistency with his knowledge of the insurance industry.

The Report has been prepared on an agreed basis under Part VII of the Act for the Court, the Transferors and Bothnia to meet the specific purposes of the Scheme, and must not be relied upon for any other purpose. The Report is not meant for use by any third party to do or omit to do anything and no third party should place reliance on the Report for that reason. While Mr James is satisfied that this summary provides an appropriate summary of the Report, reliance on the summary alone could be misleading. In the event of any inconsistency between this summary and the full Report, the wording in the full Report shall prevail. The full Report is available by contacting Caroline Hobbs at Compre Services (UK) Limited, 4th Floor, St Clare House, 30-33 Minories, London EC3N 1DD who may be reached by telephone on +44 20 3551 6524 or at the email address caroline.hobbs@compre-group.com. The Report can also be obtained by visiting the webpage <http://compre-group.com/AMIL-AMIC-UK-Bothnia-part-vii-information>.

Summary of the matters reviewed by the Independent Expert

To reach his conclusions, the Independent Expert has considered the following key aspects:

1. Bothnia’s balance sheet and the level of surplus funds in relation to its insurance liabilities and the required level of regulatory surplus capital.
2. The reserving standards and procedures relating to the estimation of insurance liabilities in Bothnia.
3. The whole account reinsurance provided by Bothnia in favour of AMIL and AMIC-UK.
4. The financial and administrative situation of Atlantic Mutual Insurance Company in liquidation (“**AMIC-ILQ**”), the parent entity of AMIL.
5. Various non-financial factors relating to the administration of the transferring business and other reporting requirements.

Summary of the Independent Expert’s conclusions

1. Bothnia is a well-reserved and well capitalised insurance company. It currently provides a whole account reinsurance to both AMIL and AMIC-UK, and therefore already reflects the insurance liabilities of the Transferors in its risk profile and capital requirements.

The whole account reinsurance was provided in January 2014 and applied retrospectively from July 2013 in contemplation of a Part VII transfer. No further reinsurance premium is payable upon completion of the Transfers.

For all practical purposes therefore, Bothnia's financial and risk profile already reflects the effect of the Transfers. The associated claims liabilities are expected to be minimal and upon completion of the Transfers, there is no material impact to Bothnia.

There is no material adverse impact to current Bothnia policyholders as a result of the Transfers.

Bothnia is an ongoing concern within the Compre Group. Bothnia and the wider Compre Group are frequently offered the opportunity to acquire insurance portfolios. Over the course of the preparation of the Report, Bothnia has entered into a number of acquisitions which have materially altered its liability profile. Mr James has performed a high level review of these portfolios and has concluded that these acquisitions, and the expansion of Bothnia's portfolio, are consistent with Bothnia's growth objectives and do not represent a material impairment to the financial security of the Transferring Policyholders.

In May 2017, Bothnia entered into a whole account reinsurance designed to provide downside reserve risk protection and to optimise its regulatory capital. Mr James has been informed of the details of this reinsurance arrangement and is familiar with the details, while certain aspects of this reinsurance are commercially sensitive and have not been provided in the Report, Mr James has examined this reinsurance and concluded that it does not adversely impact the Transferring Policyholders.

2. It is anticipated that there will be no remaining policyholders in AMIL or AMIC-UK post- implementation of the Scheme.
3. The Scheme is likely to have a beneficial effect on the Transferring Policyholders of both AMIL and AMIC-UK. This is because:
 - Bothnia is a Solvency II-compliant, forward-looking business with a long-term business plan and improved administrative facilities. This contrasts with the circumstances of the Transferors whose parent, AMIC-ILQ wishes to wind-up their operations as quickly as possible.
 - With respect to AMIC-UK, it is a branch operation of an insolvent company, AMIC-ILQ. The Transfers will secure the payment of its policyholder liabilities in full and in a timely manner whereas the liquidation proceedings of the company may take several years to conclude and are highly unlikely to result in 100% payment of claims given the financial position of the parent.
 - In the case of AMIL, which is a solvent subsidiary of an insolvent parent (AMIC-ILQ), the Scheme will confer a degree of certainty with respect to the future

payment and handling of any contingent claims that may arise. Also, the Scheme will confer security to the AMIL policyholders as there will be no more risk arising as a result of the liquidation proceedings of AMIC-ILQ.

4. The Scheme is likely to have a beneficial impact on the estate of AMIC-ILQ, since the Transfers facilitate the closure of AMIL and AMIC-UK which will lead to reduced costs and administration. This will enable the New York Liquidation Bureau to progress with its closure strategy of AMIC-ILQ.
5. The transferring liabilities in the statutory accounts are small in relation to those of Bothnia, representing approximately 0.4% of the claims provisions net of reinsurance.
6. There is no material adverse impact to the Transferring Policyholders of AMIL and AMIC-UK and there is no material adverse impact to the policyholders and creditors of AMIC-ILQ.
7. The Scheme will have a positive impact on the affected policyholders with respect to non-financial matters, in particular:
 - The administration of claims and policyholder rights will be the responsibility of Bothnia, which has an appropriate claims management infrastructure and greater resources than that of AMIL and AMIC-UK. Bothnia has a forward-looking business plan with the objective of assimilating and running-off additional portfolios at a profit as opportunities present themselves, whereas the Transferors are either the subject of liquidation proceedings (AMIC-UK) or a subsidiary of an entity in liquidation (AMIL)
 - Bothnia is subject to the regulatory jurisdiction of the Finnish Financial Supervisory Authority who have implemented Solvency II which requires rigorous governance processes and controls over business operations and the maintenance of prescribed levels of regulatory capital. Should the Transfers not take place then the requirement for full regulatory compliance will fall upon the Transferors, whose resources are limited due to AMIC-ILQ's liquidation; the Transfers will ensure that the Transferring Policyholders will benefit from Bothnia's Solvency II compliance regime.
8. Reinsurers of AMIL and AMIC-UK, other than the whole account quota share provided by Bothnia, who are subject to the Scheme are not materially affected since the nature of the claims to which they are exposed is not changed as a consequence of the Scheme.
9. The administration of the remaining reinsurance programmes is likely to be improved as a result of the extensive resources which Bothnia and the Compré Group can deploy.
10. The Report identifies the potential uncertainty introduced to the Transferring Policyholders as a result of the UK referendum to leave the EU ("**Brexit**"). While there is an increase in the level of uncertainty to which the Transferring Policyholders are exposed as a result of Brexit, the conclusion of the Report is that given the likely outcome of Brexit negotiations it is unlikely that it will have a direct adverse impact on the Transferring Policyholders.

Supplementary report of the Independent Expert

The Independent Expert intends to prepare a supplementary report on the Scheme shortly before the Court hearing in order to update the Independent Expert's Report. Copies of the supplementary report will be made available at <http://compre-group.com/AMIL-AMIC-UK-Bothnia-part-vii-information> and free of charge from Compre Services (UK) Limited, 4th Floor, St Clare House, 30-33 Minories, London EC3N 1DD.