



# **Supplementary Report of the Independent Actuary**

**Proposed transfer of business from  
PartnerRe Ireland Insurance dac to  
Bothnia International Insurance  
Company Limited**

**22 September 2020**



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# 1 Introduction

An Independent Actuary's Report ("Report") dated 29 May 2020 has been prepared in order that the Irish High Court ("the Court"), the Central Bank of Ireland ("CBI"), the Finanssivalvonta Finansinspektionen Financial Supervisory Authority (the "FIN-FSA"), the policyholders and other affected parties may properly assess the impact of the proposed transfer of insurance business (the "Scheme"). The proposed Scheme involves the transfer of the wholesale non-life insurance business run-off portfolio of PartnerRe Ireland Insurance dac ("PartnerRe") to Bothnia International Insurance Company Limited ("Bothnia") together known as the "Scheme Companies".

The proposed transfer of insurance business from one entity to another must be approved by the Court. In addition, the CBI (the regulator of PartnerRe) and the FIN-FSA (the regulator of Bothnia) will be consulted. The terms covering the proposed Scheme are set out in the Scheme document that was presented to the Court for the Directions Hearing on 22 June 2020. I refer to that document as the "Scheme of Transfer". It is anticipated that the Scheme of Transfer will be presented to the Court under Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015 on 9 October 2020 for final approval with a proposed effective date of 31 October 2020 ("Effective Date").

The Report describes the Scheme and considers the potential impact and benefits on all affected policyholders (of both Scheme Companies), including the security of their policy and the levels of service that policyholders should expect to receive after the transfer. The full Report is available free of charge to any policyholder of the Scheme Companies or any person having sufficient interest in the Transfer, who requests such copies and to any relevant parties on the Compre Group website, the PartnerRe website and at the registered offices of each of the Scheme Companies.

In my Report I noted my intention to issue a Supplementary Report containing an update on any developments that may have occurred in the period since the Directions Hearing to clarify whether any changes have had any impact on the conclusions set out in the Report. This is my Supplementary Report.

# 2 About the Independent Actuary

I am a Director in KPMG Ireland, a global consultancy providing audit, tax and advisory services. I am a Fellow of the Society of Actuaries in Ireland with more than 20 years' experience of working in the non-life insurance industry in Ireland. I have previously conducted similar Independent Actuary roles with respect to businesses in Ireland. My full biography is included in the Report (available as detailed in the previous section).

### 3 Use and Limitations

The Terms of Reference, Restrictions and Reliances and Limitations as set out in the Report also apply to this Supplementary Report except that this Supplementary Report is based on all information made available to me at or prior to the date of this Supplementary Report and takes no account of developments after that date.

This Supplementary Report should be read in conjunction with the Report. Both this Supplementary Report and the Report must be considered in their entirety. Individual sections, if considered in isolation, may be misleading.

All defined terms set out in the Report have the same meanings in this Supplementary Report.

Neither the Supplementary Report, nor any extract from it, may be published without my specific written consent having been given. Copies of the Report have been made available for inspection by policyholders and shareholders of the Scheme Companies and copies may be provided to any person requesting the same in accordance with legal requirements or any order of the Court.

As noted in my Report, due to commercial sensitivities some of the information I have relied upon to reach my conclusions cannot be disclosed in a public report such as this. This approach has been discussed and agreed with PartnerRe, Bothnia, their legal advisors and the CBI which is in line with the approach I followed for my Report. I can confirm however that appropriate detailed information has been provided to me to enable me to form the opinions I express to the Court in this Supplementary Report. If specifically required by the Court, I can comment in a private letter addressed to the High Court Judge only on specific areas of interest.

My Supplementary Report is set out below.

## 4 Developments since 29 May 2020 Report

### 4.1 Changes to Scheme

I note that there are no proposed changes to the Scheme.

### 4.2 Directions Hearing

I note that other than producing this Supplementary Report the Court had no further directions for me in my capacity as the Independent Actuary to the Scheme.

### 4.3 Transferring Portfolio

In section 4.2.2 of my Report I included detail of 2,040 open claims at an outstanding claims amount (i.e. excluding IBNR estimates) of €19.6m relating to the Transferring Portfolio.

I now understand that the total figures provided to me excluded a number of open claims and that the actual position as at 31 December 2019 was an open claim count of 2,128 with an unchanged outstanding claims amount of €19.6m.

I am satisfied that the error in the 31 December 2019 claim count would not have impacted the conclusions as set out in my Report as the case reserve estimates were unaffected. I am further satisfied that this error occurred when PartnerRe relayed Nexus claims information to me and that the correct claims information has been provided by PartnerRe and Nexus to Bothnia.

As at 30 June 2020 there were 1,798 reported outstanding claims relating to the Transferring Portfolio, across 24 jurisdictions. Most of the claims outstanding arise from the 2 main countries, United Kingdom and Italy.

This represents a reduction in the total count of open claims of 330 with 215 fewer Italy claims, 86 fewer UK claims and 29 fewer claims in other jurisdictions.

Total paid claims over the six-month period to 30 June 2020 were approximately €4.8m, total case reserves increased by approximately €3.8m which will be offset somewhat by favourable exchange rate movements. These claim movements are broadly in line with expectations and as at 30 June 2020 Bothnia's ultimate loss estimates are unchanged while PartnerRe's are slightly higher when compared to 31 December 2019 figures.

#### 4.4 GAAP and Solvency II Reserving Levels

The following table summarises PartnerRe and Bothnia's reserving levels on a local GAAP basis as at year end 2019 and 30 June 2020 which is the most recent available management information.

GAAP reserves €millions	PartnerRe		Bothnia	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Gross claims reserve	240.6	262.6	250.9	251.5
Ceded	(216.3)	(238.5)	(144.9)	(135.7)
<b>Net of Reinsurance claims reserve</b>	<b>24.3</b>	<b>24.1</b>	<b>105.9</b>	<b>115.8</b>

The level of net booked reserves in Bothnia has reduced by €9.9m, largely driven by:

- Favourable run-off and a reduction in net ultimate losses of €1.5m;
- Net claim payments of €6.5m in the six months to 30 June 2020;
- Exchange rate movements of €2.4m; and
- Increase of €0.3m in as a result of acquisitions that were completed during 2020 and which were noted in my Report.

Bothnia's 30 June 2020 best estimate of gross ultimate losses in respect of the PartnerRe portfolio are broadly unchanged from 31 December 2019. The level of booked gross reserves are approximately €6.9m lower due to €4.8m paid losses and €2.1m favourable exchange rate movements.

The overall level of net booked reserves in PartnerRe is largely unchanged given the level of reinsurance in place. PartnerRe's best estimate of gross claims reserve in respect of the transferring portfolio has reduced in line with paid losses offset somewhat by marginal increase in expected ultimate losses.

The following table summarises PartnerRe and Bothnia's reserving levels on a Solvency II basis as at year end 2019 and 30 June 2020 which is the most recent available management information.

Solvency II reserves €millions (excl. Risk Margin)	PartnerRe		Bothnia	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Claims Provision	243.7	261.9	223.8	213.7
Premium Provision	40.3	31.8	-	-
<b>Total Gross Best Estimate</b>	<b>284.0</b>	<b>293.7</b>	<b>223.7</b>	<b>213.7</b>
Claims Provision ceded	(211.6)	(231.3)	(127.3)	(117.5)
Premium Provision ceded	(41.7)	(31.4)	-	-
<b>Total Reinsurance Recoveries</b>	<b>(253.3)</b>	<b>(262.7)</b>	<b>(127.3)</b>	<b>(117.5)</b>
Claims Provision	32.1	30.6	96.5	96.2
Premium Provision	(1.4)	0.4	-	-
<b>Total Net Best Estimate</b>	<b>30.7</b>	<b>31.0</b>	<b>96.5</b>	<b>96.2</b>

The level of Bothnia's net Technical Provisions is broadly unchanged from 31 December 2019. This is due to the movement in GAAP reserves described above being offset due to a shift in the yield curve and a reduction to the discounting benefit.

As was the case for PartnerRe's GAAP reserves, given the level of reinsurance protection in place PartnerRe's Solvency II Technical Provisions are broadly in line with the 31 December 2019 position.

## 4.5 Solvency Capital Requirement

The following table summarises PartnerRe and Bothnia's SCR calculations as at year end 2019 and 30 June 2020 which is the most recent available management information.

SCR €m	PartnerRe		Bothnia	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Non-Life Underwriting	25.5	25.4	33.7	34.4
Market	15.4	15.7	5.0	9.4
Counterparty Default	23.1	23.7	5.7	6.6
Diversification	(15.2)	(15.4)	(4.7)	(5.9)
<b>Basic SCR ("BSCR")</b>	<b>48.8</b>	<b>49.5</b>	<b>39.8</b>	<b>44.4</b>
Operational	8.5	8.8	5.5	5.4
LACDT	0.0	0.0	(1.7)	(3.1)
<b>SCR</b>	<b>57.4</b>	<b>58.3</b>	<b>43.6</b>	<b>46.8</b>

The level of SCR for Bothnia has reduced from €46.8m as at 31 December 2019 to €43.6m as at 30 June 2020. This is largely due to the following:

- Reduction in Non-Life Underwriting Risk charge as a result of lower level of claims reserves;
- Reduction in Market Risk as a result of improved currency matching; and
- Offset somewhat by reduced Loss Absorbing Capacity of Deferred Tax adjustment as a result of reduced deferred tax liabilities held on the Solvency II balance sheet.

The level of SCR for PartnerRe has remained broadly unchanged from 31 December 2019 audit regulatory returns.

- There was an increase to Counterparty Default Risk at Q1 2020 due to a reduction in collateral held with Bothnia being greater than the movement in corresponding recoverable;
- This movement was offset during Q2 2020 as a result of the settlement of outstanding inter-company balances with Partner Reinsurance Europe SE.

## 4.6 Covid-19

As at 2020 Q2 the impact related to Covid-19 losses has been estimated by PartnerRe at €1m Gross, mainly due to Event Cancellation. PartnerRe has received 66 preliminary Business Interruption claim notifications, the majority of which are on property policies that typically attach in excess of explicit coverage limit for communicable disease e.g. US\$ 1 – 10m.

Bothnia are not materially exposed to Covid-19 related losses as portfolios are typically in run-off with limited amounts of exposure to the 2020 accident period.

One area of uncertainty due to Covid-19 is the potential lower premium volumes for PartnerRe e.g. Casualty and Aviation, which will translate into lower future profits. PartnerRe does however expect this



to be largely offset by strong growth in the property lines as a consequence of the market hardening despite Covid-19.

Bothnia's business plans will be impacted by the likely level of future M&A activity following the economic impacts of Covid-19. While activity may have fallen initially it is expected to increase as companies review strategies and strengthen capital through consolidation.

From an operational perspective both PartnerRe and Bothnia have been able to operate remotely with no noticeable drop in service levels.

#### **4.7 Policyholder queries, complaints and objections in relation to the Scheme**

The financial regulators of Spain, Norway and Malta have requested that PartnerRe notify policyholders in their jurisdictions in advance of the Sanctions Hearing. Communications have been issued during August and September 2020.

The Spanish regulator raised a query in relation to Bothnia's permissions to transact business in Spain. I understand Bothnia has permission to transact business in Spain under Freedom of Services ("FoS") and is registered to do so on the Directorate General for Insurance and Pensions Funds (in Spanish the "Dirección General de Seguros y Fondos de Pensiones" or "DGS") website. The DGS has subsequently issued a letter of no objection to the CBI.

Post-sanction, the Italian financial regulator has asked that policyholders in Italy are notified of the transfer in line with their regulations and PartnerRe have confirmed to me that this notification will take place.

I also understand that communications have been issued to the MGAs and reinsurer of the transferring business during July 2020. Three MGAs which did not receive their letters have been sent email notifications of the Scheme during August 2020 and have acknowledged receipt of the same.

As at the date of this Supplementary Report there have been no policyholder queries, complaints and objections in relation to the Scheme.

#### **4.8 Completed acquisitions**

During Q2 2020 Bothnia completed one portfolio acquisition in relation to AG ("Project Antwerp") with a premium payable from AG to Bothnia of €19.5m (including €0.8m of deposits). Bothnia placed an outwards intra-group reinsurance to London & Leith Insurance PCC SE ("LLSE") in relation to this acquisition with a premium payable to LLSE of €18.5m. This acquisition is fully reflected in Bothnia's 30 June 2020 financials with exposure modelled on a non-ring-fenced fund basis.

#### **4.9 Covéa**

Following the impact of the Covid-19 pandemic on global equities Covéa announced that it could not complete the purchase under the agreed terms. I understand that Covéa will make confidential indemnity, or break-up fee, to PartnerRe's ultimate parent Exor. The failure to close this deal is not expected to have any meaningful impact on PartnerRe's business strategy and credit profile in the short-term, and that the current management will remain in place.

## 5 Assessment of financial position at 30 June 2020

In this section I provide an update on the financial position of the Scheme Companies pre and post transfer.

### 5.1 Current Capital Position

The 30 June 2020 capital and solvency positions of the Scheme Companies pre and post transfer are set out in the table below.

Solvency II Coverage €millions	PartnerRe		Bothnia	
	Pre transfer	Post transfer	Pre transfer	Post transfer
Eligible funds to meet SCR	109	111	65	69
SCR	57	46	44	44
Surplus Own Funds	52	65	21	25
<b>SCR Coverage %</b>	<b>190%</b>	<b>240%</b>	<b>149%</b>	<b>158%</b>

This compares to the positions as at 31 December 2019 shown below and presented in my Report.

Solvency II Coverage €millions	PartnerRe		Bothnia	
	Pre transfer	Post transfer	Pre transfer	Post transfer
Eligible funds to meet SCR	102	104	73	76
SCR	58	54	47	46
Surplus Own Funds	44	50	26	31
<b>SCR Coverage %</b>	<b>176%</b>	<b>192%</b>	<b>156%</b>	<b>167%</b>

PartnerRe's pre and post-Transfer solvency ratio has increased from those at 31 December 2019 to 190% and 240% at 30 June 2020 respectively:

- Own Funds have increased by approximately €7m mainly due to a market rebound and an increase in investments and to a lesser extent as a result of positive actual versus expected experience and new business.
- Post-Transfer SCR estimates as at 30 June 2020 are lower than those as at 31 December 2019 due to reduced Counterparty Default Risk calculations. I understand that the yearend 2019 estimates were approximate and didn't fully allow for reduced exposure to Bothnia.

Bothnia's pre and post-Transfer solvency ratio has reduced by approximately 7% from 31 December 2019 to 30 June 2020:

- A reduction in Own Funds due to a change in yield curves impacting discounted value of Technical Provisions.

■ *I note for the Transferring Policyholders of PartnerRe:*

- *They will become policyholders of Bothnia with solvency coverage of 158% post-Transfer, were it to take place at 30 June 2020, which in my opinion is a strong financial position and is in excess of the risk appetite of Bothnia;*
- *I note that the solvency coverage of Bothnia may not be maintained post-Transfer as it would likely continue to operate within its Risk Appetite Statement (“RAS”) releasing capital from the business in excess of the Strategic Solvency Target (“SST”) of 120%. While the level of capital coverage in this case would be lower in Bothnia than in PartnerRe, the level of anticipated solvency coverage in Bothnia after the Transfer is in excess of the regulatory requirement. I note that the regulatory SCR coverage requirement is calibrated at the level of a one in 200 year event, and as a result a coverage ratio of 120% implies that a very extreme event (i.e. more than one in 200 year) would need to occur for the capital to be exhausted.*
- *There will be an absolute level of eligible capital available to meet claims in stressed circumstances of €69m were the Transfer to take place on 30 June 2020 and solvency coverage of 158% to be maintained;*
- *In the case where capital is released to target solvency coverage of 120% the absolute level of eligible capital available to meet claims in stressed circumstances would be approximately €50m; and*
- *The change in risk profile for the Transferring Policyholders does not materially impact the security of benefits and I have been provided with stressed and scenario testing.*

■ *I note for the Remaining Policyholders of PartnerRe:*

- *Were the Transfer to take place at 30 June 2020, the level of solvency cover would increase from 190% before the Transfer to approx. 240% after the Transfer.*

■ *I note for the Existing Policyholders of Bothnia:*

- *Were the Transfer to take place at 30 June 2020, the level of solvency cover would increase from 149% to 158%; and*
- *The change in risk profile by accepting the Transferring Policyholders does not materially impact the security of benefits and I have been provided with stress testing solvency coverage for the key drivers of risk-based capital.*

## 5.2 Projected Capital Position

I have been provided with updated capital projections and scenarios which allow for most recent financial information including the impact of Covid-19.

The following table set out PartnerRe's capital position under various stressed scenarios. None of these stresses, including a combination of stressed events results in a breach of the SCR.

Scenarios	PartnerRe 30 June 2020	
	Solvency	Impact
Current solvency coverage	190%	
Corporate Bond Default of €5m	182%	-8%
FX - 20% depreciation in EUR	186%	-4%
Gross loss €100m / Net loss €10m	175%	-15%
Gross loss €100m / Net loss €24m	153%	-37%
Gross loss €500m / Net loss €24m	153%	-37%
Gross loss €1,000m / Net loss €24m	153%	-37%
Combined Corporate Bond Default of €5m; 20% EUR depreciation; Gross €1,000m loss	141%	-49%
Combined Corporate Bond Default of €2.5m; Compre Default	205%	+15%

The following table sets out Bothnia's projections. The capital and solvency positions have changed from that presented in my Report as these projections use a reference date of 31 December 2019 and revised 2020-2022 business plans. The financial projections shown in my Report used a reference date of 31 December 2018 and the 2019-2022 business plan.

- The updated financial projections show additional portfolio transfers that have been reinsured by Bothnia before being 100% ceded to LLSE;
- The regulatory view of capital is expected to be comfortably in excess of 100% over the planning time horizon. Furthermore, the stress testing summarised in the table below, does not raise significant concerns regarding the resilience of Bothnia to withstand the economic impact of shocks over the planning horizon.

Bothnia Projected SCR Coverage €m	2020	2021	2022
Total Assets	342.2	350.0	357.7
Total Liabilities	296.5	298.1	300.3
Excess Assets over Liabilities (tier 1 capital)	45.7	51.9	57.4
Subordinated Loans (tier 2 capital)	24	24	24
Eligible Funds to meet SCR	69.7	76.0	81.4
<b>SCR</b>	<b>58.1</b>	<b>63.3</b>	<b>67.8</b>
<b>SCR Coverage</b>	<b>120%</b>	<b>120%</b>	<b>120%</b>
<b>Surplus Own Funds</b>	<b>11.6</b>	<b>12.7</b>	<b>13.6</b>

## 5.3 Conclusion

Based on the updated financial analysis provided, my assessment of the Scheme in respect of policyholder security is unchanged in the period, namely that, in my opinion, the risk to policyholder security is remote. Therefore, in my view, policyholders will not be adversely affected by the proposed Scheme.

## 6 Assessment of Scheme on policyholder reasonable expectations

I set out in my Report consideration of the likely effects of the Scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases insofar as they might affect the ability of the Scheme Companies to meet the reasonable expectations of policyholders. I also considered the cost of the Scheme and the tax effects of the Scheme insofar as they might impact on the security of policyholders' contractual rights.

I have reviewed changes to the proposed management of the business post transfer and in my opinion there are no changes insofar as they might impact on the security of policyholders' contractual rights. Therefore my assessment of the Scheme on the reasonable expectations of policyholders is unchanged in the period.

## 7 Update on other developments and matters

In this section I provide an update on any other developments or matters in the period since the Directions Hearing.

In Section 2.1.7 of the Report, I set out areas where I would consider further given the passage of time and activities the Scheme Companies were undertaking. These include the following:

- I have confirmed with PartnerRe and Bothnia that the CBI nor other financial regulators have raised any issues with the proposed Transfer;
- I have reviewed business performance in the period. Given commercial sensitivities I do not comment in detail other than to show updated financial and capital information above;
- I have considered market developments in the period and Covid-19 in particular which does not give rise to any concerns;
- I have confirmed that reinsurers which are transferring with the PartnerRe business have not raised any issues with the proposed Transfer; and
- I have included updated regulatory capital figures and forecast projections in the tables above.

I comment below on other material matters including regulatory matters that I have considered as part of issuing this Supplementary Report:

- I have reviewed the financial position of LLSE a Compre Group company as Bothnia reinsure the transferring portfolio 100% to LLSE. I note that LLSE's 30 June 2020 SCR coverage is 130% slightly lower than that as at 31 December 2019 of 135%. Were the transfer to take place 30 June 2020 there would be no impact on LLSE's solvency coverage as LLSE already reinsures the Transferring

Policyholders. For the Transferring Policyholders the available funds to meet liabilities will include excess funds at LLSE i.e. €14.8m which compares to excess funds of €16.9m at 31 December 2019.

- I have discussed with PartnerRe and Bothnia whether there have been changes or updates to the systems of governance and I am satisfied that the structure and operation of corporate governance of Bothnia and PartnerRe is reasonable and impacted Policyholders will not be adversely impacted by the Scheme; and
- I have confirmed with PartnerRe and Bothnia that the Scheme is not expected to have tax implications that would materially adversely affect any policyholders impacted by the portfolio transfer under the Scheme. I note again that I am not a tax expert and am relying on advice provided by the Scheme Companies.

## 8 Conclusion update

Based on the proforma financial analysis presented above and my consideration of developments since 29 May 2020, my conclusions remain unchanged from Section 2.2 of the Report; namely that, in my opinion:

- The security of benefits to policyholders of PartnerRe and Bothnia will not be adversely affected by the implementation of the Scheme on the Effective Date;
- The Scheme will not have an adverse effect on the reasonable benefit expectations of any of the policyholders involved; and
- The Scheme will not have an adverse impact on the policy servicing levels currently experienced by the policyholders of PartnerRe and Bothnia.



22 September 2020

**Noel Garvey, FSAI**

Date

*Independent Actuary KPMG in Ireland*

# Appendix 1 – Data

In addition to a number of telephone conversations, email exchanges and meetings I have received a large amount of information. A summary of the key documents is shown below:

- Regulatory returns QRTs as at 30 June 2020;
- Management accounts as at 30 June 2020;
- Bothnia’s DRAFT 2020 ORSA projections and accompanying report; and
- PartnerRe’s stressed 30 June 2020 solvency coverage projections.

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