

*Summary Report of the Independent Actuary on the
proposed transfer of insurance business from*

***AmTrust International Underwriters
Designated Activity Company***

to

***Bothnia International Insurance Company
Limited***

*in accordance with Section 13 of the Assurance
Companies Act 1909*

30 November 2022

Prepared by
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LCP



*AmTrust International Underwriters Designated Activity Company to
Bothnia International Insurance Company Limited
Transfer of insurance business
Summary of the Independent Actuary's Scheme Report for the
High Court of Ireland*

1. The Proposed Transfer

The firms involved

AmTrust International Underwriters Designated Activity Company (AIUD or Transferor) is a non-life insurance company incorporated in Ireland in 1991 and registered under number 169384 and is part of the AmTrust group of companies.

Bothnia International Insurance Company Limited (Bothnia or Transferee) is a limited liability insurance company incorporated in Finland in 1993 and registered under number 0947118-3 and is part of the Compre group of companies.

Pallas Reinsurance Company Ltd. (Pallas Re) is a reinsurance company incorporated in Bermuda and registered under number 55121. Pallas Re currently reinsures the Transferring Business through a 100% quota share reinsurance arrangement with AIUD and is part of the Compre group of companies. It provides an 85% quota share agreement to Bothnia and this will include the Transferring Business post-transfer.

The Transferring Business

AIUD writes a number of insurance classes including a portfolio of French Medical Malpractice (FMM) business providing cover for around 200 French hospitals. The Proposed Transfer (Scheme), in accordance with Section 13 of the Assurance Companies Act 1909, is to transfer all of the FMM liabilities of AIUD (Transferring Business) to Bothnia. All rights and obligations of AIUD relating to the Transferring Business will also be transferred to Bothnia.

The FMM business was placed in run-off by AIUD in 2021, although there remains some unexpired exposure into 2023 due to mandatory renewals of a number of policies. AIUD wishes to transfer this business as part of its overall plans to improve the capital efficiency of the company. Bothnia is a specialist writer of run-off portfolios.

Effective Date

The Effective Date is expected to be 1 April 2023, shortly after the Sanctions Hearing which is scheduled for 14 March 2023.

Reinsurance

In anticipation of the Proposed Transfer, the FMM business was 100% reinsured effective from 1 January 2022 via a quota share arrangement with Pallas Re. At the point of the Proposed Transfer, this reinsurance will be commuted.

On 1 October 2022, a quota share reinsurance agreement was agreed between Pallas Re and Bothnia whereby Pallas Re provides an 85% reinsurance of Bothnia's whole portfolio. This reinsurance will include the liabilities from the Transferring Business from the Effective Date.

This 85% quota share agreement replaced a prior reinsurance agreement between London & Leith Insurance PCC SE (part of the Compre group of companies) and Bothnia which was commuted on the same date the quota share agreement was put in place.

Claims handling

There will be continuity of claims handling and administration for the FMM claims as they will be handled by the same entity pre- and post-transfer (see section 9 of my Scheme Report for more details).

Claims handling for Remaining AIUD Policyholders and Existing Bothnia Policyholders will be unchanged as a result of the Proposed Transfer.

2. My role as Independent Actuary

AIUD and Bothnia have jointly appointed me to act as the Independent Actuary (IA) for the Proposed Transfer. The CBI has been notified of my appointment.

As IA my overall role is to assess whether:

- The security provided to policyholders of AIUD and Bothnia will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any adverse impact on service standards experienced by policyholders.

3. The IA's Scheme Report

This is a summary of my full Scheme Report, "Scheme Report of the Independent Actuary on the proposed transfer of insurance business from AmTrust International Underwriters Designated Activity Company to Bothnia International Insurance

Company Limited in accordance with Section 13 of the Assurance Companies act 1909”.

A copy of the full Scheme Report is available for download free of charge at amtrustfinancial/amtrustinternational/legal/portfolio-transfers and <https://compre-group.com/notices/amtrust-international-underwriters-dac/>.

I will also prepare a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions on the Proposed Transfer, based on any new material or issues that arise including any objections raised by any interested parties.

4. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer on the following three sets of policyholders:

- **Remaining AIUD Policyholders**, ie AIUD policyholders whose liabilities will remain with AIUD after the Proposed Transfer.
- **Transferring AIUD Policyholders**, ie AIUD policyholders whose liabilities will transfer to Bothnia as a result of the Proposed Transfer.
- **Existing Bothnia Policyholders**, ie policyholders of Bothnia immediately prior to the Proposed Transfer, who will remain with Bothnia after the Proposed Transfer.

In drawing my conclusions, I have considered the impact of the Proposed Transfer on all underlying Claimants and Beneficiaries (these terms are further explained in section 4 of my Scheme Report).

5. Remaining AIUD Policyholders

I have concluded that the security provided to Remaining AIUD Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that there will be no material impact on service standards for Remaining AIUD Policyholders following the Proposed Transfer.

All AIUD’s current policyholders, other than the FMM policyholders whose liabilities are transferring to Bothnia, will remain with AIUD post-transfer. The Transferring Business represents 100% of AIUD’s FMM business.

Summary rationale:

- The Remaining AIUD Policyholders will remain within AIUD and so will be subject to the same AmTrust group policies as before the Proposed Transfer.

- I am satisfied that the techniques and approaches used to calculate the Solvency II and GAAP technical provisions for the Remaining AIUD Policyholders are appropriate, and AIUD has confirmed that these will be materially unchanged post-transfer.
- I am satisfied that the best estimate liabilities of the Transferring Business as calculated by AIUD and Bothnia are within a reasonable range of best estimates.
- As the FMM business is currently 100% reinsured, there will be no change, for Remaining AIUD Policyholders, to the net of reinsurance exposure as a result of the Proposed Transfer.
- The SCR coverage ratio for Remaining AIUD Policyholders is expected to increase from 151% to 163% as a result of the Proposed Transfer. I do not consider the security provided to Remaining AIUD Policyholders to be materially adversely affected as the coverage ratio increases and AIUD will remain well capitalised.
- AIUD is expected to remain well capitalised on an ongoing basis until at least December 2024. The planned dividend payments will be amended if necessary so that the SCR coverage ratio remains above 150%.
- I am satisfied that AIUD is expected to remain able to pay claims under a range of plausible but relatively extreme scenarios, and also under a more extreme reverse stress test.
- The impact of the scenarios on Remaining AIUD Policyholders is not materially different pre- and post-transfer, although I note the impact is slightly less post-transfer.
- AIUD is not planning any material changes to how its non-FMM business is carried out. In particular, there are no plans to change how Remaining AIUD Policyholders are serviced following the Proposed Transfer.
- There will be no change in claims handling or service standards for Remaining AIUD Policyholders as a result of the Proposed Transfer.

6. Transferring AIUD Policyholders

I have concluded that the security provided to Transferring AIUD Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that there will be no material impact on service standards for Transferring AIUD Policyholders following the Proposed Transfer.

AIUD has identified c. 580 FMM policies relating to the Transferring Business and Transferring AIUD Policyholders, which are all hospitals located in France or Saint-Barthélemy which is an overseas collectivity ie administrative division of France (French hospitals). The Transferring Business represents 16% of AIUD's business based on gross booked provisions as at 30 June 2022, and 12% of net of reinsurance provisions.

Summary rationale:

- I am satisfied that the techniques and approaches used to calculate the Solvency II and GAAP technical provisions by Bothnia are appropriate, and Bothnia has confirmed that these will be materially unchanged post-transfer.
- I am satisfied that the best estimate liabilities of the Transferring Business as calculated by AIUD and Bothnia are within a reasonable range of best estimates.
- The FMM liabilities are relatively large compared to Bothnia's liabilities as at 30 June 2022, but post-transfer the liabilities will be 85% reinsured with Pallas Re, who reinsure the business 100% pre-transfer.
- The Transferring Business is reinsured by the same reinsurer pre- and post-transfer, although the level of reinsurance drops from 100% to 85%. The reinsurance will continue to be collateralised.
- The SCR coverage ratio for Transferring AIUD Policyholders is expected to increase from 151% (AIUD pre-transfer) to 169% (Bothnia post-transfer) as a result of the Proposed Transfer. I do not consider the security provided to Transferring AIUD Policyholders to be materially adversely affected as the SCR coverage ratio increases and Bothnia will be well capitalised, as was AIUD pre-transfer.
- Further, Bothnia's SCR coverage ratio is projected to increase post-transfer until at least December 2024 when Bothnia will become very well capitalised. Bothnia has confirmed that it is not currently contemplating any other material transfers into Bothnia which do not require regulatory approval.
- I am satisfied that Bothnia is expected to remain able to pay claims under a range of plausible but relatively extreme scenarios, and also under a more extreme reverse stress test.
- Bothnia is an EEA entity so the Transferring AIUD Policyholders business will continue to be regulated in the EEA following the Proposed Transfer. I have concluded that the rights of policyholders in respect of access to compensation schemes, eg the Irish Insurance Compensation Fund which only covers risks located in Ireland, will not change as a result of the Proposed Transfer.

- As the claims handling and administration service to the FMM policyholders will be performed by the same team and entity pre-and post-transfer, then there will be no change to the level of service received by the Transferring AIUD Policyholders.

7. Existing Bothnia Policyholders

I have concluded that the security provided to Existing Bothnia Policyholders will not be materially adversely affected by the Proposed Transfer. I have concluded that there will be no material impact on service standards for Existing Bothnia Policyholders following the Proposed Transfer.

At the Effective Date of the Proposed Transfer, Existing Bothnia Policyholders are projected to represent 54% and 70% of Bothnia's projected post-transfer gross and net of reinsurance technical provisions respectively.

Summary rationale:

- The Existing Bothnia Policyholders will remain within Bothnia so will be subject to the same Compre group policies as before the Proposed Transfer.
- I am satisfied that the techniques and approaches used to calculate the Solvency II and GAAP technical provisions for Bothnia are appropriate, and Bothnia has confirmed that these will be materially unchanged post-transfer.
- The FMM liabilities are relatively large compared to Bothnia's liabilities as at 30 June 2022, but post-transfer the liabilities will be 85% reinsured with Pallas Re, who reinsure the business 100% pre-transfer.
- The SCR coverage ratio for Existing Bothnia Policyholders is projected to decrease from 219% to 169% after the Proposed Transfer but Bothnia remains well capitalised.
- The decrease in SCR coverage ratio from 219% to 169% would appear to be a significant reduction. However, the SCR is calibrated such that a 100% coverage ratio would equate to a 0.5% probability of insolvency over the next year. A 169% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 169%, the difference in capital coverage ratios of 169% and 219% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, Bothnia's SCR coverage ratio is projected to increase post-transfer until at least December 2024 when Bothnia will be very well capitalised. Bothnia has confirmed that it is not currently contemplating any other material

transfers into Bothnia which do not require regulatory approval.

- Therefore, I have concluded that the changes in SCR coverage ratios as a result of the Proposed Transfer will not lead to any material adverse changes in the strength of capital protection for the Existing Bothnia Policyholders.
- I am satisfied that Bothnia is expected to remain able to pay claims under a range of plausible but relatively extreme scenarios, and also under a more extreme reverse stress test.
- Bothnia is not planning any material changes to how its existing business is carried out. In particular, there are no plans to change how Existing Bothnia Policyholders are serviced following the Proposed Transfer.
- There will be no change in claims handling or service standards for Existing Bothnia Policyholders as a result of the Proposed Transfer.

8. Impact of COVID-19 on the Proposed Transfer

AIUD suffered no significant adverse effect to its operational capabilities as a result of COVID-19. The pandemic has impacted the underwriting performance in some lines but there has been no material adverse effect on its financial position.

There is a government scheme in France so the FMM portfolio is not exposed to indemnity claims from the pandemic. One claim has been received due to treatment being delayed due to COVID-19 but this is not material.

Bothnia's exposure to COVID-19 is not expected to be material given the nature of its run-off portfolio.

9. Russia/Ukraine war

AIUD has no direct underwriting exposures in Russia or Ukraine although the longer term macro-economic impacts of the war are difficult to predict.

Bothnia, given the run-off nature of the portfolios it writes, has no direct exposure to the war but may be affected by the wider macro-economic impact of the war eg on investments. Bothnia has also adjusted its sanctions policy as a result of the war.

10. Inflation

AIUD allows for inflation implicitly in the IBNR reserves. In addition, a class specific load to allow for the risk of higher than expected inflation is added, depending on the drivers of inflation within the class.

For the FMM business, there are specific compensation rules in place which drive the calculation of awards. These will increase over time with inflation but the increases are relatively stable.

The business is exposed to cost of care increases eg nursing hourly rates but this will mainly impact the larger losses to which there is limited exposure.

I have considered the impact of higher than expected future inflation in the stress and scenario tests I asked AIUD and Bothnia to prepare for me, for example by considering the impact of higher loss ratios (see section 6.10 of my Scheme Report for more details).

11. Further information and next steps

Further details on my conclusions, and other supporting information, are set out in my full Scheme Report.

I will be reviewing these conclusions and preparing a Supplementary Report ahead of the Sanctions Hearing for the Proposed Transfer. The purpose of the Supplementary Report is to confirm and/or update my conclusions based on any new material or issues that arise.

Specific issues that I have highlighted in this report which require further review include:

- Any others transfers that could affect the Proposed Transfer;
- Updated reserves and capital positions;
- Any policyholder objections received; and
- Any changes to the detail of the Scheme.



Stewart Mitchell FIA

30 November 2022

Professional Standards

Our work in preparing this document complies with the following actuarial professional standards.

Issued by the Society of Actuaries in Ireland: ASP PA-2 General Actuarial Practice and ASP LA-6 Transfer of Long-Term Business of an Authorised Insurance Company.

Issued by the Financial Reporting Council: Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance.

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