Summary Report of the Independent Expert on the proposed transfer of insurance business from

Catalina London Limited and AGF Insurance Limited to Catalina Worthing Insurance Limited

in accordance with Part VII of the Financial Services and Markets Act 2000

For the High Court of Justice of England and Wales

12 July 2022

Prepared by

Stewart Mitchell FIA

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Catalina London Limited and AGF Insurance Limited to Catalina Worthing Insurance Limited
Transfer of insurance business
Summary of the Independent Expert's Scheme Report for the High Court of Justice of England and Wales

1. The Proposed Transfer

The firms involved

Catalina UK (CUK) is the sole shareholder of AGF, CLL and CWIL.

CUK's sole shareholder is Catalina General Insurance Limited (CatGen).

CUK's ultimate parent is Catalina Holdings (Bermuda) Limited (CHBL).

CUK operates the three firms on a consistent and unified basis. There are common boards and committees for each firm. All UK staff are employed by Catalina Services UK Limited (CSUK), which is a subsidiary of CUK.

Change in control for CUK was approved by the PRA and BMA and executed 29 April 2022.

The Transferring Business

It is proposed that all the liabilities of AGF and CLL (the Transferring Business) will transfer to CWIL via the Proposed Transfer on 30 November 2022. All rights and obligations of AGF and CLL relating to the Transferring Business will also be transferred to CWIL.

The transferring liabilities of AGF include UK Employer's Liability (EL) business including mesothelioma and asbestos exposures and abuse claims.

The transferring liabilities of CLL include US Asbestos, Pollution & Health (APH), UK Employer's Liability (EL) business including mesothelioma and asbestos exposures and sexual abuse claims.

Based on its claims system records, CSUK has identified the following numbers of policyholders with open claims as at 31 December 2021:

- AGF has outstanding loss or case reserves of £23.3m held against 523 policies relating to an estimated 479 policyholders;
- CLL has outstanding loss or case reserves of $18.9m held against 595 policies relating to an estimated 155 policyholders; and
- CWIL has outstanding loss or case reserves of £128.0m held against 6,898 policies relating to an estimated 1,019 policyholders.

The true number of policyholders is likely to be higher, but it is not possible or practicable to identify every policyholder with business written going back as far as the 1910s.

All policyholders of AGF and CLL will transfer to CWIL ie no policyholders will be left in AGF and CLL. Assets above the 140% solvency capital requirement coverage ratio will remain in AGF and CLL at the point of the Proposed Transfer but all other assets will transfer to CWIL. It is intended that CLL and AGF will be de-authorised following the Effective Date of the Proposed Transfer and following this the retained assets are intended to be paid out as dividends at a later date.

Effective Date

The High Court hearing at which the Court will consider whether or not to approve the Proposed Transfer (the Sanctions Hearing) is expected to be on the 18 November 2022 with the Effective Date of the Proposed Transfer being 30 November 2022.

The nature of the transferring liabilities

The transferring portfolios and CWIL are exposed to latent diseases including asbestos-related diseases. It can take 40 years or more before symptoms of asbestos-related diseases emerge. Such diseases are often fatal, and compensation awards can be significant. Given the long latency period of these diseases, claims are expected to continue to emerge for many years into the future, although the number of claims notifications is reducing as the portfolios have been in run-off for a material length of time. There remains however a high degree of uncertainty in the valuation of the reserves for the Transferring Business.

The portfolios are also exposed to other claims that will take a long time to emerge and settle eg pollution and sexual abuse claims.

Reinsurance

Reinsurance is an arrangement with another insurer (the reinsurer) to share or pass on risks. Reinsurance contracts may be underwritten by an external reinsurer or by a reinsurance entity in the same group.

AGF has a limited reinsurance programme in force with c. 9% of gross reserves recoverable from reinsurers as at 31 December 2021. There are 22 reinsurers of AGF's business with either an outstanding balance or allocated reserves, with the most material balances with three reinsurers.

CLL has a material outwards reinsurance programme with c. 43% of gross reserves recoverable from reinsurers as at 31 December 2021. There are 97 reinsurers with an outstanding balance or allocated reserves, with the most material balances with CatGen and four other reinsurers.

CWIL has around 450 live external reinsurers with live reinsurance contracts, most of which are not material. The most material external reinsurer is Equitas (Berkshire Hathaway). CatGen also provides an 80% quota share reinsurance of CWIL's whole book. This will remain in place following the Proposed Transfer, but will exclude the transferring liabilities from AGF and CLL. The quota share is collateralised externally at 120% of undiscounted net reserves and covers any bad debt arising from any external reinsurance.

Claims handling

Claims for AGF, CLL and CWIL are currently managed by CSUK, either in-house or through third party outsourced claims handling entities. Following the Proposed Transfer, claims handling will continue to be managed by CSUK for the combined CWIL entity. CSUK has confirmed there will be no change in policyholder service levels post-transfer as the Transferring Business will continue to be administered by the same employees of CSUK or the same outsourced service providers as before the Proposed Transfer.

2. My role as Independent Expert

CUK has appointed me to act as the Independent Expert (IE) for the Proposed Transfer. The Prudential Regulation Authority (PRA), in consultation with the Financial Conduct Authority (FCA), has approved my appointment.

As IE, my overall role is to assess whether:

The security provided to the policyholders of AGF, CLL and CWIL 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.

Any reinsurer of AGF or CLL covering the Transferring Business will be materially adversely affected by the Proposed Transfer.

3. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer on the following five groups of stakeholders:

'Transferring AGF Policyholders', ie AGF policyholders whose policies will transfer to CWIL as a result of the Proposed Transfer (being all policyholders of AGF).

'Transferring CLL Policyholders', ie CLL policyholders whose policies will transfer to CWIL as a result of the Proposed Transfer (being all policyholders of CLL).

Existing CWIL Policyholders', ie all policyholders of CWIL immediately prior to the Proposed Transfer, who will remain with CWIL after the Proposed Transfer.

Reinsurers of AGF covering the Transferring Business.

Reinsurers of CLL covering the Transferring Business.

No policyholders will remain insured by AGF or CLL after the Proposed Transfer.

In drawing my conclusions, I have considered the impact of the Proposed Transfer on all underlying Claimants and Beneficiaries.

4. The IE's Scheme Report

This is a summary of my full Scheme Report, "Scheme Report of the Independent Expert on the proposed transfer of insurance business from Catalina London Limited and AGF Insurance Limited to Catalina Worthing Insurance Limited in accordance with Part VII of the Financial Services and Markets Act 2000".

A copy of the full Scheme Report is available for download free of charge at www.catalinaworthing.co.uk/PartVII.html.

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.

5. Transferring AGF Policyholders

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

AGF's records indicate that as at 31 December 2021 there were 2,787 policies that had claims recorded against them (including paid claims). The true number of policyholders is materially higher given the business written goes back to the 1910's and includes EL exposure. It is impossible or impractical to identify all individual policyholders. The Transferring Business of AGF represents 100% of AGF's projected GAAP technical provisions as at the Effective Date.

Summary rationale:

The Transferring AGF Policyholders will remain within the Catalina group and CWIL is subject to the same group-wide policies as AGF.

The impracticality of identifying the true number of policyholders does not lead me to conclude that the Transferring AGF Policyholders are materially disadvantaged by the Proposed Transfer as all valid claims will continue to be paid.

CUK has confirmed that the transferring policies will continue to be reserved in the same way post-transfer as pre-transfer.

I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for the Transferring Business from AGF are appropriate and CUK has confirmed that these will be materially unchanged post-transfer.

AGF's provisions as at 30 June 2021 are higher (and therefore more prudent) than those of an independent external review.

The SCR coverage ratio for Transferring AGF Policyholders is expected to increase from 179% (AGF pre-transfer) to 200% (CWIL post-transfer) as a result of the Proposed Transfer. As such, I do not consider the security provided to Transferring AGF Policyholders to be materially adversely affected by this change in SCR coverage ratio. CWIL will be very well capitalised and the coverage ratio remains above CUK's risk appetite.

Further, CWIL is expected to be well capitalised and above CUK's risk appetite throughout the projected period to December 2024.

I have been provided with evidence that CatGen, a significant reinsurer of CWIL's existing business, is well capitalised. Reinsurance recoveries due from CatGen are collateralised at 120% of undiscounted net reserves.

I am satisfied that CWIL is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its existing business. For the scenarios considered, the Transferring AGF Policyholders are better protected post-transfer than pre-transfer. Given this, Transferring AGF Policyholders are not materially adversely affected as a result of the Proposed Transfer.

Although the level of regulatory capital held is based on the 1-year standard formula basis, I have also reviewed CUK's consideration of capital requirements on an ultimate basis using an unapproved economic capital model and through stress scenarios.

The Transferring AGF Policyholders will not lose access to any benefits or guarantees as a result of the Proposed Transfer.

CWIL is a UK authorised insurer so the Transferring AGF Policyholders will continue to be regulated in the UK following the Proposed Transfer. The rights of the policyholders in respect of access to the FSCS or FOS will not change as a result of the Proposed Transfer.

CSUK provides claims handling services for AGF, CLL and CWIL pre-transfer and will provide the same services for the combined CWIL entity post-transfer. This means there will be no change to the claims experience and there is continuity of service for Transferring AGF Policyholders.

6. Transferring CLL Policyholders

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

CLL's systems have c.118,000 policies recorded but only 15% policies have an identifiable policyholder or cedant name. In addition, there are no policy records for some of the business written by externally managed pools. Given this, it is impractical to identify all individual policyholders. The Transferring Business of CLL represents 100% of CLL's projected GAAP technical provisions as at the Effective Date.

Summary rationale:

- The Transferring CLL Policyholders will remain within the CUK group and CWIL is subject to the same group-wide policies as CLL.
- The impracticality of identifying the true number of policyholders does not lead me to conclude that the Transferring CLL Policyholders are materially disadvantaged by the Proposed Transfer as all valid claims will continue to be paid.
- CUK has confirmed that the transferring policies will continue to be reserved in the same way post-transfer as pre-transfer.
- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for the Transferring Business from CLL are appropriate and CUK has confirmed that these will be materially unchanged post-transfer.
- The SCR coverage ratio for Transferring CLL Policyholders is expected to decrease from 327% (CLL pre-transfer) to 200% (CWIL post-transfer) as a result of the Proposed Transfer. I do not consider the security provided to Transferring CLL Policyholders to be materially adversely affected by this by this change in SCR coverage ratio as CWIL will be very well capitalised and the coverage ratio remains above CUK's risk appetite.
- The decrease in SCR coverage ratio from 327% to 200% 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 200% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 200%, the difference in capital coverage ratios of 200% and 327% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, CWIL is expected to be well capitalised and above CUK's risk appetite throughout the projected period to December 2024.
- I have been provided with evidence that CatGen, a significant reinsurer of CWIL's existing business, is well capitalised. Reinsurance recoveries due from CatGen are collateralised at 120% of undiscounted net reserves.
- I am satisfied that CWIL is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its existing business. The impact of each scenario on the SCR coverage ratio is broadly similar for CLL pre-transfer and CWIL post transfer, although the CLL ratios are higher in each case. CLL is much smaller than CWIL and therefore more exposed to volatility. CLL will have the protection of a much larger balance sheet post-transfer and claims will still be paid in the scenarios I considered, even without the mitigation of any management actions.
- Although the level of regulatory capital held is based on the 1-year standard formula basis, I have also reviewed CUK's consideration of capital requirements on an ultimate basis using an unapproved economic capital model and through stress scenarios.
- The Transferring CLL Policyholders will not lose access to any benefits or guarantees (eg US Trust Funds or ILU guarantees) as a result of the Proposed Transfer.
- CWIL is a UK authorised insurer so the Transferring CLL Policyholders will continue to be regulated in the

UK following the Proposed Transfer. The rights of the policyholders in respect of access to the FSCS or FOS will not change as a result of the Proposed Transfer.

- CSUK provides claims handling services for AGF, CLL and CWIL pre-transfer and will provide the same services for the combined CWIL entity post-transfer. This means there will be no change to the claims experience and there is continuity of service for Transferring CLL Policyholders.

7. Existing CWIL Policyholders

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

CSUK has identified c. 188k different policyholder codes for CWIL policies in their system. There are likely to be multiple codes for the same policyholder, and also considerable policyholder consolidation since the policies were input to the system, but also not all policies will be on the system. Therefore, the true number of Existing CWIL Policyholders as at the Effective Date may be materially higher but it is impractical to identify all individual policyholders given the business was written many years ago. The Transferring Business of AGF and CLL represent 42% and 6% respectively of CWIL's UK GAAP booked provisions net of third party reinsurance as at 31 December 2021.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and GAAP technical provisions for CWIL are appropriate, and CUK has confirmed that these will be materially unchanged post-transfer.
- An independent external review of CWIL's provisions was performed as at 30 June 2021. Although CWIL's provisions are lower than those of the external reviewer, they are within the range of reasonable best estimates provided by the reviewer.
- The reserving process and governance for CWIL will be materially unchanged post-transfer.
- The SCR coverage ratio for CWIL Policyholders is expected to decrease from 244% to 200% as a result of the Proposed Transfer. I do not consider the security provided to Existing CWIL Policyholders to be materially adversely affected by this by this change in SCR coverage ratio as CWIL will still be very well capitalised.
- The decrease in SCR coverage ratio from 244% to 200% 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 200% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 200%, the difference in capital coverage ratios of 200% and 244% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Further, CWIL is projected to remain well capitalised throughout the projected period to 31 December 2024.
- CUK plan to transfer a portfolio of legacy EL business from Zurich Insurance Plc into CWIL in 2024 or 2025, but this would be subject to the approval of the Court in a separate Part VII transfer process and so does not impact my conclusions regarding the Proposed Transfer.
- CWIL intends to pay a dividend of £42m during 2023. This would reduce the SCR coverage ratio to 167%. My conclusions would be unchanged if the dividend were to be paid as this would not lead to a material difference in the probability of insolvency and CWIL would still be well capitalised. The SCR coverage ratio is projected to increase to 177% by 31 December 2023 and 194% by 31 December 2024. The payment of any dividend would require approval from the PRA.
- CWIL has a collateralised 80% quota share reinsurance with CatGen.
- I am satisfied that CWIL is expected to have sufficient capital under a range of adverse scenarios in relation to both the Transferring Business and its existing business. For the scenarios considered, the Existing CWIL Policyholders are either better protected post-transfer than pre-transfer, or there is no material difference, and in the scenarios I considered claims can still be paid, even without the mitigation of any management actions. Given this, I conclude that Existing CWIL Policyholders are not materially adversely affected as a result of the Proposed Transfer.
- Although the level of regulatory capital held is based on the 1-year standard formula basis, I have also reviewed CUK's consideration of capital requirements on an ultimate basis using an unapproved economic capital model and through stress scenarios.
- CWIL is not planning any material changes to how its existing business is carried out. In particular, there are no plans to change how Existing CWIL Policyholders are serviced following the Proposed Transfer.

8. Reinsurers of AGF covering the Transferring Business

I have concluded that reinsurers of AGF who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

I have considered the position of the reinsurers of AGF who provide cover for the Transferring Business.

There are 22 reinsurers of AGF's business with either an outstanding balance or allocated reserves, with the most material balances with three reinsurers.

Summary rationale:

- The reinsurers of AGF will be exposed to and pay the same claims both pre- and post-transfer whether or not the Proposed Transfer goes ahead.
- All of AGF's reinsurers with outstanding balances or allocated reserves will be informed of the Proposed Transfer.

9. Reinsurers of CLL covering the Transferring Business

I have concluded that reinsurers of CLL who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

I have considered the position of reinsurers of CLL who provide cover for the Transferring Business.

There are 97 reinsurers with an outstanding balance or allocated reserves, with the most material balances with CatGen and four other reinsurers.

Summary rationale:

- The reinsurers of CLL will be exposed to and pay the same claims both pre- and post-transfer whether or not the Proposed Transfer goes ahead.
- All of CLL's reinsurers with outstanding balances or allocated reserves will be informed of the Proposed Transfer.

10. Impact of COVID-19 on the Proposed Transfer

The transferors and transferee have been in run-off for some time and therefore the potential impacts of COVID-19 are mitigated.

Potential impacts on the transferor and transferee portfolios include:

- A possible increase in claims costs due to reduced access to healthcare, given the strain on health systems caused by the pandemic.
- A possible increase or decrease in costs if new treatments are developed as a consequence of medical advances made through the research and development of COVID-19 vaccines.
- Possible delays in diagnoses, claims reporting and settlement of claims, which could increase or decrease costs.
- A potential acceleration in claims if sufferers of an occupational disease such as mesothelioma die of COVID-19 and if mesothelioma is deemed to be a material contributor to such deaths.
- A decrease in future claims if people who would otherwise have gone on to contract asbestos related disease die from COVID-19 before diagnosis.

CSUK's claims teams have made the following observations relating to the impact of COVID-19:

- There has been a slowdown in US abuse claims notifications, along with a backlog in settlements due to US Court closures. This will impact the timing of the claims pay out, but it does not impact the ultimate settlement values.
- On the UK EL business, there are no emerging trends observed due to COVID-19, other than a small drop-off in claims notifications early on in the pandemic, followed by an uptick more recently ie a catch-up effect. There could be fewer mesothelioma deaths in the future as some people who may have developed mesothelioma could have died of COVID-19.

Even if some more of the potential impacts above were to materialise, the impact on the reserves for the Transferring Business would be unlikely to be material relative to the reserving scenarios I have considered. These scenarios include a consideration of deterioration in the level of reserves.

My view is that although the impact of the pandemic is uncertain, the impact on the transferors' and transferee's portfolios is not material compared to the overall uncertainty in these portfolios.

CSUK has informed me that there are no operational issues arising from COVID-19 that have impacted or are expected to impact policyholders, including the level of service provided to policyholders. CUK's experience of the pandemic has demonstrated that staff can work and access the required systems and services remotely.

In my opinion, the COVID-19 pandemic does not change my overall conclusions.

11. Climate change

As the business written has been in run-off for some time, there is no exposure to an increase in the frequency or severity of natural catastrophes, the most obvious impact of climate change.

However, it is possible that the reserves could be impacted by climate change given the uncertainty and far-reaching impacts it may continue to have. Examples of areas that could be impacted include latent liability claims and changes in social behaviour, which in turn could drive an increase in claims frequency or severity.

Overall, my view is that the potential impact of climate change on the business written by AGF, CLL and CWIL is less significant than other risks considered in this report and therefore does not affect my conclusions.

12. 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 and any objections received from interested persons.

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

- Any updates to the financial information provided in this report eg updated reserve estimates and financial projections including SCR coverage ratios and balance sheets;
- Any update from the AWP regarding trends in asbestos claims;
- Any update on CUK's capital management plans, including capital extraction plans;
- Any update on CWIL's quota share reinsurance with CatGen;

- The impact of any commutation of CLL's reinsurance of AGF's liabilities; and
- Any policyholder objections received.

Stewart Mitchell

Fellow of the Institute and Faculty of Actuaries

12 July 2022

Professional Standards

Our work in preparing this document and the associated documents described above complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work and Technical Actuarial Standard 200: Insurance.

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Lane Clark & Peacock LLP
London, UK
Tel: +44 (0)20 7439 2266
enquiries@lcp.uk.com

Lane Clark & Peacock LLP
Winchester, UK
Tel: +44 (0)1962 870060
enquiries@lcp.uk.com

Lane Clark & Peacock Ireland Limited
Dublin, Ireland
Tel: +353 (0)1 614 43 93
enquiries@lcpireland.com