Supplementary 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

4 November 2022

Prepared by

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LCP

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1. Executive summary

Catalina Holdings UK Limited (Catalina UK) proposes that its subsidiaries AGF Insurance Limited (AGF) and Catalina London Limited (CLL) transfer their insurance and reinsurance business to Catalina Worthing Insurance Limited (CWIL) pursuant to a Part VII transfer (the Proposed Transfer).

A Part VII transfer, also known as an insurance business transfer scheme, is a transfer of business or parts of a business under Part VII of the Financial Services & Markets Act 2000 in the UK. Part VII transfers are a common tool used by insurance businesses to address required business transformation.

The purpose of the Proposed Transfer is to consolidate and simplify Catalina UK's regulated insurance businesses into one insurance company in order to increase operational efficiency, reduce duplication and facilitate the efficient deployment of capital across Catalina's UK operations. This is intended to support both: (i) the management of the run-off of the existing portfolios of the transferors AGF and CLL and the transferee CWIL; and (ii) the acquisition and integration of additional portfolios going forwards.

1.1. The Proposed Transfer

The firms involved

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

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

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

Catalina UK 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 Catalina UK.

The change in control for Catalina UK, where CatGen became the immediate parent of Catalina UK rather than Catalina Alpha Ltd, was approved by the PRA and Bermuda Monetary Authority and executed on 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 30 June 2022:

- AGF has outstanding loss or case reserves of £22.6m held against 523 policies relating to an estimated 485 policyholders;
- CLL has outstanding loss or case reserves of $17.9m held against 597 policies relating to an estimated 152 policyholders; and
- CWIL has outstanding loss or case reserves of £138.6m held against 6,906 policies relating to an estimated 731 policyholders.

The case reserves for CWIL have increased by £10.6m since my Scheme Report. This is driven by the movement in the $/£ exchange rate from 1.35 to 1.22 rather than a change in the underlying liabilities. The number of CWIL policyholders has fallen by 288 to 731 since my Scheme Report. This is as a result of the identification of duplicate policyholders as Catalina UK performed additional analysis as part of their communications plan. Catalina UK do not expect to identify a material number of further duplicates.

Given the reasons for these changes, neither the increase in case reserves or the identification of duplicate policyholders have led me to change any of my conclusions in this report.

The true number of affected policyholders is 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 (see section 6.1) 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 distributed to Catalina UK at a later date.

More background on AGF, CLL and CWIL was provided in section 3 of my Scheme Report.

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 30 June 2022. 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 30 June 2022. There are 96 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 debts arising from any external reinsurance.

Policyholder service levels

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. This is because the expected service levels from the service providers are the same pre- and post-transfer based on the outsourcing arrangements.

1.2. My role as Independent Expert

Catalina UK 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.

I provided my Scheme Report for the Proposed Transfer (dated 12 July 2022) ahead of the Directions Hearing, which was held on 20 July 2022.

The purpose of this Supplementary Report is to confirm and/or update the conclusions of the Scheme Report, based on any material new developments in the intervening period, ahead of the Sanctions Hearing. This Supplementary Report should be read in conjunction with the Scheme Report.

1.3. Summary of developments since the Scheme Report

The main activities in relation to the Proposed Transfer since the Scheme Report was issued on 12 July 2022 have been as follows:

Proposed Transfer

- The Scheme Report and other associated scheme documents were presented to the High Court at the Directions Hearing on 20 July 2022, where approval was received to start notifications in line with the communications plan.

Reserving

- Catalina UK has provided reserve reports and Actuarial Function reports for AGF, CLL and CWIL as at 31 December 2021.
- Catalina UK has provided unaudited UK GAAP reserves as at 30 June 2022 for AGF, CLL and CWIL.

Capital

- Catalina UK has updated its analysis of projected SCR coverage ratios for AGF, CLL and CWIL based on more recent data as at 30 June 2022. This is discussed further in section 5.
- The projected SCR coverage ratios (the ratio of an insurer's available capital to the amount of capital that must be held in order to meet regulatory capital requirements) immediately pre- and post- the Proposed Transfer based on the updated projections are as follows:
  - For Transferring AGF Policyholders, the SCR coverage ratio is projected to increase from 181% to 194% on transfer.
  - For Transferring CLL Policyholders, the SCR coverage ratio is projected to decrease from 327% to 194% on transfer.
  - For Existing CWIL Policyholders, the SCR coverage ratio is projected to decrease from 211% to 194%.
- Catalina UK has provided a copy of a guarantee from CHBL to pay the obligations to CWIL (in its former name of Hartford Financial Products International Limited) under the 100% quota share reinsurance agreement with CatGen. The General Counsel of CHBL has confirmed that this guarantee applies to the amended 80% quota share agreement between CatGen and CWIL (but not the AGF and CLL portfolios).

- The table below includes a comparison to the ratios from my Scheme Report:

	SCR coverage ratios in Scheme Report			Updated SCR coverage ratios		
	Day 0	Day 1	Movement due to Transfer	Day 0	Day 1	Movement due to Transfer
Transferring AGF Policyholders	179%	200%	21%	181%	194%	13%
Transferring CLL Policyholders	327%	200%	(127%)	327%	194%	(133%)
Existing CWIL Policyholders	244%	200%	(44%)	211%	194%	(17%)

I do not consider the impact of the updated SCR coverage ratios and movements from Day 0 to Day 1, to be materially different to that set out in my Scheme Report and, as such, the changes in these figures have not changed my overall opinion.

Other

- The board of CWIL approved entry into a Deed Poll on 26 July 2022 which was executed by CWIL on 3 August 2022, the effect of which is to confirm that if the Proposed Transfer is not recognised in any jurisdiction, CWIL will pay any valid claims on the transferring policies and shall be bound by the terms of the transferring policies as if the transferring policies had been fully and validly transferred to CWIL pursuant to the Proposed Transfer.

Policyholder communications and other

- Catalina UK has communicated with policyholders and booked notices in all planned publications in line with the communication plan agreed with the High Court at the Directions Hearing.
- As at 28 October 2022, Catalina UK had received 23 responses as a result of the communication with policyholders, including one objection to the Proposed Transfer. Policyholder responses to communications and objections are discussed further in section 7.

1.4. Additional considerations for the Supplementary Report

In reaching my conclusions in this Supplementary Report, I have considered the following new information that has become available since the Scheme Report was issued on 12 July 2022:

- A deed of guarantee from CHBL for the reinsurance agreement between CWIL and CatGen;
- Updated UK GAAP provisions as at 30 June 2022 for AGF, CLL and CWIL;
- Updated SCR coverage ratio and balance sheet projections;
- Updated impact on the SII balance sheets of AGF, CLL and CWIL immediately pre- and post- the Proposed Transfer;
- Update on Catalina UK's capital management plans, including capital extraction plans;
- Update on CWIL's quota share reinsurance with CatGen;
- The impact of any commutation of CLL's reinsurance of AGF's liabilities; and
- Any queries or objections raised regarding the Proposed Transfer.

1.5. Summary of my conclusions

My overall conclusions are unchanged from those set out in my Scheme Report.

In forming my conclusions, I have considered 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.

I have considered the impact of the Proposed Transfer on all underlying Claimants and Beneficiaries (these terms were defined in section 43 of my Scheme Report).

Transferring AGF Policyholders

AGF's records indicate that as at 30 June 2022 there were 3,409 policies that had claims recorded against them (including paid claims). This includes policies where different years of account are processed as separate policies and actually represents 2,560 unique policies. 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; this was discussed in section 8 of my Scheme Report. The Transferring Business of AGF represents 100% of AGF's projected UK GAAP technical provisions as at the Effective Date.

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.

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.
- Catalina UK 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 UK GAAP technical provisions for the Transferring Business from AGF are appropriate and Catalina UK 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 the most recent independent external review.
- The SCR coverage ratio for Transferring AGF Policyholders is expected to increase from 181% (AGF pre-transfer) to 194% (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 well capitalised and the coverage ratio remains above Catalina UK's risk appetite.
- Further, CWIL is expected to be well capitalised and above Catalina UK'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 Catalina UK's consideration of capital requirements on an ultimate basis using an unapproved economic capital model and through stress scenarios as discussed in sections 6.5 and 6.10 of my Scheme Report.
- 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.
- There will be no change on meeting Employers' Liability Tracing Office (ELTO) obligations post-transfer.
- No objections to the Proposed Transfer have been raised by Transferring AGF Policyholders as at 28 October 2022.

Transferring CLL Policyholders

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 impossible or impractical to identify all individual policyholders. This was discussed in section 8 of my Scheme Report. The Transferring Business of CLL represents 100% of CLL's projected UK GAAP technical provisions as at the Effective Date.

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.

Summary rationale:

- The Transferring CLL Policyholders will remain within the Catalina UK 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.
- Catalina UK 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 UK GAAP technical provisions for the Transferring Business from CLL are appropriate and Catalina UK 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 194% (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 well capitalised and the coverage ratio remains above Catalina UK's risk appetite.
- The decrease in SCR coverage ratio from 327% to 194% 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 194% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 194%, the difference in capital coverage ratios of 194% 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 Catalina UK'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 Catalina UK's consideration of capital requirements on an ultimate basis using an unapproved economic capital model and through stress scenarios, as discussed in sections 6.5 and 6.10 of my Scheme Report.
- 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.
- One objection to the Proposed Transfer has been raised by Transferring CLL Policyholders as at 28 October 2022. This is discussed in section 7.2

Existing CWIL Policyholders

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 or lower but it is impossible or impractical to identify all individual policyholders given the business was written many years ago. This was discussed in section 8 of my Scheme Report. The Transferring Business of AGF and CLL represent 38% and 7% respectively of CWIL's UK GAAP booked provisions net of third party reinsurance as at 30 June 2022.

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.

Summary rationale:

- I am satisfied that the approaches used to calculate the Solvency II and UK GAAP technical provisions for CWIL are appropriate, and Catalina UK has confirmed that these will be materially unchanged post-transfer.
- The most recent independent external review of CWIL's provisions was performed as at 30 June 2021. Although CWIL's technical 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 211% to 194% 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 well capitalised.
- The SCR coverage ratio decreases from 211% to 194%. 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 194% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 194%, the difference in capital coverage ratios of 194% and 211% 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.
- Catalina UK 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 £49m during 2023. This would reduce the SCR coverage ratio to 169%. 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 173% by 31 December 2023 and 190% 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 Catalina UK's consideration of capital requirements on an ultimate basis using an unapproved economic capital model and through stress scenarios, as discussed in sections 6.5 and 6.10 of my Scheme Report.

- 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.
- No objections to the Proposed Transfer have been raised by Existing CWIL Policyholders as at 28 October 2022.

Reinsurers of AGF covering the Transferring Business

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.

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

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.

Reinsurers of CLL covering the Transferring Business

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

There are 96 reinsurers with an outstanding balance or allocated reserves, with the most material balances with CatGen and four other reinsurers.

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

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.

1.6. Impact of COVID-19 on the Proposed Transfer

The transferors, AGF and CLL, and the transferee, CWIL, 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:

- 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.
- 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.

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 presented in section 5.2. 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. Catalina UK'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 as set out in section 1.5.

1.7. Impact of 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.

As awareness of climate change and the causes of this have increased in recent years, claims could arise from products that are deemed by insureds to have contributed to the impact of climate change. In addition, an increased propensity for litigiousness could lead to an increased number of claims in the future as insureds seek redress for losses that they attribute to climate change.

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.

1.8. Impact of inflation

Catalina UK's average cost assumptions for mesothelioma claims include an allowance for future inflation.

Catalina UK's actuaries have performed some additional inflation sensitivity analysis and presented this to the audit committees as part of their mid-year update analysis. The analysis considered varying levels of excess inflation for the next few years before reverting to the historical long term view of inflation.

The actuaries will make a recommendation to the audit committee regarding this analysis as part of the full annual reserving exercise which will include a review of all the underlying Asbestos Working Party assumptions.

The analysis referred to here and in section 4.6 is intended to be an indication of the potential impact on the UK EL best estimate reserves, and was not designed to be a stress of the solvency position which is considered in the stress and scenario tests in section 5.2.

I consider this analysis to be reasonable and note that it indicated a potential increase in reserves of up to 5%, ie well within the reserve deteriorations considered within the stress and scenario tests described later in this report.

2. Introduction

2.1. Background

Part VII, Section 109 of the Financial Services and Markets Act 2000 (FSMA) requires that a scheme report (the Scheme Report) must accompany an application to the High Court of Justice of England and Wales (the High Court) to approve an insurance business transfer scheme (Part VII transfer).

The Scheme Report should be produced by a suitably qualified independent person (the Independent Expert or IE) who has been nominated or approved by the Prudential Regulation Authority (PRA) having consulted with the Financial Conduct Authority (FCA). The Scheme Report should address the question of whether any policyholders or reinsurers impacted by the insurance business transfer are adversely affected to a material extent.

In my role as Independent Expert, I prepared a Scheme Report for the Proposed Transfer. This was issued on 12 July 2022 and was presented to the High Court on 20 July 2022. In the Scheme Report I stated that, ahead of the Sanctions Hearing for the Proposed Transfer, I would prepare a Supplementary Report (this report), covering any relevant matters which have arisen since the date of the Scheme Report.

2.2. Scope of this Supplementary Report

This Supplementary Report must be read in conjunction with the Scheme Report as the Supplementary Report alone does not contain the full details of the work I have performed in considering the Proposed Transfer. Reading the Supplementary Report in isolation may be misleading.

In combination with the Scheme Report, this Supplementary Report complies with the professional actuarial guidance and standards set out in section 2.5. All terms used in the Supplementary Report are as defined in the Scheme Report.

The use of “I”, “me” and “my” in this report generally refers to work carried out by me or by the team operating under my direct supervision. However, when it is used in reference to an opinion it is mine and mine alone.

For presentational purposes some GBP amounts in this report have been converted to USD at an exchange rate of £1 = USD1.22 (USD1.35 in my Scheme Report).

2.3. Use of this Supplementary Report

This Supplementary Report has been produced by Stewart Mitchell FIA of LCP under the terms of our written agreement with Catalina UK. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Supplementary Report has been prepared for the purpose of accompanying the application to the High Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 109 of the Financial Services and Markets Act 2000. The Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 12 July 2022.

A copy of the Supplementary Report will be sent to the PRA and the FCA and will be filed with the High Court as part of the evidence supporting the application to sanction the Scheme.

This report is only appropriate for the purpose described above and should not be used for anything else. No liability is accepted or assumed for any use of the Supplementary Report for any other purpose other than that set out above.

2.4. Reliances

I have based my work on the data and other information made available to me by Catalina UK, AGF, CLL and CWIL. Appendix 1 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of CSUK and their advisors.

My analysis is based on data from various dates including 31 December 2021 and 30 June 2022.

I have received all of the information that I have requested for the purposes of the production of my report. In this respect:

- A witness statement will be submitted on behalf of AGF, CLL and CWIL to the High Court stating that all information provided to me by AGF, CLL and CWIL is correct and not misleading to the best of their knowledge and belief.
- A director of AGF, CLL and CWIL has provided a data accuracy statement confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.
- A director of AGF, CLL and CWIL has provided attestations that there have been no material adverse changes to the financial position of CLL, AGF or CWIL since that information was provided to me.
- Members of Catalina UK's project steering group on behalf of AGF, CLL and CWIL have read this IE Supplementary Report and have agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data and results provided to me for internal consistency and reasonableness but I have not checked them in detail.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for the purpose of this report.

The conclusions in my report take no account of any information that I have not received, or of any inaccuracies in the information provided to me.

I have not considered it necessary to take any independent third-party legal advice on any aspects of the Proposed Transfer.

I understand that it is customary for the parties to a Part VII transfer to obtain a legal opinion in respect of the enforcement of a Part VII transfer in the United States where there is a material proportion of written and/or ceded business that relates to the United States and is proposed to transfer under Part VII of FSMA. This is the case for the Proposed Transfer.

I have been provided with a copy of such an opinion obtained by Catalina UK on behalf of AGF, CLL and CWIL from a reputable U.S. law firm, which states that it is reasonable to conclude that the Proposed Transfer would be recognised by courts in the United States on the grounds of comity. I have read the opinion and see no reason to question its conclusions.

Catalina UK has confirmed that it has received no other specific legal advice relevant to my role as IE for the Proposed Transfer.

Figures in this report may be subject to small rounding differences and so totals within the tables may not equal the sum of the rounded components.

2.5. Professional standards

This report complies with the applicable rules on expert evidence and with the guidance for scheme reports set out by the PRA in their Policy Statement (PS1/22 dated January 2022), the FCA's Finalised Guidance on their approach to the review of Part VII transfers (FG22/1 dated 15 February 2022) and by the PRA Rulebook and the FCA Handbook.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 200: Insurance (TAS 200) issued by the Financial Reporting Council (FRC). The FRC is responsible for setting technical actuarial standards in the UK.

I have considered The Actuaries' Code as issued by the Institute and Faculty of Actuaries (IFoA) while producing this report.

This report has been subject to independent peer review prior to its publication, in line with Actuarial Professional Standard X2: Review of Actuarial Work (APS X2) as issued by the IFoA. This peer review has been undertaken by another Partner at LCP. The peer reviewer was not involved in the production of the report. They have appropriate experience and expertise to act as peer reviewer of this report, and have themselves acted as an Independent Expert.

2.6. Materiality

The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by users of the actuarial information. It accepts that an assessment of the materiality is a matter of reasonable judgement that requires consideration of the users and the context.

I have applied this concept of materiality in planning, performing and reporting the work described in this Supplementary Report. In particular, I have applied this concept of materiality when using my professional judgement to determine the risks of material misstatement or omission and to determine the nature and extent of my work.

In complying with the reporting requirements of TAS 100, I have made judgements on the level of information to include in this Supplementary Report. For example, to make the report easier to read, I have not included all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments.

2.7. Definition of materially adverse

In order to determine whether the Proposed Transfer will have a materially adverse impact on any group of policyholders or on any reinsurers covering the Transferring Business, it has been necessary for me to exercise my judgement in the light of the information that I have reviewed.

The Proposed Transfer will affect different policyholders in different ways and, for any one group of policyholders, there may be some effects of the Proposed Transfer that are positive, and others that are adverse. When assessing whether the Proposed Transfer will have a materially adverse impact, I have considered the aggregate impact of these different effects on each group of policyholders and reinsurers covering the Transferring Business.

In the Court of Appeal judgment in the Prudential v Rothesay case, the judge commented on the word ‘material’ and drew the distinction between ‘real’ and ‘fanciful’ risks and that the Court should address the former rather than the latter. I have borne this distinction in mind when reaching my conclusions as to whether any set of policyholders is materially adversely affected. Throughout this report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether policyholders and reinsurers of the Transferring Business are materially adversely affected or otherwise.

3. My approach as IE

My approach to assessing the Proposed Transfer, as set out in the Scheme Report, has been to perform five steps analysing evidence provided by AGF, CLL and CWIL to support the Proposed Transfer.

My approach for the Supplementary Report has been to revisit each of these five steps and to consider whether any of the updated analysis or information available now would cause me to change my conclusions in that report.

The five steps and my considerations are detailed in the sections as follows:

- Step 1: Assessing the provisions of AGF, CLL and CWIL – considered in section 4.
- Step 2: Assessing the capital positions of AGF, CLL and CWIL – considered in section 5.
- Step 3: Assessing overall policyholder security – considered in section 6.
- Step 4: Assessing policyholder communications – considered in section 7.
- Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders – considered in section 8.

A list of all information considered is included in Appendix 1. Further details on my approach as IE are set out in section 4 of the Scheme Report.

4. Reserving considerations

As IE, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for all relevant policyholders, that is: Transferring AGF Policyholders, Transferring CLL Policyholders and Existing CWIL Policyholders; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 5 of the Scheme Report, based on data and provisions as at 31 December 2021.

In this Supplementary Report, I have also considered the updated data, UK GAAP and SII provisions as at 30 June 2022 for each of AGF, CLL and CWIL.

AGF, CLL and CWIL have each confirmed that the approach and basis for calculating the UK GAAP technical provisions and Solvency II technical provisions have not changed since the Scheme Report.

There have been no new external independent review of reserves since my Scheme Report. However, I have received the formal 2021 year-end reserve reports for AGF, CLL and CWIL. These did not lead to a change in my conclusions regarding reserving as I considered the reserves as at 31 December 2021 as part of my analysis for my Scheme Report.

The expected commutation of CLL's reinsurance of AGF's liabilities became effective on 26 July 2022 and a settlement has been made by CLL. The commutation has not affected the conclusions that I have reached in this report.

4.1. Summary of booked provisions for AGF, CLL and CWIL

The following table shows the level of booked provisions as at 30 June 2022 (the latest available figures at the time of my writing of my report) for AGF, CLL and CWIL.

Summary of booked provisions at 30 June 2022

	Gross of reinsurance	Net of reinsurance
AGF (£m)	107.7	97.9
CLL ($m)	33.1	18.9
CWIL (£m)	325.2	256.0

Source: Catalina UK
Based on data as at 30 June 2022, excluding unallocated loss adjustment expenses
Note the net reserves for CWIL are net of external RI only
Note the net reserves for CLL include an adjustment for bad debt
Note all reserves shown as undiscounted, although AGF's UK GAAP reserves are discounted

AGF's and CLL's net liabilities are c. 38% and 7% of the level of CWIL's net liabilities respectively.

4.2. Booked provisions for AGF

The following table shows the level of booked provisions as at 30 June 2022 for AGF by the key reserving classes.

AGF – Summary of booked provisions as at 30 June 2022

£m	Gross of reinsurance	Net of reinsurance
Mesothelioma / Other Asbestos	100.6	90.8
Deafness/Other	4.2	4.2
Abuse	2.8	2.8
Remainder	0.1	0.1
Total Transferring Business	**107.7**	**97.9**

Source: Catalina UK

The provisions in the table above are on an undiscounted basis and all business is earned. AGF's statutory UK GAAP reserves are discounted at 2.5% pa. Note that post-transfer the AGF provisions within CWIL's consolidated provisions will not be discounted in line with the current approach for CLL and CWIL.

Total gross and net of reinsurance provisions decreased by £6.8m and £6.4m respectively between 31 December 2021 (figures in my Scheme report) and 30 June 2022.

The key movement over the period was the reduction in the mesothelioma/other asbestos class reserves of c.6% gross and net of reinsurance as the portfolio continues to run-off. The change in booked provisions for AGF since my Scheme Report does not lead to a change in any of my conclusions as stated in that report.

Catalina UK's analysis of AGF's reserves since my Scheme Report has indicated a deterioration of £7.1m on a net of reinsurance basis due to a small number of large mesothelioma claims and a reduction in the expected level of savings on existing claims. This deterioration has not been booked in AGF's provisions as at 30 June 2022 but has been reflected in the balance sheet and SCR projections in this report and hence reflected in my conclusions.

4.3. Booked provisions for CLL

The table below shows the level of booked provisions as at 30 June 2022 for CLL by key portfolio.

CLL – Summary of UK GAAP booked provisions at 30 June 2022

$m	Gross of reinsurance	Net of reinsurance
KX Re	20.0	13.4
Alea London	11.6	5.4
OX Re	1.5	0.1
Total Transferring Business	**33.1**	**18.9**

Source: Catalina UK

The provisions in the table above are on an undiscounted basis and all business is earned. CLL's statutory reserves are not discounted. Note CLL reports in $.

All of CLL's liabilities will transfer to CWIL under the Proposed Transfer, 90% of CLL's reserves relate to reinsurance.

Total gross and net of reinsurance provisions decreased by $2.5m and $1.4m respectively between 31 December 2021 (figures in my Scheme report) and 30 June 2022 as the portfolio continued to run-off.

The change in UK GAAP booked provisions for CLL since my Scheme Report does not lead to a change in any of my conclusions as stated in that report.

4.4. Booked provisions for CWIL

The table below shows the level of booked provisions as at 30 June 2022 for CWIL by key reserving class. The figures are shown gross of the CatGen 80% quota share (QS) recoveries.

The booked provisions for CWIL, net of external reinsurance and gross of the CatGen quota share, are much larger than the transferring liabilities, particularly for CLL.

CWIL – Summary of UK GAAP booked provisions at 30 June 2022

£m	Gross of reinsurance	Net of external reinsurance, gross of CatGen QS
US Asbestos	144.5	122.7
US Pollution	33.9	31.3
Hart Re (Motor and long-tail)	17.5	15.9
HFPI (D&O)	9.3	5.1
UK EL	81.1	46.7
Residual	38.9	34.3
Total CWIL	**325.2**	**256.0**

Source: Catalina UK

The provisions in the table above are on an undiscounted basis, other than claims for periodical payment orders, and all business is earned. CWIL's statutory reserves are not discounted.

Total gross and net of reinsurance provisions increased by £10.1m and £10.3m respectively between 31 December 2021 (figures in my Scheme report) and 30 June 2022.

The key movements over the period were:

- US Asbestos: provisions increased by £11.3m gross and £10.7m net of reinsurance. This was due to the change in USD/£ exchange rate between 31 December 2021 (1.35) and 30 June 2022 (1.22); the underlying experience was in line with expectations.
- UK EL: provisions decreased by £4.7m gross and £2.0m net of reinsurance as the portfolio continued to run-off.
- Residual: provisions increased by £2.3m gross and £0.1m net of reinsurance due to the change in the USD/£ exchange rate.
- Note that the net of reinsurance numbers for CWIL are before the 80% quota share reinsurance with CatGen. After the quota share, net provisions increased by c. £2m since 31 December 2021.

Catalina UK's interim valuation of CWIL's UK mesothelioma reserves since my Scheme Report has indicated a deterioration of £0.1m on a net of reinsurance basis and this was considered by the board in July 2022.

The change in UK GAAP booked provisions for CWIL since my Scheme Report does not lead to a change in any of my conclusions as stated in that report.

4.5. Approach for setting Solvency II technical provisions

The table below shows the main items in the bridge between the UK GAAP gross reserves and Solvency II gross technical provisions for each entity as at 30 June 2022. The differences between the UK GAAP reserves and Solvency II technical provisions have not impacted the conclusions I have reached in this report. I note that for AGF a big driver of the difference is the treatment of discounting. The rate used to discount the booked reserves is similar to the discount rates prescribed by the Solvency II rules, leading to a similar discounting credit.

	AGF £m	CLL $m	CWIL £m
Gross UK GAAP Booked Reserves*	**90.9**	**34.1**	**339.3**
+ Removal of UK GAAP discount	19.9		
+ Events not in data	3.1	0.8	9.7
+ Expenses	4.1	1.5	12.3
- Discounting credit	(20.1)	(6.8)	(79.7)
Gross Best Estimate of SII Liabilities	**97.9**	**29.6**	**281.6**
+ Risk Margin	**15.4**	**3.5**	**14.2**
Gross Solvency II technical provisions	**113.3**	**33.1**	**295.8**
Solvency II minus UK GAAP technical provisions	22.4	-1.0	-43.5

* including unallocated loss adjustment expenses

The key differences in the bridge between the UK GAAP gross reserves and Solvency II gross technical provisions above and the figures shown in section 5.8 of the Scheme report are as follows:

- AGF: The Solvency II discounting credit increased from £9.4m to £20.1m due to the increase in interest rates and yields as advised by the Bank of England. The risk margin decreased by £4.7m due to the fall in the SII best estimate liabilities.
- CLL: The reserves continued to run-off, the SII discounting credit increased by $2.2m and the risk margin reduced by $0.9m, similar to AGF.
- CWIL: The dominant change was the increase in the SII discounting credit from £35.9m to £79.7m due to the increase in interest rates and yields.

The changes in the bridge from gross UK GAAP booked provisions to Solvency II technical provisions compared to my Scheme Report did not lead me to change my conclusions in that report.

4.6. Key uncertainties when setting provisions

The ultimate costs of settling general insurance claims are subject to uncertainty in terms of both the frequency (ie how many valid claims there will be) and severity (ie the cost of settling each claim) including exposure to inflation in claim amounts over time. Therefore, there are uncertainties when setting the corresponding provisions.

These uncertainties were considered in detail in section 5.9 of my Scheme Report.

Key uncertainties – AGF

Key reserving uncertainties, specific to the Transferring Business from AGF are as follows:

- Given the long-term nature of the liabilities, with payments expected to continue for more than thirty years, the reserves are sensitive to increases in inflation. For example, a 1% per annum increase in the assumed future inflation rate to ultimate increases the net reserves by £9m (9% of total net reserves).

Key uncertainties – CLL

Key reserving uncertainties, specific to the Transferring Business from CLL are as follows:

- Given the long-term nature of the liabilities, the reserves are sensitive to increases in inflation. This has not been quantified due to the materiality of the CLL reserves but the impact as a percentage of reserves would be similar to AGF.

Key uncertainties – CWIL

Key reserving uncertainties, specific to the existing business in CWIL, are as follows:

- Given the long-term nature of the liabilities, the reserves are sensitive to increases in inflation. For example, on the US asbestos, CWIL has run a sensitivity analysis with inflation 0.5% per annum higher than in the best estimate reserves and applying a 1-year lag to the run-off pattern for future claim filings. This increased their total net reserves by around 5%.
- The CWIL portfolio contains exposure to US abuse claims. The US abuse portfolio makes up c. 6% of the total net reserves for CWIL. Since 2019, many US states have enacted revival statutes which led to a significant increase in reported claims. Some of the states have had the revival statutes window opened up to three times. There is therefore considerable uncertainty around future claims notifications and settlements.

The downside risk on the CWIL portfolio is mitigated by the 80% quota share reinsurance with CatGen.

4.7. Overall conclusion: reserving considerations

I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that the Transferring AGF Policyholders, Transferring CLL Policyholders and the Existing CWIL Policyholders will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

5. Capital considerations

As IE, my overall assessments related to capital are:

- whether the projected capital requirements have been calculated appropriately for each of AGF, CLL and CWIL;
- whether there are expected to be any material adverse changes in the strength of capital protections for any group of policyholders (I have assessed this by comparing the projected SCR coverage ratios pre- and post- the Proposed Transfer); and
- whether any other aspects of the capital considerations may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 6 of the Scheme Report.

In this Supplementary Report, I have also considered the updated SCR coverage ratio and balance sheet projections for AGF, CLL and CWIL based on data as at 30 June 2022.

5.1. Projected SCR coverage ratios for AGF, CLL and CWIL

For the purposes of this report and the Scheme Report, I describe a company as having "sufficient capital" if the SCR coverage ratio is between 100% and 150%. I describe a company as "well capitalised" if the SCR coverage ratio is between 150% and 200% and "very well capitalised" if the SCR coverage ratio is in excess of 200%.

Since providing my Scheme Report, Catalina UK has updated its analysis of projected SCR coverage ratios for each of AGF, CLL and CWIL based on more recent data. As such, the coverage ratios quoted in this report have changed since those included in the Scheme Report.

Projected SCR coverage ratios immediately pre- and post-transfer

The table below sets out the updated projected SCR and coverage ratios, as prepared by Catalina UK, immediately before and after the Proposed Transfer eg the AGF coverage ratio is 181% pre-transfer and the CWIL coverage ratio is 194% post-transfer, so the ratio increases by 13% for the Transferring AGF Policyholders.

The changes in SCR coverage ratios since my Scheme Report have not led me to change my conclusions regarding capital considerations in that report.

The Effective Date of the Proposed Transfer is 30 November 2022. Catalina UK has provided the projected SCR and coverage ratios immediately before and after the Proposed Transfer ie as at 30 November 2022 and 1 December 2022. The projections reflect an updated asset mix rather than the strategic asset allocation used in the projections in my Scheme Report as at 31 December 2022 and 1 January 2023 respectively.

Catalina UK's projected SCR and coverage ratios are based on data as at 30 June 2022.

Projections pre- and post-transfer	Own Funds	SCR	Own Funds less SCR	SCR coverage ratio	Movement in coverage ratio on transfer
Day 0: pre-transfer					
AGF £m	87.2	48.2	39.0	181%	13%
CLL $m	31.5	9.6	21.9	327%	(133%)
CWIL £m	104.3	49.3	55.0	211%	(17%)
Day 1: post-transfer					
CWIL £m	184.0	94.8	89.2	194%	

Source: Catalina UK Capital Projections

The SCR coverage ratio for CWIL post-transfer is calculated assuming £18.8m and $18.8m (£15.4m) of surplus capital above the 140% risk appetite level remains in AGF and CLL respectively at the Effective Date. The calculation of the surplus capital takes into account the reduction in market risk immediately post-transfer.

In summary:

- Transferring AGF Policyholders: The SCR coverage ratio for liabilities transferring from AGF to CWIL is projected to increase from 181% to 194% and so policyholders are better protected post-transfer.
- Transferring CLL Policyholders: The SCR coverage ratio for liabilities transferring from CLL to CWIL is projected to decrease from 327% to 194%. However, CWIL is still projected to be well capitalised (as defined in Section 6.1 of my Scheme Report) immediately after the Proposed Transfer.
- The decrease in SCR coverage ratio from 327% to 194% 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 194% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 194%, the difference in capital coverage ratios of 194% and 327% does not, in my opinion, equate to a material difference in the probability of insolvency.
- Existing CWIL Policyholders: the SCR coverage ratio for CWIL is projected to decrease from 211% to 194% after the Proposed Transfer. CWIL is very well capitalised prior to the Proposed Transfer. After the Proposed Transfer, whilst the SCR coverage ratio is projected to fall, CWIL is still projected to be well capitalised.
- The decrease in SCR coverage ratio from 211% to 194% 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 194% coverage ratio therefore equates to a more remote probability than 0.5% of insolvency. Since the probability of insolvency is already remote at 194%, the difference in capital coverage ratios of 194% and 211% does not, in my opinion, equate to a material difference in the probability of insolvency.

Based on this analysis, AGF, CLL and CWIL are projected to be either well capitalised or very well capitalised pre-transfer and CWIL is projected to be well capitalised immediately post-transfer. Therefore, I do not expect the changes in SCR coverage ratios immediately pre- and post- the Proposed Transfer to lead to any material adverse changes in the strength of capital protection for any group of policyholders.

I therefore conclude that Transferring AGF Policyholders, Transferring CLL Policyholders and Existing CWIL Policyholders are not materially adversely affected by the Proposed Transfer in this respect.

Projected SCR coverage ratios up to 31 December 2024

I have also reviewed Catalina UK's projected SCR coverage ratios over its financial planning horizon beyond the Proposed Transfer to 31 December 2024.

Post-transfer, CWIL's SCR coverage ratio is expected to be 194% on 1 December 2022. The SCR coverage ratio is then projected to decrease to 169% as at 1 August 2023 following a planned dividend payment. This planned dividend payment would result in CWIL remaining well capitalised. The projected SCR coverage ratio will still exceed the 140% target set in the board approved capital management plan. The dividend payment will also require PRA approval.

In the following 18 months, CWIL is expected to remain well capitalised throughout the remainder of the projection period to 31 December 2024. The projected SCR coverage ratio at 31 December 2023 is 173% and at 31 December 2024 is 190%.

Catalina UK are planning to consider changing the level of the 80% quota share arrangement with CatGen. Any change to the quota share would need to be agreed with CatGen and the PRA.

Any change in the level of the quota share arrangement and the timing of any change is currently uncertain. As an indication, Catalina UK has considered the impact of a change to a 50% quota share effective as at the end of December 2024. Catalina UK estimates the impact of this change would be to reduce the SCR coverage ratio by 15% to 20% ie CWIL would remain well capitalised as at 31 December 2024 with a coverage ratio of 170% to 175%. I do not consider this a material change and this would not change my conclusions.

I note that both the planned dividend payment and any change to the quota share arrangement would need approval from the PRA.

In practice, CWIL's average coverage ratios may be higher or lower than these projections depending on the claims and other experience of CWIL. Catalina UK will routinely monitor the capital and projected capital position in line with CWIL's capital management policy (considered in section 6.7 in my Scheme Report), this could also lead to the coverage ratios being higher or lower than projected.

Conclusion

I have concluded that the Transferring AGF Policyholders, the Transferring CLL Policyholders and the Existing CWIL policyholders are not materially disadvantaged by the Proposed Transfer as CWIL remains well-capitalised post-transfer and the probability of insolvency is not materially different pre- and post-transfer.

5.2. SCR scenario analysis

In section 6.10 of my Scheme Report, I considered a number of stress and scenario tests to illustrate the adverse impact on the MCR and SCR coverage ratios of AGF, CLL and CWIL pre-transfer and the combined CWIL entity post-transfer.

The purpose of the scenario analysis is to assess the impact of a series of adverse events and whether, under these circumstances, an appropriate level of security is maintained for policyholders.

The following table summarises the results of the scenario analyses on the updated balance sheet projections based on the latest data as at 30 June 2022. These scenarios are intended to represent a range of possible deteriorations that may occur over the ultimate time horizon, including both moderate and extreme scenarios. The scenarios do not represent the full range of possible adverse events to which the insurers may be exposed.

All of the scenarios were specified and reviewed for reasonableness by me but the calculations have been performed by Catalina UK and are as 30 June 2022 (31 December 2021 for CLL). I have also included the MCR coverage ratios for each of the scenarios.

The scenarios do not allow for the impact of the CHBL guarantee regarding the 80% quota share reinsurance recoveries due to CWIL from CatGen which would be anticipated to have some mitigating impact on the stress scenarios relating to reinsurer default.

Impact of stress and scenario tests on MCR coverage ratios

% MCR coverage ratio before and after applying each stressed scenario	AGF	CLL	CWIL	CWIL post-transfer
Before stressed scenario	**854%**	**810%**	**835%**	**776%**
1a. Reserve deterioration – 30% for AGF and CWIL pre and post-transfer, 40% for CLL	475%	347%	581%	442%
1b. Reserve deterioration – 50% for AGF and CWIL pre and post-transfer, 60% for CLL	282%	245%	419%	270%
2. Investment stress	434%	312%	395%	466%
3a. Reinsurer default scenario	n/a	-	404%	416%
3b. Reinsurer default scenario with haircut	n/a	-	255%	331%
4. Reserve deterioration – 35% for CWIL post-transfer combined with a reinsurer default scenario and haircut of 20%	-	-	-	16%
5. Reverse stress test	-21%	72%	38%	80%

Impact of stress and scenario tests on SCR coverage ratios

% SCR coverage ratio before and after applying each stressed scenario	AGF	CLL	CWIL	CWIL post-transfer
Before stressed scenario	**214%**	**288%**	**209%**	**194%**
1a. Reserve deterioration – 30% for AGF and CWIL pre and post-transfer, 40% for CLL	119%	156%	145%	111%
1b. Reserve deterioration – 50% for AGF and CWIL pre and post-transfer, 60% for CLL	71%	110%	105%	67%
2. Investment stress	109%	141%	99%	117%
3a. Reinsurer default scenario	n/a	-	103%	104%
3b. Reinsurer default scenario with haircut	n/a	-	68%	83%
4. Reserve deterioration – 35% for CWIL post-transfer combined with a reinsurer default scenario and haircut of 20%	-	-	-	4%
5. Reverse stress test	-5%	32%	10%	20%

The updated stress tests for AGF and CWIL broadly show higher or similar SCR coverage ratios compared to those in my Scheme Report. The CLL tests have not been updated as these are less material compared to AGF and CWIL.

The updated stress tests have not led me to change any of my conclusions in my Scheme Report regarding capital considerations.

The results of the stress tests do not take into account any management actions to restore the level of the SCR coverage ratio in the event of one of the scenarios actually happening. Catalina UK's capital policy and risk appetite for each firm is to target an SCR coverage ratio of 140%. I have considered the scenarios above with no allowance for management actions eg calling on the group for additional capital support or any regulatory interaction.

The stress tests described in this section 5.2 consider more extreme but plausible scenarios than the sensitivity analysis described in sections 1.8 and 4.6.

The reserving stresses consider a reserve deterioration of 30% and 50% for AGF and CWIL. As an example, it would take an increase in CPI inflation of 4% per annum to ultimate on top of the historic long term assumption of 2% to give a 38% deterioration in the level of UK EL reserves for AGF. The same increase for CWIL would give a 31% deterioration in CWIL's UK EL reserves.

Although expectations of the increase in the level of inflation have increased since my Scheme Report, I consider that the scenarios considered are still appropriate and sufficiently severe.

Conclusion

Transferring AGF Policyholders

The post-transfer SCR coverage ratios for CWIL are in some scenarios higher and in some scenarios lower, but not materially so, than the pre-transfer ratios for AGF. Therefore I have concluded that the Transferring AGF Policyholders are not materially adversely affected by the Proposed Transfer in this respect.

Transferring CLL Policyholders

CLL remains sufficiently capitalised for all scenarios except the reserve stress test. Post-transfer, Transferring CLL Policyholders will be worse off in each scenario. However, CLL is much smaller than CWIL and therefore is exposed to greater potential volatility. CLL will have the protection of a much larger balance sheet post-transfer and, as claims will still be paid in the scenarios I considered, I have concluded that Transferring CLL Policyholders will not be materially adversely affected by the Proposed Transfer in this respect.

Existing CWIL Policyholders

The SCR coverage ratios for CWIL post-transfer are either higher or not materially different, other than the reserve deterioration scenarios where the coverage ratio is lower post-transfer. The post-transfer coverage positions for the reserve scenarios are similar to those in my Scheme Report. Although CWIL's projected pre-transfer position is higher than in my Scheme report, this is offset post-transfer by higher market risk, due to an update on the projected asset mix, and a deterioration in AGF's liabilities. Therefore I have concluded that Existing CWIL Policyholders will not be materially adversely affected by the Proposed Transfer in this respect.

5.3. Financial strength of CatGen

In my Scheme Report, I considered the financial strength of CatGen in section 6.11. CatGen is a major reinsurer of CWIL through the provision of the 80% quota share reinsurance arrangement. This reinsurance arrangement will remain in place post-transfer although it will not cover the transferring liabilities from AGF and CLL. CatGen will separately continue to reinsure CLL's 1990 and prior liabilities from Imperial Re.

The table below sets out the projected Bermuda SCR and coverage ratio for CatGen as at 31 December 2021.

CatGen economic balance sheet

As at 31 December 2021	$m
Total assets*	4,632
Total liabilities*	3,557
Excess of assets over liabilities*	1,075
Enhanced capital requirement#	654
Available economic capital and surplus#	1,057
Bermuda SCR coverage ratio#	162%

*Source: *US GAAP, # Bermuda SCR return*

I have reviewed the draft enhanced capital requirement and the Bermuda SCR coverage ratio as at 30 June 2022, and it has not led me to change my conclusions about the financial strength of CatGen.

5.4. Overall conclusion: Capital considerations

I am satisfied that my conclusions related to capital remain unchanged from the Scheme Report. In summary:

- **The projected capital requirements have been calculated materially appropriately for each of AGF, CLL and CWIL.**
- **Following the Proposed Transfer I do not expect there to be any materially adverse changes in the strength of capital protection for any group of policyholders.**

6. Policyholder security

As IE, my overall assessments related to policyholder security are:

- whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for Transferring AGF Policyholders, Transferring CLL Policyholders and Existing CWIL Policyholders.
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 7 of the Scheme Report.

In this Supplementary Report, I have also considered the updated projected balance sheets of AGF, CLL and CWIL immediately pre- and post- the Proposed Transfer.

6.1. Impact on the balance sheets of AGF, CLL and CWIL

I have updated the analysis set out in section 7.2 of the Scheme Report to reflect AGF, CLL and CWIL's latest projections.

The table below shows UK GAAP balance sheets for AGF, CLL and CWIL pre- and post-transfer. The CWIL recoverable losses include the projected CatGen 80% quota share recoveries. The last column shows the movement between the combined CWIL balance sheet post-transfer and the individual balance sheets pre-transfer.

Projected UK GAAP balance sheets: AGF, CLL and CWIL as at 30 November and 1 December 2022

£m	AGF 30/11/22	CLL 30/11/22	CWIL 30/11/22	Assets remaining in AGF/CLL	Movement due to transfer	CWIL 1/12/22
Cash and investments	201.9	38.8	208.3	(34.2)	0.0	414.8
Losses and loss adjustment expenses recoverable	7.9	11.7	277.4	0.0	(0.3)	296.7
Insurance and reinsurance balances receivable	2.3	7.7	34.2	0.0	(1.5)	42.7
Other assets	5.1	0.5	7.6	0.0	0.0	13.2
Total assets	**217.1**	**58.8**	**527.5**	**(34.2)**	**(1.8)**	**767.4**
Reserve for losses and loss expenses	98.0	26.6	333.2	0.0	19.1	476.9
Insurance and reinsurance balance payable	0.5	3.0	62.3	0.0	(1.5)	64.3
Accounts payable & other liabilities	-0.9	0.4	0.5	0.0	0.0	0.0
Total liabilities	**97.6**	**30.0**	**396.0**	**0.0**	**17.6**	**541.2**
Assets less liabilities	**119.5**	**28.8**	**131.5**	**(34.2)**	**(19.4)**	**226.2**

Source: Catalina UK, figures for CLL converted (£1 = USD1.22)

The projected balance sheets are as at Day 0 and Day 1 ie 30 November 2022 and 1 December 2022 compared to projections as at 31 December 2022 and 1 January 2023 in my Scheme Report.

The sum of the cash and investments for AGF, CLL and CWIL pre-transfer is £449.0m. However, post-transfer, assets in excess of an SCR coverage ratio of 140% will remain in AGF (projected to be £18.8m) and CLL (projected to be £15.4m) and so the post-transfer cash and investments of CWIL reduce by £34.2m to £414.8m. Further details are provided below.

Key movements

The impact of the Proposed Transfer on the assets is a reduction of £36.0m driven mainly by the assets which remain in AGF and CLL above the 140% SCR coverage ratio (as detailed below) and also the removal of the intercompany reinsurance between AGF and CLL):

- £18.8m of AGF's assets will not transfer to CWIL representing the excess of capital above the 140% SCR coverage ratio. This is expected to be distributed to Catalina UK as a dividend following the de-authorisation of AGF.
- $18.8m/£15.4m of CLL's assets will not transfer to CWIL representing the excess of capital above the 140% SCR coverage ratio. This is expected to be distributed to Catalina UK as a dividend following the de-authorisation of CLL.

The impact of the Proposed Transfer on the liabilities is an increase of £17.6m driven mainly driven by the unwinding of the discount on the AGF liabilities offset by the removal of the intercompany reinsurance between AGF and CLL.

6.2. Reinsurance arrangements

The reinsurance arrangements will not change as a result of the Proposed Transfer. There are no further updates to the plans regarding the change in the level of the 80% quota share arrangement with CatGen since my Scheme Report.

Conclusion on reinsurance

I am therefore satisfied that Transferring AGF Policyholders, Transferring CLL Policyholders and Existing CWIL Policyholders are not materially adversely affected by the Proposed Transfer in terms of the reinsurance arrangements.

6.3. Other benefits and guarantees

CLL and CWIL are both required to maintain US Surplus Lines Trust Funds. The funding requirement is calculated by reference to the size of the subject business but is subject to a regulatory minimum. As a result of the size of the subject business, both CLL and CWIL currently hold the minimum value of assets required to be held in the Trust Fund.

The National Association of Insurance Commissioners in the United States has confirmed that following the Effective Date, CWIL will continue to be only required to hold assets equal to the minimum required trust value in its Surplus Lines Trust Fund. Following the Effective Date, the CLL Surplus Lines Trust Fund will be closed and the assets released to CLL, to be distributed to Catalina UK in due course.

The Continental Corporation, the former parent of KX Re, now part of CLL, provided two guarantees to the Institute of London Underwriters (ILU) for the liabilities of KX Re as a condition of ILU membership.

Continental executed a deed of variation so that the guarantees would respond in respect of the KX Re liabilities of CLL in connection with the transfer of that business to CLL. A similar deed of variation has been executed in connection with the Proposed Transfer and will become effective on the Effective Date.

CLL has an interest in any surplus assets from reinsurance deposit agreements with Citibank relating to letters of credit provided to certain policyholders of Alea London Ltd and KX Re. Similar to the transfer of this interest when KX Re transferred into CLL, a transfer agreement will be agreed and signed before the Sanctions Hearing so that Citibank will transfer the interest from CLL to CWIL as part of the Proposed Transfer on the Effective Date.

Catalina UK has confirmed that this is a simple form of agreement transferring the party to the contract and there are no issues anticipated by Catalina UK with the documents being finalised and executed prior to the Effective Date. Catalina UK will update the Court in this regard prior to the Sanctions Hearing.

In my opinion, given that arrangements are expected to be entered into with the purposes of preserving the effect of the current position, the Transferring CLL Policyholders and the Existing CWIL Policyholders are not materially adversely affected by these arrangements under the Proposed Transfer.

6.4. Access to the Financial Services Compensation Scheme

There have been no changes related to access to the Financial Services Compensation Scheme since my analysis included in the Scheme Report in section 7.6.

Therefore, my conclusion that I do not expect the rights of AGF, CLL and CWIL policyholders in respect of access to the FSCS to change as a result of the Proposed Transfer remains unchanged.

6.5. Access to the Financial Ombudsman Service

There have been no changes related to access to the Financial Ombudsman Service since my analysis included in section 7.7 of my Scheme Report.

Therefore, my conclusion that I do not expect the rights of policyholders in respect of access to the FOS to change as a result of the Proposed Transfer remains unchanged.

6.6. Insurance regulation

There have been no changes related to prudential or conduct regulation since my analysis included in section 7.8 of my Scheme Report that would impact my conclusions.

Therefore, my conclusion that AGF, CLL and CWIL policyholders will not be adversely affected by the Proposed Transfer from a regulatory standpoint remains unchanged.

6.7. Overall conclusion: Policyholder security

Based on the analysis set out above, I am satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that policyholders will not be materially adversely affected by the Proposed Transfer.

7. Policyholder communications

As IE, my overall assessments related to policyholder communications are:

- the appropriateness of AGF, CLL and CWIL's communication strategy to inform policyholders of the Proposed Transfer.
- whether the policyholders are to be provided with sufficient and clear enough information so that they can understand how the Proposed Transfer may affect them.

These assessments were considered in section 8 of the Scheme Report.

In this Supplementary Report, I have also considered the following:

- Policyholder and other stakeholder responses to AGF, CLL and CWIL's communications; and
- Policyholder and other stakeholder objections to the Proposed Transfer.

7.1. Policyholder responses to AGF, CLL and CWIL's communications

Catalina UK has confirmed that communications with policyholders have been carried out in line with the communications plan agreed with the High Court at the Directions Hearing on 20 July 2022. In total 2,442 communications packs were sent out to policyholders, claimant legal representatives, reinsurers and other interested parties, of which 2,146 went to policyholders. The majority of communication packs were mailed on 29 July 2022 with a smaller number (31) after this date. No returns had been received by the mailing house as at 28 October 2022.

Catalina UK has confirmed that all notices detailed in the communication plan agreed with the High Court at the Directions Hearing have been published. Catalina have also confirmed that there have been no diversions from the communications strategy.

There is considerable uncertainty regarding policyholder numbers and the location of policyholders because Catalina does not hold the contact details for all policyholders, given the nature and timing of the business written.

Catalina was not able to locate identifiable company or insurer details for 234 policyholders in scope for notification under the communications plan. The vast majority of these policyholders relate to policies issued before 1990, therefore making it more difficult to identify such policyholders because of the passage of time. I note that Catalina have advertised the Proposed Transfer more widely than required to mitigate against not being able to identify all of the relevant policyholders.

I have considered this issue when reaching my conclusions and concluded that policyholders are not materially disadvantaged by it. I reached my conclusion in this regard as, irrespective of whether they have been notified of the Proposed Transfer or not, Transferring AGF and CLL Policyholders will be able to make claims to Catalina after the Proposed Transfer via the same route as before the Proposed Transfer, and so are not disadvantaged.

As at 28 October 2022, which was the latest available data prior to finalising this Supplementary Report, Catalina UK had received 23 policyholder responses (including one phone call) eg requesting why they had received notification of the Proposed Transfer or asking for details of their policy. I have reviewed a summary of the policyholder responses. Within the responses was one objection which is discussed in section 7.2. The reasons for the contact are summarised in the following table:

Reason	Number of responses	% of policyholders notified
General enquiry	19	0.9%
Returns		
Objection	1	0.05%
Complaint		
Technical enquiry	2	0.1%
Other	1	0.05%
Total	23	1.0%

7.2. Policyholder objections to the Proposed Transfer

One objection has been received as at 28 October 2022. A Transferring CLL Policyholder has objected to the Proposed Transfer, raising three points:

- The first point compared SCR coverage ratios in different parts of the Scheme Report and commented that, as these were not the same, this questioned the coherence and potentially the validity of the report. However, the SCR coverage ratios identified were at different points in time and so would be expected to be different. Given this, I am satisfied that I do not need to consider this point further.
- The second point raised the issues of the impact of expected higher inflation and movements in the $/£ rate of exchange, and that these meant the stress and scenario tests should be re-run. I have addressed the impact of expectations of higher inflation since my Scheme Report in section 5.2 of this report, which the objector has not yet seen yet, and have concluded that the stress and scenario tests do not need to be re-run. I addressed the exchange rate point in my Scheme Report in the investment stress and scenario test in section 6.10 of that report. In my view, the impact of material movements in the $/£ exchange rate are adequately addressed in the reserving deterioration stress and scenario tests considered in section 6.10 of my Scheme Report where I considered deteriorations of 40% and 60% for CLL. I am satisfied that I have addressed the issues raised in this point by the objector and that the stress and scenario tests do not need to be re-run
- The third point commented that reserve risk is not contemplated in the SCR calculation and so the SCR calculation is non-robust. Reserve risk, as part of the underwriting risk component of the SCR, was discussed in section 6.6 of my Scheme Report which has details of the contribution of reserve risk to the overall SCR. This third point also commented that the reduction in CLL's SCR coverage is a material change. I agree with this but I explained why, in my opinion, this does not equate to a material difference in the probability of insolvency of CLL in section 6.9 of my Scheme Report. I am satisfied that I have addressed the issues raised in this point by the objector.

The objection raised has not led me to change any of my conclusions in my Scheme Report or this Supplementary Report.

7.3. Overall conclusion: Policyholder communications

The communications have been carried out in line with the communications plan agreed with the High Court at the Directions Hearing on 20 July 2022. I have not identified any objections or complaints that have caused me to change my overall conclusions related to the Proposed Transfer. In my opinion, policyholders and interested parties have had sufficient time to consider the impact of the Proposed Transfer on them. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded the communications strategy will ensure adequate coverage of affected parties.

I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer and that Catalina UK has sufficient resources to deal with any objections, enquiries or complaints received following the Part VII communication exercise.

8. Customer service and other considerations

The assessments related to the customer service and other considerations were considered in section 9 of the Scheme Report.

8.1. Customer service

There have been no changes related to customer service since my analysis included in the Scheme Report.

In particular, it remains the case that CSUK provide all claims handling for AGF, CLL and CWIL pre-transfer and will provide the same services for the combined CWIL entity post-transfer. This arrangement provides Transferring AGF and CLL Policyholders with continuity of service in respect of claims handling.

In addition, CSUK has confirmed there will be no changes to policyholder administration and claims handling for their Existing Policyholders as a result of the Proposed Transfer. This is because the expected service levels from the service providers are the same pre- and post-transfer based on the outsourcing arrangements.

None of the service level agreements or contracts between AGF, CLL, CWIL and CSUK, or between CSUK and any outsourced claims handling provider will change as a result of the Proposed Transfer.

As such, my conclusions from the Scheme Report remain unchanged ie I anticipate no changes in service levels following the Proposed Transfer.

8.2. Investment management implications

Other than some changes to the maximum limits per class in the 2022 Strategic Asset Allocation, which do not impact my conclusions, there are no planned changes to Catalina UK's investment risk appetite in respect of AGF, CLL or CWIL or management. I am satisfied that the Transferring AGF Policyholders, the Transferring CLL Policyholders and the Existing CWIL Policyholders are not materially adversely affected in terms of investment management as a result of the Proposed Transfer.

8.3. Impact on liquidity position

Given the expected movements in the updated projected balance sheets for AGF, CLL and CWIL immediately pre- and post- the Proposed Transfer provided to me for my Supplementary Report, I anticipate no material adverse impacts on the liquidity position for either group of policyholders as a consequence of the Proposed Transfer.

8.4. Impact of other transfers

Section 3.5 of my Scheme Report contains details of a planned transfer into CWIL of a portfolio of EL liabilities written by Zurich Insurance plc. I am not aware of any other future transfers into or out of CWIL will affect any of the transferring policyholders or the existing policyholders in CWIL.

Any future transfers would need to go through a separate Part VII Court process to ensure that policyholders would not be materially adversely affected.

8.5. Overall conclusion: Customer service and other considerations

Since the Scheme Report, there have been no material changes to the Proposed Transfer that affect my analysis on customer service and other aspects of the Proposed Transfer. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that no material impact on service standards (or any other considerations within this section of the report and section 9 of the Scheme Report) is expected following the Proposed Transfer.

9. Conclusions and Statement of Truth

9.1. Conclusion

I have considered the Proposed Transfer and its likely effects on the Transferring AGF Policyholders, the Transferring CLL Policyholders and the Existing CWIL Policyholders and the reinsurers of the Transferring Business.

In reaching the conclusions set out below, I have applied the principles as set out in relevant professional guidance, being the Technical Actuarial Standards (TASs) TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

I have concluded that:

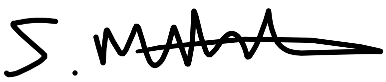
- The security provided to Transferring AGF Policyholders will not be materially adversely affected by the Proposed Transfer. No material adverse impact on service standards is expected for Transferring AGF Policyholders following the Proposed Transfer.
- The security provided to Transferring CLL Policyholders will not be materially adversely affected by the Proposed Transfer. No material adverse impact on service standards is expected for Transferring CLL Policyholders following the Proposed Transfer.
- The security provided to Existing CWIL Policyholders will not be materially adversely affected by the Proposed Transfer. No material adverse impact on service standards is expected for Existing CWIL Policyholders following the Proposed Transfer.
- Reinsurers of AGF and CLL who provide cover for the Transferring Business will not be materially adversely affected by the Proposed Transfer.

9.2. IE duty and declaration

My duty to the High Court overrides any obligation to those from whom I have received instructions or paid for this Report. I confirm that I have complied with that duty.

I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

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



Stewart Mitchell FIA
Partner

4 November 2022

Professional standards

Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Standard 200: Insurance.

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Appendix 1 – Summary of data provided

The following is a list of the key data items I have requested and received in assessing the Proposed Transfer for the purpose of this Supplementary Report. I continue to also rely on all data items received that are listed in Appendix 4 of the Scheme Report. All data I have requested has been provided to me.

- Draft High Court and regulatory documents prepared by Catalina UK for the Proposed Transfer, including:
    - Second Witness Statement for AGF, CLL and CWIL (dated 2 November 2022)
    - First Witness Statement of Paul Lloyd at Black and Callow (dated 4 October 2022)
- Regular updates on responses to communication plan from policyholders
- Documents relating to provisions and reserving processes, including:
    - Actuarial reserving reports for AGF, CLL and CWIL (as at 31 December 2021)
    - Actuarial function reports for AGF, CLL and CWIL (as at 31 December 2021)
    - Summary of reserves as at 30 June 2022
- Documents relating to capital and related processes, including:
    - Catalina Holdings UK Ltd Solvency and Financial Condition Report (as at 31 December 2021)
    - Catalina Holdings UK Ltd Own Risk and Solvency Assessment (as at 30 April 2022)
    - Catalina Holdings (Bermuda) Ltd. Financial Condition Report (as at 31 December 2021)
    - Updated capital projections based on 30 June 2022 data (as at Day 0 and Day 1)
    - Updated stress tests based on 30 June 2022 data
- Other
    - Quota share reinsurance agreement between CatGen and CWIL
    - Guarantee by CHBL regarding CatGen's reinsurance of CWIL
- Data accuracy statement
    - A director of AGF, CLL and CWIL has provided data accuracy statements confirming that the data and information provided to me regarding the Proposed Transfer is accurate and complete.
- The Catalina UK project steering group comprising directors and executives of AGF, CLL and CWIL have read this IE Scheme Report and have confirmed that it is correct in terms of all factual elements of the Proposed Transfer.

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