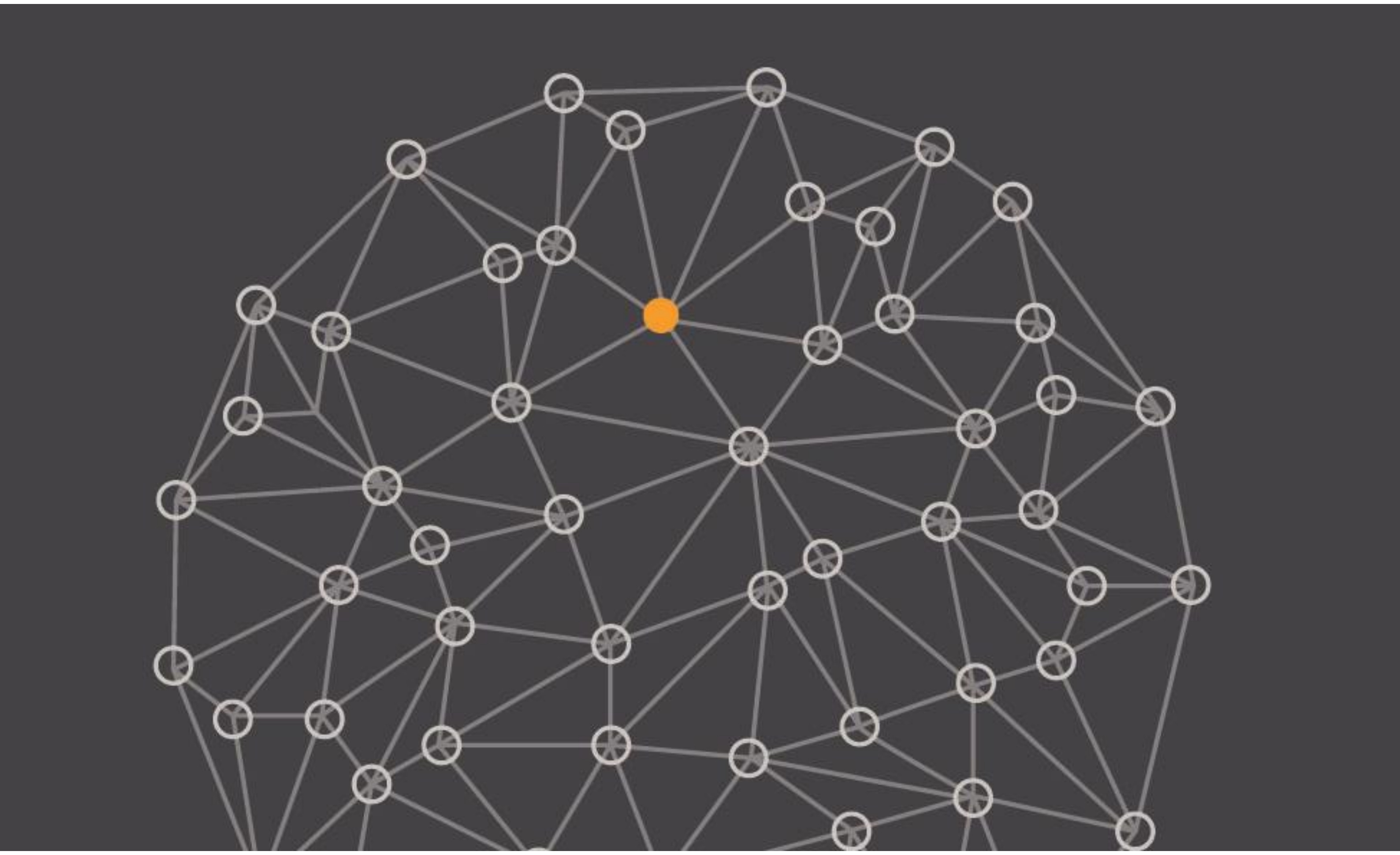
MILLIMAN CLIENT REPORT

Supplemental Report of the Independent Expert on the proposed transfer of business from TT Club Mutual Insurance Limited to UK P&I Club N.V.

18 November 2021

Derek Newton, FIA



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1. Purpose and Scope

1.1 I, Derek Newton, prepared a report (the "**Report**") to the **Court**, dated 11 May 2021 and entitled "*Report of the Independent Expert on the proposed transfer of business from TT Club Mutual Insurance Limited to UK P&I Club N.V.*".

1.2 The conclusions of the Report were largely based on financial information up to 31 December 2019 (in respect of **TTI**) and up to 20 February 2020 (in respect of **UKNV**) and other information available to me when I prepared the Report. Since preparing the Report, I have been provided with more recent financial and other information in respect of **the Companies** (the "**Additional Information**"). Details of the material elements of the Additional Information are set out in Appendix B.

1.3 In paragraphs 1.29 and 2.3 of the Report, I stated that, shortly before the Court hearing at which an order sanctioning the **Scheme** will be sought, I would review any relevant matters which might have arisen since the date of the Report (I further referred to such a review in paragraphs 1.45, 2.23, 5.39 and 9.5 of the Report). Such relevant items would typically include:

- the extent to which the operational plans of TTI or UKNV have altered (relative to their position at the date of the Report);
- the latest financial statements of TTI and UKNV (and, to the extent that they are relevant, those of the **TT Club** and of the **Fronted Clubs**);
- the latest forecast financial statements of TTI and UKNV (and, to the extent that they are relevant, those of the TT Club and of the Fronted Clubs); and
- the most recently prepared figures (actual and forecast) relating to the solvency capital position of TTI and UKNV (and, to the extent that they are relevant, those of the TT Club and of the Fronted Clubs).

I further stated that I would also review the conclusions of my earlier analyses, as set out in the Report, in light of the above relevant items.

1.4 I also stated in the Report that I would explicitly consider the following items:

- Developments relating to the COVID-19 pandemic, in particular its effects, both current and projected into the future, upon the Companies balance sheets and solvency requirements;
- How the proposed communication plan has worked in practice; and
- The responses received by the Companies to their communications (and how the Companies have reacted to those responses). In particular, I stated that I would consider in detail any and all objections raised to the Scheme.

1.5 This report (the "**Supplemental Report**") provides a brief summary of my review of the Additional Information and explains how, as a result of my review of the Additional Information, I have changed my conclusions, if at all, from those set out in the Report. As such, the Supplemental Report should be considered supplemental to the Report and does not supersede it. Unless stated otherwise in the Supplemental Report, all analyses and conclusions as set out in the Report remain valid.

1.6 The Supplemental Report should be read in conjunction with the Report and the full terms of the Scheme. The Supplemental Report has been produced on the same basis as set out at Section 1 of the Report. In particular, it has the same scope, and is subject to the same reliances and limitations (in particular, those set out in paragraphs 1.35 – 1.47 of the Report). Terms used in this Supplemental Report have the same meanings as in the Report (I have attached, in Appendix A, a list of definitions of terms that, when they first appear in this Supplemental Report, are shown in bold type).

1.7 Reliance has been placed upon, but is not limited to, the Additional Information, as well as upon the information set out in Appendix F of the Report. My opinions depend on the accuracy and completeness of this data, information and the underlying calculations. I have discussed the Additional Information with the Companies and have considered how it has changed from similar information provided in support of the Report. Except where stated otherwise, I have not re-reviewed the methodology and assumptions used by the Companies in their assessments of the liabilities and solvency capital of their respective firms, and I have not attempted to review in detail the calculations performed. I am unaware of any issue that might cause me to doubt the material accuracy of the Additional Information, but I give no warranty as to its accuracy. I accept no responsibility for errors or omissions arising in the preparation of the Supplemental Report, providing that this shall not absolve my liability arising from an opinion expressed recklessly or in bad faith. I note that the Companies have confirmed to me, in the Letters of Representation that are shown in Appendix C of this Supplemental Report, that, to the best of their knowledge and belief, all data and information that they have provided to me is accurate and complete.

1.8 In all cases, I have requested the most recent information available. The Companies have informed me that there have been no developments since the date of the Report, other than as provided in the Additional Information, that might be relevant to the Scheme.

1.9 I note that, since the date of the Report, the **Effective Date** of the Scheme has been amended, from 30 September 2021 to 31 December 2021.

1.10 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the **IFoA**, including *TAS 100: Principles for Technical Actuarial Work*, *TAS 200: Insurance* and *Actuarial Profession Standard X3: The Actuary as an Expert in Legal Proceedings*. I have complied with such standards, subject to the principles of proportionality and materiality.

1.11 In accordance with *Actuarial Profession Standard X2*, as issued by the IFoA, I have considered whether this Supplemental Report should be subject to **Work Review**. I concluded that it should, and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Supplemental Report or in the preparation of this Supplemental Report, but who would have had the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that this Supplemental Report should be subject to **Independent Peer Review**. I confirm that this Supplemental Report has been subject to Independent Peer Review prior to its publication.

1.12 This Supplemental Report has been prepared under the terms of the guidance set out in the **Policy Statement** and in **SUP18**. I have also followed the guidance contained within **FG18/4**.

1.13 In paragraph 6.5 of the Report, I explained that certain capital requirements are private matters between insurers and the **PRA** and, therefore, I was not at liberty to disclose in the Report actual figures relating to those requirements, or figures by which those amounts could be calculated. As part of my analysis, I considered the extent to which TTI and UKNV each held capital in excess of their regulatory solvency levels, and referred to the ratio of the actual capital that the entity under consideration held relative to the regulatory solvency capital requirement to be the "**Capital Cover Ratio**". Purely for comparative purposes in the Report, I defined the following terms:

- "sufficiently capitalised" refers to a Capital Cover Ratio between 100% and 119%;
- "more than sufficiently capitalised" refers to a Capital Cover Ratio between 120% and 149%;
- "well-capitalised" refers to a Capital Cover Ratio between 150% and 199%; and
- "very well-capitalised" refers to a Capital Cover Ratio of 200% or more.

In this Supplemental Report, I have adopted the same terminology.

1.14 The remainder of the Supplemental Report follows, for ease of reference, a structure that is similar to that of the Report, albeit omitting background information and explanation that does not require repeating:

- **Section 2**: I provide an executive summary of the Supplemental Report.
- **Section 3**: I consider any changes in the information underlying the Report for the Companies. This is equivalent to Section 4 of the Report; I have not repeated in the Supplemental Report the background to the regulatory environment in which the Companies operate, which was described in Section 3 of the Report and which has not changed.

- **Section 4**: I consider any changes resulting from the Additional Information in my view of the likely impact of the Scheme on the **Transferring Policyholders**. This is equivalent to Section 6 of the Report; I have not repeated in the Supplemental Report the key provisions of the Scheme, which had appeared in Section 5 of the Report.
- **Section 5**: I consider any changes, resulting from my review of the Additional Information, in my view of the likely impact of the Scheme on the **TTI Non-Transferring Policyholders**. This is equivalent to Section 7 of the Report.
- **Section 6**: I consider the likely impact of the Scheme on those who, as at the Effective Date, were already existing policyholders of UKNV. This is equivalent to Section 8 of the Report.
- **Section 7**: I cover more general issues relating to the Scheme and the management of the Companies. This is equivalent to Section 9 of the Report.

1.15 I summarise my conclusions in Section 8.

2. Executive Summary

CONCLUSION

2.1 In paragraph 2.1 of the Report, I set out my conclusions in respect of the impact of the Scheme on the various groups of policyholders who might be affected. I have considered developments that have occurred since the date of the Report, including the financial statements for TTI and UKNV, as at 31 December 2020 and 20 February 2021 respectively, and any further developments relating to the COVID-19 global pandemic. While these developments have resulted in changes to some of the metrics that I have used when formulating my views, none have created changes of sufficient magnitude that have caused me to revise my conclusions.

2.2 Therefore, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The benefit expectations of
  - the Transferring Policyholders;
  - the TTI Non-Transferring Policyholders; or
  - the pre-Scheme policyholders of UKNV;
- The security of the benefits under
  - the **Transferring Policies**;
  - the TTI policies that will not be transferred to UKNV under the Scheme; or
  - the pre-Scheme policies of UKNV;
- The level and standards of administration and service that would apply to
  - the Transferring Policies;
  - the TTI policies that will not be transferred to UKNV under the Scheme; or
  - the pre-Scheme policies of UKNV.

2.3 These conclusions are unchanged from those set out in the Executive Summary of the Report.

APPROACH TO COMMUNICATION WITH POLICYHOLDERS

2.4 I have been informed that the Companies have written to:

- all current policyholders of TTI and UKNV, and their brokers;
- all policyholders of TTI and UKNV with a notified outstanding claim, and their brokers;
- all former policyholders of TTI who entered into policies on or after 1 January 2011, and their brokers;
- all former policyholders of UKNV who entered into policies on or after 20 February 2011, and their brokers.

2.5 In total, the Companies have sent out 4,927 letters and, as at the date of this Supplemental Report, have received just two returns. For those two returned letters, the Companies obtained alternative addresses and have resent the letters. As at the date of this Supplemental Report, the resent letters have not been returned.

2.6 In addition to direct, written correspondence, the Companies also placed notifications in various newspapers in the UK and across Europe, as well as in international editions of the *Financial Times* and in relevant trade magazines.

2.7 I am satisfied that the communications effected by the Companies, as outlined above, have been in line with the communications plan that I summarised in the Report.

2.8 The Companies have been monitoring all responses received to their notifications, in particular any queries or objections raised by policyholders or other interested parties, and how they (the Companies) have replied to such responses. As at the date of this Supplemental Report, four responses to the above notifications had been received. These responses have all been general enquiries and no complaints or objections have been received.

2.9 Should I become aware of any objection to the Scheme from a Regulator then I will ensure that the Court is informed of the objection at or ahead of the hearing at which it will be asked to approve the Scheme.

2.10 I have also been told that, as at the date of this Supplementary Report, 17 of the insurance regulators of the 30 EEA States have confirmed their non-objection to the Scheme, and that no EEA insurance regulator has raised any objections to the Scheme. The deadline by which insurance regulators in the EEA States should have registered any objections was 28 August 2021.

2.11 No response to the notifications that has been received by the Companies by the date of this Supplemental Report has caused me to alter any of my conclusions that I set out in the Report.

3. Changes since the Report in the entities concerned in the Scheme

3.1 In this section of the Supplemental Report, I set out the elements of the background information and key metrics relating to the entities involved in the Scheme that differ from those stated in the Report as they are based on more recent information, in particular audited financial and other statements as at 31 December 2020 for entities within the TT Club and as at 20 February 2021 for entities within the **UK Club**, and any subsequent (unaudited) statements.

TTI

Business Written

3.2 The gross premiums written by TTI in the year ending 31 December 2020 totalled US$209.6 million[1] (2019: US$202.0 million) and was split by product type and geography as set out in Figure 3.1, below. The total gross premium written for non-UK EEA risks was US$34.2 million (2019: US$32.0 million) over the period. The modest overall growth in premium volumes reflects strong underlying sales experience, mostly negated by the impact of the COVID-19 pandemic.

FIGURE 3.1 BREAKDOWN OF TTI PREMIUM INCOME FOR THE 2020 CALENDAR YEAR

Premium Income	non-EEA	non-UK EEA	UK	TOTAL
Cargo	3.3%	1.1%	0.2%	4.7%
Containers	15.8%	3.5%	0.8%	20.0%
Logistics	24.4%	4.8%	2.0%	31.2%
Other	2.9%	0.0%	0.1%	3.0%
Ports	21.6%	5.7%	1.3%	28.6%
Property	10.6%	1.2%	0.8%	12.5%
TOTAL	**78.6%**	**16.3%**	**5.1%**	**100.0%**

3.3 The breakdown of the gross premiums written in 2020, as shown in Figure 3.1, above, is very similar to that of the gross premiums written in 2019.

3.4 Of the gross written premiums relating to risks in locations outside of the UK and EEA States, the US accounts for roughly 40%, with Hong Kong roughly 10%, Russia 6%, Australia 7% and other countries collectively the remaining 37%. This geographic distribution is again similar to that seen in 2019, albeit with a slightly lower proportion of premiums relating to US risks.

3.5 The gross premiums written by TTI in the year ending 31 December 2020 could also be subdivided[2] between direct business (US$174.1 million or 83%) and inwards proportional reinsurance (US$35.5 million or 17%). These numbers are a little higher than the equivalent 2019 amounts but the proportions are unchanged. Of this, US$172.0 million (2019: US$166.6 million) was ceded to reinsurers, leaving net premiums written in the year ending 31 December 2020 totalling US$37.6 million (2019: US$35.4 million).

Key financial information

3.6 As at 31 December 2020, on a UK **GAAP** basis, the booked reserves for outstanding liabilities, including the provisions for unearned premiums ("**UPR**"), were as set out in Figure 3.2, below.[3]

FIGURE 3.2 TTI'S RESERVES ON A UK GAAP BASIS AS AT 31 DECEMBER 2020 (US$M)

	Claims Outstanding	UPR	TOTAL
Gross	306.8	77.6	384.3
Ceded	282.8	65.1	347.8
Net	24.0	12.5	36.5

[1] *Based on TTI Annual Report and Financial Statements as at 31 December 2020, p36.*
[2] *Based on TTI Solvency and Financial Condition Report for the year ending 31 December 2020, S.05.01.02.*
[3] *Based on TTI Annual Report and Financial Statements for year ending 31 December 2020, Pages 20 and 21.*

3.7 These reserves are slightly increased on their levels as at 31 December 2019 (in total by 6%, gross of reinsurance, and by 4% net of reinsurance). TTI's management considers that the UK GAAP booked reserves remain reasonable and comply with TTI's reserving policy. The reserving policy has not changed since 31 December 2019 and there has been no intended strengthening or weakening of TTI's reserves between the year-ends. The growth in the reserves during 2020 reflects the increase over the year in business volumes and the overall development of claims during the year being slightly more than TTI had expected when setting its reserves as at 31 December 2019. I note that the **Reserving Actuaries** have allowed in their reserve estimations of large claims for delays in their notification and assessment, in particular due to pandemic-related court closures and deferment of mediation meetings, etc.

3.8 As at 31 December 2020, on a UK GAAP basis, the total assets and the total liabilities of TTI amounted to US$579.2 million (2019: US$535.0 million) and US$509.7 million[4] (2019: US$468.1 million) respectively, giving net assets of US$69.5 million (2019: US$66.9 million). The growth in net assets reflects a profitable year for TTI, with reduced investment returns being offset by reduced claims experience (both affected by the COVID-19 pandemic). I note that, as at the date of this Supplemental Report, there have been no developments that give me concern regarding TTI's recognition of, or provisions for, claims relating to the COVID-19 pandemic.

3.9 Also as at 31 December 2020, on an UK GAAP basis, TTI held investment assets[5] valued at US$114.1 million (2019: US$107.5 million). The largest share of this (US$101.1 million, almost identical to the equivalent amount as at 31 December 2019) comprised debt securities (all AA rated). TTI also held US$54.1 million in cash (US$39.3 million as at 31 December 2019).

3.10 As at 31 December 2020, on a **Solvency II** basis, TTI's technical provisions ("**TPs**") were as set out in Figure 3.3, below.[6]

FIGURE 3.3 TTI'S TECHNICAL PROVISIONS ON A SOLVENCY II BASIS AS AT 31 DECEMBER 2020 (US$M)

	Motor Liability	Marine Aviation & Transport	Fire & Property	General Liability	TOTAL
Gross	8.1	122.7	1.8	151.3	283.9
Ceded	9.5	108.7	-0.6	123.0	240.6
Net	-1.4	14.0	2.4	28.3	43.3

3.11 In total, the TPs (both gross and net of reinsurance), as set out in Figure 3.3, above, are 9% larger than those as at 31 December 2019.

3.12 As at 31 December 2020, TTI held deposits and letters of credit totalling US$64.7 million (2019: US$64.5 million) to meet overseas regulatory requirements. This included a collateralised letter of credit in relation to TTI's Hong Kong branch amounting to US$24.5 million (2019: US$24.4 million) and a trust fund deposit in relation to the US business of US$40.2 million (2019: US$39.8 million).

3.13 As at 31 December 2020, TTI's **MCR**, **SCR** and the funds available within TTI to meet those requirements were as set out in Figure 3.4, below[7]. All of the MCR, SCR and funds available have increased slightly from their positions as at 31 December 2019, with the result that the Capital Cover Ratios are slightly reduced as at 31 December 2020 from those as at the 2019 year-end (735% in respect of the MCR, 184% in respect of the SCR). However, TTI remains a well-capitalised insurer as at 31 December 2020.

FIGURE 3.4 TTI'S AVAILABLE ASSETS AND SOLVENCY REQUIREMENTS AS AT 31 DECEMBER 2020 (US$M)

	MCR	SCR
Eligible Own Funds	75.8	75.8
Solvency Capital Requirement	10.7	42.8
Capital Cover Ratio	709%	177%

[4] *Based on TTI Annual Report and Financial Statements for year ending 31 December 2020, Pages 20 and 21.*
[5] *Based on TTI Annual Report and Financial Statements for year ending 31 December 2020, Page 30.*
[6] *Based on TTI Solvency and Financial Condition Report for the year ending 31 December 2020, S.17.01.02.*
[7] *Based on TTI Solvency and Financial Condition Report for the year ending 31 December 2020, S.23.01.01.*

Reinsurance and guarantees

3.14 The reinsurance programme that protects TTI for Policy Year 2020 (and 2021) is largely the same as that which protected it for Policy Year 2019, as described in the Report, save that the amount ceded to Swiss Re under the whole account quota share reinsurance arrangement has reduced as planned, from 25% to 20%.

3.15 The **Parental Guarantee** also remains in place and unaltered.

The Transferring Business

3.16 The **Transferring Business** has liabilities valued on a UK GAAP basis at US$70.1 million, gross of reinsurance, as at 31 December 2020 (comprising US$55.2 million in respect of outstanding claims and US$14.9 million UPR). As such, they comprised roughly 20% of TTI's gross reserves on a UK GAAP basis as at 31 December 2020. By 31 December 2021 (the expected Effective Date), these liabilities are expected to have fallen in value on a UK GAAP basis to US$45.9 million, gross of reinsurance (comprising US$43.4 million in respect of outstanding claims and US$2.5 million UPR), as the premiums are earned and as the claims run off.

3.17 On a Solvency II basis, the (gross of reinsurance) TPs relating to the Transferring Business as at 31 December 2021 are expected to be US$46.2 million (comprising US$46.0 million claims provision, US$-0.1 million premium provision and US$0.3 million risk margin).

COVID-19

3.18 In paragraphs 4.86-4.97 of the Report, I discussed in detail the impact that the COVID-19 pandemic had had upon the TT Club, upon its business, its operations, its assets, its claims experience and its capital and solvency position. I concluded the following:

- While the Thomas Miller Group had been forced by the pandemic to change its ways of operating, it had done so successfully. There had been no material change in the standards of service enjoyed by the TT Club, and all systems and processes continued to operate as they did prior to the COVID-19 pandemic.
- Although the COVID-19 pandemic had led to a sharp downturn in global trade, which was only recovering slowly, the TT Club experienced marginal growth over 2020 in its member volumes.
- In general, the COVID-19 pandemic resulted in more benign claims experience in the market due to reduction in global trade, offset by claims under business interruption cover. Although the TT Club had received several claims relating to business interruption cover, it had verified (via the legal opinion of a suitably experienced QC) that its policy wording for business interruption covers requires the business interruption to be attributable to property damage for a claim to be valid. As such, the TT Club had declined almost all of the business interruption claims that it has received and therefore I concluded that the TT Club's claims experience had suffered little from the COVID-19 pandemic, although I had noted that the pandemic had increased the uncertainty regarding estimates of ultimate claims costs.
- TTI's investments mainly consist of US government bonds and there are no equity holdings. Therefore, its investments have not been materially affected by the COVID-19 pandemic.
- While the TT Club does not expect its liquidity or solvency position to be materially affected by the COVID-19 pandemic, it has increased the frequency of monitoring its capital and liquidity positions.

3.19 I based the conclusions above on the mostly recent information then available to me, which included the SFCR for the TT Club as at 31 December 2020. I have since received the Additional Information, as listed in Appendix B, below, which includes more recent analysis and comment on the impact of the COVID-19 pandemic upon the TT Club, in particular an update on the impact on claims.

3.20 Based on this material, I understand that the TT Club has identified 43 claims that are related to the pandemic (these exclude the business interruption claims that the TT Club has denied). As at 8 November 2021, these claims had a total incurred amount of approximately US$210k, gross of reinsurance, more than half of which related to related fees rather than to indemnity amounts. I do not consider this to be a material amount in the context of TTI's technical provisions as at 31 December 2020, as shown in Figure 3.2 and Figure 3.3, above, on a UK GAAP and Solvency II basis respectively. I also understand that there has been no developments that might cause any of the denied business interruption claims to be reopened.

3.21 I am unaware of any pandemic-related developments that would have affected either the TT Club's assets or its business other that those that I discussed in the Report. Moreover, it appears that, despite working practices not having returned fully to their pre-pandemic state, the Thomas Miller Group is continuing to provide the operational support required by the TT Club. Therefore, as there has been little change in the circumstances relating to the COVID-19 pandemic in respect of TTI's operations, its business, its claims experience, its assets and hence its capital and solvency position, I consider that my conclusions regarding the impact of the COVID-19 pandemic, as set out in the Report and as summarised in paragraph 3.18, above, remain valid.

Other

3.22 The situation described in the Report remains unchanged in respect of the following:

- The background to TTI;
- TTI's system of governance (and that of **TTB**);
- TTI's risk management strategy (and that of TTB);
- The risks faced by TTI and its risk appetite;
- TTI's capital policy (and that of TTB);
- TTI's conduct risk policy; and
- The TT Club's current plans.

3.23 I am aware of no material market developments that have affected TTI between the dates of the Report and this Supplemental Report.

Pro forma balance sheets for TTI as at 31 December 2020

3.24 Figure 3.5, below, shows simplified balance sheets on a UK GAAP basis for TTI as at 31 December 2020 in two situations):

- The "Actual" column shows the actual balance sheet as at 31 December 2020.
- The "Post-Scheme" column shows what the balance sheet would have looked like as at 31 December 2020 had the Scheme been approved and become effective as at 31 December 2020.

As such, Figure 3.5 updates to the 2020 year-end Figure 5.1 as shown in the Report.

FIGURE 3.5 SIMPLIFIED UK GAAP BALANCE SHEETS FOR TTI AS AT 31 DECEMBER 2020 (IN US$'000)

	Actual	*Scheme*	Post-Scheme
Assets			
Investments	114,096	*0*	114,096
Reinsurance recoverables	347,828	*0*	347,828
Cash and cash equivalents	54,108	*-500*	53,608
Loans and receivables	54,159	*0*	54,159
DAC	7,548	*-678*	6,870
Any other assets	1,418	*0*	1,418
Total Assets	**579,157**	***-1,178***	**577,979**
Liabilities			
Equity	69,513	*-130*	69,383
Gross technical provisions	384,319	*-1,048*	383,271
Payables	120,430	*0*	120,430
Other liabilities	4,895	*0*	4,895
Total Liabilities	**579,157**	***-1,178***	**577,979**

3.25 Figure 3.6, below, shows simplified balance sheets for TTI as at 31 December 2020 under the same two situations as per Figure 3.5, but on a Solvency II basis. As such, Figure 3.6 updates to the 2020 year-end Figure 5.2 as shown in the Report.

FIGURE 3.6 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR TTI AS AT 31 DECEMBER 2020 (IN US$'000)

	Actual	*Scheme*	Post-Scheme
Assets			
Investments	114,096	*0*	114,096
Reinsurance recoverables	240,550	*0*	240,550
Cash and cash equivalents	54,108	*-500*	53,608
Loans and receivables	13,005	*0*	13,005
Any other assets	2,239	*0*	2,239
Total Assets	**423,998**	***-500***	**423,498**
Liabilities			
Equity	75,793	*-130*	75,663
Gross technical provisions	283,898	*-370*	283,528
Payables	59,424	*0*	59,424
Other liabilities	4,883	*0*	4,883
Total Liabilities	**423,998**	***-500***	**423,498**

3.26 I explained in the Report that TTI will pay a fee to UKNV for UKNV accepting the Transferring Business. At the date of the Report, the amount of the fee was still being negotiated between TTI and UKNV, but it was not expected to exceed €300,000 (roughly US$370k). As at 31 December 2020, TTI included within its technical provisions an additional provision of US$370k to cover this fee. I have since been told that TTI and UKNV have agreed a fee of US$500k for the set-up and operation of the Scheme. The pro forma balance sheets in Figure 3.5 and Figure 3.6, above, allow for the actual fee exceeding the US$370k provision.

3.27 Other than the payment of the aforementioned fee being correctly accounted for and the actual balance sheet as at 31 December 2020 being one year further on from that as at 31 December 2019, Figure 3.5 and Figure 3.6, above, are largely unchanged from Figure 5.1 and Figure 5.2 in the Report. Figure 3.5 and Figure 3.6 demonstrate that the impact of the Scheme on TTI's balance sheets will be negligible due to TTI 100% reinsuring the Transferring Business post-Scheme.

Pro forma Capital Cover Ratios for TTI as at 31 December 2020 and beyond

3.28 The impact of the Scheme on both TTI's SCR and **EOF** would be immaterial and, therefore, the pro forma Capital Cover Ratio, as at 31 December 2020 and relative to the SCR, would be the same post Scheme as it was pre-Scheme, i.e. 177%, as shown in Figure 3.4, above. Over the period to 31 December 2024, TTI forecasts that its Capital Cover Ratio, relative to the SCR, will remain in the range 177-179%. The forecast Capital Cover Ratios would be the same whether or not the Scheme were to go ahead.

UKNV

Business Written

3.29 The gross premiums written by UKNV in the year ending 20 February 2021 totalled US$93.5 million[8] (previous year: US$2.8 million), the main elements of which were as follows:

- Marine, Aviation and Transport (74%); and
- General Liability (24%).

3.30 The gross premiums written by UKNV in the year ending 20 February 2021 were in respect of the following main EEA States:

- Malta (18%);
- Italy (11%);
- Cyprus (11%);
- France (9%);
- Greece (9%);
- The Netherlands (7%);

[8] *Based on UK P&I Club N.V. Annual Report for the year ended 20 February 2021, Page 37.*

- Other (34%).

3.31 The premiums have grown during the year ending 20 February 2021 as UKNV has written business for more Fronted Clubs. The premiums and their profile are in line with those expected as at the date of the Report (which took into account the reduction in **P&I** premiums as a result of reduced shipping activity due to the COVID-19 pandemic).

Key financial information

3.32 As at 20 February 2021, on a Dutch GAAP basis, the outstanding claims reserves and the UPR were as set out in Figure 3.7, below.[9] The gross reserves include an amount of deferred continuity credit, which relates to a credit provided to **ITIC**'s renewing members.

FIGURE 3.7 UKNV'S RESERVES ON A DUTCH GAAP BASIS AS AT 20 FEBRUARY 2021 (US$M)

	Claims Outstanding	UPR	TOTAL
Gross	196.9	29.2	226.1
Gross net of deferred continuity credit		26.8	223.7
Ceded	196.9	23.9	220.8
Net	0.0	2.9	2.9

3.33 These gross reserves are materially increased on their levels as at 20 February 2020, due to UKNV having written material amounts of business during the preceding 12 month period and due to the transfer into UKNV of the **UKM Transferred Business** on 31 December 2020. The UKM Transferred Business and the business written by UKNV on behalf of the Fronted Clubs is 100% reinsured back to the Fronted Clubs, so the net reserves remain very small (essentially the amount relates to acquisition costs, and is appropriately matched in UKNV's Dutch GAAP balance sheet by a Deferred Acquisition Cost asset).

3.34 UKNV management considers that the Dutch GAAP booked reserves remain reasonable and comply with UKNV's reserving policy. The reserving policy has not changed since that described in the Report. The reserves, gross of reinsurance, are slightly more than had been anticipated in UKNV's **ORSA** dated December 2020.

3.35 As at 20 February 2021, on a Dutch GAAP basis, the total assets and the total liabilities of UKNV amounted to US$338.9 million (US$42.6 million as at 20 February 2020) and US$272.1 million[10] (US$5.2 million as at 20 February 2020) respectively, giving net assets of US$66.8 million (US$37.4 million as at 20 February 2020). The growth in net assets is largely attributable to a capital injection of US$29 million provided to UKNV by its parent, **UKM**, in November 2020.

3.36 As at 20 February 2021, on a Dutch GAAP basis, UKNV held investment assets[11] valued at US$33.5 million (US$31.8 million as at 20 February 2020), of which roughly one third comprise US Treasury securities and the remainder mutual funds (as at 20 February 2020 they had comprised entirely US Treasury securities). The mutual funds are unrated.

3.37 As at 20 February 2021, on a Solvency II basis, UKNV's TPs were as set out in Figure 3.8, below.[12]

FIGURE 3.8 UKNV'S TECHNICAL PROVISIONS ON A SOLVENCY II BASIS AS AT 20 FEBRUARY 2021 (US$M)

	Motor Vehicle Liability	Marine Aviation & Transport	Fire and other damage to Property	General Liability	TOTAL
Gross	-0.1	181.2	-0.1	4.4	**185.4**
Ceded	-0.1	183.4	-0.1	3.8	**186.9**
Net	0.0	-2.2	0.0	0.7	**-1.5**

9 Based on UK P&I Club N.V. Annual Report for the year ended 20 February 2021, Page 15.
10 Based on UK P&I Club N.V. Annual Report for the year ended 20 February 2021, Page 15.
11 Based on UK P&I Club N.V. Annual Report for the year ended 20 February 2021, Page 26.
12 Based on UKNV Solvency and Financial Condition Report for the year ending 20 February 2020, S.17.01.02.

3.38 As per the reserves on a Dutch GAAP basis, the TPs as at 20 February 2021 are materially larger than they were a year earlier, due to the business written by, and transferred to, UKNV during the intervening 12 months.

3.39 As at 20 February 2021, UKNV's MCR, SCR and the funds available within UKNV to meet those requirements were as set out in Figure 3.9, below[13]. As can be seen, as at 20 February 2021, UKNV complied with its strategic objective to maintain an SCR Capital Cover Ratio of between 150% and 200%.

FIGURE 3.9 UKNV'S AVAILABLE ASSETS AND SOLVENCY REQUIREMENTS AS AT 20 FEBRUARY 2021 (US$M)

	MCR	SCR
Eligible Own Funds	63.9	63.9
Solvency Capital Requirement	9.4	37.7
Capital Cover Ratio	679%	170%

3.40 The business written by UKNV, the business transferred to UKNV from UKM and the capital injection to UKNV from UKM during the 12 month period to 20 February 2021 have increased significantly the MCR, SCR and funds available from their positions as at 20 February 2020. All other things being equal, the increases in the MCR and SCR would have been proportionately more than the increase in the funds available, to such an extent that the Capital Cover Ratios as at 20 February 2021 would have reduced moderately from those as at 12 months earlier (which had been 932% in respect of the MCR, 258% in respect of the SCR). However, the actual Capital Cover Ratios as at 20 February 2021, as shown in Figure 3.9, above, are materially less than those as at 20 February 2020. The main reason for these significant reductions in the Capital Cover Ratios is that, as at 20 February 2021, the UK had not been deemed by the **EU** to have a Solvency II-equivalent regulatory regime, which meant that, when calculating its SCR, UKNV was not permitted to recognise any reinsurance arrangements with reinsurers that were unrated and based in the UK. Neither PAMIA Ltd nor ITIC is rated. The impact of PAMIA Ltd is immaterial. However, that of ITIC is material. The inadmissibility of the reinsurance provided by ITIC has increased UKNV's SCR by US$10.4 million, and thus reduced its Capital Cover Ratio relative to the SCR by about 70 percentage points.

3.41 I have been told that, to overcome this issue, it is being arranged that collateral valued at US$25 million will be put in place as security for UKNV's exposure to ITIC. I have been further told that this collateral will be in a form that ensures that it will be fully recognised under Solvency II rules. The form and the value of collateral are intended, in tandem, to ensure that UKNV can fully recognise its reinsurance arrangement with ITIC when calculating its SCR. As at the date of this Supplemental Report, the collateral agreement is nearing finalisation and the collateral is expected to be in place prior to the date of the hearing at which the Court will be asked to sanction the Scheme. Had the collateral been in place as at 20 February 2021, then the Capital Cover Ratio for the SCR would have been 241%.

3.42 I note that the lower Capital Cover Ratio of 170% still leaves UKNV as a well-capitalised insurer as at 20 February 2021, and one whose Capital Cover Ratio is forecast to increase year-on-year over the projection period (to 20 February 2025) such that UKNV would be very well-capitalised relative to its SCR (i.e. with a Capital Cover Ratio in excess of 200%) by 20 February 2022, whether or not the Scheme were to be implemented and whether or not the collateral was put in place. I discuss this further in paragraphs 4.13-4.16, below.

3.43 I also note that UKNV's reinsurance from ITIC (and PAMIA Ltd) being not recognised in its SCR calculation is a direct consequence of **Brexit** and does not reflect any underlying change in the financial health of ITIC, PAMIA Ltd or UKNV, or of the robustness of the UK's solvency regime. Had Brexit not occurred (or had the Transition Period been extended to beyond the Effective Date), UKNV's Capital Cover Ratio relative to its SCR as at 20 February 2021 would have been 241%, whether or not the ITIC reinsurance asset was collateralised. ITIC's management accounts indicate that its Capital Cover Ratio relative to its SCR as at 31 May 2021 was 344%. Hence, the likelihood of UKNV needing to place any reliance on the collateral in order to make recoveries against ITIC's reinsurance arrangement is very small.

3.44 I discuss the collateral further in Section 4, below.

[13] *These figures were taken from QRT S.23.01.01, shown in the solo Solvency and Financial Condition Report for UKNV as at 20 February 2020.*

COVID-19

3.45 In paragraphs 4.150-4.155 of the Report, I discussed in detail the impact that the COVID-19 pandemic had had upon UKNV, upon its business, its operations, its assets, its claims experience and its capital and solvency position. I concluded the following:

- While the Thomas Miller Group had been forced by the pandemic to change its ways of operating, it had done so successfully. There had been no material change in the standards of service enjoyed by UKNV, and all systems and processes continued to operate as they did prior to the COVID-19 pandemic.
- Although the COVID-19 pandemic had led to a sharp downturn in global trade, which in turn was expected to reduce the gross premiums written by UKNV on behalf of the Fronted Clubs.
- In general, the COVID-19 pandemic resulted in more benign claims experience in the market due to reduction in global trade, offset by claims under business interruption cover. Although UKNV had received some claims relating to the COVID-19 pandemic, including some business interruption claims, these claims were 100% reinsured by the relevant Fronted Clubs and so the net impact upon the balance sheets, on both a GAAP and a Solvency II basis, was negligible. The gross incurred amounts for pandemic-related claims totalled US$3.2 million as at 20 February 2021.
- UKNV's investments mainly consisted of US government bonds and there are no equity holdings. Therefore, its investments have not been materially affected by the COVID-19 pandemic.
- Taking into consideration the 100% reinsurance by the Fronted Clubs of UKNV's insurance liabilities, UKNV did not expect its liquidity or solvency position to be materially affected by the COVID-19 pandemic, a view I considered to be reasonable.

3.46 I based the conclusions above on the mostly recent information then available to me. I have since received the Additional Information, as listed in Appendix B, below, which includes more recent analysis and comment on the impact of the COVID-19 pandemic upon UKNV.

3.47 I note that the business written by UKNV on behalf of the Fronted Clubs in the policy year ending 20 February 2021 included business relating to cruise liners and cruises. Early in the pandemic, there were some well-publicised cases of multiple infections among passengers and crew of various liners, after which the cruise industry virtually ceased, and is now only gradually (and partially) returning. This reduced (but did not eliminate) the need for cover relating to cruise liners. UKNV estimates that, during its financial year ending 20 February 2021, it experienced a pandemic-related shortfall against plan in both premiums and claims of roughly US$2 million.

3.48 I note that the total gross incurred loss relating to COVID-19 claims in respect of business written prior to 20 February 2021 has deteriorated slightly from US$3.2 million as at 20 February 2021 to US$3.4 million as at 8 November 2021. I do not consider this deterioration to be material in the context of UKNV's technical provisions as at 20 February 2021, as shown in Figure 3.7 and Figure 3.8, above, on a Dutch GAAP and Solvency II basis respectively, or in the context of the eligible own funds and SCR, as shown in Figure 3.9, above.

3.49 I further note that pandemic-related claims, with gross incurred amounts totalling US$1.6 million, have been reported by 8 November 2021 in respect of business written by UKNV on behalf of the Fronted Clubs since 20 February 2021.

3.50 I have been informed that the pandemic-related claims so far notified to UKNV, in respect of the policy years ending on 20 February 2020 and on 20 February 2021 (there are no pandemic-related claims in respect of earlier policy years) mostly relate to sickness and quarantine costs. In general, cover has not been disputed and the claims have not been denied. I have been told by UKNV that it has received no business interruption claims.

3.51 While I note that, as at 20 February 2021, UKNV's investments now include a substantial proportion of mutual funds, they continue to include no equity holdings. I am unaware of any pandemic-related developments that would have affected either UKNV's assets or its business other that those that I discussed in the Report. Moreover, it appears that, despite working practices not having returned fully to their pre-pandemic state, the Thomas Miller Group is continuing to provide the operational support required by UKNV. Therefore, as there has been little change in the circumstances relating to the COVID-19 pandemic in respect of UKNV's operations, its business, its claims experience, its assets and hence its capital and solvency position, I consider that my conclusions regarding the impact of the COVID-19 pandemic, as set out in the Report and as summarised in paragraph 3.45, above, remain valid.

Other

3.52 The situation described in the Report remains unchanged in respect of the following:

- The background to UKNV;
- UKNV's credit rating;
- UKNV's reinsurance arrangements (and the **Keep-Well Agreement**);
- UKNV's system of governance;
- UKNV's risk management strategy;
- The risks faced by UKNV and its risk appetite;
- UKNV's capital policy;
- UKNV's conduct risk policy; and
- UKNV's current plans.

3.53 I am aware of no material market developments that have affected UKNV between the dates of the Report and this Supplemental Report.

Pro forma balance sheets for UKNV as at 20 February 2021

3.54 Figure 3.10, below, shows simplified balance sheets on a Dutch GAAP basis for UKNV as at 20 February 2021 in three situations:

- The "Actual" column shows the actual balance sheet as at 20 February 2021;
- The "Post ITIC collateral" column shows what the balance sheet would have looked like as at 20 February 2021 had ITIC by then put up sufficient collateral to mitigate the higher the capital charge in UKNV's SCR resulting from non-equivalence; and
- The "Post-Scheme" column shows what the balance sheet would have looked like as at 20 February 2021 had the Scheme been approved and become effective as at 20 February 2021 and had ITIC by then put up sufficient collateral.

As such, Figure 3.10 updates (to 20 February 2021) Figure 5.3 as shown in the Report, save that Figure 5.3 in the Report explicitly showed the impact of the transfer to UKNV of the UKM Transferred Business (which is not shown in Figure 3.10 as the "Actual" column is post the UKM Transfer) and did not make any allowance for the collateralisation of the ITIC reinsurance arrangement as that was not yet necessary as at 20 February 2020.

FIGURE 3.10 SIMPLIFIED DUTCH GAAP BALANCE SHEETS FOR UKNV AS AT 20 FEBRUARY 2021 (IN US$'000)

	Actual	*ITIC collateral-isation*	Post ITIC collateral	*Scheme*	Post-Scheme
Assets					
Investments and cash	78,873	*0*	78,873	*0*	78,873
Reinsurance recoverables	220,776	*0*	220,776	*45,529*	266,305
DAC	2,901	*0*	2,901	*426*	3,327
Any other assets	44,855	*0*	44,855	*2,541*	47,396
Total Assets	**347,405**	***0***	**347,405**	***48,496***	**395,901**
Liabilities					
Equity	66,820	*0*	66,820	*0*	66,820
Gross technical provisions	223,678	*0*	223,678	*45,955*	269,633
Other liabilities	56,907	*0*	56,907	*2,541*	59,448
Total Liabilities	**347,405**	***0***	**347,405**	***48,496***	**395,901**

3.55 As shown in Figure 3.10, above, the collateralisation does not affect UKNV's Dutch GAAP balance sheet in any way. The effect of the Scheme assumes that TTI transfers gross claims reserves and unearned premium reserves of US$43.4 million and US$2.5 million respectively (i.e. the expected value of the Transferring Business as at 31 December 2021, the expected Effective Date) to UKNV.

3.56 Figure 3.11, below, shows simplified balance sheets for UKNV as at 20 February 2021 under the same three situations as per Figure 3.10, but on a Solvency II basis. As such, Figure 3.11 updates (to 20 February 2021) Figure 5.4 as shown in the Report, save that Figure 5.4 presented the "Actual" column pre the UKM Transfer and then showed explicitly the impact of the transfer to UKNV of the UKM Transferred Business, and did not make any allowance for the collateralisation of the ITIC reinsurance arrangement as that was not yet necessary as at 20 February 2020.

FIGURE 3.11 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR UKNV AS AT 20 FEBRUARY 2021 (IN US$'000)

	Actual	*ITIC collateral-isation*	Post ITIC collateral	*Scheme*	Post-Scheme
Assets					
Investments	78,873	*0*	78,873	*0*	78,873
Reinsurance recoverables	186,932	*705*	187,637	*45,855*	233,492
Any other assets	13,494	*0*	13,494	*0*	13,494
Total Assets	**279,299**	***705***	**280,004**	***45,855***	**325,859**
Liabilities					
Equity	63,931	*1,661*	65,592	*-328*	65,264
Gross technical provisions	189,803	*-956*	188,847	*46,183*	235,030
Other liabilities	25,565	*0*	25,565	*0*	25,565
Total Liabilities	**279,299**	**705**	**280,004**	**45,855**	**325,859**

3.57 Collateralisation of the ITIC reinsurance asset affected the Solvency II balance sheet as follows:

- The collateral reduces the SCR for the Non-Life Insurance risk, which in turn reduces the notional SCR used for the risk margin calculation and hence the risk margin itself in the gross TPs.
- The reinsurance recoveries within the Solvency II balance sheet includes allowance for the risk of non-performance of the reinsurance. The establishment of collateral reduces the likelihood of such non-performance movement in respect of ITIC.

I note that these changes do not make a material difference to UKNV's Solvency II balance sheet.

3.58 Figure 3.11 assumes that the Scheme transfers from TTI to UKNV (gross of reinsurance) TPs totalling US$46.2 million, (i.e. the expected value of the Transferring Business as at 31 December 2021, the expected Effective Date).

3.59 As explained in paragraph 3.26, above, TTI will pay to UKNV a fee of US$500k for UKNV accepting the Transferring Business. UKNV will then pay to **TMBV** the same amount, for TMBV administering the Transferring Business on behalf of UKNV (I discuss the post-Scheme servicing arrangements in more detail in paragraphs 4.33-4.37, below). Thus, the fee paid by TTI will not affect UKNV's balance sheet.

3.60 The expected impact of the Scheme on UKNV's Dutch GAAP and Solvency II balance sheets as at 20 February 2021, as shown in Figure 3.10 and Figure 3.11, above, is very similar to the expected impact on the balance sheets as at 20 February 2020, as shown in Figure 5.3 and Figure 5.4 in the Report.

Pro forma Capital Cover Ratios for UKNV as at 20 February 2021 and beyond

3.61 The impact of the Scheme would be to reduce UKNV's post-collateralisation Capital Cover Ratio, as at 20 February 2021 and relative to the SCR, from 240% to 219%. UKNV forecasts that, over the period to 20 February 2022 - 20 February 2025, its Capital Cover Ratio, relative to the SCR, would be in the range 230%-232% were the Scheme not to be implemented and in the range 213%-227% were the Scheme to be implemented.

4. The impact of the Scheme on the Transferring Policyholders

RESERVE STRENGTH OF TTI

4.1 In the Report, I concluded that the technical provisions of TTI (on both a UK GAAP basis and a Solvency II basis) appeared reasonable as at 31 December 2019, notwithstanding the uncertainty present.

4.2 As noted in paragraph 3.7, above, the UK GAAP reserves as at 31 December 2020 of TTI were prepared on the same basis as at 31 December 2019 and comply with TTI's reserving policy, which remains unaltered. The TPs for TTI were prepared as at 31 December 2020, based on the UK GAAP reserves as at 31 December 2020 and following the same process as at 31 December 2019.

4.3 I am unaware of any other changes that would prevent me from extending my conclusions regarding the technical provisions of TTI as at 31 December 2019 to 31 December 2020. Therefore, I conclude that TTI's technical provisions (on both a UK GAAP basis and a Solvency II basis) appear reasonable as at 31 December 2020, notwithstanding the uncertainty present.

4.4 I have been told by TTI's management that it continues to have no plans to change its approach to reserving post the Effective Date. Therefore, I continue to conclude that implementation of the Scheme will cause no change in the strength of TTI's technical provisions, either on a UK GAAP basis or on a Solvency II basis.

RESERVE STRENGTH OF UKNV

4.5 In the Report, I concluded that the technical provisions of UKNV (on both a Dutch GAAP basis and a Solvency II basis) appeared reasonable as at 20 February 2020, notwithstanding the uncertainty present.

4.6 As noted in paragraph 3.34, above, the Dutch GAAP reserves as at 20 February 2021 of UKNV were prepared on broadly the same basis as at 20 February 2020 (although with allowance for changes in the business since 20 February 2020, for example for the business written by UKNV on behalf of TTI since the start of 2021) and comply with UKNV's reserving policy, which remains unaltered. The TPs for UKNV were prepared as at 20 February 2021, based on the UK GAAP reserves as at 20 February 2021 and following the same process as at 20 February 2020.

4.7 I am unaware of any other changes that would prevent me from extending my conclusions regarding the technical provisions of UKNV as at 20 February 2020 to 20 February 2021. Therefore, I conclude that UKNV's technical provisions (on both a Dutch GAAP basis and a Solvency II basis) appear reasonable as at 20 February 2021, notwithstanding the uncertainty present.

4.8 I have been told by UKNV's management that it intends to continue aligning its reserving methodologies and key assumptions with those of the Fronted Clubs in respect of that business which UKNV has fronted. Therefore, I continue to conclude that implementation of the Scheme will cause no change in the strength of UKNV's technical provisions on either a Dutch GAAP basis or a Solvency II basis.

EXCESS ASSETS OF TTI

4.9 The TT Club ORSA 2020, which was dated November 2020, remains the most recent ORSA document and provides TTI's most recent own risk assessments. Its projections indicated a Capital Cover Ratio for TTI as at 31 December 2020 (193%) that was slightly better than that as at 31 December 2019 (184%) whereas, as shown in Figure 3.4, above, as at 31 December 2020 TTI had a Capital Cover Ratio relative to its SCR of 177%. However, at all three values of the Capital Cover Ratio, TTI would be considered a well-capitalised insurer.

4.10 As explained in paragraph 3.28, above, TTI currently forecasts that its Capital Cover Ratio, relative to the SCR, will remain within the range 177%-179% for the period up to the 2024 year-end. The forecast Capital Cover Ratios would be the same whether or not the Scheme were to go ahead. At that level of Capital Cover Ratio, TTI would remain a well-capitalised insurer throughout the period.

Conclusion regarding the excess assets of TTI

4.11 I explained in the Report why I consider that TTI's calculations and projections of its solvency capital requirements and **Available Capital**, and hence of its excess assets, are reasonable. There have been no subsequent changes to the own risk assessments. Moreover, the actual numbers as at 31 December 2020 are similar to those that were projected for that date. Therefore, I believe that TTI's calculations and projections of its excess assets continue to be reasonable.

4.12 Overall, these lead me to conclude that the policyholders of TTI, including those who will transfer under the proposed Scheme, currently benefit from the financial strength provided by a well-capitalised company.

EXCESS ASSETS OF UKNV

4.13 The UKNV ORSA 2020, which was dated December 2020, remains the most recent ORSA document and provides UKNV's most recent own risk assessments. Its projections indicated that the SCR, EOF and Capital Cover Ratio for UKNV as at 20 February 2021 would be US$34.5 million, US$67.3 million and 195% respectively. The actual outcomes were US$37.7 million, US$63.9 million and 170% respectively. At this level, the Capital Cover Ratio is within UKNV's target range of 150% - 200%, albeit below the optimum target level of 175%. As discussed in the Report, the lower end of the target range has been set by UKNV to take into account its view that the **Standard Formula** SCR does not adequately reflect its underlying risks, and, to allow for this, its own solvency needs assessment ("**OSNA**") is set at 150% of the Standard Formula SCR. Therefore, as at 20 February 2021, the OSNA was US$56.5 million and the equivalent Capital Cover Ratio was 113%.

4.14 However, as explained in paragraph 3.40, above, the Standard Formula SCR as at 20 February 2021 (both actual and as projected in the UKNV ORSA 2020) was inflated by the UK not having been granted Solvency II equivalence by the EU by 20 February 2021. This meant that the reinsurance provided by those Fronted Clubs (ITIC and PAMIA Ltd) that did not carry a ratings agency credit rating was disallowed from the SCR. As the UK's solvency regime remains unchanged from its pre-Brexit (Solvency II) state, it would appear reasonable to assume that equivalence would eventually be granted. However, I recognise that wider considerations might delay or even prevent that. In the absence of equivalence and as explained in paragraph 3.41, above, ITIC intends that collateral is provided to support the reinsurance arrangement, which is expected to be in place ahead of the hearing at which the Court will be asked to sanction the Scheme and which will allow UKNV to take account of the reinsurance in its SCR calculations regardless of whether or not equivalence is granted.

4.15 Had equivalence been granted or the collateral been in place by 20 February 2021, the SCR, EOF and Capital Cover Ratio for UKNV as at 20 February 2021 would have been US$27.3 million, US$65.6 million and 241% respectively, and the OSNA and Capital Cover Ratio relative to the OSNA would have been US$40.9 million and 160% respectively. Because of the financial strength of ITIC, which means that I believe it highly unlikely that UKNV will need to have recourse to the collateral in order to realise the value of the ITIC reinsurance asset, I consider this to be the best representation of the financial strength of UKNV, and is consistent with UKNV being a very well-capitalised insurer as at 20 February 2021. Even without the collateral, UKNV would be considered to be a well-capitalised insurer as at 20 February 2021 on a Solvency II basis.

4.16 As explained in paragraph 3.61, above, UKNV forecasts that its Capital Cover Ratio, relative to the SCR (and thus to its OSNA), whether pre- or post-collateralisation, will initially reduce slightly but will then increase over the period from 20 February 2022 to 20 February 2025.

Conclusion regarding the excess assets of UKNV

4.17 I explained in the Report why I consider that UKNV's calculations and projections of its solvency requirements and Available Capital, and hence of its excess assets, are reasonable. There have been no subsequent changes to the own risk assessments. Moreover, the actual numbers as at 20 February 2021, although worse than those projected for that date, are not so different as to invalidate my view that UKNV's calculations and projections of its excess assets continue to be reasonable.

4.18 Overall, these lead me to conclude that the policyholders of UKNV currently benefit from the financial strength provided by a very well-capitalised company.

RELATIVE FINANCIAL STRENGTH ENJOYED BY TRANSFERRING POLICYHOLDERS PRE- AND POST-SCHEME

4.19 I have concluded, above, that the Transferring Policyholders currently benefit from the financial strength provided by a well-capitalised company. I have also concluded that, if the Scheme is implemented, the Transferring Policyholders will become policyholders of a company that is expected to be, and to remain for at least the next few years, very well-capitalised. Therefore, relative to the solvency capital requirements of the respective entities, the Transferring Policyholders will see little change in the financial security afforded to them. This conclusion remains unaltered from that stated in the Report.

4.20 I have re-run the scenario tests that I set out in paragraphs 6.98-6.112 of the Report, based on the most recently available GAAP balance sheets of UKNV and the Fronted Clubs (all of which were more recent than those underlying the original scenario tests).

Test 1: deterioration in the technical provisions

4.21 Increasing the value of the GAAP technical provisions by 40% (both gross and net of reinsurance) for all of the Fronted Clubs would increase the gross technical provisions in UKNV by about US$90 million and the net technical provisions in the TT Club by about US$125 million. In this scenario, all of the Fronted Clubs would retain accounting surpluses, meaning that they would remain solvent. The deterioration would need to be in excess of 65% for UKNV to have exhausted its surplus and to be nearly 80% for the TT Club's surplus to be exhausted.

4.22 Notwithstanding the uncertainties in the businesses written by and on behalf of the Fronted Clubs, I continue to consider a deterioration of 40% in the net technical provisions of all of the Fronted Clubs to be a remote scenario, for the reasons discussed in the Report.

Test 2: fall in asset values.

4.23 Reducing by 15% the value of fixed interest securities and by 50% the value of the investments held in the balance sheets of UKNV and the Fronted Clubs would reduce the surplus in the TT Club by just under US$100 million and in UKNV by about US$28 million. I have flexed the percentage deterioration in the asset values. Were the value of fixed interest investments to fall by 35% and the value of other investments to fall by 70% then UKNV and all the Fronted Clubs (save for UKM) would still remain solvent. I note that, had I increased the stress in the valuation of the fixed interest assets to a 40% reduction, which was the degree of flex that I applied when preparing the Report, then UKNV would also have been insolvent.

4.24 Notwithstanding the uncertainties in the businesses written by and on behalf of the Fronted Clubs, I continue to consider deterioration of 15% in the value of the fixed interest securities held by all of the Fronted Clubs and by UKNV and deterioration of 50% in the value of the other investments held by all of the Fronted Clubs and by UKNV to be a remote scenario.

Test 3: Combination of Test 1 and Test 2

4.25 This combined stress scenario would lead to both UKM and UKNV becoming insolvent (although the other Fronted Clubs would remain solvent). When I conducted this test as part of my analysis for the Report, I based the UKNV base case on its projected balance sheet as at 20 February 2021, as set out in the UKNV ORSA 2020. Under that testing of this combined stress scenario, UKM became insolvent but UKNV remained solvent, which indicates that UKNV's balance sheet is less strong as at 20 February 2021 on a Dutch GAAP basis than it had been expected to be as at that date. This is consistent with UKNV's EOF being less than had been expected and its SCR, and hence its Capital Cover Ratio, being more than expected as at 20 February 2021, as discussed in paragraph 4.13, above.

4.26 I note that, were the stresses to be reduced to 80% of the above levels, UKNV would remain solvent.

4.27 I explained in the Report that the stresses within both Test 1 and Test 2 represent very remote possibilities and that the combination of the stresses of Tests 1 and 2 represent an even more remote possibility. While stresses at 80% of the levels set out above would represent less improbable outcomes, individually or in combination, they would still represent very unlikely events.

4.28 I note that this ignores the ability of the Fronted Clubs to make calls upon their respective members for additional premiums to restore (or maintain) their solvency.

Conclusion of Scenario Tests

4.29 Based on my assessment of the impact of the various scenarios outlined above on UKNV's balance sheet, I continue to believe that the intended level of solvency is sufficiently robust that it will be able to continue to meet all of its liabilities even in significantly adverse circumstances and that, post-Scheme, UKNV will remain sufficiently capitalised to absorb the potential impacts of reinsurer downgrades while remaining a well-capitalised company.

4.30 I note that, in all of the above scenarios, ITIC is projected to retain a material surplus and to be able to meet its reinsurance obligations to UKNV. Thus, the results of the scenarios are unaffected by whether or not the collateral has been put in place.

Conclusion regarding the relative financial strength enjoyed by Transferring Policyholders pre- and post-Scheme

4.31 Although the circumstances of the Companies, both actual and expected, have altered from those underlying my analyses as set out in the Report, the differences have been insufficient for me to have changed my conclusions as set out in the Report. Therefore, I remain satisfied that the Transferring Policyholders will not be materially adversely affected due to relative differences in the financial strength of UKNV post-Scheme to those of TTI pre-Scheme.

4.32 My conclusion above would be unchanged whether or not the collateral intended to support the ITIC reinsurance asset has been provided to UKNV. ITIC is financially very strong and so is highly unlikely to be unable to meet its obligations to UKNV under the terms of its reinsurance arrangement. Hence, in practical terms, the additional security that the collateral will be provide to UKNV once in place will be minimal.

POLICY ADMINISTRATION

4.33 In paragraphs 5.15-5.19 of the Report, I explained that UKNV has delegated to TMBV the handling of any claims relating to business that it fronts on behalf of Fronted Clubs. This business includes that written by UKNV on behalf of TTI with effect from 1 January 2021. This is covered by the terms of a service agreement between UKNV and TMBV, dated 15 October 2019 (the "**Service Agreement**"), which authorises TMBV, among things, to undertake, on behalf of UKNV, all aspects of the servicing and administration of the insurance policies that UKNV fronts. I further explained that, post-Scheme, TMBV will also handle all claims relating to the Transferring Business.

4.34 I have reviewed the Service Agreement. I am not a legal expert but it appears to me to delegate fully the servicing of the policies fronted by UKNV from UKNV to TMBV. Moreover, I note that UKNV and TMBV have been operating in a manner consistent with my understanding of how the Service Agreement operates since it was signed.

4.35 TTI has requested **TTMS** to accept instructions from TMBV pertaining to consultancy services and administrative assistance in relation to the handling of the Transferring Business and of the business written by UKNV on behalf of TTI. This is in accordance with an agreement between TTMS and TMBV, dated 15 October 2019 (the "**Co-operation Agreement**"). I note that the Service Agreement includes a clause that specifically entitles TMBV to seek and obtain specialist advice and services in connection with the UKNV's business.

4.36 I have also been provided with a document ("**Overview of UKNV's Procedures Relating to TT Club Business**") that provides an overview of UKNV's underwriting and claims handling procedures relating to its TT Club business (including the Transferring Business). This explains how TTMS will act as expert advisor to TMBV and TMBV's network of claims managers throughout the EEA in respect of claims relating to the Transferring Business, specifically that, for smaller claims, TTMS's involvement will be limited to advising, as required, on any issues concerning the existence or scope of cover (if any), and that, for larger or complex claims, it will additionally provide required expert advice to the claims manager, enabling the claims manager to determine how to proceed with the claim. Essentially, the Overview of UKNV's Procedures Relating to TT Club Business details how the Service Agreement and the Co-operation Agreement will be applied in practice to the Transferring Business.

4.37 The existence of the Service Agreement, of the Co-operation Agreement and of the Overview of UKNV's Procedures Relating to TT Club Business, and the fact that two members of the **Thomas Miller Group** will continue to be involved in the administration and claims handling of the Transferring Business, leads me to believe that the Transferring Policyholders will experience no difference in the service levels relating to the administration of their policies and claims between the periods before and after the Effective Date.

OTHER MATTERS

4.38 I also reported on the following issues in the Report, in so far as they might affect the Transferring Policyholders:

- Changes in risk exposure
- What would happen in the event of insolvency
- Compensation and complaints

As at the date of this Supplemental Report, I am unaware of any changes that would be sufficiently material to cause me to amend my analysis of any of the above issues, or to change the conclusions on each that I set out in Section 6 of the Report.

CONCLUSION FOR THE TRANSFERRING POLICYHOLDERS

4.39 I remain satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Transferring Policies;
- The benefits that the Transferring Policyholders could reasonably expect to receive; or
- The standards of administration, service, management and governance that apply to the Transferring Policies.

5. The impact of the Scheme on the policyholders of TTI not transferring to UKNV under the Scheme

5.1 I concluded in the Report that implementation of the Scheme would have no impact to the policy service standards within TTI and that, due to the Transferring Business being 100% reinsured to TTI post-Scheme, it would have negligible impact upon the financial strength of TTI.

5.2 As set out in Section 3, above, as at 31 December 2020 TTI remained a well-capitalised insurer, subject to a similar risk profile as set out in the Report. There have been no changes to the planned post-Scheme policy servicing. Therefore, I see no reason to alter the conclusions that I set out in the Report and summarised in paragraph 5.1, above.

5.3 I noted in the Report that, in the unlikely event of the insolvency of TTI, post-Scheme, TTI Non-Transferring Policyholders would be in a better position relative to the Transferring Policyholders than they would have been pre-Scheme. There have been no developments since the date of the Report that have affected this position.

CONCLUSION FOR THE POLICYHOLDERS OF TTI NOT TRANSFERRING UNDER THE SCHEME

5.4 The circumstances of TTI and of the TTI Non-Transferring Policyholders are broadly unchanged from those underlying the Report. Therefore, I continue to be satisfied that the security of the contractual rights and the standards of policy servicing currently enjoyed by the TTI Non-Transferring Policyholders, and by any holders of policies that become **Excluded Policies**, will not be adversely affected by the Scheme.

6. The impact of the Scheme on the existing UKNV policyholders

6.1 I concluded in the Report that (subject to the UK solvency regime being granted Solvency II equivalence) the existing UKNV policyholders were expected to benefit at the Effective Date from the financial strength provided by a very well-capitalised company, relative to the Standard Formula SCR, and by a well-capitalised company relative to UKNV's OSNA. Implementation of the Scheme was then expected to reduce UKNV's Capital Cover Ratios, but not to a material extent.

6.2 As explained above in paragraph 3.40, as at 20 February 2021 the UK solvency regime had not been granted Solvency II equivalence, which led to UKNV's reinsurance arrangement with ITIC not being recognised in the Standard Formula calculation of UKNV's SCR and hence an increased SCR (and risk margin in the TPs) and lower Capital Cover Ratio relative to the SCR. To overcome this, ITIC is putting in place collateral against its reinsurance obligations.

6.3 As explained in paragraphs 4.13-4.14, above, UKNV's Solvency II balance sheet as at 20 February 2021 was slightly weaker than had been expected in the projections underlying the Report, but that, had the UK solvency regime been granted Solvency II equivalence or ITIC's collateral been in place as at that date, UKNV would have been very well-capitalised relative to the Standard Formula SCR, and well-capitalised company relative to its OSNA. Again, implementation of the Scheme is expected to reduce UKNV's Capital Cover Ratios, but not to a material extent.

6.4 Therefore, I remain satisfied that the existing policyholders of UKNV will not be materially adversely affected due to relative differences in the financial strength of UKNV pre-Scheme and post-Scheme.

OTHER MATTERS

6.5 I also reported on the following issues in the Report, in so far as they might affect the Transferring Policyholders:

- Changes in risk exposure
- Policy servicing
- What would happen in the event of insolvency.

As at the date of this Supplemental Report, I am unaware of any changes that would be sufficiently material to cause me to amend my analysis of any of the above issues, or to change the conclusions on each that I set out in Section 6 of the Report.

CONCLUSION FOR THE EXISTING UKNV POLICYHOLDERS

6.6 As there have been no material changes in the circumstances, I remain satisfied that the Scheme will not affect in a materially adverse way either the security, membership rights or the policy servicing levels of the existing UKNV policyholders.

7. Other considerations

THE COMMUNICATION WITH POLICYHOLDERS

7.1 I have been informed that the Companies have written to:

- all current policyholders of TTI and UKNV, and their brokers;
- all policyholders of TTI and UKNV with a notified outstanding claim, and their brokers;
- all former policyholders of TTI who entered into policies on or after 1 January 2011, and their brokers;
- all former policyholders of UKNV who entered into policies on or after 20 February 2011 (this would include business transferred into it from UKM that had been written by UKM on or after 20 February 2011), and their brokers.

7.2 I understand that the Court granted the waivers outlined in paragraph 5.35 of the Report. Therefore, the Companies have not directly notified:

- those former policyholders of TTI who entered into policies prior to 1 January 2011 and who do not have outstanding claims against TTI; and
- those former policyholders of UKNV who entered into policies prior to 20 February 2011 (this would comprise those holders of policies underwritten by UKM prior to 20 February 2011 and subsequently transferred to UKNV) and who do not have outstanding claims against UKNV.

7.3 In total, the Companies have sent out 4,927 letters. As at the date of this Supplemental Report they have received just two returns. For those two returned letters, the Companies obtained alternative addresses and have resent the letters. As at the date of this Supplemental Report, the resent letters have not been returned. The Companies have been monitoring all responses received to their notifications, in particular any queries or objections raised by policyholders or other interested parties, and how they (the Companies) have replied to such responses. I discuss this further in paragraphs 7.9-7.11, below.

7.4 In addition to direct, written correspondence, the Companies have also arranged indirect notification via advertisements and notices in:

- the London, Edinburgh and Belfast Gazettes;
- the UK, Europe, Asia and US editions of the *Financial Times*;
- the Guardian newspaper;
- *Lloyd's List*;
- *Tradewinds* (a printed weekly newspaper, that covers shipping as a global industry); and
- the *International Transport Journal*.

7.5 Following comments from local regulators, the Companies have arranged further indirect notification via advertisements and notices in:

- *Lietuvos Rytas* and *Verslo žinios* (Lithuanian newspapers);
- *Naftemporiki* and *Kathimerini* (Greek newspapers); and
- *Aftenposten* (Norwegian newspaper).

7.6 I understand that the Court granted the waiver outlined in paragraph 5.38 of the Report. Therefore, the Companies have not published a notice regarding the Scheme in any other newspapers in EEA States, relying instead on the notices within the international editions of the *Financial Times* and in the three trade publications noted above.

7.7 The letters, notices and advertisements have referred all queries to a postal address, a telephone number, and a website address, through any of which readers can lodge queries about the Scheme, and all of which will respond promptly (within standard UK working hours) to any such queries. There is a page dedicated to the Scheme on the websites of both the TT Club and the UK Club in which all relevant documentation can be found, and which also explains how those with questions or concerns regarding the Scheme can raise them. I have been told that, by 5 November 2021, the relevant website pages had been viewed on 197 occasions.

Conclusion regarding the communications with stakeholders

7.8 I consider that the communications effected by the Companies, as outlined above, have been in line with the communications plan that I summarised in the Report.

Responses

7.9 As at the date of this Supplemental Report and aside from the two returns referred to in paragraph 7.3, above, four responses to the above notifications had been received. I set out in Figure 7.1, below, the breakdown of the responses received by in respect of the Scheme.

FIGURE 7.1 BREAKDOWN OF THE RESPONSES RECEIVED IN RESPECT OF THE SCHEME AS AT 5 NOVEMBER 2021

Response Type	Number of Responses
Document Request	0
General Enquiry	4
Technical Enquiry	0
Objections	0
Complaints	0
Other	0
TOTAL	**4**

7.10 The four general enquiries were as follows:

- on behalf of a policyholder, a broker sought confirmation that the notification was genuine;
- the London representative of a national government asked to which government department he should forward the notification;
- a broker asked which of its clients would be affected by the transfer; and
- a policyholder asked why it received the notification.

Each response has been logged by date and time, together with the replies sent. Copies of all correspondence have been retained.

7.11 I note that, as at 5 November 2021 (which was 24 weeks after the start of the notification period), no objections to the Scheme have been received.

RESPONSES OF EEA REGULATORS

7.12 The insurance regulators in each of the thirty EEA States have been contacted regarding the Scheme and each has been asked whether it objects to the Scheme. The deadline for any such objections to be lodged was 28 August 2021. As at the date of this Supplemental Report, the insurance regulators in seventeen of the thirty EEA States had confirmed their non-objection to the Scheme and no EEA insurance regulator has raised any objections to the Scheme. Furthermore, four EEA regulators asked for local translations of the notice to be published, a further two asked for further local publication of the notice, one requested that the Scheme be publicised locally following its approval, two regulators pointed out that, should the Scheme be implemented, all local policyholders should be sent a post-transfer notice, and one regulator requested that, following approval of the Scheme, it be publicised locally and all local policyholders be sent a post-transfer notice. The Companies have complied with the requested pre-Scheme actions and have agreed to comply with the other requests once the Scheme has been approved.

7.13 Should I become aware of any objection to the Scheme from a Regulator then I will ensure that the Court is informed of the objection at or ahead of the hearing at which it will be asked to approve the Scheme.

OTHER

7.14 In the Report, I also reported on the following features:

- the effect of the Scheme upon the assets of TTI and UKNV;
- the likely effects of the Scheme upon reinsurers of the Transferring Business;
- the effect of the Scheme upon the members of the TT Club;
- the legal jurisdiction of the Transferring Policies;

- the tax implications of the Scheme;
- the costs of the Scheme; and
- what would happen were the Scheme not to proceed.

7.15 As at the date of this Supplemental Report, nothing has occurred since the date of the Report that has caused me to modify in any way:

- my summary of the above features; or
- the conclusions, if any, that I have drawn regarding the effect of those features upon the Scheme or on the various groups of policyholders potentially affected by the Scheme.

8. Final conclusions

CONFIRMATION OF OPINION

8.1 I have further considered the effect of the proposed Scheme on the policyholders of TTI and UKNV in the light of the Additional Information made available to me since the date of the Report. In summary, in my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The benefit expectations of the Transferring Policyholders under the Transferring Policies;
- The security of the benefits under the Transferring Policies;
- The level and standards of administration and service that would apply to the Transferring Policies;
- The benefit expectations of the policyholders of TTI whose policies will not be transferred to UKNV under the Scheme;
- The security of the benefits of the policyholders of TTI whose policies will not be transferred to UKNV under the Scheme;
- The level and standards of administration and service that would apply to the policies of TTI that will not be transferred to UKNV under the Scheme;
- The benefit expectations of the existing policyholders of UKNV;
- The security of the benefits of the existing policyholders of UKNV;
- The level and standards of administration and service that would apply to the policies of the existing policyholders of UKNV.

As such, I confirm that my overall opinion and conclusions as set out in Section 10 of the Report are unchanged.

8.2 In reaching this opinion, I have complied in all material respects with the principles set out in paragraph 10.2 of the Report.

DUTY TO THE COURT

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

STATEMENT OF TRUTH

8.4 I confirm that, insofar as the facts stated in this Supplemental Report are within my own knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

Derek Newton / 18 November 2021

Fellow of the Institute and Faculty of Actuaries

Appendix A Definitions

TERM	DEFINITION
Additional Information	Financial and other information in respect of the Companies that has been provided to me since the date of the Report (as detailed in Appendix B).
AOF	Ancillary own funds, which are off-balance sheet funds that are available under Solvency II (subject to certain limits) to meet solvency capital requirements.
Available Capital	Capital available to meet solvency capital requirements.
Best estimate	This term is used in this Report in reference to an estimate of outstanding claim amounts and is intended to represent an expected value over a reasonable range of estimates. As such, a "best estimate" is not deliberately biased upwards or downwards and does not include any margins. However, the limitations of actuarial projection methods mean that a "best estimate" is not a statistically rigorous estimate of the mean of the underlying distribution of all possible outcomes.
Brexit	"Brexit" refers to the exit of the UK from the European Union, following the referendum on continuing membership held in the UK in June 2016.
Capital Cover Ratio	The ratio of Available Capital to Required Capital. This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the company.
The Companies	The collective term for TTI and UKNV.
The Co-operation Agreement	An agreement between TTMS and TMBV, dated 15 October 2019, whereby TTMS agrees to provide TMBV with advice and assistance in the handling of business written by UKNV on behalf of TTI, including the Transferring Business.
The Court	The High Court of Justice of England and Wales.
DAC	Deferred Acquisition Costs.
EEA	The European Economic Area ("EEA") was established by the EEA Agreement on 1 January 1994. The EEA unites the 27 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
EEA State	A state that is, as at the date of this Report, a contracting party to the EEA Agreement on the European Economic Area 1992.
Effective Date	The date on and from which the Scheme shall become effective.
EOF	Eligible Own Funds, i.e. the funds available in an insurer to meet its regulatory SCR.
EU	European Union.
Excluded Policy	A contract of insurance written or assumed by TTI under which any liability remains unsatisfied or outstanding as at the Effective Date and which would have formed part of the Transferring Business but which, for any reason, is not transferred by order of the Court pursuant to Part VII of FSMA on the Effective Date.
FCA	The Financial Conduct Authority ("FCA") is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
FG18/4	Guidance published by the FCA in May 2018 relating to Part VII insurance business transfers.

Fronted Clubs	The collective term for UKM, ITIC, PAMIA Limited, UKWR and TTI, on behalf of whom UKNV writes cover for risks resident in EEA member states, and who then each provide 100% reinsurance for the business written by UKNV on their behalf.
FSMA	Financial Services and Markets Act 2000, the legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
FSMA Report	A report on the terms of a transfer under Part VII of FSMA, to be prepared by an independent person. The FSMA Report is required in order that the Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question.
GAAP	Generally accepted accounting principles ("GAAP") form the standard framework of guidelines for financial accounting used in any given jurisdiction.
IFoA	The Institute and Faculty of Actuaries, the professional body for actuaries in the UK.
Independent Expert	The Independent Expert prepares the FSMA Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Expert.
Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves.
ITIC	International Transport Intermediaries Club Limited.
Keep-Well Agreement	An agreement between UKM and UKNV that provides comfort that UKM will support UKNV with additional funds if needed, after taking into account the best interests of UKNV, UKNV's policyholders and other stakeholders. There are additional specific covenants, in particular that UKM will ensure that UKNV's Capital Cover Ratio in respect of its SCR is at least 150% on the date of any inwards portfolio transfer from a Fronted Club.
MCR	The Solvency II Minimum Capital Requirement ("MCR") is lower than the SCR, and defines the point of intensive regulatory intervention. The MCR calculation is less risk sensitive than the SCR calculation and is calibrated to a confidence level of 85% over one year (compared to 99.5% for the SCR).
Milliman	Milliman LLP, a member of the Milliman Group.
The Milliman Group	The group of entities whose ultimate parent is Milliman, Inc.
ORSA	The Own Risk Solvency Assessment ("ORSA") is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
OSNA	Own Solvency Needs Assessment.
Overview of UKNV's Procedures Relating to TT Club Business	Document entitled "*Overview of UKNV's Underwriting and Claims Handling Procedures Relating to its TT Club Business*", dated 22 October 2021
Own Funds	In Solvency II terminology, the amount of capital or excess assets of an insurance company. Own funds are divided into basic own funds and AOFs (e.g. additional premiums from members), which require regulatory approval.
P&I	Protection and indemnity insurance for ship owners.

Parental Guarantee	A guarantee provided by TTB to TTI whereby TTB is ultimately responsible for the liabilities of TTI and guarantees payment of all of TTI's obligations to its policyholders so as to ensure that they are promptly and adequately discharged in circumstances where TTI does not or is unable to do so.
Part VII Transfer	An insurance business transfer scheme performed in accordance with the requirements set out in Part VII of FSMA.
The Policy Statement	The Statement of Policy issued by the PRA entitled The Prudential Regulation Authority's approach to insurance business transfers, issued in April 2015.
PRA	The Prudential Regulation Authority ("PRA") is part of the Bank of England and carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
QRTs	Quantitative Reporting Templates, which must be completed by insurers and submitted to their local regulator on a regular basis in accordance with Solvency II. The QRTs cover a wide range of quantitative financial information about the insurer including details of its balance sheet, capital requirements and reserves.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (for example the SCR).
Reinsurance	An arrangement with another insurer whereby risks are shared (or passed on). If reinsurance is termed as being "inwards" then the reinsurer in question has accepted risk from an(other) (re)insurer; if reinsurance is termed as being "outwards" then the (re)insurer in question has passed risk to a(nother) reinsurer.
Report	References to the "Report" refer to the report titled *Report of the Independent Expert on the proposed transfer of business from TT Club Mutual Insurance Limited to UK P&I Club N.V.* and dated 11 May 2021.
Reserving Actuaries	The actuarial team within a global risk management, insurance brokerage and advisory company to which the Actuarial Function of the TT Club outsourced the estimation of the outstanding claims costs for the TT Club as at 30 November 2020, 30 November 2019 and also as at earlier dates.
The Scheme	In the context of this Report, the proposal that the transferring business of TTI be transferred to UKNV under the provisions of Part VII of FSMA.
SCR	Solvency Capital Requirement, which, under Solvency II, is the amount of capital required to ensure continued solvency over a one-year trading time frame with a likelihood of 99.5%.
The Service Agreement	An agreement between UKNV and TMBV, dated 15 October 2019, whereby TMBV agrees to provide certain services, including policy servicing and administration, to UKNV.
SFCR	Solvency and Financial Condition Report, which, under Solvency II, each insurer is expected to publish annually, and which will contain certain qualitative and quantitative information, the quantitative information being in the format of certain prescribed QRTs.
Solvency II	The system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.
Standard Formula	The standard formula for calculating an insurer's SCR, as specified in detail in the Solvency II legislation to be used by all insurers other than those who have an approved internal model.
SUP18	Section 18 of the FCA Supervision Manual.
Supplemental Report	This Report.

Technical provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Thomas Miller Group	The collective term for those companies whose ultimate parent is Thomas Miller Holdings Limited.
TIMIA	Transport Intermediaries Mutual Insurance Association Ltd, which provides quota share reinsurance to ITIC.
TMBV	Thomas Miller B.V.
TPs	Technical provisions as calculated for Solvency II purposes. As such, they differ from technical provisions calculated on a GAAP basis.
Transferring Business	The business of TTI that is to be transferred to UKNV under the Scheme.
Transferring Policies	Those policies within the Transferring Business.
Transferring Policyholders	The holders of the Transferring Policies.
TTB	Through Transport Mutual Insurance Association Limited.
The TT Club	The collective term in this Report for TTB and TTI.
TT Club ORSA 2020	The report entitled *"TT Club ORSA Overview",* dated November 2020**.**
TTI	TT Club Mutual Insurance Limited.
TTI Non-Transferring Policyholders	Those holders of TTI policies that are not being transferred to UKNV. Essentially, this comprises all TTI policyholders whose policies cover risks that are located in the UK and other non-EEA countries.
TTMS	Through Transport Mutual Services (UK) Ltd.
UK Club	The group of companies for which UKM is the ultimate parent.
UKM	The United Kingdom Mutual Steam Ship Assurance Association Limited.
UKM Transferred Business	EEA business written by UKM on or before 20 February 2020 which was transferred to UKNV via a Part VII Transfer that became effective on 31 December 2020.
UKNV	UK P&I Club N.V.
UKNV ORSA 2020	The report entitled "*UK P&I Club N.V. – ORSA Overview*", dated December 2020**.**
UKWR	The United Kingdom Mutual War Risks Association Limited.
UPR	Unearned premium reserve.
Work Review	Process by which a piece of actuarial work is considered by at least one other individual for the purpose of providing assurance as to the quality of the work in question.

Appendix B Key Sources of Additional Information

B.1 In writing this Supplemental Report, I relied upon the accuracy of certain documents provided by TTI and UKNV (in addition to those listed in the Report). These included, but were not limited to, the following:

Accounts

- Through Transport Mutual Insurance Association Limited Annual Report and Financial Statements as at 31 December 2020
- TT Club Mutual Insurance Limited Annual Report & Financial Statements for the year ended 31 December 2020
- TTI Financial Report to 31 August 2021
- UKNV Annual report for the year ended 20 February 2021
- UKNV Management Report Q2 2021, dated 30 September 2021
- UK P&I Club 2020 Directors' Report & Financial Statements for the year ended 20 February 2021
- UKWR Financial Statements for the year ended 20 February 2021
- UKWR SFCR for the year ended 20 February 2021
- Finance Report for ITIC and TIMIA for the year ending 31 May 2021
- Financial Statements for PAMIA Ltd for the 11 months to 31 May 2021

Scheme and Restructuring

- Analysis of the impact of the Scheme on TTI, based on financial position as at 31 December 2020
- Analysis of the impact of the Scheme on UKNV, based on financial position as at 20 February 2021

Reserving

- Actuarial review of the claims reserves for business written by the TT Club as at 30 November 2020, prepared by the Reserving Actuaries
- Supporting spreadsheets showing the allocation by branch
- TTI Summary of the Actuarial Reserve Review as at 30 November 2020
- TTI Appendix: Solvency II Technical Provisions as at 31 December 2020
- UKNV Actuarial Claims Reserve Review as at 20 February 2021
- Spreadsheet files containing the data and figures used in the above Review
- UKNV Solvency II Technical Provisions as at 20 February 2021
- Summary of the Actuarial Reserve Review as at 31 May 2021

Risks and Solvency Capital

- TTI SFCR for the year ended 31 December 2020
- UKNV SFCR for the year ended 20 February 2021
- Quarterly QRTs for UKNV as at both 20 May 2021 and 20 August 2021
- Quarterly QRTs for TTI as at both 31 March 2021 and 30 September 2021
- October 2021 forecast basic own funds and SCRs for TTI as at the year-ends 2021-2025

Communications

- Copies of the notices that appeared in:
  - each of the London, Edinburgh and Belfast Gazettes;
  - each of the UK, Europe, Asia and US editions of the *Financial Times*;
  - the *Guardian* newspaper;
  - *Lloyd's List*;
  - *Tradewinds*
- Copies of the weekly returns to the FCA, summarising the responses to the notices (from 28 May 2021 to 5 November 2021)
- A table summarising the response (if any) of each EEA regulator who was contacted regarding the Scheme and what actions are been taken following those responses.

Court documents

- Second witness statement of Charles Edward Fenton (draft marked 8 November 2021)
- Draft Court Order, sanctioning the Scheme
- Draft section 114 notice

Other

- The Service Agreement between UKNV and TMBV, dated 15 October 2019
- Overview of UKNV's Underwriting and Claims Handling Procedures Relating to its TT Club Business, dated 22 October 2021.

B.2 Information relating to the items listed above was also gathered during discussions with staff of UKNV and TTI.

Appendix C Letters of Representation

Through Transport Mutual Services (UK) Ltd
90 Fenchurch Street
London EC3M 4ST

T +44 (0)20 7204 2626
www.ttclub.com

Derek Newton
Milliman LLP
11 Old Jewry
London
EC2R 8DU

18 November 2021

Dear Mr Newton,

Letter of Representation – Part VII transfer of business from TT Club Mutual Insurance Limited to UK P&I Club N.V.

1. Introduction

I refer to the proposed transfer of part of the business (the "**Transferring Business**") of TT Club Mutual Insurance Limited ("**TTI**") to UK P&I Club N.V. ("**UKNV**") by an insurance business transfer scheme ("the Scheme"), as defined in Section 105 of the Financial Services and Markets Act 2000 ("FSMA"). I, Charles Fenton am Chief Executive Officer and have been authorised by TTI to provide the representations set out in this letter, on behalf of TTI.

2. Data Accuracy Statement

I hereby affirm that the data and information provided by TTI to Derek Newton of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by TTI (and its professional advisors) and, to the best of our knowledge and belief, are accurate and complete in all material respects.

3. Other Statements

3.1 To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of TTI's business and practices (including details of specific contracts and claims) or in any statements attributed to TTI (and/or the wider TT Club) in the Independent Expert's Report dated 11 May 2021 and the Independent Expert's Supplemental Report dated 18 November 2021 (together the "**Reports**") on the proposed Scheme.

3.2 We have disclosed all the information that, in our opinion, is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme.

3.3 We confirm that the Reports accurately and fairly reflect our understanding of the proposed Scheme and the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.

3.4 We will keep the Independent Expert apprised, up to the date of the Court hearing to sanction the Scheme, of all matters and issues, which, in our opinion, may be relevant to the Independent Expert in opining on the proposed Scheme.

TT CLUB
IS MANAGED
BY **THOMAS**
MILLER

established expertise

3.5 We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final documents (and supporting documents) relating to the Scheme, full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.

3.6 In particular, the facts stated below are true and accurate to the best of our knowledge and belief:

- The financial positions as stated in the balance sheets of TTI as at 31 December 2019 and 31 December 2020, as summarised in the Reports, give a true and fair view of the affairs of TTI as at those dates;
- The Technical Provisions of TTI's business to be transferred under the Scheme as stated as at 31 December 2019 and 31 December 2020 provide a true and fair view in accordance with appropriate actuarial standards at those dates;
- Other financial projections relating to TTI provided by us, which the Independent Expert has used to prepare the Reports, have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions.

3.7 We confirm that the capital assessments relating to TTI as at 31 December 2020 continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.

3.8 We confirm that there are currently no plans pursuant to the Scheme to materially change:

- the reserving basis/approach and strength of reserves carried/booked by TTI;
- the capital basis/approach and capital strength adopted by TTI.

3.9 We confirm that the administration and servicing of the Transferring Business with effect from the Scheme's effective date will be as described in the Reports, and that there are currently no plans to change subsequent to the Effective Date the processes, practices and procedures that relate to the administration and servicing of the Transferring Business.

3.10 We confirm that there is currently no other relevant information concerning the business written, the claims procedures and the processing situation in TTI that could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, we confirm that:

- there were no unusual backlogs of unprocessed claims correspondence relating to TTI as at either 31 December 2019 and 31 December 2020; and
- appropriate case estimates were applied to all reported TTI claims which remained open, as at both 31 December 2019 and 31 December 2020.

3.11 We confirm that the proposed Scheme is not expected to have tax implications that would affect any of the Transferring Policyholders or any of TTI's existing policyholders.

3.12 To the best of our knowledge and belief, there have been no material changes since 31 December 2020 to TTI's operational plans that, in our opinion, might have a material impact on the Scheme and which have not been communicated to the Independent Expert.

3.13 We confirm that the actual and expected (by us) impact of the COVID-19 pandemic upon TTI has been appropriately represented in Section 4 of the Independent Expert's Report dated 11 May 2021 and in Section 3 of the Independent Expert's Supplemental Report dated 18 November 2021.

3.14 We confirm that there have been no other events that, in our opinion, would have a material impact on the Scheme that have occurred, in respect of TTI, between 31 December 2020 and the date of this letter.

Yours sincerely,

Charles Fenton
Chief Executive Officer

For and on behalf of TT Club Mutual Insurance Limited

UKNV

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Rotterdam, 18 November 2021

Letter of Representation – Part VII transfer of business from TT Club Mutual Insurance Limited to UK P&I Club N.V.

Dear Mr Newton,

1. INTRODUCTION

I refer to the proposed transfer of part of the business (the "**Transferring Business**") of TT Club Mutual Insurance Limited ("**TTI**") to UK P&I Club N.V. ("**UKNV**") by an insurance business transfer scheme ("the Scheme"), as defined in Section 105 of the Financial Services and Markets Act 2000 ("FSMA"). I, Paul van den Brom, am CFO and have been authorised by UKNV to provide the representations set out in this letter, on behalf of UKNV.

2. DATA ACCURACY STATEMENT

I hereby affirm that the data and information provided by UKNV to Derek Newton of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by UKNV (and its professional advisors) and, to the best of our knowledge and belief, are accurate and complete in all material respects.

3. OTHER STATEMENTS

3.1 To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of UKNV's business and practices (including details of specific contracts and claims) or in any statements attributed to UKNV (and/or the wider UK Club) in the Independent Expert's Report dated 11 May 2021 and the Independent Expert's Supplemental Report dated 18 November 2021 (together the "**Reports**") on the proposed Scheme.

3.2 We have disclosed all the information that, in our opinion, is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme.

3.3 We confirm that the Reports accurately and fairly reflect our understanding of the proposed Scheme and the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.

3.4 We will keep the Independent Expert apprised, up to the date of the Court hearing to sanction the Scheme, of all matters and issues, which, in our opinion, may be relevant to the Independent Expert in opining on the proposed Scheme.

3.5 We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final documents (and supporting documents) relating to the Scheme, full details of any changes between draft versions of the documents previously provided to the Independent Expert and final

UK P&I CLUB IS MANAGED BY **THOMAS MILLER**

UK P&I Club N.V. is geregistreerd bij de Kamer van Koophandel onder nummer 73217484.

versions of those documents and full details of any differences between the data and information underlying such draft and final documents.

3.6 In particular, the facts stated below are true and accurate to the best of our knowledge and belief:

- The financial positions as stated in the balance sheets of UKNV as at 20 February 2020 and 20 February 2021, as summarised in the Reports, give a true and fair view of the affairs of UKNV as at those dates.
- Other financial projections relating to UKNV provided by us, which the Independent Expert has used to prepare the Reports, have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions.

3.7 We confirm that the capital assessments relating to UKNV as at 20 February 2021 continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.

3.8 We confirm that there are currently no plans pursuant to the Scheme to materially change:

- the reserving basis/approach and strength of reserves carried/booked by UKNV;
- the capital basis/approach and capital strength adopted by UKNV.

3.9 We confirm that the administration and servicing of the Transferring Business with effect from the Scheme's effective date will be as described in the Reports, and that there are currently no plans to change subsequent to the Effective Date the processes, practices and procedures that relate to the administration and servicing of the Transferring Business.

3.10 We confirm that there is currently no other relevant information concerning the business written, the claims procedures and the processing situation in UKNV that could have a material impact on the Independent Expert's assessment of the proposed Scheme. In particular, we confirm that:

- there were no unusual backlogs of unprocessed claims correspondence relating to UKNV as at either 20 February 2020 or 20 February 2021; and
- appropriate case estimates were applied to all reported UKNV claims which remained open, as at both 20 February 2020 and 20 February 2021.

3.11 We confirm that the proposed Scheme is not expected to have tax implications that would affect any of the Transferring Policyholders or any of UKNV's existing policyholders.

3.12 To the best of our knowledge and belief, there have been no material changes since 20 February 2021 to UKNV's operational plans that, in our opinion, might have a material impact on the Scheme and which have not been communicated to the Independent Expert.

3.13 We confirm that the actual and expected (by us) impact of the COVID-19 pandemic upon UKNV has been appropriately represented in Section 4 of the Independent Expert's Report dated 11 May 2021 and in Section 3 of the Independent Expert's Supplemental Report dated 18 November 2021.

3.14 We confirm that there have been no other events that, in our opinion, would have a material impact on the Scheme that have occurred, in respect of UKNV, between 20 February 2021 and the date of this letter.

Yours sincerely,

Paul van den Brom
CFO

For and on behalf of UK P&I Club N.V.