

Project River

*In the matter of the proposed transfers of
insurance business from*

*Bosworth Run-Off Limited,
Brampton Insurance Company Limited,
Knapton Insurance Limited,
Marlon Insurance Company Limited,
Mercantile Indemnity Company Limited
and Unionamerica Insurance Company
Limited*

to

River Thames Insurance Company Limited

**Independent Expert
Report**

20 October 2016

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Purpose and use of this report

This report has been prepared for the Court and is addressed to the Directors of Enstar (EU) Limited for the purpose and on the terms agreed in our engagement letter with them dated 9 March 2016. This report has been prepared under Part VII of the Financial Services and Markets Act 2000. We understand that reliance may be placed on it by policyholders, by others affected by the proposed Transfers and by the Prudential Regulation Authority (“PRA”) and Financial Conduct Authority (“FCA”) (together “the Regulators”), as set out in paragraph 2.31 of the PRA’s policy statement on Insurance Business Transfers and paragraph 18.2.34 of the FCA Handbook, for the purpose of understanding the impact of the proposed Transfers on affected policyholders. This report is not for the use or benefit of any other party or for any other purpose.

This report must be read in its entirety; reading individual sections in isolation could be misleading.

Signatory

Please do not hesitate to contact us if you have any queries regarding the contents of this report.



Gregory Overton FIA

For and on behalf of PricewaterhouseCoopers LLP

20 October 2016

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1. Introduction

1.1. Purpose of report

This report, commissioned by the Directors of Enstar (EU) Limited (“Enstar”), is provided to the Court for the purpose of understanding the impact of the proposed Transfers on policyholders. All of the general insurance and reinsurance business written by Bosworth Run-Off Limited (“Bosworth”), Brampton Insurance Company Limited (“Brampton”), Knapton Insurance Limited (“Knapton”), Marlon Insurance Company Limited (“Marlon”), Mercantile Indemnity Company Limited (“Mercantile”), and Unionamerica Insurance Company Limited (“Unionamerica”) (collectively the “Transferors”), is to be transferred to River Thames Insurance Company Limited (“River Thames”) by six simultaneous and connected insurance business transfers (the “Transfers” or each a “Transfer”) as defined in Section 105 of the Financial Services and Markets Act 2000 (“FSMA”). The project to realise the Transfers is known as Project River. Bosworth, Brampton, Knapton, Marlon, Mercantile, Unionamerica and River Thames (collectively the “River Companies”) are 100% indirectly owned subsidiaries of Enstar Group Limited (“EGL”).

Section 109 of FSMA requires that an application to the Court for an order sanctioning an insurance business transfer must be accompanied by a report on the terms of the Transfers (a “Transfer Report”) by an independent person (the “Independent Expert”) having the skills necessary to make the report who is nominated or approved by the PRA in consultation with the FCA. The report is required in order that the Court may properly assess the effect of the proposed Transfers, including the effect of the Transfers on the security of policyholders and the levels of service provided to policyholders (and third parties who rely on their policies) of the insurance companies in question. The Directors of Enstar, on behalf of the River Companies, have appointed me to act as an Independent Expert to provide this Transfer Report and the PRA, in consultation with the FCA, has approved this appointment.

A list of terms used in this report is shown in Appendix A. Otherwise I have used the same defined terms that are used in the Transfer document. Where I use the term ‘insurance’ I generally refer to insurance and reinsurance unless specified.

There are restrictions on the use that may be made of this report. These restrictions are set out inside the front cover of this report.

The terms of reference for our work are as set out in our engagement letter dated 9 March 2016.

1.2. The proposed Transfers

Under the proposed Transfers, the business written by the Transferors will be transferred to River Thames on the Effective Date.

The proposed Transfers will transfer all insurance liabilities of the Transferors along with all existing external and internal reinsurance policies that protect the insurance liabilities. They will also transfer to River Thames all other assets and liabilities of the Transferors held on the Effective Date.

EGL is a NASDAQ publicly traded company registered in Bermuda involved in the acquisition and management of insurance companies. The River Companies are further described in Section 2.

The River Companies are managed in the UK by Enstar save that Downlands Liability Management Limited (“Downlands”) manages Knapton’s participation in the Tower Underwriting Management Limited Pool (“Tower Pool”), Capita Commercial Insurance Services Limited (“Capita”) manages Marlon’s Danish business and B D Cooke manage business originally underwritten by Unione and transferred to River Thames in 2014. The

diagrams below are a simplified illustration of the relationship between these different entities, before and after the Transfers.

Figure 1 shows the River Companies before the Transfers. Each River Company is segmented to illustrate whether the business is Direct and/or Reinsurance business, and whether the business is covered by an ILU guarantee. The stars flag the existence of a US Trust Fund. Figure 2 shows the structure after the Transfers.

Figure 1 – Project River before the Transfers

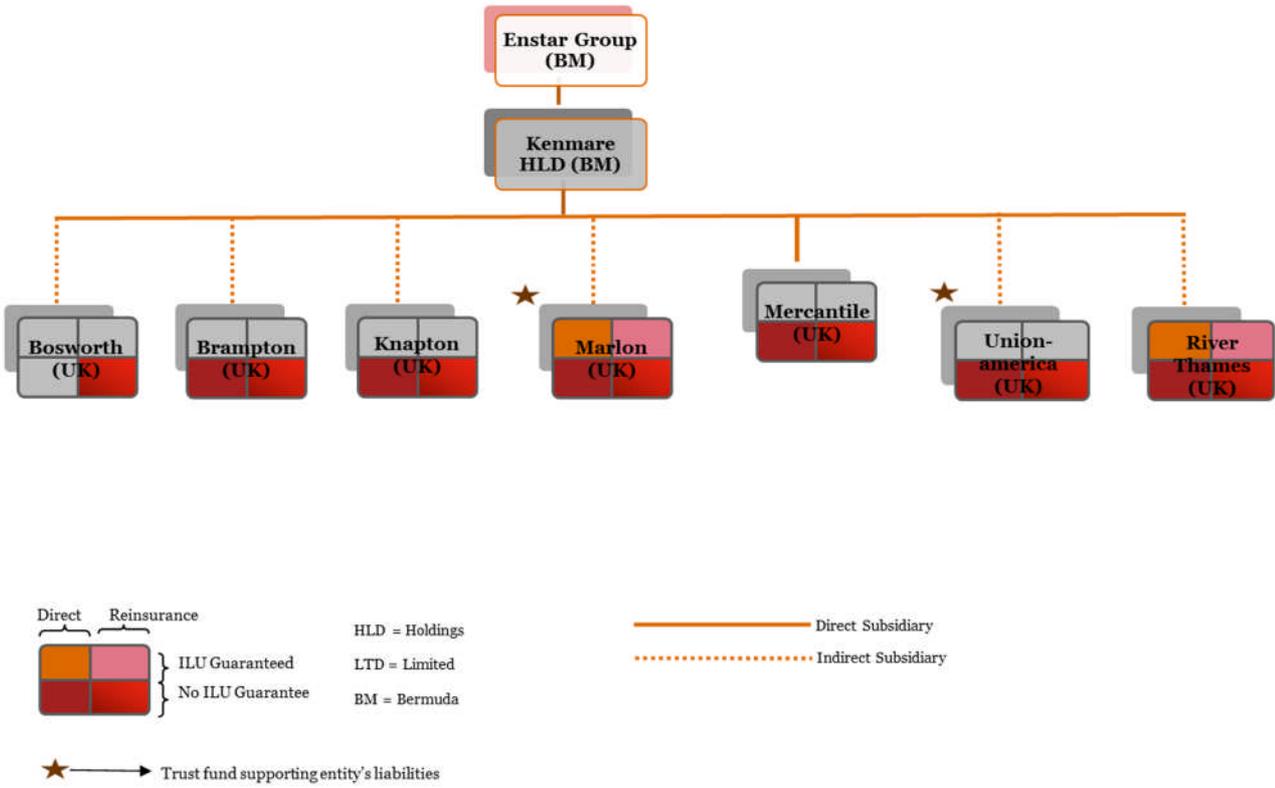
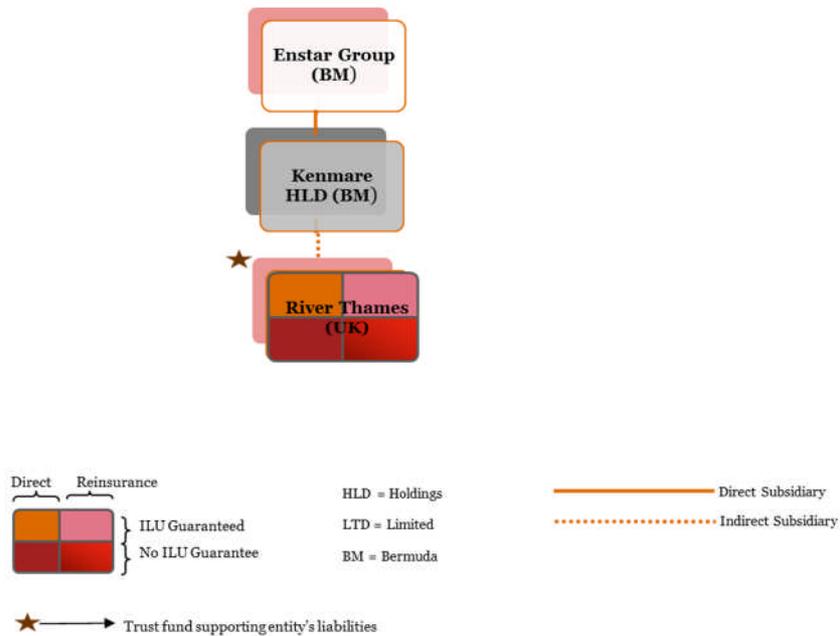


Figure 2 – Project River after the Transfers



1.3. Independent Expert appointment

I have been appointed by the Directors of Enstar, on behalf of the River Companies, to act as Independent Expert for the Transfers and my appointment has been approved by the PRA, after consultation with the FCA. The River Companies, via Enstar, will bear the costs associated with the production of this report.

I am an experienced actuary, having practised in general insurance for more than twenty years. I am a Fellow of the Institute and Faculty of Actuaries and was a member of the Institute of Actuaries Working Party on Schemes and Part VII transfers. More details of my experience are attached at Appendix B.

I have no direct or indirect interest in any of the Transferors, River Thames or Enstar. I have not performed any work for any of the Transferors, River Thames or any other company within the Enstar Group (being EGL and its subsidiaries) with the exception of acting as Independent Expert on two previous insurance business transfers which included companies within the Enstar Group, including some of the River Companies.

On 25 November 2013 Enstar completed the purchase of Atrium Underwriting Group Ltd (“Atrium”). Between 2004 and 2014, I signed Statements of Actuarial Opinion for the syndicates managed by Atrium. In this respect I note that:

- I maintained independence from Atrium in order to fulfil my role as signing actuary;
- I have not provided services to Atrium for the last 2 years;
- The business of the Atrium syndicates is completely separate to the business that is the subject of the Transfers.

In light of these facts, I am satisfied that my independence from the Enstar Group is not compromised by the role I have fulfilled in the past for Atrium.

I am a Director in the Actuarial Services practice of PricewaterhouseCoopers LLP (“PwC”). PwC has performed and continues to perform other work for companies within the Enstar Group. PwC does not, however, audit any of the companies involved in the Transfers and the amount of other work performed is not material in the context of PwC’s UK revenue. I have not been involved in any work that PwC has performed or is performing for any Enstar Group companies with the exception of my prior role as an Independent Expert and my role as signing actuary for Atrium as declared above. In approving my appointment, the PRA was provided with details of work performed by PwC for all Enstar Group companies and raised no concerns regarding my role as Independent Expert.

1.4. Scope of report

My report describes the proposed Transfers and their likely effects on the policyholders of each of the River Companies, including effects on security and levels of service. I have complied with the requirements of FSMA and I have addressed the areas indicated in the guidance for Transfer Reports set out by the Regulators in the PRA policy statement (Appendix 2.4 to PS7/15) and SUP 18 of the FCA Handbook (“SUP18”) to cover scheme reports on the transfer of insurance business.

My work has required consideration of the liabilities of each of the River Companies, to the extent necessary for me to describe the effect of the Transfers and for me to present simplified balance sheets for each company. My assessments have been based on the audited accounts of each company as at 31 December 2015, my review of the external actuarial reserve reports commissioned by the Enstar Group, and on other information provided by the staff of Enstar on behalf of other members of the Enstar Group, as detailed in Appendix C. I display the most recent unaudited financial information as at 30 June 2016 in the summary balance sheets in Section 4.3.

I have also assessed the appropriateness in nature and amount of the assets to be transferred under the Transfers, to the extent necessary to describe the effects of the Transfers.

In preparing this report, I have gained an understanding of other issues that are relevant to the effect of the Transfers on policyholders (and third parties who rely on their policies), including those relating to (i) the financial strength of each of the River Companies, based on Solvency II capital assessments conducted by the respective companies; (ii) the effect on the security of the policyholders of each of the companies; (iii) governance arrangements and the effect of the Transfers on levels of service for the policyholders and (iv) the reinsurance protection provided to the Transferring Policies.

I have relied on documents described later in this report and discussions with the relevant staff of Enstar.

Where I use the terms “I” or “my” in this report in describing work that I have performed, this should be interpreted to mean me or the team working under my direct supervision. Where “I” or “my” is used in the context of an opinion, the opinion is mine.

I have not considered any alternative arrangement to the proposed Transfers because I have been able to conclude that the proposed arrangement is appropriate, and because no alternative arrangement has been proposed.

1.5. Materials considered and limitations

My work has been based on the data and other information made available to me by Enstar. A list of data and other information that I have considered is shown in Appendix C. I have also held discussions with the relevant staff of Enstar.

I have conducted checks on the data provided to me for internal consistency and reasonableness. I have carried out a review of the processes used in the actuarial reserve assessments and capital assessments for the River Companies.

In all other respects I have relied on the integrity of the information provided to me. My review of the processes used in the actuarial reserve assessments and my checks on the data for internal consistency have not revealed any reason to doubt that it would be appropriate for me to rely on the integrity of the information provided for the purpose of this report.

The conclusions in my report take no account of any information that I have not received, nor of any inaccuracies in the information provided to me.

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

- I understand that the witness statements to be submitted to the Court by Enstar will state that all information provided to me by the companies is correct and complete in all material aspects, and that there have been no material adverse changes to the financial position of any of the River Companies since that information has been provided to me.
- I note that I have also conducted checks on the data provided to me for internal consistency and reasonableness (including a review of the processes used in the actuarial reserve assessments and the capital assessments for the River Companies).
- My checks of the data for internal consistency and my review of the processes used in the actuarial reserve assessments have not revealed any cause for me to doubt that it is appropriate for me to rely on the integrity of the information provided for the purpose of this report.

On the above basis, I do not expect there to be any items of information not provided to me or any inaccuracies in the information that has been provided to me that will have been sufficient to invalidate the conclusions in my report.

1.6. *Reliances*

I have obtained the following reports from third parties

- Ernst & Young LLP (“EY”) findings and recommendations reports relating to the loss and allocated loss adjustment expense reserves as of 31 December 2015 in respect of River Thames (including Mercantile), Bosworth, Brampton, Knapton and Unionamerica and business previously written by London Scandinavian Underwriters Pool (“LSU Pool”) which sits within Marlon and business previously written by Guildhall Insurance Company Ltd (“Guildhall”) which sits within Unionamerica (collectively the “EY reports”).
- A Deloitte Touche Tohmatsu (“Deloitte”) report detailing the best estimate valuation of reserves as of 31 December 2015 in respect of the Danish Disability insurance portfolio which is included within the reserves of Marlon.
- A tax analysis report by Deloitte LLP (“Deloitte UK”), which is the UK firm of Deloitte, on the tax effects of the Transfers.

These reports were prepared by EY, Deloitte and Deloitte UK on an agreed basis to meet the specific purposes of the River Companies and not for any other purpose. I have placed no reliance upon these reports. Where I have used them, I have performed sufficient work of my own to confirm that it is appropriate for me to use the information for the purposes of forming my opinion on the Transfers.

Where I have felt it necessary I have used legal advice to assist in forming my opinion on the Transfers. This legal advice has been commissioned by and is addressed to Enstar and has been provided by Enstar’s legal advisers. I have formed my own opinion, in light of the information I have been presented with and my experience, regarding the extent to which it is appropriate for me to use the advice received for the purposes of my work on the Transfers.

Throughout this report I have indicated where I have used legal advice. I have set out my understanding of the key points of the advice and my opinion in the light of that advice.

The legal opinions that have been provided to me are:

1. Legal opinion from US legal counsel regarding the enforcement of Part VII transfers in the United States including a discussion of comity.
2. Legal opinion from US legal counsel regarding the steps to be taken to ensure that the protections afforded to US policyholders and cedants by the various US Trust Funds will continue following the Transfers.
3. Legal opinion from Bermudan legal counsel regarding the enforceability of Internal Reinsurance agreements, the operation of six segregated cell accounts and the enforceability of any parental guarantees under Bermudan law.
4. Legal opinion from English legal counsel regarding the effect of the proposed Transfers on policyholders outside of the EEA.
5. Legal opinion from English legal counsel with regards to the enforceability of the River Thames-Fitzwilliam cut-through clause under English law.

In the case of the operation of the US Trust Funds and the enforcement of the Transfers in the US, the issues are relatively complex. I have considered whether it would be appropriate for me to seek additional independent advice on these issues. I note, however, that much of the US advice pertinent to the Transfers is also incorporated into the UK legal advice regarding the impact on non-EEA policyholders (item 4 above). I have also asked Enstar’s UK legal counsel to confirm to me that my understanding of the legal issues, as set out in this report and particularly with regard to US and non-EEA policyholders, is accurate. Given this additional support, I have not felt it necessary to seek additional independent advice on the issues covered by the US opinions.

Wherever I have used legal advice I have considered whether to seek additional advice from lawyers otherwise unconnected with this transaction. In the light of my knowledge of the Transfers and my wider experience of Part VII transfers and of the non-life insurance market, the advice I have reviewed has made sense to me and

has not raised any questions or concerns. In light of this, and the professionalism and integrity of Enstar's legal advisers, there have been no instances where I have felt a second independent legal opinion is warranted.

1.7. Professional Standards

The Financial Reporting Council ("FRC") oversees the use of Technical Actuarial Standards ("TAS") by actuaries. The FRC requires actuaries to comply with the TASs for various types of actuarial work. We also believe that it is normally appropriate to apply the requirements of the TASs to other work conducted by actuaries. The work covered in this report therefore complies in all material respects with the TASs.

My comments on materiality below indicate the judgements that I have made in reporting my work in accordance with the reporting TAS ("TAS R").

My opinion has been formulated in line with the requirements of TAS-T, the Transformations TAS issued by the Board for Actuarial Standards.

1.8. Materiality

The FRC considers that matters are material if they could, individually or collectively, influence the decisions to be taken by the user of the related actuarial information. It accepts that assessing materiality is a matter of reasonable judgement which requires consideration of the user and the context in which the work is performed and reported.

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

In complying with TAS R, I have made judgements with regard to the level of information that it is appropriate to include in this report. In view of the objectives and nature of this report, and in order to communicate my findings in an effective manner, I have not considered it material or proportionate to include all the details that would normally be included in a formal actuarial report, such as details of the methodologies and assumptions underlying the reserve and capital assessments. You will need to consider the impact of this limitation on your own interpretation of the Transfers that are the subject of this report.

I have noted some matters in this report that, although not material, may be to the benefit of the reader.

2. Outline of Transfers

2.1. *The companies involved in the Transfers*

2.1.1. *Bosworth Run-Off Limited*

Bosworth is an insurance company incorporated in England on 26 August 2008 as Bosworth Run-Off Limited. Bosworth is 100% owned by Comox Holdings Ltd (“Comox”). Comox is a company incorporated in Bermuda which is ultimately owned 100% by EGL.

The business within Bosworth solely consists of business transferred to Bosworth from Mitsui Sumitomo Insurance Company Limited (“MSI”) by way of a Part VII transfer, effective 31 May 2010. The remaining liabilities are predominantly US Asbestos, Pollution and Health Hazard risks written by MSI via proportional, non-proportional and facultative reinsurance contracts between 1952 and 1993.

Bosworth is authorised and regulated by the Regulators (Financial Services Registration Number 502530) and has permission to carry out certain classes of general insurance business.

2.1.2. *Brampton Insurance Company Limited*

Brampton is an insurance company incorporated in England on 12 August 1976 as Chiyoda Fire and Marine Insurance Company (UK) Limited. Brampton is 100% owned by Hillcot Holdings Ltd (“Hillcot Holdings”). Hillcot Holdings is a company incorporated in Bermuda which is ultimately owned 100% by EGL.

On 1 January 2006, all ongoing business was transferred out of Brampton (which was then called Aioi Insurance Company of Europe Limited (“AE”)) to Aioi Motor and General Insurance Company of Europe Limited. AE retained all the remaining run off business (including policies written up to and including April 2002) and was renamed Brampton. Brampton was acquired by its current parent company, Hillcot Holdings on 30 March 2006. On 1 October 2011 Brampton assumed by way of a Part VII transfer the insurance business written by certain agencies on behalf of International Insurance Company of Hannover Limited (“InterHannover”). The business assumed from InterHannover included business written through underwriting agents during the period 1985 to 2009. In 2012 Brampton assumed by way of a Belgian law portfolio transfer the majority of the remaining business of a fellow Enstar Group company, Compagnie Européenne d’Assurances Industrielles SA (“CEAI”).

The remaining liabilities of Brampton are predominantly UK motor liability, non-proportional motor liability and non-proportional property written via Excess of Loss reinsurance contracts.

Brampton is authorised and regulated by the Regulators (Financial Services Registration Number 202820) and has permission to carry out certain classes of general insurance business.

2.1.3. *Knapton Insurance Limited*

Knapton is an insurance company incorporated in England on 18 November 1880 as The Engine, Boiler, and Employers’ Liability Insurance Company Limited. Knapton is 100% owned by Knapton Holdings Limited (“Knapton Holdings”). Knapton Holdings is a company incorporated in the United Kingdom which is ultimately 100% owned by EGL.

EGL acquired Knapton in 2010 from Royal and Sun Alliance Insurance Plc (“RSA”). Knapton ceased underwriting in 2002. On 9 February 2015 Knapton received, by means of two simultaneous German law portfolio transfers, the Marine Excess of Loss business of Allianz Global Corporate & Speciality SE and Allianz SE, written during the period 2003 to 2005. On 31 October 2015 Knapton assumed by way of a Part VII transfer RSA’s one-third share of the business of the Tower Pool written between 1967 and 1972.

The remaining liabilities of Knapton are predominantly Engineering, Property and Casualty as well as US Asbestos, Pollution and Health Hazards risks written as part of the Tower Pool.

Knapton is authorised and regulated by the Regulators (Financial Services Registration Number 202051) and has permission to carry out certain classes of general insurance business.

2.1.4. Marlon Insurance Company Limited

Marlon is an insurance company incorporated in England on 1 January 1971 as Vesta (UK) Insurance Company Limited. Marlon is 100% owned by Flatts Limited (“Flatts”). Flatts is a company incorporated in the United Kingdom which is ultimately 100% owned by EGL.

EGL acquired Marlon in 2007. On 10 September 2008 the Danish Financial Supervisory Authority approved the transfer of the UK branch portfolio of Codan Forsikring A/S (“Codan”) to Marlon, comprising the run-off business originally written by the UK branch of Codan as a participant in the LSU Pool. Marlon ceased writing business through the LSU Pool in 1991.

Marlon acquired the share capital of the Copenhagen Reinsurance Company Limited, originally incorporated in Denmark, together with its UK branch and UK subsidiary company (collectively “Cop Re”) in 2009. The Danish parent company ceased writing business in 2001 and the UK subsidiary ceased writing business in 1998. The Cop Re business was merged into Marlon by way of a cross border merger in 2013 resulting in the UK subsidiary becoming a direct subsidiary of Marlon. The UK subsidiary subsequently transferred all its assets and liabilities to Marlon in 2015 by way of a Part VII transfer.

Marlon has a Danish branch which assumed, in 2012, via a Danish law portfolio transfer, a book of Danish disability and assumed reinsurance exposures from the Danish Branch of Zurich Insurance Company. The disability business was written between 1970 and 2001.

Marlon assumed, via a Swedish law portfolio transfer, the insurance liabilities of Assuransinvest, a fellow Enstar Group company in 2013. Assuransinvest ceased writing business in 2007 when it was placed into run off.

The remaining liabilities are predominantly US Asbestos, professional indemnity and motor business written through the LSU pool or Cop Re.

Marlon is authorised and regulated by the Regulators (Financial Services Registration Number 202597) and has permission to carry out certain classes of general insurance business.

2.1.5. Mercantile Indemnity Company Limited

Mercantile is an insurance company incorporated in England on 6 June 1980 as Mercantile Mutual Indemnity Company Limited. Mercantile is 100% owned by Kenmare Holdings Ltd (“Kenmare”). Kenmare is a company incorporated in Bermuda which is ultimately 100% owned by EGL.

EGL acquired Mercantile in 2004. Mercantile ceased underwriting in 1987. The remaining liabilities are predominantly US asbestos risks and casualty reinsurance, which was written as a participant in the Regis Agencies Limited underwriting pool.

Mercantile is authorised and regulated by the Regulators (Financial Services Registration Number 202634) and has permission to carry out certain classes of general insurance business.

2.1.6. Unionamerica Insurance Company Limited

Unionamerica is an insurance company incorporated in England on 1 September 1971 as Unionamerica Insurance Company Limited. Unionamerica is 100% owned, via a subsidiary, by Unionamerica Holdings Limited (“Unionamerica Holdings”). Unionamerica Holdings is a company incorporated in the United Kingdom which is ultimately 100% owned by EGL.

Unionamerica acquired certain business in 2007, by Part VII transfer, from St Paul Reinsurance Company Limited (formerly known as St Paul Fire & Marine Insurance Company (UK) Limited and Mercury Reinsurance Company (UK) Limited) and St Paul Travelers Insurance Company Limited (formerly St. Katherine Insurance Company Limited). Unionamerica was acquired by EGL from St. Paul Fire & Marine Insurance Company, a subsidiary of the Travelers Companies Inc., on 30 December 2008. Unionamerica ceased underwriting business in 2002. The remaining liabilities are predominantly related to Asbestos, General Casualty and Motor risks, both direct and inwards reinsurance.

Unionamerica is authorised and regulated by the Regulators (Financial Services Registration Number 202584) and has permission to carry out certain classes of general insurance business.

2.1.7. River Thames Insurance Company Limited

River Thames is an insurance company incorporated in England on 29 December 1948. River Thames is 100% owned by Revir Limited (“Revir”). Revir is a company incorporated in Bermuda which is ultimately 100% owned by EGL.

River Thames ceased underwriting in 1997. EGL acquired River Thames from Rivers Group Limited, a subsidiary of Marsh & McLennan on 29 November 2001. River Thames assumed by way of a Part VII transfer, in 2014, the business of Cavell Insurance Company Limited (“Cavell”), Unione Italiana (UK) Reinsurance Company Limited (“Unione”), Hillcot Re Limited (“Hillcot”), Longmynd Insurance Company Limited (“Longmynd”) and Fieldmill Insurance Company Limited (“Fieldmill”). These entities were placed into run-off at various dates between 1988 and 1993.

The remaining liabilities are predominantly US Asbestos, Pollution and Health Hazard risks, both direct and inwards insurance and other attritional non-latent business.

River Thames is authorised and regulated by the Regulators (Financial Services Registration Number 202320) and has permission to carry out certain classes of general insurance business.

2.1.8. Business written by the River Companies

The table in Appendix D summarises the business written by each of the River Companies.

The following table shows the gross technical provisions for each of the River Companies as at 31 December 2015. It also shows the split between direct and reinsurance business determined using the Outstanding Loss Reserve only (not including incurred but not reported claims (“IBNR”)) as at 30 September 2015. I have confirmed with Enstar that there have been no significant movements between 30 September and 31 December 2015. The gross technical provisions provide an indication of the size of each of the River Companies. I note that the business within Bosworth is 100% reinsurance business. Mercantile had both direct and reinsurance policyholders but the remaining liabilities are small and there are no reserves in respect of the direct business.

Table 1 – Gross technical provisions, direct vs inwards reinsurance

Company	Technical provisions (\$000)	% Direct (%OLR)	% Reinsurance (%OLR)
River Thames	97,655	29%	71%
Bosworth	56,516	0%	100%
Brampton	77,366	73%	27%
Knapton	72,727	10%	90%
Marlon	86,168	59%	41%
Mercantile	72	0%	100%

Unionamerica	216,874	21%	79%
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The following table shows the number of policyholders within each of the River Companies and the split of direct and reinsurance policyholder numbers as at 30 September 2015. I have confirmed with Enstar that there have been no significant movements in the number of policyholders nor the split between direct and reinsurance business since September 2015.

Table 2 – Number of policyholders

Company	Number of policyholders	% Direct	% Reinsurance
River Thames	13,208	25%	75%
Bosworth	1,930	0%	100%
Brampton	33,788	94%	6%
Knapton	19,943	79%	21%
Marlon	45,807	89%	11%
Mercantile	4,950	78%	22%
Unionamerica	27,877	79%	21%

2.2. Description of the Transfers

If sanctioned by the Court, the Transfers will move all of the business written by Bosworth, Brampton, Knapton, Marlon, Mercantile and Unionamerica to River Thames. The Transfers will also move all external and internal reinsurance contracts protecting the transferring business. The ILU guarantees protecting certain policyholders in Marlon will transfer either by way of deeds of variation agreed with the guarantors or by the Court Order. All other rights and obligations of the Transferors relating to the Transferring Policies will also be transferred to River Thames.

When the Transfers from Bosworth, Brampton, Knapton, Marlon, Mercantile and Unionamerica to River Thames are effected, it is intended that each of the Transferors will be de-authorised and dissolved.

I am aware that Enstar is in the process of making a request to the PRA for payment of dividends from a number of the River Companies as part of their business as usual process. Whilst this is not connected to the Transfers, I have considered the impact of these proposed dividends throughout this report as this will have an impact on my assessment of the security of policyholders at the time of the Transfers.

In my assessments of the capital positions set out in Section 4.9 I have assumed the proposed dividends will have been approved and paid by the Effective Date. I have compared the situation for policyholders before the Transfers with the situation after the Transfers assuming this is the case as it results in a lower level of capital in River Thames after the Transfers. I have also considered whether my conclusion would be any different if the proposed dividends are not paid, in section 4.18. I will provide an update on the financial position of the River Companies in my supplemental report once the PRA have provided feedback on the dividend requests.

The Transfers are connected in the sense that they are being proposed to the Court such that they will all succeed together or all fail together. I do not need to consider the situation where one Transfer might be sanctioned whilst another might not, as this situation cannot arise.

In the sections that follow my comments are based upon my experience of other Part VII transfers, my understanding of the operation of the Project River Transfers, the representations made to me by Enstar on

behalf of the River Companies, the work that I have performed and the legal advice I have obtained as described in Section 1.6.

2.2.1. ILU guarantees

Parts of the business in River Thames and Marlon were written through the Institute of London Underwriters (“ILU”) which required a guarantee be provided in support of the business written. Each guarantee states that, in the event that the insuring company is unable to make the full payment to policyholders covered by the guarantee, the guarantor will pay the outstanding balance.

There are two ILU guarantees in place in respect of River Thames’ business. The guarantors are Sedgwick Forbes Bland Payne Group, now known as Sedgwick Group Limited (“Sedgwick”) and The Toa Fire and Marine Reinsurance Company Limited, now known as the Toa Reinsurance Company Limited (“Toa Japan”).

There are six ILU guarantees in place in respect of Marlon’s business. The guarantors are Alm Brand A/S, a company incorporated in Denmark under number 77333517 (“Alm Brand A/S”), Alm Brand af 1792 FMBA (formerly Alm. Brand af 1792 G/S) (“Alm Brand”), Forsikringsaktieselskapet Vesta (“Vesta”), Skandia Insurance Company Limited (“Skandia Insurance”), Skandia Group Insurance Company Limited (“Skandia Group”) and Vesta Group PLC (“Vesta Group”).

The table below shows the total reserves (including IBNR) for policyholders of Marlon and River Thames and the proportion that are covered by ILU guarantees as at 31 December 2015.

Table 3 – Policyholders protected by ILU guarantee

Company	Total Reserves (\$000)	Reserves for policyholders protected by an ILU guarantee (\$000)	Proportion of policyholders protected by an ILU guarantee
River Thames	97,655	5,365	5%
Marlon	86,168	17,072	20%

I discuss the value of the ILU guarantees in section 4.4.

2.2.2. Fitzwilliam Reinsurance

Fitzwilliam Insurance Limited (“Fitzwilliam”) is part of the Enstar Group. It is a class 3 regulated reinsurer incorporated as a Segregated Accounts Company (“SAC”) under the laws of Bermuda. River Thames, Mercantile, Marlon, Knapton, Bosworth and Brampton each have internal reinsurance agreements with Fitzwilliam through separate segregated accounts.

There are two separate Fitzwilliam reinsurance agreements in place for River Thames. They cover all business save for 1971 and prior non-marine business (“Old Non-Marine Business”). The first agreement is in respect of business covered by an ILU guarantee and the second agreement is in respect of business that is not covered by an ILU guarantee. There will be no change to the operation of the separate segregated accounts after the Transfers; they will continue to cover the same business as before.

Mercantile and Bosworth have 100% quota share reinsurance contracts with Fitzwilliam and retain zero net liability.

There are two separate Fitzwilliam reinsurance agreements in place for Marlon. The first covers business transferred to Marlon in 2013 from Assuransinvest, a fellow Enstar company, up to a limit of 140% of the premium paid on inception. EGL guarantees the uncollateralised gap between the value of the funds withheld by the cedant and the remaining limit of the reinsurance. The second covers the business written by Codan

Forsikring A/S (“Codan”) as a participant in the LSU Pool, which was transferred to Marlon in 2008. The funds withheld security is equal to 175% of the net reserves reinsured, which are determined annually.

Fitzwilliam’s reinsurance of Knapton covers the Marine XL business transferred to Knapton in 2015 from Allianz Global Corporate & Speciality SE and Allianz SE. The reinsurance has a limit of 120% of the premium originally paid. Security is provided in the form of funds withheld by the cedant to the value of 100% of the net reserves reinsured, which are determined annually.

Fitzwilliam’s reinsurance of Brampton covers the business written by certain agencies on behalf of Inter Hannover, which was transferred to Brampton in 2011. This business is fully reinsured by Fitzwilliam on an unlimited basis. There is funds withheld security to the value of 100% of the net reserves reinsured as determined annually. Security is also provided in the form of a guarantee from EGL to the value of at least 100% of the net reserves reinsured.

Both reinsurance agreements with River Thames include a “cut through” clause that provides prima facie for the original insureds and reinsureds to claim directly from Fitzwilliam in the event that River Thames becomes insolvent. The clause also states that Fitzwilliam will assume full responsibility for claims handling in this situation. I comment on the legal advice that I have reviewed in relation to this cut through clause in Section 4.5.

All of the Fitzwilliam reinsurance agreements with Mercantile, Bosworth, Marlon, Knapton and Brampton are similar to the River Thames agreements with Fitzwilliam, except that no cut-through clause applies. All reinsurances will transfer to River Thames under the terms of the relevant Transfers and, after the Transfers, will treat River Thames as the new reinsured. I comment on the legal advice that I have reviewed in relation to these agreements in Section 4.5.

2.2.3. Overseas Re Reinsurance

Overseas Reinsurance Corporation Limited (“Overseas Re”) is a class 2 Bermudan reinsurer which is part of the Enstar Group. The reinsurance agreement between Overseas Re and River Thames covers all of the Old Non-Marine Business. This business is fully reinsured on an unlimited basis. The agreement will continue to operate in the same way after the Transfers are sanctioned.

Unlike Fitzwilliam, Overseas Re is not a SAC but Overseas Re has no other insurance or reinsurance business so all of its assets provide security in support of the reinsurance of the Old Non-Marine Business.

River Thames has some other external reinsurance agreements; these external reinsurances inure to the benefit of Overseas Re or Fitzwilliam.

2.2.4. Other Reinsurance

All of the River Companies with the exception of Mercantile, have external reinsurance, purchased at the time of underwriting to protect the various accounts written. I understand that the External Reinsurance is believed to be governed by English law, save for the exception highlighted below.

All of the reinsurance, including Fitzwilliam reinsurances, currently protecting Transferring Policies will continue to respond to claims after the Effective Date, just as it did before the Transfers. The Court Order giving effect to the Transfers will ensure the Transferors’ rights to claim under the specific reinsurance protections are passed to River Thames under the Transfers.

Bosworth’s outwards reinsurances are governed by Japanese law. These reinsurances have been subject to a previous Part VII transfer, when the business of MSI was transferred to Bosworth. These reinsurances, which cover only 5% of the current Bosworth gross reserves, have continued to be fulfilled following this previous transfer. I have no reason to believe these reinsurances will not continue to respond following the Transfers. As noted in section 2.2.2 above, Bosworth’s net account is 100% reinsured with Fitzwilliam.

Brampton has proportional and excess of loss outwards reinsurance covering its General Liability, Motor including Periodic Payment Orders (“PPOs”) and Liability classes. Knapton’s external outwards reinsurance is predominantly proportional. Marlon has various types of external outwards excess of loss reinsurance covering Cop Re and LSU Pool business.

Each of the portfolios comprising Unionamerica has its own reinsurance programme and benefits from extensive facultative, quota share and excess of loss treaty protections. Unionamerica’s Guildhall book has been protected by various proportional, excess of loss and facultative reinsurance treaties. River Thames has a range of excess of loss, proportional treaty and facultative external outwards reinsurance in place. I have no reason to believe these reinsurances will not continue to respond following the Transfers.

The table below shows the proportion of gross reserves covered by external reinsurance.

Table 4 - Percentage of gross reserves covered by external reinsurance

Company	Percentage of gross reserves covered by external reinsurance
River Thames	2%
Bosworth	5%
Brampton	44%
Knapton	6%
Marlon	2%
Mercantile	0%
Unionamerica	5%

Subject to my comments regarding the cut through clauses in the River Thames Fitzwilliam reinsurance agreements, in the unlikely event of an insolvency of a River company, all of the relevant recoveries collected from reinsurers would form part of the insolvent company’s estate and would be available to be shared amongst all policyholders of the insolvent company.

2.2.5. Dividend declaration

I have been informed by Enstar that some of the River Companies are in the process of making a formal dividend request to the PRA in accordance with Supervisory Statement SS4/14 “Capital extractions by run-off firms within the general insurance sector”. This dividend request is part of Enstar’s business as usual operations. I have considered the capital implications should this dividend request be approved in Section 4.9 of my report. In section 4.18 in this report, I have also considered whether my conclusion would be any different if the proposed dividends are not paid.

I will comment on whether these dividends are paid or not, and the amounts, and confirm the impact on my conclusion in my supplemental report.

2.2.6. Claims Handling

All claims handling is currently managed by Enstar on behalf of the River Companies, save that Downlands manages Knapton’s Tower Pool business and Capita in Denmark manages Marlon’s Danish business. Enstar has confirmed that there will be no changes to these claims handling arrangements as a result of the Transfers.

I do not consider there to be any change in the claims handling arrangements for the existing River Thames policyholders nor for the Transferring Policyholders as a result of the Transfers.

2.2.7. Non-EEA business

I note that each Enstar Group entity involved in the Transfers wrote business that covered policyholders situated in jurisdictions outside the European Economic Area (“EEA”). I have considered the possibility that such a policy is governed by a law other than English law and I have reviewed legal advice regarding the potential impact of the Transfers in this case. As a matter of English law, and within the EEA, I understand the transfer of the policy would be effective as a result of the Court Order sanctioning the Transfers. This may not be the case in a jurisdiction whose law is the governing law of the relevant policy if that jurisdiction does not recognise the Transfers. Based on figures as at 30 September 2015:-

Table 5 - Percentage of business outside EEA for each of the River companies

Company	Proportion of outstanding claims reserves outside EEA
Bosworth	88%
Brampton	22%
Knapton	42%
Marlon	37%
Mercantile	97%
Unionamerica	54%

I have confirmed with Enstar that there have been no significant movements in the proportion of liabilities outside of the EEA since 30 September 2015.

Each of the Transferors has a substantial number of policyholders located outside the EEA. In most cases, the greatest concentration of non-EEA policyholders by value of case reserves is in the US. I have considered the possibility that a non-EEA policyholder has a grievance against a Transferor company in a non-EEA jurisdiction after the Transfers. In this case, the Transferor company will have no assets as a result of the Transfers.

I understand that the Court Order giving effect to the Transfers will contain a provision to the effect that any proceedings brought in the UK against the Transferors will be deemed to have been brought against River Thames, without any further order being required. Therefore I understand that any policyholder should be able to enforce the payment of a claim without facing more procedural barriers than it would currently face in enforcing a claim against a Transferor.

I understand that the River Companies’ assets are mostly in the UK, save where assets located outside the UK consist of deposits supporting letters of credit or equivalent (in the case of all Transferors with the exception of Mercantile); trust funds established in the US (in the case of Unionamerica and Marlon) (the “US Trust Funds”); and reinsurance recoverables from foreign reinsurers. As such I understand that a claimant with a judgment against a River Company obtained outside of the EEA would most likely need to come to the UK to enforce the judgment whether or not the Transfers proceed.

If the Transfers are sanctioned, a non-EEA court may not recognise the Transfers and may award a judgment against a Transferor. When the claimant comes to the UK to enforce the judgment the provision detailed above means that the claim should automatically be brought against the Transferee. It is my opinion, therefore, that the Transfers will not have any unique effect on non-EEA policyholders and I have considered them alongside EEA policyholders.

My opinion is informed by legal advice addressed to Enstar in relation to this Transfer from Enstar’s UK legal counsel and Enstar’s UK legal counsel has confirmed to me that my understanding of these matters, as set out above, is accurate.

2.2.8. US Trust Funds

Two of the Transferors, Marlon and Unionamerica, have assets which are held in the US Trust Funds. Marlon has a US Surplus Lines Trust Fund which accounts for approximately 1% of the assets of Marlon. Unionamerica has a US Surplus Lines Trust Fund and a US Credit for Reinsurance Trust Fund which together account for approximately 16% of the assets of Unionamerica. These US Trust Funds represent a ring-fenced pool of assets which are held in trust in the US. Policyholders with policies which are secured by the US Trust Funds have a prior call on these assets in the unlikely event of an insolvency of the Trusteed company. Once protected policyholders are reimbursed, any excess assets may be released to general assets and so would be available for the benefit of all policyholders.

I understand that Enstar is engaging, through its US attorneys, with US regulators in order to amend or replace the US Trust Funds to take account of the effect of the Transfers. The intention is to ensure that the relevant policyholders continue to benefit from the protection that the US Trust Funds provide after the Transfers.

I understand that the solution that is being proposed, but is not yet agreed with the US regulators, will result in River Thames being the grantor of the US Trust Funds after the Transfers. In the case of the US Credit for Reinsurance Trust Fund, this action is to be accompanied by an application to receive accredited status so that reinsured policyholders can continue to take credit for their reinsurance protections, placed with Unionamerica, in their financial statements.

I am not an expert in the operation of US Trust Funds nor of the law regarding the recognition of a Part VII transfer in the US. I have sought the view of other experts in three areas, as outlined below, in order to inform my opinion. I set out my analysis in section 4.7.

Advice of US legal counsel

I have been provided with a copy of two pieces of advice addressed to Enstar from Enstar's US legal counsel. The first addresses the likelihood that a US Court will recognise a Part VII transfer under the principle of comity. The second discusses the options to be explored with the US regulators to ensure the continued protection of the US policyholders provided by the US Trust Funds.

Advice of UK legal counsel

I have received advice provided to Enstar from Enstar's UK legal counsel that refers to the US advice and discusses the impact on non-EEA policyholders, including the issue of recognition and access to the US Trust Funds. I have also confirmed my understanding of the legal advice that I have received on this subject, as set out in this report, with Enstar's UK legal counsel.

Advice of UK Insolvency Practitioners

I have consulted with colleagues from PwC who are UK insolvency practitioners and who have assisted with the winding-up of insolvent UK insurance companies with US Trust Funds. I have been advised on the way in which the UK insolvency process interacts with the US trust fund mechanism and how these issues have been resolved in practice in the past.

2.2.9. Retained policies

In the event that there are policies that cannot be transferred to River Thames under the Transfers on the Effective Date, these "Retained Policies" will be excluded from the Transfers until they can be transferred. Under the terms of the Transfers, River Thames will indemnify any Transferor in respect of Retained Policies after the Effective Date. In addition, any related reinsurance protection and sufficient assets to meet the minimum capital requirement ("MCR") will remain with a Transferor until the applicable Retained Policy is transferred to River Thames. It is not currently expected that there will be any Retained Policies.

2.3. *Purpose of the Transfers*

I have discussed with Enstar the reasons for proposing the Transfers. The proposed Transfers will provide the River Companies and the Enstar Group with a simplified governance and operational structure in the UK, thereby enabling easier regulatory supervision, operational cost savings and solvency capital benefits through diversification.

Conclusion

“I have considered the proposed Transfers and their likely effect on the policyholders of the River Companies. I have concluded that the Transfers do not lead to any policyholders (or third parties who rely on their policies) being materially adversely affected.”

3. Conclusion

3.1. Overall Conclusions

I have considered the proposed Transfers and their likely effect on the policyholders of the River Companies.

I have concluded that the Transfers do not lead to any policyholders (or third parties who rely on their policies) being materially adversely affected.

In relation to my conclusions above I note that:-

- There will be no reduction in the overall capital as a result of the Transfers themselves as all the capital from the River Companies will be transferred along with the insurance liabilities.
- I have based my analysis on the assumption that dividends, requested as part of Enstar's normal business practice, are paid before the Effective Date of the Transfers. These dividends are subject to separate approval from the PRA.
- I have also considered the position if the dividends are not paid before the Transfers take effect and concluded that my overall conclusion would be the same.

The security of a policyholder is deemed to be affected by the Transfers if the security on the day after the Transfers is not the same as the security on the day before the Transfers took place and the change is as a direct consequence of the Transfers themselves. The security of a policyholder is adversely affected if it is reduced. Whilst it is commonly accepted by Independent Experts that have concluded upon Part VII transfers that a transfer should be free to proceed where policyholders are not materially adversely affected, it is important to be clear what I mean by "materially adversely affected" in this context.

I have not assessed whether an adverse effect on the security of a policyholder group is material with reference to any quantifiable measure in that it is not possible to quantify all of the relevant aspects of policyholder security. Rather, I have made the assessment by applying reasoned judgement to the interplay of factors involved to consider whether a policyholder would have cause to be concerned about the change in their security. Specifically, where the change is so small or the probability of a reduced payment is sufficiently insignificant that it should give no cause for concern to policyholders, I have considered it not to be material.

This type of assessment applies equally where I have noted there to be competing positive and negative factors that will be likely to cancel each other out to such an extent that it is impossible to say whether the combined effect would be adverse, but where it is possible to say that a policyholder should have no cause for concern regarding the impact of the Transfers on its level of security.

3.2. Issues to highlight

I have considered the extent to which the Transfers affect the risks applying to each group of policyholders. I have identified those groups of policyholders affected by the Transfers and identified separate groups of policyholders with distinct interests. I have identified 9 groups of policyholders whose interests I have considered separately.

I have considered both beneficial and adverse impacts of the Transfers on groups of policyholders.

I have considered the impact of the Transfers on each of these groups of policyholders based upon: –

- The chain of security that exists to protect policyholders;

- The capital strength of the companies before and after the Transfers based upon the Capital Cover Ratio on a Standard Formula Solvency Capital Requirement Assessment (“SF SCR”) basis as at 31 December 2015. This is the prescribed basis, set out in the Solvency II rules, for calculating the Solvency Capital Assessment.
- Stress tests applied to the SF SCRs as at 31 December 2015 to understand the impact of alternative assumptions.
- The Capital Cover Ratio before the Transfers for each of the River Companies under Enstar’s Own Risk and Solvency Assessment (“ORSA”) as at 31 December 2015 to assess if there are any material differences compared to the results on a SF SCR basis which would indicate my conclusions are invalid. The ORSA reflects Enstar’s own view of the risks the River Companies face and the extent to which these are accurately reflected in the prescribed SF SCR.
- Any proposed changes in the policyholder experience, for example in claims administration, or governance arrangements.

I have summarised my thoughts in each of these areas below following some initial overall comments.

3.2.1. Overall comments

The key points that I have taken into account in drawing my conclusions are as follows:

- After the Transfers and proposed dividends, if approved, River Thames is well capitalised.
- There are benefits to policyholders of all the business being in one larger entity, including the diversification of risks, more focused management attention, and the reduced risk of compliance failure.
- The Capital Cover Ratio measure that I use to compare the position for policyholders before and after the Transfers does not allow fully for the benefits of being part of a larger entity. It allows for diversification between different risk types but does not allow for the diversification that comes from a greater number of similar risks being pooled together. Nor does it allow for the impact of more focused management attention and reduced risk of compliance failure.

3.2.2. Chain of security

The policyholders are protected by the reserves held within the company, the reinsurance asset and the additional capital held against the risks of deterioration in the reserves.

Some policyholders have access to additional levels of security via an ILU guarantee. Some policyholders have access to additional levels of security via US Trust Funds.

The proposed dividends will be subject to approval from the PRA.

I have considered these levels of security in forming my view on the Transfers. It is Enstar’s normal business practice to pay dividends in order to maintain a target level of Capital Cover.

3.2.3. Capital Strength

I comment in more detail on the capital assessments and my conclusions for each policyholder group in Sections 4.10 to 4.17. I summarise these conclusions below.

- The Bosworth policyholders are not materially adversely affected by the Transfers as, whilst they are moving to an entity in which they rank behind some direct policyholders upon winding-up, and they have a reduction in Capital Cover, their current Capital Cover Ratio is artificially high due to the small size of the company and they are moving to a larger and better diversified company.

- The Brampton policyholders are not materially adversely affected. Whilst the Capital Cover Ratio is improving after the Transfers under the base scenario, there is one stress test scenario under which the Capital Cover reduces slightly, but not materially.
- The Knapton policyholders are not adversely affected. The Capital Cover Ratio is improving after the Transfers under the base scenario, and is the same or improving as a result of the Transfer under each of the stress test scenarios.
- The policyholders of Marlon, whether protected by the ILU guarantees or not, are not materially adversely affected by the Transfers. The ultimate security sees a small improvement as a result of the Transfers under the base scenario, however my stress tests indicate a potential, but not material, adverse effect arising under one of the scenarios.
- The Mercantile policyholders are not materially adversely affected by the Transfers, as whilst they have a reduction in Capital Cover, their current Capital Cover Ratio is artificially high due to the small size of the company and they are moving to a larger and better diversified company.
- The Unionamerica policyholders are not adversely affected because the Capital Cover Ratio is improving after the Transfers in all scenarios that I have investigated.
- The policyholders of River Thames, whether protected by ILU guarantees or not, are not adversely affected because the Capital Cover Ratio is improving after the Transfers in all scenarios that I have investigated.

3.2.4. Stress tests

I have considered the impact on all parties of adopting alternative plausible assumptions. In this respect, I have investigated the impact of stressing key assumptions in the SF SCR in order to understand the impact on the SCR Capital Cover Ratio that I have used to compare security before and after the Transfers.

3.2.5. Changes in policyholder experience

The business affected by the Transfers will continue to be administered in the same manner as it has been before the Transfers. As such, I do not expect any change in the policyholder experience as a result of the Transfers.

3.2.6. Changes in governance arrangements

Enstar has agreed with the Regulators to make some enhancements to the governance arrangements of River Thames after the Transfers including additional independent non-executive directors and a separate audit committee. I consider these governance enhancements to be positive to the long-term resilience of the company and therefore of benefit to policyholders.

3.3. Independent Expert duty and declaration

My duty to the Court overrides any obligation to those from whom I have received instructions or by whom I am paid. I confirm that I understand my duty to the Court and I have complied with that duty.

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

I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Protocol for Instruction of Experts to give Evidence in Civil Claims.

4. Analysis

4.1. Overview of approach

My approach to assessing the likely effects of the Transfers on the policyholders has been to:

- Identify the groups of policyholders affected or potentially affected by the Transfers.
- Understand the effect of the Transfers on the assets and liabilities of River Thames and the Transferors (in order to assist me in assessing the effect on policyholders).
- Consider the likely effect of the Transfers on the security of each group of policyholders.
- Consider non-financial aspects of the Transfers such as changes in the governance arrangements and the effect on policyholder service.

In performing my work, I have requested that various information be provided to me including Reports & Accounts, reserve assessment reports, SF SCR calculations, ORSA reports, Standard Formula reasonableness assessment memos and correspondence with the Regulators. I have received all of the information that I have requested. I have received balance sheets for each of the Transferors before the Transfers, and for River Thames after the Transfers, as at 31 December 2015 (audited) and 30 June 2016 (unaudited).

I have reviewed the material that I have received and raised questions with the management of Enstar to confirm my understanding. I have received satisfactory and consistent answers to the questions that I have raised. Whilst the summary balance sheets in Section 4.3 display the latest available information as at 30 June 2016, the majority of my analysis has been performed on information as at 31 December 2015 and prior. I will review updated financial information in my Supplemental report.

I have performed my own analyses to test the information received, particularly in the areas of reserving and capital assessments. I have applied alternative assumptions to the SF SCRs as at 31 December 2015 in order to understand how the capital requirements of the entities vary when stressed.

I have concluded that it is reasonable for me to use the information and explanations that I have received in forming my opinion on the Transfers.

4.2. Policyholders affected or potentially affected

Different groups of policyholders may not be affected in the same way by the Transfers. In forming my conclusion on the Transfers, I need to consider the interests of each group of policyholders separately. The factors that differentiate groups of policyholders which I have considered as relevant to my analysis are as follows:

- Policyholders of different River Companies – Before the Transfers, each River Company has its own level of capital which provides security to policyholders and will be subject to particular risks arising from the insurance business written.
- Direct and Reinsurance policyholders - Inwards reinsurance policyholders rank behind direct policyholders in the event of insolvency. This means that, in the unlikely event that a River Company is declared insolvent, all valid direct policyholders' claims will be paid in full before any inwards reinsurance policyholders' claims start to be paid. Direct and Reinsurance policyholders therefore have different rights and need to be considered separately.

- ILU guaranteed policyholders – Some of the business of the River Companies was written within the ILU and benefitted from a guarantee that was a condition of writing ILU business. Policyholders protected by this guarantee have the right to seek redress for their claims should they not be paid by their insurer and therefore have access to an additional level of security.
- Policyholders benefiting from US Trust Funds – Some of the business of the River Companies is protected by assets held in US Trust Funds. These US Trust Funds are used to firstly pay policyholders who are protected by the US Trust Funds but any excess over the funding requirement may be released to general assets and so be available for the benefit of all policyholders. Policyholders not covered by these US Trust Funds may have less security than those covered by a US Trust Fund and I will comment on the impact within each of the individual entities.

In light of the above factors, I have considered the effects of the Transfers on the following groups of policyholders:

- The policyholders of Bosworth, transferring to River Thames.
- The policyholders of Brampton, transferring to River Thames.
- The policyholders of Knapton, transferring to River Thames.
- The policyholders of Marlon not covered by ILU Guarantee, transferring to River Thames.
- The policyholders of Marlon covered by ILU Guarantee, transferring to River Thames.
- The policyholders of Mercantile, transferring to River Thames.
- The policyholders of Unionamerica transferring to River Thames.
- The current River Thames policyholders not covered by ILU guarantee.
- The current River Thames policyholders covered by ILU guarantee.

I note that the contractual rights of the policyholders will not change as a result of the Transfers except that those rights will be against a different company.

I have considered the difference in rights between direct and inwards reinsurance policyholders within each of the policyholder groups mentioned above.

I have considered the impact on policyholders protected by US Trust Funds separately to the groupings above.

I do not believe that the policyholders of any other insurance companies are affected by the Transfers.

Based upon my experience of Part VII transfers, I do not believe that any third party who relies on a policy can be adversely affected by the Transfers if the relevant policyholder is not affected by the Transfers.

4.3. *Effect of the Transfers on assets and liabilities*

In order to indicate the effect on River Thames and the Transferors of the Transfers, I have shown balance sheets as at 30 June 2016 directly before and after the Transfers below. I have also produced an indicative balance sheet as at 30 June 2016 showing the effect of the requested dividend. For ease of explanation, I have shown the balance sheets as at 30 June 2016 in Table 7 in a summarised format.

Table 6 shows the effect of the proposed dividends on the investment position for each of the River Companies. Table 7 shows the effect of the transfers on the River Thames balance sheet, adjusted for the proposed dividends. Table 8 shows the Transferors' balance sheets before the Transfers adjusted for the dividends. The Transferors' balance sheets are not shown after the Transfers because they will have no policyholders.

The balance sheets show amounts as at 30 June 2016. I have chosen this date because it is the latest date for which financial information of River Thames and the Transferors is available at the time of writing my report. I discuss in Section 4.3.1 below the changes that I would expect to impact the balance sheets between 30 June 2016 and the Effective Date.

Numbers in the table below have been rounded to the nearest multiple of \$1,000. There are, as a consequence, some rounding differences in the casting of the tables shown.

Table 6 - Investments as at 30 June 2016 before and after declaration of dividend

\$000	Bosworth	Brampton	Knapton	Marlon	Mercantile	Unionamerica	River Thames	Total
Investments prior to declaration of dividend	8,348	67,651	132,836	155,617	5,107	382,157	165,615	917,331
Dividend declared	-	14,012	15,408	23,797	-	32,346	26,510	112,073
Investments post declaration of dividend	8,348	53,639	117,428	131,820	5,107	349,811	139,105	805,258

Table 7 - Effect on River Thames balance sheet as at 30 June 2016 after declaration of dividend

River Thames (\$000)	Pre transfer	Changes relating directly to transfer	Post transfer
Assets			
Investments	139,105	666,153	805,258
Reinsurers' share of technical provisions	26,286	154,586	180,872
Debtors	5,217	23,536	28,753
Other	4,451	80,727	85,178
Total	175,059	925,002	1,100,061
Liabilities			
Shareholders' funds	74,096	346,847	420,943
Technical provisions	94,891	477,513	572,404
Other provisions	-	232	232
Creditors	5,774	99,187	104,961
Accruals and deferred income	298	1,223	1,521
Total	175,059	925,002	1,100,061
Solvency measures:			
Ratio of shareholder funds to:			
- Net Insurance liabilities	108%		108%
- Gross Insurance liabilities	78%		74%

Table 8 - Transferors' balance sheets as at 30 June 2016 after declaration of dividend

\$000	Bosworth	Brampton	Knapton	Marlon	Mercantile	Unionamerica
Assets						
Investments	8,348	53,639	117,428	131,820	5,107	349,811
Reinsurers' share of technical provisions	54,495	47,525	15,974	26,046	61	10,485
Debtors	4,730	1,384	2,672	1,847	64	12,839
Other	7,790	5,638	7,080	37,328	142	22,749
Total	75,363	108,186	143,154	197,041	5,374	395,884
Liabilities						
Shareholders' funds	14,245	30,737	59,296	53,867	5,272	183,430
Technical provisions	54,495	71,667	65,670	84,964	61	200,656
Other provisions	-	-	-	232	-	-
Creditors	6,492	5,611	17,976	57,690	28	11,390
Accruals and deferred income	131	171	212	288	13	408
Total	75,363	108,186	143,154	197,041	5,374	395,884
Solvency measures:						
Ratio of shareholder funds to:						
- Net Insurance liabilities	N/A	127%	119%	91%	N/A	96%
- Gross Insurance liabilities	26%	43%	90%	63%	8643%	91%

The balance sheet as at 30 June 2016 for River Thames shows gross technical provisions of \$95m and reinsurers' share of technical provisions of \$26m before the Transfers.

I have confirmed with Enstar that the River Companies have no financial arrangements, such as provided guarantees, that are not reflected in the balance sheets. I understand that, where letters of credit are in place, full collateral is held as an asset on the balance sheet to offset the corresponding liabilities.

As a result of the Transfers, gross technical provisions in River Thames will increase by \$478m, which is the total of gross technical provisions across the Transferors. Since the external and internal reinsurance contracts protecting the Transferring Policies will also form part of the Transfers, reinsurers' share of technical provisions in River Thames will increase by \$155m, which is the total of reinsurers' share of technical provisions across the Transferors.

The Transfers will also move all of the assets and liabilities of the Transferors to River Thames. The largest item of transferring assets is investments, with \$666m transferring to River Thames. Other transferring assets shown in Table 6 are:

- Debtors of \$24m, largely relating to inter-company loans held with intra-group companies, deposits held with cedants and amounts due from reinsurers.
- Other assets of \$81m made up mainly of cash deposits, prepayments and accrued income.

The value of assets transferring to River Thames exceeds the value of transferring liabilities by \$347m. As a result, shareholders' funds within River Thames will increase after the Transfers by \$347m to \$421m, should the proposed dividends be approved. If all of the proposed dividends were not to be approved, the shareholders' funds within River Thames after the Transfers would increase to \$533m.

At the bottom of Tables 7 and 8 I have displayed, as simple measures of solvency, the ratio of shareholders' funds to net and gross insurance liabilities. These ratios are affected by the extensive levels of reinsurance protecting Bosworth. I will discuss more sophisticated measures of solvency later in this report based on 31 December 2015 financials.

4.3.1. Expected changes in assets and liabilities to Effective Date

Having examined the balance sheets as at 31 December 2015 and 30 June 2016, I have then considered the changes that may occur between the time of my review and the Effective Date.

I expect that the normal activities of the River Companies will continue. They will continue to settle claims and re-assess reserves in the light of experience. I do not consider that any additional risk to policyholders will emerge as a result of the continuation of normal business.

The value of the transferring liabilities will fall as the Transferors continue to settle and pay claims. The decrease in transferring liabilities due to claim payments will result in a similar adjustment to the transferring assets. I understand the annual reserve review for the Companies will be carried out based upon information as at 30 June 2016 and I will review this information when it becomes available.

I mention the EU referendum in Section 4.19.2. I have discussed the immediate impact on the financial position of the River Companies with Enstar and this is shown in the summary balance sheets as 30 June 2016. I understand the work to update the capital position of the River Companies as at 30 September 2016 will take into account the changes in the financial markets since the EU referendum vote as well as the updated reserve positions from the reserve review exercises mentioned above. I will review the updated capital positions as at 30 September 2016 and update my comparison of Capital Cover Ratios when this information is available.

Further to considering the continuation of normal business, I have discussed with Enstar (acting on behalf of the River Companies) the possibility of management actions, such as corporate restructuring or capital distributions that could affect the financial position of the River Companies.

I have been informed by Enstar of the dividend requests that it proposes to submit to the PRA as part of Enstar's usual course of business. Should they proceed, I have illustrated the impact upon policyholders by adjusting the investment line in the balance sheet in Table 6 above. The dividends are subject to a statement of non-objection from the PRA and are not connected to the Transfers. Whether or not they proceed, I understand that Enstar would be likely to apply for a dividend from River Thames during 2017 in order to maintain a target Capital Cover Ratio in the ordinary course of business.

I have been informed by Enstar that the River Companies have no current planned activities that would have a material effect on the security of policyholders, other than those discussed in this report.

I anticipate producing a supplementary report closer to the final Court date covering the points mentioned above and indicating whether any material changes have occurred which would impact my conclusions. In that supplemental report I will be able to confirm the financial positions of the River Companies with regard to the proposed dividends if the PRA has determined whether to approve the dividend proposal.

4.3.2. Technical provisions – General comments

The elements of the above balance sheets which are the most difficult to assess are, as with all insurance companies, the appropriate levels of technical provisions, i.e. the estimated values of the current and future liabilities that insurance companies have to pay in respect of the insurance policies that they have written. Section 4.3.3 below covers my assessment of those valuations.

It should be noted that the estimation of technical provisions for insurance liabilities (which I also refer to as "reserves") is an inherently uncertain exercise. An element of subjectivity is inevitably included in any reserve assessment.

4.3.3. Assessment of Bosworth, Brampton, Knapton, Marlon, Mercantile, Unionamerica and River Thames technical provisions

In the case of Bosworth, Brampton, Knapton, Unionamerica, River Thames, and certain portfolios of Marlon, Enstar engage an external actuarial consultant, EY, to perform a reserve assessment on an annual basis. I have

obtained the EY reports produced for the reserve reviews performed for year-end 2015. The basis upon which I have used the EY reports is set out in section 1.6.

In the case of Marlon's Danish disability business, Enstar engage an external actuarial consultant, Deloitte based in Denmark, to perform a reserve assessment on an annual basis. I have obtained the Deloitte report produced for the reserve review performed for year-end 2015. The basis upon which I have used the Deloitte report is set out in section 1.6.

Due to the small size of the remaining Mercantile reserves no external actuarial consultant is engaged to perform a reserve review. I have obtained the breakdown of the reserves by class of business and the run off of reserves over the past 5 years.

I have read the reports produced by the external actuaries for year-end 2015 and considered the approach to estimating reserves, the key issues and the results presented. In general, standard actuarial techniques have been used that I consider to be appropriate to the nature and duration of the liabilities and to the data available. I have questioned the external actuaries to confirm my understanding and received satisfactory answers to my questions.

One of the more material areas of liability has been estimated with a greater reliance on top-down, market loss driven approaches than I would have used if I had been performing the reserving exercise myself. In this case I have performed additional work to compare the results of the external actuaries' work with my own crude assessments based upon the application of benchmark factors derived from my knowledge of similar books of business where more bottom-up methodologies are applied. My benchmark assessments produce slightly higher reserve estimates in the case of the Unionamerica Asbestos and Pollution Liabilities but not for the Asbestos and Pollution Liabilities of the other River Companies.

There is a high level of uncertainty surrounding these long tail Asbestos and Pollution liabilities and the differences have not been significant enough for me to conclude that the reserves held are unreasonable. Nevertheless, I have investigated the impact of higher reserve figures in my policyholder security impact assessment, discussed at a later stage in this report.

I have also requested and been provided with the change in the estimate of ultimate claims for selected reserving classes year-on-year over the past 5 years. The review of this information, together with my discussions with Enstar, has not led me to conclude that the reserves held are unreasonable.

On the basis of all of the information described above, I am satisfied that the technical provisions of the River Companies are reasonable for the purposes of describing the effect of the Transfers in my report and for the purposes of showing simplified balance sheets.

4.4. *ILU guarantee*

I have described the River Thames and Marlon ILU guarantees in Section 2.2.1 above. The ILU guarantees provide an additional level of security that is not allowed for within the Capital Cover Ratios that I have used.

Marlon has 6 ILU guarantees in place and Enstar are discussing, with representatives of each, ways to ensure that each Marlon ILU guarantee will continue to cover the relevant Marlon business transferring to River Thames. This will be by signed Deeds of Variation, or failing that, by virtue of the Court Order.

If River Thames were to go insolvent, Marlon policyholders will still be able to claim from the ILU guarantors. There will be no change to the River Thames ILU guarantees as the policyholders covered will remain in the same entity post-Transfers. By virtue of the Deeds of Variation or the Court Order, all ILU guarantees will therefore continue to operate in the same way after the Transfers and will continue to cover the same policyholders that currently fall under the scope of the guarantees.

In order to gain comfort with regard to the security of the ILU guarantees, I have considered the credit rating of each of the River Thames ILU guarantors in Table 9 below. I have not shown published ratings for any of the Marlon ILU guarantors because I have not been able to find any published ratings from within the last 5 years. I have therefore considered the Marlon ILU guarantors as unrated in forming my opinion.

Table 9 - Credit Ratings for the River Thames ILU guarantors

Guarantor	River Company	Rating Agency	Rating
Toa Reinsurance Company	River Thames	S&P	A+
Toa Reinsurance Company	River Thames	A.M Best	A+
Toa Reinsurance Company	River Thames	JCR	AA+
Sedgwick Forbes Bland Payne Group	River Thames	S&P	A-

The guarantors for the River Thames ILU guarantees are Sedgwick, which was acquired by Marsh & McLennan in 1998, and Toa Japan. The level of ratings awarded to these guarantors provides a level of additional security for protected policyholders.

I have considered the interests of guaranteed policyholders separately although I note that, due to the additional level of security provided by the guarantees, if it is the case that I am able to conclude that non-ILU protected policyholders are not materially adversely affected by the Transfers, then I can generally conclude at least as positively for the guaranteed policyholders.

The guarantees are provided for the benefit of the relevant policyholders. They do not impact the security of the River Companies themselves, nor do they have any impact on non-ILU policyholders.

4.5. Internal reinsurance

I have described the Fitzwilliam and Overseas Re internal reinsurance agreements in Section 2.2 above. The security that these agreements provide to River Thames, Bosworth, Brampton, Knapton, Marlon and Mercantile and the credit risk arising from this security has been allowed for within the capital assessments, which I discuss in Section 4.9 below.

River Thames' reinsurance agreements with Fitzwilliam are governed by English law. They include a cut through clause which states that, in the unlikely event of a River Thames insolvency, Fitzwilliam will assume full claims handling responsibility for the policyholders covered by these agreements and policyholders may claim directly from Fitzwilliam.

I have been provided with a copy of legal advice addressed to Enstar by its UK legal advisors regarding the enforceability of the cut-through clause in each of the two Fitzwilliam internal reinsurance agreements with River Thames. The manner in which I have relied on such advice has been described in Section 1.6. This advice indicates significant doubt over the enforceability of the cut through clause. I have not, therefore, considered the River Thames policyholders covered by the Fitzwilliam reinsurances as a separate policyholder group.

I have also received a Bermudan law opinion directly from Enstar's attorneys in Bermuda regarding the operation and enforceability of the Fitzwilliam reinsurance agreements with Bosworth, Brampton, Knapton, Marlon and Mercantile, given that all agreements are governed by English law but with a Bermudan carrier. This advice confirms that an action, properly taken under the agreements, should be enforceable. The manner in which I have relied on this advice has been described in Section 1.6.

In order to understand the security provided by the Fitzwilliam segregated accounts covering the River Companies and Overseas Re, I have seen the 2015 balance sheets for each of the segregated accounts as part of the SF SCR calculations provided to me for each of the River Companies. I have also been provided with an SF SCR calculation for Overseas Re indicating its Capital Cover Ratio.

From the 2015 balance sheets I have noted that all companies have a reasonable level of surplus of assets over liabilities. The assets are predominantly made up of cash, restricted securities and corporate and government bonds.

4.6. *Other reinsurance*

I have summarised my understanding of the external outwards reinsurance protections relating to the River Companies in section 2.2.4 above. All of the reinsurance arrangements currently protecting the Transferors will transfer as part of the Court Order giving effect to the Transfers and will protect River Thames in respect of the same business. The Transfers will not alter the nature, extent or amount of liabilities reinsured. I can see no reason why reinsurers would be disadvantaged as a result of the Transfers.

I have also received and reviewed memos relating to external reinsurance bad debt provisions as at 31 December 2015 for Bosworth, Brampton, Guildhall, Knapton, Unionamerica, Cop Re, LSU Pool and River Thames separately.

Assessment of provisions for bad debt for all the River Companies are performed internally by Enstar. I understand that there has not been a change in approach in estimating the bad debt provisions as compared to the previous year.

From my review of the bad debt information, together with my discussions with Enstar, I understand that the bad debt provisions held in the River Companies' balance sheets would not change as a result of the Transfers. The level of bad debt provision does not affect my conclusions on the impact of the Transfers on policyholder security.

4.7. *US Trust Funds*

The US Trust Funds currently cover certain liabilities of either Unionamerica or Marlon, who are the grantors of the relevant trusts, to US policyholders. Following the Transfers, these liabilities will become liabilities of River Thames. I understand that River Thames will be taking steps, with the approval of the US regulatory authorities, to ensure that policyholders who currently have access to the security and benefits provided by the US Trust Funds will continue to have access to the same security and benefits following the Transfers. I will comment on the progress made with the US regulatory authorities in my supplementary report.

There are two ways in which policyholders currently benefit from the US Trust Funds:

- They may obtain payment from a Trust Fund if a final judgment from a US Court against Marlon or Unionamerica is not satisfied within a certain period;
- Reinsured US policyholders may take credit in their financial statements for outwards reinsurance protections with Unionamerica.

I understand that the US Trust Funds require a policyholder to obtain a final judgment or award in the US against the relevant insurer in respect of a claim in order to access that insurer's US Trust Fund. Following the Transfers, and as a result of the amendment or replacement of the existing US Trust Funds referred to above, the relevant insurer will be River Thames. If a US Court declines to recognise the Transfers then it is possible that a transferring policyholder may fail to get a judgement against River Thames and be frustrated in its efforts to access a trust fund. I consider this risk and the impact on policyholders below.

The US Trust Funds are funded in the amounts of \$69m for Unionamerica and \$3m for Marlon. The amounts involved, certainly for Unionamerica, are material.

The first point at issue is whether a US Court is likely to recognise a UK Part VII transfer. On this point Enstar has sought legal advice from its US legal advisors and I have reviewed that advice. I understand that a US Court

is able to apply the principle of comity and give effect to the order of a foreign jurisdiction in certain circumstances. The advice suggests that, in this case, the circumstances are likely to be met and in my opinion and from my understanding of the advice it is very unlikely that a US Court would frustrate a policyholder's route to compensation by refusing to recognise the Transfers. The advice accords with my understanding of similar advice that I have seen on a number of previous Part VII transfers. The manner in which I have relied on legal advice has been described in Section 1.6.

The second point that I consider to be relevant is the position of the US regulators. Enstar, through its US legal advisors, is discussing with the US regulators the way in which the US Trust Fund arrangements should be structured in order to ensure that US policyholders continue to benefit following the Transfers.

I understand, from the advice that I have received from Enstar's UK legal counsel, that the amendments or replacements proposed to the US trust deeds include specific provisions stating that they respond to claims by former policyholders of Unionamerica or Marlon under policies transferred to River Thames. In my opinion I do not believe the US regulators would approve the amendment or replacement of the existing US Trust Funds if they felt that this action was likely to frustrate a policyholder's ability to access the US Trust Funds. The manner in which I have relied on the advice received from Enstar's UK legal counsel has been described in Section 1.6.

The third point is the theoretical circumstances surrounding a policyholder seeking compensation from a US Trust Fund. I understand that access to the US Trust Funds is possible only in the event that a protected policyholder satisfies the trustee (in this case the US regulators) that the policyholder has obtained a final judgment against the insurer in a US Court and that judgment has not been satisfied within a certain timeframe. In my opinion, this would only be likely to occur in the event of the insurer's insolvency.

I understand that River Thames would not be in a position to argue that it is not the appropriate defendant in proceedings brought in a US Court, because, under the terms of the Transfers, River Thames would have bound itself to accept the liabilities under each transferring policy, irrespective of the governing law; and to accept that any order, award or other determination made against a Transferor is to be enforceable against River Thames. The terms of the Transfers further provide that River Thames will not assert in any proceedings in any jurisdiction in connection with a transferring policy that the Transfers are ineffective under the law of that jurisdiction to transfer rights and obligations under the policy to River Thames. In my opinion, it is difficult to see what purpose would be served by a US court refusing to approve an uncontested application for a judgement against River Thames in these circumstances. As such I consider the chances of a US Court refusing to grant such an application to be remote.

The fourth point is the likely practical circumstances surrounding an insolvency event and the way in which UK insolvency law interacts with the US Trust Fund mechanism. From my discussions with UK insolvency practitioners, I understand that the normal rules of trust law do not supersede UK insolvency law. In an insolvency event the US creditors would not receive a higher 'dividend' (percentage of their claim) than other creditors unless the ratio of US trust fund assets to US protected liabilities is greater than the ratio of total assets to total liabilities of the insolvent company.

Insolvency proceedings have been carried out in the UK for companies with US Trust Funds. In two specific cases that I have considered, the dividend calculated at the whole company level (say X%) was greater than the dividend that might be paid from the trust fund alone (say Y%). I understand that, if the trust distributed Y% to the US policyholders they could only expect a top up dividend up to X% from the insolvent estate to put them in an equitable position with other creditors. In both of these cases the UK insolvency practitioner applied successfully to the US regulators to release the trust assets to the insolvent estate and the UK insolvency practitioner then distributed all of the assets equitably.

The assets held in the Marlon US Trust Fund cover 32% of the protected liabilities according to the latest valuation. In my opinion, in the unlikely event of an insolvency there is still a reasonably strong chance that the dividend for all creditors would be greater than 32%, in which case the situation described above may apply.

Unionamerica's two US trusts are better funded with asset to liability ratios of 236% for the reinsurance trust fund and 138% for the surplus lines trust fund. In my opinion, in the event of an insolvency caused by non-US liabilities it is likely that the protected policyholders can expect 100% of their claim to be covered with the surplus assets being distributed amongst other policyholders. Whilst the situation described above does not apply in this case, I consider it likely that the UK insolvency practitioner will work closely with the US regulators to assist in distributing assets of the company appropriately to all policyholders.

Where assets are distributed by the UK insolvency practitioner I understand that, as an officer of the UK Court, the practitioner would recognise the Transfers and US policyholders should have no difficulty asserting valid claims against River Thames.

The fifth and final point to consider is the chance of River Thames entering insolvency. I will discuss later in my report the capital support of River Thames after the Transfers and I conclude that the chances of an insolvency of River Thames after the Transfers is remote.

Given the confluence of factors (insolvency, depletion of assets beyond trust fund dividend level, refusal of a judgement, no involvement of UK insolvency practitioner), all unlikely on their own, that must coincide for a policyholder's route to compensation to be frustrated, it is my opinion that the likelihood of such a scenario is so remote as to be of no real concern to protected policyholders.

4.8. *Dividend declaration*

I have detailed the impact of the dividend requests that Enstar is proposing to make to the PRA in Section 4.2 above. I have included the impact of these proposed dividends in Tables 6, 7 and 8 in Section 4.3. I have considered the impact on the capital available to cover the risks in each of the River Companies both with and without the proposed dividend.

I have focused my analysis for each policyholder group on the assumption that the dividend is paid before the Transfers, as this will lead to a lower capital position after the Transfers. My assessments on this basis are set out in sections 4.10 to 4.16 below.

I have then considered in section 4.18 whether my conclusion would be materially different had I assumed the dividends were not paid before the Transfers. If there is no material change to the comparatives and I am able to conclude that policyholders are not materially adversely affected by the Transfers with the dividend, then my conclusion should be the same without the dividend.

4.9. *Effect of the Transfers on capital assessment*

A key issue for the Court, in determining whether or not it is appropriate to exercise its discretion to sanction the Transfers, is the question of whether or not the policyholders of River Thames and the Transferors will be sufficiently secure following the Effective Date in the event of the Transfers taking place. The security of policyholders is well described by the level of capital held by a company compared to the level of capital necessary to cover the underlying risks of that company's business.

The capital assessments discussed here refer to the capital assessments that companies are required to disclose to the PRA. Since 1 January 2016 insurance companies fall under the Solvency II capital regime, the new Europe-wide risk based capital framework for insurers. The capital calculated for each of the River Companies is by way of the Standard Formula Solvency Capital Requirement. The calculation of the SF SCR takes into account the risks faced by the companies in a consistent manner and is helpful for providing a risk sensitive measure against which the capital strength of separate companies can be assessed.

The SF SCR calculation is complemented by the Own Risk and Solvency Assessment ("ORSA") which reflects the Company's own view of the risks the River Companies face and the extent to which these are accurately reflected in the prescribed SF SCR.

Given that Solvency II came into effect relatively recently there are no SF SCRs for the River Companies that have been reviewed by the PRA, but they have been submitted with previous dividend requests. Enstar has, however, produced the SF SCR and ORSA capital assessments for 2014 and 2015. The 2015 assessments prepared by Enstar represent the latest capital assessments available to me at the time of writing this report. My comments in this report refer to these 2015 assessments for the River Companies.

4.9.1. Solvency Assessment processes and information received

Enstar has completed SF SCR calculations for each River Company. It has also completed ORSAs, which include the Own Economic Capital Assessment (“OECA”), an assessment of the amount of capital each River Company needs to hold in order to mitigate appropriately the risks to which each is exposed over the full term of the run off. These risks could otherwise cause an entity to be unable to meet its liabilities as they fall due. For the purposes of assessing the impact of the Transfers, Enstar has, at my request, also assessed the level of capital that River Thames needs to hold on a SF SCR basis and an OECA basis after the Transfers. This includes an assessment of the risks to which River Thames is currently exposed before the Transfers, together with the risks within the Transferors to which it will be exposed after the Transfers, and any potential diversification benefits.

I have been provided with the 2015 SF SCR calculations for the Transferors and for River Thames before and after the Transfers. I have also been provided with the supporting memorandum commenting on the appropriateness of the Standard Formula, the 2014 and 2015 ORSAs and the projected capital levels for five years in the Medium Term Capital Plan (“MTCP”). The ORSAs and MTCP have each included an assessment of the position for the River Companies combined, equivalent to River Thames after the Transfers. The relevant staff of Enstar have been responsive to all my queries in these respects.

The level of capital determined by the SF SCR is intended to ensure that the company is at least 99.5% likely (199 chances in 200) to remain solvent over a single year time horizon. As the Standard Formula is a simplified model designed to be applied to all insurance companies across Europe, there are areas where it may not adequately address the specific risks to which a company is exposed. In the case of companies in run off, for example, the view of capital requirements over the full time period until the ultimate expiry of the liabilities is also relevant. As such, the capital test for a run-off company effectively applies over the whole period from the date of the assessment to the date the last claim is paid.

The appropriateness of the Standard Formula and the alternative view to ultimate expiry of the liabilities are discussed in the ORSA document. Under the previous capital regime it was generally accepted that the level of capital required to support a 99.5% chance of remaining solvent over one year was broadly equivalent to the level of capital required to support a 97.5% chance (39 chances in 40) of remaining solvent over the full term of the remaining liabilities, for companies with long-tail liabilities. I have used this rule of thumb to compare the ‘over 1-year’ SCR results with the ‘to ultimate expiry’ OECA capital assessments in the ORSA.

I noted that in all except one case the SF SCR provided a higher capital requirement than the ultimate assessment set out in the ORSA, both before and after the Transfers. The exception is Bosworth for which the liabilities are very small and the SF SCR calculation falls below the minimum MCR requirement.

The MTCP considers the change in risks over the medium term as it projects the business forward to assess the 1-year SF SCR requirement and covering assets in each of the next five years. Additionally the ORSA assesses the ‘to ultimate expiry’ OECA requirement and covering assets in each of the next five years. Once the proposed dividends have been paid the capital surplus between the assets held and the SCR requirements increases year-on-year on both bases for all entities, both before and after the Transfers. The margin between the two bases remains reasonably consistent over time suggesting that the representation of the risks does not change materially between the two bases over the next five years.

In order to perform my assessment of the impact of the Transfers on policyholder security I have needed to select a capital assessment basis to use for the comparison. I have chosen to use the SF SCR assessment as my basis for comparing policyholder security before and after the Transfers on the basis that

- The SF SCR is based upon a standard calculation for each entity.
- The SF SCR produces the least favourable view of capital cover compared to the ORSA, both now and for each of the next 5 years as set out in the MTCP.
- It is more straightforward to ensure that the SF SCR calculation is being performed in line with my expectations than it is for the ORSA assessment.
- I am able to run stress tests on the SCR to see if differences in view on the most material elements of long-tailed liabilities are likely to impact my conclusions.
- I have reviewed the information that Enstar has produced in respect of the appropriateness of the SF SCR and found nothing that would leave me to believe that the SF SCR is an unsuitable basis.

Based upon the above and my discussions with the relevant staff of Enstar I am satisfied that the SF SCR is a suitable basis to compare the impact on policyholders before and after the Transfers.

I have performed my own calculations to understand the impact of the proposed dividends on the SF SCR figures.

4.9.2. Approach to review of Solvency Assessment

I have considered the SF SCR calculations performed by each River Company, the comments regarding appropriateness of the Standard Formula, and the capital assessments to ultimate set out in the ORSA. I have considered the alignment of the calculations with the Solvency II regulations and I have not found any areas where Enstar's interpretation of the regulations differs materially from my own.

I have challenged Enstar on a difference in interpretation of the rules around the treatment of Overseas Re but I have also investigated the impact of my alternative treatment and noted that it does not make a material difference to the SF SCR result for River Thames after the Transfers. I also note that Enstar's treatment is likely to more closely reflect the economic reality and so this difference in treatment does not mean that Enstar's calculations are an inappropriate basis for me to form my conclusions. My investigation of the impact of the alternative treatment within the SF SCR models is incorporated in the stress tests that I describe in Section 4.17.

Capital assessments are subject to considerable uncertainty and the results are dependent upon the data and categorisation of the data used. They are also dependent on the data inputs being accurate. As such I have stressed the most uncertain of the data inputs, the reserves; these stress tests are described in Section 4.17.

The purpose of my assessment has been to test the robustness of the SF SCR calculations, and the extent to which they can be compared with each other, in order to check whether it is reasonable to use the results of these assessments for my consideration of the impact of the Transfers on policyholder security. From the results of my enquiries with Enstar, and from the results of the stress tests I have carried out, I am satisfied that I may use the SF SCRs produced for my purposes in assessing the impact of the Transfers on policyholder security.

4.9.3. Solvency Assessment results

The SF SCR calculation produces a level of capital that is required to meet regulatory solvency levels and which I describe as "sufficient" for the purpose of my analysis. If the company has a healthy capital position, then the actual capital that the company holds (the "Available Capital"), will be greater than the "Required Capital" calculated. I refer to the ratio of the Available Capital to the Required Capital as the "Capital Cover Ratio".

A company with sufficient capital will have a Capital Cover Ratio greater than 100%. I refer to capital levels with a ratio greater than 120% as 'good' or 'well capitalised', greater than 150% as 'strong', and greater than 200% as 'very strong'.

If the Capital Cover Ratio increases after the Transfers for a group of policyholders, there is an increase in security for those policyholders. If there is a reduction in the Capital Cover Ratio there is a reduction in security and I need to consider whether that reduction is likely to be material to the policyholder.

The Capital Cover Ratios for the River Companies are not publicly available but Enstar has consented for me to show the results in the following table. I show the Available Capital, the Required Capital as calculated using the SF SCR and the resulting Capital Cover Ratio for each Transferor and for River Thames before and after the Transfers as at 31 December 2015.

Table 10 - Capital Cover Ratios as at 31 December 2015 (after dividend)

Entity	Available Capital (\$000s)	Required Capital (\$000s)	Capital Cover Ratio
Post Transfer			
Consolidated Entity	323,533	240,876	134%
Pre Transfer			
River Thames	50,659	41,760	121%
Bosworth	14,108	1,028	1373%
Brampton	20,718	17,079	121%
Knapton	49,849	40,170	124%
Marlon	40,148	32,591	123%
MICL	5,127	462	1111%
Unionamerica	142,923	119,859	119%

I have considered any differential impact on reinsurance vs. direct policyholders by assessing the likelihood of reinsurance policyholders not being paid in full after the Transfers. The Capital Cover produced by Enstar's SF SCR calculation suggests the chance of reinsurance policyholders not being paid in full after the Transfers is remote. My reasonable stressed SF SCR results indicate that the level of capital surplus in River Thames after the Transfers is lower than the 134% quoted in table 10, but it is still well capitalised and the difference is not material. As such, I am able to conclude that the chance of reinsurance policyholders not being paid in full is sufficiently remote that any differential impact between direct and reinsurance policyholders should not be of concern to reinsurance policyholders.

4.9.4. Solvency Assessment conclusion

For the purposes of my analysis, I have considered the SF SCR used by Enstar to be appropriate and broadly in line with current market practice. I have performed my own stress test based assessments in order to understand whether any differences in the reserve results would affect my conclusions. These are discussed in section 4.17.

My review of the SF SCRs has led me to conclude, based on the levels of capital held on an SF SCR basis by River Thames before and after the Transfers and by the Transferors before the Transfers, that the River Companies are at least well capitalised except for Unionamerica where the Capital Cover Ratio is sufficient and just below the level that I describe as well capitalised. I note that the level of capital held by River Thames after the Transfers and post the proposed dividends is good.

I comment on the results at a company and policyholder group level in Sections 4.10 to 4.16.

4.10. *Security of Bosworth Transferring Policyholders as at 31 December 2015*

	Before the Transfer	After the Transfer
Capital Cover Ratio	1373%	134%
Available Capital	14,108	323,533

4.10.1. *Comments applicable to all Bosworth Transferring Policyholders*

Bosworth policyholders will move from a small to a larger more diversified entity which will benefit Bosworth policyholders as the business runs off. The Transfers do bring some exposure to UK and Australian asbestos, casualty, motor PPO liabilities, engineering, liability and property to which Bosworth policyholders were not previously exposed.

Whilst there is a reduction in the Capital Cover Ratio for Bosworth policyholders I note the following: -

- Bosworth's Capital Cover Ratio against the SCR is particularly high because the company is small and the Minimum Capital Requirement ("MCR") becomes a biting constraint. This means that the company has to hold more than its SCR level of capital due to its small size. The Capital Cover Ratio above the MCR is 351%.
- Compared to a well-diversified company the risks within a small company tend to result in proportionately more volatile outcomes so the Capital Cover over the SCR, particularly when calculated using the Standard Formula, is a less reliable measure of security than for the larger entities. The Capital Cover Ratios do not, in isolation, fully reflect the benefits of moving to a larger more diversified entity.
- Whilst the Capital Cover Ratio appears to reduce by a factor of ten, the increase in the Available Capital is more than twenty-fold. The risks that may have threatened solvency for Bosworth are very unlikely to have a material impact on River Thames after the Transfers.
- River Thames after the Transfers is well capitalised and the probability of not being paid in full is remote.

Bosworth does not have any direct policyholders. In the unlikely event that Bosworth goes insolvent, the assets of the company will be shared equally between its inwards reinsurance policyholders and non-insurance creditors. After the Transfers, the Bosworth inwards reinsurance policyholders will be part of an entity that has both direct and reinsurance policyholders.

UK winding-up rules stipulate that, on insolvency, direct creditors rank above inwards reinsurance creditors. In the unlikely event of insolvency of River Thames after the Transfers, direct creditors will be paid in full before inwards reinsurance creditors receive any payment. Whilst this puts inwards reinsurance creditors at a disadvantage, I believe the probability of insolvency following the Transfers is sufficiently remote for this scenario not to be of concern to Bosworth's inwards reinsurance policyholders.

Impact of the proposed Transfers on Bosworth Transferring Policyholders

Based upon the comments outlined above, I do not consider the Bosworth Transferring Policyholders to be materially adversely affected by the proposed Transfers.

4.11. Security of Brampton Transferring Policyholders as at 31 December 2015

	Before the Transfer	After the Transfer
Capital Cover Ratio	121%	134%
Available Capital	20,718	323,533

4.11.1. Comments applicable to all Brampton Transferring Policyholders

Brampton policyholders are well capitalised both before and after the Transfers but their Capital Cover Ratio increases as a result of the Transfers.

Policyholders will benefit from moving to a larger and better diversified company as a result of the Transfers. The Transfers do bring some exposure to US, UK and Australian asbestos, pollution and health hazard, engineering and casualty to which Brampton policyholders were not previously exposed. I believe any detriment from these additional exposures is outweighed by the benefits of being part of a larger and more diversified portfolio with a higher Capital Cover Ratio.

Brampton has both direct and inwards reinsurance policyholders. The proportion of direct policyholders will decrease after the Transfers so I do not consider inwards reinsurance policyholders to be affected by a change in priorities on wind-up as a result of the Transfers.

Impact of the proposed Transfers on Brampton Transferring Policyholders

Based upon the comments outlined above, I do not consider the Brampton Transferring Policyholders to be adversely affected by the proposed Transfers.

I modify this conclusion in section 4.17.3 as a result of the stress tests performed on the SCR.

4.12. Security of Knapton Transferring Policyholders as at 31 December 2015

	Before the Transfer	After the Transfer
Capital Cover Ratio	124%	134%
Available Capital	49,849	323,533

4.12.1. Comments applicable to all Knapton Transferring Policyholders

Knapton policyholders are well capitalised both before and after the Transfers but their Capital Cover Ratio increases as a result of the Transfers.

After the Transfers, Knapton policyholders will become part of a larger and better diversified company. The Transfers do bring some exposure to UK and Australian asbestos and motor PPO liabilities to which Knapton policyholders were not previously exposed. I believe any detriment from these additional exposures is outweighed by the benefits of being part of a larger and more diversified portfolio with a higher Capital Cover Ratio.

Knapton has both direct and inwards reinsurance policyholders, however the proportion of direct policyholders will increase from circa 10% before the Transfers to circa 30% after the Transfers.

UK winding-up rules stipulate that, on insolvency, direct creditors rank above inwards reinsurance creditors. In the unlikely event of insolvency of River Thames after the Transfers, direct creditors will be paid in full before inwards reinsurance creditors receive any payment. Whilst this puts inwards reinsurance creditors at a disadvantage, I note that there are already direct policyholders within Knapton and, whilst the proportion

increases, it remains a minority after the Transfers. I believe the probability of insolvency following the Transfers is sufficiently remote for this scenario not to be of concern to Knapton's inwards reinsurance policyholders.

Impact of the proposed Transfers on Knapton Transferring Policyholders

Based upon the comments outlined above, I do not consider the Knapton Transferring Policyholders to be adversely affected by the proposed Transfers.

4.13. Security of Marlon Transferring Policyholders as at 31 December 2015

	Before the Transfer	After the Transfer
Capital Cover Ratio	123%	134%
Available Capital	40,148	323,533

4.13.1. Comments applicable to all Marlon Transferring Policyholders

Marlon policyholders are well capitalised both before and after the Transfers but their Capital Cover Ratio increases as a result of the Transfers.

After the Transfers, Marlon policyholders will become part of a larger and more diversified company. The Marlon policyholders currently have some exposure to Asbestos and Pollution claims but that exposure will increase as a result of the Transfers. The Transfers do bring some exposure to UK and Australian asbestos and motor PPO liabilities to which Marlon policyholders were not previously exposed. I believe any detriment from these additional exposures is outweighed by the benefits of being part of a larger and more diversified portfolio with a higher Capital Cover Ratio.

Marlon has policyholders benefiting from a US Surplus Lines Trust Fund, the impact on whom I have discussed in Section 4.7. There I concluded that a policyholder's likelihood of being prevented from benefitting from the US Trust Fund is so remote as to be of no real concern to protected policyholders.

Marlon has both direct and inwards reinsurance policyholders. The proportion of direct policyholders will decrease after the Transfers so I do not consider inwards reinsurance policyholders to be affected by a change in priorities on winding-up as a result of the Transfers.

Impact of the proposed Transfers on Marlon Transferring Policyholders

Based upon the comments outlined above, I do not consider the Marlon Transferring Policyholders as a whole to be adversely affected by the proposed Transfers.

I modify this conclusion in section 4.17.5 as a result of the stress tests performed on the SCR.

4.13.2. Additional comments applicable to Marlon Transferring Policyholders with ILU guarantee

Marlon has 6 ILU guarantees as discussed in section 4.4. Either the executed Deeds of Variation or the Court Order will ensure that there will be no change to the operation of the guarantees after the Transfers. Marlon direct policyholders protected by the ILU guarantee before the Transfers will therefore continue to benefit from the same additional protection after the Transfers. This additional security is not allowed for within the capital assessment. The existence of the guarantee therefore serves to strengthen the security of this group of policyholders relative to that discussed above because both Marlon (or River Thames after the Transfers) and the individual guarantors would need to fail for the policyholders not to be paid. Even though the additional security may be limited because the guarantors are unrated, the presence of an ILU guarantee does not put the policyholders at any disadvantage, and the additional layer of security is the same before and after the Transfers.

Impact of the proposed Transfers on Marlon Transferring Policyholders with ILU guarantee

Based upon the comments outlined above, I do not consider the Marlon Transferring Policyholders with the ILU guarantee to be adversely affected by the proposed Transfers.

I modify this conclusion in section 4.17.5 as a result of the stress tests performed on the SCR.

4.14. Security of Mercantile Transferring Policyholders as at 31 December 2015

	Before the Transfer	After the Transfer
Capital Cover Ratio	1111%	134%
Available Capital	5,127	323,533

4.14.1. Comments applicable to all Mercantile Transferring Policyholders

Mercantile policyholders will move from a small to a larger more diversified entity which will benefit Mercantile policyholders as the business runs off. The Transfers do bring some exposure to UK and Australian asbestos, casualty, motor PPO liabilities, engineering, liability and property to which Mercantile policyholders were not previously exposed.

Whilst there is a reduction in the Capital Cover Ratio for Mercantile policyholders I note the following: -

- Mercantile's Capital Cover Ratio against the SCR is particularly high because the company is small and the Minimum Capital Requirement ("MCR") becomes a biting constraint. This means that the company has to hold more than its SCR level of capital due to its small size. The Capital Cover Ratio above the MCR is 128%.
- Compared to a well-diversified company the risks within a small company tend to result in proportionately more volatile outcomes so the Capital Cover over the SCR, particularly when calculated using the Standard Formula, is a less reliable measure of security than for the larger entities. The Capital Cover Ratios do not, in isolation, fully reflect the benefits of moving to a larger more diversified entity.
- Whilst the Capital Cover Ratio appears to reduce by a factor of eight, the increase in the Available Capital is more than sixty-fold. The risks that may have threatened solvency for Mercantile are very unlikely to have a material impact on River Thames after the Transfers.
- River Thames after the Transfers is well capitalised and the probability of not being paid in full is remote.

Mercantile has both direct and inwards reinsurance policyholders, although I note that there are currently no outstanding loss reserves for direct policyholders. In the unlikely event that Mercantile goes insolvent, the assets of the company will be shared equally between its inwards reinsurance policyholders if no direct policyholders were to submit claims. After the Transfers, the Mercantile inwards reinsurance policyholders will be part of an entity that has both direct and reinsurance policyholders.

UK winding-up rules stipulate that, on insolvency, direct creditors rank above inwards reinsurance creditors. In the unlikely event of insolvency of River Thames after the Transfers, direct creditors will be paid in full before inwards reinsurance creditors receive any payment. Whilst this puts inwards reinsurance creditors at a disadvantage, I believe the probability of insolvency following the Transfers is sufficiently remote for this scenario not to be of concern to Mercantile inwards reinsurance policyholders.

Impact of the proposed Transfers on Mercantile Transferring Policyholders

Based upon the comments outlined above, I do not consider the Mercantile Transferring Policyholders to be materially adversely affected by the proposed Transfers.

4.15. *Security of Unionamerica Transferring Policyholders as at 31 December 2015*

	Before the Transfer	After the Transfer
Capital Cover Ratio	119%	134%
Available Capital	142,923	323,533

4.15.1. *Comments applicable to all Unionamerica Transferring Policyholders*

Unionamerica is sufficiently capitalised before the Transfers. The policyholders will be moving to a company that is well capitalised after the Transfers.

Of all the companies involved in the Transfers, Unionamerica contains the largest and most diverse book of business. Even so, policyholders will be transferring into an entity that is more than twice Unionamerica's size.

The Transfers do bring some exposure to UK and Australian asbestos to which Unionamerica policyholders were not previously exposed. I note, however, that the claims reserve for this business is not material to the overall balance sheet of River Thames after the Transfers and the risk is offset by the benefit of the increasing Capital Cover Ratio.

Unionamerica has policyholders benefiting from a US Surplus Lines Trust Fund and a US Credit for Reinsurance Trust Fund, the impact on whom I have discussed in Section 4.7. There I concluded that a policyholder's likelihood of being prevented from benefitting from a US Trust Fund is so remote as to be of no real concern to protected policyholders.

Unionamerica has both direct and inwards reinsurance policyholders, however the proportion of direct policyholders will increase from circa 20% before the Transfers to circa 30% after the Transfers.

UK winding-up rules stipulate that, on insolvency, direct creditors rank above inwards reinsurance creditors. In the unlikely event of insolvency of River Thames after the Transfers, direct creditors will be paid in full before inwards reinsurance creditors receive any payment. Whilst this puts inwards reinsurance creditors at a disadvantage, I note that there are already direct policyholders within Unionamerica and, whilst the proportion increases, it remains a minority after the Transfers. I believe the probability of insolvency following the Transfers is sufficiently remote for this scenario not to be of concern to Unionamerica's inwards reinsurance policyholders.

Impact of the proposed Transfers on Unionamerica Transferring Policyholders

Based on the comments outlined above, I do not consider the Unionamerica Transferring Policyholders to be adversely affected by the proposed Transfers.

4.16. Security of River Thames policyholders as at 31 December 2015

	Before the Transfer	After the Transfer
Capital Cover Ratio	121%	134%
Available Capital	50,659	323,533

4.16.1. Comments applicable to all River Thames policyholders

River Thames policyholders are well capitalised both before and after the Transfers. The Transferring Policies will bring with them levels of capital equal to the amount held in the Transferors at the Effective Date and, as a result, River Thames will have an increased Capital Cover Ratio after the Transfers.

Gross liabilities approximately 5 times the size of the existing River Thames business will be assumed onto the River Thames balance sheet. The company will be larger and more diverse after the Transfers, but given the diverse portfolio already present in River Thames, the change in the risks to which policyholders are exposed is not material.

River Thames contains a mix of direct and inwards reinsurance policyholders before the Transfers which will continue to be the case after the Transfers. I do not consider inwards reinsurance policyholders to be affected by a change in priorities on winding-up as a result of the Transfers and they will benefit from the increased Capital Cover Ratio.

Impact of the proposed Transfers on River Thames policyholders

Based on the comments outlined above, I do not consider the River Thames policyholders as a whole to be adversely affected by the proposed Transfers.

4.16.2. Additional comments applicable to River Thames policyholders with ILU guarantee

The ILU guarantees from Sedgwick and Toa Japan provide material additional security to protected policyholders before and after the Transfers. The existence of the guarantees serves to strengthen the security of this group of policyholders relative to that discussed above because both River Thames and the individual guarantors would need to fail for the policyholders not to be paid. It does not, however, act to benefit the ILU protected policyholders at the expense of non-ILU policyholders. This additional layer of security is the same before and after the Transfers.

Impact of the proposed Transfers on River Thames policyholders with ILU guarantee

Based upon the comments outlined above, I do not consider the River Thames policyholders with the ILU guarantee to be adversely affected by the proposed Transfers and I consider my conclusion as stated above in section 4.16.1 applies for both ILU and non-ILU policyholders.

4.17. Impact of stress tests on Solvency Capital Requirement Assessment

4.17.1. Introduction

Capital assessments are models based upon an interpretation of data, a methodology selection and many assumptions. As with all models these are subject to error. Whilst I have not identified any material errors in Enstar's capital assessment models, any deficiencies that do exist will exist in the assessments both before and after the Transfers and may not affect the comparisons drawn.

Given the use to which I have put the results of the SCR in assessing the comparative security of policyholders, I have investigated the impact of using alternative assumptions in a series of stress tests.

I have adopted these alternative assumptions to stress the SCR results and to confirm that the capital surplus remains sufficient, so as not to affect my conclusions. I have performed five different stresses, the first three on the allowance for Reserve Risk, which is generally the most material risk to the SCR results for the River Companies, the fourth on a difference in the interpretation of the Standard Formula rules around the treatment of Overseas Re within River Thames, and the fifth on applying ‘to ultimate’ volatility parameters for APH liabilities:

1. I have considered the impact on the Solvency II Balance Sheets of increasing the mean reserves by 20% for each of the River Companies.
2. I have considered the impact on the Solvency II Balance Sheets of increasing the APH mean reserves by 20% for each of the River Companies with APH exposures.
3. I have considered the impact on the Solvency II Balance Sheets of calculating the APH mean reserves to be more in line with those that I would expect to see, based on my view of the market for similar types of business.
4. I have considered the impact of scenario 3 together with the impact of downgrading Overseas Re’s rating to “unrated” from the current equivalent rating of AA-. This impacts River Thames before and after the Transfers.
5. I have considered the impact of applying different volatility parameters by increasing the parameters for APH liabilities to calculate the level of capital which may be required to support a 97.5% chance of remaining solvent over the full term of the remaining liabilities.

In my chosen stress tests I have focused on APH exposures in particular as I consider this to be one of the most material areas of uncertainty with the potential to change the relativities between different policyholder groups should reserves be materially misstated. In particular, the APH exposures are the most material long-tail liabilities and these stress tests help to assess whether the change in the proportion and volatility of these liabilities has an impact on my comparison of policyholder security.

I comment on the impact of these stress tests on each of the River Companies in turn in the next section, to the extent that this impacts my conclusions.

I have placed my focus on the results from the company’s modelling and from scenario 3 and scenario 5. Scenarios 1 and 2 are more extreme outcomes and I have used these to understand whether my conclusions on the comparative position for policyholders before and after the Transfers might be affected by more material changes in reserves in particular. For scenario 1 the Capital Cover Ratio for River Thames after the Transfers is less than 100% meaning the company will not meet its SCR requirement. I note, however, that under this more extreme scenario policyholders will still be paid in full and, given the rate at which capital requirements will reduce as the business runs off, the company should be able to meet its SCR within a relatively short timeframe.

I have noted that scenario 4 is not materially different from the results of scenario 3 and therefore this scenario does not impact my conclusions.

4.17.2. Bosworth

The key area of uncertainty within the Bosworth SCR is Credit Risk. This followed by Market Risk arising from fluctuation in interest rate spread, interest rates, exchange rates and concentration risks. Bosworth has zero Reserve Risk owing to the fact that it is fully reinsured.

The Capital Cover Ratio for Bosworth does not change under the first four scenarios stated above as it is 100% reinsured by Fitzwilliam and that reinsurance is supported with collateral. Whilst this collateral is not unlimited it is sufficient to cover the stress test. The capital cover ratio for Bosworth does increase under Scenario 5 but not by a material amount. The stress tests do not affect my conclusion for Bosworth policyholders.

4.17.3. Brampton

The most significant risk within the Brampton SCR is Reserve Risk, followed by Market Risk. Market risk is primarily driven by fluctuation in interest rate spread, equity values and exchange rates.

Stress test 1 reduces the Capital Cover Ratio for Brampton but it increases as a result of the Transfers. The Capital Cover Ratio does not change under scenario 2 as Brampton does not have exposure to APH but the Capital Cover Ratio reduces slightly after the Transfers. My alternative benchmark assumptions under scenario 3 do not affect the position for Brampton policyholders before the Transfers but the Capital Cover Ratio still increases as a result of the Transfers.

Under stress test 5 the Capital Cover ratio for Brampton is higher before the Transfers and shows a reduction in the Capital Cover Ratio as a result of the Transfers. The higher long-tail volatility of the APH liabilities compared to the liabilities within Brampton makes the Brampton policyholders look slightly more secure before the Transfers when considered on this basis. However, the Capital Cover ratios under this scenario still show that River Thames is well capitalised after the Transfers and the policyholders will continue to benefit from the larger size and more diverse nature of the company, which is not fully reflected in the Capital Cover Ratio comparison. On this basis I do not consider the reduction in capital cover ratio under stress test 5 to represent a material disadvantage to policyholders.

Given the comparative position for Brampton policyholders before and after the Transfers described in stress tests 2 and 5 above, I consider it appropriate to modify my conclusion in section 4.11 and conclude that Brampton policyholders are not materially adversely affected by the Transfers.

4.17.4. Knapton

Market Risk followed by Reserve Risk are the key risks within the Knapton SCR. Market risk is mainly driven by fluctuation in equity values, concentration risk and fluctuation in interest rate spread. Reserve Risk for Knapton captures both non-life underwriting risk and health underwriting risk.

Stress tests 1 and 2 reduce the Capital Cover Ratios for Knapton but they then remain the same as a result of the Transfers. My alternative benchmark assumptions under scenario 3 suggests Knapton policyholders have a marginally higher Capital Cover Ratio as a result of the Transfers. Stress test 5 indicates that Knapton policyholders have a higher Capital Cover Ratio as a result of the Transfers. The stress tests do not affect my conclusion for Knapton policyholders.

4.17.5. Marlon

Reserve Risk and Market Risk are the most significant risks within the Marlon SCR. Market risk is mainly driven by fluctuation in equity values, concentration risk, fluctuation in interest rate spread and currency.

Stress tests 1 and 2 reduce the Capital Cover Ratio for Marlon. Scenario 2 that focuses on changing APH mean reserves by 20% in isolation results in Marlon policyholders suffering a slight reduction in their Capital Cover Ratio as a result of the Transfers. My alternative benchmark assumptions under scenario 3 suggest Marlon policyholders have a similar Capital Cover Ratio after the Transfers. Stress test 5 results in an immaterial reduction in the Capital Cover Ratio after the Transfers.

These effects are not because Marlon policyholders are currently unexposed to APH claims. The reverse is true. The proportion of APH liabilities is, however, lower than will be the case for River Thames after the Transfers and my alternative APH assessments under scenario 3 actually result in a reduction in reserves for Marlon. The implication is that Marlon's APH reserves are more prudent than for other River Companies.

I note, however, that under scenarios 3 and 5 River Thames remains well capitalised after the Transfers and I do not consider the reduction in Capital Cover Ratios to be material.

Given that the stress tests indicate a potential, but not material, adverse effect arising from the APH reserving position, I consider it appropriate to modify my conclusion in section 4.13 and conclude that Marlon policyholders, whether protected by ILU guarantees or not, are not materially adversely affected by the Transfers.

4.17.6. Mercantile

The liabilities of Mercantile are too small for my stress tests on the SCR to impact my conclusions regarding the Transfers for Mercantile policyholders.

4.17.7. Unionamerica

Reserve risk is the most significant risk within Unionamerica SCR followed by Market Risk. Unionamerica's Market Risk is driven by Spread Risk followed by risk of fluctuation in equities.

The Capital Cover Ratio for Unionamerica decreases for all the stress test scenarios with the exception of stress test 5 where it remains the same. I have considered the Capital Cover Ratio comparisons under the stress tests and in each case the Transfers result in an increase to that Capital Cover Ratio. Unionamerica is the most impacted by my scenario 3 where I provide an alternative view of the US APH reserves which results in Unionamerica having a Capital Cover Ratio that is only just sufficient before the Transfers.

In all cases the impact of the Transfers is to increase the Capital Cover Ratio for policyholders. The stress tests do not affect my conclusion for Unionamerica policyholders.

4.17.8. River Thames before the Transfers

The key area of uncertainty for River Thames before the Transfers is Reserve Risk followed by Market Risk, Operational Risk and Default Risk respectively. Market Risk arises mainly from fluctuation in asset values and spread of interest rates.

Stress test 1 reduces the Capital Cover Ratio below 100% although policyholders are still likely to be paid in full with a reasonable capital buffer remaining. Under all scenarios the Capital Cover Ratio increases as a result of the Transfers.

The stress tests do not affect my conclusion for River Thames policyholders.

4.17.9. River Thames after the Transfers

The most significant risks for River Thames after the Transfers are Reserve Risk followed by Market Risk, Operational Risk and Default Risk respectively.

The Capital Cover Ratios in all the scenarios have reduced as compared to that in the base scenario. The most extreme scenario test 1 reduces the Capital Cover Ratio below 100% although policyholders are still likely to be paid in full with a reasonable capital buffer remaining. The Capital Cover Ratio is sufficient in scenario 2. The ratios are good in both scenarios 3 and 4.

4.17.10. Stress test conclusion

The stress tests that I have performed on the Solvency II balance sheets as at 31 December 2015 provided to me by Enstar have resulted in some material changes to the assessment of capital strength of some entities. The more extreme scenario test 1 reduces the Capital Cover Ratio below 100% for River Thames after the Transfers, although policyholders are still likely to be paid in full with a reasonable capital buffer remaining.

All of the entities have a sufficient, or better, level of capital surplus under the more realistic scenarios 3 and 4, including River Thames after the Transfers.

4.18. *Impact of dividends*

The conclusions that I have drawn up to this point have been on the assumption that dividends are paid as proposed before the Transfers. In this section I consider if my conclusion would be any different if the proposed dividends have not been paid at the time of the Transfers.

With no dividends paid the Capital Cover Ratios for all of the River Companies except the smaller entities, Bosworth and Mercantile, are higher. In particular, all policyholders will benefit from a strong level of capital cover in River Thames after the Transfers. This remains the case when considering my alternative scenarios 3 and 4.

My conclusion for Bosworth and Mercantile policyholders does not change because the same issues regarding the relativities in Capital Cover Ratios prevail.

Policyholders of Brampton, Knapton, Marlon and River Thames all have a strong level of capital cover before and after the Transfers.

Policyholders of Unionamerica would be moving from a company with a good level of capital cover to a company with a strong level of capital cover.

For Brampton, Marlon and River Thames policyholders the comparative Capital Cover Ratios differ from the 'with dividends paid basis' because the capital cover reduces slightly instead of increasing. The reduction, however, is small and they have a strong level of capital cover before and after the Transfers.

Having commented on the strong level of capital cover under this assumption, it is Enstar's normal business policy to apply for dividend payments regularly in order to maintain capital cover at a target level. If dividends are not agreed and paid before the Transfers then I would expect that Enstar will apply to the PRA, shortly after the Transfers are completed, for the excess above the target level of capital in River Thames to be extracted. I do not believe that policyholders have any reason to expect that these higher levels of capital would be maintained indefinitely.

In light of the comments above, I find that my overall conclusion is unchanged if no dividend is paid before the Transfers.

4.19. *Other considerations*

4.19.1. *Global financial economic conditions*

I have considered the assets held by each of the River Companies in European markets as at 30 September 2015. Specifically, I have focused my investigation on assets held in Portuguese, Italian, Greek, Irish and Spanish markets in order to consider the River Companies' exposure to the on-going turmoil in the European markets. Bosworth and River Thames have no assets invested in the European markets above. The remaining River Companies' each have less than 1% of total assets invested in the European markets mentioned above.

On the basis of this information, I do not believe that the on-going European market turmoil affects my conclusions as to the impact of the proposed Transfers on any of the policyholder groups considered above. I will revisit this point in my supplementary report.

4.19.2. *EU Referendum*

In a referendum held on Thursday 23 June, Britain voted to leave the European Union ("EU"). The vote resulted in some short term volatility in the financial markets and long term uncertainty regarding Britain's future relationship with Europe and the timescales over which that future relationship will be decided. Based upon the information that is currently available, it appears unlikely that any change to Britain's position in the EU will have come into effect before the Effective Date of the Transfers. There may, however, be implications

for the financial position of the River Companies and I will discuss any such implications in my supplemental report.

4.19.3. Administration of the business to be transferred

Claims administration for the Transferring Policies is currently the responsibility of the individual companies but performed by Enstar on behalf of all of them. Exceptions are Knapton's participation in the Tower Pool, which is administered by Downlands, and Marlon's Danish business administered by Capita. Enstar has indicated that there will be no change to the claims administration processes of any of the River companies as a result of the Transfer, including the claims administration of Knapton's Tower Pool and Marlon's Danish business.

Nothing has arisen in my analysis that would lead me to believe that the members of the Enstar Group involved in the Transfers do not have the financial resources to administer these claims or that there would be any material adverse impact to policyholder experience.

4.19.4. Proposed Governance Changes

I am aware that Enstar has discussed and agreed with the PRA to make a number of governance changes to River Thames after the Transfers. The board of River Thames will have two Independent Non-Executive Directors ("INEDs") and Enstar propose to form an audit committee as a sub-committee of the board, which will consist entirely of Non-Executive Directors ("NEDs"), with a majority being INEDs. The chair will also be independent.

If the Transfers do not go ahead then I understand Enstar will make the planned changes to the board to each of the individual River Companies. I consider this task to be more difficult and will take longer to achieve if the Transfers do not proceed.

The simplification of the River Companies' group structure as a result of the Transfers reduces the risk of regulatory compliance breaches. The changes to the board proposed by Enstar demonstrate that River Thames will have a strong governance structure after the Transfers, which in turn reduces risk to policyholders because a well-managed company will be more resilient to risk. I believe these governance changes will benefit policyholders and the greater ease with which this objective can be achieved if the Transfers succeed implies a benefit for policyholders from the Transfers.

4.19.5. Periodical Payment Orders

Both Unionamerica and Brampton have exposure to PPOs, including a number of settled PPOs, which impact the motor liability classes of both Transferors. Unionamerica's exposure is via inwards reinsurance but Brampton has some direct PPO claimants.

A PPO is a Court Order to pay an accident victim's compensation through an annual payment for life rather than as a lump sum. PPOs are awarded as compensation following injury. This creates the potential for very long term exposure (in excess of 20 years) and exposure to a range of risks including those arising from future investment returns, economic factors such as inflation, longevity risk and deterioration in the condition of the claimant.

For both Unionamerica and Brampton, analysis is performed to determine any policies that are likely to settle as a PPO. The Brampton motor policies are all direct policies and the last policy to settle as a PPO was several years ago; there is no expectation that there will be any further policies settled on a PPO basis. Unionamerica policies exposed to PPOs are inwards reinsurance and there is exposure to further policies settling as a PPO. Enstar perform an analysis to categorise policies into their likelihood of settling as a PPO and set their reserve estimates accordingly. I have been provided with this breakdown of the claims and whether they are likely to settle as a PPO or not. Nothing in this analysis has indicated that the reserves held are unreasonable.

Whilst policyholders in the River Companies other than Unionamerica and Brampton will have exposure to PPOs after the Transfers, I note that those reserves currently held as PPOs will form approximately 5% of River Thames' technical provisions after the Transfers. On the basis of the analysis I have seen and the questions I have had answered by Enstar on behalf of the River Companies I do not believe the exposure to PPOs affects my conclusions on the impact of the Transfers on the general population of policyholders.

For direct policyholders with a PPO award, I understand that there is a difference in the legal basis under which they are paid that differs from a standard claim under an insurance policy. I have confirmed with Enstar that the necessary provisions will be included in the Court Order giving effect to the Transfers to ensure that these PPO claims will transfer to River Thames with the rest of the business.

The PPO policyholders themselves are likely to be amongst the longest tail policyholders of the River Companies. It is difficult to assess the economic fortunes of the River Companies to the point when the PPO liabilities are fully paid but I consider the pooling of all risks, including long tail risks, into one entity can only benefit the prospects for long tail policyholders. I also consider the governance improvements being made to River Thames after the Transfers, as discussed above, are likely to improve the resilience of the entity over the longer term. On this basis I have no reason to conclude that long tail policyholders, such as those with PPOs, will be adversely impacted by the Transfers.

4.19.6. Impact on Reinsurers

The External Reinsurance arrangements will transfer by virtue of the Court Order and continue to protect the Transferring Policies. The External Reinsurance will continue to inure to the benefit of the various Internal Reinsurances provided by Fitzwilliam and Overseas Re. I do not consider the existing reinsurers to be materially impacted by the Transfers.

4.19.7. Cost and tax effects of the Transfers

The costs of Project River are being allocated proportionately between the River Companies based on total gross reserves; Mercantile is not bearing any of the cost of the Transfers due to its size. None of the transfer costs will be borne by policyholders.

Enstar has received tax advice on the considerations of the Transfers from Deloitte UK. I have obtained the Deloitte UK report produced for the tax analysis of the Transfers. The basis upon which I have used the Deloitte UK report is set out in section 1.6.

I understand that the Transfers are expected to be tax neutral and will not, therefore, have a material effect on the security of policyholders. I have not identified any reasons for a material tax liability to be incurred and, on that basis, I have no reason to disagree with the conclusion reached by Enstar that there are no material tax implications of the Transfers.

I do not believe that the cost or tax effects of the Transfers will have an adverse impact on policyholders.

4.19.8. Priorities on winding-up

Under English law, direct insurance creditors rank ahead of inwards reinsurance creditors in the event of the winding-up of a company writing insurance business. All policyholders in Bosworth are reinsurance policyholders. After the Transfers, Bosworth policyholders will be mixed with the direct insurance policyholders from the other River Companies.

I have discussed the situation for inwards reinsurance policyholders separately in the analyses above. Given the strength of River Thames after the Transfers, the chances of winding-up are remote and I do not consider that the inwards reinsurance policyholders of Bosworth will be materially adversely affected by the Transfers particularly when considered against the increased size of the combined entity and the diversification benefit as a result of the Transfers.

4.19.9. Right of set off

I have considered whether the Transfers are likely to lead to any changes in the rights of set off for creditors or debtors of River Thames and/or any of the other members of the Enstar Group involved in the Transfers. As the existing and transferring business has External Reinsurance and the existing and transferring business also includes inwards reinsurance policyholders, there is the possibility of changes in the right of set off on the insolvency of River Thames post-Transfers. The chances of insolvency are, however, remote and I do not believe this affects my conclusions on the impact of the Transfers on policyholders.

4.19.10. Liquidity

I have been provided with a breakdown of the assets held by each of the River Companies as at 30 September 2015. I understand that there will be no significant changes to the breakdown of assets between this date and the Effective Date outside of the usual course of business and with the exception of the dividends which are proposed to be requested. I understand that the dividend will be predominantly paid out of investments. I do not anticipate these changes would impact my conclusions on liquidity.

I have considered whether there will be any change to the funds supporting the policyholders and any associated change in the liquidity available to support claims payments to policyholders. For Bosworth, Brampton and Marlon the proportion of cash and deposits will decrease although the change is only significant in the case of Bosworth. In turn the proportion of investments held in investment funds will increase in each of the River Companies with the exception of River Thames and Unionamerica.

The impact of this reduction in the proportion of liquid assets for some policyholders is mitigated by the much larger pool of assets so the liquid assets available in relation to the size of any one policyholder's claim will actually increase. I do not believe that the change in the proportion of liquid assets should be of concern to policyholders.

The proportion of total assets formed of reinsurance assets will increase post-Transfers in the case of Marlon, Unionamerica and River Thames. This is largely due to the large reinsurance assets held by Brampton and Bosworth which is predominantly Internal Reinsurance. Since the Internal Reinsurance assets are not reliant on third party recoveries but fall under the domain of the Enstar Group, I do not consider the liquidity of the River Companies after the Transfers is materially adversely affected by the inclusion of these assets.

I have also considered the extent to which any of the assets already in River Thames, or transferring to River Thames, are subject to prior calls or charges that might encumber those assets. I have been informed by Enstar that there are no such prior calls or charges on these assets.

Based on the above, I do not consider that the change in liquidity for the River Companies after the Transfers affects my conclusions on the impact of the Transfers on policyholders.

4.19.11. Further changes in operational arrangements

I understand that Enstar, on behalf of River Thames, has no current intention to make changes to the operational arrangements in respect of the Transferring Policies.

4.19.12. FSCS and FOS rights

The Financial Services Compensation Scheme ("FSCS") is a compensation fund of last resort that compensates customers of authorised financial firms in the event that a firm goes insolvent or ceases trading. The FSCS only covers particular classes of business, so that, in the event that an insurer becomes insolvent, not all policyholders receive compensation and some receive different levels of compensation.

The Financial Ombudsman Service ("FOS") provides customers with a free, independent service to help settle disputes with financial firms. FOS deals with complaints from consumers against firms that are regulated by the Regulators and it can require firms to pay compensation.

None of the River Companies ever subscribed to the FSCS because they did not write business that could give rise to a protected claim. The policyholders of all River Companies therefore have no rights of access to the FSCS nor (since they did not insure consumers) FOS in relation to their policies. This situation will be the same before and after the Transfers.

4.19.13. Communication strategy

I understand that Enstar, on behalf of the River Companies, is undertaking procedures to notify interested parties through a combination of:

- Direct communication with active policyholders of the Transferors, where active policyholders are those with unpaid balances and/or reserves, or where there has been a claim movement within the last 10 years;
- Direct communication with certain inactive policyholders of Brampton, Knapton, Marlon and Unionamerica, where it is considered that these policyholders could potentially make a future claim although it is considered unlikely;
- Displaying information which will include this report on a dedicated website;
- Notification to brokers who placed business with any of the River Companies or who underwrote on their behalf;
- Notification to active reinsurers, defined as those that have current unpaid and/or outstanding claims against them;
- Directly notifying other interested parties such as the ILU as part of requesting the Deeds of Variation discussed in Section 4.44.4;
- Advertising in the press including the London, Edinburgh and Belfast Gazettes. The Times, The Financial Times and Insurance Day, as well as The Economist which is circulated in 14 EEA States and The Wall Street Journal, Business Insurance, which is a US publication aimed at risk managers who purchase insurance for corporates, and the international edition of Insurance Day.

The River Companies are seeking a waiver of the obligation to directly notify all of their policyholders, in particular the inactive policyholders not referenced above (those that do not meet the active policyholder definition above) based on a consideration of the benefits combined with the costs and practicalities. Enstar have set out a rationale for the waivers they are seeking with regards to this direct communication, noting that these policyholders will have the opportunity to see the indirect notifications such as the press advertisements detailed above, in a communication strategy document which I have been provided with.

I note that there are a number of “non-identifiable policyholders” within River Thames, for which records are not sufficient to be able to adequately identify for direct notification purposes. The non-identifiable policyholders account for 65% of total policyholders by policyholder numbers. It is considered that these non-identifiable policyholders are highly unlikely to have a future claim given that their policies are either short tail in nature and were written many years ago, or given that there has been no claims activity in the past 10 years. Whilst River Thames is unable to directly notify these policyholders, and it is deemed highly unlikely that these policies will give rise to future claims, brokers will be notified as per the procedures identified above.

The River Companies are also seeking waivers of the obligation to publish in two national newspapers in each EEA state in which direct risks are located and a business newspaper in each EEA state in which the establishment of a cedant is located. Enstar argues that the requirements are all but met excepting the facts that The Economist is not classed as a ‘business newspaper’ due to its magazine format and The Financial Times is circulated in all EEA states except for Norway.

I have considered the communication plan set out for the Transfers and I believe it is reasonable.

Appendices

Appendix A. List of terms defined within this report

AE

Aioi Insurance Company of Europe Limited

Alm Brand

Alm Brand af 1792 FMBA (formerly Alm. Brand af 1792 G/S)

Atrium

Atrium Underwriting Group

Available Capital

Financial resources available for use to meet capital requirements

Best Estimate Valuation

The arithmetic mean of the perceived distribution of all possible claims outcomes. A best estimate reserve will therefore normally be designed to include no margins for caution or optimism

Bosworth

Bosworth Run-Off Limited

Brampton

Brampton Insurance Company Limited

Capita

Capita Commercial Insurance Services Limited

Capital Cover

Amount of Available Capital in excess of Required Capital

Capital Cover Ratio

Ratio of Available Capital to Required Capital

Cavell

Cavell Insurance Company Limited

CEAI

Compagnie Européenne d'Assurances Industrielles SA

Codan

Codan Forsikring A/S

Comox

Comox Holdings Ltd

Cop Re

Copenhagen Reinsurance Company Limited, originally incorporated in Denmark, including its UK branch and UK subsidiary company

Court Order

The order of the High Court of England and Wales sanctioning the Transfer under Section 111 of FSMA

Credit Risk

The risk of a change in value due to actual credit losses deviating from expected credit losses due to the failure to meet contractual debt obligations

Default Risk

The risk of a change in value caused by the fact that actual default rates deviate from expected default rates with respect to non-payment of interest or principle

Deloitte

Deloitte Touche Tohmatsu

Deloitte UK

Deloitte LLP, the UK member firm of Deloitte

Downlands

Downlands Liability Management Limited

EEA

European Economic Area

Effective Date

The date when the Transfers shall become effective, expected to be 01 April 2017, or such other date as may be specified in the Court Order sanctioning the Transfers

Enstar

Enstar (EU) Limited

Enstar Group

EGL and its subsidiaries from time to time

EGL

Enstar Group Limited

EU

European Union

External Reinsurance

Reinsurance provided by a company outside the Enstar Group

EY

Ernst & Young LLP

EY reports

EY's findings and recommendations reports relating to the loss and allocated loss adjustment expense reserves as of December 31, 2015 in respect of River Thames, Bosworth, Brampton, Knapton and Unionamerica and business previously written through the LSU Pool which sits within Marlon and business previously written by Guildhall which sits within Unionamerica

FCA

The Financial Conduct Authority which regulates the financial services industry in the UK. Its aim is to ensure the industry remains stable and to promote healthy competition. The FCA was formed as one of the successors to the FSA from 1 April 2013.

Fieldmill

Fieldmill Insurance Company Limited

Fitzwilliam

Fitzwilliam Insurance Limited

Flatts

Flatts Limited

FOS

Financial Ombudsman Service

PwC

FRC

Financial Reporting Council

FSCS

Financial Services Compensation Scheme

FSMA

The Financial Services and Markets Act 2000

Guildhall

Guildhall Insurance Company Ltd

Hillcot

Hillcot Re Limited

Hillcot Holdings

Hillcot Holdings Ltd

IBNR

Incurred but not reported claims

ILU

Institute of London Underwriters

Independent Expert

The expert required to opine on an insurance business transfer under Part VII of FSMA, in this case Gregory Overton

InterHannover

International Insurance Company of Hannover Limited

Internal Reinsurance

Reinsurance provided by a company within the Enstar Group

Kenmare

Kenmare Holdings Ltd

Knapton

Knapton Insurance Limited

Knapton Holdings

Knapton Holdings Limited

Longmynd

Longmynd Insurance Company Limited

LSU Pool

London Scandinavian Underwriters Pool

Market Risk

The risk of changes in the value of an investment caused by volatilities in market prices

Marlon

Marlon Insurance Company Limited

MCR

Minimum capital requirement

Mercantile

Mercantile Indemnity Company Limited

PwC

MSI

Mitsui Sumitomo Insurance Company Limited

OECA

Own Economic Capital Assessment

Old Non-Marine Business

Pre 1972 non-marine business in River Thames

Operational Risk

Risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from expected losses

ORSA

Own Risk and Solvency Assessment

PPOs

Periodic Payment Orders

PRA

The Prudential Regulation Authority is a part of the Bank of England. It is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA was formed as one of the successors to the FSA from 1 April 2013.

Outstanding Loss Reserve

Reserves held for claims that have been reported but are not settled

Overseas Re

Overseas Reinsurance Corporation Limited

Part VII transfer

The transfer of selected liabilities and assets by way of a Court sanctioned novation of business, implemented under Part VII of the FSMA

PwC

PricewaterhouseCoopers LLP

Required Capital

Amount of funds that insurance and reinsurance undertakings are required to hold by the Regulators

Regulators

The Prudential Regulation Authority and Financial Conduct Authority

Bad Debt

A reserve for the risk of non-realisation of the full value of current and projected reinsurance recoveries

Reserve Risk

The inherent risk in reserve estimates caused by the uncertainty in future claims

Reserves

An estimation of Technical Provisions for insurance liabilities.

Revir

Revir Limited

River Thames

River Thames Insurance Company Limited

River Companies

Bosworth, Brampton, Knapton, Unionamerica, Mercantile, Marlon, River Thames

PwC

RSA

Royal and Sun Alliance Insurance

Run-off

An insurer that is in run-off is not writing any new business but will continue to administer and pay claims for existing policies

SAC

Segregated Accounts Company, a company constituted of independent segregated accounts under Bermudan law.

SF SCR

Standard Formula Solvency Capital Requirement

Skandia Insurance

Skandia Insurance Company Limited

Skandia Group

Skandia Group Insurance Company Limited

Sedgwick

Sedgwick Group Limited

Spread Risk

The risk of a change in value due to a deviation of the actual market price of credit risk from the expected price of credit risk

Standard Formula

The basis prescribed under Solvency II for the calculation of capital requirements where an internal model has not been approved.

SUP18

SUP 18 of the FCA Handbook

TAS

Technical Actuarial Standards

TAS R

Reporting TAS

Technical Provisions

The estimated value of all current and future liabilities that an insurance company will be liable to pay relating to policies written to date, also referred to as insurance liabilities.

Toa Japan

The Toa Reinsurance Company Limited, previously The Toa Fire and Marine Reinsurance Company

Tower Pool

Tower Underwriting Management Limited Pool

Transfers

The proposed Part VII transfers that are the subject of this report

Transferors

Bosworth, Brampton, Knapton, Marlon, Mercantile, Unionamerica

Transfer Report

Report on the terms of a Part VII Transfer by an Independent Expert

Transferring Policies

PwC

The policies written by the Transferors

Transferring Policyholders

The policyholders who have Transferring Policies

Unionamerica

Unionamerica Insurance Company Limited

Unionamerica Holdings

Unionamerica Holdings Limited

Unione

Unione Italiana (UK) Reinsurance Company Limited

US Trust Funds

Trust funds established in the US (in the case of Unionamerica and Marlon)

Vesta

Forsikringsaktieselskapet Vesta

Vesta Group

Vesta Group PLC

Winding-up

A process that entails liquidating all the assets of a business entity, paying off creditors, distributing any remaining assets to the principals, and then dissolving the business.

Appendix B. Curriculum Vitae – Gregory Overton

Background:

Gregory joined PricewaterhouseCoopers in 1993 after graduating from Warwick University and qualified as a Fellow of the Institute of Actuaries in 1999. Gregory is a Director in the Actuarial & Insurance Management Solutions Group of PricewaterhouseCoopers, providing Non-life Insurance consulting services to a wide range of clients.

Professional Experience:

In his time at PwC, Gregory has worked on a variety of assignments, both in the UK and overseas, though he has specialised in the areas of run-off and restructuring and London Market business. In particular:

- Gregory heads up PwC's actuarial Part VII transfer team.
- Gregory was appointed to perform the role of Independent Expert for : -
 - the transfer of certain insurance and reinsurance business from International Insurance Company of Hannover Limited to Brampton Insurance Company Limited, sanctioned by the Court on 22 September 2011
 - the transfer of insurance business from Groupama Insurance Company Limited to Ageas Insurance limited, sanctioned by the Court in October 2013
 - the transfer of insurance business from Nippon Insurance Company Europe Ltd to Nipponkoa Europe limited, sanctioned by the Court in October 2013
 - the transfer of insurance and reinsurance business from Cavell Insurance Company Limited, Unione Italiana (UK) Reinsurance Company Limited, Hillcot Re Limited, Longmynd Insurance Company Limited and Fieldmill Insurance Company Limited to River Thames Insurance Company Limited, sanctioned by the Court in June 2014
- Gregory advised The Hartford on the consolidation of its UK run-off interest via parallel Part VII transfers including all aspects of the policyholder security modelling and argument.
- Gregory worked alongside Paul Duffy of PwC Ireland as the expert appointed to opine on the Irish business transfer of business from Markel Europe to Markel Insurance Company Limited, sanctioned by the Irish Court in Spring 2015.
- He advised Aviva on the consolidation of its general insurance subsidiaries by way of parallel Part VII transfers including assistance with investigating the policyholder security aspects of the transfers.
- Gregory advised Equitas on the Part VII transfer of 1992 & prior liabilities of Lloyd's names including advice on how to structure the transfer, support with the modelling to assess the impact on policyholders and a report reviewed by the Independent Expert commenting on the analyses performed.
- He has advised a composite insurer on a Part VII transfer of the run-off non-life liabilities within the group and has advised a London Market insurer looking to simplify its corporate structure using a Part VII transfer.
- He has had extensive experience of run-off and restructuring solutions including working on solvent schemes of arrangement for a London Market pool and a significant UK reinsurer in run-off. Gregory has also been involved in scheme solutions for the insolvent market with experience in this area extending back over 15 years.

- Gregory has significant experience of reserving for London Market and latent liabilities acting as a Signing Actuary for Lloyd's and having led PwC's research teams into UK and US Asbestos for a number of years.
- Gregory participated in Institute of Actuaries working parties on Schemes and Part VII Transfers and on UK Asbestos. He is a member of the London Market Actuaries Group and a signing actuary for Lloyd's.

Appendix C. Data and other information considered

Data provided

I have used the following documents, reports, data and other information provided by Enstar:

- Background information on the structure of the Enstar Group.
- Background information on the business written in each of the River Companies.
- Details of the geographic location of policyholders for each of the River Companies.
- Outstanding Loss Reserve data for Bosworth, Brampton, Knapton, Marlon, Unionamerica, Mercantile and River Thames split by direct and inwards reinsurance business and also by territory as at September 2015.
- Audited accounts as at 31 December 2015 for each of the River Companies.
- Balance sheets as at 31 December 2015 for each of the River Companies before the Transfers, and a River Thames balance sheet after the Transfers which allows for the business transferred.
- Unaudited UK GAAP Balance sheets as at 30 June 2016 for each of the River Companies before the Transfers, and a River Thames balance sheet after the Transfers which allows for the business transferred.
- Details of requested dividends in respect of, Brampton, Knapton, Marlon, Unionamerica and River Thames.
- EY findings and recommendations reports relating to the insurance liabilities (loss and allocated loss adjustment expense reserves) as of 31 December 2015 of Bosworth, Brampton, Knapton, LSU Pool, Assuransinvest, Cop Re of Marlon, Mercantile, Unionamerica (including Guildhall) and River Thames.
- Internal Memorandum provided by Enstar for their Assuransinvest and Danish FI business which is a part of Marlon.
- Deloitte findings and recommendations reports relating to the insurance liabilities (loss and allocated loss adjustment expense reserves) as of 31 December 2015 of the Danish Disability business in Marlon.
- Outstanding Loss Reserve data on the largest asbestos and pollution cedants and assureds for Bosworth, Knapton, Marlon (including LSU Pool, CopRe and Assuransinvest), Unionamerica (including Guildhall) and River Thames (including Cavell, Cirrus, Hillcot and Unione).
- Enstar's Own Individual Capital Assessment (ORSA reports) for each of the River Companies before the Transfers and River Thames after the Transfers.
- Enstar's Solvency II balance sheets and Standard Formula calculations for the each of the River Companies with dividend and without dividend.
- Information on the intra-group protections (Fitzwilliam and Overseas Re) provided to, or by the companies and details of the operation of these internal reinsurances after the Transfers.
- The details of assets held by each of the River Companies.
- Details of the ILU guarantees and US Trust funds held by each of the River Companies.
- Reserve details of Overseas Re and the eight Fitzwilliam segregated accounts as at 31 December 2015
- Details of feedback from latest PRA risk reviews for each River Company or other relevant information or correspondence regarding dividend applications.
- PPO details for each of the River Companies.
- Legal opinion from US legal counsel regarding the enforcement of Part VII transfers in the United States including a discussion of comity.
- Legal opinion from US legal counsel regarding the steps to be taken to ensure that the protections afforded to US policyholders and cedants by the various US Trust Funds will continue following the Transfers.
- Legal opinion from Bermudan legal counsel regarding the enforceability of Internal Reinsurance agreements, the operation of six segregated cell accounts and the enforceability of any parental guarantees under Bermudan law.
- Legal opinion from English legal counsel regarding the effect of the proposed Transfers on policyholders outside of the EEA.
- Legal opinion from English legal counsel with regards to the enforceability of the River Thames-Fitzwilliam cut-through clause under English law.

- Project River communication strategy detailing the planned notifications and the rationale.

I have used the documents described above and discussions held with relevant staff of Enstar, on behalf of the River Companies, and relevant staff of Enstar's External Actuaries in forming my opinion on the Transfers. The basis upon which I have used EY's work is set out in Section 1.6

Data consistency checks

I have not audited or performed other assurance procedures on the data provided to me.

I have checked the data and the documents received for consistency with each other. For example, where applicable, I have reconciled data received to the audited Balance Sheets for each of the River Companies as at 31 December 2015 as appropriate.

Data integrity

I have not made any adjustments to the data provided to me by Enstar.

I am not aware of any inaccuracies or limitations in the available data that would materially impact the uncertainty surrounding the results of my work. I have performed stress tests in key areas of my analysis to assess the impact of alternative assumptions.

I have relied on the integrity of the data provided to me without any form of further verification. My work has taken no account of any information not received by me, or of any inaccuracies in the information provided to me.

Appendix D. Background to business written by each of the River Companies

Company	Commenced Underwriting	Placed in to run-off	Business written	Exposure
Bosworth MSI business	Earliest 1952	Latest 1993	Proportional, non-proportional and facultative reinsurance contracts, for both Marine and Non-Marine business.	Exposure to US asbestos, pollution and other latent liabilities. A small amount of exposure to non-latent liabilities including catastrophe losses, marine hull, and medical malpractice.
Brampton Aioi run-off business Inter Hannover business CEAI	1985 1985 1975	2002 2009 1994	Direct personal accident, international marine, cargo and liability contracts, non-proportional motor, property and liability contracts and proportional treaty accident and health business.	A wide range of exposure to direct and reinsurance business. The majority of the exposure is to motor liability risks, other XoL, and marine business. Together these loss types account for more than 65% of the reserves.
Knapton	1978	2005	Last direct policy written in 1995 and the reinsurance business has been in run off since 2005. Traditionally, Knapton wrote engineering and construction insurance in the UK and has also assumed a number of other run-off portfolios including Marine XoL from Allianz Global Corporate & Specialty SE and Allianz SE.	A wide range of exposure including engineering and construction liabilities, casualty, catastrophe Excess of Loss liabilities written between 2003 and 2005 and long-tail US asbestos, pollution and health hazard exposures. Together these loss types account for more than 75% of the reserves.
Marlon	Earliest 1969	Latest 2007	Marine and Aviation risks written through the LSU Pool. Danish disability insurance written through the Danish branch. Swedish direct commercial exposures, an international reinsurance portfolio and a small book of direct product warranty policies written in Scandinavia via Assuransinvest. Exposure to traditional lines such as engineering, general casualty, life reinsurance, marine, aviation, transportation, motor, professional	The main outstanding exposures are in relation to Marine Catastrophe claims (spiral business), Aviation Catastrophe claims and direct Asbestos pollution and Health Hazard claims. Together with professional indemnity and motor liabilities this accounts more than 60% of the reserves.

			indemnity, property and other via the business transferred in from Cop Re	
Mercantile	1980	1987	Property and casualty business reinsurance contracts, the majority of which was written as a participant in the Regis Agencies Limited underwriting pool.	The majority of the exposure relates to US asbestos and casualty liabilities.
Unionamerica	1919	2002	Business originally written in Unionamerica including International Casualty business and business assumed by Unionamerica by way of transfers in from St Paul Reinsurance Company Limited, St Paul Travelers Insurance Company Limited, Mercury Reinsurance Company Limited and Guildhall Insurance Company Limited.	A wide range of exposure, the majority to reinsurance and direct asbestos liabilities, UK motor reinsurance and general casualty liabilities. Together these loss types account for more than 80% of the reserves.
River Thames Incl. Cavell, Unione, Hillcot, Longmynd, Fieldmill	Earliest 1924	Latest 1997	Marine and non-marine direct and reinsurance business.	A wide range of exposure, the majority to a range of non latent exposures arising from the Hillcot and Cavell portfolios and US asbestos and pollution liabilities. Together these loss types account for more than 80% of the reserves.

