Supplementary Report of the Independent Actuary on the proposed transfer of insurance business from AmTrust International Underwriters Designated Activity Company to AmTrust Assicurazioni SpA in accordance with Section 13 of the Assurance Companies Act 1909

21 July 2020

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LCP

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Appendices

1. Executive summary

1.1. The Proposed Transfer

The Proposed Transfer is part of AmTrust Group's (also referred to as AmTrust) strategy that all its Italian medical malpractice business, currently written by various group entities, is transferred to one group entity, AmTrust Assicurazioni SpA (AA) which is supervised by the Italian regulator IVASS.

This involves the transfer of Italian medical malpractice business from AmTrust International Underwriters DAC (AIU) to AA.

Proposed Transfer: it is proposed that AIU's Italian medical malpractice business will transfer from AIU to AA pursuant to Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015 (2015 Regulations). The Sanctions Hearing for the Proposed Transfer is scheduled for 27 July and the Effective Date of the Proposed Transfer is 31 July 2020.

Other AmTrust transfers

In addition to the Proposed Transfer, AmTrust is preparing to make further transfers as part of their response to Brexit and other strategic changes and transactions. These are summarised below:

- The Part VII transfer of Italian medical malpractice risks (including a non-material amount of related accident and health and legal expenses business) from AmTrust Europe Limited (AEL) to AA and other non-UK EEA risks (excluding Italian medical malpractice) from AEL to AIU, with a proposed Effective Date of 31 July 2020. This transfer passed the Directions Hearing stage on 11 March 2020.
- The Part VII transfer of all business from AMT Mortgage Insurance Ltd (AMIL) to AIU with a proposed Effective Date of 31 October 2020. This transfer passed the Directions Hearing stage on 8 July 2020.

A Section 13 transfer of surety business from AIU to Liberty Mutual Insurance Europe SE (LMIE), a third-party outside of the AmTrust Group completed on 31 March 2020.

1.2. My role as Independent Actuary

AmTrust has appointed me to act as the Independent Actuary (IA) for the Proposed Transfer. The Central Bank of Ireland (CBI) has been notified of my appointment.

As IA, my overall role is to assess whether:

- The security provided to policyholders of AIU will be materially adversely affected by the implementation of the Proposed Transfer.

- The security provided to policyholders of AA will be materially adversely affected by the implementation of the Proposed Transfer.
- The Proposed Transfer will have any materially adverse impact on service standards experienced by policyholders of AIU and AA.
- Any reinsurer of AIU covering the transferring business will be materially adversely affected. Note that an assessment of the impact of the Proposed Transfer on AIU's reinsurers is not strictly required under Section 13 of the Assurance Companies Act 1909. However, I have included this assessment for consistency with the two Part VII transfers planned by AmTrust Group in the UK, and for which such an assessment is required by the UK Prudential Regulation Authority (PRA).

I provided my Scheme Report for the Proposed Transfer dated 19 February 2020 ahead of the Directions Hearing, which was held on 2 March 2020.

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

1.3. Summary of developments since the Scheme Report

Activities since the Scheme Report

The main activities in relation to the Proposed Transfer since the Scheme Report was issued on 19 February 2020 have been as follows:

Proposed Transfer

- The Scheme Report and other associated scheme documents were presented to the Court at the Directions Hearing on 2 March 2020, where approval was received to start notifications in line with the communications plan.
- The Effective Date of the Proposed Transfer has changed from 1 July 2020 to 31 July 2020.
- Given the ongoing developments around COVID-19 and its impact on the Proposed Transfer, AmTrust has updated its SCR coverage ratio and balance sheet analyses to reflect this uncertainty. This is discussed further in later sections of this report.

Reserving

- AIU's transferring provisions have increased from €223.0m to €279.0m on a gross of reinsurance basis, and from €50.4m to €84.2m on a net of reinsurance basis, between 30 June 2019 and 31 March 2020. This is discussed in more detail in section 3.1.
- AA expected to write more business in 2020 than 2019 but the projected volume has reduced in response to the impact of COVID-19. Gross written premiums in

2019 were €38.1m. The projected volume of business to be written in 2020 is €83.6m compared to the pre-COVID-19 business plan expectation of €174.2m. The impact of this large change, and other changes since my Scheme Report, are discussed in more detail in section 3.

- IVASS requested an independent reserve review of the Italian medical malpractice portfolios transferring into AA from AEL and AIU. I have reviewed the findings of this report. A summary of this report is in section 3.1.2.
- AmTrust has taken accounting advice on how to address the impact of the different treatments of deductibles on claims between Irish and Italian accounting rules (GAAP). A summary of the treatment is in section 3.1.3.

  As described in the Scheme Report, AIU commissioned an external regulatory review of certain aspects of its business by an independent actuarial consultancy, including AIU's reserving process and its governance. This external regulatory review, which was instigated at the request of the Central Bank of Ireland (CBI), has been completed.

  I have reviewed the findings of this report and AIU Management's responses to the recommendations made. A summary of my review is in section 3.1.5.

Capital

- AmTrust have updated their projections since my Scheme Report was issued to allow for the impact of the COVID-19 pandemic. The updated projected post-transfer SCR coverage ratios are as follows:
  - AIU – 172%, in excess of risk appetite of 140%; and
  - AA – 147%, in excess of risk appetite of 145%.
- Dividend payments from AIU (and AEL and Motors Insurance Company Limited ("MICL"), a subsidiary of AFSI) and a €5m contribution from AII (which was paid on 30 June 2020) will be used to support AA's SCR coverage ratio post-transfer. Further detail is provided in section 3.2.
- The coverage ratios for AIU and AA will be guaranteed to be at least the level of risk appetite until 30 June 2021 by a Net Worth Maintenance Agreement (NWMA) with AmTrust Financial Services Inc. (AFSI), a parent company of the Amtrust entities. This commitment ultimately depends on the financial strength of AFSI and the Amtrust Group. This agreement is expected to be signed before the Sanctions Hearing.
- In the event of SCR coverage ratios falling below the risk appetite level for AIU or AA, I would expect AmTrust to implement management actions to restore the SCR coverage ratio to at least the risk appetite level. Given this, I have placed limited reliance on the NWMA, although the fact that AmTrust's support has been formalised in the agreement does increase policyholder security up to June 2021.

- Following privatisation, AFSI no longer discloses its consolidated financial information publicly and so is not rated. However, members of the AmTrust Group have a current A. M. Best Financial Strength Rating, as of 13 August 2019, of "A-" (Excellent) reflecting its balance sheet strength (categorized by A. M. Best as very strong) and level of free assets.

Policyholder communication and other

- AIU has communicated with policyholders and placed notices in various publications in line with the communication plan outlined in my Scheme Report.
- There have been no objections to the Proposed Transfer as at 21 July 2020.
- Following an application for a licence in San Marino, AA has received a positive opinion from IVASS which now allows it to conduct insurance activity in San Marino. AA is now engaging with the San Marino Insurance Authority to register the licence.

- The CBI has approved AIU's licence applications for the following:
  - Class 13 – General Liability (approved 29 April 2020);
  - Class 10 – Motor Vehicle Liability - Italy (23 June 2020);
  - Class 10 – Motor Vehicle Liability – Greece (24 June 2020); and
  - Class 17 – Legal expenses (1 July 2020); and
  - Class 15 – Surety (16 July 2020).

1.4. Potential impact of COVID-19 on the Proposed Transfer

The uncertainty around the impact of the COVID-19 pandemic is expected to continue until the Effective Date of the Proposed Transfer and beyond. AmTrust has considered the exposure of its Italian Medical Malpractice portfolio, and its wider business, to the pandemic.

As Italian Medical Malpractice policies are issued on a claims-made basis, only unexpired policies are exposed. AmTrust's view is that claims arising from the pandemic are likely to be limited. They expect there to be a reduction in claims frequency to the extent that non-essential operations will not be taking place, though limited credit has been taken for this in Amtrust's updated projections.

In addition to this, since specific instructions were provided to hospitals by the Italian government at the national and regional level following declaration of a 'state of national health emergency', AmTrust's view is, provided the hospitals complied with the Government's instructions with regards to COVID-19, it is unlikely that liability could be established. Liability would fall to the insurer in the event of gross negligence in the implementation of these instructions. There is draft law being taken to the Italian Parliament to determine the limitation in the event of gross negligence.

Over the short term, longer settlement delays are anticipated driven by a combination of hospitals not authorising settlements and any operational difficulties for AmTrust's claims team as they adjust to the new environment. Overall, the impact on the reserving process is expected to be limited.

Further protection from COVID-19 claims may arise from Article 1912 of the Italian Civil Code which excludes so-called exceptional major risks from general insurance coverage, including those associated with pandemics. AmTrust have received a legal opinion on this issue. Although AmTrust's view is that COVID-19 will be included within Article 1912, the legal opinion is not definitive on this issue and the conclusions in it are described as necessarily provisional.

In any case, it may take years to confirm whether COVID-19 is included in Article 1912 and this issue will not be resolved before the Sanctions Hearing. In the event COVID-19 is not included, AmTrust are more exposed to the potential risk of COVID-19 related claims. However, I believe the impact of such claims will be mitigated by the points I made earlier. AmTrust have considered the impact of a reserve stress scenario in the event that claims experience is worse than expected, whether due to COVID-19 or other factors.

I have not considered taking independent legal advice on this issue, as I do not think that this would give any more clarity of the likelihood of COVID-19 being included in Article 1912 or not at this stage.

Whilst the uncertainty related to the evolving nature of the pandemic continues, any operational issues are likely to emerge over the short term as AmTrust's claims teams adjust to the new conditions. AmTrust have confirmed that they do not expect any operational difficulties over the short term to have a material impact on policyholders

AmTrust has also considered the potential impact of COVID-19 in its updated capital and balance sheet projections on Day 0 and Day 1 of the Proposed Transfer. This is discussed in detail in sections 3.2 and 3.3.

1.5. Additional considerations for the Supplementary Report

In reaching my conclusions in this Supplementary Report, I have considered the following new information that has become available since the Scheme Report was issued on 19 February 2020:

- Updated booked provisions as at 31 March 2020;
- Recent claims experience and claim reserve movements;
- Updated SCR coverage ratios and balance sheet projections;
- The results of the independent reserve review requested by IVASS;

- Discussions with AmTrust on the impact of COVID-19 on the Proposed Transfer, including operational challenges;
- Accounting advice on the impact of the differing treatment of policy deductibles between Irish and Italian GAAP; and
- Any communications and/or objections related to the Proposed Transfer raised by stakeholders.

1.6. Summary of my conclusions

I have set out below my summary conclusions, considering the effect of the Proposed Transfer from four perspectives:

- A: “Non-transferring Policyholders”, ie AIU policyholders who will remain with AIU after the Proposed Transfer.
- B: “Transferring Policyholders”, ie AIU policyholders who will transfer from AIU to AA as a result of the Proposed Transfer.
- C: “AA Policyholders”, ie any policyholders of AA at the time of the Proposed Transfer who will remain with AA.
- D: Reinsurers whose contracts with AIU are transferring to AA as part of the Proposed Transfer.

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

A: Non-transferring Policyholders

I have concluded that the security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- The SCR coverage ratio for Non-transferring Policyholders is expected to increase from 154% to 172% after the Proposed Transfer. I do not consider the security provided to these policyholders to be materially adversely affected as AIU will be a more well-capitalised insurer post transfer with a coverage ratio in excess of its risk appetite.

- The SCR coverage ratio of AIU will be guaranteed to be a minimum of 140% until 30 June 2021 by a Net Worth Maintenance Agreement with AFSI, a parent company of AIU.
- The level of regulatory capital held on the 1-year standard formula basis is supported by consideration of stress scenarios including the impact of a recession and reinsurer default.
- The approach and methodology used to calculate insurance provisions and the level of reserves held by AIU are supported by my own independent projections.
- Further support is provided by the results of an independent external reserve review, a second independent external regulatory review and a third independent review of the transferring medical malpractice portfolio.
- AIU has no plans to change the approach for how insurance provisions are set.
- The reserving process and governance for AIU will be materially unchanged post-transfer.

I have concluded that no material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.

Summary rationale:

- AIU is not planning any material changes to how the non-transferring business is carried out.
- There are no plans to change how policyholders are serviced.

B: Transferring Policyholders

I have concluded the security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- The SCR coverage ratio for the Transferring Policyholders is expected to decrease from 154% to 147% as a result of the Proposed Transfer. I do not consider the security provided to Transferring Policyholders to be materially adversely affected by this decrease as AA's coverage ratio will be towards the upper end of the sufficiently capitalised band as defined in my Scheme Report. In addition, the coverage ratio is in excess of AEL's and AA's risk appetite.
- The SCR coverage ratio of AA is guaranteed to be a minimum of 145% until 30 June 2021 by a Net Worth Maintenance Agreement with AFSI, a parent company of AA.

- The level of regulatory capital held on the 1-year standard formula basis is supported by consideration of capital requirements in comparing the impact of stress scenarios, including reserve deterioration and reinsurer default.
- The Transferring Policyholders will remain within the AmTrust Group and AA is subject to the same group-wide policies as AIU.
- AmTrust has confirmed that the transferring policies will continue to be reserved for in the same way post-transfer as pre-transfer.
- The calculation of the transferring provisions has been performed using the same methodologies as the non-transferring provisions which I consider appropriate.
- Further support for the level of reserves is provided by the results of an independent review of the transferring medical malpractice portfolio.
- The Solvency II prudential regulation framework will continue to apply to the transferring business post-transfer.

I have concluded that no material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.

Summary rationale:

- AmTrust is not planning any changes to how the Transferring Policyholders are serviced following the Proposed Transfer.

C: AA Policyholders

I have concluded that the security provided to AA Policyholders will not be materially adversely affected by the Proposed Transfer.

Summary rationale:

- The SCR coverage ratio for AA Policyholders is expected to decrease from 150% to 147% following the Proposed Transfer. I do not consider the security provided to AA Policyholders to be materially adversely affected by this decrease as AA is still towards the upper end of the sufficiently capitalised band and the coverage ratio is above AA's risk appetite.
- The SCR coverage ratio of AA will be guaranteed to be a minimum of 145% until 30 June 2021 by a Net Worth Maintenance Agreement with AFSI, a parent company of AA.
- The level of regulatory capital held on the 1-year standard formula basis is supported by consideration of capital requirements in comparing the impact of stress scenarios including reserve deterioration and reinsurer default.
- AA has no plans to change the approach for how insurance provisions are set.

- The future reserving process and governance for AA will be materially unchanged post-transfer.
- Further support for the level of reserves is provided by the results of an independent external reserve review of the AEL and AIU medical malpractice portfolios transferring to AA.

I have concluded that no material impact on service standards is expected for AA Policyholders following the Proposed Transfer.

Summary rationale:

- AA is not planning any material changes to how the business is carried out.
- There are no plans to change how AA Policyholders are serviced following the Proposed Transfer.

Reinsurers

I have concluded that reinsurers of AIU who provide cover for the transferring business will not be materially adversely affected by the Proposed Transfer.

AIU has two main live reinsurance policies protecting the transferring business, a quota share arrangement with AmTrust International Insurance (AII) for business written after 1 January 2019, which is fully collateralised, and a quota share arrangement with Swiss Re for business written after 1 July 2019.

There are also two expired quota share arrangements (i) with AII (for business written prior to 1 January 2019) and (ii) with Maiden. The Maiden quota share is fully collateralised and the AII quota share is partially collateralised: €132m in security has been set aside, which built up over 2019 and is reported to the CBI on a quarterly basis. There is also reinsurance cover from a specific quota share policy and specific excess of loss policy.

Maiden re-domesticated from Bermuda to Vermont in the United States in March 2020 with approval from the Vermont Department of Financial Regulation. Re-domestication of a reinsurer to a non-Solvency II equivalent territory would, all else being equal, lead to an increase in AIU's SCR and a therefore a reduction in its SCR coverage ratio.

Maiden has agreed an endorsement to its contract with AIU such that Maiden must provide additional collateral equal to the greater of (a) 120% of the exposure amount of the liabilities, and (b) such additional collateral needed to ensure the SCR is at the same level as it would have been prior to any re-domestication. Therefore, there is no adverse impact on AIU's SCR pre- or post-Transfer nor on their SCR coverage ratio.

The protection provided to the Transferring Policyholders from the reinsurance cover will transfer to AA.

Summary rationale:

- Exposure to claims faced by AIU's reinsurers will not change following the Proposed Transfer.
- Reinsurers will continue to be required to pay out the same claim amounts in respect of the same events as before the Proposed Transfer.

Further details on my overall conclusions, and other supporting information, are set out in this report and my IE report.

Confirmation of factual correctness

This report has been reviewed by AIU and AA and each has agreed the report is correct in terms of all factual elements of the Proposed Transfer.

2. Introduction

2.1. Background

Any transfer of business carried out by one Irish authorised insurance company to another Irish or EEA authorised insurance company is governed by Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015.

Under Section 13 of the 1909 Act, any scheme that provides for a transfer, in whole or in part, of the business of an Irish authorised insurance company to another Irish or EEA authorised insurance company requires prior sanction of the High Court. The Court will consider the scheme on the basis of a petition brought by the Boards of Directors of both the transferor (AIU) and transferee (AA) companies. Whilst not mandatory for a non-life transfer, such as the Proposed Transfer, in practice the petition is accompanied by a report on the terms of the scheme by an Independent Actuary (IA).

AmTrust nominated Stewart Mitchell (I or me) of Lane Clark & Peacock LLP (LCP, we, or us) to act as the IA for the proposed insurance business transfer scheme (the Proposed Transfer) of certain insurance business from AIU to AA. The Proposed Transfer is intended to be effected on 31 July 2020 (the Effective Date).

The Scheme Report was issued on 19 February 2020 and was presented to the Court on 2 March 2020. In the Scheme Report I stated that, before the date of the Sanctions Hearing, I would prepare a Supplementary Report (this report), covering any relevant matters which have arisen since the date of the Scheme Report.

In particular, I have considered whether any developments since the Scheme Report cause my conclusions in the Scheme Report to change.

2.2. Scope of this Supplementary Report

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

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

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

2.3. Use of this Supplementary Report

This Supplementary Report has been produced by Stewart Mitchell FIA of Lane Clark & Peacock LLP under the terms of our written agreement with AmTrust Management Services Limited. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Supplementary Report has been prepared for the purpose of accompanying the application to the Court in respect of the proposed insurance business transfer scheme described in this report, in accordance with Section 13 of the Assurance Companies Act. The Supplementary Report is not suitable for any other purpose. The Supplementary Report must be read in conjunction with the Scheme Report of 19 February 2020.

A copy of the Supplementary Report will be sent to The Central Bank of Ireland (CBI) and will accompany the evidence filed in Court at the Sanctions Hearing.

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

2.4. Reliances

I have based my work on the data and other information made available to me by AmTrust, AIU and AA. Appendix 1 contains a list of key data and other information that I have considered. I have also held discussions with the relevant staff of AIU, AA and their advisors.

I have used a combination of data as at 31 December 2018, 30 June and 31 December 2019 and 31 March 2020 for my analysis. I have also considered AmTrust's most up-to-date view of projected SCR coverage ratios which includes the impact of the COVID-19 pandemic. AmTrust has confirmed it has made me aware of all material developments that would affect my conclusions.

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

- AIU and AA will submit witness statements to the Court stating that all information provided to me is correct and complete in all material aspects.
- AIU and AA have each provided a Data Accuracy Statement confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.
- AIU and AA have each confirmed to me that there have been no material adverse changes to the financial position of AIU or AA since that information was provided to me.

- AIU and AA have read this Supplementary Report, and each has agreed that it is correct in terms of all factual elements of the Proposed Transfer.
- I have conducted basic checks on the data provided to me for internal consistency and reasonableness.
- My checks of the data have not revealed any cause for me to doubt that it is materially appropriate for me to rely on the integrity of the information provided for this report.

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

I have not needed to take any third-party legal advice on any aspects of the Proposed Transfer. AmTrust has confirmed that it has received no specific legal advice relevant to my role as IA for the Proposed Transfer that I have not been provided with.

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

2.5. Professional standards

This report complies with the following Technical Actuarial Standards issued by the Financial Reporting Council (FRC) in the UK:

- Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100); and
- Technical Actuarial Standard 200: Insurance (TAS 200).

I have considered The Actuaries' Code as issued by the IFoA when producing this report.

This report has been subject to independent peer review prior to its publication. This peer review has been undertaken by Declan Lavelle FSAI who is a Partner at LCP and has appropriate experience and expertise to act as the peer reviewer of this report and acted as the IA for the AIU to LMIE transfer.

2.6. Materiality

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

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

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

2.7. Definition of "materially adverse"

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

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

In this report, I have provided the rationale for my judgements and conclusions. These explain why, in each case, I have concluded whether or not policyholders and reinsurers are materially adversely affected.

3. My approach as IA and conclusions

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

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

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

3.1. Step 1: Assessing the provisions of AIU and AA

As IA, my overall assessments related to reserving are:

- whether an appropriate level of provisions is maintained for Non-transferring, Transferring and AA Policyholders; and
- whether any aspects of the reserving may lead to policyholders being materially adversely affected by the Proposed Transfer.

These assessments were considered in section 5 of the Scheme Report, based on data and provisions as at 30 June 2019. I have been provided with updated data and provisions as at 31 March 2020 and an update of any material changes to provisions since 30 June 2019.

Summary of GAAP booked provisions for AIU at 31 March 2020

€m	Gross of reinsurance	Net of reinsurance
Non-transferring AIU	677.9	156.2
Transferring to AA	279.0	84.2
Total AIU	**957.0**	**240.3**

Source: AIU, figures include Outstanding claims, IBNR and UPR (excluding ULAE and DAC overriding commission)
The corresponding table in the Scheme Report is within section 5.5

The gross and net transferring provisions have increased between 30 June 2019 and 31 March 2020, due to both an increase in business volumes over the period and deterioration in the reserves for some of the poorer performing accounts. The proportion of the transferring provisions to the total pre-transfer provisions, net of reinsurance, increased from c. 28% as at 30 June 2019 to c. 35% as at 31 March 2020.

The Italian medical malpractice business transferring from AIU to AA is significantly greater than AA's existing provisions as at 31 March 2020. It is approximately seven times AA's existing provisions on a gross of reinsurance basis, and three times on a net of reinsurance basis, highlighting the significance of this transferring portfolio to AA.

3.1.1. Updated independent projections

I have performed my own updated independent projections of the total Italian Medical Malpractice portfolio across AEL and AIU since my Scheme Report. My projections were based on claim triangles as at 31 December 2019 provided to me by AmTrust. I derived my own development patterns based on this data and supplemented this with wider benchmark data to inform my tail selections. I used a number of widely accepted actuarial methods and derived expected loss ratios for the more recent underwriting years based on averages across the more developed prior underwriting years.

My estimate of gross of reinsurance claims reserves was c. 1% lower than the aggregate of AEL and AIU's gross actuarial best estimates. There is a large amount of subjectivity around the selection of assumptions, but I consider the difference of c. 1% to be well within a range of reasonable best estimates, especially for a class of business with potentially volatile claims experience.

3.1.2. Findings from IVASS review

IVASS requested an independent actuarial valuation of the Italian medical malpractice business to be transferred from AIU and AEL to AA. This analysis was performed on an Italian GAAP basis, gross of reinsurance and net of deductibles, on data as at 30 September 2019.

The best estimate of the claims reserves from this review was €1,260m. An estimated range of +/-5% (+/-€63m) was derived supported by scenario analyses. I believe this range is narrow given the potentially volatile claims experience for this type of business, the inherent uncertainty and my wider experience of these types of portfolios, I believe a larger range around the best estimate claims reserves of between -10% to +15/20% could be supported.

A comparison between the independent estimate and AmTrust's estimate of the Hospital portfolio, which accounts for more than 90% of the total reserves, was performed. The independent estimate was approximately €20m (2%) higher than AmTrust's estimate.

This comparison is only a proxy for the true difference as AmTrust's estimate was on a UK GAAP basis whilst the independent estimate was on an Italian GAAP basis. However, I believe this is still a reasonable and proportionate comparison to make and the small difference is well within what I consider to be a reasonable range around the best estimate reserves.

The independent valuation was performed again on 31 December 2019 data. The independent estimate of reserves for the Hospital portfolio was lower than AmTrust's but not materially so, less than €10m.

3.1.3. Treatment of deductibles under Italian GAAP

Currently, AmTrust medical malpractice policies are written with self-insured retentions or deductibles paid by the insured. However, a large portion of the business transferring to AA was written with the deductibles paid upfront by the insurer to injured parties and then recovered from the insured. Under Italian GAAP, credit can only be taken for policy deductibles once the underlying claim has been paid. This will lead to an increase in provisions when the medical malpractice business transfers from AIU to AA.

AmTrust has sought accounting advice on this issue and its auditors have advised that the difference between the AEL/AIU and AA GAAP valuations for the transferring business (estimated to be c. €400m) can be treated as an intangible asset based on the auditor's interpretation of the relevant Italian standards (OIC 4 and OIC 24).

The difference in the treatment of deductibles is a GAAP issue. It has no impact on a Solvency II basis and therefore no impact on the Solvency II Technical Provisions nor the projected SCR coverage ratios for AA.

The impact on the new business being written in AA is not expected to be as significant as for the transferring business since it is now more common for the deductible to be paid by the insured, and this issue will only affect a small number of legacy policies.

The difference in valuation arising on the new business written in AA will be covered through a reinsurance agreement with AII. Deductibles are usually paid within a few months but, under this agreement, AII will cover any deductible receivables which are not paid by the hospitals after two years.

3.1.4. AA reserving policy

I have reviewed AA's updated reserving policy. It demonstrates that AA's reserving approach is in line with that of AIU. I have concluded that the transferring policyholders from AIU to AA will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

I have not performed a separate analysis of AA's existing provisions on the basis that:

- AA's provisions as at 31 March 2020 are only c. 5% of the total gross provisions transferring into AA from AIU and AEL; and
- AA's reserving process is the same at that for AIU and AEL.

3.1.5. Findings from finalised external regulatory reviews for AIU

AIU's responses and progress in addressing the key findings from the review requested by the CBI are summarised below:

- **Case estimation and pricing**: the review of the case estimation and pricing methodologies and processes for the Italian Medical Malpractice business concluded that they were broadly fit for purpose. Some of the recommendations made in the review revolved around making more use of available information to update case reserves. AIU has addressed this and, in supporting documentation, will explain why in some cases intermediary information has not been used. Other lower materiality recommendations have already been addressed by AIU.
- **Governance**: the report identified a shortage of resource in AIU's Actuarial Function, which affects its ability to deliver on its wider responsibilities, beyond core actuarial reserving. The report made a number of high and medium level recommendations arising from this. AIU has employed two additional staff in the Dublin office in 2019 to help address these recommendations. In addition, AIU will be improving its overall documentation as a priority during 2020.

The external report provides sufficient detail on both the review process and findings for me to assess its conclusions. I agree with the findings and conclusions and believe that they provide evidence, supplementing my own independent projections, of the appropriateness of AIU's booked provisions.

Conclusion

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

I have concluded that an appropriate level of provisions will be maintained for the Non-transferring, Transferring and AA Policyholders and that they will not be materially adversely affected by the reserving aspects of the Proposed Transfer.

3.2. Step 2: Assessing the capital positions of AIU and AA

As IA, my overall assessments related to capital are:

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

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

Projected SCR coverage ratios

The following tables set out the SCR and coverage ratios for AIU and AA pre- and post- the Proposed Transfer. Note that since providing my Scheme Report, AmTrust has updated its analysis of projected SCR coverage ratios to reflect changes in its business plan, particularly in light of the COVID-19 pandemic. As such, the coverage ratios quoted in this report have changed since those included in my Scheme Report. I have included last time's figures in brackets in the tables below.

AIU – SCR and coverage ratio pre- and post- the Proposed Transfer

€m	Pre-Transfer Day 0	Post-Transfer Day 1
Total own funds eligible to meet SCR	260.4 (270.1)	233.8 (240.5)
SCR	169.2 (168.4)	136.0 (160.6)
SCR coverage ratio	**154% (160%)**	**172% (150%)**

Source: AIU.

The corresponding table in the Scheme Report is within section 6.10

Note, consistent with the results in the Scheme Report, the table above shows the expectation that both parts of the transfer from AEL to AIU and AEL to AIU and the Proposed Transfer proceed on the Effective Date. In the event that that the AEL to AIU/AA transfer does not proceed as planned, AIU is still projected to have a 140% SCR coverage ratio through the Net Worth Maintenance Agreement with AFSI, a parent company of AIU.

Since the projections in my Scheme Report, the Day 0 projected SCR coverage ratio for AIU has decreased from 160% to 154%. This decrease is due to a drop in projected own funds and small increase in SCR as a result of changes in AIU's business plan including the impact of the COVID-19 pandemic.

At Day 0, AIU's SCR coverage ratio is projected to be above AIU's risk appetite level and at the lower end of the well-capitalised band described in the Scheme Report.

AIU's Day 1 SCR coverage ratio has increased from 150% to 172% since my Scheme Report and is in the middle of the well-capitalised band. This followed the new dividend arrangements within the AmTrust Group in response to the COVID-19 pandemic and changes in the treatment of profit commissions between the two sets of projections.

Overall, AIU's SCR coverage ratio is projected to increase from 154% to 172% post-transfer. The key drivers of the reduction in SCR are:

- Transfer of the Italian Medical Malpractice portfolio to AA;
- Fall in net earned premiums over the next 12 months as a result of the Proposed Transfer reducing premium and catastrophe risk; and
- Reduction in non-life underwriting risk leads to a greater level of diversification between other risks.

AIU's SCR coverage ratio is projected to remain above AIU's risk appetite of 140% following the transfer out of the Italian medical malpractice business to AA (and transfer in of the AEL business). Amtrust has committed to maintain AIU's SCR coverage ratio at 140% in the event that the AEL to AIU transfer does not complete.

Own funds decreased driven by the lower post-transfer SCR coverage target of 140% of 140% compared to 150% previously. It is projected to remain at 140% following the transfer out of Italian Medical Malpractice business to AA and whether or not the transfer into AIU of the AMIL business and/or the non-UK EEA business from AEL takes place.

AA – SCR and coverage ratio pre- and post- the Proposed Transfer

€m	Pre-Transfer Day 0	Post-Transfer Day 1
Total own funds eligible to meet SCR	59.2 (124.0)	256.5 (332.4)
SCR	39.6 (85.5)	174.9 (222.0)
SCR coverage ratio	**150% (145%)**	**147% (150%)**

Source: AA.
The corresponding table in the Scheme Report is within section 6.10

Since the projections in my Scheme Report, Day 0 own funds for AA have reduced from €124.0m to €59.2m whilst the SCR has decreased from €85.5m to €39.6m. Although AA's Day 0 SCR coverage ratio is still projected to be above the targeted risk appetite of 145%, the movements between the two sets of projections are significant and are attributable to:

- lower business volumes expected to be written in 2020 compared to previous expectations (€84m compared to €174m) which significantly reduced the projected level of own funds. The lower volume is due to renewing policies being written into AIU (and AEL) until the Proposed Transfer, rather than into AA as was originally planned;

- the placement of an excess of loss reinsurance arrangement on the medical malpractice professional indemnity business which significantly reduced catastrophe risk and the SCR;
- technical provisions are projected to be lower (€40m compared to €54m on a gross of reinsurance basis), operational and reserve risk also reduce and so does the SCR; and
- lower market risk following management action to move all investments into less risky Government bonds.

The excess of loss arrangement for AA includes two elements:

- €15m in excess of €5m claim by claim cover; and
- €15m in excess of €10m for aggregate net losses on claims greater than €5m.

The impact of the excess of loss arrangement is modelled in the Solvency II standard formula template for cat risk mitigation and then projected forward over 12 months in proportion to net earned premium.

AA's Day 1 SCR coverage ratio has reduced from 150% to 147% since my Scheme Report. This change reflects AmTrust's intention to align AA's post-transfer SCR coverage ratio closer to AA's risk appetite following the impact of the COVID-19 pandemic. This is not a material change. AA's coverage ratio is projected to remain towards the upper end of the sufficiently capitalised band through to June 2022.

Movement in Solvency II Balance Sheets

The following tables summarise the movements in AIU and AA's assets and liabilities on their Solvency II balance sheets between Day 0 and Day 1. It shows the movement due to each part of the transfer and the re-distribution of funds through dividend payments.

AIU

		Movement due to:			
€m	Day 0	AEL to AIU transfer	AIU to AA transfer	Dividend	Day 1
Total Assets	1,293.1	149.8	(351.2)	(40.0)	1,051.8
Total Liabilities	1,032.7	136.5	(351.2)		818.0
Own Funds	260.4	13.4	0.0	(40.0)	233.8
SCR	169.2				136.0
SCR coverage ratio	**154%**				**172%**

The SCR coverage ratio of AIU resulting from the transfers increases from 154% to 197% (own funds €273.8m, SCR €139.2m). This then decreases to 172% following the dividend payment to AII of €40m.

AA

		Movement due to:			
€m	Day 0	AEL to AA transfer	AIU to AA transfer	Dividend	Day 1
Total Assets	131.2	591.5	358.6	200.0	1,281.3
Total Liabilities	72.0	622.7	330.2		1,024.9
Own Funds	59.2	(31.2)	28.4	200.0	256.5
SCR	39.6				174.9
SCR coverage ratio	**150%**				**147%**

The SCR coverage ratio of AA resulting from the transfers decreases from 150% to 36% (own funds €56.4m, SCR €158.8m). This then increases to 147% following the re-distribution of funds of €200m.

Note that across all AIU and AA combined, a surplus of €10.6m (€13.4m less €31.2m plus €28.4m) arises from the following differences in valuations between entities:

- different loadings in technical provisions eg events not in data ("ENID") and gross expenses, and also in the treatment of ceded expenses in AIU;
- different risk margin loadings across the entities; and
- different tax rates across each entity which leads to different deferred tax positions.

Further detail around the capital movements are set out in the 'Summary of capital movements' section on page 29.

Scenario analysis

AmTrust has updated its analysis of projected SCR coverage ratios to reflect changes in its business plan, particularly in light of the COVID-19 pandemic. There remains considerable uncertainty regarding the impact of COVID-19 and AmTrust have considered various scenarios to illustrate this.

Amtrust have considered a scenario for AIU which reflects an extreme recession including the impact of the COVID-19 pandemic on the classes of business exposed to such a recession.

This scenario assumes a reduction in own funds of four times of that included within the base case (the scenario underpinning the updated projections in this report) reflecting a more severe deterioration in investment performance, lower business volumes and increases in bad debt and reserves.

The scenarios have not been modelled explicitly using economic indicators as the business written is not driven by such indicators. The analysis is based on the broader macroeconomic effects on the insurance performance of the business written eg the extreme recession scenario assumes a 14% drop in asset values.

The impact of this scenario on the Day 0 and Day 1 SCR coverage positions of AIU, assuming no management action, is set out below.

AIU – Extreme recession scenario

€m	AIU Day 0 – Base	AIU Day 1 - Base	AIU Day 0 – Stress	AIU Day 1 - Stress
Total own funds eligible to meet SCR	260.4	233.8	213.0	148.6
SCR	169.2	136.0	186.3	161.3
SCR coverage ratio	**154%**	**172%**	**114%**	**92%**

In the extreme recession scenario, AIU's Day 0 SCR coverage ratio is projected to decrease from 154% to 114% following a reduction in the level of own funds and increase in the SCR. On Day 1 it falls to 92% following the larger reduction in level of own funds relative to the SCR. In this scenario Non-transferring Policyholders are worse off following the Proposed Transfer. This is due to the more material impact that COVID-19 is expected to have on the business transferring in from AEL than the Italian medical malpractice portfolio transferring out to AA. However, AIU would still be able to pay claims as they arise even though the coverage ratio has dropped below 100%, since own funds are still positive.

For reasons set out in section 1.4, AmTrust expect the COVID-19 impact on the Italian medical malpractice portfolio to be limited, though this is likely to be affected by legal and/or political judgements around which there is still significant uncertainty.

AA – Severe reserve deterioration

AA is exposed to the risk that the level of reserves in the AIU (and AEL) Italian medical malpractice portfolios which transfer into AA deteriorate. I asked AmTrust to consider a severe reserve deterioration for AA where reserves increase by 40%.

€m	AA Day 0 - Base	AA Day 1 - Base	AA Day 0 – Stress	AA Day 1 – Stress
Total own funds eligible to meet SCR	59.2	256.5	53.6	134.2
SCR	39.6	174.9	40.8	220.2
SCR coverage ratio	**150%**	**147%**	**132%**	**61%**

Under this scenario AA's Day 0 SCR coverage ratio is projected to reduce to 132% compared to the base scenario of 150%. If this scenario were to happen after Day 1 of the Proposed Transfer, the coverage ratio would drop from 132% to 61% reflecting the more material impact a 40% deterioration in reserves has on the much larger portfolio of business post-transfer.

I consider a deterioration in reserves of this size to be unlikely. Whilst the Italian medical malpractice portfolio has historically seen deteriorations in reserves on older policy years, this has also been offset by improvements across more recent years. I believe that a further deterioration of 40% across all years, combined with the improvements being made to the case reserving processes to reduce the risk of unexpected future deteriorations, to be unlikely. I also note that even after such a deterioration, AA maintains own funds of €134m and it would take an even larger reserve deterioration before claims could not be paid Ie before own funds are completely depleted.

As noted earlier, AmTrust expect the impact of COVID-19 on AA's liabilities to be limited, though this is likely to be driven by legal or political judgments of which there is still significant uncertainty. Also, there are potential benefits from reduced exposure and claims frequency due to the impact of the COVID-19 pandemic which AmTrust have taken no credit for in their projections of the reserves.

Even in the severe reserve deterioration scenario claims would still be able to be paid. As such, I have not considered an explicit COVID-19 scenario given the results and conclusions would be similar to this reserve deterioration scenario.

Following the initial adverse impact of COVID-19 on AA's asset values in March 2020, investment values have since recovered. In addition, AA's investment action to move all investments into less risky Government bonds has meant the impact of a COVID-19 asset stress is not expected to be material.

Reinsurer default scenarios

Given the level of reinsurance protection that AIU and AA (and AEL) have, the risk of reinsurer default is a key uncertainty facing policyholders. I asked AmTrust to consider scenarios where there are no reinsurance recoveries from AII, a key reinsurer, but no haircut on the collateral backing the reinsurance on both a pre- and post-transfer basis.

AIU

€m	AIU Day 0 - Base	AIU Day 1 - Base	AIU Day 0 – RI default	AIU Day 1 – RI default
Total own funds eligible to meet SCR	260.4	233.8	61.8	98.6
SCR	169.2	136.0	198.5	142.6
SCR coverage ratio	**154%**	**172%**	**31%**	**69%**

Given AIU's significant reinsurance protection arrangement with AII, this scenario leads to a material reduction in AIU's SCR coverage ratio from 154% to 31%. Post-transfer the SCR coverage ratio is higher at 69% given the greater reinsurance coverage on the business transferring out to AA than the business remaining in, and transferring into, AIU. Therefore, under this scenario, AIU Policyholders are better off following the Proposed Transfer.

AIU is exposed to the risk of AII default and also the risk of failure of its new quota share arrangement of US sourced lines of business with an AmTrust US company. On the basis that AIU's exposure to AII default is greater, approximately 60%, the reinsurer default scenarios only consider the default of this entity.

If the new quota share arrangement was to also default, this would lead to the insolvency of AIU. I consider a scenario where both reinsurers default to be very unlikely.

AA

€m	AA Day 0 - Base	AA Day 1 - Base	AA Day 0 – RI default	AA Day 1 – RI default
Total own funds eligible to meet SCR	59.2	256.5	59.2	114.7
SCR	39.6	174.9	39.6	291.6
SCR coverage ratio	**150%**	**147%**	**150%**	**39%**

AA has no reinsurance exposure to AII prior to the transfer. As a result, there is no change in its SCR coverage on Day 0. However, upon transfer of business in from AIU (and AEL), the exposure increases leading to a reduction in the SCR coverage ratio from 150% to 39% in the event of default of AII. Therefore, in this scenario AA Policyholders are worse off following the Proposed Transfer. However, for reasons previously stated, I believe the likelihood of AII default to be low.

I consider the default of AII to be an unlikely event given its current A. M. Best Financial Strength Rating as of 13 August 2019 of “A-“ (Excellent) reflecting its balance sheet strength and level of free assets.

Summary of the impact of scenarios

Under the extreme recession scenario, Non-transferring Policyholders are better off post-transfer.

Under the severe reserve deterioration scenario, AA Policyholders are worse off post-transfer.

Under the reinsurer default scenario analysis, the Non-transferring Policyholders and the Transferring Policyholders are better off post-transfer, whilst the AA Policyholders are worse off.

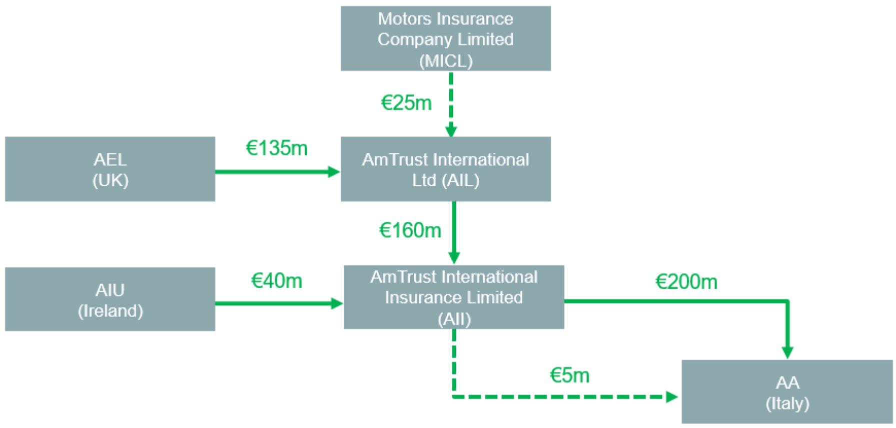
Whilst some policyholders are better off and others worse off under these scenarios, under all scenarios claims can still be paid as own funds remain positive. Further, these scenarios do not include any management actions and the Net Worth Maintenance Agreement guarantees the SCR coverage ratios at the risk appetite level until June 2021. Therefore, I have concluded that policyholders are not materially disadvantaged under these scenarios.

Summary of capital movements

To support the Proposed Transfer (AIU to AA) and the AEL to AIU and AEL to AA transfer, excess capital within AEL and AIU will be paid out as a dividend to AII, subject to regulatory approvals, plus contributions from other subsidiaries within the AmTrust Group. AII has also contributed €5m of capital which was paid to AA on 30 June 2020. AII will then provide an additional €200m to AA (funded by dividends from AEL, AIU and MICL, a subsidiary of AFSI) such that a Day 1 SCR coverage ratio of 147% for AA (ie above AA's risk appetite of 145%) is achieved.

The capital funding requirements have been calculated on Amtrust's latest assumptions regarding the impact of COVID-19 and also include the impact of additional reinsurance for AIU, reinsuring US sourced lines of business through a quota share arrangement with an Amtrust US company.

This is set out in the simplified diagram below showing the size of the dividends to be paid to AII and capital contribution to be made to AA by AII, assuming the COVID-19 assumptions used in AmTrust's analysis are realised:



The €200m contribution to AA is split as follows:

- €135m – via a dividend from AEL to AIL to AII;
- €25m – a portion of the dividend already made to AIL by MICL which will be paid as a dividend to AII; and
- €40m – via a dividend from AIU to AII.

AmTrust's projections indicate that additional capital will be required to support AA and AIU in 2021 and 2022 as follows:

- AA will require a total of €60m (€40m in 2021 and €20m in 2022); and
- AIU will require €30m in 2022.

The €90m will be funded through €80m in dividends from AEL (€25m in Q4 2020 and €27.5m in each of 2021 and 2022) and a €10m capital injection from AII.

Both AIU and AA need further capital support as they grow. AIU's growth is partly organic growth but also through the business transferring from AEL. In addition, it is becoming less reliant on reinsurance protection which necessitates additional capital support. AA is also growing slowly over time writing a long-tailed class of business which requires capital support.

Overall, AA and AIU are dependent on AII for €10m of capital over 2021 and 2022.

This commitment ultimately depends on the financial strength of the AmTrust Group, in particular AII. AII's current A. M. Best Financial Strength Rating as of 13 August 2019 is "A-" (Excellent) reflecting their balance sheet strength and level of free assets.

SCR and coverage ratios for Policyholders

- **Non-transferring Policyholders** – AIU's SCR coverage ratio increases from 154% to 172% post-transfer. As such, my view is that that these policyholders will be materially adversely affected by the Proposed Transfer.
- **Transferring Policyholders** – these policyholders will move from AIU with a coverage ratio of 154% to AA with a coverage ratio of 147%. Given the small decrease in coverage, I do not believe these policyholders will be materially adversely affected by the transfer.
- **AA Policyholders** – AA's SCR coverage ratio decreases from 150% to 147% post-transfer. Given the small decrease in coverage, I do not believe these policyholders will be materially adversely affected by the Proposed Transfer.

I conclude that the security provided to all groups of policyholders will not be materially adversely affected by the Proposed Transfer.

Conclusion

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

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

3.3. Step 3: Assessing overall policyholder security

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

- whether the likelihood of valid policyholder claims being paid is maintained following the Proposed Transfer for Non-transferring, Transferring and AA Policyholders; and
- whether any change in policyholder security results in policyholders being materially adversely affected by the Proposed Transfer.

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

GAAP balance sheet projections

The table below shows simplified balance sheets for AIU and AA pre- and post- the Proposed Transfer.

GAAP balance sheets of AIU and AA pre- and post- the Proposed Transfer (€m)

	AIU €m Day 0	AA €m Day 0	AIU €m Day 1	AA €m Day 1
Investments and cash	399	68	286	541
Deferred acquisition costs	40	10	38	26
Reinsurers recoverables	741	27	647	596
Insurance and int. receivables	97	17	84	32
Other assets	337	20	299	70
Total Assets	**1,614**	**141**	**1,353**	**1,264**
Technical provisions	1,010	63	844	916
Technical creditors	202	24	183	45
Other liabilities	78	3	76	7
Total Liabilities	**1,290**	**90**	**1,104**	**968**
Total Equity	**324**	**51**	**249**	**296**

Source: AmTrust.
The corresponding table in the Scheme Report is within section 7.2

As expected, given the Proposed Transfer, the key movements in the balance sheet for AIU are the reduction in technical provisions, together with the corresponding reduction in reinsurance recoverables, and the reduction in investments and cash. The reduction in AIU's balance sheet reflects that business transferring out to AA is more significant than that transferring in from AEL.

AA's balance sheet increases significantly due to the receipt of the transferring AEL business as well as the AIU portfolio.

Conclusion

There have been no changes to the Proposed Transfer that affect the likelihood of policyholders receiving payments due on their claims or reduce the security provided to the policyholders since the Scheme Report. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

I have concluded that the security provided to the Non-transferring, Transferring and AA Policyholders will not be materially adversely affected by the Proposed Transfer.

3.4. Step 4: Assessing policyholder communications

The assessments related to the communication plan were considered in section 8 of the Scheme Report.

Communications plan

AIU has communicated with policyholders in line with the original communications plan. I believe the communication strategy to be appropriate in ensuring the relevant parties are adequately notified of the Proposed Transfer.

No communications have been received from policyholders as at 21 July 2020.

Objections

The key aspect of the update on policyholder communications is for me to consider any objections to the Proposed Transfer. As of 21 July 2020, no objections to the Proposed Transfer had been received.

AIU has notified all reinsurers whose contracts of reinsurance will be transferring to AA of the Proposed Transfer. No objections have been raised by any of these parties.

Conclusion

The communications plan has been executed as set out in the Scheme Report and no objections to the Proposed Transfer have been received. I am, therefore, satisfied that my conclusions remain unchanged from the Scheme Report. In summary:

Based on my review of the communication strategy, I have concluded the planned communications strategy will ensure adequate coverage of affected parties.

I have also concluded that the planned communication is sufficiently clear for policyholders to understand the effects of the Proposed Transfer.

3.5. Step 5: Assessing potential impact on customer service and other considerations that might affect policyholders

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

Operational issues arising from COVID-19

Whilst the uncertainty related to the evolving nature of the pandemic continues, any operational issues are likely to emerge over the short term as AmTrust's claims teams adjust to the new conditions. AmTrust does not expect any operational difficulties which may arise over the short term to have a material impact on policyholders.

Conclusion

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

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

4. Conclusions and Statement of Truth

I have considered the Proposed Transfer and its likely effects on the Non-transferring, Transferring and AA Policyholders and the transferring reinsurers.

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

I have concluded that:

- **The security provided to Non-transferring Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Non-transferring Policyholders following the Proposed Transfer.**
- **The security provided to Transferring Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for Transferring Policyholders following the Proposed Transfer.**
- **The security provided to AA Policyholders will not be materially adversely affected by the Proposed Transfer. No material impact on service standards is expected for AA Policyholders following the Proposed Transfer.**
- **Reinsurers of AIU who provide cover for the transferring business will not be materially affected by the Proposed Transfer.**

4.1. IA duty and declaration

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

Stewart Mitchell FIA
Partner

21 July 2020

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The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with AmTrust Management Services Limited. It is subject to any stated limitations (eg regarding accuracy or completeness).

This Scheme Report, which is our work, has been prepared for the purpose of accompanying the application to the Irish High Court in respect of the insurance business transfer scheme described in this report, in accordance with Section 13 of the Assurance Companies Act 1909. The Scheme Report is not suitable for any other purpose.

A copy of the Scheme Report will be sent to the Central Bank of Ireland and will accompany the Scheme application to the Court.

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

Professional Standards

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

Appendix 1 – Summary of data provided

The following is a list of the key data items I have requested and received, or accessed directly, in assessing the Proposed Transfer. I continue to also rely on all data items received that are listed in Appendix 4 of the Scheme Report. All data I have requested has been provided to me. AIU and AA have each provided Data Accuracy Statements confirming that the data and information provided to me regarding the Proposed Transfer are accurate and complete.

1. Draft Court and regulatory documents prepared by AIU/AA for the Proposed Transfer, including:

- Draft verifying affidavit – AIU (July 2020)
- Draft verifying affidavit – AA (July 2020)
- Draft sanctions order – July 2020

2. Responses and objections from stakeholders to the Proposed Transfer

- Update on objections (July 2020)

3. Documents relating to provisions and reserving processes, including:

- Summary of provisions as at 31 March 2020
- Updated projected GAAP balance sheet and SCR coverage ratio projections at Day 0 and Day 1 for AIU and AA (July 2020)
- Paper and scenarios on the impact of the COVID-19 pandemic
- Results of updated reserve review requested by IVASS

4. Documents relating to capital and related processes, including:

- SCR coverage ratio calculations for AIU and AA (July 2020)
- Paper describing capital projections to support the AmTrust transfers (July2020)
- Draft Net Worth Maintenance Agreements (July 2020)

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