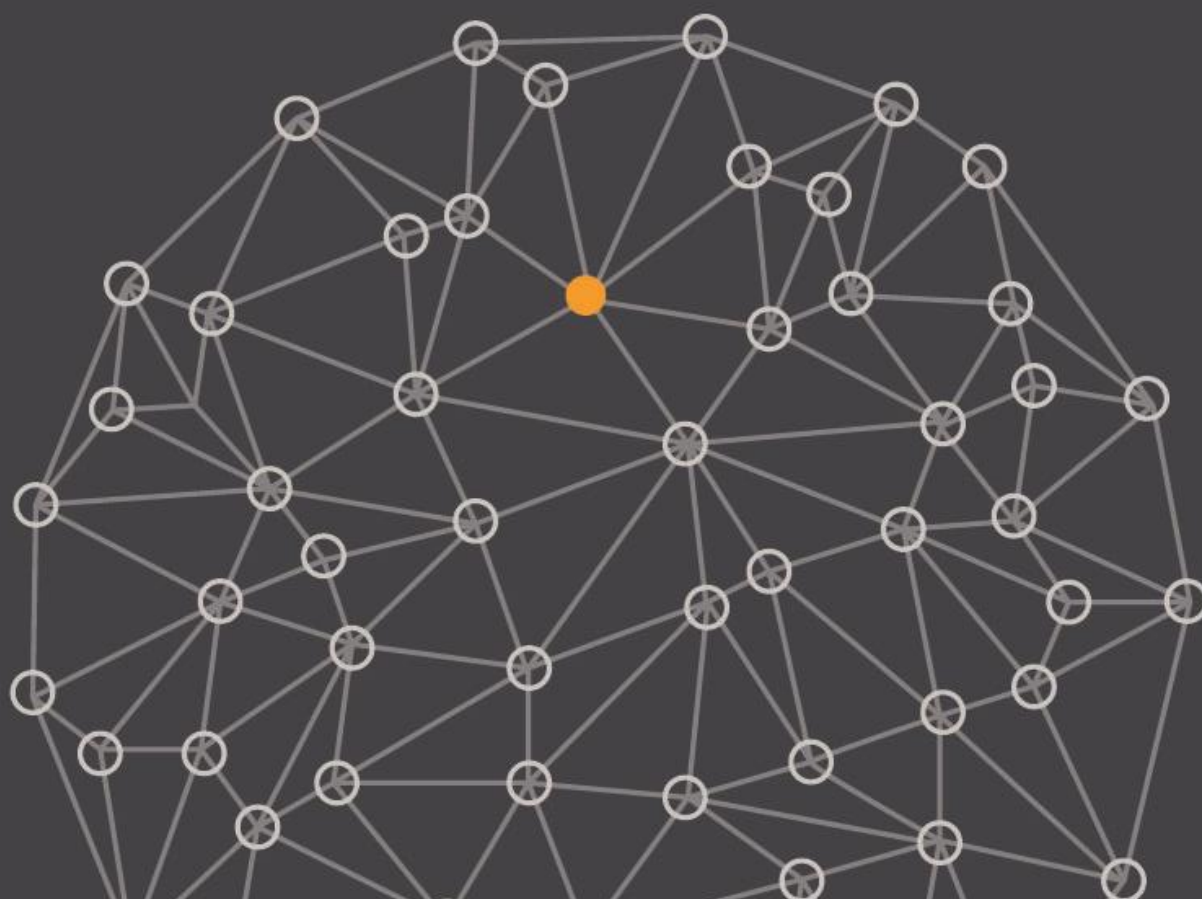


The North of England Protecting and Indemnity Association Limited

Supplementary Report of the Independent Expert on the proposed transfer of business from Sunderland Marine Insurance Company Limited to The North of England Protecting and Indemnity Association Limited

9 June 2020

Derek Newton, FIA





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1. Purpose and Scope

- 1.1 I, Derek Newton, prepared a report (the "**Report**") to the Court, dated 18 February 2020 and entitled "*Report of the Independent Expert on the proposed transfer of business from Sunderland Marine Insurance Company Limited to The North of England Protecting and Indemnity Association Limited*".
- 1.2 The conclusions of the Report were based on financial information up to 20 February 2019 and other information available to me when I prepared the Report. Since preparing the Report, I have been provided with more recent financial and other information in respect of the Companies (the "**Additional Information**"). Details of the material elements of the Additional Information are set out in Appendix B.
- 1.3 In paragraphs 1.36 and 2.3 of the Report, I stated that, shortly before the Court hearing at which an order sanctioning the Scheme will be sought and before the Jersey Court hearing at which an order sanctioning the Jersey Scheme will be sought, I would review any relevant matters which might have arisen since the date of the Report (I further referred to such a review in paragraphs 1.37, 1.54, 5.62, 6.26, 6.68 and 9.7 of the Report). Such relevant items would typically include:
 - the extent to which the operational plans of NOE or SMI have altered (relative to the position at the date of the Report);
 - the latest financial statements of NOE, SMI and NEMIA; and
 - the most recently prepared figures relating to the solvency capital position of NOE and SMI.

I have also considered the impact to date and the possible future impact of the ongoing COVID-19 pandemic.
- 1.4 I also said in the Report that I would consider explicitly the following items:
 - What adjustments have been made to the SMI reserving models to allow for the change in the SMI case reserving philosophy to bring it into line with that of NOE (as at the date of the Report, work to adjust the reserving models was ongoing); and
 - The impact on NOE's Solvency II technical provisions ("**TPs**") of the change in NOE's reserving approach with effect from 20 November 2019, from a stochastic to a deterministic approach (as at the date of the Report, the work was ongoing to determine what, if any, impact this change would have on the best estimate claims liabilities that feed into NOE's TPs).
- 1.5 This report (the "**Supplementary Report**") provides a brief summary of my review of the Additional Information and explains how, if at all and as a result of my review of the Additional Information, I have changed my conclusions from those set out in the Report. As such, the Supplementary Report should be considered supplementary to the Report and does not supersede it. Unless stated otherwise in the Supplementary Report, all analyses and conclusions as set out in the Report remain valid.
- 1.6 The Supplementary Report should be read in conjunction with the Report and the full terms of the Schemes. The Supplementary Report has been produced on the same basis as set out at Section 1 of the Report. In particular, it has the same scope, and is subject to the same reliances and limitations. Terms used in this Supplementary Report have the same meanings as in the Report (I have attached, in Appendix A, a list of definitions).
- 1.7 Reliance has been placed upon, but is not limited to, the Additional Information, as well as upon the information set out in Appendix G of the Report. My opinions depend on the accuracy and completeness of this data, information and the underlying calculations. I have discussed the Additional Information with the Companies, and have considered how it has changed from similar information provided in support of the Report. Except where stated otherwise, I have not re-reviewed the methodology and assumptions used by the Companies in their assessments of the liabilities and solvency capital of their respective firms, and I have not attempted to review in detail the calculations performed. I am unaware of any issue that might cause me to doubt the material accuracy of the Additional Information, but I give no warranty as to its accuracy. I accept no responsibility for errors or omissions arising in the preparation of the Supplementary Report, providing that this shall not absolve my liability arising from an opinion expressed recklessly or in bad faith.

- 1.8 In all cases, I have requested the most recent information available. Both NOE and SMI have informed me that there have been no developments since the date of the Report, other than as provided in the Additional Information, that might be relevant to the Schemes.
- 1.9 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the IFoA, including *TAS 100: Principles for Technical Actuarial Work* and *TAS 200: Insurance*. I have complied with such standards, subject to the principles of proportionality and materiality.
- 1.10 In accordance with *Actuarial Profession Standard X2*, as issued by the IFoA, I have considered whether this Supplementary Report should be subject to Work Review. I concluded that it should, and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Supplementary Report or in the preparation of this Supplementary Report, but who would have had the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that this Supplementary Report should be subject to Independent Peer Review. I confirm that this Supplementary Report has been subject to Independent Peer Review prior to its publication.
- 1.11 This Supplementary Report has been prepared under the terms of the guidance set out in the Policy Statement and in SUP18. I have also followed the guidance contained within FG18/4.
- 1.12 In paragraph 6.4 of the Report, I explained that certain capital requirements are private matters between insurers and the PRA and, therefore, I was not at liberty to disclose in the Report actual figures relating to those requirements, or figures by which those amounts could be calculated. As part of my analysis, I considered the extent to which NOE and SMI each held capital in excess of their regulatory solvency levels, and referred to the ratio of the actual capital that the entity under consideration held relative to the regulatory solvency capital requirement to be the “Capital Cover Ratio”. Purely for comparative purposes in the Report, I defined the following terms:
- “sufficiently capitalised” refers to a Capital Cover Ratio between 100% and 119%;
 - “more than sufficiently capitalised” refers to a Capital Cover Ratio between 120% and 149%;
 - “well-capitalised” refers to a Capital Cover Ratio between 150% and 199%; and
 - “very well-capitalised” refers to a Capital Cover Ratio of 200% or more.
- In this Supplementary Report, I have adopted the same terminology.
- 1.13 The remainder of the Supplementary Report follows, for ease of reference, a structure that is similar to that of the Report, albeit omitting background information and explanation that does not require repeating:
- **Section 2:** I provide an executive summary of the Supplementary Report.
 - **Section 3:** I consider any changes in the information underlying the Report for the Companies. This is equivalent to Section 4 of the Report; I have not repeated in the Supplementary Report the background to the regulatory environment in which the Companies operate, which was described in Section 3 of the Report and which has not changed.
 - **Section 4:** I consider any changes resulting from the Additional Information in my view of the likely impact of the Schemes on the Transferring Policyholders. This is equivalent to Section 6 of the Report; I have not repeated in the Supplementary Report the key provisions of the Schemes, which had appeared in Section 5 of the Report.
 - **Section 5:** I consider any changes, resulting from my review of the Additional Information, in my view of the likely impact of the Schemes on the policyholders remaining behind, post-Schemes, in either NOE or SMI. This is equivalent to Section 7 of the Report.
 - **Section 6:** I cover more general issues relating to the Schemes and the management of the Companies. This is equivalent to Section 8 of the Report.
- 1.14 I summarise my conclusions in Section 7.

2. Executive summary

CONCLUSION

- 2.1 In paragraph 2.1 of the Report, I set out my conclusions in respect of the impact of the Schemes on the various groups of policyholders who might be affected. I have considered developments that have occurred since the data of the Report, including draft results for SMI, NOE and NEMIA for the year ending 20 February 2020 and the emergence of the COVID-19 global pandemic. While these developments have resulted in changes to some of the metrics that I have used when formulating my views, none have created changes of sufficient magnitude that have caused me to revise my conclusions.
- 2.2 Therefore, I conclude that, provided the proposed Schemes operate as intended, and I have no grounds for believing that they will not do so:
- Neither the Scheme nor the Jersey Scheme will materially adversely affect the security of benefits to policyholders of either SMI (both those policyholders being transferred under the Schemes and those who are holders of Residual Policies) or NOE;
 - Neither the Scheme nor the Jersey Scheme will have an impact on service standards experienced by either the policyholders of SMI or the existing policyholders of NOE; and
 - Neither the Scheme nor the Jersey Scheme will result in any loss or dilution of the constitutional rights to which the members of NOE are currently entitled, including but not limited to their entitlements and obligations as policyholders.
- 2.3 These conclusions are unchanged from those set out in the Executive Summary of the Report.

COVID-19 PANDEMIC

- 2.4 The ultimate outcome of the COVID-19 pandemic remains uncertain. Much will depend on factors as yet unknown, such as how quickly countries and their economies can come out of lock-down, whether subsequent (partial) lock-downs will be necessary and whether the economies of individual nations are affected in the long-term. However, it appears most likely to affect SMI and NOE in the following areas: cash flows, insurance claims, asset values and operational efficiency.
- The value of the investments held by SMI, NOE and NEMIA have fallen. However, the portfolios are invested predominantly in high quality fixed income securities, which has moderated the impact of the significant falls and volatility seen in the global stock markets;
 - Reduced global economic activity is leading to decreased commercial activity by ship-owners, which in turn is likely to give rise to a corresponding reduction in claim volumes and magnitudes experienced by the North Group;
 - Cash in-flow has declined but the assets of SMI, NOE and NEMIA are highly liquid so the North Group foresees no liquidity problems;
 - As at the date of this Supplementary Report, all North Group offices¹ have been working remotely for several weeks, with minimal apparent operational disturbances.
- 2.5 While it appears (as at the date of this Supplementary Report) that the COVID-19 pandemic will affect some parts of the North Group's business more than others, I have concluded that, overall, the impact on the North Group has been, and is likely to be, broadly neutral, albeit marginally more adverse for SMI than for NOE.
- 2.6 Due to the uncertainty induced by the COVID-19 pandemic, I will continue to monitor developments up to the dates of the hearings at which the Court will be asked to sanction the Scheme and at which the Jersey Court will be asked to sanction the Jersey Scheme. If there are material developments subsequent to this Supplementary Report, including any changes to the expected impact of the COVID-19 pandemic on any of SMI, NOE and NEMIA, then I will report them directly to the Court (and to the Jersey Court).

¹ On 1 May 2020, the Shanghai office of the North Group completed a phased return to normal operations. All other North Group offices remain closed.

APPROACH TO COMMUNICATION WITH POLICYHOLDERS

- 2.7 The North Group has attempted to notify directly or via relevant intermediaries the members, policyholders and reinsurers identified in paragraph 5.55 of the Report. It has dispatched (roughly) 4,600 communication packs. As at the date of this Supplementary Report:
- 52 direct mailings to SMI policyholders were initially returned but have subsequently been delivered successfully to alternate addresses. NOE has successfully contacted those of its policyholders whom it wished to inform directly but has been unable to contact seven of the members with whom it sought to communicate. Investigations have determined that one member no longer exists, another is an Iranian company subject to sanctions and the remaining have addresses that no longer exist.
 - About 64% (by premium volume over the past three years) of the relevant SMI intermediaries have confirmed that they have communicated about the Schemes with those policyholders identified in paragraph 5.55 of the Report for whom they are responsible, and SMI continues to chase key intermediaries who have thus far not provided such confirmation. No relevant intermediary of either NOE or SMI has reported any unsuccessful deliveries; and
 - All relevant intermediaries have confirmed that they have communicated successfully about the Schemes with those reinsurers identified in paragraph 5.55 of the Report for whom they are responsible.
- 2.8 In addition to direct, written correspondence, the Companies also placed notifications in various publications in the UK and in Jersey, as well as in international edition of the Financial Times and various specialist publications that are likely to be read by the Companies' policyholders.
- 2.9 I am satisfied that the communications effected by NOE and SMI, as outlined above, have been in line with the communications plan that I summarised in the Report. I am also satisfied that, while there remain at least a very small number of policyholders whom they have tried, but been unable, to contact, they have made, and continue to make, reasonable efforts to ensure that those policyholders are informed of the Schemes.
- 2.10 As the date of this Supplementary Report, 10 responses had been received relating to the notification process. I have been provided with a summary of each response, and of the North Group's actions in respect of each response, and I have considered each of these. The majority of responses have been to inform the Companies that the recipient of the communication pack is no longer a policyholder. Within the responses received, there have been no objections to the Schemes.
- 2.11 I have also been told that, as at the date of this Supplementary Report, the insurance regulators in 18 non-UK EEA states have confirmed their non-objection to the Scheme, and that no EEA insurance regulator has raised any objections to the Scheme. The deadline by which insurance regulators in the EEA states should have registered any objections was 3 June 2020. Therefore, I consider it very unlikely that any of the insurance regulators in EEA states will object to the Scheme.
- 2.12 No response to the notifications that has been received by SMI or NOE by the date of this Supplementary Report has caused me to alter any of my conclusions that I set out in the Report.

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

- 3.1 In this section of the Supplementary Report, I set out the elements of the background information and key metrics relating to the entities involved in the Schemes that are no longer as stated in the Report. Much of the information set out in this section is based on draft financial and other statements as at 20 February 2020. I am not at liberty to record the actual figures as at 20 February 2020 in this Supplementary Report because they have not yet been published. Moreover, they are draft figures that have yet to be audited and finalised, and, therefore, they remain subject to change. However, I have been told by management that it does not expect the draft numbers that have been provided to me to be materially different from the finalised and published figures.

NOE

Authorisation

- 3.2 NOE has applied for certain insurance and reinsurance licences, which would then enable it to accept the transfer of SMI business relating to countries in which NOE was not hitherto licenced. These applications had been made prior to the date of the Report but I did not refer to them in the Report. I note that, as at the date of this Supplementary Report, NOE was still waiting to be granted reinsurance licences to enable it to write reinsurance business in Argentina and Venezuela. I note that:
- As at the date of this Supplementary Report, SMI has no active policies in Argentina but is handling 60 open claims relating to business that it wrote in Argentina. The North Group does not intend to write further business in Argentina;
 - As at the date of this Supplementary Report, SMI has 31 active policies in Venezuela, with five active policyholders, and is handling one open claim relating to business that it wrote in Venezuela.
- 3.3 NOE expects eventually to be granted the aforementioned licences in Argentina and Venezuela but it is possible that the licences will not be granted until after the Effective Date. In such an event, those Transferring Policies that were written in Argentina or Venezuela will remain within SMI as Residual Policies, until such time as the relevant licences have been granted at which time these policies will be transferred to NOE.

Business Written

- 3.4 The main elements of the business written by NOE in the year ending 20 February 2020 were the same as those written in the year ending 20 February 2019. There are differences in the profile of the business written in the two years, but these differences are in line with the North Group's plan:
- The business written by NOE in the year ending 20 February 2020 included business written through its branches in Australia and New Zealand. Previously, that business would have been written by SMI (and partially reinsured to NOE, under the 60% quota share arrangement), prior to NOE setting up its own branches in Australia and New Zealand and the subsequent transfer to those branches of SMI's Australia and New Zealand branch business. That transfer took place during the year ending 20 February 2019. The Australia and New Zealand branch business contributed roughly 10% of the premiums written in the year ending 20 February 2020. This has also reduced the proportion of the business written by NOE that is attributable to the inwards reinsurance of SMI's business.
 - Since 20 February 2019, North EU has underwritten (nearly) all (non-UK) EEA insurance business on behalf of the North Group. Much of this business would previously have been written by NOE. This has reduced NOE's premium income for the year ending 20 February 2020 by about a third.
- 3.5 Aside from the above comments, NOE's written premiums remain dominated by P&I business, with much smaller volumes of FDD business and very small volumes of War coverage.
- 3.6 Fixed premium business in the year ending 20 February 2020 accounted for a similar proportion of the North Group's premium income as it did in the year ending 20 February 2019. The proportion remains projected to increase to around 30% by 2020/21.
- 3.7 NOE ceded nearly 92% of its written premiums to reinsurers (primarily NEMIA).

3.8 The business written in the year ending 20 February 2020 remains well spread across the globe.

Key financial information

- 3.9 As at 20 February 2020, on an IFRS basis, the technical provisions of NOE, gross of reinsurance, were roughly 30% (£254 million) more than they had been as at 20 February 2019. The main reason for this increase has been one particularly large claim incurred during the financial year, for which the incurred amount was US\$440 million. This claim remained open as at 20 February 2020. However, the amounts ceded have more than kept pace with the increase in the gross amounts so that the technical provisions, net of reinsurance, as at 20 February 2020 were lower than they had been as at 20 February 2019.
- 3.10 As at 20 February 2020, on an IFRS basis, the accumulated surplus attributable to members of NOE was lower than it had been as at 20 February 2019, by about 5%. The net accumulated surplus represents the capital of the company under IFRS (it should be noted that this is not the same as the own funds available to meet the solvency capital requirements under Solvency II).
- 3.11 As at 20 February 2020, on an IFRS basis, the value of the investment assets held by NOE was 6% more than it had been as at 20 February 2019. The majority of the investment assets continues to comprise investments in North Group undertakings, but debt securities comprise roughly a third by value and property, plant and equipment comprise another 12%. These proportions are very similar to those as at 20 February 2019.
- 3.12 As at 20 February 2020, NOE's SCR under Solvency II had reduced materially from that as at 20 February 2019. This was expected, as NOE's business volumes reduced over the year due to EEA business now being written by North EU (only partially offset by NOE assuming SMI's former branch business in Australia and New Zealand). Similarly, the eligible own funds have also reduced. As a result of these changes, as at 20 February 2020, NOE is a very well-capitalised insurer (I defined this term in paragraph 1.12, above).
- 3.13 I note that both the eligible own funds and the SCR are less than had been forecast in NOE's ORSA document, dated December 2019 (the SCR to a greater degree, resulting in a higher than forecast Capital Cover Ratio). The forecast of the eligible own funds had assumed that releases from the claims technical provisions would be at the same level as seen in earlier years, in the event, the releases were smaller than had been expected in the ORSA. The reduction against forecast in the SCR was attributable to a reduced interest rate risk. The ORSA had forecast that NOE would be a well-capitalised insurer as at 20 February 2020 whereas, as noted in paragraph 3.12, above, it was in fact a very well-capitalised insurer as at that date.
- 3.14 NOE's financial strength remains rated by Standard & Poor's (last updated January 2020) as A (stable), with its capital adequacy rated as AAA ("extremely strong").

Reserving

- 3.15 In the Report, I explained in some detail the approach taken by NOE's reserving actuary when developing estimates of NOE's unpaid claims amounts. I noted that, with effect from 20 November 2019, NOE had changed its reserving models, methods and assumptions from a stochastic approach to a deterministic approach. NOE anticipated that this would enable better traceability and visibility of assumptions, as well as greater consistency with the reserving approach taken in respect to SMI's business. However, I also noted that, as at the date of the Report, work was ongoing to determine what, if any, impact this change would have on the best estimate of NOE's claims liabilities.
- 3.16 I have since been provided with extracts from the papers for the December 2019 and March 2020 meetings of the North Group Reserving Committee. These papers relate to the changes in the reserving model and specifically to tests that have been performed, initially by parallel running of the old stochastic model and new deterministic model, to identify the potential balance sheet impact of changing the approach. The parallel runs were conducted on data as at 20 February 2019 and as at 20 August 2019, both gross and net of reinsurance (excluding the quota share cover provided by NEMIA). The results were discussed with the external actuaries.
- 3.17 The four tests (gross and net, and as at the two dates) resulted in higher aggregate estimates of ultimate costs (and hence reserves) being generated by the deterministic method.

- 3.18 The testing identified a weakness in the deterministic model as initially developed, in that, by effectively applying the excess of loss ("XoL") recoveries to the most likely gross scenario, the model understated the mean value of the XoL recoveries and hence overstated the mean value of the ultimate costs, net of reinsurance. This issue was particularly acute for the most recent policy year. The stochastic method explicitly allowed for this by taking the mean value of 10,000 scenarios.
- 3.19 As a result, the approach has been modified, for P&I non-charters business only, and also for the current (or expiring) policy year only. Reruns of the tests indicate that the results of the new (revised) deterministic method are now much closer to those of the old stochastic method, both in aggregate and specifically for the current (or expiring) policy year. Moreover, the progression in the results of the (revised) new model between those as at 20 November 2019 and those as at 20 February 2020 are in-line with what NOE would have expected.

Conclusion regarding NOE's revised reserving approach

- 3.20 Based on my understanding of the revised reserving method and on the testing outlined in the aforementioned reports to the North Group Reserving Committee, I am satisfied that the change in reserving approach will not have materially distorted the best estimate of NOE's outstanding claims as at 20 February 2020. Hence, I am further satisfied that, as there have been no further changes that affect the production of NOE's Solvency II technical provisions ("TPs"), the change in reserving approach will not have materially distorted NOE's TPs as at 20 February 2020.

Brexit

- 3.21 I explained in the Report (for example, in paragraph 5.15) the Brexit Part VII that constitutes NOE's plans for mitigating the likely loss, post completion of the Transition Period, of passporting rights that would have enabled it to continue to service the EEA Legacy Business. There have been no changes to those plans since the date of the Report. I note that the North Group has initiated the process for gaining approval for the Brexit Part VII but that it has informed the PRA that its decision to execute the Brexit Part VII is contingent on the outcome of the Brexit trade negotiations. To that end, substantive work on the Brexit Part VII will not commence until the Schemes have been completed (assuming that they are approved).

SMI

Business Written

- 3.22 The main elements of the business written by SMI in the year ending 20 February 2020 were the same as those written in the year ending 20 February 2019. There are differences in the profile of the business written in the two years, but these differences are in line with the North Group's plan:
- The business written by SMI in the year ending 20 February 2019 included business written through its branches in Australia and New Zealand. As explained in paragraph 3.4, above, that business was transferred to NOE during the year ending 20 February 2019, subsequent to which SMI's branches in Australia and New Zealand were closed.
 - As also explained in paragraph 3.4, above, since 20 February 2019, North EU has underwritten (nearly) all (non-UK) EEA insurance business on behalf of the North Group. Some of this business would previously have been written by SMI. SMI has written no (non-UK) EEA business since prior to 20 February 2019.
- 3.23 As a result of the above changes, SMI's written premiums in the year ending 20 February 2020 were roughly half what they had been in the year ending 20 February 2019.
- 3.24 Roughly 65% of the written premiums have been ceded to reinsurers (primarily NOE).

Key financial information

- 3.25 As at 20 February 2020, on an IFRS basis, the technical provisions of SMI, gross of reinsurance, were roughly 5% more than they had been as at 20 February 2019. This was driven by an increase in the provision for outstanding claims, the UPR having fallen due to the significant reduction in the premiums written (as discussed in paragraph 3.22, above). However, the amounts ceded have more than kept pace with the increase in the gross amounts so that the technical provisions, net of reinsurance, as at 20 February 2020 were lower than they had been as at 20 February 2019.

- 3.26 As at 20 February 2020, on an IFRS basis, the accumulated surplus attributable to members of SMI (which, as the owner of SMI, is solely NOE) was lower than it had been as at 20 February 2019, by about 5%.
- 3.27 As at 20 February 2020, on an IFRS basis, the value of the investment assets held by SMI was about 20% less than it had been as at 20 February 2019. Almost all of the investment assets now comprises debt securities.
- 3.28 As at 20 February 2020, SMI's SCR under Solvency II had reduced materially from that as at 20 February 2019. This was expected as SMI's business volumes reduced over the year due to EEA business now being written by North EU, and with the run-off of the Canadian branch business. However, the eligible own funds have increased slightly. As a result of these changes, as at 20 February 2020, SMI is a very well-capitalised insurer.
- 3.29 I note that both the eligible own funds and the SCR are more than had been forecast in SMI's ORSA document, dated December 2019 (the SCR to a greater degree). The ORSA had forecast that SMI would be a very well-capitalised insurer as at 20 February 2020.
- 3.30 SMI's financial strength is rated as A (stable) by Standard & Poor's.

Jersey business

- 3.31 As at 20 February 2020, there were no outstanding claims relating to SMI's Jersey Business.
- 3.32 In the year ending 20 February 2020, the gross premiums written in respect of SMI's Jersey Business totalled £67,455 (spread across 34 policies). This represents 0.29% of the total gross written premium for SMI in the year ending 20 February 2020.
- 3.33 On the basis of the above, I continue to consider the gross reserves attributable to SMI's Jersey Business to be negligible in the context of SMI's overall reserves. I have therefore not considered them specifically in the remainder of the Supplementary Report.

SMI's branch in Canada

- 3.34 In the Report, I noted that SMI has a licensed branch office in Canada that had ceased writing new insurance in March 2017 and was in run-off. SMI's Canadian branch had written hull and liability insurance business, which was not included within the Transferring Business under the Scheme. Instead, the North Group intended either to transfer the Canadian hull and liability insurance business to a third party insurer by means of an assumption reinsurance transaction (the "Canada Assumption Reinsurance") or to continue to run it off to extinction. If, by the Effective Date of the Scheme, the Canadian hull and liability insurance business had neither been transferred to a third party by means of the Canada Assumption Reinsurance nor had fully run-off, then its policies would be treated as Residual Policies for the purposes of the Scheme and would remain with SMI, pending completion of the Canada Assumption Reinsurance or the eventual run-off of these policies.
- 3.35 I have been provided with email correspondence that confirms that the last outstanding claim payment relating the Canadian hull and liability insurance business was agreed before the end of March 2020, and the formal signed release has now been received by SMI. Therefore, there is no longer any need for the Canada Assumption Reinsurance and that transaction will not take place.
- 3.36 SMI will now seek permission from OSFI for its branch in Canada to cease carrying-on business in Canada, to be de-authorised and to release its Canadian Trust Fund assets². A continuing run-off of Canadian branch business, which post-Scheme would have comprised Residual Policies within SMI, would have prevented SMI from seeking such permission; completion of the run-off prior to the Effective Date has removed this obstacle.

² The North Group has provided me with an indicative timetable for SMI exiting Canadian jurisdiction. This shows that SMI is not expected to file its application to OSFI for the release of its Canadian Trust Fund assets before 28 June 2020, i.e. two days prior to the Effective Date. Therefore, it is very unlikely that these assets will have been released prior to the Effective Date. However, I have no reason to believe that approval for the release of these assets will be delayed materially beyond the Effective Date. Therefore, I consider that the likely timing of the release of these assets has no impact upon my conclusions regarding the effects of the Schemes.

Reserving

- 3.37 In the Report, I explained in some detail the approach taken by SMI's reserving actuary when developing estimates of SMI's unpaid claims amounts. I noted that, since 20 February 2019, the SMI case reserving philosophy had changed to be in line with that of NOE (in general, NOE's case reserves for personal injury claims have been on a "worst most likely" basis, which is, in general, more prudent than the "most likely settlement" basis hitherto followed by SMI). Adjustments would be needed to the reserving models, methods and assumptions used to make projections to ensure that this change in case reserving philosophy would have a neutral impact on the best estimate liabilities that feed into the TPs. I further noted that, as at the date of the Report, this work to adjust the reserving models was ongoing.
- 3.38 I have now reviewed the report prepared by SMI's external actuaries regarding its reserves as at 20 February 2020. In the report, they discuss the change in the case reserving philosophy for SMI and how they have adapted their reserving approach to accommodate the change.
- 3.39 The external actuaries were informed by SMI that the claims that would be affected by this change in philosophy would be UK, Irish, Australian, US and Spanish crew claims only. The change resulted in case estimates for SMI's outstanding crew claims increasing by \$3.0 million.
- 3.40 As a result of this change, the external actuaries have revised their approach and now reserve for crew claims separately from the rest of SMI's business. Moreover, as they can no longer construct reliable future development patterns based on incurred or outstanding data for crew claims, their reserving now places heavy weight upon claim payment and final settlement data.
- 3.41 In the circumstances, the approach taken by the external actuaries when reserving for the crew claims as at 20 February 2020 appears reasonable. I note that paid claims data tends to be less developed than incurred claims data and can result in greater volatility in estimated ultimate claim amounts, which, in turn, leads to greater uncertainty in the resulting estimates of the technical claims provisions.
- 3.42 It is not obvious from the external actuaries' report what impact the change in approach has had on their estimates of the reserves. However, the external actuaries' report includes a table that shows that the aggregate impact of all changes in the assumptions was very small, and there is an accompanying comment that the impact was primarily driven by the change in methodology to reflect different case estimation strength for crew claims.

Conclusion regarding SMI's revised reserving approach

- 3.43 Based on my understanding of the revised reserving method employed by the external actuaries, I am satisfied that the change in reserving approach will not have materially distorted the best estimate of SMI's outstanding claims as at 20 February 2020. Hence, I am further satisfied that, as there have been no further changes that affect the production of SMI's TPs, the change in reserving approach will not have materially distorted SMI's TPs as at 20 February 2020.

NEMIA

Key financial information

- 3.44 As at 20 February 2020, on a UK GAAP basis, the technical provisions of NEMIA, gross and net of reinsurance, were roughly 3% more than they had been as at 20 February 2019.
- 3.45 As at 20 February 2020, on a UK GAAP basis, the net assets of NEMIA were lower than they had been as at 20 February 2019, by about 9%.
- 3.46 As at 20 February 2020, on a UK GAAP basis, the value of the investment assets held by NEMIA was about 2% less than it had been as at 20 February 2019. The majority of the investment assets (83%) remains formed of holdings of debt securities (rated at least BBB), but 17% comprised equity securities.
- 3.47 NEMIA's financial strength remained rated as A (stable) by Standard & Poor's.

COVID-19 PANDEMIC

- 3.48 As at the date of this Supplementary Report, the UK and many other countries of the world are trying to manage the COVID-19 pandemic. The governments of most of the developed nations, including the UK, have restricted the movement of people and are encouraging social distancing in order to slow the spread of the virus and to protect the national health infrastructures. This has led to an economic slowdown and significant volatility in the financial markets. It remains unclear for how long such measures will need to be in place in each country and how quickly their respective economies will recover.
- 3.49 In the following paragraphs, I consider the effect of the pandemic and its (actual and likely) consequences on NOE, SMI and NEMIA, and also on the Schemes themselves. In particular, I consider the impact upon the insurance activities of the entities, on their liquidity, on their balance sheets and on operational matters.

Insurance

- 3.50 The slowdown in global economic activity has led to a reduction in maritime activity. This, in turn, has reduced the North Group's exposure to losses across most of its covers. However, it has seen some increases in claims in some smaller claim types, such as repatriation of crew and operational losses. The North Group might also experience some COVID-19 related illness claims under its P&I liability covers, which might partially offset some of the benefits of reduced exposures. I note that the North Group does not provide business interruption cover on any of its contracts.
- 3.51 While claims levels are likely to be lower than usual, especially if the economic slowdown is prolonged, the beneficial effects on the income statements of NOE and SMI might be dampened by insureds applying for reductions (or rebates) in their premiums.
- 3.52 The aquaculture business is likely to be affected differently from the rest of the North Group's business. There is no suggestion currently that the virus can be passed to fish, so the likelihood of direct claims is very low. However, reduced economic activity might result in less demand for aquacultural products and hence increases in stocks. This could expose SMI to larger claims. I note that SMI has policy limits on all of its contracts and that its aquaculture business is heavily reinsured. Therefore, I do not expect SMI to be materially affected by the pandemic in respect of its aquaculture business.

Liquidity

- 3.53 As at the data of this Supplementary Report, the North Group's outgoings have not noticeably reduced (despite the expectation that, ultimately, claims will be lower than usual), but its income is being challenged as policyholders ask for extended credit. Despite this, the North Group is confident that it will not experience liquidity issues as its assets are very liquid (for example, its assets include a high proportion of US Treasury bonds). In addition, as a precaution against Bermuda being "shut down" and it being difficult to remit funds from there to the UK, in March NOE received from NEMIA an advance reinsurance recovery in respect of a single large claim that it has incurred. Therefore, NOE's cash account has more than doubled in size, yet NOE expects to meet the costs of the claim through a series of payments over a protracted period and therefore expects its cash balance to reduce only gradually.

Investments

- 3.54 As at 31 March 2020, the investments of NOE and SMI had collectively lost about 3% of their value as at 20 February 2020. This relatively modest loss reflects the significant proportion of high quality fixed income instruments within their respective investment portfolios. Movements of this magnitude do not imperil materially the financial strength of either NOE or SMI, as evidenced by their capital cover ratios.
- 3.55 Although also invested predominantly fixed income securities, over the same period of 20 February 2020 to 31 March 2020, the investment assets in NEMIA's balance sheet lost nearly 6% of their value. This reflected the proportion of assets invested in equities. Again, a movement of this magnitude does little to jeopardise NEMIA's obligations to NOE under the quota share reinsurance contact between them.
- 3.56 I have been told by the North Group that neither it nor NEMIA intends to change their investment strategy as a result of the pandemic. They regard the falls to be a short-term issue (albeit one that could take some time from which to recover), whereas their investment strategy is intended to operate over the long term.

Operational

- 3.57 All North Group offices around the world have been working remotely³ and, aside from some inefficiencies and issues created by the need for members of staff to double-up as carers, the service standards have not been prejudiced. So far, none of the offices has been afflicted noticeably by illnesses.
- 3.58 The North Group does not envisage any operational issues that would affect the Schemes. Communications with the relevant policyholders were completed in accordance with the plan largely ahead of the lock-down. Telephone and postal queries have been redirected to ensure that they reach and can be dealt with by the appropriate North Group staff (the email address is unaffected by the lock-down). Therefore, the lock-down should not have affected the ability of any affected stakeholder to access information regarding the Schemes or to ask questions about, or raise objections to, the Schemes. I discuss the responses in detail in paragraphs 7.17-7.20, below, but I note that, as at the date of this Supplementary Report, ten responses have been received and dealt with. None of these responses has been an objection but the Companies are confident that, should any objections to the Schemes be raised, then they will reach the relevant North Group staff who will then handle them appropriately. I note that, as there have as yet been no objections raised, the question of how objectors can have their objections represented at the Sanction Hearing has not yet arisen. It is not expected that the practicalities of effecting the Schemes, should they be approved by the Court and the Jersey Court, will be unduly affected by the continuing effects of the pandemic.

Conclusion

- 3.59 The ultimate outcome of the COVID-19 pandemic remains uncertain. Much will depend on factors as yet unknown, such as how quickly countries and their economies can come out of lock-down, whether subsequent (partial) lock-downs will be necessary and whether the economies of individual nations are affected in the long-term. However, as at the date of this Supplementary Report, while it appears that the COVID-19 pandemic will affect some parts of the business more than others, I have concluded that, overall, the impact on the North Group has been, and is likely to be, broadly neutral. It is arguable that SMI has been affected more adversely than has NOE due to the mix of business currently (and historically) written by the two firms. If anything, that would make the Schemes slightly more beneficial than before to the Transferring Policyholders, and, as a corollary, slightly less beneficial to the existing policyholders of NOE. However, the impact on either group of policyholders is heavily diluted by the reinsurance programme and hence is not material to their position post-Schemes.
- 3.60 Due to the uncertainty induced by the COVID-19 pandemic, I will continue to monitor developments up to the dates of the hearings at which the Court will be asked to sanction the Scheme and at which the Jersey Court will be asked to sanction the Jersey Scheme. If there are material developments subsequent to this Supplementary Report, including any changes to the expected impact of the COVID-19 pandemic on any of SMI, NOE and NEMIA, then I will report them directly to the Court (and to the Jersey Court).

STRATEGY, GOVERNANCE, POLICIES AND PLANS

- 3.61 I reported on the following in the Report:
- The registration of NOE, SMI and NEMIA;
 - The authorisation of NOE and of SMI (other than as noted in paragraph 3.2, above);
 - The business strategy of the North Group;
 - The governance of the North Group;
 - The risk management strategy of NOE and of SMI;
 - The risks faced by NOE and SMI and their respective risk appetites;
 - The capital policies of NOE and of SMI;
 - The reserving policies of NOE and of SMI;
 - The conduct risk policies of NOE and of SMI;
 - The North Group's complaints handling framework and processes;
 - The Parental Guarantee provided by NOE to SMI; and

³ I note that the Shanghai office of the North Group started a phased return to work on 23 March 2020 and it returned to normal operations with effect from 1 May 2020.

- The current plans of NOE and of SMI.

As at the date of this Supplementary Report, there have been no material changes to any of the above.

4. Impact of the Schemes on the Transferring Policyholders

RESERVE STRENGTH OF SMI AND NOE (PRE-SCHEMES)

- 4.1 In the Report, I concluded that the reserves of both SMI and NOE (both on an IFRS and Solvency II basis) appeared reasonable as at 20 February 2019, notwithstanding the uncertainty present.
- 4.2 I have considered the impact of the changes to the reserving approach for SMI, induced by the change in SMI's case reserving philosophy (as described above in paragraphs 3.37-3.43), and concluded that the change in reserving approach would not have materially distorted SMI's TPs as at 20 February 2020.
- 4.3 I have also considered the impact of the changes to the reserving methodology for NOE, from a stochastic to a deterministic approach (as described above in paragraphs 3.15-3.20), and concluded that the change in reserving approach would not have materially distorted NOE's TPs as at 20 February 2020.
- 4.4 I am unaware of any other changes that would prevent me from extrapolating my conclusions as at 20 February 2019 to 20 February 2020. Therefore, I have now concluded that the reserves of both SMI and NOE (both on an IFRS and Solvency II basis) appear reasonable as at 20 February 2020, notwithstanding the uncertainty present

RESERVE STRENGTH OF NOE (POST-SCHEMES)

- 4.5 In the Report, I concluded that there would be no change in the strength of the reserves held post-Schemes by NOE in respect of the Transferring Business relative to the strength of the reserves held pre-Schemes by SMI in respect of the same business. I am unaware of any changes that have occurred since the date of my Report that would cause me to alter this conclusion.

EXCESS ASSETS OF SMI

- 4.6 In the Report, I concluded that that the policyholders of SMI (i.e. the Transferring Policyholders) currently benefit from the financial strength provided by a very well-capitalised company. SMI's eligible own funds and SCR as at 20 February 2020 (as set out in paragraph 3.28, above) are entirely consistent with this conclusion, which I therefore maintain.

EXCESS ASSETS OF NOE

- 4.7 In the Report, I concluded that that the policyholders of NOE currently benefit from the financial strength provided by a well-capitalised company. NOE's eligible own funds and SCR as at 20 February 2020 (as set out in paragraph 3.12, above) indicate an increase in NOE's Capital Cover Ratio. Therefore, I now conclude that the policyholders of NOE currently benefit from the financial strength provided by a very well-capitalised company.

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

- 4.8 I have concluded, above, that the Transferring Policyholders currently benefit from the financial strength provided by a very well-capitalised company. I have also concluded that, if the Schemes are implemented, the Transferring Policyholders will become policyholders of another very well-capitalised company. Therefore, relative to the solvency capital requirements of the respective entities, the Transferring Policyholders will continue to benefit from the financial strength afforded to them by being policyholders of a very well-capitalised company.
- 4.9 In the Report, I illustrated the degree to which the financial security of the Transferring Policyholders might be adversely affected by the Schemes with reference to a number of reverse stress tests, based on data as at 20 February 2019. I have now repeated these tests, based on data as at 20 February 2020.

- 4.10 **Test 1:** deterioration in NEMIA's technical provisions: based on the UK GAAP accounts as at 20 February 2020, I have calculated that NEMIA's technical provisions could increase by up to 35% before the net assets of NEMIA fell to zero. This is a lower percentage increase than that generated by the equivalent test as set out in the Report, reflecting a slight reduction over the year in the robustness of NEMIA's balance sheet. As explained in the Report, a 35% increase in NEMIA's technical provisions would be a very unlikely event (although less unlikely than the 40% increase that would have engendered the same result based on data as at 20 February 2019).
- 4.11 **Test 2:** deterioration in the value of NEMIA's investments: based on the UK GAAP accounts as at 20 February 2020, I have calculated that NEMIA's investments could fall in value by up to 26% before the net assets of NEMIA fell to zero. As noted in the Report, the majority of NEMIA's investments are in the form of fixed interest securities, all rated BBB or better, with the remainder in the form of equities. Thus, an overall fall of 26% in NEMIA's investments would equate to, say, a 60% reduction in the value of its equities and a 19% reduction in the value of its fixed interest securities. I continue to believe that such movements in the value of NEMIA's assets would be very unlikely. I note that, as referred to in paragraph 3.55, above, the value of NEMIA's investment assets fell by nearly 6% between 20 February 2020 and 31 March 2020. Bearing in mind the much larger falls seen in the global financial markets, this illustrates the resilience of NEMIA's investment assets.
- 4.12 **Test 3:** deterioration in NOE's net technical provisions (and hence those of NEMIA): based on the IFRS accounts as at 20 February 2019, I have calculated that NOE's net technical provisions could increase by about 75% before the accumulated surplus of NOE fell to zero. This is slightly lower percentage increase than generated by the equivalent test as set out in the Report (80%).
- 4.13 **Test 4:** combination of deterioration in NOE's net technical provisions (and hence those of NEMIA) and fall in value of investments in both NOE and NEMIA. Based on the IFRS accounts as at 20 February 2020, I have calculated that NOE's accumulated surplus would fall to zero were its net technical provisions (and hence those of NEMIA) to increase by about 40% and the value of their combined investments to reduce by 20%. Clearly, other combinations of percentage falls in investment values and increases in technical provisions could produce the same outcome but this provides suitable illustration of the magnitude of the movement that is required to achieve the insolvency of NOE.
- 4.14 I regard both a 40% increase in NOE's net technical provisions and a 20% reduction in the value of its investments to be extreme outcomes, individually and especially as a combination, due to NOE's excess of loss reinsurance programme.
- The likelihood of the technical provisions deteriorating by 40%, net of the excess of loss reinsurance programme, is extremely small, estimated to be significantly less than 1 in 200, especially when taking into account the credit ratings of the reinsurers providing the cover under the programme.
 - I discussed in the Report that a 20% reduction in the value of NEMIA's investments (in isolation) was highly unlikely due to the composition of NEMIA's invested assets. That remains the case.
- 4.15 I discussed in the Report the significant role played by the International Group in NOE's risk mitigation strategy through its risk pooling arrangements. I noted that, were the pool to be dissolved, it would likely to have a positive impact on NOE's balance sheet because, as at 20 February 2019, NOE's share of the pooled liabilities exceeded its expected recoveries. I have been told that, based on the most recently calculated pool accounts as at the date of this Supplementary Report, this remains the case. However, I note that, should the International Group pool be dissolved, the insurance risk within NOE would be increased unless NOE were able to replace, via the reinsurance market, the cover hitherto provided by the pool. Such cover might prove hard to find and costly.
- 4.16 I have considered the potential impact of the COVID-19 pandemic upon the International Group and upon NOE's share of the liabilities of the International Group. I do not know precisely what covers are provided by the members of the International Group, other than NOE, and therefore cannot predict how the International Group's liabilities will be affected by COVID-19. However, as the liabilities of the International Group comprise upper layers of the more extreme claims incurred by its members and it is unlikely that COVID-19 will affect either the frequency or severity of such claims (or the settlement of claims already incurred), I do not believe that the COVID-19 pandemic will have a material adverse effect on the current or future liabilities of the International Group. Furthermore, I cannot presently see any potential causal link between the pandemic and NOE's share of the liabilities of the International Group.

Conclusion

- 4.17 The Transferring Policyholders will be moving from a very well-capitalised insurer (SMI) to another very well-capitalised insurer (NOE), albeit one with a lower Capital Cover Ratio than that of SMI. However, I consider that the likelihood that the capital cover provided by NOE will prove to be insufficient is very small, as evidenced by the reverse stress tests conducted above. Therefore, I am satisfied that the Transferring Policyholders will not be materially adversely affected due to relative differences in the financial strength of NOE post-Schemes to those of SMI pre-Schemes.

IN THE EVENT OF INSOLVENCY

- 4.18 In the Report, I concluded that it is possible that, in the event of the insolvency of NOE and depending on the precise circumstances of the insolvency, the Transferring Policyholders would be in a worse position post-Schemes than they would have been pre-Schemes. However, I consider the likelihood of the incidence of such circumstances whereby the Transferring Policyholders would be in a worse position to be remote. Therefore, I was satisfied that the Transferring Policyholders would not be materially adversely affected due to relative differences in their rights pre- and post-Schemes in the event of the insolvency of NOE. Nothing has arisen since the date of the Report that gives me any cause to change this view.

CHANGES IN RISK EXPOSURES

- 4.19 In the Report, I concluded that I was satisfied that, although the proposed Schemes will lead to some change to the risk exposures of the Transferring Business, this will not have a materially adverse impact on the security of the Transferring Policyholders' benefits. Nothing has arisen since the date of the Report that gives me any cause to change this view.

POLICY SERVICING

- 4.20 In the Report, I concluded that neither the Scheme nor the Jersey Scheme would have a materially adverse impact on the standards of policy servicing experienced by the Transferring Policyholders compared to their current position. Nothing has arisen since the date of the Report that gives me any cause to change this view.

BREXIT

- 4.21 In the Report, I concluded that Brexit will not materially alter the expected effects (if any) of the proposed Schemes on the security of the benefits or the standards of policy servicing experienced by the Transferring Policyholders. Nothing has arisen since the date of the Report that gives me any cause to change this view.

COVID-19 PANDEMIC

- 4.22 I have discussed in paragraphs 3.48-3.59, above, on the possible effects of the COVID-19 pandemic on SMI, NOE and NEMIA. The development of the pandemic remains uncertain, as do the actions of national governments and the implications of those actions on the global and national economies, and on sectors within those economies. However, based on conversations with staff at the North Group and on my own understanding of the business of SMI and of NOE, I have concluded that the impact on the North Group has been, and is likely to be, broadly neutral. I have also noted that it appears likely that the pandemic will have a slightly more adverse impact on SMI than it will on NOE. If anything, that would make the Schemes marginally more beneficial than before to the Transferring Policyholders. However, even allowing for the impact to date of COVID-19, the Transferring Policyholders will be moving from one very well-capitalised insurer to another.

CONCLUSION FOR THE TRANSFERRING POLICYHOLDERS

- 4.23 I remain satisfied that neither the Scheme nor the Jersey Scheme will affect in a materially adverse way either the security or the policy servicing levels of the Transferring Policyholders.

5. Impact of the Schemes on the holders of Residual Policies

- 5.1 Because the hull and liability policies written by SMI's Canadian branch have now wholly run-off, the likelihood of there being any Residual Policies has significantly reduced since the date of the Report. However, it is still possible that there will be some Residual Policies; for example (as explained in paragraph 3.3, above), should NOE be unable to obtain reinsurance licences in Argentina or Venezuela by the Effective Date then it would be unable to accept from SMI any reinsurance business written by SMI in accordance with its reinsurance licence in that country⁴. Otherwise, the observations that I made in the Report regarding the post-Schemes position of any Residual policy remains unaltered.
- 5.2 Therefore, I remain satisfied that the security of the contractual rights or the standards of policy servicing currently enjoyed by policyholders of SMI who have Residual Policies would not be adversely affected by the Schemes.

⁴ *I note that those contracts written by SMI in Venezuela are due for renewal in July 2020. Should the policyholders wish for them to be renewed and should by then NOE not have been granted a licence to write reinsurance business in Venezuela, the contracts would be renewed by SMI and then would be transferred to NOE as and when it received its Venezuelan reinsurance licence. As explained in paragraph 3.2, above, SMI has no active policies in Argentina and hence no policies that will renew.*

6. Changes in the impact of the Schemes on the existing NOE policyholders

RELATIVE FINANCIAL STRENGTH ENJOYED BY THE EXISTING NOE POLICYHOLDERS PRE- AND POST-SCHEMES

- 6.1 As discussed in paragraphs 3.12 and 4.7, above, based on NOE's eligible own funds and SCR as at 20 February 2020, I have concluded that the existing NOE policyholders currently benefit from the financial strength provided by a very well-capitalised company. The financial strength of SMI is similar (indeed, SMI has a higher capital cover ratio) so, post-Schemes, NOE is expected to remain a very well-capitalised company.
- 6.2 Therefore, I am satisfied that the existing policyholders of NOE will not be materially adversely affected due to relative differences in the financial strength of NOE pre-Schemes and post-Schemes.

IN THE EVENT OF INSOLVENCY

- 6.3 In the Report, I concluded that it is possible that the existing NOE policyholders might be in a worse position post-Schemes than they would have been pre-Schemes in the event of the insolvency of NOE. However, the very small likelihood of NOE becoming insolvent post-Schemes satisfied me that the existing NOE policyholders would not be materially adversely affected due to relative differences in their rights pre- and post-Schemes in the event of the insolvency of NOE. Nothing has arisen since the date of the Report that gives me any cause to change this view.

CHANGES IN RISK EXPOSURES

- 6.4 In the Report, I concluded that I was satisfied that neither the Scheme nor the Jersey Scheme would lead to a material change to the risk exposures of the existing policyholders of NOE. Nothing has arisen since the date of the Report that gives me any cause to change this view.

EFFECT ON MEMBERS

- 6.5 In the Report, I concluded that I was satisfied that neither the Scheme nor the Jersey Scheme will have any effect on the rights of existing members of NOE to secure or prevent further changes that could affect their entitlements as policyholders. Nothing has arisen since the date of the Report that gives me any cause to change this view.

POLICY SERVICING

- 6.6 In the Report, I concluded that neither the Scheme nor the Jersey Scheme would have a materially adverse impact on the standards of policy servicing experienced by the existing NOE policyholders compared to their current position. Nothing has arisen since the date of the Report that gives me any cause to change this view.

BREXIT

- 6.7 In the Report, I concluded that Brexit will not materially alter the expected effects (if any) of the proposed Schemes on the security of the benefits or the standards of policy servicing experienced by the existing NOE policyholders. Nothing has arisen since the date of the Report that gives me any cause to change this view.

COVID-19 PANDEMIC

- 6.8 I have discussed in paragraphs 3.48-3.59, above, on the possible effects of the COVID-19 pandemic on SMI, NOE and NEMIA. The development of the pandemic remains uncertain, as do the actions of national governments and the implications of those actions on the global and national economies, and on sectors within those economies. However, based on conversations with staff at the North Group and on my own understanding of the business of SMI and of NOE, I have concluded that the impact on the North Group has been, and is likely to be, broadly neutral. I have also noted that it appears likely that the pandemic will have a slightly more adverse impact on SMI than it will on NOE. Insofar that the risks associated with the transferring aquaculture business might be heightened by the pandemic, this might be considered marginally detrimental to the security of benefits for the existing NOE policyholders. However, the transferring aquaculture business is protected by policy limits and by its reinsurance programme, and thus is unlikely, post-Schemes, to jeopardise NOE's position of being a very well-capitalised insurer.

CONCLUSION FOR THE EXISTING NOE POLICYHOLDERS

- 6.9 I remain satisfied that neither the Scheme nor the Jersey Scheme will affect in a materially adverse way either the security, membership rights or the policy servicing levels of the existing NOE policyholders.

7. Other considerations

OPERATIONAL PLANS AND CHANGES IN ASSETS AND LIABILITIES UP TO THE EFFECTIVE DATE

- 7.1 In preparing this Supplementary Report, I have used draft balance sheet data for SMI and NOE as at 20 February 2020 and have constructed pro forma balance sheets, which have been based on those draft balance sheets as at 20 February 2020, that illustrate the impact of the Schemes. I have not shown the data or pro forma balance sheets in this Supplementary Report, as the information therein has not yet been made public.
- 7.2 I expect that the current activities of both NOE and SMI have continued, and will continue, between 20 February 2020 and the Effective Date (and beyond in the case of NOE). Both NOE and SMI have continued, and will continue until the Effective Date (and beyond in the case of NOE), to write new business, and have continued, and will continue until the Effective Date, to settle claims and reassess reserves in the light of experience. I do not consider that any material additional risk to any group of affected policyholders will emerge as a result of the continuation of normal business.
- 7.3 As set out in paragraphs 3.48-3.59, above, I have discussed with staff and management at the North Group the potential impact of the COVID-19 pandemic upon SMI, NOE and NEMIA, and on the operation of the Schemes themselves. I have concluded that, as at the date of this Supplementary Report, it has not affected any of the entities sufficiently so as to alter materially their respective financial strength. However, the ultimate outcome remains very uncertain.
- 7.4 I believe that it is unlikely that any events occurring between 20 February 2020 and the Effective Date would affect any conclusion that I have reached based on my review as at 20 February 2020.

THE LIKELY EFFECTS OF THE SCHEMES UPON REINSURERS OF THE TRANSFERRING BUSINESS

- 7.5 In the Report, I concluded that I was satisfied that the Schemes would not have a materially adverse effect on the reinsurers of SMI whose contracts of reinsurance are to be transferred by the Schemes. Nothing has arisen since the date of the Report that gives me any cause to change this view.

THE APPROACH TO COMMUNICATION WITH STAKEHOLDERS

- 7.6 I have been informed that NOE has written to:
- All members of NOE's open policy years;
 - All members of NOE's closed policy years with outstanding claims against NOE;
 - All holders of NOE fixed premium policies (save those Australian and New Zealand branch policyholders and US surplus lines policyholders whose policies were transferred from SMI and who were informed at the time of those transfers that such transfers formed part of the integration of SMI's business into NOE) with policies that inceptioned on or after 1 January 2017;
 - All holders of NOE fixed premium policies (save those Australian and New Zealand branch policyholders and US surplus lines policyholders whose policies were transferred from SMI and who were informed at the time of those transfers that such transfers formed part of the integration of SMI's business into NOE) with open claims.
- 7.7 I have been informed that SMI has written to:
- All Transferring Policyholders of SMI with policies that inceptioned on or after 1 January 2017;
 - All Transferring Policyholders with open claims;
 - All reinsurers that have entered into an outwards reinsurance policy with SMI on or after 1 January 2017; and
 - All reinsurers of SMI against whom SMI has an outstanding claim.
- 7.8 Communication with the NOE members was conducted directly, electronically by email. Communication with the NOE non-member policyholders was conducted either directly, electronically by email, or indirectly via the intermediaries who bound the business. I have been told by NOE that, in total, it has sent out 3,150 packs, to members, policyholders and NOE intermediaries. I have further been told by NOE that:

- Of the 548 of its members with whom NOE has sought to communicate, as at the date of this Supplementary Report it remains unable to contact only seven. It has undertaken further investigations that have determined that one member no longer exists, another is an Iranian company subject to sanctions and the remaining have addresses that no longer exist.
 - Of the 124 of its policyholders with whom NOE has sought to communicate directly, via email, no delivery failure notices were received.
 - 46 of the relevant NOE intermediaries have confirmed to NOE that they have each passed on the communications pack to the policyholders whose policies they bound. No intermediaries have informed NOE that they have received any delivery failure notes or returns.
- 7.9 Communication with the SMI policyholders was conducted either directly, electronically by email or by post, or indirectly via the intermediaries who bound the business, save where the brokers indicated to SMI during 2019 that SMI should notify the policyholders directly. I have been told by SMI that, in total, it has sent out approximately 1,470 packs, to policyholders and the relevant intermediaries. I have further been told by SMI that:
- Of the 576 communication packs that SMI sent by post, seven were returned. These packs were sent subsequently by email, and no delivery failure notices were received.
 - Of the 714 communication packs that SMI sent by email, 45 resulted in delivery failure notes. These packs were sent subsequently by post, and none has been returned.
 - 71 of the relevant SMI intermediaries have confirmed that they have each passed on the communications pack to the policyholders whose policies they bound. No intermediaries have informed SMI that they have received any delivery failure notes or returns. I understand that the intermediaries who have confirmed that they have passed on the communications pack account for roughly 64% of SMI's gross written premium over the past three years. I further understand that SMI has continued to request responses from the other intermediaries, highlighting in their requests the intermediaries' obligations under their Terms of Business Agreements with SMI and the FCA expectation that the intermediaries will assist in the notification process. I have seen email correspondence that supports this. Further, SMI has contacted by telephone those brokers who represent a material amount of business to request that they confirm that they have notified their policyholders (and to notify them if they have not already done so).
 - SMI has confirmed to me that it has successfully contacted all Jersey policyholders within the Transferring Policyholders listed in paragraph 7.7, above.
- 7.10 Communication with the reinsurers was conducted via the brokers (with one exception, where the reinsurer was notified directly by SMI). I have seen email correspondence with the relevant brokers that confirms that they have each passed on the communications pack to the reinsurers with whom they have placed SMI's business.
- 7.11 I have been informed by the Companies that any new policyholders subsequent to 26 February 2020 (who were not policyholders included in paragraphs 7.6-7.7, above) have been sent a communications pack.
- 7.12 I understand that the Court granted the waivers outlined in paragraph 5.58 of the Report. Therefore, NOE has not directly notified any of its members in respect of closed policy years who do not have outstanding claims against NOE, or any policyholders of NOE's Australian and New Zealand branches and US surplus lines policyholders whose policies were transferred from SMI. Similarly, SMI has not directly notified any Transferring Policyholders whose Transferring Policies were underwritten by SMI prior to 1 January 2017 and who do not have open claims, or those reinsurers with reinsurance agreements relating to the Transferring Business but who have not entered into an outwards reinsurance policy with SMI within the last three years and against whom SMI has no outstanding claims.
- 7.13 In addition to direct, written correspondence, the Companies have also arranged indirect notification via advertisements and notices in the London, Edinburgh, Belfast and Jersey Gazettes, in both the UK and international editions of the Financial Times, in The Times newspaper, in the Jersey Evening Post, in Insurance Day and Lloyd's List, and in the following specialist publications: Fishing News, Fish Farmer Magazine, Intrafish Aquaculture, Aquaculture Europe, Yachting Monthly, Power & Motoryacht and Motor Boat & Yachting.

- 7.14 The letters, notices and advertisements have referred all queries to a postal address, a telephone number, a website or a dedicated email address. There is a page dedicated to the Schemes on the websites of both NOE and SMI in which all relevant documentation can be found, and which also explains how those with questions or concerns regarding the Schemes can raise them.

Conclusion regarding the communications with stakeholders

- 7.15 I consider that the communications effected by NOE and SMI, as outlined above, have been in line with the communications plan that I summarised in the Report.
- 7.16 As noted in paragraph 7.8, above, there remains a small number of policyholders whom NOE has tried, but failed, to contact directly. However, I am satisfied that it has made, and continues to make, reasonable efforts to inform those policyholders of the Schemes. I also note that some intermediaries that had assumed responsibility on behalf of NOE or SMI for contacting their policyholders have yet to confirm that they have made such contact. This does not necessarily mean that those intermediaries have not made contact with the policyholders. Again, I am satisfied that NOE and SMI have made, and continue to make, reasonable efforts to obtain such confirmation from the relevant intermediaries.

Responses

- 7.17 As at 5 June 2020, ten responses to the above notifications had been received. These responses have all been logged by date and time, as applicable, together with replies. Copies of all correspondence have been retained.
- 7.18 I set out in Figure 7.1, below, the breakdown of the queries received in respect of the Schemes.

FIGURE 7.1 BREAKDOWN OF THE QUERIES RECEIVED IN RESPECT OF THE SCHEMES AS AT 5 JUNE 2020

Query Type	Number of Queries
Document Request	0
General Enquiry	3
Technical Enquiry	3
Objections	0
Complaints	0
Other	4
TOTAL	10

- 7.19 I have seen each of the queries. Most of the queries were from former policyholders who were concerned or annoyed at having been contacted, or from SMI policyholders who wished to tell SMI that they no longer owned the insured vessels and thus were no longer policyholders. Of the others:
- one was a request for policy documentation;
 - one asked whether there was anything in the Schemes that the policyholder should worry about
 - one policyholder was concerned that his policy might be cancelled under the Schemes; and,
 - one confirmed the policyholder's non-objection to the Schemes.
- 7.20 As at the date of this Supplementary Report, no objections to either the Scheme or the Jersey Scheme have been recorded.

RESPONSES OF EEA REGULATORS

- 7.21 The insurance regulators in each of the 30 EEA states (for the avoidance of doubt, this does not include the UK) have been contacted regarding the Scheme and each has been asked whether it objects to the Scheme. The deadline for any such objections to be lodged was 3 June 2020. As at 5 June 2020, the insurance regulators in 18 of the 30 EEA states had confirmed their non-objection to the Scheme and no EEA insurance regulator has raised any objections to the Scheme. As the consultation period with the EEA regulators has concluded there should be no possibility of any objections now being made by any of the regulators but should I become aware of any such objection then I will ensure that the Court is informed of the objection at or ahead of the hearing at which it will be asked to approve the Scheme.

OTHER

7.22 In the Report, I reported on the following:

- The assets of NOE and of SMI that were being transferred by the Schemes;
- Mis-selling liabilities;
- Whether policyholder expectations would be affected by the Schemes;
- Legal jurisdiction of the Transferring Policies;
- Tax implications of the Schemes;
- The cost of the Schemes; and
- What would happen were the Schemes not to proceed.

As at the date of this Supplementary Report, there have been no material changes to any of the above.

8. CONCLUSIONS

CONFIRMATION OF OPINION

- 8.1 I have further considered the effect of the proposed Schemes on the policyholders of NOE and SMI in the light of the Additional Information made available to me since the date of the Report. I confirm that my overall opinion and conclusions as set out in Section 10 of the Report are unchanged.
- 8.2 In reaching this opinion, I have complied in all material respects with the principles set out in paragraph 10.2 of the Report.

DUTY TO THE COURT

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

STATEMENT OF TRUTH

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



Derek Newton / 9 June 2020

Fellow of the Institute and Faculty of Actuaries

Appendix A Definition

TERM	DEFINITION
Additional Information	Financial and other information in respect of the Companies that was provided to the Independent Expert subsequent to the date of the Report.
Available Capital	Capital available to meet solvency capital requirements.
Best estimate	This term is used in this Report in reference to an estimate of outstanding claim amounts and is intended to represent an expected value over a reasonable range of estimates. As such, a “best estimate” is not deliberately biased upwards or downwards, and does not include any margins. However, the limitations of actuarial projection methods mean that a “best estimate” is not a statistically rigorous estimate of the mean of the underlying distribution of all possible outcomes.
Brexit	“Brexit” refers to the exit of the UK from the European Union on 31 January 2020, following the referendum on continuing membership held in the UK in June 2016. As at the time of drafting this Report, the future relationship between the UK and the EU, including the regulatory environment for insurers operating across UK/EEA borders, was being negotiated. Until the completion of the transition period (currently scheduled to finish on 31 December 2020) the regulatory environment for insurers remains unaltered from its pre-Brexit state.
Brexit Part VII	The proposed Part VII Transfer of the Legacy EEA Business from NOE to North EU.
Canada Assumption Reinsurance	The reinsurance by which a third party insurer will assume full liability for the outstanding liabilities relating to the hull and liability business of SMI's Canada Branch.
Capital Cover Ratio	The ratio of Available Capital to Required Capital. This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the company.
The Companies	The collective term for SMI and NOE.
The Court	The High Court of Justice of England and Wales.
EEA	The European Economic Area (“EEA”) was established by the EEA Agreement on 1 January 1994. The EEA unites the 28 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
Effective Date	The date on and from which the Schemes shall become effective.
EU	European Union.
FCA	The Financial Conduct Authority (“FCA”) is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
FDD	Freight, Demurrage and Defence, a type of insurance cover.
FG18/4	Guidance published by the FCA in May 2018 relating to Part VII insurance business transfers.
FSMA	Financial Services and Markets Act 2000, the legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
GAAP	Generally accepted accounting principles (“GAAP”) form the standard framework of guidelines for financial accounting used in any given jurisdiction.
HMU	Harlock Murray Underwriting Limited.
IFoA	The Institute and Faculty of Actuaries, the professional body for actuaries in the UK.

IFRS	International Financial Reporting Standards ("IFRS") form a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
Independent Expert	The Independent Expert prepares the FSMA Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Expert.
Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves.
International Group	The International Group of P&I Clubs, an unincorporated association of thirteen principal protection and indemnity underwriting associations (the P&I Clubs) and their affiliated associations and reinsured entities.
Jersey Court	The Royal Court of Jersey.
Jersey Scheme	The insurance business transfer scheme, pursuant to Article 27 and Schedule 2 of the Insurance Business (Jersey) Law 1996, by which SMI's Jersey Business will be transferred to NOE.
Legacy EEA Business	Non-UK EEA business that was written by either NOE or SMI and that incepted prior to 20 February 2019.
MCR	The Solvency II Minimum Capital Requirement ("MCR") is lower than the SCR, and defines the point of intensive regulatory intervention. The MCR calculation is less risk sensitive than the SCR calculation and is calibrated to a confidence level of 85% over one year (compared to 99.5% for the SCR).
Milliman	Milliman LLP, a member of the Milliman Group.
The Milliman Group	The group of entities whose ultimate parent is Milliman, Inc.
NEMIA	The North of England Mutual Insurance Association (Bermuda) Limited
NGSL	North Group Services Ltd., a group employee holding company within the North Group.
NOE	The North of England Protecting and Indemnity Association Limited
North Group	The group of companies comprising NOE and its direct and indirect subsidiaries (including SMI).
ORSA	The Own Risk Solvency Assessment ("ORSA") is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
OSFI	The Office of the Superintendent of Financial Institutions (OSFI) is an independent agency of the Government of Canada, which supervises and regulates federally registered banks and insurers, trust and loan companies, as well as private pension plans subject to federal oversight.
Own Funds	In Solvency II terminology, the amount of capital or excess assets of an insurance company.
P&I	Protection and indemnity insurance for ship owners.
Parental Guarantee	A guarantee provided by NOE to SMI whereby NOE is ultimately responsible for the liabilities of SMI and guarantees payment of all of SMI's obligations to its policyholders so as to ensure that they are promptly and adequately discharged in circumstances where SMI does not or is unable to do so.
Part VII Transfer	An insurance business transfer scheme performed in accordance with the requirements set out in Part VII of FSMA.
The Policy Statement	The Statement of Policy issued by the PRA entitled The Prudential Regulation Authority's approach to insurance business transfers, issued in April 2015.

Policy Year	The year to which a claim is allocated based on the date the policy was written. Policy Year X runs from noon on 20 February X to noon on 20 February X+1.
PRA	The Prudential Regulation Authority ("PRA") is part of the Bank of England and carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (for example the SCR).
Reinsurance	An arrangement with another insurer whereby risks are shared (or passed on). If reinsurance is termed as being "inwards" then the reinsurer in question has accepted risk from an(other) (re)insurer; if reinsurance is termed as being "outwards" then the (re)insurer in question has passed risk to a(nother) reinsurer.
Report	References to the "Report" refer to the report entitled <i>Report of the Independent Expert on the proposed transfer of business from Sunderland Marine Insurance Company Limited to The North of England Protecting and Indemnity Association Limited</i> , dated 18 February 2020.
Residual Policy	A contract of insurance (if any) written or assumed by SMI under which any liability remains unsatisfied or outstanding as at the Effective Date and which would have formed part of the Transferring Business but which, for any reason, is not transferred by order of the Court pursuant to Part VII of FSMA on the Effective Date.
The Scheme	In the context of this Report, the proposal that the transferring business of SMI and of MIC be transferred to NOE under the provisions of Part VII of FSMA.
The Schemes	The collective term for the Scheme and the Jersey Scheme.
SCR	The Solvency Capital Requirement ("SCR") under Solvency II is the amount of capital required to ensure continued solvency over a one-year trading time-frame with a likelihood of 99.5%.
Solvency II	The system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.
SMI	Sunderland Marine Insurance Company Limited.
SMI's Jersey Business	The business written by SMI in circumstances that required SMI to be authorised under Jersey law.
SUP18	Section 18 of the FCA Supervision Manual.
Supplementary Report	References to the "Supplementary Report" refer to this report, which serves as a supplement to the Report.
Technical Provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
TPs	Technical provisions as calculated for Solvency II purposes. As such, they differ from technical provisions calculated on an IFRS basis.
Transferee	The entity to which business is being transferred – in the case of the Schemes this is NOE.
Transferor	The entity from which business is being transferred – in the case of the Schemes this is SMI.
Transferring Business	The business of SMI that is to be transferred to NOE under the Schemes.
Transferring Policyholders	The policyholders of the Transferring Business.
UPR	Unearned premium reserve.

Work Review

Process by which a piece of actuarial work is considered by at least one other individual for the purpose of providing assurance as to the quality of the work in question.

Appendix B Key Sources of Additional Information

- B.1 In writing this Supplementary Report, I relied upon certain information provided by SMI and NOE that was additional to that provided in respect of the Report. This additional information included, but was not limited to, the following:
- Draft financial statements as at 20 February 2020 for NOE, SMI and NEMIA (these included the balance sheets and income statements)
 - Email correspondence between HMU and the North Group confirming that, by 1 April 2020, all SMI hull and liability claims relating to its Canadian branch had been settled.
 - A report entitled *Sunderland Marine Insurance Company Limited: Actuarial Review of Prospective Gross and Net Claims Development as at 20 February 2020*, dated April 2020
 - Agenda papers for the meetings of the North Group's Reserving Committee in December 2019 and March 2020, entitled *North Change in Reserving Model*.
 - Draft eligible own funds, MCR and SCR for NOE and for SMI as at 20 February 2020 (on a solo basis)
 - A summary of policyholder responses to the communications, as provided to the FCA on 21 May 2020
 - Emails/ logs of calls evidencing the policyholder responses, and the North Group's replies to those responses
 - Email correspondence with the brokers through which SMI has secured its outwards reinsurance covers, confirming that all relevant reinsurers have been contacted by the brokers and have received the communications pack
 - A document listing, as at 7 May 2020, the responses of the EEA regulators to the Scheme
 - Draft Second Witness Statement (dated 5 June 2020) by Edward John Davies, Chief Financial Officer of both NOE and SMI (no exhibits attached).
- B.2 Information relating to the items listed above was also gathered during discussions with staff of NOE and SMI. This included the impact on SMI, NOE and NEMIA of the COVID-19 pandemic, which I have summarised in paragraphs 3.48-3.59, above.

Appendix C Letters of Representation



Derek Newton
Milliman LLP
11 Old Jewry
London
EC2R 8DU

9 June 2020

Dear Mr Newton,

Letter of Representation – Part VII transfer of business from Sunderland Marine Insurance Company Limited to The North of England Protecting and Indemnity Association Limited

1. INTRODUCTION

I refer to the proposed transfer of the business of Sunderland Marine Insurance Company Limited ("SMI") to The North of England Protecting and Indemnity Association Limited ("NOE") by an insurance business transfer scheme ("the Scheme"), as defined in Section 105 of the Financial Services and Markets Act 2000 ("FSMA"). I also refer to the proposed concurrent transfer to NOE of SMI's Jersey Business by an insurance business transfer scheme (the "Jersey Scheme"), pursuant to Article 27 and Schedule 2 of the Insurance Business (Jersey) Law 1996. I, Edward Davies, am a director and have been authorised by SMI and by NOE to provide the representations set out in this letter, on behalf of both SMI and NOE.

I refer to the Scheme and the Jersey Scheme collectively as the "Schemes".

2. DATA ACCURACY STATEMENT

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

3. OTHER STATEMENTS

- 3.1 To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of SMI's and NOE's business and practices (including details of specific contracts and claims) or in any statements attributed to SMI and/or NOE (and/or the wider North Group) in the Independent Expert's Report dated 18 February 2020 and the Independent Expert's Supplementary Report dated 9 June 2020 (together the "Reports") on the proposed Schemes.
- 3.2 We have disclosed all the information that, in our opinion, is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Schemes.

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The North of England Protecting & Indemnity Association Limited is registered in England No. 0254561. Registered office above, VAT No. 2542597110.
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- 3.3 We confirm that the Reports accurately and fairly reflect our understanding of the proposed Schemes and the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.
- 3.4 We will keep the Independent Expert apprised, up to the date of the Court hearing to sanction the Scheme and of the Jersey Court hearing to sanction the Jersey Scheme, of all matters and issues, which, in our opinion, may be relevant to the Independent Expert in opining on the proposed Schemes.
- 3.5 We hereby undertake to provide the Independent Expert, prior to the submission to the Court of the final Court (and supporting) documents relating to the Scheme (and prior to the submission to the Jersey Court of the final Jersey Court (and supporting) documents relating to the Jersey Scheme), full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.
- 3.6 In particular, the facts stated below are true and accurate to the best of our knowledge and belief:
- The financial position as stated in the balance sheets of SMI and NOE as at 20 February 2019 and 20 February 2020, as summarised in the Reports, give a true and fair view of the affairs of SMI and NOE;
 - The Technical Provisions of SMI's and NOE's business to be transferred under the Schemes as stated as at 20 February 2019 and 20 February 2020 provide a true and fair view in accordance with appropriate actuarial standards at those dates;
 - Other financial projections relating to SMI and NOE provided by us, which the Independent Expert has used to prepare the Reports, have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions.
 - The management of the business affected by the Schemes will remain substantially unchanged following implementation of the Schemes.
- 3.7 We confirm that the capital assessments as at 20 February 2020 continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.
- 3.8 We confirm that there are currently no plans pursuant to the Schemes to materially change:
- the reserving basis/approach and strength of reserves carried/booked by SMI or NOE; and/or
 - the capital basis/approach and capital strength adopted by SMI or NOE.
- 3.9 We confirm that there is currently no other relevant information concerning the business written, the claims procedures and the processing situation in either SMI or NOE that could

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have a material impact on the Independent Expert's assessment of the proposed Schemes. In particular, we confirm that:

- there were no unusual backlogs of unprocessed claims correspondence as at either 20 February 2019 or 20 February 2020; and
- appropriate case estimates were applied to all reported claims which remained open, as at both 20 February 2019 and 20 February 2020.

3.10 We confirm that, in relation to SMI's and NOE's existing and transferring policyholders, the proposed Scheme is not expected to have tax implications that would affect any such policyholders.

3.11 To the best of our knowledge and belief, there have been no material changes since 20 February 2020 to SMI's or NOE's operational plans that, in our opinion, might have a material impact on the Scheme and which have not been communicated to the Independent Expert.

3.12 We confirm that the actual and expected (by us) impact of the COVID-19 pandemic upon both SMI and NOE has been appropriately represented in Section 3 of the Independent Expert's Supplementary Report dated 9 June 2020.

3.13 Aside from the COVID-19 pandemic, we confirm that there have been no other events that in our opinion would have a material impact on the Scheme between 20 February 2020 and the date of this letter.

Yours sincerely,

Edward Davies

Director

**For and on behalf of Sunderland Marine Insurance Company Limited to The North of England
Protecting and Indemnity Association Limited**

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